ARMSTRONG WORLD INDUSTRIES INC

FORM 10-K
(Annual Report)

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

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

(Mark One)

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

For the fiscal year ended December 31, 2000

OR

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

For the transition period from _______ to _______

ARMSTRONG HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Pennsylvania	333-32530	23-3033414
(State or other jurisdiction of incorporation or organization)	Commission file number	(I.R.S. Employer Identification No.)

P. O. Box 3001, Lancaster, Pennsylvania	17604
(Address of principal executive offices)	(Zip Code)

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

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

Title of each class	Name of each exchange on which registered
Common Stock ($1 par value)	New York Stock Exchange, Inc. (a)
Preferred Stock Purchase Rights	Pacific Stock Exchange, Inc. (b)

ARMSTRONG WORLD INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

Pennsylvania	1-2116	23-0366390
(State or other jurisdiction of incorporation or organization)	Commission file number	(I.R.S. Employer Identification No.)

P. O. Box 3001, Lancaster, Pennsylvania	17604
(Address of principal executive offices)	(Zip Code)

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

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

Title of each class	Name of each exchange on which registered
9-3/4% Debentures Due 2008	Philadelphia Stock Exchange, Inc. (b)
7.45% Senior Quarterly Interest Bonds Due 2038	

(a) All Classes

(b) 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.

[ ]

The aggregate market value of the Common Stock of Armstrong Holdings, Inc. held by non-affiliates based on the closing price ($3.92 per share) on the New York Stock Exchange on February 16, 2001, was approximately $149.5 million. As of February 16, 2001, the number of shares outstanding of registrant's Common Stock was 40,831,200. This amount includes the 2,339,917 shares of Common Stock as of December 31, 2000, held by The Chase Manhattan Bank, as Trustee for the employee stock ownership accounts of the Company's Retirement Savings and Stock Ownership Plan.

Documents Incorporated by Reference

None

PART I

Item 1. Business

Armstrong World Industries, Inc. ("AWI") is a Pennsylvania corporation incorporated in 1891, which together with its subsidiaries is referred to here as "Armstrong". Through its U.S. operations and U.S. and international subsidiaries, Armstrong designs, manufactures and sells interior finishings, most notably floor coverings and ceiling systems, around the world. Armstrong products are sold primarily for use in the finishing, refurbishing and repair of residential, commercial and institutional buildings. Armstrong also designs, manufactures and sells kitchen and bathroom cabinets.

Armstrong Holdings, Inc. (sometimes referred to as "AHI") is the publicly-held parent holding company of Armstrong. AHI became the parent company of Armstrong on May 1, 2000, following AWI shareholder approval of a plan of exchange under which each share of AWI was automatically exchanged for one share of AHI. AHI was formed for purposes of the share exchange and holds no other significant assets or operations apart from AWI and AWI's subsidiaries. Stock certificates that formerly represented shares of AWI were automatically converted into certificates representing the same number of shares of AHI. The publicly-held debt of AWI was not affected in the transaction. The following discussion of Armstrong's business is applicable to AHI and AWI.

Proceedings under Chapter 11

On December 6, 2000, AWI, the major operating subsidiary of AHI, filed a voluntary petition for relief ("the Filing") under Chapter 11 of the U.S. Bankruptcy Code ("the Bankruptcy Code") in the United States Bankruptcy Court for the District of Delaware (the "Court") in order to use the court-supervised reorganization process to achieve a resolution of its asbestos liability. Also filing under Chapter 11 were two of Armstrong's wholly-owned subsidiaries, Nitram Liquidators, Inc. and Desseaux Corporation of North America, Inc. The Chapter 11 cases are being jointly administered under case numbers 00-4469, 00-4470, and 00-4471 (the "Chapter 11 Cases").

AHI, and Armstrong's other subsidiaries, including Triangle Pacific Corp., WAVE (Armstrong's ceiling grid systems joint venture with Worthington Industries), Armstrong Canada, Armstrong DLW AG and its other non-U.S. operating subsidiaries were not a part of the Filing.

Like other companies involved in asbestos litigation, AWI has tried a number of different approaches to managing its asbestos liability, including negotiating broad-based settlements of claims and supporting efforts to find a legislative resolution. The number of new claims filed and the cost to settle claims, however, continued to escalate. In addition, liquidity concerns increased when Owens Corning Fiberglass filed for Chapter 11 protection on October 5, 2000. This hurt AWI's ability to obtain ongoing financing on acceptable terms. These were the principal factors which led to the decision to make the Filing.

AWI is operating its business and managing its properties as a debtor-in-possession subject to the provisions of the Bankruptcy Code. Pursuant to the provisions of the Bankruptcy Code, AWI is not permitted to pay any claims or obligations which arose prior to the Filing date (prepetition claims) unless specifically authorized by the Court. Similarly, claimants may not enforce any claims against AWI that arose prior to the date of the Filing. In addition, as a debtor-in-possession, AWI has the right, subject to the Court's approval, to assume or reject any executory contracts and unexpired leases in existence at the date of the Filing. Parties having claims as a result of any such rejection may file claims with the Court which will be dealt with as part of the Chapter 11 Cases.

Two creditors' committees, one representing asbestos claimants and the other representing other unsecured creditors, have been appointed in the Chapter 11 Cases. In accordance with the provisions of the Bankruptcy Code they have the right to be heard on matters that come before the Court in the Chapter 11 Cases.

It is AWI's intention to address all of its prepetition claims, including all asbestos-related claims, in a plan of reorganization in its Chapter 11 Case. At this juncture, it is impossible to predict with any degree of certainty how such a plan will treat such claims and the impact AWI's Chapter 11 Case and any reorganization plan will have on the shares of common stock of AWI, all of which are held by AHI and along with AWI's operating subsidiaries are the only material asset of AHI. Generally, under the provisions of the Bankruptcy Code, holders of equity interests may not participate under a plan of reorganization unless the claims of creditors are satisfied in full under the plan or unless creditors accept a reorganization plan which permits holders of equity interests to participate. The formulation and implementation of a plan of reorganization in the Chapter 11 Cases could take a significant period of time.

Financing
The Court has approved a $300 million debtor-in-possession credit facility provided by a bank group led by The Chase Manhattan Bank (the "DIP Facility"). AWI believes that the DIP Facility, together with cash generated from operations, will be more than adequate to address its liquidity needs. As of February 28, 2001, AWI had $96.3 million of cash and cash equivalents in addition to cash held by its non-debtor subsidiaries. Borrowings under the DIP facility, if any, will constitute superpriority administrative expense claims in the Chapter 11 Cases.

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

Pursuant to SOP 90-7, AWI is required to segregate prepetition liabilities that are subject to compromise and report them separately on the balance sheet. See Note 4 for detail of the liabilities subject to compromise at December 31, 2000. Liabilities that may be affected by a plan of reorganization are recorded at the amount of the expected allowed claims, even if they may be settled for lesser amounts. Substantially all of AWI's prepetition debt, now in default, is recorded at face value and is classified within liabilities subject to compromise. Obligations of Armstrong subsidiaries not covered by the Filing remain classified on the consolidated balance sheet based upon maturity date. AWI's asbestos liability is also recorded in liabilities subject to compromise. See Note 29 for further discussion of AWI's asbestos liability.

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

SOP 90-7 also requires separate reporting of all revenues, expenses, realized gains and losses, and provision for losses related to the Filing as Chapter 11 reorganization items. Accordingly, AWI recorded a total of $103.3 million as Reorganization Costs in December 2000, consisting of:

	($ millions)
Adjustment of net debt and debt issue costs to expected amount of allowed claim	$ 42.0
ESOP related expenses	58.8
Professional fees	2.6
Interest income, post petition	(0.3)
Other expenses directly related to bankruptcy, net	0.2
Total Chapter 11 reorganization costs	$103.3

To record prepetition debt at the face value or the amount of the expected allowed claims, AWI adjusted the amount of net debt and debt issue costs and recorded a pre-tax expense of $42.0 million.

ESOP related costs include a $43.3 million impairment charge related to amounts borrowed by the ESOP from Armstrong, the trustee of the ESOP. As described more fully in Note 19, Armstrong has not permitted further employee contributions to the ESOP. Therefore, it is expected that the ESOP will no longer have the ability to repay Armstrong money it previously borrowed. In addition, a $15.5 million expense was recorded related to interest and tax penalty guarantees owed to ESOP bondholders caused by the default on the ESOP bonds.

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

Interest income in the above table is from short-term investments of cash earned by AWI subsequent to the Filing.

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

Discontinued Operations
On May 31, 2000, Armstrong completed its sale of all of the entities, assets and certain liabilities comprising its Insulation Products segment to Orion Einundvierzigste Beteiligungsgesellschaft Mbh, a subsidiary of the Dutch investment firm Gilde Investment Management N.V. for $264 million. The transaction resulted in an after tax gain of $114.8 million, or $2.84 per share.

In February 2001, Armstrong determined to permanently exit the Textiles and Sports Flooring segment and on February 20, 2001 entered into negotiations to sell substantially all of the businesses comprising this segment to a private equity investor based in Europe. The proposed sale, while subject to certain approvals, including that of the Court, is expected to close in June 2001. Accordingly this segment has been classified as a discontinued operation in the accompanying consolidated financial statements. Prior year balances and results have been reclassified to reflect the net assets and results of discontinued operations. Based on the expected net realizable value of the business, Armstrong recorded a pretax net loss of $30.3 million in the fourth quarter of 2000, $19.5 million net of tax benefit.

Industry Segments

Financial Information about Industry Segments

See Item 8, Note 3 to Consolidated Financial Statements for financial information on Armstrong's reportable industry segments.

Narrative Description of Business

Armstrong designs, manufactures and sells interior finishings, most notably floor coverings and ceiling systems around the world. Armstrong products are sold primarily for use in the finishing, refurbishing and repair of residential, commercial and institutional buildings. Armstrong also designs, manufactures and sells kitchen and bathroom cabinets.

Floor Coverings

Armstrong is a worldwide manufacturer of a broad range of resilient floor coverings for the interiors of homes and commercial and institutional buildings, which are sold with adhesives, installation and maintenance materials and accessories. Resilient flooring, in both sheet and tile forms, together with laminate flooring and linoleum, are sold 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 commercial, residential and institutional customers through wholesalers, retailers (including large home centers and buying groups), contractors, and to the hotel/motel and manufactured homes industries.

Building Products

As a major producer of ceiling materials in the United States and abroad, Armstrong 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 features intended to permit ease of installation. These residential ceiling products are sold through wholesalers and retailers (including large home centers). Commercial suspended ceiling systems, designed for use in shopping centers, offices, schools, hospitals, and other commercial and institutional settings, are available in numerous colors, performance characteristics and designs and offer characteristics such as acoustical control, accessibility to the plenum (the area above the ceiling), rated fire protection, and aesthetic appeal. Armstrong sells commercial ceiling materials and accessories to ceiling systems contractors and to resale distributors. Framework (grid) products for Armstrong suspension ceiling systems products are manufactured through a joint venture with Worthington Industries and are sold by Armstrong.

Wood Products

Armstrong's Triangle Pacific subsidiary manufactures and sells hardwood flooring and other flooring, kitchen and bathroom cabinetry and related products. Armstrong also distributes laminate flooring products. These products are used primarily in residential new construction and remodeling, with some commercial applications such as stores and restaurants. Flooring sales are generally made through independent wholesale flooring distributors and retailers (including large home centers and buying groups). Cabinets are sold through both independent and Armstrong-owned distributors.

Major Customers

Armstrong businesses principally sell products through building products distributors, who re-sell our products to retailers, builders, contractors, installers and others. Armstrong also sells a significant portion of our products to home center chains and industry buying groups. For example, for 2000, Armstrong sales by all operations to The Home Depot, Inc. totaled approximately $373.2 million compared to approximately $344.8 million and $296.0 million in 1999 and 1998, respectively. No other customer accounted for more than 10% of Armstrong's revenue.

Raw Materials

Raw materials essential to Armstrong businesses are purchased worldwide in the ordinary course of business from numerous suppliers. The principal raw materials used by the Floor Coverings business include synthetic resins, plasticizers, PVC, latex, linseed oil, limestone, films, pigments and inks. The principal raw materials used by the Building Products business include mineral fibers and fillers, clays, starches, newspaper and perlite, as well as steel used in the ceiling grid manufacturing process. The principal raw materials used by the Wood Products business include oak lumber, veneer, acrylics, plywood, particleboard and fiberboard. Armstrong also purchases significant amounts of packaging materials for all products and uses substantial amounts of energy such as electricity and natural gas in our manufacturing operations. In general, adequate supplies of raw materials were available to all of Armstrong's businesses. Although prices for petroleum-based raw materials and energy were markedly higher in 2000, no serious shortages were encountered in 2000, and none are expected in 2001. Armstrong cannot guarantee that a significant shortage of one raw material or another will not occur, however.

Armstrong's California resilient tile manufacturing plant experienced serious disruptions into January 2001 due to the electric power supply shortage in that state. Armstrong rejected a lower-rate contract we had been operating under, which allowed for limited power cut-offs. Although Armstrong will now pay a slightly higher rate, we expect our plant will be less exposed to electric power shutdowns provided the state as a whole obtains adequate power supplies. Otherwise, production from this plant may have to be shifted to other facilities, resulting in undetermined capital expense and transportation costs.

Customers' orders for Armstrong products are typically for immediate shipment. Thus, in each business group, Armstrong keeps sufficient inventory on hand to satisfy orders, or manufacture product to meet delivery dates specified in orders. As a result, there historically has been no material backlog in any industry segment.

Patents and Intellectual Property Rights

Patent protection is important to Armstrong's business in the United States and other markets. Armstrong's competitive position has been enhanced by U.S. and foreign patents on products and processes developed or perfected within Armstrong or obtained through acquisition or license. In addition, Armstrong also benefits from our trade secrets for certain products and processes.

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

Armstrong products are sold around the world under numerous brand-name trademarks that are considered in the aggregate to be of material importance. Certain of Armstrong trademarks, including without limitation, house marks Armstrong, Bruce, Hartco, Robbins, and DLW, and product line marks Cirrus, Corlon, Cortega, Designer Solarian, Exelon, Fundamentals, I-Ceilings, Medintech, Natural Inspirations, ToughGuard, Traffic Zone and Ultima are important to Armstrong's business because of their significant brand name recognition. Trademark protection continues in some countries as long as the mark is used, in other countries, as long as it is registered. Registrations are generally for fixed, but renewable, terms.

Competition

There is strong competition in all of the industry segments in which Armstrong does business. Competition in each industry segment and each geographic area where Armstrong does business includes numerous companies. Principal methods of competition include price, product performance and service. In addition, product styling is a significant component of competition. Increasing competition in the U.S. from worldwide producers is apparent in Armstrong's businesses. There is currently excess production capacity in many geographic markets, which tends to increase price competition.

Research & Development

Research and development ("R&D") activities are important and necessary in helping Armstrong improve its products. Principal research and development functions include the development and improvement of products and manufacturing processes.

Armstrong spent $60.0 million in 2000, $46.4 in 1999 and $36.7 million in 1998 on research and development activities worldwide.

Environmental Matters

Most of Armstrong's manufacturing and certain of Armstrong's research facilities are affected by various federal, state and local environmental requirements relating to the discharge of materials or the protection of the environment. Armstrong has made, and intends to continue to make, necessary expenditures for compliance with applicable environmental requirements at its operating facilities. Armstrong incurred capital expenditures of approximately $6.2 million in 2000, $5.5 million in 1999 and $6.7 million in 1998 associated with environmental compliance and control facilities. Armstrong anticipates that annual expenditures for those purposes will not change materially from recent experience. Armstrong does not anticipate that it will incur significant capital expenditures in order to meet the requirements of the Clean Air Act of 1990 and the final implementing regulations promulgated by various state agencies. However, applicable requirements under the Clean Air Act and other federal and state environmental laws continue to change. Until all new regulatory requirements are known, Armstrong cannot predict with certainty future capital expenditures associated with compliance with environmental requirements.

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") which have potential liability for the required investigation and remediation of each site, and which in some cases, have agreed to jointly fund that required investigation and remediation. With regard to some sites, however, 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. Armstrong has also been remediating environmental contamination resulting from past industrial activity at certain of its former plant sites. Armstrong's payments and remediation work on these sites is under review in light of the Chapter 11 Filing.

Estimates of Armstrong's future environmental liability at any of the Superfund sites or current or former plant sites are based on evaluations of currently available facts regarding each individual site and consider factors such as Armstrong's activities in conjunction with the site, existing technology, presently enacted laws and regulations and prior company experience in remediating contaminated sites. Although current law imposes joint and several liability on all parties at 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, Armstrong's estimated liability reflects only Armstrong's expected share. In determining the probability of contribution, Armstrong considers the solvency of the parties, whether liability is being disputed, the terms of any existing agreements and experience with similar matters. The Chapter 11 Cases also may affect the ultimate amount of such contributions.

Liabilities of $13.5 million at December 31, 2000 and $13.2 million at December 31, 1999 were for potential environmental liabilities that Armstrong considers probable and for which a reasonable estimate of the probable liability could be made. Where existing data is sufficient to estimate the liability, that estimate has been used; where only a range of probable liability is available and no amount within that range is more likely than any other, the lower end of the range has been used. As assessments and remediation activities progress at each site, these liabilities are reviewed to reflect additional information as it becomes available. Due to the Chapter 11 Filing, $6.4 million of the December 31, 2000 environmental liabilities are classified as prepetition liabilities subject to compromise. As a general rule, such prepetition liabilities that do not preserve company assets are addressed in the context of the Chapter 11 Cases.

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 in the consolidated financial statements and are either available through settlement or anticipated to be recovered through negotiation or litigation.

Actual costs to be incurred at identified sites may vary from the estimates, given the inherent uncertainties in evaluating environmental liabilities. Subject to the imprecision in estimating environmental remediation costs, Armstrong 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.

Employees
As of December 31, 2000, we had approximately 15,400 employees around the world, of whom approximately 3,800 are located outside of the United States. About 51% of the approximately 8,900 hourly or salaried production and maintenance employees in the United States are represented by labor unions.

Armstrong experienced a brief work stoppage at one of its Wood Products plants in 2000. Otherwise, Armstrong's employee and labor relations remained good. In the fall of 2001, Armstrong anticipates beginning negotiations on a new collective bargaining agreement with the International Association of Machinists and Aerospace Workers at its Lancaster, Pennsylvania plant.

Geographic Areas
See Item 8, Note 3 to Consolidated Financial Statements for financial information by geographic areas.

Armstrong's non-U.S. operations are subject to local government laws concerning restrictions on and transfers of investments, tariffs, personnel administration, and other matters. In addition, consolidated earnings that originate outside the U.S. are subject to both U.S. and non-U.S. tax laws and to certain exchange and currency controls and the effects of currency fluctuations.

Cautionary Factors That May Affect Future Results
(Cautionary Statements Under the Private Securities Litigation Reform Act of 1995)

The disclosures and analysis in this report contain some forward-looking statements. This discussion about those statements is provided in accordance with the Private Securities Litigation Reform Act of 1995.

Forward-looking statements give current expectations or forecasts of future events. You can identify these statements by the fact that they do not relate strictly to historical or current facts. They use words such as "anticipate," "estimate," "expect," "project," "intend," "plan," "believe," and other words and terms of similar meaning in connection with discussions of future operating or financial performance. In particular, these include statements relating to future actions, prospective products, future performance or results of current and anticipated products, sales efforts, expenses, the outcome of contingencies such as legal proceedings, and financial results. From time to time, Armstrong and/or AHI may also provide oral or written forward-looking statements in other materials released to the public.

Any or all of the forward-looking statements in this report and in any other public statements made may turn out to be wrong. They can be affected by inaccurate assumptions Armstrong and/or AHI might make or by known or unknown risks and uncertainties. Consequently, no forward-looking statement can be guaranteed. Actual future results may vary materially.

Armstrong and/or AHI undertake no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise. However, you should consult any further disclosures made by Armstrong and/or AHI on related subjects in 10-Q, 8-K, 10-K or other reports filed with the SEC. Also note the following cautionary discussion of risks and uncertainties relevant to Armstrong businesses. These are some of the factors that could potentially cause actual results to differ materially from expected and historical results. Other factors besides those listed here could also adversely affect Armstrong and/or AHI.

. Factors relating to AWI's Chapter 11 Filing, such as: the possible disruption of relationships with creditors, customers, suppliers and employees; the ultimate size of AWI's asbestos-related and other liabilities; the ability to confirm and implement a plan of reorganization; the availability of financing and refinancing for both AWI and its subsidiaries that are not parties to its Chapter 11 Filing; and AWI's ability to comply with covenants in its debtor in possession credit facility.

. Claims of undetermined merit and amount have been asserted against Armstrong and its subsidiaries for various legal, environmental and tax matters, including AWI's asbestos related litigation. For more information on these matters, see the discussion of Legal Proceedings in Item 3 in this report.

. Balancing investment to create future growth in the constraints of a price-competitive market is a challenge.

. Revenues and earnings can be affected by the level of success of new product introductions.

. Much of Armstrong's revenues and earnings are exposed to changes in foreign currency exchange rates. Where practical, Armstrong tries to reduce these effects by matching local currency revenues with costs and local currency assets with liabilities. Armstrong also manages foreign exchange risk with foreign currency forward contracts and with purchased foreign currency options.

. Notwithstanding Armstrong's efforts to foresee and plan for the effects of changes in fiscal circumstances, Armstrong cannot predict with certainty all changes in currency and interest rates, inflation or other related factors affecting Armstrong businesses. For more information on these matters, see the discussion of Market Risk in Item 7A of this report.

. International operations could be affected by changes in intellectual property legal protections and remedies, trade regulations, and procedures and actions affecting production, pricing and marketing of products, as well as by unstable governments and legal systems, intergovernmental disputes and possible nationalization.

. Business combinations among Armstrong's competitors or suppliers could affect Armstrong's competitive position in the hard surface floor covering, ceiling system and wood products businesses. Similarly, combinations or alliances among Armstrong's major customers could increase their purchasing power in dealing with Armstrong. And, of course, if Armstrong should enter into one or more business combinations, Armstrong's business, finances and capital structure could be affected.

. Growth in costs and expenses, raw material price increases (for example increases in wood prices or in petroleum-based raw materials such as plasticizers or PVCs), energy cost increases, changes in distribution and product mix, and the impact of divestitures, restructuring and other unusual items that could result from evolving business strategies and organizational restructuring could affect future results.

. Revenues and earnings could be affected by various worldwide economic and political factors, including improved efficiencies in the European flooring market and variations in residential and commercial building rates and economic growth rates in various areas of the world in which we do business. These factors could affect the end-use markets for Armstrong products in various parts of the world.

. Revenues and earnings could be affected by the extent to which Armstrong successfully achieves integration of and synergies from acquisitions.

. Availability of raw materials due to changes in business conditions that impact Armstrong's suppliers, including environmental conditions, laws and regulations and/or business decisions made by Armstrong's suppliers could affect future results.

. Revenues and earnings could be affected by business conditions that impact Armstrong's major customers and/or business decisions made by Armstrong's major customers.

Financial Information Filed With the Court

As previously disclosed, on December 6, 2000, AWI and two of its subsidiaries (collectively, the "Debtors") filed voluntary petitions for relief under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware ("the Court").

Armstrong reports its operating results and financial statements on a consolidated basis. These public reports are available through the U.S. Securities and Exchange Commission and other sources, and are also provided free of charge to investors who contact Armstrong. However, under applicable bankruptcy law, AWI is now required to file periodically with the Court various documents, including certain financial information on an unconsolidated basis. This information includes statements, schedules, and monthly operating reports in forms prescribed by Federal Bankruptcy Law.

Armstrong cautions that such materials are prepared according to requirements under Federal Bankruptcy Law. While they accurately provide then-current information required under Bankruptcy Law, they are nonetheless unconsolidated, unaudited, and are prepared in a format different from that used in Armstrong's consolidated financial statements filed under the securities laws. Accordingly, Armstrong believes the substance and format do not allow meaningful comparison with Armstrong's regular publicly-disclosed consolidated financial statements. The materials filed with the Court are not prepared for the purpose of providing a basis for an investment decision relating to the stock of AHI or the debt securities of AWI, or for comparison with other financial information filed with the SEC.

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

Item 2. Properties

Armstrong and AHI world headquarters are in Lancaster, Pennsylvania. Armstrong owns a 100-acre, multi-building campus comprising the site of our corporate headquarters, most operational headquarters, and our U.S. R&D operations and marketing and service headquarters. Altogether, our headquarters operations occupy over 986,000 square feet of floor space.

We produce and market Armstrong products and services throughout the world, owning and operating 44 manufacturing plants in 14 countries. Thirty-three of these facilities are located throughout the United States. In addition, Armstrong has an interest through joint ventures in 7 additional plants in 7 countries.

Floor covering products and adhesives are produced at 14 plants, with principal manufacturing facilities located in Pennsylvania, Illinois, Oklahoma, the U.K., and Germany. Building products are produced at 15 plants with principal facilities in Georgia, the Florida-Alabama Gulf Coast area, Pennsylvania, the U.K., and China. Wood products are produced at 16 plants, with principal facilities located in West Virginia, Tennessee and Pennsylvania.

Sales offices are leased and owned worldwide, and leased facilities are utilized to supplement Armstrong's owned warehousing facilities.

Productive capacity and the extent of utilization of Armstrong 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 multiple products. In this context, we estimate that the production facilities in each industry segment were effectively utilized during 2000 at 80% to 90% of overall productive capacity. Remaining productive capacity is sufficient to meet expected customer demands. Armstrong believes that our various facilities are adequate and suitable. Additional incremental investments in plant facilities are made as appropriate to balance capacity with anticipated demand, improve quality and service, and reduce costs.

Item 3. Legal Proceedings

Asbestos-related Litigation

AWI is a defendant in personal injury claims and property damage claims related to asbestos containing products. On December 6, 2000, AWI filed a voluntary petition for relief ("the Filing") under Chapter 11 of the U.S. Bankruptcy Code to use the court supervised reorganization process to achieve a fair and final resolution of its asbestos liability. See Item 1 for further discussion.

Background
AWI's involvement in asbestos litigation relates primarily to its participation in the insulation contracting business. From around 1910 to 1933, AWI manufactured and installed some high-temperature insulation products, including some that contained asbestos. In 1939, AWI expanded its contract installation service to provide a greater range of high and low temperature contracting services to its customers. AWI generally manufactured its own low temperature insulation products, but did not manufacture the high temperature products used in its contracting operations. Some of the high temperature products furnished and installed in the contracting operations contained asbestos.

Effective January 1, 1958, AWI separated its insulation contracting business into a separate, independent subsidiary, Armstrong Contracting and Supply Corporation ("ACandS"). From January 1, 1958 through August 31, 1969, ACandS operated as an independent subsidiary in the insulation contracting business. During this time period, AWI licensed certain tradenames and trademarks to ACandS, which ACandS placed on certain insulation products manufactured by others. Other than two specific products, AWI did not manufacture or sell any asbestos-containing thermal insulation products during this period. In August 1969, AWI sold the ACandS subsidiary to a group of ACandS management employees and ACandS continues to operate independently as a subsidiary of Irex Corporation. AWI had no involvement with any asbestos-containing insulation materials after 1969.

In addition, AWI manufactured some resilient flooring that contained encapsulated asbestos until the early 1980's. AWI also manufactured some gasket materials that contained encapsulated asbestos until the mid-1980's.

Personal Injury Litigation
Nearly all the asbestos-related personal injury lawsuits brought against AWI relate to alleged exposure to asbestos-containing high-temperature insulation products. The majority of these claims seek compensatory and punitive damages. Claims may arise many years after first exposure to asbestos in light of the decades long latency period for asbestos-related injury. Product identification and determining exposure periods are difficult and uncertain. Over the long history of asbestos litigation involving hundreds of companies, various parties have tried to secure 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. AWI 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 from various jurisdictions and has been receptive to different approaches to the resolution of claims. Claims filed in state courts have not been directly affected by the transfer.

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 AWI. It was designed to establish a nonlitigation system for the resolution of those 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 September 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.

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

The Facility was established in 1985 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 AWI. At the time of the Filing, there were 16 members of the Center, including AWI. 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 among the member companies; adjustments over time due to the departure of some members and other factors resulted in some increased share for AWI.

As a result of the Filing, AWI is no longer an active participant in the Center. The extent and amount of AWI liabilities as a result of its participation in the Center have not been determined, but will be determined in AWI's Chapter 11 Case.

Number of Claims

The number of claims naming AWI as a defendant ranged from about 16,400 to 31,100 per year during the period from 1989 to 1997. However, subsequent to this time and up to the Filing, claim filings significantly surpassed this average as approximately 87,500 and 50,700 claims were filed in 1998 and 1999 respectively. AWI had expected the number of claims to decline in 2000. However, during the first eleven months of 2000 prior to the Filing, the Center received and verified approximately 53,000 claims. Claims from major, established law firms did decline, but this decline was more than offset by claims from new or previously low-volume law firms.

Before filing under the Bankruptcy Code, AWI pursued broad-based settlements of claims through the Center. The Center had reached Strategic Settlement Program ("SSP") agreements with law firms that covered approximately 130,000 claims that named AWI as a defendant, including agreements with 17 law firms covering approximately 36,800 claims during the first eleven months of 2000. These agreements typically provided for multiyear payments for settlement of current claims and established specific medical and other criteria for the settlement of future claims as well as annual limits on the number of claims that can be filed by these firms. These agreements also established fixed settlement values for different asbestos-related medical conditions which were subject to periodic re-negotiation over a period of 2 to 5 years. The plaintiff law firms were required to recommend settlements to their clients although future claimants are not legally obligated to accept the settlements. These agreements also provided for nominal payments to future claimants who are unimpaired but who are eligible for additional compensation if they develop a more serious asbestos-related illness. The Center could terminate an agreement with an individual law firm if a significant number of that firm's clients elect not to participate under the agreement. For some agreements, the component of the agreement that covered future claims was subject to re-negotiation if members left the Center. As a result of the Filing, AWI's obligations with respect to these settlements will be determined in the context of its Chapter 11 Case.

Fourth Quarter 2000 Events

On October 5, 2000, Owens Corning Fiberglass ("OCF"), a manufacturer of insulation, filed for protection under Chapter 11 of the Bankruptcy Code to address its asbestos liability. This filing adversely impacted AWI's negotiations to obtain a 364-day credit facility which were underway at the time. This credit facility was to replace an existing $450 million credit facility that expired on October 19, 2000. Following the OCF filing, the potential participants in the new credit facility decided to reevaluate their credit exposures to AWI, primarily due to AWI's asbestos liability. AWI could not reach agreement on a new facility with acceptable terms. The existing $450 million credit facility expired on October 19, 2000.

Additionally, AWI was concerned that a possible upward bias in the settlement demands of asbestos plaintiffs would occur given the exit from the tort system of OCF, an important defendant in asbestos litigation.

As set forth above, AWI filed for relief under Chapter 11 of the Bankruptcy Code on December 6, 2000. As a result, holders of asbestos claims are stayed from continuing to prosecute pending litigation and from filing new lawsuits against AWI. In addition, AWI ceased making payments with respect to asbestos claims, including payments pursuant to the outstanding SSP agreements. A separate creditors committee representing the interests of asbestos claimants has been appointed in the Chapter 11 Cases.

As a result of the Filing, AWI's present and future asbestos liability will be addressed in the Chapter 11 Case rather than through the Center and a multitude of lawsuits in different jurisdictions throughout the U.S. AWI believes that the Chapter 11 process provides it with the opportunity to change its approach to its asbestos liability and comprehensively address that liability in one forum. It is anticipated that all present and future asbestos claims will be resolved in the Chapter 11 Case, which could take several years.

Asbestos-Related Personal Injury Liability
In evaluating its estimated asbestos-related personal injury liability prior to the Filing, AWI reviewed, among other things, recent and historical settlement amounts, the incidence of past and recent claims, the mix of the injuries and occupations of the plaintiffs, the number of cases pending against it and the status and results of broad-based settlement discussions. Based on this review, AWI estimated its share of liability to defend and resolve probable asbestos-related personal injury claims. This estimate was highly uncertain due to the limitations of the available data and the difficulty of forecasting with any certainty the numerous variables that could affect the range of the liability.

AWI believes the range of probable and estimable liability is more uncertain now than previously. There are significant differences in the way the asbestos claims may be addressed under the bankruptcy process when compared to the tort system. Accordingly, AWI currently is unable to ascertain how prior experience with the number of claims and the amounts to settle claims will impact its ultimate liability in the context of its Chapter 11 Case.

As of September 30, 2000, AWI's estimate of its asbestos-related liability that was probable and estimable through 2006 ranged from $758.8 million to $1,363.3 million. AWI concluded that no amount within that range was more likely than any other and, therefore, reflected $758.8 million as a liability in the condensed consolidated financial statements in accordance with generally accepted accounting principles. Due to the increased uncertainty created as a result of the Filing, no change has been made to the previously recorded liability except to record payments of $68.2 million against that accrual in October and November 2000. The balance at December 31, 2000 is $690.6 million. It is reasonably possible, however, that the actual liability could be significantly higher than the recorded liability. As the Chapter 11 Cases proceed there should be more clarity as to the extent of the liability to be addressed in the Chapter 11 Cases.

Collateral Requirements
During 2000, AWI had secured a bond for $56.2 million to meet minimum collateral requirements established by the Center with respect to asbestos claims asserted against AWI. On October 27, 2000, the insurance company that underwrote the surety bond informed AWI and the Center of its intention not to renew the surety bond effective February 28, 2001. On February 6, 2001, the Center advised the surety of the Center's demand for payment of the face value of the bond. The surety filed a motion with the Court seeking to restrain the Center from drawing on the bond. The motion was not granted.

Property Damage Litigation
AWI is also one of many defendants in six pending property damage claims as of December 31, 2000 that were filed by public and private building owners. These cases present allegations of damage to the plaintiffs' 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. In the second quarter of 2000, AWI was served with a lawsuit seeking class certification of Texas residents who own property with asbestos-containing products. This case includes allegations that AWI asbestos-containing products caused damage to buildings and generally seeks compensatory damages and equitable relief, including testing, reimbursement for removal and diminution of property value. AWI vigorously denies the validity of the allegations against it in these actions and, in any event, believes that any costs will be covered by insurance. Continued prosecution of these actions and the commencement of any new asbestos property damage actions are also stayed due to the Filing. Consistent with prior periods and due to increased uncertainty, AWI has not recorded any liability related to these claims.

Insurance Coverage
During relevant time periods, AWI purchased primary and excess insurance policies providing coverage for personal injury claims and property damage claims. Certain policies also provide coverage to ACandS, Inc., the former subsidiary of AWI discussed above under "Background". AWI and ACandS agreed to share certain coverage on a first-come first-served basis and to reserve for ACandS a certain amount of excess coverage.

Wellington Agreement

In 1985, AWI and 52 other companies (asbestos defendants and insurers) signed the Wellington Agreement. This Agreement settled disputes concerning personal injury insurance coverage with signatory carriers. It provides broad coverage for both defense and indemnity and applies to both products hazard and nonproducts (general liability) coverages. Most of AWI resolutions of asbestos-related personal injury products hazard coverage matters with its solvent carriers has been achieved through the Wellington Agreement or other settlements.

Insurance Recovery Proceedings

A substantial portion of AWI's primary and excess remaining insurance asset is nonproducts (general liability) insurance for personal injury claims, including among others, those that involve alleged exposure during AWI's installation of asbestos insulation materials. AWI has entered into settlements with a number of the carriers resolving its coverage issues. However, an alternative dispute resolution ("ADR") procedure under the Wellington Agreement is under way against certain carriers to determine the percentage of resolved and unresolved claims that are nonproducts claims, to establish the entitlement to such coverage and to determine whether and how much reinstatement of prematurely exhausted products hazard insurance is warranted. The nonproducts coverage potentially available is substantial and includes defense costs in addition to limits. 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 AWI 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. One insurer has taken the position that it is entitled to litigate in court certain issues in the ADR proceeding. During 1999, AWI received preliminary decisions in the initial phases of the trial proceeding of the ADR which were generally favorable to AWI on a number of issues related to insurance coverage. However, during the fourth quarter of 2000, a new trial judge was selected for the ADR. AWI is uncertain at this time as to the impact, if any, this change will have on the preliminary decisions of the initial phases of the ADR. Further, management believes that one of the carriers has been experiencing financial difficulties, which could affect its ability to pay any ultimate judgment. AWI has not adjusted the recorded asset amount at December 31, 2000 related to this carrier. Because of the continuing ADR process and the possibilities for appeal on certain matters, AWI has not yet completely determined the financial implications of the ADR proceedings.

Insurance Asset

An insurance asset in respect of asbestos personal injury claims in the amount of $268.3 million is recorded as of December 31, 2000. Of the total recorded asset, approximately $77.2 million represents partial settlement for previous claims that will be paid in a fixed and determinable flow and is reported at its net present value discounted at 6.50%. The total amount recorded reflects AWI's belief in the availability of insurance in this amount, based upon AWI'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 that is in the trial phase of binding arbitration. Depending on further progress of the ADR, activities such as settlement discussions with insurance carriers party to the ADR and those not party to the ADR, the final determination of coverage shared with ACandS and the financial condition of the insurers, AWI may revise its estimate of probable insurance recoveries. Approximately $86 million of the $268.3 million asset is determined from agreed coverage in place and is therefore directly related to the amount of the liability and could decrease if the final amount of the liability decreases. Of the $268.3 million asset, $32.2 million has been recorded as a current asset reflecting management's estimate of the minimum insurance payments to be received in the next 12 months.

A significant part of the recorded asset relates to insurance that AWI believes is probable and will be obtained through settlements with the various carriers. Due to the Filing, the settlement process may be delayed, pending further clarification as to the asbestos liability. While AWI believes the Chapter 11 process will strengthen its position on resolving disputed insurance and may therefore result in higher settlement amounts than recorded, there has been no change in the recorded amounts due to the uncertainties created by the Filing. Accordingly, this asset could also change significantly based upon events which occur in the Court. Management estimates that the timing of future cash payments for the remainder of the recorded asset may extend beyond 10 years.

Income Statement Charges

AWI recorded charges to increase its estimate of probable asbestos-related liability by $236.0 million in the second quarter of 2000, $335.4 million in 1999 and $274.2 million in 1998. Prior to 1998, charges to increase the liability were effectively offset by corresponding increases in related insurance recoveries.

Cash Flow Impact
AWI paid $226.9 million for asbestos-related claims in the first eleven months of 2000 compared to $173.0 million in all of 1999. AWI received $27.7 million in asbestos-related insurance recoveries during 2000 compared to $58.7 million during 1999. During the pending Chapter 11 cases, AWI does not expect to make any further cash payments for asbestos-related claims, but AWI may continue to receive insurance proceeds under the terms of various settlement agreements.

Conclusion
Many uncertainties exist surrounding the financial impact of AWI's involvement with asbestos litigation. These uncertainties include the impact of the Filing and the Chapter 11 process, the number of future claims to be filed, the impact of any potential legislation and the impact of the ADR proceedings on the insurance asset. Accordingly, AWI is not revising its previously recorded liability. However, it is reasonably possible that AWI's total exposure to personal injury asbestos claims may be significantly different than the recorded liability.

Environmental Matters
Most of Armstrong's manufacturing and certain of Armstrong's research facilities are affected by various federal, state and local environmental requirements relating to the discharge of materials or the protection of the environment. Armstrong has made, and intends to continue to make, necessary expenditures for compliance with applicable environmental requirements at its operating facilities. Armstrong incurred capital expenditures of approximately $6.2 million in 2000, $5.5 million in 1999 and $6.7 million in 1998 associated with environmental compliance and control facilities. Armstrong anticipates that annual expenditures for those purposes will not change materially from recent experience. Armstrong does not anticipate that it will incur significant capital expenditures in order to meet the requirements of the Clean Air Act of 1990 and the final implementing regulations promulgated by various state agencies. However, applicable requirements under the Clean Air Act and other federal and state environmental laws continue to change. Until all new regulatory requirements are known, Armstrong cannot predict with certainty future capital expenditures associated with compliance with environmental requirements.

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") which have potential liability for the required investigation and remediation of each site and who, in some cases, have agreed to jointly fund that required investigation and remediation. 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. Armstrong has also been remediating environmental contamination resulting from past industrial activity at certain of its former plant sites. Armstrong's payments and remediation work on these sites is under review in light of the Chapter 11 Filing.

Estimates of Armstrong's future environmental liability at any of the Superfund sites or current or former plant sites are based on an evaluation of currently available facts regarding each individual site and consider factors such as Armstrong's activities in conjunction with the site, existing technology, presently enacted laws and regulations and prior company experience in remediating contaminated sites. Although current law imposes joint and several liability on all parties at 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, Armstrong's estimated liability reflects only Armstrong's expected share. In determining the probability of contribution, Armstrong considers the solvency of the parties, whether liability is being disputed, the terms of any existing agreements and experience with similar matters. The Chapter 11 Cases also may affect the ultimate amount of such contributions.

Liabilities of $13.5 million at December 31, 2000 and $13.2 million at December 31, 1999 were for potential environmental liabilities that Armstrong considers probable and for which a reasonable estimate of the probable liability could be made. Where existing data is sufficient to estimate the liability, that estimate has been used; where only a range of probable liability is available and no amount within that range is more likely than any other, the lower end of the range has been used. As assessments and remediation activities progress at each site, these liabilities are reviewed to reflect additional information as it becomes available. Due to the Chapter 11 Filing, $6.4 million of the December 31, 2000 environmental liabilities are classified as prepetition liabilities subject to compromise. As a general rule, such prepetition liabilities that do not preserve company assets are addressed in the context of the Chapter 11 Cases.

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 in the consolidated financial statements and are either available through settlement or anticipated to be recovered through negotiation or litigation.

Actual costs to be incurred at identified sites may vary from the estimates, given the inherent uncertainties in evaluating environmental liabilities. Subject to the imprecision in estimating environmental remediation costs, Armstrong 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.

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

Not applicable.

PART II

Item 5. Market for the Registrant's Common Equity and Related Stockholder Matters

Armstrong Holding'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, 2001, there were approximately 7,100 holders of record of Armstrong Holding's Common Stock.

During 2000, Armstrong issued a total of 1,200 shares of restricted Common Stock to nonemployee directors of Armstrong pursuant to Armstrong'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 Armstrong possessed by the directors, these shares were issued without registration in reliance on Section 4(2) of the Securities Act of 1933, as amended.

2000	First	Second	Third	Fourth	Total Year
Dividends per share of common stock	$0.48	$0.48	$0.48	$0.00	$1.44
Price range of common stock--high	$36.81	$20.50	$17.38	$12.19	$36.81
Price range of common stock--low	$16.06	$15.30	$11.81	$0.75	$0.75
1999					
Dividends per share of common stock	$0.48	$0.48	$0.48	$0.48	$1.92
Price range of common stock--high	$64.31	$59.69	$60.88	$45.13	$64.31
Price range of common stock--low	$44.63	$45.00	$44.13	$29.00	$29.00

Item 6. Selected Financial Data

The following data is presented on a continuing operations basis.

(Dollars in millions except for per-share data) For Year	2000	1999	1998	1997	1996
Income statement data:					
Net sales	$3,003.8	$3,048.2	$ 2,496.1	$ 2,056.9	$ 2,012.3
Cost of goods sold	2,197.7	2,080.8	1,718.3	1,410.6	1,397.5
Total selling, general and administrative expenses and goodwill amortization	570.2	581.7	453.7	340.0	374.0
Equity (earnings) loss from affiliates, net	(18.0)	(16.8)	(13.8)	29.7	(19.1)
Restructuring and reorganization charges (reversals)	18.0	(1.4)	74.4	--	46.5
Charge for asbestos liability, net	236.0	335.4	274.2	--	--
Operating income (loss)	(0.1)	68.5	(10.7)	276.6	213.4
Interest expense	101.6	104.0	61.4	28.0	22.6
Other (income), net	(74.6)	(6.7)	(1.7)	(2.2)	(6.9)
Earnings (loss) from continuing operations before Chapter 11 reorganization costs and income taxes	(27.1)	(28.8)	(70.4)	250.8	197.7
Chapter 11 reorganization costs, net	103.3	--	--	--	--
Earnings (loss) from continuing operations before income taxes	(130.4)	(28.8)	(70.4)	250.8	197.7
Income tax expense (benefit)	(41.4)	(4.8)	(24.9)	94.4	61.5
Earnings (loss) from continuing operations applicable to common stock (a)	(89.0)	(24.0)	(45.5)	156.4	136.2
Per common share - basic (b)	(2.21)	(0.60)	(1.14)	3.85	3.48
Per common share - diluted (b)	(2.21)	(0.60)	(1.14)	3.81	3.24
Net earnings (loss)	12.2	14.3	(9.3)	185.0	155.9
Net earnings (loss) applicable to common stock (a)	12.2	14.3	(9.3)	185.0	149.1
Per common share - basic (b)	0.30	0.36	(0.23)	4.55	3.81
Per common share - diluted (b)	0.30	0.36	(0.23)	4.50	3.61
Dividends declared per share of common stock	1.44	1.92	1.88	1.72	1.56
Capital expenditures	148.0	178.1	172.9	147.1	207.6
Aggregate cost of acquisitions	6.5	3.8	1,175.7	4.2	--
Depreciation and amortization	160.9	154.9	129.6	120.7	113.7
Average number of employees	15,472	15,561	13,406	9,280	9,188
Average number of common shares outstanding (millions)	40.2	39.9	39.8	40.6	39.1
Balance sheet data (December 31):					
Working capital	$652.8	$328.1	$473.9	$201.3	$215.8
Net property, plant and equipment	1,253.5	1,292.0	1,337.0	885.6	871.8
Total assets	3,874.6	3,981.4	4,086.8	2,296.4	2,049.7
Liabilities subject to compromise	2,385.2	--	--	--	--
Net long-term debt (c)	56.8	1,389.1	1,537.2	223.1	219.4
Total debt as a percentage of total capital (d)	10.9%	70.8%	72.6%	39.1%	36.8%
Shareholders' equity	$665.1	$679.2	$709.7	$810.6	$790.0
Book value per share of common stock	16.30	16.87	17.57	20.20	19.19
Number of shareholders (e)	6,899	6,515	6,868	7,137	7,424
Common shares outstanding (millions)	40.8	40.3	39.8	40.1	41.2
Market value per common share	$2.06	$33.38	$60.31	$74.75	$69.50

Notes:

Prior period amounts reflect reclassifications to conform with Emerging Issue Task Force Issue Nos. 00-010 and 00-014 (See Note 2) and are presented on a continuing operations basis.

(a) After deducting preferred dividend requirements and adding the tax benefits for unallocated preferred shares.
(b) See definition of basic and diluted earnings per share in Note 2 to the consolidated financial statements.
(c) 2000 net long-term debt excludes debt subject to compromise.
(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 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 Armstrong's acquisitions of Triangle Pacific and DLW.

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

The following discussion and analysis corresponds to AHI financial statements. Since there are no material differences between the financial statements of AHI and Armstrong, the following discussion and analysis pertains to both AHI and Armstrong.

2000 COMPARED WITH 1999

Proceedings under Chapter 11

On December 6, 2000, AWI, the major operating subsidiary of AHI, filed a voluntary petition for relief ("the Filing") under Chapter 11 of the U.S. Bankruptcy Code ("the Bankruptcy Code") in the United States Bankruptcy Court for the District of Delaware (the "Court") in order to use the court-supervised reorganization process to achieve a resolution of its asbestos liability. Also filing under Chapter 11 were two of Armstrong's wholly-owned subsidiaries, Nitram Liquidators, Inc. and Desseaux Corporation of North America, Inc. The Chapter 11 cases are being jointly administered under case numbers 00-4469, 00-4470, and 00-4471 (the "Chapter 11 Cases").

AHI, and Armstrong's other subsidiaries, including Triangle Pacific Corp., WAVE (Armstrong's ceiling grid systems joint venture with Worthington Industries), Armstrong Canada, Armstrong DLW AG and its other non-U.S. operating subsidiaries were not a part of the Filing.

Like other companies involved in asbestos litigation, AWI has tried a number of different approaches to managing its asbestos liability, including negotiating broad-based settlements of claims and supporting efforts to find a legislative resolution. The number of new claims filed and the cost to settle claims, however, continued to escalate. In addition, liquidity concerns increased when Owens Corning Fiberglass filed for Chapter 11 protection on October 5, 2000. This hurt AWI's ability to obtain ongoing financing on acceptable terms. These were the principal factors which led to the decision to make the Filing.

AWI is operating its business and managing its properties as a debtor-in-possession subject to the provisions of the Bankruptcy Code. Pursuant to the provisions of the Bankruptcy Code, AWI is not permitted to pay any claims or obligations which arose prior to the Filing date (prepetition claims) unless specifically authorized by the Court. Similarly, claimants may not enforce any claims against AWI that arose prior to the date of the Filing. In addition, as a debtor-in-possession, AWI has the right, subject to the Court's approval, to assume or reject any executory contracts and unexpired leases in existence at the date of the Filing. Parties having claims as a result of any such rejection may file claims with the Court which will be dealt with as part of the Chapter 11 Cases.

Two creditors' committees, one representing asbestos claimants and the other representing other unsecured creditors, have been appointed in the Chapter 11 Cases. In accordance with the provisions of the Bankruptcy Code they have the right to be heard on matters that come before the Court in the Chapter 11 Cases.

It is AWI's intention to address all of its prepetition claims, including all asbestos-related claims, in a plan of reorganization in its Chapter 11 Case. At this juncture, it is impossible to predict with any degree of certainty how such a plan will treat such claims and the impact AWI's Chapter 11 Case and any reorganization plan will have on the shares of common stock of AWI, all of which are held by AHI and along with AWI's operating subsidiaries are the only material asset of AHI. Generally, under the provisions of the Bankruptcy Code, holders of equity interests may not participate under a plan of reorganization unless the claims of creditors are satisfied in full under the plan or unless creditors accept a reorganization plan which permits holders of equity interests to participate. The formulation and implementation of a plan of reorganization in the Chapter 11 Cases could take a significant period of time.

Financing
The Court has approved a $300 million debtor-in-possession credit facility provided by a bank group led by The Chase Manhattan Bank (the "DIP Facility"). AWI believes that the DIP Facility, together with cash generated from operations, will be more than adequate to address its liquidity needs. As of February 28, 2001, AWI had $96.3 million of cash and cash equivalents in addition to cash held by its non-debtor subsidiaries. Borrowings under the DIP facility, if any, will constitute superpriority administrative expense claims in the Chapter 11 Cases.

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

Pursuant to SOP 90-7, AWI is required to segregate prepetition liabilities that are subject to compromise and report them separately on the balance sheet. See Note 4 for detail of the liabilities subject to compromise at December 31, 2000. Liabilities that may be affected by a plan of reorganization are recorded at the amount of the expected allowed claims, even if they may be settled for lesser amounts. Substantially all of AWI's prepetition debt, now in default, is recorded at face value and is classified within liabilities subject to compromise. Obligations of Armstrong subsidiaries not covered by the Filing remain classified on the consolidated balance sheet based upon maturity date. AWI's asbestos liability is also recorded in liabilities subject to compromise. See Note 29 for further discussion of AWI's asbestos liability.

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

SOP 90-7 also requires separate reporting of all revenues, expenses, realized gains and losses, and provision for losses related to the Filing as reorganization items. Accordingly, AWI recorded a total of $103.3 million as Reorganization Costs in December 2000, consisting of:

($ millions)

Adjustment of net debt and debt issue costs to expected amount of allowed claim	$ 42.0
ESOP related expenses	58.8
Professional fees	2.6
Interest income, post petition	(0.3)
Other expenses directly related to bankruptcy, net	0.2
Total Chapter 11 reorganization costs	$103.3

To record prepetition debt at the face value or the amount of the expected allowed claims, AWI adjusted the amount of net debt and debt issue costs and recorded a pre-tax expense of $42.0 million.

ESOP related costs include a $43.3 million impairment charge related to amounts borrowed by the ESOP from Armstrong, the trustee of the ESOP. As described more fully in Note 19, Armstrong has not permitted further employee contributions to the ESOP. Therefore, it is expected that the ESOP will no longer have the ability to repay Armstrong money it previously borrowed. In addition, a $15.5 million expense was recorded related to interest and tax penalty guarantees owed to ESOP bondholders caused by the default on the ESOP bonds.

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

Interest income in the above table is from short-term investments of cash earned by AWI subsequent to the Filing.

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

Discontinued Operations
On May 31, 2000, Armstrong completed its sale of all of the entities, assets and certain liabilities comprising its Insulation Products segment to Orion Einundvierzigste Beteiligungsgesellschaft Mbh, a subsidiary of the Dutch investment firm Gilde Investment Management N.V. for $264 million. The transaction resulted in an after tax gain of $114.8 million, or $2.84 per share.

In February 2001, Armstrong determined to permanently exit the Textiles and Sports Flooring segment and on February 20, 2001 entered into negotiations to sell substantially all of the businesses comprising this segment to a private equity investor based in Europe. The proposed sale, while subject to certain approvals, including that of the Court, is expected to close in June 2001. Accordingly this segment has been classified as a discontinued operation in the accompanying consolidated financial statements. Prior year balances and results have been reclassified to reflect the net assets and results of discontinued operations. Based on the expected net realizable value of the business, Armstrong recorded a pretax net loss of $30.3 million in the fourth quarter of 2000, $19.5 million net of tax benefit.

Other Divestitures

On July 31, 2000, Armstrong completed the sale of its Installation Products Group ("IPG") to subsidiaries of the German company Ardex GmbH, for $86 million in cash. Ardex purchased substantially all of the assets and liabilities of IPG including its shares of the W.W. Henry Company. The transaction resulted in an after tax gain of $44.1 million ($60.2 million pretax) or $1.09 per share and was recorded in other income. The financial results of IPG were reported as part of the floor coverings segment. The proceeds and gain are subject to a post- closing working capital adjustment, which Armstrong expects to finalize in the first half of 2001. Under the terms of the agreement and a related supply agreement, Armstrong agreed to purchase some of its installation products needs from Ardex for an initial term of eight years, subject to certain minimums for the first five years after the sale. The agreement also calls for price adjustments based upon changing market prices for raw materials, labor and energy costs.

Acquisitions

On May 18, 2000, Armstrong acquired privately-held Switzerland-based Gema Holding AG ("Gema"), a leading manufacturer and installer of metal ceilings, for $6 million plus certain contingent consideration not to exceed $25.5 million based on results over the three year period ending December 31, 2002. Gema, with annual sales of nearly $50 million, has two manufacturing sites located in Austria and Switzerland and employs nearly 300 people. The acquisition has been recorded under the purchase method of accounting. The purchase price has been allocated to the assets acquired and the liabilities assumed based on the estimated fair market value at the date of acquisition. Contingent consideration, when and if paid, will be accounted for as additional purchase price. The fair market value of tangible and identifiable intangible assets acquired exceeded the purchase price by $24.2 million and this amount has been recorded as a reduction of the fair value of property, plant, and equipment.

Financial Condition

As shown on the Consolidated Balance Sheets on page 39, Armstrong had cash and cash equivalents of $156.5 million at December 31, 2000, compared with $17.2 million at the end of 1999. The ratio of current assets to current liabilities was 3.24 to 1 as of December 31, 2000, compared with 1.47 to 1 as of December 31, 1999. The increases were primarily related to the Chapter 11 filing.

Long-term debt, excluding Armstrong's guarantee of an ESOP loan and debt subject to compromise, was $56.8 million, or 7.6 percent of total capital at December 31, 2000, compared with $1,389.1 million, or 59.7 percent of total capital, at the end of 1999. All outstanding pre-petition long-term debt of entities that filed for Chapter 11 protection has been classified as liabilities subject to compromise at December 31, 2000. At December 31, 2000, and December 31, 1999, ratios of total debt (including Armstrong's guarantee of an ESOP loan and excluding debt subject to compromise) as a percent of total capital were 10.9 percent and 70.8 percent, respectively. Given the current accounting of liabilities as subject to compromise, the comparison is not meaningful.

As shown on the Consolidated Statements of Cash Flows on page 41, net cash provided by operating activities for the year ended December 31, 2000, was $41.8 million compared with $338.1 million in 1999. The decrease was due to several items including lower net income excluding the gain on sale of businesses and changes in working capital, primarily accounts payable and accrued expenses.

Net cash provided by investing activities was $179.3 million for the year ended December 31, 2000, compared with net cash used for investing activities of $62.0 million in 1999. The increase was primarily due to proceeds from the sales of businesses in 2000.

Net cash used for financing activities was $78.1 million for the year ended December 31, 2000, compared with $281.9 million in 1999. The decrease was primarily due to net debt payments of $24.1 million in 2000 compared with net debt payments of $202.1 million in 1999.

DIP Facility

The Court has approved a $300 million debtor-in-possession financing facility to be provided by a bank group led by the Chase Manhattan Bank. Borrowings under the DIP Facility constitute superpriority administrative expense claims in the Chapter 11 Cases. As of December 31, 2000, AWI has borrowed $5.0 million under the DIP Facility. The DIP Facility expires no later than December 6, 2002 and borrowings are limited to an adjusted amount of receivables, inventories and PP&E. Depending on the amount of borrowings, the DIP Facility carries a interest rate range of either Chase's Alternate Bank Rate plus 50 basis points to 100 basis points or LIBOR plus 150 basis points to 200 basis points. The DIP Facility also contains several covenants including, among other things, limits on asset sales, capital expenditures and a required ratio of debt to cash flow. Prior to final Court approval of the DIP Facility, which was obtained on February 7, 2001, AWI had preliminary available borrowings of $145 million as of December 31, 2000.

Asbestos-related litigation
AWI is a defendant in personal injury claims and property damage claims related to asbestos containing products. On December 6, 2000, AWI filed a voluntary petition for relief ("the Filing") under Chapter 11 of the U.S. Bankruptcy Code to use the court supervised reorganization process to achieve a fair and final resolution of its asbestos liability. See Item 1 for further discussion.

Background
AWI's involvement in asbestos litigation relates primarily to its participation in the insulation contracting business. From around 1910 to 1933, AWI manufactured and installed some high-temperature insulation products, including some that contained asbestos. In 1939, AWI expanded its contract installation service to provide a greater range of high and low temperature contracting services to its customers. AWI generally manufactured its own low temperature insulation products, but did not manufacture the high temperature products used in its contracting operations. Some of the high temperature products furnished and installed in the contracting operations contained asbestos.

Effective January 1, 1958, AWI separated its insulation contracting business into a separate, independent subsidiary, Armstrong Contracting and Supply Corporation ("ACandS"). From January 1, 1958 through August 31, 1969, ACandS operated as an independent subsidiary in the insulation contracting business. During this time period, AWI licensed certain tradenames and trademarks to ACandS, which ACandS placed on certain insulation products manufactured by others. Other than two specific products, AWI did not manufacture or sell any asbestos-containing thermal insulation products during this period. In August 1969, AWI sold the ACandS subsidiary to a group of ACandS management employees and ACandS continues to operate independently as a subsidiary of Irex Corporation. AWI had no involvement with any asbestos-containing insulation materials after 1969.

In addition, AWI manufactured some resilient flooring that contained encapsulated asbestos until the early 1980's. AWI also manufactured some gasket materials that contained encapsulated asbestos until the mid-1980's.

Personal Injury Litigation
Nearly all the asbestos-related personal injury lawsuits brought against AWI relate to alleged exposure to asbestos-containing high-temperature insulation products. The majority of these claims seek compensatory and punitive damages. Claims may arise many years after first exposure to asbestos in light of the decades long latency period for asbestos-related injury. Product identification and determining exposure periods are difficult and uncertain. Over the long history of asbestos litigation involving hundreds of companies, various parties have tried to secure 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. AWI 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 from various jurisdictions and has been receptive to different approaches to the resolution of claims. Claims filed in state courts have not been directly affected by the transfer.

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 AWI. It was designed to establish a nonlitigation system for the resolution of those 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 September 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.

Asbestos Claims Facility ("Facility") and Center for Claims Resolution ("Center")
The Facility was established in 1985 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 AWI. At the time of the Filing, there were 16 members of the Center, including AWI. 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 among the member companies; adjustments over time due to the departure of some members and other factors resulted in some increased share for AWI.

As a result of the Filing, AWI is no longer an active participant in the Center. The extent and amount of AWI liabilities as a result of its participation in the Center have not been determined, but will be determined in AWI's Chapter 11 Case.

Number of Claims
The number of claims naming AWI as a defendant ranged from about 16,400 to 31,100 per year during the period from 1989 to 1997. However, subsequent to this time and up to the Filing, claim filings significantly surpassed this average as approximately 87,500 and 50,700 claims were filed in 1998 and 1999 respectively. AWI had expected the number of claims to decline in 2000. However, during the first eleven months of 2000 prior to the Filing, the Center received and verified approximately 53,000 claims. Claims from major, established law firms did decline, but this decline was more than offset by claims from new or previously low-volume law firms.

Before filing under the Bankruptcy Code, AWI pursued broad-based settlements of claims through the Center. The Center had reached Strategic Settlement Program ("SSP") agreements with law firms that covered approximately 130,000 claims that named AWI as a defendant, including agreements with 17 law firms covering approximately 36,800 claims during the first eleven months of 2000. These agreements typically provided for multiyear payments for settlement of current claims and established specific medical and other criteria for the settlement of future claims as well as annual limits on the number of claims that can be filed by these firms. These agreements also established fixed settlement values for different asbestos-related medical conditions which were subject to periodic re-negotiation over a period of 2 to 5 years. The plaintiff law firms were required to recommend settlements to their clients although future claimants are not legally obligated to accept the settlements. These agreements also provided for nominal payments to future claimants who are unimpaired but who are eligible for additional compensation if they develop a more serious asbestos-related illness. The Center could terminate an agreement with an individual law firm if a significant number of that firm's clients elect not to participate under the agreement. For some agreements, the component of the agreement that covered future claims was subject to re-negotiation if members left the Center. As a result of the Filing, AWI's obligations with respect to these settlements will be determined in the context of its Chapter 11 Case.

Fourth Quarter 2000 Events
On October 5, 2000, Owens Corning Fiberglass ("OCF"), a manufacturer of insulation, filed for protection under Chapter 11 of the Bankruptcy Code to address its asbestos liability. This filing adversely impacted AWI's negotiations to obtain a 364-day credit facility which were underway at the time. This credit facility was to replace an existing $450 million credit facility that expired on October 19, 2000. Following the OCF filing, the potential participants in the new credit facility decided to reevaluate their credit exposures to AWI, primarily due to AWI's asbestos liability. AWI could not reach agreement on a new facility with acceptable terms. The existing $450 million credit facility expired on October 19, 2000.

Additionally, AWI was concerned that a possible upward bias in the settlement demands of asbestos plaintiffs would occur given the exit from the tort system of OCF, an important defendant in asbestos litigation.

As set forth above, AWI filed for relief under Chapter 11 of the Bankruptcy Code on December 6, 2000. As a result, holders of asbestos claims are stayed from continuing to prosecute pending litigation and from filing new lawsuits against AWI. In addition, AWI ceased making payments with respect to asbestos claims, including payments pursuant to the outstanding SSP agreements. A separate creditors committee representing the interests of asbestos claimants has been appointed in the Chapter 11 Cases.

As a result of the Filing, AWI's present and future asbestos liability will be addressed in the Chapter 11 Case rather than through the Center and a multitude of lawsuits in different jurisdictions throughout the U.S. AWI believes that the Chapter 11 process provides it with the opportunity to change its approach to its asbestos liability and comprehensively address that liability in one forum. It is anticipated that all present and future asbestos claims will be resolved in the Chapter 11 Case, which could take several years.

Asbestos-Related Personal Injury Liability
In evaluating its estimated asbestos-related personal injury liability prior to the Filing, AWI reviewed, among other things, recent and historical settlement amounts, the incidence of past and recent claims, the mix of the injuries and occupations of the plaintiffs, the number of cases pending against it and the status and results of broad-based settlement discussions. Based on this review, AWI estimated its share of liability to defend and resolve probable asbestos-related personal injury claims. This estimate was highly uncertain due to the limitations of the available data and the difficulty of forecasting with any certainty the numerous variables that could affect the range of the liability.

AWI believes the range of probable and estimable liability is more uncertain now than previously. There are significant differences in the way the asbestos claims may be addressed under the bankruptcy process when compared to the tort system. Accordingly, AWI currently is unable to ascertain how prior experience with the number of claims and the amounts to settle claims will impact its ultimate liability in the context of its Chapter 11 Case.

As of September 30, 2000, AWI's estimate of its asbestos-related liability that was probable and estimable through 2006 ranged from $758.8 million to $1,363.3 million. AWI concluded that no amount within that range was more likely than any other and, therefore, reflected $758.8 million as a liability in the condensed consolidated financial statements in accordance with generally accepted accounting principles. Due to the increased uncertainty created as a result of the Filing, no change has been made to the previously recorded liability except to record payments of $68.2 million against that accrual in October and November 2000. The balance at December 31, 2000 is $690.6 million. It is reasonably possible, however, that the actual liability could be significantly higher than the recorded liability. As the Chapter 11 Cases proceed there should be more clarity as to the extent of the liability to be addressed in the Chapter 11 Cases.

Collateral Requirements
During 2000, AWI had secured a bond for $56.2 million to meet minimum collateral requirements established by the Center with respect to asbestos claims asserted against AWI. On October 27, 2000, the insurance company that underwrote the surety bond informed AWI and the Center of its intention not to renew the surety bond effective February 28, 2001. On February 6, 2001, the Center advised the surety of the Center's demand for payment of the face value of the bond. The surety filed a motion with the Court seeking to restrain the Center from drawing on the bond. The motion was not granted.

Property Damage Litigation
AWI is also one of many defendants in six pending property damage claims as of December 31, 2000 that were filed by public and private building owners. These cases present allegations of damage to the plaintiffs' 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. In the second quarter of 2000, AWI was served with a lawsuit seeking class certification of Texas residents who own property with asbestos-containing products. This case includes allegations that AWI asbestos-containing products caused damage to buildings and generally seeks compensatory damages and equitable relief, including testing, reimbursement for removal and diminution of property value. AWI vigorously denies the validity of the allegations against it in these actions and, in any event, believes that any costs will be covered by insurance. Continued prosecution of these actions and the commencement of any new asbestos property damage actions are also stayed due to the Filing. Consistent with prior periods and due to increased uncertainty, AWI has not recorded any liability related to these claims.

Insurance Coverage
During relevant time periods, AWI purchased primary and excess insurance policies providing coverage for personal injury claims and property damage claims. Certain policies also provide coverage to ACandS, Inc., the former subsidiary of AWI discussed above under "Background". AWI and ACandS agreed to share certain coverage on a first-come first-served basis and to reserve for ACandS a certain amount of excess coverage.

Wellington Agreement
In 1985, AWI and 52 other companies (asbestos defendants and insurers) signed the Wellington Agreement. This Agreement settled disputes concerning personal injury insurance coverage with signatory carriers. It provides broad coverage for both defense and indemnity and applies to both products hazard and nonproducts (general liability) coverages. Most of AWI resolutions of asbestos-related personal injury products hazard coverage matters with its solvent carriers has been achieved through the Wellington Agreement or other settlements.

Insurance Recovery Proceedings
A substantial portion of AWI's primary and excess remaining insurance asset is nonproducts (general liability) insurance for personal injury claims, including among others, those that involve alleged exposure during AWI's installation of asbestos insulation materials. AWI has entered into settlements with a number of the carriers resolving its coverage issues. However, an alternative dispute resolution ("ADR") procedure under the Wellington Agreement is under way against certain carriers to determine the percentage of resolved and unresolved claims that are nonproducts claims, to establish the entitlement to such coverage and to determine whether and how much reinstatement of prematurely exhausted products hazard insurance is warranted. The nonproducts coverage potentially available is substantial and includes defense costs in addition to limits. 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 AWI 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. One insurer has taken the position that it is entitled to litigate in court certain issues in the ADR proceeding. During 1999, AWI received preliminary decisions in the initial phases of the trial proceeding of the ADR which were generally favorable to AWI on a number of issues related to insurance coverage. However, during the fourth quarter of 2000, a new trial judge was selected for the ADR. AWI is uncertain at this time as to the impact, if any, this change will have on the preliminary decisions of the initial phases of the ADR. Further, management believes that one of the carriers has been experiencing financial difficulties, which could affect its ability to pay any ultimate judgment. AWI has not adjusted the recorded asset amount at December 31, 2000 related to this carrier. Because of the continuing ADR process and the possibilities for appeal on certain matters, AWI has not yet completely determined the financial implications of the ADR proceedings.

Insurance Asset
An insurance asset in respect of asbestos personal injury claims in the amount of $268.3 million is recorded as of December 31, 2000. Of the total recorded asset, approximately $77.2 million represents partial settlement for previous claims that will be paid in a fixed and determinable flow and is reported at its net present value discounted at 6.50%. The total amount recorded reflects AWI's belief in the availability of insurance in this amount, based upon AWI'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 that is in the trial phase of binding arbitration. Depending on further progress of the ADR, activities such as settlement discussions with insurance carriers party to the ADR and those not party to the ADR, the final determination of coverage shared with ACandS and the financial condition of the insurers, AWI may revise its estimate of probable insurance recoveries. Approximately $86 million of the $268.3 million asset is determined from agreed coverage in place and is therefore directly related to the amount of the liability and could decrease if the final amount of the liability decreases. Of the $268.3 million asset, $32.2 million has been recorded as a current asset reflecting management's estimate of the minimum insurance payments to be received in the next 12 months.

A significant part of the recorded asset relates to insurance that AWI believes is probable and will be obtained through settlements with the various carriers. Due to the Filing, the settlement process may be delayed, pending further clarification as to the asbestos liability. While AWI believes the Chapter 11 process will strengthen its position on resolving disputed insurance and may therefore result in higher settlement amounts than recorded, there has been no change in the recorded amounts due to the uncertainties created by the Filing. Accordingly, this asset could also change significantly based upon events which occur in the Court. Management estimates that the timing of future cash payments for the remainder of the recorded asset may extend beyond 10 years.

Income Statement Charges
AWI recorded charges to increase its estimate of probable asbestos-related liability by $236.0 million in the second quarter of 2000, $335.4 million in 1999 and $274.2 million in 1998. Prior to 1998, charges to increase the liability were effectively offset by corresponding increases in related insurance recoveries.

Cash Flow Impact
AWI paid $226.9 million for asbestos-related claims in the first eleven months of 2000 compared to $173.0 million in all of 1999. AWI received $27.7 million in asbestos-related insurance recoveries during 2000 compared to $58.7 million during 1999. During the pending Chapter 11 cases, AWI does not expect to make any further cash payments for asbestos-related claims, but AWI may continue to receive insurance proceeds under the terms of various settlement agreements.

Conclusion
Many uncertainties exist surrounding the financial impact of AWI's involvement with asbestos litigation. These uncertainties include the impact of the Filing and the Chapter 11 process, the number of future claims to be filed, the impact of any potential legislation and the impact of the ADR proceedings on the insurance asset. Accordingly, AWI is not revising its previously recorded liability. However, it is reasonably possible that AWI's total exposure to personal injury asbestos claims may be significantly different than the recorded liability.

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

Net sales in 2000 of $3.00 billion were 1.5% lower when compared with net sales of $3.05 billion in 1999. Excluding the impact of unfavorable foreign exchange rates in 2000 and the divestitures of the gasket and textile businesses in 1999, Armstrong sales were $65.2 million, or 2.2%, above the prior year. Floor coverings sales decreased 7.5%; Building products sales increased 5.4%; Wood products sales increased by 7.9%. Further excluding the 1999 divestitures, sales increased 1.0% in the Americas and declined 3.1% in the Pacific Area. European sales decreased 3.3% but would have increased 10.4% without the impact of unfavorable foreign exchange rates.

The loss from continuing operations in 2000 was $89.0 million or $2.21 per share. This included an after-tax charge of $153.4 million to increase the estimated liability for asbestos-related claims and an after-tax gain of $44.1 million from the sale of the Installation Products Group ("IPG"), which was part of the floor coverings segment.

Also included in 2000 was a pre-tax restructuring charge of $19.4 million, of which $8.6 million related to severance and enhanced retirement benefits for more than 180 positions (approximately 66% related to salaried positions) within the European Flooring business. Restructuring actions also included staff reductions due to the elimination of administrative positions, the consolidation and closing of sales offices in Europe and the closure of the Team Valley, England commercial tile plant. $2.6 million of the restructuring charge related to severance and enhanced retirement benefits for 15 salaried positions due to cost savings initiatives. These 15 eliminated positions were primarily in the U.S. The remaining $8.2 million of the restructuring charge primarily related to the remaining payments on a noncancelable operating lease for an office facility in the U.S. The employees who occupied this office facility are being relocated to the corporate headquarters. In addition, $1.4 million of the remaining accrual for the 1998 restructuring charge was reversed during 2000, comprising certain severance accruals that were no longer necessary as certain individuals remained employed by Armstrong. An additional restructuring charge of $5.4 million, covering 54 salaried positions, will be recorded in the first quarter of 2001 to continue these cost savings initiatives.

Armstrong also recorded $17.6 million to cost of goods sold in 2000 for write-downs of inventory and production-line assets that were not categorized as restructuring costs. The inventory write-downs were related to changes in product offerings while the write-downs of production-line assets primarily related to changes in production facilities and product offerings.

In addition, Armstrong recorded $10.1 million within selling, general and administrative expenses ("SG&A") expense for CEO and management transition costs during 2000. The components of this amount included hiring a new CEO, expenses related to the departure of the prior CEO, covenant agreements related to non-compete arrangements and other management transition costs. Armstrong had anticipated approximately $7.6 million of fourth quarter 2000 costs related to settlements of certain benefit plan obligations for former executive employees. Due to the Chapter 11 Filing, only $2.7 million of these costs were actually incurred in the fourth quarter of 2000.

Armstrong also recorded costs within SG&A of $3.8 million for severance payments to approximately 100 employees that could not be classified as restructuring costs and $2.3 million for fixed asset impairments related to the decision to vacate office space in the U.S.

Armstrong recorded $103.3 million of Chapter 11 reorganization costs. See Note 1 for details of the reorganization costs.

Excluding the items impacting the 2000 results discussed above, earnings from continuing operations for 2000 would have been $121.1 million, or $2.99 per share.

Effective November 1, 2000, an amendment to the Retirement Income Plan (RIP), a qualified US defined benefit plan, established an additional benefit known as the ESOP Pension Account to partially compensate active employee and retiree ESOP shareholders for the decline in the market value of AHI's stock. The effect of this amendment had no material impact to the financial position or results of operations in 2000, but will increase the benefit obligation by $88.7 million in 2001 and will decrease the 2001 pension credit by $13.0 million compared to prior periods.

The 1999 loss from continuing operations was $24.0 million, or $0.60 per share. This included an after-tax charge of $218.0 million to increase the estimated liability for asbestos-related claims, a $3.2 million loss from the sale of its textile products business, a $6.0 million gain from the sale of its gasket products subsidiary, a pre-tax restructuring reversal of $1.4 million and proceeds from the settlement of various legal actions totaling $3.0 million. Excluding these items, earnings from continuing operations for 1999 would have been $188.4 million, or $4.69 per share.

Armstrong reported net earnings of $12.2 million, or $0.30 per share in 2000, compared to net earnings of $14.3 million, or $0.36 per share in 1999.

Cost of goods sold in 2000 was 73.2% of sales, higher than cost of goods sold of 68.3% in 1999. Higher raw material costs primarily in floor coverings and wood products and higher energy costs in building products were the primary drivers of the increase.

SG&A expenses in 2000 were $546.3 million, or 18.2% of sales compared to $556.2 million, or 18.2% of sales in 1999. SG&A expenses in 2000 contained lower employee incentive bonus accruals and lower selling expense offset by CEO and management transition costs, expenses related to the reorganization of European flooring business, asset write-downs related to the decision to vacate office space in Lancaster, PA and inventory write-downs related to samples.

Equity earnings from affiliates of $18.0 million improved $1.2 million primarily reflecting an improvement in the WAVE ceiling grid joint venture.

Goodwill amortization was $23.9 million for 2000 compared to $25.5 million in 1999 primarily due to lower foreign currency exchange rates.

Interest expense of $101.6 million in 2000 was lower than interest expense of $104.0 million in 1999. In accordance with SOP 90-7, Armstrong did not record $6.0 million of contractual interest expense on prepetition debt after the Chapter 11 filing date.

Other income in 2000 includes a $60.2 million gain from the sale of IPG, which was part of the floor coverings segment and a gain of $5.2 million resulting from the demutualization of an insurance company with whom Armstrong has company-owned life insurance policies and other items. 1999 other income includes a $6.0 million gain on the divestiture of 65% of Armstrong Industrial Specialties, Inc. ("AISI"), a loss of $5.0 million on the divestiture of Textile Products, proceeds from the settlement of various legal actions totaling $3.0 million and a gain of $2.6 million resulting from the demutualization of an insurance company with whom Armstrong has company-owned life insurance policies and other items.

The 2000 effective tax rate benefit from continuing operations was 31.7% versus 16.7% for 1999. Excluding the impact of the asbestos charge, the gain on sale of Installation Products, the reorganization charge and other related expenses in 2000, the 2000 effective tax rate was 39.3%. Excluding the asbestos charge and the divestitures of the gaskets and textiles businesses, the 1999 effective tax rate from continuing operations was 37.8%. The increase was due to nondeductible goodwill and foreign source income.

New Accounting Pronouncements
In June 2000, the Financial Accounting Standards Board ("FASB") issued Statement No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities" ("FAS 138"), an amendment of FASB Statement No. 133 ("FAS 133"). FAS 138 amends some accounting and reporting standards contained in FAS 133 and also addresses a limited number of issues causing implementation difficulties in applying FAS 133. The statements provide for the recognition of a cumulative adjustment for an accounting change, as of the date of adoption. Armstrong has formed a team to identify and implement the appropriate systems and processes to adopt these statements effective January 1, 2001. No material transition adjustment will result from the adoption of the Statements.

In October 2000, the FASB issued Statement No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, a replacement of FASB SFAS No. 125." This statement provides accounting and reporting standards for transfers and servicing of financial assets and extinguishment of liabilities. This statement is effective March 2001. Armstrong does not anticipate any material impact on its financial statements from the adoption of this Statement.

INDUSTRY SEGMENT RESULTS

Floor Coverings
Worldwide floor coverings sales in 2000 of $1,263.9 million were $101.8 million, or 7.5% below last year. Sales in the Americas were 4.3% below 1999. European sales were 17.7% below prior year as a result of unfavorable foreign exchange rate translation, lower prices and a less favorable mix driven by continued market weakness. Excluding the effects of foreign exchange rate translation, sales in Europe were 6.9% below last year. Pacific area sales were flat with last year.

Operating income of $78.8 million in 2000 compared to $204.6 million in 1999. Excluding expenses associated with reorganizing the European business, other management changes and the $7.5 million fourth quarter impairments of production line assets and samples inventory, the 2000 operating income was $107.3 million. 1999 operating income was $200.1 million excluding $4.8 million for insurance settlements for past product claims, net of inventory write-offs, $3.3 million of costs associated with changes in the production location for some product lines and a net benefit of $3.0 million from changes in employee compensation policies. The annual operating margin decline is primarily related to lower sales volume and the impact of higher production costs, primarily higher raw material prices.

Outlook
Sales in 2001 are expected to decrease modestly due to lower demand, particularly in the Americas. Operating income is expected to decline significantly due to the lower sales volume, continued price pressures on raw materials and increased promotional and product development spending.

Building Products
Building products sales in 2000 were $837.2 million compared to $794.5 million in 1999. Excluding the sales impact of the Gema acquisition in 2000, sales increased 1.4%. Higher sales in the U.S., primarily in the U.S. commercial channel, were mostly offset by lower European sales. Pacific area sales increased 1.9%.

Operating income in 2000 was $113.9 million compared to $120.0 million in 1999. The operating income decrease was primarily related to higher natural gas prices, partially offset by positive earnings from the Gema acquisition. Results from Armstrong's WAVE grid joint venture with Worthington Industries continue to be strong, showing an 11% improvement over 1999.

Outlook
Sales in 2001 are expected to increase slightly as a full year's contribution from Gema will be offset by slightly lower sales from other products in Europe. Operating income is expected to decrease significantly due to a full year impact of anticipated higher natural gas prices.

Wood Products
Wood products sales in 2000 were $902.7 million compared to $836.5 million in 1999. Cabinet sales increased 5.1% due to higher volume. Wood flooring sales increased 8.5% versus 1999 driven primarily by volume growth and improved pricing. Operating income in 2000 was $74.3 million compared to $85.0 million in 1999. The decrease was due to higher lumber costs that offset sales volume growth.

Outlook
Sales in 2001 are expected to increase slightly from 2000 levels. Operating income is expected to decline slightly due to higher lumber price costs.

All Other
Sales reported in this segment during 1999 comprised gasket materials (through June 30, 1999) and textile mill supplies (through September 30, 1999). As discussed previously, Armstrong sold the textiles business and 65% of the gaskets business during 1999. Operating income in 2000 related to Armstrong's remaining 35% interest in Interface Solutions Inc.

Geographic Areas
Net sales in the Americas in 2000 were $2.43 billion, compared to $2.45 billion in 1999. Net sales in Europe in 2000 were $463.5 million, compared to $489.9 million in 1999 due to lower floor coverings sales. Sales to the Pacific area and other foreign countries of $108.2 million compared to $111.7 million in 1999.

Long-lived assets in the Americas in 2000 were $975.1 million compared to $971.9 million in 1999. Long-lived assets in Europe in 2000 were $246.4 million compared to $285.2 million in 1999. The decrease was primarily due lower foreign currency exchange rates in 2000. Long-lived assets in the Pacific area in 2000 were $32.0 million compared to $34.9 million in 1999.

1999 COMPARED WITH 1998
The results for 1999 compared with 1998 have been restated to reflect continuing operations.

Divestitures
On May 28, 1999, Armstrong's subsidiary, DLW, sold its furniture business for total cash proceeds of $38.1 million. Armstrong acquired this business as part of the acquisition of DLW in the third quarter of 1998 and had classified the business as held for sale. There was no gain or loss on the transaction.

On June 22, 1999, Armstrong sold its interest in the assets of Martin Surfacing, Inc. Armstrong acquired this interest as part of its acquisition of DLW during the third quarter of 1998. There was no material gain or loss on the transaction.

On June 30, 1999, Armstrong sold 65% of its ownership in AISI, its gasket products subsidiary, to a group of investors including Citicorp Venture Capital Ltd. and the management of AISI for a cash purchase price of approximately $36.1 million. The sale resulted in a gain of approximately $6.0 million, or $0.15 per share, which was recorded in other income.

On September 30, 1999, Armstrong completed the sale of its Textile Products Operations to Day International Group, Inc. The sale resulted in a loss of $3.2 million, or $0.08 per share, which was recorded in other income.

Financing
On March 16, 1999, Armstrong filed a shelf registration statement for $1 billion of combined debt and equity securities. On May 19, 1999, Armstrong completed an offering under the shelf registration statement of $200 million aggregate principal amount of 7.45% Senior Notes due 2029. The net proceeds from this offering were used to repay other indebtedness of Armstrong.

On October 21, 1999, Armstrong renewed a bank credit facility for $450 million with a term of 364 days and cancelled a $300 million line of credit which was due to expire in 2001. Armstrong retained a $450 million line of credit which expires in 2003. There were no borrowings under these facilities at December 31, 1999.

Financial Condition
As shown on the Consolidated Statements of Cash Flows on page 41, net cash provided by operating activities for the year ended December 31, 1999, was $338.1 million compared with $243.3 million in 1998. The increase is due to changes in working capital components, primarily an increase in accounts payable and accrued expenses.

Net cash used for investing activities was $62.0 million for the year ended December 31, 1999, compared with $1,198.3 million in 1998. The decrease was primarily due to expenditures for acquisitions in 1998 and the proceeds from the sales of businesses in 1999.

Net cash used for financing activities was $281.9 million for the year ended December 31, 1999, compared with net cash provided by financing activities of $937.3 million in 1998. The decrease was primarily due to the $202.1 million net reduction of debt during 1999 compared to the $1,039.5 million net increase in debt during 1998.

On October 15, 1999, Armstrong's ceiling grid joint venture with Worthington Industries, WAVE, made a $25 million payment to each partner. Armstrong applied the proceeds to debt reduction.

Consolidated Results
Net sales in 1999 of $3.05 billion were 22.1% higher when compared with net sales of $2.50 billion in 1998. Triangle Pacific contributed $836.5 million and $351.3 million of sales in 1999 and 1998 respectively, while DLW contributed $228.8 million and $69.9 million during the same periods.

Excluding these acquisitions, Armstrong sales of $1,982.9 million were $92.0 million, or 4.4%, below prior year of which $51.5 million related to the absence of gasket and textile sales, following the sale of those units in 1999. Floor coverings sales decreased 3.5%; and Building products sales were down 0.6%. Further excluding the impact of the gaskets and textiles divestitures, Americas sales growth of 1.8% was offset by the European sales decline of 21.3% and the Pacific Area sales decline of 4.8%.

Armstrong reported net earnings of $14.3 million, or $0.36 per share, compared to a net loss of $9.3 million, or $0.23 per share in 1998. The 1999 and 1998 results include net after-tax charges of $218.0 million and $178.2 million, respectively, for increases in the estimated liability for asbestos-related claims. The 1998 results include after-tax charges of $48.5 million for restructuring activities.

Cost of goods sold in 1999 was 68.3% of sales, lower than cost of goods sold of 68.8% in 1998. Excluding the effect of the 1998 acquisitions, Armstrong's cost of goods sold was 65.6% in 1999 and 67.8% in 1998.

SG&A expenses in 1999 were $556.2 million, or 18.2% of sales. In 1998, SG&A expenses were $443.0 million, or 17.7% of sales.

Equity earnings from affiliates of $16.8 million improved $3.0 million reflecting primarily an improvement in the WAVE grid joint venture and the equity method accounting of AISI for the post sale period in 1999.

Goodwill amortization was $25.5 million for 1999 compared to $10.7 million in 1998 due to a full year of amortization related to the Triangle Pacific and DLW acquisitions.

Interest expense of $104.0 million in 1999 was higher than interest expense of $61.4 million in 1998 due to higher levels of short- and long-term debt due to a full year of acquisition-related debt.

Other income in 1999 includes a gain of $6.0 million on the divestiture of 65% of AISI and a loss of $5.0 million on the divestiture of Textile Products. Other income in 1999 also reflects proceeds from the settlement of various legal actions totaling $3 million and a gain of $2.6 million resulting from the receipt of cash and stock in connection with the demutualization of an insurance company with whom Armstrong has company-owned life insurance policies and other items.

Armstrong's 1999 effective tax rate, excluding the effects of the asbestos charge, was 37.8% which was affected by nondeductible goodwill amortization. Armstrong'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.

Industry Segment Results

Floor Coverings

Worldwide floor coverings sales in 1999 of $1,365.7 million included sales of $228.8 million from DLW. Excluding DLW, sales were $1,136.9 million, or 1.1% above last year. Sales in the Americas were essentially flat versus 1998 as increased sales of commercial tile, installation products, and laminate were almost offset by declines of residential tile and residential and commercial sheet. The residential sheet decline was primarily due to lower sales in the manufactured homes channel and Canada. Sales in the traditional retail channel increased on higher unit volumes and improved product mix resulting from the success of new product introductions. Both residential and commercial channels experienced competitive pricing pressures during the year. European sales were 24.3% below prior year reflecting weak economic conditions and residential pricing pressure resulting from excess capacity and the lack of business in Russia. Pacific area sales were 2.0% ahead of last year.

Operating income of $203.5 million in 1999 compared to $175.2 million in 1998, excluding restructuring charges and reversals. Higher operating margins were primarily due to implementation of actions related to the 1998 cost reduction activities, lower raw material and other costs, an improved mix of residential sheet products. Additionally, operating results include $4.8 million for insurance settlements for past product claims, net of inventory write-offs mostly offset by $3.3 million of costs associated with changes in the production location for some product lines. The impact of changes in employee compensation policies resulted in a net benefit of $3.0 million.

Building Products

Building products sales in 1999 were $794.5 million compared to $799.0 million in 1998 as strong performance from the U.S. commercial business was offset by lower European sales and price pressure across most markets.

Operating income in 1999 was $119.7 million compared to $116.6 million in 1998, excluding restructuring charges and reversals. The operating income increase reflected the impact of 1998 cost reduction activities and lower raw material and other costs. Results from Armstrong's WAVE grid joint venture with Worthington Industries showed a 13% improvement over 1998.

Wood Products

Wood products sales in 1999 were $836.5 million compared to $351.3 million in 1998. The increase was primarily due to a full year's sales in 1999 compared with about 5 months of sales in 1998 following the acquisition of Triangle Pacific.

Operating income in 1999 was $85.0 million compared to $38.6 million from the date of acquisition in 1998.

On a comparable basis, sales and operating income for Triangle Pacific in 1999 were approximately 14.5% and 16.1% above the respective amounts reported by Triangle Pacific in 1998.

All Other

Sales reported in this segment comprised gasket materials and textile mill supplies. As discussed previously, Armstrong sold the textiles business and 65% of the gaskets business during 1999. Sales of $51.5 million decreased 47.1% compared to 1998. Operating income of $6.0 million compared with $9.1 million in 1998, excluding restructuring charges.

Geographic Areas

Net sales in the Americas in 1999 were $2.45 billion, compared to $1.96 billion recorded in 1998. The increase in sales to customers in the United States and Canada was primarily due to a full year of Triangle Pacific sales. Net sales in Europe in 1999 were $489.9 million, compared to $417.1 million in 1998. Additional sales from DLW were somewhat offset by lower sales to Eastern Europe. Sales to the Pacific area and other foreign countries of $111.7 million compared to $117.3 million in 1998.

Long-lived assets in the Americas in 1999 were $971.9 million compared to $985.0 million in 1998. Long-lived assets in Europe in 1999 were $285.2 million compared to $315.4 million in 1998. The decrease primarily relates to currency exchange rate effects on German assets. Long-lived assets in the Pacific area in 1999 were $34.9 million compared to $36.6 million in 1998.

Item 7A. Quantitative and Qualitative Disclosure About Market Risk

Market Risk

Armstrong is exposed to market risk from changes in foreign currency exchange rates, interest rates and commodity prices that could impact its results of operations and financial condition. Armstrong 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. Armstrong 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 Armstrong considers the risk of counterparty default to be negligible. Swap, forward and option contracts are entered into for periods consistent with underlying exposure and do not constitute positions independent of those exposures. Armstrong uses derivative financial instruments as risk management tools and not for speculative trading purposes. In addition, derivative financial instruments are entered into with a diversified group of major financial institutions in order to manage Armstrong's exposure to nonperformance on such instruments.

Interest Rate Sensitivity

Due to AWI's Chapter 11 Filing, all affected debt has been classified as liabilities subject to compromise. All such debt will be addressed in the context of the Chapter 11 Cases and during the pendency thereof, AWI does not expect to pay any principal, interest or other payments in respect thereof. The table below provides information about Armstrong's long-term debt obligations as of December 31, 2000, and December 31, 1999. The table presents principal cash flows and related weighted-average interest rates by pre-Filing scheduled maturity dates. Weighted-average variable rates are based on implied forward rates in the yield curve at the reporting date. The information is presented in U.S. dollar equivalents, which is Armstrong's reporting currency. The amounts below as of December 31, 2000 reflect only post-petition debt and debt of entities that were not a part of the Chapter 11 Filing.

Scheduled maturity date	2001	2002	2003	2004	2005	After 2005	Total
($ millions)							
As of December 31, 2000							
Long-term debt:							
Fixed rate	$6.1	$3.1	$3.1	$2.6	$1.0	$37.0	$52.9
Avg. interest rate	5.60%	5.34%	6.71%	4.89%	7.23%	5.70%	5.72%
Variable rate	$2.0	--	--	--	--	$10.0	$12.0
Avg. interest rate	7.65%	--	--	--	--	3.86%	4.49%

	2000	2001	2002	2003	2004	After 2004	Total
As of December 31, 1999							
Long-term debt:							
Fixed rate	$31.1	$8.7	$0.8	$202.1	$1.3	$705.7	$949.7
Avg. interest rate	7.73%	8.66%	7.23%	6.36%	3.51%	7.61%	7.35%
Variable rate	$5.0	$2.0	--	$450.0	--	$18.5	$475.5
Avg. interest rate	7.65%	7.65%	--	6.20%	--	4.89%	6.17%

Armstrong historically managed its ratio of fixed to floating rate debt with the objective of achieving a mix that management believed to be appropriate. To manage this mix in a cost effective manner, Armstrong, from time to time, entered into interest rate swap agreements, in which it agreed to exchange various combinations of fixed and/or variable interest rates based on agreed-upon notional amounts. In order to maintain the ratio of fixed to floating rate debt which management believed appropriate, Armstrong maintained $150 million of interest rate swaps during most of 2000. Armstrong received fixed rates and paid floating rates on these swaps. However, all but one of the interest rate swap agreements was terminated when Armstrong defaulted on its commercial paper obligations on November 22, 2000. Details of the outstanding swap agreement as of December 31, 2000 are as follows:

Maturity Date ($ millions)	Notional Amount	Pays	Receives	Market Value
Aug. 15, 2003	$20.0	3 mo. LIBOR	6.54%	$0.3

This interest rate swap agreement was subsequently terminated by the counter-party on February 26, 2001.

Exchange Rate Sensitivity
Armstrong manufactures and sells its products in a number of countries throughout the world and, as a result, is exposed to movements in foreign currency exchange rates. To a large extent, Armstrong's global manufacturing and sales provide a natural hedge of foreign currency exchange rate movement, as foreign currency expenses generally offset foreign currency revenues. At December 31, 2000, Armstrong's major foreign currency exposures are to the Canadian dollar, the Euro and the British pound.

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

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

The table below details Armstrong's outstanding currency instruments, all of which have scheduled maturity before December 31, 2001.

Notional Amount (millions)	December 31, 2000	December 31, 1999
Forward Contracts	$20.4	$295.6
Purchased Options	--	8.3
Fair Value (millions):		
Forward Contracts	$0.2	$9.4
Purchased Options	--	0.2

Commodity Price Sensitivity
Armstrong purchases natural gas for use in the manufacture of ceiling tiles and, as a result, is exposed to movements in the price of natural gas. Armstrong has a policy of minimizing cost volatility by purchasing natural gas swap contracts. The table below provides information about Armstrong'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.

On balance sheet commodity related derivatives	2000	2001	Total
As of December 31, 2000			
Swap contracts (long):			
Contract amounts (MMBtu)	--	--	--
Weighted average price ($/MMBtu)	--	--	--
As of December 31, 1999			
Swap contracts (long):			
Contract amounts (MMBtu)	950,000	--	950,000
Weighted average price ($/MMBtu)	$2.43	--	$2.43

Item 8. Financial Statements and Supplementary Data

ARMSTRONG HOLDINGS, INC. AND SUBSIDIARIES

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

Consolidated Financial Statements

Consolidated Balance Sheets as of December 31, 2000 and 1999

Consolidated Statements of Earnings for the Years Ended December 31, 2000, 1999, and 1998

Consolidated Statements of Cash Flows for the Years Ended December 31, 2000, 1999, and 1998

Consolidated Statements of Shareholders' Equity for the Years Ended December 31, 2000, 1999, and 1998

Notes to Consolidated Financial Statements

Schedule II - Valuation and Qualifying Reserves

ARMSTRONG WORLD INDUSTRIES, INC. AND SUBSIDIARIES

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

Consolidated Financial Statements

Consolidated Balance Sheets as of December 31, 2000 and 1999

Consolidated Statements of Earnings for the Years Ended December 31, 2000, 1999, and 1998

Consolidated Statements of Cash Flows for the Years Ended December 31, 2000, 1999, and 1998

Consolidated Statements of Shareholder's Equity for the Years Ended December 31, 2000, 1999, and 1998

Notes to Consolidated Financial Statements

Schedule II - Valuation and Qualifying Reserves

QUARTERLY FINANCIAL INFORMATION (UNAUDITED)
ARMSTRONG HOLDINGS, INC.

(millions except for per share data)		First	Second	Third	Fourth	Total year
2000	Net sales	$741.9	$799.6	$803.2	$659.1	$3,003.8
	Gross profit	214.4	235.5	219.4	136.8	806.1
	Net earnings (loss)	30.7	7.5	74.3	(100.3)	12.2
	Per share of common stock:					
	Basic: Net earnings (loss)	0.77	0.19	1.84	(2.48)	0.30
	Diluted: Net earnings (loss)	0.76	0.19	1.83	(2.48)	0.30
	Dividends per share of common stock	0.48	0.48	0.48	--	1.44
	Price range of common stock--high	36.81	20.50	17.38	12.19	36.81
	Price range of common stock--low	16.06	15.30	11.81	0.75	0.75
1999	Net sales	$732.4	$792.3	$800.7	$722.8	$3,048.2
	Gross profit	230.9	260.2	266.2	210.1	967.4
	Net earnings (loss)	48.3	72.8	71.7	(178.5)	14.3
	Per share of common stock:					
	Basic: Net earnings (loss)	1.21	1.83	1.80	(4.46)	0.36
	Diluted: Net earnings (loss)	1.20	1.81	1.78	(4.46)	0.36
	Dividends per share of common stock	0.48	0.48	0.48	0.48	1.92
	Price range of common stock--high	64.31	59.69	60.88	45.13	64.31
	Price range of common stock--low	44.63	45.00	44.13	29.00	29.00

Quarterly financial information for Armstrong is identical to the AHI information above except for net earnings (loss) which is detailed as follows. Per share information is not applicable to AWI since it does not have any publicly-traded stock.

(millions)		First	Second	Third	Fourth	Total year
2000	Net earnings	$30.7	7.1	$74.3	($100.3)	$11.8

Note: The net sales and gross profit amounts reported above are reported on a continuing operations basis. These amounts differ from those previously reported on Form 10-Q due to the discontinued operations of the Insulation Products segment and Textiles and Sports Flooring segment. Net sales are also impacted from the implementation of EITF Issue Nos. 00-010 and 00-014 (see Note 2). 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.

Fourth Quarter 2000 Compared With Fourth Quarter 1999

Net sales of $659.1 million decreased from sales of $722.8 million in the fourth quarter of 1999. Wood products sales increased 1.7%. Floor coverings sales decreased 26.0% with sales in the Americas and Europe both down similar percentages. Americas sales declined due to a slow down in retail sales and significant inventory reductions within the wholesale and retail channels while European sales declined due to translation losses associated with weaker European currencies and lower pricing driven by excess industry capacity. Building products sales increased 8.7% due to the additional Gema sales.

A loss from continuing operations of $86.7 million in the fourth quarter of 2000 compared to a loss from continuing operations of $185.9 million in the fourth quarter of 1999. An additional 2000 pretax charge of $2.3 million primarily related to severance and enhanced retirement benefits for 15 corporate and line- of-business staff positions (all salaried positions) as a result of streamlining the organization to reflect staffing needs for current business conditions. The 2000 loss also reflects $3.8 million of lower ESOP compensation expense compared to 1999. A net pretax charge of $335.4 million was recorded in the fourth quarter of 1999 to increase the estimated liability net of the corresponding insurance asset for asbestos-related claims. In 1999, $1.4 million of the 1998 pretax reorganization charge was reversed, related to severance accruals that were no longer necessary.

For the fourth quarter, the cost of goods sold was 79.2% of sales compared to 70.9% in 1999. Excluding a $5.4 million charge to cost of goods sold in 2000 for write-downs of production-line assets related to the reorganization efforts that were not categorized as restructuring costs, the fourth quarter cost of goods sold was 78.4%. These write-downs of production-line assets primarily related to changes in production facilities and product offerings.

The fourth quarter of 2000 included $103.3 million in reorganization costs related to the Chapter 11 filing. See Item 1 for details of the reorganization costs.

Other income in 1999 includes a $1.5 million reduction of the gain on the second quarter sale of AISI and a $0.7 million reduction of the loss on the third quarter 1999 sale of Textile Products. Other income in 1999 also reflects proceeds from the settlement of various legal actions totaling $3.0 million, net of other items.

Armstrong's effective tax rate benefit in the fourth quarter of 2000 was 30.2% compared to an effective tax rate benefit of 35.2% in the fourth quarter of 1999.

A net loss of $100.3 million or $2.48 per share compared to a net loss of $178.5 million or $4.46 per share in the fourth quarter of 1999.

Armstrong Holdings, Inc., and Subsidiaries Consolidated Statements of Earnings

(in millions, except per share amounts)

	Years Ended December 31 2000	1999	1998
Net sales	$3,003.8	$3,048.2	$2,496.1
Cost of goods sold	2,197.7	2,080.8	1,718.3
Gross profit	806.1	967.4	777.8
Selling, general and administrative expenses	546.3	556.2	443.0
Charge for asbestos liability, net	236.0	335.4	274.2
Restructuring and reorganization charges (reversals)	18.0	(1.4)	74.4
Goodwill amortization	23.9	25.5	10.7
Equity (earnings) from affiliates, net	(18.0)	(16.8)	(13.8)
Operating income (loss)	(0.1)	68.5	(10.7)
Interest expense (unrecorded contractual interest of $6.0 million in 2000)	101.6	104.0	61.4
Other (income), net	(74.6)	(6.7)	(1.7)
Loss from continuing operations before Chapter 11 reorganization costs and income tax benefit	(27.1)	(28.8)	(70.4)
Chapter 11 reorganization costs, net	103.3	-	-
Loss from continuing operations before income tax benefit	(130.4)	(28.8)	(70.4)
Income tax benefit	(41.4)	(4.8)	(24.9)
Loss from continuing operations	($89.0)	($24.0)	($45.5)
Income from discontinued operations, net of tax of $7.6, $19.7 and $13.6, respectively	5.9	38.3	36.2
Net gain on sale of discontinued operations, net of tax of $28.4	95.3	-	-
Earnings from discontinued operations	101.2	38.3	36.2
Net earnings (loss)	$ 12.2	$14.3	($9.3)
Loss per share of common stock, continuing operations:			
Basic	$ (2.21)	$ (0.60)	$ (1.14)
Diluted	$ (2.21)	$ (0.60)	$ (1.14)
Earnings per share of common stock, discontinued operations:			
Basic	$ 0.15	$ 0.96	$ 0.91
Diluted	$ 0.15	$ 0.96	$ 0.91
Earnings per share of common stock, gain on sale of discontinued operations:			
Basic	$ 2.37	$ -	$ -
Diluted	$ 2.37	$ -	$ -
Net earnings (loss) per share of common stock:			
Basic	$ 0.30	$ 0.36	$ (0.23)
Diluted	$ 0.30	$ 0.36	$ (0.23)
Average number of common shares outstanding:			
Basic	40.2	39.9	39.8
Diluted	40.5	40.2	40.4

See accompanying notes to consolidated financial statements beginning on page 42.

Armstrong Holdings, Inc., and Subsidiaries Consolidated Balance Sheets

(amounts in millions)

Assets	As of December 31, 2000	1999
Current assets:		
Cash and cash equivalents	$156.5	$17.2
Accounts and notes receivable, net	316.5	352.2
Inventories, net	340.2	352.4
Deferred income taxes	9.8	40.4
Net assets of discontinued operations	48.6	184.7
Other current assets	72.4	74.7
Total current assets	944.0	1,021.6
Property, plant and equipment, less accumulated depreciation and amortization of $1,006.4 and $1,035.3 million, respectively	1,253.5	1,292.0
Insurance receivable for asbestos-related liabilities, noncurrent	236.1	270.0
Investment in affiliates	37.3	34.2
Goodwill, net	846.0	898.4
Other intangibles, net	91.9	90.8
Deferred income tax assets, noncurrent	22.5	-
Other noncurrent assets	443.3	374.4
Total assets	$3,874.6	$3,981.4

Liabilities and Shareholders' Equity	2000	1999
Current liabilities:		
Short-term debt	$16.6	$65.9
Current installments of long-term debt	8.1	36.1
Accounts payable and accrued expenses	238.0	591.5
Income taxes	28.5	-
Total current liabilities	291.2	693.5
Liabilities subject to compromise	2,385.2	-
Long-term debt, less current installments	56.8	1,389.1
Employee Stock Ownership Plan (ESOP) loan guarantee	-	155.3
Postretirement and postemployment benefit liabilities	243.6	242.4
Pension benefit liabilities	154.7	168.3
Asbestos-related long-term liabilities, noncurrent	-	506.5
Other long-term liabilities	71.1	91.5
Deferred income taxes	-	43.8
Minority interest in subsidiaries	6.9	11.8
Total noncurrent liabilities	2,918.3	2,608.7
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	162.2	176.4
Reduction for ESOP loan guarantee	(142.2)	(190.3)
Retained earnings	1,151.5	1,196.2
Accumulated other comprehensive loss	(45.2)	(16.5)
Less common stock in treasury, at cost 2000 - 11,034,325 shares; 1999 - 11,628,705 shares	(513.1)	(538.5)
Total shareholders' equity	665.1	679.2
Total liabilities and shareholders' equity	$3,874.6	$3,981.4

See accompanying notes to consolidated financial statements beginning on page 42.

Armstrong Holdings, Inc., and Subsidiaries Consolidated Statements of Shareholders' Equity

(amounts in millions)

	2000		1999		1998	
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	$ 176.4		$ 173.0		$169.5	
Stock issuances and other	(8.9)		3.4		3.5	
Contribution of treasury stock to ESOP	(5.3)		-		-	
Balance at end of year	$ 162.2		$ 176.4		$173.0	
Reduction for ESOP loan guarantee:						
Balance at beginning of year	$(190.3)		$ (199.1)		$ (207.7)	
Principal paid	13.2		23.3		23.2	
Loans to ESOP	(7.3)		(12.8)		(10.1)	
Interest on loans to ESOP	(1.1)		(1.3)		(0.8)	
Contribution of treasury stock to ESOP	(4.1)		(5.8)		-	
Impairment of loans to ESOP	43.3		-		-	
Accrued compensation	4.1		5.4		(3.7)	
Balance at end of year	$(142.2)		$ (190.3)		$ (199.1)	
Retained earnings:						
Balance at beginning of year	$1,196.2		$ 1,257.0		$1,339.6	
Net earnings (loss) for year	12.2	$12.2	14.3	$14.3	(9.3)	$(9.3)
Tax benefit on dividends paid on unallocated ESOP common shares	1.2		1.8		2.0	
Total	$1,209.6		$ 1,273.1		$1,332.3	
Less common stock dividends (per share) $1.44 in 2000; $1.92 in 1999; $1.88 in 1998	58.1		76.9		75.3	
Balance at end of year	$1,151.5		$ 1,196.2		$1,257.0	
Accumulated other comprehensive income (loss):						
Balance at beginning of year	$ (16.5)		$ (25.4)		$ (16.2)	
Foreign currency translation adjustments and hedging activities	(17.2)		(3.4)		(7.0)	
Unrealized loss on available for sale securities	(2.0)		-		-	
Minimum pension liability adjustments	(9.5)		12.3		(2.2)	
Total other comprehensive income (loss)	(28.7)	(28.7)	8.9	8.9	(9.2)	(9.2)
Balance at end of year	$ (45.2)		$ (16.5)		$ (25.4)	
Comprehensive income (loss)		$ (16.5)		$23.2		$(18.5)
Less treasury stock at cost:						
Balance at beginning of year	$ 538.5		$ 547.7		$526.5	
Stock purchases	1.6		1.3		31.8	
Stock issuance activity, net	(17.6)		(2.6)		(10.6)	
Contribution of treasury stock to ESOP	(9.4)		(7.9)		-	
Balance at end of year	$ 513.1		$ 538.5		$547.7	
Total shareholders' equity	$ 665.1		$ 679.2		$709.7	

See accompanying notes to consolidated financial statements beginning on page 42.

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

(amounts in millions)

	Years Ended December 31, 2000	1999	1998
Cash flows from operating activities:			
Net earnings (loss)	$12.2	$14.3	($9.3)
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:			
Depreciation and amortization, continuing operations	160.9	154.9	129.6
Depreciation and amortization, discontinued operations	7.6	14.3	13.1
Gain on sale of businesses, net	(183.9)	(1.0)	-
Gain on sale of investments in affiliates	-	-	(12.8)
Deferred income taxes	(35.7)	(38.3)	(27.9)
Equity earnings from affiliates, net	(18.0)	(16.8)	(13.8)
Chapter 11 reorganization costs, net	103.3	-	-
Chapter 11 reorganization costs paid	(2.6)	-	-
Restructuring and reorganization charges (reversals)	18.0	(1.4)	74.4
Restructuring and reorganization payments	(7.9)	(16.9)	(11.2)
Charge for asbestos liability, net	236.0	335.4	274.2
Payments for asbestos-related claims, net of recoveries	(199.2)	(114.4)	(74.4)
Decrease in net assets of discontinued operations	42.7	25.7	5.4
Changes in operating assets and liabilities net of effects of reorganizations, restructuring, acquisitions and dispositions			
(Increase)/decrease in receivables	38.5	(26.9)	7.3
(Increase)/decrease in inventories	18.8	(22.0)	43.9
(Increase)/decrease in other current assets	(10.6)	24.4	(30.1)
Increase in other noncurrent assets	(41.6)	(52.0)	(108.5)
Increase/(decrease) in accounts payable and accrued expenses	(119.6)	92.9	(23.2)
Increase/(decrease) in income taxes payable	27.5	(15.8)	(6.5)
Increase/(decrease) in other long-term liabilities	(23.8)	8.7	23.4
Other, net	19.2	(27.0)	(10.3)
Net cash provided by operating activities	41.8	338.1	243.3
Cash flows from investing activities:			
Purchases of property, plant and equipment, continuing operations	(136.0)	(166.5)	(148.3)
Purchases of property, plant and equipment, discontinued operations	(14.1)	(17.1)	(11.4)
Investment in computer software	(12.0)	(11.6)	(24.6)
Acquisitions, net of cash acquired	(6.5)	(3.8)	(1,175.7)
Investments in affiliates	-	-	147.6
Distributions from equity affiliates	12.7	40.8	11.4
Proceeds from the sale of businesses	329.9	88.3	-
Proceeds from the sale of assets	5.3	7.9	2.7
Net cash provided by (used for) investing activities	179.3	(62.0)	(1,198.3)
Cash flows from financing activities:			
Increase/(decrease) in short-term debt, net	(4.5)	(69.7)	24.2
Issuance of long-term debt	3.4	200.0	1,293.9
Payments of long-term debt	(23.0)	(332.4)	(278.6)
Cash dividends paid	(58.1)	(76.9)	(75.3)
Purchase of common stock for the treasury, net	(1.6)	(1.3)	(31.8)
Proceeds from exercised stock options	0.1	1.2	7.9
Other, net	5.6	(2.8)	(3.0)
Net cash provided by (used for) financing activities	(78.1)	(281.9)	937.3
Effect of exchange rate changes on cash and cash equivalents	(3.7)	(2.9)	0.5
Net increase (decrease) in cash and cash equivalents	$139.3	($8.7)	($17.2)
Cash and cash equivalents at beginning of year	$ 17.2	$25.9	$43.1
Cash and cash equivalents at end of year	$156.5	$17.2	$25.9

See accompanying notes to consolidated financial statements beginning on page 42.

NOTE 1. BUSINESS AND CHAPTER 11 REORGANIZATION

Armstrong World Industries, Inc. ("AWI") is a Pennsylvania corporation incorporated in 1891, which together with its subsidiaries is referred to here as "Armstrong". Through its U.S. operations and U.S. and international subsidiaries, Armstrong designs, manufactures and sells interior finishings, most notably floor coverings and ceiling systems, around the world. Armstrong products are sold primarily for use in the finishing, refurbishing and repair of residential, commercial and institutional buildings. Armstrong also designs, manufactures and sells kitchen and bathroom cabinets.

Armstrong Holdings, Inc. (which together with its subsidiaries is referred to here as "AHI") is the publicly-held parent holding company of Armstrong. Armstrong Holdings, Inc. became the parent company of Armstrong on May 1, 2000, following AWI shareholder approval of a plan of exchange under which each share of AWI was automatically exchanged for one share of Armstrong Holdings, Inc.. Armstrong Holdings, Inc. was formed for purposes of the share exchange and holds no other significant assets or operations apart from AWI and AWI's subsidiaries. Stock certificates that formerly represented shares of AWI were automatically converted into certificates representing the same number of shares of Armstrong Holdings, Inc. The publicly-held debt of AWI was not affected in the transaction.

On December 6, 2000, AWI, the major operating subsidiary of AHI, filed a voluntary petition for relief ("the Filing") under Chapter 11 of the U.S. Bankruptcy Code ("the Bankruptcy Code") in the United States Bankruptcy Court for the District of Delaware (the "Court") in order to use the court-supervised reorganization process to achieve a resolution of its asbestos liability. Also filing under Chapter 11 were two of Armstrong's wholly-owned subsidiaries, Nitram Liquidators, Inc. and Desseaux Corporation of North America, Inc. The Chapter 11 cases are being jointly administered under case numbers 00-4469, 00-4470, and 00-4471 (the "Chapter 11 Cases").

AHI, and Armstrong's other subsidiaries, including Triangle Pacific Corp., WAVE (Armstrong's ceiling grid systems joint venture with Worthington Industries), Armstrong Canada, Armstrong DLW AG and its other non-U.S. operating subsidiaries were not a part of the Filing.

Like other companies involved in asbestos litigation, AWI has tried a number of different approaches to managing its asbestos liability, including negotiating broad-based settlements of claims and supporting efforts to find a legislative resolution. The number of new claims filed and the cost to settle claims, however, continued to escalate. In addition, liquidity concerns increased when Owens Corning Fiberglass filed for Chapter 11 protection on October 5, 2000. This hurt AWI's ability to obtain ongoing financing on acceptable terms. These were the principal factors which led to the decision to make the Filing.

AWI is operating its business and managing its properties as a debtor-in-possession subject to the provisions of the Bankruptcy Code. Pursuant to the provisions of the Bankruptcy Code, AWI is not permitted to pay any claims or obligations which arose prior to the Filing date (prepetition claims) unless specifically authorized by the Court. Similarly, claimants may not enforce any claims against AWI that arose prior to the date of the Filing. In addition, as a debtor-in-possession, AWI has the right, subject to the Court's approval, to assume or reject any executory contracts and unexpired leases in existence at the date of the Filing. Parties having claims as a result of any such rejection may file claims with the Court which will be dealt with as part of the Chapter 11 Cases.

Two creditors' committees, one representing asbestos claimants and the other representing other unsecured creditors, have been appointed in the Chapter 11 Cases. In accordance with the provisions of the Bankruptcy Code they have the right to be heard on matters that come before the Court in the Chapter 11 Cases.

It is AWI's intention to address all of its prepetition claims, including all asbestos-related claims, in a plan of reorganization in its Chapter 11 Case. At this juncture, it is impossible to predict with any degree of certainty how such a plan will treat such claims and the impact AWI's Chapter 11 Case and any reorganization plan will have on the shares of common stock of AWI, all of which are held by AHI and along with AWI's operating subsidiaries are the only material asset of AHI. Generally, under the provisions of the Bankruptcy Code, holders of equity interests may not participate under a plan of reorganization unless the claims of creditors are satisfied in full under the plan or unless creditors accept a reorganization plan which permits holders of equity interests to participate. The formulation and implementation of a plan of reorganization in the Chapter 11 Cases could take a significant period of time.

Financing

The Court has approved a $300 million debtor-in-possession credit facility provided by a bank group led by The Chase Manhattan Bank (the "DIP Facility"). AWI believes that the DIP Facility, together with cash generated from operations, will be more than adequate to address its liquidity needs. As of February 28, 2001, AWI had $96.3 million of cash and cash equivalents in addition to cash held by its non-debtor subsidiaries. Borrowings under the DIP facility, if any, will constitute superpriority administrative expense claims in the Chapter 11 Cases.

Accounting Impact

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

Pursuant to SOP 90-7, AWI is required to segregate prepetition liabilities that are subject to compromise and report them separately on the balance sheet. See Note 4 for detail of the liabilities subject to compromise at December 31, 2000. Liabilities that may be affected by a plan of reorganization are recorded at the amount of the expected allowed claims, even if they may be settled for lesser amounts. Substantially all of AWI's prepetition debt, now in default, is recorded at face value and is classified within liabilities subject to compromise. Obligations of Armstrong subsidiaries not covered by the Filing remain classified on the consolidated balance sheet based upon maturity date. AWI's asbestos liability is also recorded in liabilities subject to compromise. See Note 29 for further discussion of AWI's asbestos liability.

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

SOP 90-7 also requires separate reporting of all revenues, expenses, realized gains and losses, and provision for losses related to the Filing as Chapter 11 reorganization items. Accordingly, AWI recorded a total of $103.3 million as Reorganization Costs in December 2000, consisting of:

	($ millions)
Adjustment of net debt and debt issue costs to expected amount of allowed claim	$ 42.0
ESOP related expenses	58.8
Professional fees	2.6
Interest income, post petition	(0.3)
Other expenses directly related to bankruptcy, net	0.2
Total Chapter 11 reorganization costs	$103.3

To record prepetition debt at the face value or the amount of the expected allowed claims, AWI adjusted the amount of net debt and debt issue costs and recorded a pre-tax expense of $42.0 million.

ESOP related costs include a $43.3 million impairment charge related to amounts borrowed by the ESOP from Armstrong, the trustee of the ESOP. As described more fully in Note 19, Armstrong has not permitted further employee contributions to the ESOP. Therefore, it is expected that the ESOP will no longer have the ability to repay Armstrong money it previously borrowed. In addition, a $15.5 million expense was recorded related to interest and tax penalty guarantees owed to ESOP bondholders caused by the default on the ESOP bonds.

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

Interest income in the above table is from short-term investments of cash earned by AWI subsequent to the Filing.

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

NOTE 2. 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 Armstrong Holdings, Inc., and its subsidiaries. All significant intercompany transactions have been eliminated from the consolidated financial statements. Certain prior year amounts have been reclassified to conform to the current year presentation.

Revenue Recognition. AHI records revenue from the sale of products and the related accounts receivable as title transfers, generally on the date of shipment. Provision is made for estimated applicable discounts and losses.

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

Advertising Costs. AHI recognizes advertising expenses as they are incurred.

Shipping and Handling Costs. Prior to 2000, AHI recorded some shipping and handling costs as a reduction to net sales. In 2000, AHI applied the provisions of Emerging Issues Task Force ("EITF") Issue No. 00-010, "Accounting for Shipping and Handling Fees and Costs". Consequently, approximately $133.3 million of 2000 shipping and handling costs have been reclassified from net sales to cost of goods sold. All income statements presented have been restated to comply with this pronouncement by increasing net sales and cost of goods sold as follows: 1999 - $125.9 million and 1998 - $104.2 million. This change had no effect on gross margins or retained earnings as of any date.

Sales Incentives. Prior to 2000, AHI had been classifying most sales incentives as a reduction of sales but was recording certain sales incentives as Selling General and Administrative ("SG&A") expenses. In accordance with EITF Issue No. 00-014, "Accounting for Certain Sales Incentives", AHI reclassified sales incentives from SG&A expense to net sales (reducing both) as follows: 2000 - $1.3 million; 1999 - $1.2 million; and 1998 - $1.1 million.

Pension and Postretirement Benefits. AHI has plans that provide for pension, medical and life insurance benefits to certain eligible employees when they retire from active service. Generally, AHI'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 the ESOP is recognized in shareholders' equity.

Gains and Losses on Divestitures. AHI records the gain or loss on divested businesses in other income.

Cash and Cash Equivalents. Short-term investments that have maturities of three months or less when purchased are considered to be cash equivalents.

Inventories. Inventories are valued at the lower of cost or market. Inventories also include certain floor coverings samples.

Long-Lived Assets. Property, plant and equipment values are stated at acquisition cost less accumulated depreciation and amortization. Depreciation charges for financial reporting purposes are determined on the straight-line basis at rates calculated to provide for the retirement of assets at the end of their useful lives, generally as follows: buildings, 20 to 40 years; machinery and equipment, 3 to 20 years. 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 financial statements and any resulting gains or losses normally are reflected in "Selling, general and administrative expenses."

Costs of the construction of certain long-lived assets include capitalized interest which is amortized over the estimated useful life of the related asset. Capitalized interest was $0.4 million in 2000, $4.3 million in 1999 and $5.8 million in 1998.

Goodwill and Other Intangibles. Goodwill and other intangibles are amortized on a straight-line basis over periods from 3 to 40 years. On a periodic basis, AHI 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.

Foreign Currency Transactions. Gains or losses on foreign-currency transactions are recognized through the statement of earnings. Amounts payable or receivable denominated in foreign currencies are revalued at the exchange rate prevailing at year-end.

Financial Instruments and Derivatives. AHI uses derivatives and other financial instruments to diversify or offset the effect of currency, interest rate and commodity price variability.

AHI 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.

AHI may enter into interest rate swap agreements to alter the interest rate risk profile of outstanding debt, thus altering AHI's exposure to changes in interest rates. In these swaps, AHI 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 expense over the term of associated debt.

NOTE 3. NATURE OF OPERATIONS

Industry Segments

For the year ended 2000

(millions)	Floor Coverings	Building products	Wood products	All other	Unallocated Corporate	Totals
Net sales to external customers	$ 1,263.9	$ 837.2	$ 902.7	--	--	$ 3,003.8
Intersegment sales	4.2	--	--	--	--	4.2
Equity (earnings) from affiliates	--	(17.9)	--	(0.1)	--	(18.0)
Segment operating income (loss)	78.8	113.9	74.3	0.1	($ 267.2)	(0.1)
Restructuring and reorganization charges, net of reversals	7.9	0.2	1.7	--	8.2	18.0
Segment assets	981.0	568.5	1,358.6	16.1	950.4	3,874.6
Depreciation and amortization	70.1	32.8	37.0	--	21.0	160.9
Investment in affiliates	1.1	19.9	--	16.3	--	37.3
Capital additions	52.0	43.6	38.7	--	13.7	148.0

For the year ended 1999

(millions)	Floor coverings	Building products	Wood products	All other	Unallocated Corporate	Totals
Net sales to external customers	$ 1,365.7	$ 794.5	$ 836.5	$ 51.5	--	$ 3,048.2
Intersegment sales	2.7	--	--	20.7	--	23.4
Equity (earnings) loss from affiliates	0.1	(16.1)	--	(0.8)	--	(16.8)
Segment operating income (loss)	204.6	120.0	85.0	6.0	($ 347.1)	68.5
Restructuring and reorganization reversals	(1.1)	(0.3)	--	--	--	(1.4)
Segment assets	1,286.1	535.1	1,308.0	16.0	836.2	3,981.4
Depreciation and amortization	71.2	34.1	36.1	2.8	10.7	154.9
Investment in affiliates	3.3	14.9	--	16.0	--	34.2
Capital additions	71.9	45.5	41.5	2.7	16.5	178.1

For the year ended 1998

(millions)	Floor coverings	Building products	Wood products	All other	Unallocated Corporate	Totals
Net sales to external customers	$1,248.5	$ 799.0	$ 351.3	$ 97.3	--	$ 2,496.1
Intersegment sales	--	--	--	39.5	--	39.5
Equity (earnings) loss from affiliates	0.2	(14.2)	--	0.2	--	(13.8)
Segment operating income (loss)	121.7	106.5	38.6	7.2	($ 284.7)	(10.7)
Reorganization charges	53.5	10.1	--	1.9	8.9	74.4
Segment assets	1,146.0	550.1	1,279.0	67.6	1,044.1	4,086.8
Depreciation and amortization	62.6	39.2	15.3	7.2	5.3	129.6
Investment in affiliates	2.2	39.6	--	--	--	41.8
Capital additions	93.5	42.5	12.4	5.9	18.6	172.9

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, restructuring charges, unusual gains and losses, and interest expense. AHI accounts for inter-segment sales and transfers based upon its internal transfer pricing policy.

The floor coverings segment includes resilient flooring, adhesives, installation and maintenance materials and accessories sold to commercial and residential customers 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. AHI 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 AHI'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 Note 9). 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. During 2000, AHI acquired privately-held Switzerland-based Gema Holding AG ("Gema"), a manufacturer and installer of metal ceilings. See Note 5 for further discussion.

The wood products segment is composed of Triangle Pacific Corp., a wholly owned subsidiary, a 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 35% of sales are from new construction which is more cyclical than remodeling activity. Triangle Pacific manufactures hardwood flooring under the brand names of Bruce, Hartco and Robbins while cabinets are manufactured under the brand names of Bruce and IXL.

During most of 1999, "all other" included business units making a variety of specialty products for the building, automotive, textile and other industries worldwide. Gasket materials were sold for new and replacement use in automotive, construction and farm equipment, appliance, small engine and compressor industries. On June 30, 1999, Armstrong sold 65% of the gaskets business. Since the divestiture, AHI has accounted for the gaskets business under the equity method within the "all other" segment. Textile mill supplies, including cots and aprons, were sold to equipment manufacturers and textile mills. On September 30, 1999, Armstrong sold the textiles business. From 1997 to 1998, Armstrong 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, Armstrong sold its interest in Dal-Tile.

During 2000, AHI recognized revenue of approximately $373.2 million from The Home Depot, Inc., from sales in the floor coverings, building products and wood products segments compared to approximately $344.8 million and $296.0 million in 1999 and 1998, respectively. No other customer represented more than 10% of AHI's revenue.

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

Geographic Areas

Net trade sales (millions)	2000	1999	1998
Americas:			
United States	$ 2,276.5	$ 2,296.4	$ 1,842.8
Canada	129.1	123.0	100.4
Other Americas	26.5	27.2	18.5
Total Americas	$ 2,432.1	$ 2,446.6	$ 1,961.7
Europe:			
England	$ 103.3	$ 107.2	$ 60.8
Germany	101.8	143.6	80.1
France	50.4	54.4	62.9
Italy	27.4	26.2	27.3
Russia	22.5	12.0	22.9
Other Europe	158.1	146.5	163.1
Total Europe	$ 463.5	$ 489.9	$ 417.1
Pacific area:			
China	$ 26.9	$ 24.2	$ 25.5
Australia	24.4	27.2	29.2
Other Pacific area	56.9	60.3	62.6
Total Pacific area	$ 108.2	$ 111.7	$ 117.3
Total net trade sales	$ 3,003.8	$ 3,048.2	$ 2,496.1

Long-lived assets (property, plant and equipment) at December 31

(millions)	2000	1999
Americas:		
United States	$ 960.8	$ 955.7
Canada	14.2	16.1
Other Americas	0.1	0.1
Total Americas	$ 975.1	$ 971.9
Europe:		
Germany	$ 174.5	$ 196.5
England	38.8	47.5
Netherlands	10.1	12.0
France	11.9	13.8
Sweden	9.4	15.2
Other Europe	1.7	0.2
Total Europe	$ 246.4	$ 285.2
Pacific area:		
China	$ 26.2	$ 27.9
Other Pacific area	5.8	7.0
Total Pacific area	$ 32.0	$ 34.9
Total long-lived assets	$ 1,253.5	$ 1,292.0

NOTE 4. LIABILITIES SUBJECT TO COMPROMISE

As a result of AWI's Chapter 11 filing (see Note 1), pursuant to SOP 90-7, AWI is required to segregate prepetition liabilities that are subject to compromise and report them separately on the balance sheet. Liabilities that may be affected by a plan of reorganization are recorded at the amount of the expected allowed claims, even if they may be settled for lesser amounts. Substantially all of AWI's prepetition debt, now in default, is recorded at face value and is classified within liabilities subject to compromise. Obligations of AHI subsidiaries not covered by the Filing remain classified on the consolidated balance sheet based upon maturity date. AWI's asbestos liability is also recorded in liabilities subject to compromise. See Note 29 for further discussion of AWI's asbestos liability.

Liabilities subject to compromise at December 31, 2000 are as follows:

(millions)	2000
Debt (at face value)	$ 1,400.4
Asbestos-related liability	690.6
Pre-petition trade payables	60.1
Pre-petition other payables and accrued interest	76.4
ESOP loan guarantee	157.7
Total liabilities subject to compromise	$ 2,385.2

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

See Note 15 for detail of debt subject to compromise.

NOTE 5. ACQUISITIONS

On May 18, 2000, AHI acquired privately-held Switzerland-based Gema Holding AG ("Gema"), a manufacturer and installer of metal ceilings, for $6 million plus certain contingent consideration not to exceed $25.5 million based on results over the three year period ending December 31, 2002. Gema, with annual sales of nearly $50 million, has two manufacturing sites located in Austria and Switzerland and employs nearly 300 people. The acquisition has been recorded under the purchase method of accounting. The purchase price has been allocated to the assets acquired and the liabilities assumed based on the estimated fair market value at the date of acquisition. Contingent consideration, when and if paid, will be accounted for as additional purchase price. The fair market value of tangible and identifiable intangible assets acquired exceeded the purchase price by $24.2 million and this amount has been recorded as a reduction of the fair value of property, plant and equipment.

On July 22, 1998, Armstrong completed its acquisition of Triangle Pacific Corp. ("Triangle Pacific"), a Delaware corporation. Triangle Pacific is a U.S. manufacturer of hardwood flooring and other flooring and related products and a manufacturer of kitchen and bathroom cabinets. The acquisition, recorded under the purchase method of accounting, resulted in a total purchase price of $911.5 million. The purchase price was allocated to tangible and identifiable intangible assets acquired and liabilities assumed based on estimated fair market value at the date of acquisition. The balance of $792.8 million was recorded as goodwill and is being amortized over forty years on a straight-line basis. During 1999, purchase price adjustments increased goodwill by $5.3 million. During 2000, adjustments primarily related to pre-acquisition liabilities and property, plant and equipment values reduced goodwill by $1.4 million.

Effective August 31, 1998, Armstrong 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 flooring manufacturer in Germany. The acquisition, recorded under the purchase method of accounting, resulted in a total purchase price of $289.9 million. During 1999, Armstrong increased its ownership percentage in DLW to approximately 96%. The purchase price was allocated to net tangible and identifiable intangible assets acquired based on the estimated fair market value at the date of acquisition. The balance of $117.2 million was recorded as goodwill and is being amortized over forty years on a straight-line basis. During 1999, purchase price adjustments increased goodwill by $5.2 million. During 2000, adjustments primarily related to pre-acquisition tax contingencies reduced goodwill by $8.9 million. In the initial 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 Armstrong identified as businesses held for sale. In May 1999, Armstrong sold the DLW furniture business for $38.1 million. The remaining business held for sale, a Dutch carpet manufacturing company, was sold during December 2000.

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 December 30, 2000, January 1, 2000 and January 2, 1999. No events occurred between December 31 and these dates at Triangle Pacific materially affecting AHI's financial position or results of operations.

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

(millions, except per share data)	1998
Net sales	$ 2,874.9
Net earnings	(14.2)
Net earnings per share	(0.36)

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 1998.

NOTE 6. DISCONTINUED OPERATIONS

On May 31, 2000, AHI completed its sale of all of the entities, assets and certain liabilities comprising its Insulation Products segment to Orion Einundvierzigste Beteiligungsgesellschaft Mbh, a subsidiary of the Dutch investment firm Gilde Investment Management N.V. for $264 million. The transaction resulted in an after tax gain of $114.8 million, or $2.84 per share.

In February 2001, AHI determined to permanently exit the Textiles and Sports Flooring segment and on February 20, 2001, entered into negotiations to sell substantially all of the businesses comprising this segment to a private equity investor based in Europe. The proposed sale, while subject to certain approvals, including that of the Court, is expected to close in June 2001. Accordingly, this segment has been classified as a discontinued operation in the accompanying consolidated financial statements. Prior year balances and results have been reclassified to reflect the net assets and results of discontinued operations. Based on the expected net realizable value of the business, AHI recorded a pretax net loss of $30.3 million in the fourth quarter of 2000, $19.5 million net of tax benefit.

The following comprises the net assets of discontinued operations as of December 31, 2000 and 1999.

	2000	1999
Cash	$ 2.6	$ 18.4
Accounts receivable, net	52.5	83.8
Inventories, net	59.7	77.4
Property plant and equipment, net	67.5	147.1
Short-term debt	(19.3)	(5.0)
Long-term debt	(10.5)	(23.8)
Accounts payable and accrued expenses	(54.0)	(79.2)
Pension liabilities	(3.3)	(36.8)
Other, net	(12.1)	2.8
Adjustment to net realizable value	(34.5)	--
Net assets of discontinued operations	$ 48.6	$ 184.7

NOTE 7. OTHER DIVESTITURES

On July 31, 2000, AHI completed the sale of its Installation Products Group ("IPG") to subsidiaries of the German company Ardex GmbH, for $86 million in cash. Ardex purchased substantially all of the assets and liabilities of IPG including its shares of the W.W. Henry Company. The transaction resulted in a gain of $44.1 million ($60.2 million pretax) or $1.09 per share and was recorded in other income. The financial results of IPG were reported as part of the floor coverings segment. The proceeds and gain are subject to a post-closing working capital adjustment, which AHI expects to finalize in the first half of 2001. Under the terms of the agreement and a related supply agreement, AHI will purchase some of its installation products needs from Ardex for an initial term of eight years, subject to certain minimums for the first five years after the sale. The agreement also calls for price adjustments based upon changing market prices for raw materials, labor and energy costs.

On September 30, 1999, Armstrong completed the sale of its Textile Products Operations to Day International Group, Inc. The sale resulted in a loss of $3.2 million, or $0.08 per share, which was recorded in other income.

On June 30, 1999, Armstrong sold 65% of its ownership in Armstrong Industrial Specialties, Inc. ("AISI"), its gasket products subsidiary, to a group of investors including Citicorp Venture Capital Ltd. and the management of AISI for a cash purchase price of approximately $36.1 million. The sale resulted in a gain of approximately $6.0 million, or $0.15 per share, which was recorded in other income.

On June 22, 1999, Armstrong sold its interest in the assets of Martin Surfacing, Inc. Armstrong acquired this interest as part of its acquisition of DLW during the third quarter of 1998. There was no material gain or loss on the transaction.

On May 28, 1999, Armstrong's subsidiary DLW sold its furniture business for total cash proceeds of $38.1 million. Armstrong acquired this business as part of the acquisition of DLW in the third quarter of 1998 and had classified the business as held for sale. There was no gain or loss on the transaction.

NOTE 8. RESTRUCTURING AND OTHER ACTIONS

A $19.4 million pre-tax reorganization charge was recorded in 2000, of which $8.6 million related to severance and enhanced retirement benefits for more than 180 positions (approximately 66% related to salaried positions) within the European Flooring business. Reorganization actions include staff reductions due to the elimination of administrative positions, the consolidation and closing of sales offices in Europe and the closure of the Team Valley, England commercial tile plant. $2.6 million of the charge related to severance and enhanced retirement benefits for 15 corporate and line-of-business staff positions (all salaried positions) as a result of streamlining the organization to reflect staffing needs for current business conditions. Of the $2.6 million, $0.1 million represented a non-cash charge for enhanced retirement benefits. The remaining $8.2 million of the charge primarily related to the remaining payments on a noncancelable operating lease for an office facility in the U.S. The employees who occupied this office facility are being relocated to the corporate headquarters.

In addition, $1.4 million of the remaining accrual for the $74.4 million 1998 reorganization charge was reversed in both 2000 and 1999, comprising certain severance accruals that were no longer necessary. The amount in "other" below primarily relates to foreign currency translation.

The following table summarizes activity in the restructuring accruals for 2000 and 1999:

(millions)	Beginning Balance	Cash Payments	Charges	Reversals	Other	Ending Balance
2000	$12.1	($7.9)	$19.3	($1.4)	($0.7)	$21.4
1999	30.6	(16.9)	--	(1.4)	(0.2)	12.1

Substantially all of the remaining balance of the restructuring accrual as of December 31, 2000 relates to terminated employees with extended payouts, most of which will be paid during 2001, and two noncancelable operating leases which extend through 2005 and 2017.

AHI also recorded a $17.6 million charge to cost of goods sold in 2000 for write-downs of inventory and production-line assets related to the reorganization efforts that were not categorized as restructuring costs. The inventory write-downs were related to changes in product offerings while the write-downs of production-line assets primarily related to changes in production facilities and product offerings.

AHI also recorded costs within selling, general and administrative expense of $3.8 million for severance payments to approximately 100 employees that were not classified as restructuring costs and $2.3 million for fixed asset impairments related to the decision to vacate certain office space in the U.S.

In 1998, AHI 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, AHI recorded an estimated loss of $9.0 million, or $5.9 million after tax, related to redundant flooring products machinery disposed of in 1999. Approximately $28.6 million of the charge comprised cash expenditures for severance. The remainder was a non-cash charge for enhanced retirement benefits.

NOTE 9. EQUITY INVESTMENTS

Investments in affiliates were $37.3 million at December 31, 2000, an increase of $3.1 million, reflecting the equity earnings of AHI's 50% interest in its WAVE joint venture and its remaining 35% interest in Interface Solutions, Inc. ("ISI"). AHI continues to purchase certain raw materials from ISI under a long-term supply agreement.

Equity earnings from affiliates for 2000 and 1999 consisted primarily of income from a 50% interest in the WAVE joint venture and the 35% interest in ISI. Equity earnings from affiliates for 1998 primarily comprised income from a 50% interest in the WAVE joint venture, AHI's share of a net loss at Dal-Tile and amortization of the excess of AHI's investment in Dal-Tile over the underlying equity in net assets.

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

(millions)	2000	1999
Current assets	$ 68.3	$ 66.7
Non-current assets	34.4	37.8
Current liabilities	18.2	21.8
Non-current liabilities	50.4	57.7

(millions)	2000	1999
Net sales	$212.5	$202.3
Gross profit	60.3	53.7
Net earnings	35.5	32.3

NOTE 10. ACCOUNTS AND NOTES RECEIVABLE

(millions)	2000	1999
Customer receivables	$ 349.1	$ 371.8
Customer notes	10.8	8.7
Miscellaneous receivables	7.7	15.4
Less allowance for discounts and losses	(51.1)	(43.7)
Net accounts and notes receivable	$ 316.5	$ 352.2

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

NOTE 11. INVENTORIES

Approximately 48% of AHI's total inventory in 2000 and 49% in 1999 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 $47.8 million at the end of 2000 and $45.6 million at year-end 1999.

(millions)	2000	1999
Finished goods	$ 208.9	$ 225.7
Goods in process	39.6	34.3
Raw materials and supplies	143.5	140.3
Less LIFO and other reserves	(51.8)	(47.9)
Total inventories, net	$ 340.2	$ 352.4

NOTE 12. PROPERTY, PLANT AND EQUIPMENT

(millions)	2000	1999
Land	$ 84.3	$ 99.2
Buildings	538.1	539.8
Machinery and equipment	1,569.3	1,601.0
Construction in progress	68.2	87.3
Less accumulated depreciation and amortization	(1,006.4)	(1,035.3)
Net property, plant and equipment	$ 1,253.5	$ 1,292.0

NOTE 13. GOODWILL AND OTHER INTANGIBLES

(millions)	2000	1999
Goodwill	$ 908.9	$ 950.1
Less accumulated amortization	(62.9)	(51.7)
Total goodwill, net	$ 846.0	$ 898.4
Other intangibles	$ 121.7	$ 110.0
Less accumulated amortization	(29.8)	(19.2)
Total other intangibles, net	$ 91.9	$ 90.8

Goodwill decreased by $52.4 million in 2000, reflecting the elimination of goodwill attributable to IPG which was sold during 2000, tax valuation allowance reduction and other adjustments related to DLW (see Note 5), scheduled amortization of $23.9 million and foreign currency translations. Unamortized computer software costs included in other intangibles were $50.5 million at December 31, 2000, and $48.0 million at December 31, 1999.

NOTE 14. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

(millions)	2000	1999
Payables, trade and other	$ 142.3	$ 254.0
Employment costs	32.0	63.3
Reorganization and severance payments, current portion (see Note 8)	12.5	12.1
Asbestos-related claims, current portion (see Note 29)	-	175.0
Other	51.2	87.1
Total	$ 238.0	$ 591.5

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

NOTE 15. DEBT

($ millions)	2000	Average year-end interest rate	1999	Average year-end Interest rate
Borrowings under lines of credit	$ 450.0	7.18%	--	--
DIP Facility	5.0	9.50%	--	--
Commercial paper	49.7	6.75%	$ 495.9	6.20%
Foreign banks	11.7	5.58%	20.0	5.57%
Bank loans due 2001-2006	44.5	5.94%	42.7	6.26%
9.00% medium-term notes due 2001	7.5	9.00%	25.6	8.96%
6.35% senior notes due 2003	200.0	6.35%	199.9	6.35%
6.50% senior notes due 2005	150.0	6.50%	149.7	6.50%
9.75% debentures due 2008	125.0	9.75%	125.0	9.75%
7.45% senior notes due 2029	200.0	7.45%	199.8	7.45%
7.45% senior quarterly interest bonds due 2038	180.0	7.45%	180.0	7.45%
Industrial development bonds	29.8	4.97%	29.8	5.27%
Capital lease obligations	7.1	7.25%	11.4	7.25%
Other	21.6	12.34%	11.3	8.75%
Subtotal	1,481.9	7.27%	1,491.1	6.92%
Less debt subject to compromise	1,400.4	7.35%	--	--
Less current portion and short-term debt	24.7	6.69%	102.0	6.61%
Total long-term debt, less current portion	$ 56.8	5.55%	$1,389.1	6.94%

Scheduled payments of long-term debt (millions)

2001	$ 8.1	2004	$2.6
2002	3.1	2005	1.0
2003	3.1		

In accordance with SOP 90-7, AWI stopped recording interest expense on unsecured prepetition debt effective December 6, 2000.

Debt included in liabilities subject to compromise consisted of the following at December 31, 2000.

($ millions)	2000
Borrowings under lines of credit	$ 450.0
Commercial paper	49.7
9.00% medium-term notes due 2001	7.5
6.35% senior notes due 2003	200.0
6.50% senior notes due 2005	150.0
9.75% debentures due 2008	125.0
7.45% senior notes due 2029	200.0
7.45% senior quarterly interest bonds due 2038	180.0
Industrial development bonds	19.5
Other	18.7
Total debt subject to compromise	$1,400.4

Borrowings under the DIP Facility, if any, will constitute superpriority administrative expense claims in the Chapter 11 Cases. As of December 31, 2000, AWI has borrowed $5.0 million under the DIP Facility. The DIP Facility expires no later than December 6, 2002 and borrowings are limited to an adjusted amount of receivables, inventories and property, plant and equipment. Depending on the amount of borrowings, the DIP Facility carries an interest rate range of either Chase's Alternate Bank Rate plus 50 basis points to 100 basis points or LIBOR plus 150 basis points to 200 basis points. The DIP Facility also contains several covenants including, among other things, limits on asset sales, capital expenditures and a required ratio of debt to cash flow. Prior to final Court approval of the DIP Facility, which was obtained on February 7, 2001, AWI had preliminary available borrowings of $145 million as of December 31, 2000.

On March 16, 1999, AWI filed a shelf registration statement for $1 billion of combined debt and equity securities. On May 19, 1999, AWI completed an offering under the shelf registration statement of $200 million aggregate principal amount of 7.45% senior notes due 2029. The net proceeds from this offering were used to repay other indebtedness of AWI.

Other debt includes an $18.6 million zero-coupon note due in 2013 that was fully amortized to its face value due to the Chapter 11 filing.

In addition, AHI's foreign subsidiaries have approximately $38.9 million of unused short-term lines of credit available from banks. The credit lines are subject to immaterial annual commitment fees.

In order to maintain the ratio of fixed to floating rate debt which management believes is appropriate, AHI maintained $150 million of interest rate swaps during most of 2000. AHI received fixed rates and paid floating rates on these swaps. However, all but one of the interest rate swap agreements was terminated when AHI defaulted on its commercial paper obligations on November 22, 2000. Details of the outstanding swap agreement as of December 31, 2000 are as follows:

Maturity date ($ millions)	Notional amount	Pays	Receives	Market value
Aug. 15, 2003	$20.0	3 mo. LIBOR	6.54%	$0.3

This interest rate swap agreement was subsequently terminated by the counter-party on February 26, 2001.

NOTE 16. FINANCIAL INSTRUMENTS

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

(In millions at December 31)	2000 carrying amount	Estimated fair value	1999 carrying amount	Estimated fair value
Liabilities:				
Debt subject to compromise	$1,400.4	$ 386.6	--	--
Long-term debt, including current portion	64.9	64.9	$1,425.2	$1,369.2
Off-balance sheet financial instruments:				
Foreign currency contract obligations	--	0.2	--	9.4
Foreign currency options	--	--	--	0.2
Letters of credit/financial guarantees	--	165.6	--	252.2
Lines of credit	--	39.1	--	1,088.1
Interest rate swaps	--	0.3	--	(4.1)

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 AHI for debt of the same remaining maturities. Foreign currency contract obligations and options, as well as interest rate swaps, are estimated by obtaining quotes from major financial institutions. Letters of credit, financial guarantees and lines of credit amounts are based on the estimated cost to settle the obligations.

NOTE 17. INCOME TAXES

The tax effects of principal temporary differences between the carrying amounts of assets and liabilities and their tax bases are summarized in the table below. Management believes it is more likely than not that the results of future operations will generate sufficient taxable income to realize deferred tax assets except for certain foreign tax credit and net operating loss carryforwards for which AHI has provided a valuation allowance of $69.8 million. The $6.4 million of U.S. foreign tax credit will expire in 2005. AHI has $879.0 million of state net operating losses with expirations between 2001 and 2020, and $82.9 million of foreign net operating losses which will be carried forward indefinitely. The $1.3 million decrease in the valuation allowance is attributable to a $24.7 million decrease in foreign net operating loss and capital loss carryforwards in connection with the sale of the Insulation Products segment (see Note 6) and a $23.4 million increase due to unused state net operating loss and U.S. foreign tax credit.

Deferred income taxes (assets) liabilities (millions)	2000	1999
Postretirement and postemployment benefits	($ 92.0)	($ 86.1)
Chapter 11 reorganization costs and restructuring costs	(35.9)	(3.3)
Asbestos-related liabilities	(241.7)	(238.5)
Foreign tax credit carryforward	(6.4)	--
Net operating losses	(94.6)	(62.2)
Capital loss carryforwards	--	(20.2)
Other	(86.8)	(58.7)
Total deferred tax assets	(557.4)	(469.0)
Valuation allowance	69.8	71.1
Net deferred tax assets	(487.6)	(397.9)
Accumulated depreciation	173.7	183.0
Pension costs	105.9	69.3
Insurance for asbestos-related liabilities	85.4	103.6
Tax on unremitted earnings	27.0	--
Other	63.3	45.4
Total deferred income tax liabilities	455.3	401.3
Net deferred income tax liabilities (assets)	(32.3)	3.4
Income tax benefit - current	(9.8)	(40.4)
Deferred income tax liability (asset) - noncurrent	($22.5)	$ 43.8

Details of taxes (millions)	2000	1999	1998
Earnings (loss) from continuing operations before income taxes:			
Domestic	($ 135.9)	$ 45.8	($ 63.7)
Foreign	15.4	44.9	20.4
Eliminations	(9.9)	(119.5)	(27.1)
Total	($ 130.4)	($ 28.8)	($ 70.4)
Income tax provision (benefit):			
Current:			
Federal	($ 12.2)	$ 15.8	$ 11.2
Foreign	6.5	4.3	7.1
State	1.8	3.0	1.3
Total current	(3.9)	23.1	19.6
Deferred:			
Federal	(32.7)	(36.6)	(48.2)
Foreign	(5.1)	8.2	3.3
State	0.3	0.5	0.4
Total deferred	(37.5)	(27.9)	(44.5)
Total income taxes (benefit)	($ 41.4)	($ 4.8)	($ 24.9)

At December 31, 2000, unremitted earnings of subsidiaries outside the U.S. were $169.0 million (at December 31, 2000 balance sheet exchange rates). AHI expects to repatriate $77.0 million of earnings and has provided $27.0

million of U.S. taxes. No U.S. taxes have been provided on the remaining unremitted earnings as it is AHI's intention to invest these earnings permanently. If such earnings were to be remitted without offsetting tax credits in the U.S., withholding taxes would be $4.2 million.

Reconciliation to U.S. statutory tax rate (millions)	2000	1999	1998
Continuing operations tax (benefit) at statutory rate	($ 45.6)	($ 10.0)	($ 24.6)
State income taxes, net of federal benefit	1.8	2.0	1.7
(Benefit) on ESOP dividend	(1.0)	(1.3)	(1.2)
Tax on foreign and foreign-source income	2.9	3.4	4.4
Capital loss	(0.8)	--	--
Equity in (earnings) of affiliates	--	--	(6.2)
Insurance programs	0.1	(0.6)	(1.0)
Goodwill	9.9	7.1	3.3
Change in valuation allowance	--	(4.0)	--
Sale of subsidiary	(9.1)	--	--
Other items	0.4	(1.4)	(1.3)
Tax expense (benefit) at effective rate	($ 41.4)	($ 4.8)	($ 24.9)

Other taxes (millions)	2000	1999	1998
Payroll taxes	$ 59.7	$ 66.8	$ 51.3
Property, franchise and capital stock taxes	26.2	24.0	19.6

NOTE 18. OTHER LONG-TERM LIABILITIES

(millions)	2000	1999
Deferred compensation	$ 34.9	$ 42.8
Other	36.2	48.7
Total other long-term liabilities	$71.1	$91.5

NOTE 19. RETIREMENT SAVINGS AND STOCK OWNERSHIP PLAN (RSSOP)

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 AHI. The ESOP used the proceeds to purchase 5,654,450 shares of a new series of convertible preferred stock issued by Armstrong. In 1996, the ESOP was merged with the Retirement Savings Plan for salaried employees (a defined-contribution pension plan) to form the Retirement Savings and Stock Ownership Plan ("RSSOP"). On July 31, 1996, the trustee of the ESOP converted the preferred stock held by the trust into approximately 5.1 million shares of common stock at a one-for-one ratio.

The number of shares released for allocation to participant accounts has been based on the proportion of principal and interest paid to the total amount of debt service remaining to be paid over the life of the borrowings. Through December 31, 2000, the RSSOP allocated 2,676,000 shares to participants that remain outstanding, retired 1,318,000 shares, AHI issued 437,000 treasury shares and the trustee purchased 242,000 shares on the open market as part of meeting the necessary funding requirements. As of December 31, 2000, there were approximately 2,340,000 shares in the RSSOP that had yet to be allocated to participants.

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

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

Details of ESOP debt service payments (millions)	2000	1999	1998
Common stock dividends paid	$ 4.5	$ 8.9	$ 9.0
Employee contributions	1.2	7.7	9.8
Company contributions	7.0	8.9	11.4
Company loans to ESOP	7.3	12.9	10.1
Debt service payments made by ESOP trustee	$ 20.0	$ 38.4	$ 40.3

AHI recorded costs for the RSSOP of $10.5 million in 2000, $13.1 million in 1999 and $6.9 million in 1998.

The trustee borrowed from AHI $7.3 million in 2000, $12.9 million in 1999 and $10.1 million in 1998. These loans were made to ensure that the financial arrangements provided to employees remain consistent with the original intent of the RSSOP. Such loans receivable were included as a component of shareholders' equity. In December 2000, in connection with the Chapter 11 Filing of AWI and default on RSSOP loan obligations, AHI recorded an impairment charge of $43.3 million related to these loans. The impairment was recorded as a component of Chapter 11 reorganization costs.

On November 22, 2000, AHI failed to repay $50 million in commercial paper that was due. As a result, the remaining ESOP bond principal balance of $142.2 million became immediately payable along with a $15.5 million interest and tax make-whole premium. Additionally, the December 2000 ESOP debt service payment was not made. As a result of the Chapter 11 filing, Armstrong's ESOP loan guarantee of $157.7 million is now classified as a liability subject to compromise.

AHI has amended the RSSOP to provide for a cash match of employee contributions in lieu of the stock match. AHI recorded an expense of $0.5 million in 2000 related to the cash match. The RSSOP Plan document will be revised to reflect this change.

NOTE 20. STOCK-BASED COMPENSATION PLANS

Awards under the 1993 Long-Term Stock Incentive Plan ("1993 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 additional shares of common stock may be issued under the 1993 Plan.

During 1999, AHI adopted the 1999 Long-Term Incentive Plan ("1999 Plan") which replaced the 1993 Plan. The 1999 Plan is similar to the 1993 Plan in that it provides for the granting of incentive stock options, nonqualified stock options, stock appreciation rights, performance-restricted shares and restricted stock awards. The 1999 Plan also incorporates stock awards and cash incentive awards. No more than 3,250,000 shares of common stock may be issued under the 1999 Plan, and no more than 300,000 of the shares may be awarded in the form of performance restricted shares, restricted stock awards or stock awards. No awards under the 1999 Plan will be granted after April 25, 2009. Pre-1999 grants made under predecessor plans will be governed under the provisions of those plans.

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

Approximately 1,702,000 stock options were cancelled as a result of a restricted stock for stock option exchange program offered to employees in 2000. Employees other than the CEO holding stock options were given a one-time opportunity to exchange their stock options with exercise prices above $50 per share for shares of AHI restricted stock based on specified conversion ratios. The shares issued under this exchange program were issued under the 2000 Plan and will be fully vested by August 2002. Expenses related to this event were $1.5 million in 2000.

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

Changes in option shares outstanding (thousands except for share price)	2000	1999	1998
Option shares at beginning of year	3,509.5	2,783.7	2,161.3
Options granted	1,818.5	829.7	914.8
Option shares exercised	--	(54.5)	(253.3)
Stock appreciation rights exercised	--	(0.2)	(3.1)
Options cancelled	(2,550.5)	(49.2)	(36.0)
Option shares at end of year	2,777.5	3,509.5	2,783.7
Option shares exercisable at end of year	973.3	1,828.0	1,372.0
Shares available for grant	4,068.7	3,307.3	789.7
Weighted average price per share:			
Options outstanding	$30.69	$58.48	$60.41
Options exercisable	48.92	57.12	52.38
Options granted	18.24	50.70	70.43
Option shares exercised	N/A	36.17	41.68

The table below summarizes information about stock options outstanding at December 31, 2000.

Stock options outstanding as of December 31, 2000
(thousands except for life and share price)

	Options outstanding			Options exercisable	
Range of exercise prices	Number outstanding at 12/31/00	Weighted-average remaining contractual life	Weighted-average exercise price	Number exercisable at 12/31/00	Weighted-average exercise price
$1.19 - $18.00	200.0	9.8	$ 8.78	--	--
$18.01 - $19.50	1,542.8	9.2	19.44	64.6	$ 19.44
$19.51 - $46.00	427.8	3.4	39.32	418.0	39.59
$46.01 - $60.00	427.7	5.5	55.11	356.9	56.07
$60.01 - $84.00	179.2	6.9	73.14	133.8	73.21
	2,777.5			973.3	

Performance restricted shares issuable under the 1993 and 1999 plans entitle certain key executive employees to earn shares of AHI'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). At the end of performance periods, common stock awarded may carry additional restriction periods, during which time AHI will hold the shares in custody 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 2000 were 1,500 unvested performance restricted shares outstanding and 245 accumulated dividend equivalent shares. No performance restricted share awards were earned based on the performance period ending December 31, 2000. Within restriction periods at the end of 2000 were 22,028 shares of restricted common stock outstanding based on performance periods ending prior to 2000 with 3,599 accumulated dividend equivalent shares.

Restricted stock awards can be used for the purposes of recruitment, special recognition and retention of key employees. Awards for 444,443 shares of restricted stock were granted (excluding performance-based awards discussed above) during 2000. Of these restricted shares, 198,343 were granted under a restricted stock for stock option exchange program. At the end of 2000, there were 422,241 restricted shares of common stock outstanding with 11,769 accumulated dividend equivalent shares.

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

(millions)	2000	1999	1998
Net earnings (loss):			
As reported	$12.2	$14.3	$ (9.3)
Pro forma	5.8	7.0	(16.1)
Basic earnings (loss) per share:			
As reported	0.30	0.36	(0.23)
Pro forma	0.14	0.18	(0.40)
Diluted earnings (loss) per share:			
As reported	0.30	0.36	(0.23)
Pro forma	0.14	0.17	(0.40)

The fair value of grants was estimated on the date of grant using the Black-Scholes option pricing model with the weighted-average assumptions for 2000, 1999 and 1998 presented in the table below. The weighted-average fair value of stock options granted in 2000 was $2.08 per share.

	2000	1999	1998
Risk-free interest rate	6.48%	6.34%	5.14%
Dividend yield	9.50%	5.75%	3.03%
Expected life	5 years	5 years	5 years
Volatility	28%	28%	28%

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.

NOTE 21. EMPLOYEE COMPENSATION

Employee compensation is presented in the table below. Charges for severance costs and early retirement incentives to terminated employees have been excluded. The increase in employee compensation from 1998 is primarily due to the acquisitions of Triangle Pacific and DLW.

Employee compensation cost summary (millions)	2000	1999	1998
Wages and salaries	$ 631.9	$ 625.3	$516.8
Payroll taxes	59.7	66.8	51.3
Pension credits	(38.1)	(32.9)	(38.5)
Insurance and other benefit costs	67.4	64.2	56.9
Stock-based compensation	4.4	4.2	5.0
Total	$ 725.3	$ 727.6	$591.5

NOTE 22. PENSION AND OTHER BENEFIT PROGRAMS

AHI and a number of its subsidiaries have pension plans and postretirement medical and insurance benefit plans covering eligible employees worldwide. AHI also has defined-contribution pension plans (including the Retirement Savings and Stock Ownership Plan, as described in Note 19) for eligible employees. Benefits from pension plans, which cover substantially all employees, are based on an employee's compensation and years of service. Pension plans are funded by AHI. Postretirement benefits are funded by AHI 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. AHI announced in 1989 and 1990 a 15-year phase-out of its health care benefits for certain future retirees. These future retirees include parent company nonunion employees and some union employees. Shares of RSSOP common stock were allocated to eligible active employees through June 2000, based on employee age and years to expected retirement, to help employees offset their future postretirement medical costs. The RSSOP was amended in November 2000 to suspend future allocations and starting in December 2000, AHI used cash to fund this benefit.

Effective November 1, 2000, an amendment to the Retirement Income Plan (RIP), a qualified US defined benefit plan, established an additional benefit known as the ESOP Pension Account to partially compensate active employee and retiree ESOP shareholders for the decline in the market value of AHI's stock. The effect of this amendment had no material impact to the financial position or results of operations in 2000, but will increase the benefit obligation by $88.7 million in 2001. The RIP Plan document will be revised to reflect these changes.

The following tables 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 stocks, mutual funds and bonds. Included in these assets were 1,426,751 shares of AHI common stock at year-end 2000 and 1999.

	Pension Benefits		Retiree Health and Life Insurance Benefits	
U.S. defined-benefit plans (millions)	2000	1999	2000	1999
Change in benefit obligation:				
Benefit obligation as of January 1	$ 1,079.4	$ 1,163.5	$ 233.3	$ 262.5
Service cost	13.9	16.7	2.8	3.2
Interest cost	84.0	76.6	18.7	17.0
Plan participants' contributions	--	--	3.4	2.6
Plan amendments	25.8	--	--	--
Divestitures	(4.0)	--	(0.1)	--
Effect of settlements	(5.9)	--	--	(4.1)
Effect of special termination benefits	1.4	1.7	--	--
Actuarial loss (gain)	33.0	(96.4)	26.6	(24.9)
Benefits paid	(95.2)	(82.7)	(26.1)	(23.0)
Benefit obligation as of December 31	$ 1,132.4	$ 1,079.4	$ 258.6	$ 233.3
Change in plan assets:				
Fair value of plan assets as of January 1	$ 1,748.3	$ 1,874.9	--	--
Actual return (loss) on plan assets	137.9	(46.7)	--	--
Divestitures	(3.7)	--	--	--
Effect of settlements	(5.9)	--	--	--
Employer contribution	9.2	2.8	$ 22.7	$ 20.5
Plan participants' contributions	--	--	3.4	2.6
Benefits paid	(95.2)	(82.7)	(26.1)	(23.1)
Fair value of plan assets as of December 31	$ 1,790.6	$ 1,748.3	$ 0.0	$ 0.0
Funded status	$ 658.2	$ 668.9	$ (258.6)	$(233.3)
Unrecognized net actuarial loss (gain)	(422.7)	(483.9)	48.6	23.0
Unrecognized transition asset	(8.3)	(14.5)	--	--
Unrecognized prior service cost (benefit)	86.1	72.2	(4.2)	(5.1)
Net amount recognized	$ 313.3	$ 242.7	$ (214.2)	$ (215.4)

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

	Pension Benefits		Retiree Health and Life Insurance Benefits	
U.S. defined-benefit plans	2000	1999	2000	1999
Weighted-average assumption as of December 31:				
Discount rate	7.50%	7.75%	7.50%	7.75%
Expected return on plan assets	9.50%	8.75%	n/a	n/a
Rate of compensation increase	4.25%	4.25%	4.25%	4.25%

Amounts recognized in the consolidated balance sheets consist of:

	Pension Benefits		Retiree Health and Life Insurance Benefits	
(millions)	2000	1999	2000	1999
Prepaid benefit costs	$ 333.6	$ 264.2		--
Accrued benefit liability	(34.5)	(30.2)	$ (214.2)	$ (215.4)
Intangible asset	1.6	2.0	--	--
Other comprehensive income	12.6	6.7	--	--
Net amount recognized	$ 313.3	$ 242.7	$ (214.2)	$ (215.4)

U.S. pension plans with benefit obligations in excess of assets (millions)	Pension Benefits 2000	1999
Retirement benefit equity plan:		
Projected benefit obligation, December 31	$ 44.7	$34.9
Accrued benefit obligation, December 31	34.5	30.2
Fair value of plan assets, December 31	--	--

The components of pension credit are as follows:

U.S. defined-benefit plans (millions)	Pension Benefits 2000	1999	1998
Service cost of benefits earned during the year	$ 13.9	$ 16.7	$ 17.5
Interest cost on projected benefit obligation	84.0	76.6	72.6
Expected return on plan assets	(153.6)	(147.0)	(136.2)
Amortization of transition asset	(6.2)	(6.2)	(6.2)
Amortization of prior service cost	11.9	10.0	10.0
Recognized net actuarial gain	(13.9)	(17.3)	(18.4)
Net periodic pension credit	$ (63.9)	$ (67.2)	$ (60.7)

Costs for other funded and unfunded pension plans were $4.3 million in 2000, $3.9 million in 1999 and $3.6 million in 1998. The components of postretirement benefit cost are as follows:

U.S. defined-benefit plans (millions)	Retiree Health and Life Insurance Benefits 2000	1999	1998
Service cost of benefits earned during the year	$ 2.8	$ 3.2	$ 3.3
Interest cost on accumulated postretirement benefit obligation	18.7	17.0	17.2
Amortization of prior service benefit	(0.9)	(0.9)	(0.9)
Recognized net actuarial loss	1.0	0.6	1.3
Net periodic postretirement benefit cost	$ 21.6	$ 19.9	$ 20.9

For measurement purposes, a 6% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2000 and all future years. 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	$ 2.1	$ (1.7)
Effect on postretirement benefit obligation	21.0	(17.9)

AHI 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. 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 2000	1999
Change in benefit obligation:		
Benefit obligation as of January 1	$ 262.8	$ 287.0
Service cost	5.2	6.7
Interest cost	12.5	16.2
Plan participants' contributions	1.5	1.2
Plan amendments	0.7	--
Acquisitions	18.0	--
Divestitures	(0.5)	(2.6)
Effect of settlements	(33.6)	--
Effect of special termination benefits	(0.7)	0.3
Foreign currency translation adjustment	(21.6)	(29.8)
Actuarial loss (gain)	14.6	(1.3)
Benefits paid	(12.4)	(14.9)
Benefit obligation as of December 31	$ 246.5	$ 262.8
Change in plan assets:		
Fair value of plan assets as of January 1	$ 123.8	$ 105.6
Actual return on plan assets	0.4	21.9
Acquisitions	17.4	--
Divestitures	(0.5)	--
Employer contributions	43.7	12.5
Plan participants' contributions	1.5	1.2
Effect of settlements	(33.6)	--
Foreign currency translation adjustment	(8.0)	(2.5)
Benefits paid	(12.4)	(14.9)
Fair value of plan assets as of December 31	$ 132.3	$ 123.8
Funded status	$ (114.2)	$ (139.0)
Unrecognized net actuarial gain	(4.7)	(32.9)
Unrecognized transition obligation	--	0.4
Unrecognized prior service cost	3.9	4.7
Net amount recognized	$ (115.0)	$(166.8)

Amounts recognized in the consolidated balance sheets consist of:

(millions)	Pension Benefits 2000	1999
Prepaid benefit cost	$ 3.2	$ 2.6
Accrued benefit liability	(123.9)	(169.5)
Intangible asset	0.1	--
Other comprehensive income	5.6	0.1
Net amount recognized	$ (115.0)	$ (166.8)

Non-U.S. pension plans with benefit obligations in excess of assets (millions)	Pension Benefits 2000	1999
Projected benefit obligation, December 31	$ 125.3	$ 166.0
Accrued benefit obligation, December 31	122.2	159.9
Fair value of plan assets, December 31	0.6	0.6

The components of pension cost are as follows:

Non-U.S. defined-benefit plans (millions)	2000	1999
Service cost of benefits earned during the year	$ 5.2	$ 6.7
Interest cost on projected benefit obligation	12.5	16.2
Expected return on plan assets	(7.7)	(6.1)
Amortization of transition obligation	0.1	0.2
Amortization of prior service cost	1.0	0.4
Recognized net actuarial gain	(0.1)	(0.1)
Net periodic pension cost	$ 11.0	$17.3

	Pension Benefits	
Non-U.S. defined-benefit plans	2000	1999
Weighted-average assumption as of December 31:		
Discount rate	5.69%	6.50%
Expected return on plan assets	6.43%	4.25%
Rate of compensation increase	3.85%	3.75%

NOTE 23. LEASES

AHI 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. As part of the Chapter 11 Cases, AWI must decide whether to assume, assume and assign, or reject prepetition unexpired leases and other prepetition executory contracts. AWI has been granted an extension until August 6, 2001 by the Court to make these decisions with respect to prepetition unexpired leases of real property and this date may be further extended. With respect to prepetition executory contracts and unexpired leases not related to real estate, AWI has until confirmation of a reorganization plan to make these decisions unless such time is shortened by the Court. The accompanying financial statements do not reflect any adjustment related to assumption or rejection of such agreements.

Rental expense was $16.9 million in 2000, $19.3 million in 1999 and $24.7 million in 1998. Future minimum payments at December 31, 2000, by year and in the aggregate, having noncancelable lease terms in excess of one year were as follows:

Scheduled minimum lease payments (millions)	Capital leases	Operating leases
2001	$ 0.9	$ 8.2
2002	1.0	5.1
2003	1.1	3.6
2004	2.1	2.8
2005	1.1	1.9
Thereafter	1.4	6.6
Total	$ 7.6	$ 28.2

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

(millions)	2000	1999
Land	$ 3.8	$3.8
Building	4.5	4.5
Machinery	26.2	21.5
Less accumulated amortization	(12.1)	(6.2)
Net assets	$ 22.4	$23.6

NOTE 24. SHAREHOLDERS' EQUITY

Treasury share changes for 2000, 1999 and 1998 are as follows:

Years ended December 31 (thousands)	2000	1999	1998
Common shares			
Balance at beginning of year	11,628.7	11,856.7	11,759.5
Stock purchases (1)	90.8	33.8	389.5
Stock issuance activity, net	(685.2)	(261.8)	(292.3)
Balance at end of year	11,034.3	11,628.7	11,856.7

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

In July 1996, the Board of Directors authorized Armstrong 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 repurchased approximately 4,017,000 shares through December 31, 1998, with total cash outlay of $248.1 million, including 355,000 repurchased in 1998. In June 1998, Armstrong 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 accumulated other comprehensive loss as of December 31, 2000, and December 31, 1999, is presented in the table below.

(millions)	2000	1999
Foreign currency translation adjustments and hedging activities	$ 29.3	$ 12.1
Unrealized loss on available for sale securities	2.0	--
Minimum pension liability adjustments	13.9	4.4
Total	$ 45.2	$ 16.5

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

(millions)	Pre-tax amount	Tax Benefit	After tax amount
Foreign currency translation adjustments and hedging activities	($ 17.2)	--	($ 17.2)
Unrealized loss on available for sale securities	(2.0)	--	(2.0)
Minimum pension liability adjustments	(13.4)	$ 3.9	(9.5)
Total	($ 32.6)	$ 3.9	($ 28.7)

NOTE 25. PREFERRED STOCK PURCHASE RIGHTS PLAN

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

NOTE 26. SUPPLEMENTAL FINANCIAL INFORMATION

Selected operating expenses (millions)	2000	1999	1998
Maintenance and repair costs	$ 112.0	$ 110.0	$ 107.8
Research and development costs	60.0	46.4	36.7
Advertising costs	37.6	39.4	38.1

Other expense (income), net (millions)	2000	1999	1998
Interest and dividend income	$ (5.5)	$ (2.0)	$ (3.3)
Gain on sale of businesses, net	(60.2)	(1.0)	--
Demutualization proceeds	(5.2)	(2.6)	--
Dal-Tile gain	--	--	(12.8)
Domco litigation expense	--	--	12.3
Foreign currency transaction gain	(6.0)	(0.4)	0.3
Other	2.3	(0.7)	1.8
Total	$(74.6)	$ (6.7)	$(1.7)

NOTE 27. SUPPLEMENTAL CASH FLOW INFORMATION

(millions)	2000	1999	1998
Interest paid	$100.4	$ 102.7	$ 48.2
Income taxes paid	14.0	47.1	25.7
Acquisitions:			
Fair value of assets acquired	$ 55.6	$3.8	$1,031.9
Cost in excess of net assets acquired	--	--	948.3
Less:			
Net assets in excess of consideration	24.2	--	--
Liabilities assumed	24.9	--	804.5
Cash paid, net of cash acquired	$ 6.5	$3.8	$1,175.7

NOTE 28. LOSS PER SHARE FROM CONTINUING OPERATIONS

The table below provides a reconciliation of the numerators and denominators of the basic and diluted per share calculations for net loss. Diluted loss per share for each year was antidilutive.

Millions except for per-share data		Net loss	Shares	Per share amount
	For the year ended 2000			
BASIC LOSS PER SHARE				
Loss from continuing operations		$ (89.0)	40.2	$ (2.21)
DILUTED LOSS PER SHARE				
Dilutive options			0.3	
Loss from continuing operations		$ (89.0)	40.5	$ (2.21)
	For the year ended 1999			
BASIC LOSS PER SHARE				
Loss from continuing operations		$(24.0)	39.9	$ (0.60)
DILUTED LOSS PER SHARE				
Dilutive options			0.3	
Loss from continuing operations		$(24.0)	40.2	$ (0.60)
	For the year ended 1998			
BASIC LOSS PER SHARE				
Loss from continuing operations		$(45.5)	39.8	$ (1.14)
DILUTED LOSS PER SHARE				
Dilutive options			0.6	
Loss from continuing operations		$(45.5)	40.4	$ (1.14)

NOTE 29. LITIGATION AND RELATED MATTERS

Asbestos-related Litigation

AWI is a defendant in personal injury claims and property damage claims related to asbestos containing products. On December 6, 2000, AWI filed a voluntary petition for relief ("the Filing") under Chapter 11 of the U.S. Bankruptcy Code to use the court supervised reorganization process to achieve a fair and final resolution of its asbestos liability. See Item 1 for further discussion.

Background

AWI's involvement in asbestos litigation relates primarily to its participation in the insulation contracting business. From around 1910 to 1933, AWI manufactured and installed some high-temperature insulation products, including some that contained asbestos. In 1939, AWI expanded its contract installation service to provide a greater range of high and low temperature contracting services to its customers. AWI generally manufactured its own low temperature insulation products, but did not manufacture the high temperature products used in its contracting operations. Some of the high temperature products furnished and installed in the contracting operations contained asbestos.

Effective January 1, 1958, AWI separated its insulation contracting business into a separate, independent subsidiary, Armstrong Contracting and Supply Corporation ("ACandS"). From January 1, 1958 through August 31, 1969, ACandS operated as an independent subsidiary in the insulation contracting business. During this time period, AWI licensed certain tradenames and trademarks to ACandS, which ACandS placed on certain insulation products manufactured by others. Other than two specific products, AWI did not manufacture or sell any asbestos-containing thermal insulation products during this period. In August 1969, AWI sold the ACandS subsidiary to a group of ACandS management employees and ACandS continues to operate independently as a subsidiary of Irex Corporation. AWI had no involvement with any asbestos-containing insulation materials after 1969.

In addition, AWI manufactured some resilient flooring that contained encapsulated asbestos until the early 1980's. AWI also manufactured some gasket materials that contained encapsulated asbestos until the mid-1980's.

Personal Injury Litigation

Nearly all the asbestos-related personal injury lawsuits brought against AWI relate to alleged exposure to asbestos-containing high-temperature insulation products. The majority of these claims seek compensatory and punitive damages. Claims may arise many years after first exposure to asbestos in light of the decades long latency period for asbestos-related injury. Product identification and determining exposure periods are difficult and uncertain. Over the long history of asbestos litigation involving hundreds of companies, various parties have tried to secure 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. AWI 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 from various jurisdictions and has been receptive to different approaches to the resolution of claims. Claims filed in state courts have not been directly affected by the transfer.

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 AWI. It was designed to establish a nonlitigation system for the resolution of those 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 September 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.

Asbestos Claims Facility ("Facility") and Center for Claims Resolution ("Center")
The Facility was established in 1985 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 AWI. At the time of the Filing, there were 16 members of the Center, including AWI. 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 among the member companies; adjustments over time due to the departure of some members and other factors resulted in some increased share for AWI.

As a result of the Filing, AWI is no longer an active participant in the Center. The extent and amount of AWI liabilities as a result of its participation in the Center have not been determined, but will be determined in AWI's Chapter 11 Case.

Number of Claims
The number of claims naming AWI as a defendant ranged from about 16,400 to 31,100 per year during the period from 1989 to 1997. However, subsequent to this time and up to the Filing, claim filings significantly surpassed this average as approximately 87,500 and 50,700 claims were filed in 1998 and 1999 respectively. AWI had expected the number of claims to decline in 2000. However, during the first eleven months of 2000 prior to the Filing, the Center received and verified approximately 53,000 claims. Claims from major, established law firms did decline, but this decline was more than offset by claims from new or previously low-volume law firms.

Before filing under the Bankruptcy Code, AWI pursued broad-based settlements of claims through the Center. The Center had reached Strategic Settlement Program ("SSP") agreements with law firms that covered approximately 130,000 claims that named AWI as a defendant, including agreements with 17 law firms covering approximately 36,800 claims during the first eleven months of 2000. These agreements typically provided for multiyear payments for settlement of current claims and established specific medical and other criteria for the settlement of future claims as well as annual limits on the number of claims that can be filed by these firms. These agreements also established fixed settlement values for different asbestos-related medical conditions which were subject to periodic re-negotiation over a period of 2 to 5 years. The plaintiff law firms were required to recommend settlements to their clients although future claimants are not legally obligated to accept the settlements. These agreements also provided for nominal payments to future claimants who are unimpaired but who are eligible for additional compensation if they develop a more serious asbestos-related illness. The Center could terminate an agreement with an individual law firm if a significant number of that firm's clients elect not to participate under the agreement. For some agreements, the component of the agreement that covered future claims was subject to re-negotiation if members left the Center. As a result of the Filing, AWI's obligations with respect to these settlements will be determined in the context of its Chapter 11 Case.

Fourth Quarter 2000 Events
On October 5, 2000, Owens Corning Fiberglass ("OCF"), a manufacturer of insulation, filed for protection under Chapter 11 of the Bankruptcy Code to address its asbestos liability. This filing adversely impacted AWI's negotiations to obtain a 364-day credit facility which were underway at the time. This credit facility was to replace an existing $450 million credit facility that expired on October 19, 2000. Following the OCF filing, the potential participants in the new credit facility decided to reevaluate their credit exposures to AWI, primarily due to AWI's asbestos liability. AWI could not reach agreement on a new facility with acceptable terms. The existing $450 million credit facility expired on October 19, 2000.

Additionally, AWI was concerned that a possible upward bias in the settlement demands of asbestos plaintiffs would occur given the exit from the tort system of OCF, an important defendant in asbestos litigation.

As set forth above, AWI filed for relief under Chapter 11 of the Bankruptcy Code on December 6, 2000. As a result, holders of asbestos claims are stayed from continuing to prosecute pending litigation and from filing new lawsuits against AWI. In addition, AWI ceased making payments with respect to asbestos claims, including payments pursuant to the outstanding SSP agreements. A separate creditors committee representing the interests of asbestos claimants has been appointed in the Chapter 11 Cases.

As a result of the Filing, AWI's present and future asbestos liability will be addressed in the Chapter 11 Case rather than through the Center and a multitude of lawsuits in different jurisdictions throughout the U.S. AWI believes that the

Chapter 11 process provides it with the opportunity to change its approach to its asbestos liability and comprehensively address that liability in one forum. It is anticipated that all present and future asbestos claims will be resolved in the Chapter 11 Case, which could take several years.

Asbestos-Related Personal Injury Liability

In evaluating its estimated asbestos-related personal injury liability prior to the Filing, AWI reviewed, among other things, recent and historical settlement amounts, the incidence of past and recent claims, the mix of the injuries and occupations of the plaintiffs, the number of cases pending against it and the status and results of broad-based settlement discussions. Based on this review, AWI estimated its share of liability to defend and resolve probable asbestos-related personal injury claims. This estimate was highly uncertain due to the limitations of the available data and the difficulty of forecasting with any certainty the numerous variables that could affect the range of the liability.

AWI believes the range of probable and estimable liability is more uncertain now than previously. There are significant differences in the way the asbestos claims may be addressed under the bankruptcy process when compared to the tort system. Accordingly, AWI currently is unable to ascertain how prior experience with the number of claims and the amounts to settle claims will impact its ultimate liability in the context of its Chapter 11 Case.

As of September 30, 2000, AWI's estimate of its asbestos-related liability that was probable and estimable through 2006 ranged from $758.8 million to $1,363.3 million. AWI concluded that no amount within that range was more likely than any other and, therefore, reflected $758.8 million as a liability in the condensed consolidated financial statements in accordance with generally accepted accounting principles. Due to the increased uncertainty created as a result of the Filing, no change has been made to the previously recorded liability except to record payments of $68.2 million against that accrual in October and November 2000. The balance at December 31, 2000 is $690.6 million. It is reasonably possible, however, that the actual liability could be significantly higher than the recorded liability. As the Chapter 11 Cases proceed there should be more clarity as to the extent of the liability to be addressed in the Chapter 11 Cases.

Collateral Requirements

During 2000, AWI had secured a bond for $56.2 million to meet minimum collateral requirements established by the Center with respect to asbestos claims asserted against AWI. On October 27, 2000, the insurance company that underwrote the surety bond informed AWI and the Center of its intention not to renew the surety bond effective February 28, 2001. On February 6, 2001, the Center advised the surety of the Center's demand for payment of the face value of the bond. The surety filed a motion with the Court seeking to restrain the Center from drawing on the bond. The motion was not granted.

Property Damage Litigation

AWI is also one of many defendants in six pending property damage claims as of December 31, 2000 that were filed by public and private building owners. These cases present allegations of damage to the plaintiffs' 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. In the second quarter of 2000, AWI was served with a lawsuit seeking class certification of Texas residents who own property with asbestos-containing products. This case includes allegations that AWI asbestos-containing products caused damage to buildings and generally seeks compensatory damages and equitable relief, including testing, reimbursement for removal and diminution of property value. AWI vigorously denies the validity of the allegations against it in these actions and, in any event, believes that any costs will be covered by insurance. Continued prosecution of these actions and the commencement of any new asbestos property damage actions are also stayed due to the Filing. Consistent with prior periods and due to increased uncertainty, AWI has not recorded any liability related to these claims.

Insurance Coverage

During relevant time periods, AWI purchased primary and excess insurance policies providing coverage for personal injury claims and property damage claims. Certain policies also provide coverage to ACandS, Inc., the former subsidiary of AWI discussed above under "Background". AWI and ACandS agreed to share certain coverage on a first-come first-served basis and to reserve for ACandS a certain amount of excess coverage.

Wellington Agreement

In 1985, AWI and 52 other companies (asbestos defendants and insurers) signed the Wellington Agreement. This Agreement settled disputes concerning personal injury insurance coverage with signatory carriers. It provides broad coverage for both defense and indemnity and applies to both products hazard and nonproducts (general liability) coverages. Most of AWI resolutions of asbestos-related personal injury products hazard coverage matters with its solvent carriers has been achieved through the Wellington Agreement or other settlements.

Insurance Recovery Proceedings

A substantial portion of AWI's primary and excess remaining insurance asset is nonproducts (general liability) insurance for personal injury claims, including among others, those that involve alleged exposure during AWI's installation of asbestos insulation materials. AWI has entered into settlements with a number of the carriers resolving its coverage issues. However, an alternative dispute resolution ("ADR") procedure under the Wellington Agreement is under way against certain carriers to determine the percentage of resolved and unresolved claims that are nonproducts claims, to establish the entitlement to such coverage and to determine whether and how much reinstatement of prematurely exhausted products hazard insurance is warranted. The nonproducts coverage potentially available is substantial and includes defense costs in addition to limits. 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 AWI 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. One insurer has taken the position that it is entitled to litigate in court certain issues in the ADR proceeding. During 1999, AWI received preliminary decisions in the initial phases of the trial proceeding of the ADR which were generally favorable to AWI on a number of issues related to insurance coverage. However, during the fourth quarter of 2000, a new trial judge was selected for the ADR. AWI is uncertain at this time as to the impact, if any, this change will have on the preliminary decisions of the initial phases of the ADR. Further, management believes that one of the carriers has been experiencing financial difficulties, which could affect its ability to pay any ultimate judgment. AWI has not adjusted the recorded asset amount at December 31, 2000 related to this carrier. Because of the continuing ADR process and the possibilities for appeal on certain matters, AWI has not yet completely determined the financial implications of the ADR proceedings.

Insurance Asset

An insurance asset in respect of asbestos personal injury claims in the amount of $268.3 million is recorded as of December 31, 2000. Of the total recorded asset, approximately $77.2 million represents partial settlement for previous claims that will be paid in a fixed and determinable flow and is reported at its net present value discounted at 6.50%. The total amount recorded reflects AWI's belief in the availability of insurance in this amount, based upon AWI'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 that is in the trial phase of binding arbitration. Depending on further progress of the ADR, activities such as settlement discussions with insurance carriers party to the ADR and those not party to the ADR, the final determination of coverage shared with ACandS and the financial condition of the insurers, AWI may revise its estimate of probable insurance recoveries. Approximately $86 million of the $268.3 million asset is determined from agreed coverage in place and is therefore directly related to the amount of the liability and could decrease if the final amount of the liability decreases. Of the $268.3 million asset, $32.2 million has been recorded as a current asset reflecting management's estimate of the minimum insurance payments to be received in the next 12 months.

A significant part of the recorded asset relates to insurance that AWI believes is probable and will be obtained through settlements with the various carriers. Due to the Filing, the settlement process may be delayed, pending further clarification as to the asbestos liability. While AWI believes the Chapter 11 process will strengthen its position on resolving disputed insurance and may therefore result in higher settlement amounts than recorded, there has been no change in the recorded amounts due to the uncertainties created by the Filing. Accordingly, this asset could also change significantly based upon events which occur in the Court. Management estimates that the timing of future cash payments for the remainder of the recorded asset may extend beyond 10 years.

Income Statement Charges

AWI recorded charges to increase its estimate of probable asbestos-related liability by $236.0 million in the second quarter of 2000, $335.4 million in 1999 and $274.2 million in 1998. Prior to 1998, charges to increase the liability were effectively offset by corresponding increases in related insurance recoveries.

Cash Flow Impact

AWI paid $226.9 million for asbestos-related claims in the first eleven months of 2000 compared to $173.0 million in all of 1999. AWI received $27.7 million in asbestos-related insurance recoveries during 2000 compared to $58.7 million during 1999. During the pending Chapter 11 cases, AWI does not expect to make any further cash payments for asbestos-related claims, but AWI may continue to receive insurance proceeds under the terms of various settlement agreements.

Conclusion

Many uncertainties exist surrounding the financial impact of AWI's involvement with asbestos litigation. These uncertainties include the impact of the Filing and the Chapter 11 process, the number of future claims to be filed, the impact of any potential legislation and the impact of the ADR proceedings on the insurance asset. Accordingly, AWI is not revising its previously recorded liability. However, it is reasonably possible that AWI's total exposure to personal injury asbestos claims may be significantly different than the recorded liability.

Environmental Matters

Most of Armstrong's manufacturing and certain of Armstrong's research facilities are affected by various federal, state and local environmental requirements relating to the discharge of materials or the protection of the environment. Armstrong has made, and intends to continue to make, necessary expenditures for compliance with applicable environmental requirements at its operating facilities. Armstrong incurred capital expenditures of approximately $6.2 million in 2000, $5.5 million in 1999 and $6.7 million in 1998 associated with environmental compliance and control facilities. Armstrong anticipates that annual expenditures for those purposes will not change materially from recent experience. Armstrong does not anticipate that it will incur significant capital expenditures in order to meet the requirements of the Clean Air Act of 1990 and the final implementing regulations promulgated by various state agencies. However, applicable requirements under the Clean Air Act and other federal and state environmental laws continue to change. Until all new regulatory requirements are known, Armstrong cannot predict with certainty future capital expenditures associated with compliance with environmental requirements.

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 potential liability for the required investigation and remediation of each site and who, in some cases, have agreed to jointly fund that required investigation and remediation. 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. Armstrong has also been remediating environmental contamination resulting from past industrial activity at certain of its former plant sites. Armstrong's payments and remediation work on these sites is under review under light of the Chapter 11 Filing.

Estimates of Armstrong's future environmental liability at any of the Superfund sites or current or former plant sites are based on evaluations of currently available facts regarding each individual site and consider factors such as Armstrong's activities in conjunction with the site, existing technology, presently enacted laws and regulations and prior company experience in remediating contaminated sites. Although current law imposes joint and several liability on all parties at 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, Armstrong's estimated liability reflects only Armstrong's expected share. In determining the probability of contribution, Armstrong considers the solvency of the parties, whether liability is being disputed, the terms of any existing agreements and experience with similar matters. The Chapter 11 Cases also may affect the ultimate amount of such contributions.

Liabilities of $13.5 million at December 31, 2000 and $13.2 million at December 31, 1999 were for potential environmental liabilities that Armstrong considers probable and for which a reasonable estimate of the probable liability could be made. Where existing data is sufficient to estimate the liability, that estimate has been used; where only a range of probable liability is available and no amount within that range is more likely than any other, the lower end of the range has been used. As assessments and remediation activities progress at each site, these liabilities are reviewed to reflect additional information as it becomes available. Due to the Chapter 11 Filing, $6.4 million of the December 31, 2000 environmental liabilities are classified as prepetition liabilities subject to compromise. As a general rule, such pre-petition liabilities that do not preserve company assets are addressed in the context of the Chapter 11 Cases. 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 in the consolidated financial statements and are either available through settlement or anticipated to be recovered through negotiation or litigation.

Actual costs to be incurred at identified sites may vary from the estimates, given the inherent uncertainties in evaluating environmental liabilities. Subject to the imprecision in estimating environmental remediation costs, Armstrong 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.

Note 30 - DIFFERENCES BETWEEN ARMSTRONG HOLDINGS INC. AND ARMSTRONG WORLD INDUSTRIES, INC.

The difference between the financial statements of AHI and Armstrong is primarily due to transactions related to the formation of Armstrong Holdings, Inc. and stock activity.

Independent Auditors' Report

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

We have audited the accompanying consolidated financial statements of Armstrong Holdings, Inc. and subsidiaries ("the Company") as listed in the accompanying index on page 35. 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 35. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Armstrong Holdings, Inc. and subsidiaries as of December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, three of the Company's domestic subsidiaries, including Armstrong World Industries, Inc., the Company's major operating subsidiary, filed separate voluntary petitions for relief under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court on December 6, 2000. Armstrong World Industries, Inc. has also defaulted on certain debt obligations. Although these operating subsidiaries are currently operating their businesses as debtors-in-possession under the jurisdiction of the Bankruptcy Court, the continuation of their businesses as going concerns is contingent upon, among other things, the ability to formulate a plan of reorganization which will gain approval of the creditors and confirmation by the Bankruptcy Court. The filing under Chapter 11 and the resulting increased uncertainty regarding the Company's potential asbestos liabilities, as discussed in Note 29 of the consolidated financial statements, raise substantial doubt about the Company's ability to continue as a going concern. The accompanying consolidated financial statements and financial statement schedule do not include any adjustments that might result from the outcome of these uncertainties.

KPMG LLP

February 26, 2001
Philadelphia, Pennsylvania

Armstrong World Industries, Inc., and Subsidiaries Consolidated Statements of Earnings

(in millions, except per share amounts)

	Years Ended December 31 2000	1999	1998
Net sales	$3,003.8	$3,048.2	$2,496.1
Cost of goods sold	2,197.7	2,080.8	1,718.3
Gross profit	806.1	967.4	777.8
Selling, general and administrative expenses	545.8	556.2	443.0
Charge for asbestos liability, net	236.0	335.4	274.2
Restructuring and reorganization charges (reversals)	18.0	(1.4)	74.4
Goodwill amortization	23.9	25.5	10.7
Equity (earnings) from affiliates, net	(18.0)	(16.8)	(13.8)
Operating income (loss)	0.4	68.5	(10.7)
Interest expense (unrecorded contractual interest of $6.0 million in 2000)	101.6	104.0	61.4
Other (income), net	(74.6)	(6.7)	(1.7)
Loss from continuing operations before Chapter 11 reorganization costs and income tax benefit	(26.6)	(28.8)	(70.4)
Chapter 11 reorganization costs, net	103.3	-	-
Loss from continuing operations before income tax benefit	(129.9)	(28.8)	(70.4)
Income tax benefit	(40.5)	(4.8)	(24.9)
Loss from continuing operations	($89.4)	($24.0)	($45.5)
Income from discontinued operations, net of tax of $7.6, $19.7 and $13.6, respectively	5.9	38.3	36.2
Net gain on sale of discontinued operations, net of tax of $28.4	95.3	-	-
Earnings from discontinued operations	101.2	38.3	36.2
Net earnings (loss)	$11.8	$14.3	($9.3)

See accompanying notes to consolidated financial statements beginning on page 77.

Armstrong World Industries, Inc., and Subsidiaries Consolidated Balance Sheets

(amounts in millions)

Assets	As of December 31, 2000	1999
Current assets:		
Cash and cash equivalents	$ 156.5	$ 17.2
Accounts and notes receivable, net	316.5	352.2
Inventories, net	340.2	352.4
Deferred income taxes	9.8	40.4
Net assets of discontinued operations	48.6	184.7
Other current assets	72.3	74.7
Total current assets	943.9	1,021.6
Property, plant and equipment, less accumulated depreciation and amortization of $1,006.4 and $1,035.3 million, respectively	1,253.5	1,292.0
Insurance receivable for asbestos-related liabilities, noncurrent	236.1	270.0
Investment in affiliates	37.3	34.2
Goodwill, net	846.0	898.4
Other intangibles, net	91.9	90.8
Deferred income tax assets, noncurrent	22.5	-
Other noncurrent assets	443.3	374.4
Total assets	$3,874.5	$3,981.4
Liabilities and Shareholder's Equity		
Current liabilities:		
Short-term debt	$16.6	$65.9
Current installments of long-term debt	8.1	36.1
Accounts payable and accrued expenses	238.0	591.5
Income taxes	30.0	-
Total current liabilities	292.7	693.5
Liabilities subject to compromise	2,390.2	-
Long-term debt, less current installments	56.8	1,389.1
Employee Stock Ownership Plan (ESOP) loan guarantee	-	155.3
Postretirement and postemployment benefit liabilities	243.6	242.4
Pension benefit liabilities	154.7	168.3
Asbestos-related long-term liabilities, noncurrent	-	506.5
Other long-term liabilities	71.1	91.5
Deferred income taxes	-	43.8
Minority interest in subsidiaries	6.9	11.8
Total noncurrent liabilities	2,923.3	2,608.7
Shareholder's 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	173.4	176.4
Reduction for ESOP loan guarantee	(142.2)	(190.3)
Retained earnings	1,149.1	1,196.2
Accumulated other comprehensive loss	(45.2)	(16.5)
Less common stock in treasury, at cost 2000 - 11,393,170 shares; 1999 - 11,628,705 shares	(528.5)	(538.5)
Total shareholder's equity	658.5	679.2
Total liabilities and shareholder's equity	$3,874.5	$3,981.4

See accompanying notes to consolidated financial statements beginning on page 77.

Armstrong World Industries, Inc., and Subsidiaries Consolidated Statements of Shareholder's Equity

(amounts in millions)

	2000		1999		1998	
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	$ 176.4		$ 173.0		$ 169.5	
Stock issuances and other	2.3		3.4		3.5	
Contribution of treasury stock to ESOP	(5.3)		-		-	
Balance at end of year	$ 173.4		$ 176.4		$ 173.0	
Reduction for ESOP loan guarantee:						
Balance at beginning of year	$(190.3)		$ (199.1)		$ (207.7)	
Principal paid	13.2		23.3		23.2	
Loans to ESOP	(7.3)		(12.8)		(10.1)	
Interest on loans to ESOP	(1.1)		(1.3)		(0.8)	
Contribution of treasury stock to ESOP	(4.1)		(5.8)		-	
Impairment of loans to ESOP	43.3		-		-	
Accrued compensation	4.1		5.4		(3.7)	
Balance at end of year	$(142.2)		$ (190.3)		$ (199.1)	
Retained earnings:						
Balance at beginning of year	$1,196.2		$ 1,257.0		$1,339.6	
Net earnings (loss) for year	11.8	$ 11.8	14.3	$ 14.3	(9.3)	$ (9.3)
Tax benefit on dividends paid on unallocated ESOP common shares	1.2		1.8		2.0	
Total	$1,209.2		$ 1,273.1		$1,332.3	
Less rights redemptions	2.0		-		-	
Less common stock dividends (per share) $1.44 in 2000; $1.92 in 1999; $1.88 in 1998	58.1		76.9		75.3	
Balance at end of year	$1,149.1		$ 1,196.2		$1,257.0	
Accumulated other comprehensive income (loss):						
Balance at beginning of year	$ (16.5)		$ (25.4)		$ (16.2)	
Foreign currency translation adjustments and hedging activities	(17.2)		(3.4)		(7.0)	
Unrealized loss on available for sale securities	(2.0)		-		-	
Minimum pension liability adjustments	(9.5)		12.3		(2.2)	
Total other comprehensive income (loss)	(28.7)	(28.7)	8.9	8.9	(9.2)	(9.2)
Balance at end of year	$ (45.2)		$ (16.5)		$ (25.4)	
Comprehensive income (loss)		$ (16.9)		$ 23.2		$(18.5)
Less treasury stock at cost:						
Balance at beginning of year	$ 538.5		$ 547.7		$526.5	
Stock purchases	-		1.3		31.8	
Stock issuance activity, net	(0.6)		(2.6)		(10.6)	
Contribution of treasury stock to ESOP	(9.4)		(7.9)		-	
Balance at end of year	$ 528.5		$ 538.5		$ 547.7	
Total shareholder's equity	$ 658.5		$ 679.2		$ 709.7	

See accompanying notes to consolidated financial statements beginning on page 77.

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

(amounts in millions)

	Years Ended December 31, 2000	1999	1998
Cash flows from operating activities:			
Net earnings (loss)	$11.8	$14.3	($9.3)
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:			
Depreciation and amortization, continuing operations	160.9	154.9	129.6
Depreciation and amortization, discontinued operations	7.6	14.3	13.1
Gain on sale of businesses, net	(183.9)	(1.0)	-
Gain on sale of investments in affiliates	-	-	(12.8)
Deferred income taxes	(35.7)	(38.3)	(27.9)
Equity earnings from affiliates, net	(18.0)	(16.8)	(13.8)
Chapter 11 reorganization costs, net	103.3	-	-
Chapter 11 reorganization costs paid	(2.6)	-	-
Restructuring and reorganization charges (reversals)	18.0	(1.4)	74.4
Restructuring and reorganization payments	(7.9)	(16.9)	(11.2)
Charge for asbestos liability, net	236.0	335.4	274.2
Payments for asbestos-related claims, net of recoveries	(199.2)	(114.4)	(74.4)
Decrease in net assets of discontinued operations	42.7	25.7	5.4
Changes in operating assets and liabilities net of effects of reorganizations, restructuring, acquisitions and dispositions			
(Increase)/decrease in receivables	38.5	(26.9)	7.3
(Increase)/decrease in inventories	18.8	(22.0)	43.9
(Increase)/decrease in other current assets	(10.6)	24.4	(30.1)
Increase in other noncurrent assets	(41.6)	(52.0)	(108.5)
Increase/(decrease) in accounts payable and accrued expenses	(119.6)	92.9	(23.2)
Increase/(decrease) in income taxes payable	29.2	(15.8)	(6.5)
Increase/(decrease) in other long-term liabilities	(23.8)	8.7	23.4
Other, net	17.9	(27.0)	(10.3)
Net cash provided by operating activities	41.8	338.1	243.3
Cash flows from investing activities:			
Purchases of property, plant and equipment, continuing operations	(136.0)	(166.5)	(148.3)
Purchases of property, plant and equipment, discontinued operations	(14.1)	(17.1)	(11.4)
Investment in computer software	(12.0)	(11.6)	(24.6)
Acquisitions, net of cash acquired	(6.5)	(3.8)	(1,175.7)
Investments in affiliates	-	-	147.6
Distributions from equity affiliates	12.7	40.8	11.4
Proceeds from the sale of businesses	329.9	88.3	-
Proceeds from the sale of assets	5.3	7.9	2.7
Net cash provided by (used for) investing activities	179.3	(62.0)	(1,198.3)
Cash flows from financing activities:			
Increase/(decrease) in short-term debt, net	(4.5)	(69.7)	24.2
Issuance of long-term debt	3.4	200.0	1,293.9
Payments of long-term debt	(23.0)	(332.4)	(278.6)
Cash dividends paid	(58.1)	(76.9)	(75.3)
Purchase of common stock for the treasury, net	(1.6)	(1.3)	(31.8)
Proceeds from exercised stock options	0.1	1.2	7.9
Other, net	5.6	(2.8)	(3.0)
Net cash provided by (used for) financing activities	(78.1)	(281.9)	937.3
Effect of exchange rate changes on cash and cash equivalents	(3.7)	(2.9)	0.5
Net increase (decrease) in cash and cash equivalents	$ 139.3	($8.7)	($17.2)
Cash and cash equivalents at beginning of year	$ 17.2	$ 25.9	$ 43.1
Cash and cash equivalents at end of year	$ 156.5	$ 17.2	$ 25.9

See accompanying notes to consolidated financial statements beginning on page 77.

NOTE 1. BUSINESS AND CHAPTER 11 REORGANIZATION

Armstrong World Industries, Inc. ("AWI") is a Pennsylvania corporation incorporated in 1891, which together with its subsidiaries is referred to here as "Armstrong". Through its U.S. operations and U.S. and international subsidiaries, Armstrong designs, manufactures and sells interior finishings, most notably floor coverings and ceiling systems, around the world. Armstrong products are sold primarily for use in the finishing, refurbishing and repair of residential, commercial and institutional buildings. Armstrong also designs, manufactures and sells kitchen and bathroom cabinets.

Armstrong Holdings, Inc. (which together with its subsidiaries is referred to here as "AHI") is the publicly-held parent holding company of Armstrong. Armstrong Holdings, Inc. became the parent company of Armstrong on May 1, 2000, following AWI shareholder approval of a plan of exchange under which each share of AWI was automatically exchanged for one share of Armstrong Holdings, Inc. Armstrong Holdings, Inc. was formed for purposes of the share exchange and holds no other significant assets or operations apart from AWI and AWI's subsidiaries. Stock certificates that formerly represented shares of AWI were automatically converted into certificates representing the same number of shares of Armstrong Holdings, Inc. The publicly-held debt of AWI was not affected in the transaction.

On December 6, 2000, AWI, the major operating subsidiary of AHI, filed a voluntary petition for relief ("the Filing") under Chapter 11 of the U.S. Bankruptcy Code ("the Bankruptcy Code") in the United States Bankruptcy Court for the District of Delaware (the "Court") in order to use the court-supervised reorganization process to achieve a resolution of its asbestos liability. Also filing under Chapter 11 were two of Armstrong's wholly-owned subsidiaries, Nitram Liquidators, Inc. and Desseaux Corporation of North America, Inc. The Chapter 11 cases are being jointly administered under case numbers 00-4469, 00-4470, and 00-4471 (the "Chapter 11 Cases").

AHI, and Armstrong's other subsidiaries, including Triangle Pacific Corp., WAVE (Armstrong's ceiling grid systems joint venture with Worthington Industries), Armstrong Canada, Armstrong DLW AG and its other non-U.S. operating subsidiaries were not a part of the Filing.

Like other companies involved in asbestos litigation, AWI has tried a number of different approaches to managing its asbestos liability, including negotiating broad-based settlements of claims and supporting efforts to find a legislative resolution. The number of new claims filed and the cost to settle claims, however, continued to escalate. In addition, liquidity concerns increased when Owens Corning Fiberglass filed for Chapter 11 protection on October 5, 2000. This hurt AWI's ability to obtain ongoing financing on acceptable terms. These were the principal factors which led to the decision to make the Filing.

AWI is operating its business and managing its properties as a debtor-in-possession subject to the provisions of the Bankruptcy Code. Pursuant to the provisions of the Bankruptcy Code, AWI is not permitted to pay any claims or obligations which arose prior to the Filing date (prepetition claims) unless specifically authorized by the Court. Similarly, claimants may not enforce any claims against AWI that arose prior to the date of the Filing. In addition, as a debtor-in-possession, AWI has the right, subject to the Court's approval, to assume or reject any executory contracts and unexpired leases in existence at the date of the Filing. Parties having claims as a result of any such rejection may file claims with the Court which will be dealt with as part of the Chapter 11 Cases.

Two creditors' committees, one representing asbestos claimants and the other representing other unsecured creditors, have been appointed in the Chapter 11 Cases. In accordance with the provisions of the Bankruptcy Code they have the right to be heard on matters that come before the Court in the Chapter 11 Cases.

It is AWI's intention to address all of its prepetition claims, including all asbestos-related claims, in a plan of reorganization in its Chapter 11 Case. At this juncture, it is impossible to predict with any degree of certainty how such a plan will treat such claims and the impact AWI's Chapter 11 Case and any reorganization plan will have on the shares of common stock of AWI, all of which are held by AHI and along with AWI's operating subsidiaries are the only material asset of AHI. Generally, under the provisions of the Bankruptcy Code, holders of equity interests may not participate under a plan of reorganization unless the claims of creditors are satisfied in full under the plan or unless creditors accept a reorganization plan which permits holders of equity interests to participate. The formulation and implementation of a plan of reorganization in the Chapter 11 Cases could take a significant period of time.

Financing

The Court has approved a $300 million debtor-in-possession credit facility provided by a bank group led by The Chase Manhattan Bank (the "DIP Facility"). AWI believes that the DIP Facility, together with cash generated from operations, will be more than adequate to address its liquidity needs. As of February 28, 2001, AWI had $96.3 million of cash and cash equivalents in addition to cash held by its non-debtor subsidiaries. Borrowings under the DIP facility, if any, will constitute superpriority administrative expense claims in the Chapter 11 Cases.

Accounting Impact

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

Pursuant to SOP 90-7, AWI is required to segregate prepetition liabilities that are subject to compromise and report them separately on the balance sheet. See Note 4 for detail of the liabilities subject to compromise at December 31, 2000. Liabilities that may be affected by a plan of reorganization are recorded at the amount of the expected allowed claims, even if they may be settled for lesser amounts. Substantially all of AWI's prepetition debt, now in default, is recorded at face value and is classified within liabilities subject to compromise. Obligations of Armstrong subsidiaries not covered by the Filing remain classified on the consolidated balance sheet based upon maturity date. AWI's asbestos liability is also recorded in liabilities subject to compromise. See Note 27 for further discussion of AWI's asbestos liability.

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

SOP 90-7 also requires separate reporting of all revenues, expenses, realized gains and losses, and provision for losses related to the Filing as Chapter 11 reorganization items. Accordingly, AWI recorded a total of $103.3 million as Reorganization Costs in December 2000, consisting of:

	($ millions)
Adjustment of net debt and debt issue costs to expected amount of allowed claim	$ 42.0
ESOP related expenses	58.8
Professional fees	2.6
Interest income, post petition	(0.3)
Other expenses directly related to bankruptcy, net	0.2
Total Chapter 11 reorganization costs	$ 103.3

To record prepetition debt at the face value or the amount of the expected allowed claims, AWI adjusted the amount of net debt and debt issue costs and recorded a pre-tax expense of $42.0 million.

ESOP related costs include a $43.3 million impairment charge related to amounts borrowed by the ESOP from Armstrong, the trustee of the ESOP. As described more fully in Note 19, Armstrong has not permitted further employee contributions to the ESOP. Therefore, it is expected that the ESOP will no longer have the ability to repay Armstrong money it previously borrowed. In addition, a $15.5 million expense was recorded related to interest and tax penalty guarantees owed to ESOP bondholders caused by the default on the ESOP bonds.

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

Interest income in the above table is from short-term investments of cash earned by AWI subsequent to the Filing.

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

NOTE 2. 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 Armstrong World Industries, Inc., and its subsidiaries. All significant intercompany transactions have been eliminated from the consolidated financial statements. Certain prior year amounts have been reclassified to conform to the current year presentation.

Revenue Recognition. Armstrong records revenue from the sale of products and the related accounts receivable as title transfers, generally on the date of shipment. Provision is made for estimated applicable discounts and losses.

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

Advertising Costs. Armstrong recognizes advertising expenses as they are incurred.

Shipping and Handling Costs. Prior to 2000, Armstrong recorded some shipping and handling costs as a reduction to net sales. In 2000, Armstrong applied the provisions of EITF Issue No. 00-010, "Accounting for Shipping and Handling Fees and Costs". Consequently, approximately $133.3 million of 2000 shipping and handling costs have been reclassified from net sales to cost of goods sold. All income statements presented have been restated to comply with this pronouncement by increasing net sales and cost of goods sold as follows: 1999 - $125.9 million and 1998 - $104.2 million. This change had no effect on gross margin or retained earnings as of any date.

Sales Incentives. Prior to 2000, Armstrong had been classifying most sales incentives as a reduction of sales but was recording certain sales incentives as Selling, General and Administrative ("SG&A") expenses. In accordance with EITF Issue No. 00-014, "Accounting for Certain Sales Incentives", Armstrong reclassified sales incentives from SG&A expense to net sales (reducing both) as follows: 2000 - $1.3 million; 1999 - $1.2 million; and 1998 - $1.1 million.

Pension and Postretirement Benefits. Armstrong has plans that provide for pension, medical and life insurance benefits to certain eligible employees when they retire from active service. Generally, Armstrong'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 the ESOP is recognized in shareholders' equity.

Gains and Losses on Divestitures. Armstrong records the gain or loss on divested businesses in other income.

Cash and Cash Equivalents. Short-term investments that have maturities of three months or less when purchased are considered to be cash equivalents.

Inventories. Inventories are valued at the lower of cost or market. Inventories also include certain floor covering samples.

Long-Lived Assets. Property, plant and equipment values are stated at acquisition cost less accumulated depreciation and amortization. Depreciation charges for financial reporting purposes are determined on the straight-line basis at rates calculated to provide for the retirement of assets at the end of their useful lives, generally as follows: buildings, 20 to 40 years; machinery and equipment, 3 to 20 years. 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 financial statements and any resulting gains or losses normally are reflected in "Selling, general and administrative expenses."

Costs of the construction of certain long-lived assets include capitalized interest which is amortized over the estimated useful life of the related asset. Capitalized interest was $0.4 million in 2000, $4.3 million in 1999 and $5.8 million in 1998.

Goodwill and Other Intangibles. Goodwill and other intangibles are amortized on a straight-line basis over periods from 3 to 40 years. On a periodic basis, Armstrong 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.

Foreign Currency Transactions. Gains or losses on foreign-currency transactions are recognized through the statement of earnings. Amounts payable or receivable denominated in foreign currencies are revalued at the exchange rate prevailing at year-end.

Financial Instruments and Derivatives. Armstrong uses derivatives and other financial instruments to diversify or offset the effect of currency, interest rate and commodity price variability.

Armstrong 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.

Armstrong may enter into interest rate swap agreements to alter the interest rate risk profile of outstanding debt, thus altering Armstrong's exposure to changes in interest rates. In these swaps, Armstrong 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 expense over the term of associated debt.

NOTE 3. NATURE OF OPERATIONS

Industry Segments

For the year ended 2000

(millions)	Floor coverings	Building products	Wood products	All other	Unallocated Corporate	Totals
Net sales to external customers	$ 1,263.9	$ 837.2	$ 902.7	--	--	$ 3,003.8
Intersegment sales	4.2	--	--	--	--	4.2
Equity (earnings) from affiliates	--	(17.9)	--	(0.1)	--	(18.0)
Segment operating income (loss)	78.8	113.9	74.3	0.1	($ 266.7)	0.4
Restructuring and reorganization charges, net of reversals	7.9	0.2	1.7	--	8.2	18.0
Segment assets	981.0	568.5	1,358.6	16.1	950.3	3,874.5
Depreciation and amortization	70.1	32.8	37.0	--	21.0	160.9
Investment in affiliates	1.1	19.9	--	16.3	--	37.3
Capital additions	52.0	43.6	38.7	--	13.7	148.0

For the year ended 1999

(millions)	Floor coverings	Building products	Wood products	All other	Unallocated Corporate	Totals
Net sales to external customers	$ 1,365.7	$ 794.5	$ 836.5	$ 51.5	--	$ 3,048.2
Intersegment sales	2.7	--	--	20.7	--	23.4
Equity (earnings) loss from affiliates	0.1	(16.1)	--	(0.8)	--	(16.8)
Segment operating income (loss)	204.6	120.0	85.0	6.0	($ 347.1)	68.5
Restructuring and reorganization reversals	(1.1)	(0.3)	--	--	--	(1.4)
Segment assets	1,286.1	535.1	1,308.0	16.0	836.2	3981.4
Depreciation and amortization	71.2	34.1	36.1	2.8	10.7	154.9
Investment in affiliates	3.3	14.9	--	16.0	--	34.2
Capital additions	71.9	45.5	41.5	2.7	16.5	178.1

For the year ended 1998

(millions)	Floor coverings	Building products	Wood products	All other	Unallocated Corporate	Totals
Net sales to external customers	$1,248.5	$ 799.0	$ 351.3	$ 97.3	--	$ 2,496.1
Intersegment sales	--	--	--	39.5	--	39.5
Equity (earnings) loss from affiliates	0.2	(14.2)	--	0.2	--	(13.8)
Segment operating income (loss)	121.7	106.5	38.6	7.2	($ 284.7)	(10.7)
Reorganization charges	53.5	10.1	--	1.9	8.9	74.4
Segment assets	1,146.0	550.1	1,279.0	67.6	1,044.1	4,086.8
Depreciation and amortization	62.6	39.2	15.3	7.2	5.3	129.6
Investment in affiliates	2.2	39.6	--	--	--	41.8
Capital additions	93.5	42.5	12.4	5.9	18.6	172.9

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, restructuring charges, unusual gains and losses, and interest expense. Armstrong accounts for inter-segment sales and transfers based upon its internal transfer pricing policy.

The floor coverings segment includes resilient flooring, adhesives, installation and maintenance materials and accessories sold to commercial and residential customers 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. Armstrong 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 Armstrong'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 Note 9). 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. During 2000, Armstrong acquired privately-held Switzerland-based Gema Holding AG ("Gema"), a manufacturer and installer of metal ceilings. See Note 5 for further discussion.

The wood products segment is composed of Triangle Pacific Corp., a wholly owned subsidiary, a 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 35% of sales are from new construction which is more cyclical than remodeling activity. Triangle Pacific manufactures hardwood flooring under the brand names of Bruce, Hartco and Robbins while cabinets are manufactured under the brand names of Bruce and IXL.

During most of 1999, "all other" included business units making a variety of specialty products for the building, automotive, textile and other industries worldwide. Gasket materials were sold for new and replacement use in automotive, construction and farm equipment, appliance, small engine and compressor industries. On June 30, 1999, Armstrong sold 65% of the gaskets business. Since the divestiture, Armstrong has accounted for the gaskets business under the equity method within the "all other" segment. Textile mill supplies, including cots and aprons, were sold to equipment manufacturers and textile mills. On September 30, 1999, Armstrong sold the textiles business. From 1997 to 1998, Armstrong 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, Armstrong sold its interest in Dal-Tile.

During 2000, Armstrong recognized revenue of approximately $373.2 million from The Home Depot, Inc., from sales in the floor coverings, building products and wood products segments compared to approximately $344.8 million and $296.0 million in 1999 and 1998, respectively. No other single customer represented more than 10% of Armstrong's revenue.

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

Geographic Areas

Net trade sales (millions)	2000	1999	1998
Americas:			
United States	$ 2,276.5	$ 2,296.4	$ 1,842.8
Canada	129.1	123.0	100.4
Other Americas	26.5	27.2	18.5
Total Americas	$ 2,432.1	$ 2,446.6	$ 1,961.7
Europe:			
England	$ 103.3	$ 107.2	$ 60.8
Germany	101.8	143.6	80.1
France	50.4	54.4	62.9
Italy	27.4	26.2	27.3
Russia	22.5	12.0	22.9
Other Europe	158.1	146.5	163.1
Total Europe	$ 463.5	$ 489.9	$ 417.1
Pacific area:			
China	$ 26.9	$ 24.2	$ 25.5
Australia	24.4	27.2	29.2
Other Pacific area	56.9	60.3	62.6
Total Pacific area	$ 108.2	$ 111.7	$ 117.3
Total net trade sales	$ 3,003.8	$ 3,048.2	$ 2,496.1

Long-lived assets (property, plant and equipment) at December 31

(millions)	2000	1999
Americas:		
United States	$ 960.8	$ 955.7
Canada	14.2	16.1
Other Americas	0.1	0.1
Total Americas	$ 975.1	$ 971.9
Europe:		
Germany	$ 174.5	$ 196.5
England	38.8	47.5
Netherlands	10.1	12.0
France	11.9	13.8
Sweden	9.4	15.2
Other Europe	1.7	0.2
Total Europe	$ 246.4	$ 285.2
Pacific area:		
China	$ 26.2	$ 27.9
Other Pacific area	5.8	7.0
Total Pacific area	$ 32.0	$ 34.9
Total long-lived assets	$ 1,253.5	$ 1,292.0

NOTE 4. LIABILITIES SUBJECT TO COMPROMISE

As a result of AWI's Chapter 11 filing (see note 1), pursuant to SOP 90-7, AWI is required to segregate prepetition liabilities that are subject to compromise and report them separately on the balance sheet. Liabilities that may be affected by a plan of reorganization are recorded at the amount of the expected allowed claims, even if they may be settled for lesser amounts. Substantially all of AWI's prepetition debt, now in default, is recorded at face value and is classified within liabilities subject to compromise. Obligations of Armstrong subsidiaries not covered by the Filing remain classified on the consolidated balance sheet based upon maturity date. AWI's asbestos liability is also recorded in liabilities subject to compromise. See Note 27 for further discussion of AWI's asbestos liability.

Liabilities subject to compromise at December 31, 2000 are as follows:

(millions)	2000
Debt (at face value)	$ 1,400.4
Asbestos-related liability	690.6
Pre-petition trade payables	60.1
Pre-petition other payables and accrued interest	76.4
Amounts due to affiliates	5.0
ESOP loan guarantee	157.7
Total liabilities subject to compromise	$ 2,390.2

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

See Note 15 for detail of debt subject to compromise.

NOTE 5. ACQUISITIONS

On May 18, 2000, Armstrong acquired privately-held Switzerland-based Gema Holding AG ("Gema"), a manufacturer and installer of metal ceilings, for $6 million plus certain contingent consideration not to exceed $25.5 million, based on results for the three years ended December 31, 2002. Gema, with annual sales of nearly $50 million, has two manufacturing sites located in Austria and Switzerland and employs nearly 300 people. The acquisition has been recorded under the purchase method of accounting. The purchase price has been allocated to the assets acquired and the liabilities assumed based on the estimated fair market value at the date of acquisition. Contingent consideration, when and if paid, will be accounted for as additional purchase price. The fair market value of tangible and identifiable intangible assets acquired exceeded the purchase price by $24.2 million and this amount has been recorded as a reduction of the fair value of property, plant and equipment.

On July 22, 1998, Armstrong completed its acquisition of Triangle Pacific Corp. ("Triangle Pacific"), a Delaware corporation. Triangle Pacific is a U.S. manufacturer of hardwood flooring and other flooring and related products and a manufacturer of kitchen and bathroom cabinets. The acquisition, recorded under the purchase method of accounting, resulted in a total purchase price of $911.5 million. The purchase price was allocated to tangible and identifiable intangible assets acquired and liabilities assumed based on estimated fair market value at the date of acquisition. The balance of $792.8 million was recorded as goodwill and is being amortized over forty years on a straight-line basis. During 1999, purchase price adjustments increased goodwill by $5.3 million. During 2000, adjustments primarily related to pre-acquisition liabilities and property, plant and equipment values reduced goodwill by $1.4 million.

Effective August 31, 1998, Armstrong 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 flooring manufacturer in Germany. The acquisition, recorded under the purchase method of accounting, resulted in a total purchase price of $289.9 million. During 1999, Armstrong increased its ownership percentage in DLW to approximately 96%. The purchase price was allocated to net tangible and identifiable intangible assets acquired based on the estimated fair market value at the date of acquisition. The balance of $117.2 million was recorded as goodwill and is being amortized over forty years on a straight-line basis. During 1999, purchase price adjustments increased goodwill by $5.2 million. During 2000, adjustments primarily related to pre-acquisition tax contingencies reduced goodwill by $8.9 million. In the initial 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 Armstrong identified as businesses held for sale. In May 1999, Armstrong sold the DLW furniture business for $38.1 million. The remaining business held for sale, a Dutch carpet manufacturing company, was sold during December 2000.

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 December 30, 2000, January 1, 2000 and January 2, 1999. No events occurred between December 31 and these dates at Triangle Pacific materially affecting Armstrong's financial position or results of operations.

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

(millions, except per share data)	1998
Net sales	$ 2,874.9
Net earnings	(14.2)
Net earnings per share	(0.36)

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 1998.

NOTE 6. DISCONTINUED OPERATIONS

On May 31, 2000, Armstrong completed its sale of all of the entities, assets and certain liabilities comprising its Insulation Products segment to Orion Einundvierzigste Beteiligungsgesellschaft Mbh, a subsidiary of the Dutch investment firm Gilde Investment Management N.V. for $264 million. The transaction resulted in an after tax gain of $114.8 million, or $2.84 per share.

In February 2001, Armstrong determined to permanently exit the Textiles and Sports Flooring segment and on February 20, 2001, entered into negotiations to sell substantially all of the businesses comprising this segment to a private equity investor based in Europe. The proposed sale, while subject to certain approvals, including that of the Court, is expected to close in June 2001. Accordingly, this segment has been classified as a discontinued operation in the accompanying consolidated financial statements. Prior year balances and results have been reclassified to reflect the net assets and results of discontinued operations. Based on the expected net realizable value of the business, Armstrong recorded a pretax net loss of $30.3 million in the fourth quarter of 2000, $19.5 million net of tax benefit.

The following comprises the net assets of discontinued operations as of December 31, 2000 and 1999.

	2000	1999
Cash	$ 2.6	$ 18.4
Accounts receivable, net	52.5	83.8
Inventories, net	59.7	77.4
Property plant and equipment, net	67.5	147.1
Short-term debt	(19.3)	(5.0)
Long-term debt	(10.5)	(23.8)
Accounts payable and accrued expenses	(54.0)	(79.2)
Pension liabilities	(3.3)	(36.8)
Other, net	(12.1)	2.8
Adjustment to net realizable value	(34.5)	--
Net assets of discontinued operations	$ 48.6	$184.7

NOTE 7. OTHER DIVESTITURES

On July 31, 2000, Armstrong completed the sale of its Installation Products Group ("IPG") to subsidiaries of the German company Ardex GmbH, for $86 million in cash. Ardex purchased substantially all of the assets and liabilities of IPG including its shares of the W.W. Henry Company. The transaction resulted in a gain of $44.1 million ($60.2 million pretax) or $1.09 per share and was recorded in other income. The financial results of IPG were reported as part of the floor coverings segment. The proceeds and gain are subject to a post-closing working capital adjustment, which Armstrong expects to finalize in the first half of 2001. Under the terms of the agreement and a related supply agreement, Armstrong will purchase some of its installation products needs from Ardex for an initial term of eight years, subject to certain minimums for the first five years after the sale. The agreement also calls for price adjustments based upon changing market prices for raw materials, labor and energy costs.

On September 30, 1999, Armstrong completed the sale of its Textile Products Operations to Day International Group, Inc. The sale resulted in a loss of $3.2 million, or $0.08 per share, which was recorded in other income.

On June 30, 1999, Armstrong sold 65% of its ownership in Armstrong Industrial Specialties, Inc. ("AISI"), its gasket products subsidiary, to a group of investors including Citicorp Venture Capital Ltd. and the management of AISI for a cash purchase price of approximately $36.1 million. The sale resulted in a gain of approximately $6.0 million, or $0.15 per share, which was recorded in other income.

On June 22, 1999, Armstrong sold its interest in the assets of Martin Surfacing, Inc. Armstrong acquired this interest as part of its acquisition of DLW during the third quarter of 1998. There was no material gain or loss on the transaction.

On May 28, 1999, Armstrong's subsidiary DLW sold its furniture business for total cash proceeds of $38.1 million. Armstrong acquired this business as part of the acquisition of DLW in the third quarter of 1998 and had classified the business as held for sale. There was no gain or loss on the transaction.

NOTE 8. RESTRUCTURING AND OTHER ACTIONS

A $19.4 million pre-tax reorganization charge was recorded in 2000, of which $8.6 million related to severance and enhanced retirement benefits for more than 180 positions (approximately 66% related to salaried positions) within the European Flooring business. Reorganization actions include staff reductions due to the elimination of administrative positions, the consolidation and closing of sales offices in Europe and the closure of the Team Valley, England commercial tile plant. $2.6 million of the charge related to severance and enhanced retirement benefits for 15 corporate and line-of-business staff positions (all salaried positions) as a result of streamlining the organization to reflect staffing needs for current business conditions. Of the $2.6 million, $0.1 million represented a non-cash charge for enhanced retirement benefits. The remaining $8.2 million of the charge primarily related to the remaining payments on a noncancelable operating lease for an office facility in the U.S. The employees who occupied this office facility are being relocated to the corporate headquarters.

In addition, $1.4 million of the remaining accrual for the $74.4 million 1998 reorganization charge was reversed in both 2000 and 1999, comprising certain severance accruals that were no longer necessary. The amount in "other" below primarily relates to foreign currency translation.

The following table summarizes activity in the restructuring accruals for 2000 and 1999:

(millions)	Beginning Balance	Cash Payments	Charges	Reversals	Other	Ending Balance
2000	$12.1	($7.9)	$ 19.3	($1.4)	($0.7)	$ 21.4
1999	30.6	(16.9)	--	(1.4)	(0.2)	12.1

Substantially all of the remaining balance of the restructuring accrual as of December 31, 2000 relates to terminated employees with extended payouts, most of which will be paid during 2001, and two noncancelable operating leases which extend through 2005 and 2017.

Armstrong also recorded a $17.6 million charge to cost of goods sold in 2000 for write-downs of inventory and production-line assets related to the reorganization efforts that were not categorized as restructuring costs. The inventory write-downs were related to changes in product offerings while the write-downs of production-line assets primarily related to changes in production facilities and product offerings.

Armstrong also recorded costs within selling, general and administrative expense of $3.8 million for severance payments to approximately 100 employees that were not classified as restructuring costs and $2.3 million for fixed asset impairments related to the decision to vacate certain office space in the U.S.

In 1998, Armstrong 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, Armstrong recorded an estimated loss of $9.0 million, or $5.9 million after tax, related to redundant flooring products machinery disposed of in 1999. Approximately $28.6 million of the charge comprised cash expenditures for severance. The remainder was a non-cash charge for enhanced retirement benefits.

NOTE 9. EQUITY INVESTMENTS

Investments in affiliates were $37.3 million at December 31, 2000, an increase of $3.1 million, reflecting the equity earnings of Armstrong's 50% interest in its WAVE joint venture and its remaining 35% interest in Interface Solutions, Inc. ("ISI"). Armstrong continues to purchase certain raw materials from ISI under a long-term supply agreement.

Equity earnings from affiliates for 2000 and 1999 consisted primarily of income from a 50% interest in the WAVE joint venture and the 35% interest in ISI. Equity earnings from affiliates for 1998 primarily comprised income from a 50% interest in the WAVE joint venture, Armstrong's share of a net loss at Dal-Tile and amortization of the excess of Armstrong's investment in Dal-Tile over the underlying equity in net assets.

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

(millions)	2000	1999
Current assets	$ 68.3	$ 66.7
Non-current assets	34.4	37.8
Current liabilities	18.2	21.8
Non-current liabilities	50.4	57.7

(millions)	2000	1999
Net sales	$212.5	$202.3
Gross profit	60.3	53.7
Net earnings	35.5	32.3

NOTE 10. ACCOUNTS AND NOTES RECEIVABLE

(millions)	2000	1999
Customer receivables	$ 349.1	$ 371.8
Customer notes	10.8	8.7
Miscellaneous receivables	7.7	15.4
Less allowance for discounts and losses	(51.1)	(43.7)
Net accounts and notes receivable	$ 316.5	$ 352.2

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

NOTE 11. INVENTORIES

Approximately 48% of Armstrong's total inventory in 2000 and 49% in 1999 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 $47.8 million at the end of 2000 and $45.6 million at year-end 1999.

(millions)	2000	1999
Finished goods	$ 208.9	$ 225.7
Goods in process	39.6	34.3
Raw materials and supplies	143.5	140.3
Less LIFO and other reserves	(51.8)	(47.9)
Total inventories, net	$ 340.2	$ 352.4

NOTE 12. PROPERTY, PLANT AND EQUIPMENT

(millions)	2000	1999
Land	$ 84.3	$ 99.2
Buildings	538.1	539.8
Machinery and equipment	1,569.3	1,601.0
Construction in progress	68.2	87.3
Less accumulated depreciation and amortization	(1,006.4)	(1,035.3)
Net property, plant and equipment	$ 1,253.5	$ 1,292.0

NOTE 13. GOODWILL AND OTHER INTANGIBLES

(millions)	2000	1999
Goodwill	$908.9	$950.1
Less accumulated amortization	(62.9)	(51.7)
Total goodwill, net	$ 846.0	$898.4
Other intangibles	$ 121.7	$110.0
Less accumulated amortization	(29.8)	(19.2)
Total other intangibles, net	$ 91.9	$90.8

Goodwill decreased by $52.4 million in 2000, reflecting the elimination of goodwill attributable to IPG which was sold during 2000, tax valuation allowance reduction and other adjustments related to DLW (see Note 5), scheduled amortization of $23.9 million and foreign currency translations. Unamortized computer software costs included in other intangibles were $50.5 million at December 31, 2000, and $48.0 million at December 31, 1999.

NOTE 14. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

(millions)	2000	1999
Payables, trade and other	$ 142.3	$ 254.0
Employment costs	32.0	63.3
Reorganization and severance payments, current portion (see Note 8)	12.5	12.1
Asbestos-related claims, current portion (see Note 27)	-	175.0
Other	51.2	87.1
Total	$ 238.0	$ 591.5

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

NOTE 15. DEBT

($ millions)	2000	Average year-end interest rate	1999	Average year-end Interest rate
Borrowings under lines of credit	$ 450.0	7.18%	--	--
DIP Facility	5.0	9.50%	--	--
Commercial paper	49.7	6.75%	$ 495.9	6.20%
Foreign banks	11.7	5.58%	20.0	5.57%
Bank loans due 2001-2006	44.5	5.94%	42.7	6.26%
9.00% medium-term notes due 2001	7.5	9.00%	25.6	8.96%
6.35% senior notes due 2003	200.0	6.35%	199.9	6.35%
6.50% senior notes due 2005	150.0	6.50%	149.7	6.50%
9.75% debentures due 2008	125.0	9.75%	125.0	9.75%
7.45% senior notes due 2029	200.0	7.45%	199.8	7.45%
7.45% senior quarterly interest bonds due 2038	180.0	7.45%	180.0	7.45%
Industrial development bonds	29.8	4.97%	29.8	5.27%
Capital lease obligations	7.1	7.25%	11.4	7.25%
Other	21.6	12.34%	11.3	8.75%
Subtotal	1,481.9	7.27%	1,491.1	6.92%
Less debt subject to compromise	1,400.4	7.35%	--	--
Less current portion and short-term debt	24.7	6.69%	102.0	6.61%
Total long-term debt, less current portion	$ 56.8	5.55%	$ 1,389.1	6.94%

Scheduled payment of long-term debt (million)

2001	$ 8.1	2004	$ 2.6
2002	3.1	2005	1.0
2003	3.1		

In accordance with SOP 90-7, AWI stopped recording interest expense on unsecured prepetition debt effective December 6, 2000.

Debt included in liabilities subject to compromise consisted of the following at December 31, 2000.

($ millions)	2000
Borrowings under lines of credit	$ 450.0
Commercial paper	49.7
9.00% medium-term notes due 2001	7.5
6.35% senior notes due 2003	200.0
6.50% senior notes due 2005	150.0
9.75% debentures due 2008	125.0
7.45% senior notes due 2029	200.0
7.45% senior quarterly interest bonds due 2038	180.0
Industrial development bonds	19.5
Other	18.7
Total debt subject to compromise	$1,400.4

Borrowings under the DIP Facility, if any, will constitute superpriority administrative expense claims in the Chapter 11 Cases. As of December 31, 2000, AWI has borrowed $5.0 million under the DIP Facility. The DIP Facility expires no later than December 6, 2002 and borrowings are limited to an adjusted amount of receivables, inventories and property, plant and equipment. Depending on the amount of borrowings, the DIP Facility carries an interest rate range of either Chase's Alternate Bank Rate plus 50 basis points to 100 basis points or LIBOR plus 150 basis points to 200 basis points. The DIP Facility also contains several covenants including, among other things, limits on asset sales, capital expenditures and a required ratio of debt to cash flow. Prior to final Court approval of the DIP Facility, which was obtained on February 7, 2001, AWI had preliminary available borrowings of $145 million as of December 31, 2000.

On March 16, 1999, AWI filed a shelf registration statement for $1 billion of combined debt and equity securities. On May 19, 1999, AWI completed an offering under the shelf registration statement of $200 million aggregate principal amount of 7.45% senior notes due 2029. The net proceeds from this offering were used to repay other indebtedness of AWI.

Other debt includes an $18.6 million zero-coupon note due in 2013 that was fully amortized to its face value due to the Chapter 11 filing.

In addition, Armstrong's foreign subsidiaries have approximately $38.9 million of unused short-term lines of credit available from banks. The credit lines are subject to immaterial annual commitment fees.

In order to maintain the ratio of fixed to floating rate debt which management believes is appropriate, Armstrong maintained $150 million of interest rate swaps during most of 2000. Armstrong received fixed rates and paid floating rates on these swaps. However, all but one of the interest rate swap agreements was terminated when Armstrong defaulted on its commercial paper obligations on November 22, 2000. Details of the outstanding swap agreement as of December 31, 2000 are as follows:

Maturity date ($ millions)	Notional amount	Pays	Receives	Market value
Aug. 15, 2003	$20.0	3 mo. LIBOR	6.54%	$0.3

This interest rate swap agreement was subsequently terminated by the counter- party on February 26, 2001.

NOTE 16. FINANCIAL INSTRUMENTS

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

(In millions at December 31)	2000 carrying amount	Estimated fair value	1999 carrying amount	Estimated fair value
Liabilities:				
Debt subject to compromise	$1,400.4	$ 386.6	--	--
Long-term debt, including current portion	64.9	64.9	$1,425.2	$1,369.2
Off-balance sheet financial instruments:				
Foreign currency contract obligations	--	0.2	--	9.4
Foreign currency options	--	--	--	0.2
Letters of credit/financial guarantees	--	165.6	--	252.2
Lines of credit	--	39.1	--	1,088.1
Interest rate swaps	--	0.3	--	(4.1)

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 Armstrong for debt of the same remaining maturities. Foreign currency contract obligations and options, as well as interest rate swaps, are estimated by obtaining quotes from major financial institutions. Letters of credit, financial guarantees and lines of credit amounts are based on the estimated cost to settle the obligations.

NOTE 17. INCOME TAXES

The tax effects of principal temporary differences between the carrying amounts of assets and liabilities and their tax bases are summarized in the table below. Management believes it is more likely than not that the results of future operations will generate sufficient taxable income to realize deferred tax assets except for certain foreign tax credit and net operating loss carryforwards for which Armstrong has provided a valuation allowance of $69.8 million. The $6.4 million of U.S. foreign tax credit will expire in 2005. Armstrong has $879.0 million of state net operating losses with expirations between 2001 and 2020, and $82.9 million of foreign net operating losses which will be carried forward indefinitely. The $1.3 million decrease in the valuation allowance is attributable to a $24.7 million decrease in foreign net operating loss and capital loss carryforwards in connection with the sale of the Insulation Products segment (see Note 6) and a $23.4 million increase due to unused state net operating loss and U.S. foreign tax credit.

Deferred income taxes (millions)	2000	1999
Postretirement and postemployment benefits	($ 92.0)	(86.1)
Chapter 11 reorganization costs and restructuring costs	(35.9)	(3.3)
Asbestos-related liabilities	(241.7)	(238.5)
Foreign tax credit carryforward	(6.4)	--
Net operating losses	(94.6)	(62.2)
Capital loss carryforwards	--	(20.2)
Other	(86.8)	(58.7)
Total deferred tax assets	(557.4)	(469.0)
Valuation allowance	69.8	71.1
Net deferred tax assets	(487.6)	(397.9)
Accumulated depreciation	173.7	183.0
Pension costs	105.9	69.3
Insurance for asbestos-related liabilities	85.4	103.6
Tax on unremitted earnings	27.0	--
Other	63.3	45.4
Total deferred income tax liabilities	455.3	401.3
Net deferred income tax liabilities (assets)	(32.3)	3.4
Income tax benefit - current	(9.8)	(40.4)
Deferred income tax liability (asset) -noncurrent	($22.5)	$ 43.8

Details of taxes (millions)	2000	1999	1998
Earnings (loss) from continuing operations before income taxes:			
Domestic	($ 135.4)	45.8	(63.7)
Foreign	15.4	44.9	20.4
Eliminations	(9.9)	(119.5)	(27.1)
Total	($ 129.9)	($ 28.8)	($ 70.4)
Income tax provision (benefit):			
Current:			
Federal	($ 11.3)	$ 15.8	11.2
Foreign	6.5	4.3	7.1
State	1.8	3.0	1.3
Total current	(3.0)	23.1	19.6
Deferred:			
Federal	(32.7)	(36.6)	(48.2)
Foreign	(5.1)	8.2	3.3
State	0.3	0.5	0.4
Total deferred	(37.5)	(27.9)	(44.5)
Total income taxes (benefit)	($ 40.5)	($ 4.8)	($ 24.9)

At December 31, 2000, unremitted earnings of subsidiaries outside the U.S. were $169.0 million (at December 31, 2000 balance sheet exchange rates). Armstrong expects to repatriate $77.0 million of earnings and has provided $27.0 million of U.S. taxes. No U.S. taxes have been provided on the remaining unremitted earnings as it is Armstrong's intention to invest these earnings permanently. If such earnings were to be remitted without offsetting tax credits in the U.S., withholding taxes would be $4.2 million.

Reconciliation to U.S. statutory tax rate (millions)	2000	1999	1998
Continuing operations tax (benefit) at statutory rate	($ 45.5)	($ 10.0)	($ 24.6)
State income taxes, net of federal benefit	1.8	2.0	1.7
(Benefit) on ESOP dividend	(1.0)	(1.3)	(1.2)
Tax on foreign and foreign-source income	2.9	3.4	4.4
Capital loss	(0.8)	--	--
Equity in (earnings) of affiliates	--	--	(6.2)
Insurance programs	0.1	(0.6)	(1.0)
Goodwill	9.9	7.1	3.3
Change in valuation allowance	--	(4.0)	--
Sale of subsidiary	(9.1)	--	--
Other items	1.2	(1.4)	(1.3)
Tax expense (benefit) at effective rate	($ 40.5)	($ 4.8)	($ 24.9)

Other taxes (millions)	2000	1999	1998
Payroll taxes	$ 59.7	$ 66.8	$ 51.3
Property, franchise and capital stock taxes	26.2	24.0	19.6

NOTE 18. OTHER LONG-TERM LIABILITIES

(millions)	2000	1999
Deferred compensation	$ 34.9	$ 42.8
Other	36.2	48.7
Total other long-term liabilities	$ 71.1	$ 91.5

NOTE 19. RETIREMENT SAVINGS AND STOCK OWNERSHIP PLAN (RSSOP)

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 Armstrong. The ESOP used the proceeds to purchase 5,654,450 shares of a new series of convertible preferred stock issued by Armstrong. In 1996, the ESOP was merged with the Retirement Savings Plan for salaried employees (a defined-contribution pension plan) to form the Retirement Savings and Stock Ownership Plan ("RSSOP"). On July 31, 1996, the trustee of the ESOP converted the preferred stock held by the trust into approximately 5.1 million shares of common stock at a one-for-one ratio.

The number of shares released for allocation to participant accounts has been based on the proportion of principal and interest paid to the total amount of debt service remaining to be paid over the life of the borrowings. Through December 31, 2000, the RSSOP allocated 2,676,000 shares to participants that remain outstanding, retired 1,318,000 shares, Armstrong issued 437,000 treasury shares and the trustee purchased 242,000 shares on the open market as part of meeting the necessary funding requirements. As of December 31, 2000, there were approximately 2,340,000 shares in the RSSOP that had yet to be allocated to participants.

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

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

Details of ESOP debt service payments (millions)	2000	1999	1998
Common stock dividends paid	$ 4.5	$ 8.9	$ 9.0
Employee contributions	1.2	7.7	9.8
Company contributions	7.0	8.9	11.4
Company loans to ESOP	7.3	12.9	10.1
Debt service payments made by ESOP trustee	$ 20.0	$ 38.4	$ 40.3

Armstrong recorded costs for the RSSOP of $10.5 million in 2000, $13.1 million in 1999 and $6.9 million in 1998.

The trustee borrowed from Armstrong $7.3 million in 2000, $12.9 million in 1999 and $10.1 million in 1998. These loans were made to ensure that the financial arrangements provided to employees remain consistent with the original intent of the RSSOP. Such loans receivable were included as a component of shareholder's equity. In December 2000 in connection with the Chapter 11 Filing of AWI and default on RSSOP loan obligations, Armstrong recorded an impairment charge of $43.3 million related to these loans. The impairment was recorded as a component of Chapter 11 reorganization costs.

On November 22, 2000, Armstrong failed to repay $50 million in commercial paper that was due. As a result, the remaining ESOP bond principal balance of $142.2 million became immediately payable, along with a $15.5 million interest and tax make-whole premium. Additionally, the December 2000 ESOP debt service payment was not made. As a result of the Chapter 11 filing, Armstrong's ESOP loan guarantee of $157.7 million is now classified as a liability subject to compromise.

Armstrong has amended the RSSOP to provide for a cash match of employee contributions in lieu of the stock match. Armstrong recorded an expense of $0.5 million in 2000 related to the cash match. The RSSOP Plan document will be revised to reflect this change.

NOTE 20. STOCK-BASED COMPENSATION PLANS

Awards under the 1993 Long-Term Stock Incentive Plan ("1993 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 additional shares of common stock may be issued under the 1993 Plan.

During 1999, Armstrong adopted the 1999 Long-Term Incentive Plan ("1999 Plan") which replaced the 1993 Plan. The 1999 Plan is similar to the 1993 Plan in that it provides for the granting of incentive stock options, nonqualified stock options, stock appreciation rights, performance-restricted shares and restricted stock awards. The 1999 Plan also incorporates stock awards and cash incentive awards. No more than 3,250,000 shares of common stock may be issued under the 1999 Plan, and no more than 300,000 of the shares may be awarded in the form of performance restricted shares, restricted stock awards or stock awards. No awards under the 1999 Plan will be granted after April 25, 2009. Pre-1999 grants made under predecessor plans will be governed under the provisions of those plans.

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

Approximately 1,702,000 stock options were cancelled as a result of a restricted stock for stock option exchange program offered to employees in 2000. Employees other than the CEO holding stock options were given a one-time opportunity to exchange their stock options with exercise prices above $50 per share for shares of Armstrong restricted stock based on specified conversion ratios. The shares issued under this exchange program were issued under the 2000 Plan and will be fully vested by August 2002. Expenses related to this event were $1.5 million in 2000.

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

Changes in option shares outstanding (thousands except for share price)	2000	1999	1998
Option shares at beginning of year	3,509.5	2,783.7	2,161.3
Options granted	1,818.5	829.7	914.8
Option shares exercised	--	(54.5)	(253.3)
Stock appreciation rights exercised	--	(0.2)	(3.1)
Options cancelled	(2,550.5)	(49.2)	(36.0)
Option shares at end of year	2,777.5	3,509.5	2,783.7
Option shares exercisable at end of year	973.3	1,828.0	1,372.0
Shares available for grant	4,068.7	3,307.3	789.7
Weighted average price per share:			
Options outstanding	$30.69	$58.48	$60.41
Options exercisable	48.92	57.12	52.38
Options granted	18.24	50.70	70.43
Option shares exercised	N/A	36.17	41.68

The table below summarizes information about stock options outstanding at December 31, 2000.

Stock options outstanding as of December 31, 2000
(thousands except for life and share price)

	Options outstanding			Options exercisable	
Range of exercise prices	Number outstanding at 12/31/00	Weighted-average remaining contractual life	Weighted-average exercise price	Number exercisable at 12/31/00	Weighted-average exercise price
$1.19 - $18.00	200.0	9.8	$ 8.78	--	--
$18.01 - $19.50	1,542.8	9.2	19.44	64.6	$ 19.44
$19.51 - $46.00	427.8	3.4	39.32	418.0	39.59
$46.01 - $60.00	427.7	5.5	55.11	356.9	56.07
$60.01 - $84.00	179.2	6.9	73.14	133.8	73.21
	2,777.5			973.3	

Performance restricted shares issuable under the 1993 and 1999 plans 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). At the end of performance periods, common stock awarded may carry additional restriction periods, during which time Armstrong will hold the shares in custody 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 2000 were 1,500 unvested performance restricted shares outstanding and 245 accumulated dividend equivalent shares. No performance restricted share awards were earned based on the performance period ending December 31, 2000. Within restriction periods at the end of 2000 were 22,028 shares of restricted common stock outstanding based on performance periods ending prior to 2000 with 3,599 accumulated dividend equivalent shares.

Restricted stock awards can be used for the purposes of recruitment, special recognition and retention of key employees. Awards for 444,443 shares of restricted stock were granted (excluding performance-based awards discussed above) during 2000. Of these restricted shares, 198,343 were granted under a restricted stock for stock option exchange program. At the end of 2000, there were 422,241 restricted shares of common stock outstanding with 11,769 accumulated dividend equivalent shares.

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

(millions)	2000	1999	1998
Net earnings (loss):			
As reported	$11.8	$14.3	$ (9.3)
Pro forma	5.4	7.0	(16.1)

The fair value of grants was estimated on the date of grant using the Black-Scholes option pricing model with the weighted-average assumptions for 2000, 1999 and 1998 presented in the table below. The weighted-average fair value of stock options granted in 2000 was $2.08 per share.

	2000	1999	1998
Risk-free interest rate	6.48%	6.34%	5.14%
Dividend yield	9.50%	5.75%	3.03%
Expected life	5 years	5 years	5 years
Volatility	28%	28%	28%

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.

NOTE 21. EMPLOYEE COMPENSATION

Employee compensation is presented in the table below. Charges for severance costs and early retirement incentives to terminated employees have been excluded. The increase in employee compensation from 1998 is primarily due to the acquisitions of Triangle Pacific and DLW.

Employee compensation cost summary (millions)	2000	1999	1998
Wages and salaries	$ 631.9	$ 625.3	$ 516.8
Payroll taxes	59.7	66.8	51.3
Pension credits	(38.1)	(32.9)	(38.5)
Insurance and other benefit costs	67.4	64.2	56.9
Stock-based compensation	4.4	4.2	5.0
Total	$ 725.3	$ 727.6	$ 591.5

NOTE 22. PENSION AND OTHER BENEFIT PROGRAMS

Armstrong and a number of its subsidiaries have pension plans and postretirement medical and insurance benefit plans covering eligible employees worldwide. Armstrong also has defined-contribution pension plans (including the Retirement Savings and Stock Ownership Plan, as described in Note 19) for eligible employees. Benefits from pension plans, which cover substantially all employees, are based on an employee's compensation and years of service. Pension plans are funded by Armstrong. Postretirement benefits are funded by Armstrong 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. Armstrong announced in 1989 and 1990 a 15-year phase-out of its health care benefits for certain future retirees. These future retirees include parent company nonunion employees and some union employees. Shares of RSSOP common stock were allocated to eligible active employees through June 2000, based on employee age and years to expected retirement, to help employees offset their future postretirement medical costs. The RSSOP was amended in November 2000 to suspend future allocations and starting in December 2000, Armstrong used cash to fund this benefit.

Effective November 1, 2000, an amendment to the Retirement Income Plan (RIP), a qualified US defined benefit plan, established an additional benefit known as the ESOP Pension Account to partially compensate active employee and retiree ESOP shareholders for the decline in the market value of AHI's stock. The effect of this amendment had no material impact to the financial position or results of operations in 2000, but will increase the benefit obligation by $88.7 million in 2001. The RIP Plan document will be revised to reflect these changes.

The following tables 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 stocks, mutual funds and bonds. Included in these assets were 1,426,751 shares of Armstrong common stock at year-end 2000 and 1999.

U.S. defined-benefit plans (millions)	Pension Benefits 2000	Pension Benefits 1999	Retiree Health and Life Insurance Benefits 2000	Retiree Health and Life Insurance Benefits 1999
Change in benefit obligation:				
Benefit obligation as of January 1	$ 1,079.4	$ 1,163.5	$ 233.3	$ 262.5
Service cost	13.9	16.7	2.8	3.2
Interest cost	84.0	76.6	18.7	17.0
Plan participants' contributions	--	--	3.4	2.6
Plan amendments	25.8	--	--	--
Divestitures	(4.0)	--	(0.1)	--
Effect of settlements	(5.9)	--	--	(4.1)
Effect of special termination benefits	1.4	1.7	--	--
Actuarial loss (gain)	33.0	(96.4)	26.6	(24.9)
Benefits paid	(95.2)	(82.7)	(26.1)	(23.0)
Benefit obligation as of December 31	$ 1,132.4	$ 1,079.4	$ 258.6	$ 233.3
Change in plan assets:				
Fair value of plan assets as of January 1	$ 1,748.3	$ 1,874.9	--	--
Actual return (loss) on plan assets	137.9	(46.7)	--	--
Divestitures	(3.7)	--	--	--
Effect of settlements	(5.9)	--	--	--
Employer contribution	9.2	2.8	$ 22.7	$ 20.5
Plan participants' contributions	--	--	3.4	2.6
Benefits paid	(95.2)	(82.7)	(26.1)	(23.1)
Fair value of plan assets as of December 31	$ 1,790.6	$ 1,748.3	$ 0.0	$ 0.0
Funded status	$ 658.2	$ 668.9	$ (258.6)	$(233.3)
Unrecognized net actuarial loss (gain)	(422.7)	(483.9)	48.6	23.0
Unrecognized transition asset	(8.3)	(14.5)	--	--
Unrecognized prior service cost (benefit)	86.1	72.2	(4.2)	(5.1)
Net amount recognized	$ 313.3	$ 242.7	$ (214.2)	$ (215.4)

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 2000	Pension Benefits 1999	Retiree Health and Life Insurance Benefits 2000	Retiree Health and Life Insurance Benefits 1999
Weighted-average assumption as of December 31:				
Discount rate	7.50%	7.75%	7.50%	7.75%
Expected return on plan assets	9.50%	8.75%	n/a	n/a
Rate of compensation increase	4.25%	4.25%	4.25%	4.25%

Amounts recognized in the consolidated balance sheets consist of:

(millions)	Pension Benefits 2000	Pension Benefits 1999	Retiree Health and Life Insurance Benefits 2000	Retiree Health and Life Insurance Benefits 1999
Prepaid benefit costs	$ 333.6	$ 264.2		--
Accrued benefit liability	(34.5)	(30.2)	$ (214.2)	$ (215.4)
Intangible asset	1.6	2.0	--	--
Other comprehensive income	12.6	6.7	--	--
Net amount recognized	$ 313.3	$ 242.7	$ (214.2)	$ (215.4)

U.S. pension plans with benefit obligations in excess of assets (millions)	Pension Benefits 2000	1999
Retirement benefit equity plan:		
Projected benefit obligation, December 31	$ 44.7	$34.9
Accrued benefit obligation, December 31	34.5	30.2
Fair value of plan assets, December 31	--	--

The components of pension credit are as follows:

U.S. defined-benefit plans (millions)	2000	Pension Benefits 1999	1998
Service cost of benefits earned during the year	$ 13.9	$ 16.7	$ 17.5
Interest cost on projected benefit obligation	84.0	76.6	72.6
Expected return on plan assets	(153.6)	(147.0)	(136.2)
Amortization of transition asset	(6.2)	(6.2)	(6.2)
Amortization of prior service cost	11.9	10.0	10.0
Recognized net actuarial gain	(13.9)	(17.3)	(18.4)
Net periodic pension credit	$ (63.9)	$ (67.2)	$ (60.7)

Costs for other funded and unfunded pension plans were $4.3 million in 2000, $3.9 million in 1999 and $3.6 million in 1998. The components of postretirement benefit cost are as follows:

	Retiree Health and Life Insurance Benefits		
U.S. defined-benefit plans (millions)	2000	1999	1998
Service cost of benefits earned during the year	$ 2.8	$ 3.2	$ 3.3
Interest cost on accumulated postretirement benefit obligation	18.7	17.0	17.2
Amortization of prior service benefit	(0.9)	(0.9)	(0.9)
Recognized net actuarial loss	1.0	0.6	1.3
Net periodic postretirement benefit cost	$ 21.6	$ 19.9	$ 20.9

For measurement purposes, a 6% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2000 and all future years. 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:

	One percentage point	
U.S. retiree health and life insurance benefit plans (millions)	Increase	Decrease
Effect on total of service and interest cost components	$ 2.1	$ (1.7)
Effect on postretirement benefit obligation	21.0	(17.9)

Armstrong 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. 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 2000	1999
Change in benefit obligation:		
Benefit obligation as of January 1	$ 262.8	$ 287.0
Service cost	5.2	6.7
Interest cost	12.5	16.2
Plan participants' contributions	1.5	1.2
Plan amendments	0.7	--
Acquisitions	18.0	--
Divestitures	(0.5)	(2.6)
Effect of settlements	(33.6)	--
Effect of special termination benefits	(0.7)	0.3
Foreign currency translation adjustment	(21.6)	(29.8)
Actuarial loss (gain)	14.6	(1.3)
Benefits paid	(12.4)	(14.9)
Benefit obligation as of December 31	$ 246.5	$ 262.8
Change in plan assets:		
Fair value of plan assets as of January 1	$ 123.8	$ 105.6
Actual return on plan assets	0.4	21.9
Acquisitions	17.4	--
Divestitures	(0.5)	--
Employer contributions	43.7	12.5
Plan participants' contributions	1.5	1.2
Effect of settlements	(33.6)	--
Foreign currency translation adjustment	(8.0)	(2.5)
Benefits paid	(12.4)	(14.9)
Fair value of plan assets as of December 31	$ 132.3	$ 123.8
Funded status	$ (114.2)	$ (139.0)
Unrecognized net actuarial gain	(4.7)	(32.9)
Unrecognized transition obligation	--	0.4
Unrecognized prior service cost	3.9	4.7
Net amount recognized	$ (115.0)	$(166.8)

Amounts recognized in the consolidated balance sheets consist of:

(millions)	Pension Benefits 2000	1999
Prepaid benefit cost	$ 3.2	$ 2.6
Accrued benefit liability	(123.9)	(169.5)
Intangible asset	0.1	--
Other comprehensive income	5.6	0.1
Net amount recognized	$ (115.0)	$ (166.8)

Non-U.S. pension plans with benefit obligations in excess of assets (millions)	Pension Benefits 2000	1999
Projected benefit obligation, December 31	$ 125.3	$ 166.0
Accrued benefit obligation, December 31	122.2	159.9
Fair value of plan assets, December 31	0.6	0.6

The components of pension cost are as follows:

Non-U.S. defined-benefit plans (millions)	2000	1999
Service cost of benefits earned during the year	$ 5.2	$ 6.7
Interest cost on projected benefit obligation	12.5	16.2
Expected return on plan assets	(7.7)	(6.1)
Amortization of transition obligation	0.1	0.2
Amortization of prior service cost	1.0	0.4
Recognized net actuarial gain	(0.1)	(0.1)
Net periodic pension cost	$ 11.0	$17.3

	Pension Benefits	
Non-U.S. defined-benefit plans	2000	1999
Weighted-average assumption as of December 31:		
Discount rate	5.69%	6.50%
Expected return on plan assets	6.43%	4.25%
Rate of compensation increase	3.85%	3.75%

NOTE 23. LEASES

Armstrong 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. As part of the Chapter 11 Cases, AWI must decide whether to assume, assume and assign, or reject prepetition unexpired leases and other prepetition executory contracts. AWI has been granted an extension until August 6, 2001 by the Court to make these decisions with respect to prepetition unexpired leases of real property and this date may be further extended. With respect to prepetition executory contracts and unexpired leases not related to real estate, AWI has until confirmation of a reorganization plan to make these decisions unless such time is shortened by the Court. The accompanying financial statements do not reflect any adjustment related to assumption or rejection of such agreements.

Rental expense was $16.9 million in 2000, $19.3 million in 1999 and $24.7 million in 1998. Future minimum payments at December 31, 2000, by year and in the aggregate, having noncancelable lease terms in excess of one year were as follows:

Scheduled minimum lease payments (millions)	Capital leases	Operating Leases
2001	$ 0.9	$ 8.2
2002	1.0	5.1
2003	1.1	3.6
2004	2.1	2.8
2005	1.1	1.9
Thereafter	1.4	6.6
Total	$ 7.6	$ 28.2

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

(millions)	2000	1999
Land	$ 3.8	$ 3.8
Building	4.5	4.5
Machinery	26.2	21.5
Less accumulated amortization	(12.1)	(6.2)
Net assets	$ 22.4	$23.6

NOTE 24. SHAREHOLDER'S EQUITY

Treasury share changes for 2000, 1999 and 1998 are as follows:

Years ended December 31 (thousands)	2000	1999	1998
Common shares			
Balance at beginning of year	11,628.7	11,856.7	11,759.5
Stock purchases (1)	56.4	33.8	389.5
Stock issuance activity, net	(291.9)	(261.8)	(292.3)
Balance at end of year	11,393.2	11,628.7	11,856.7

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

In July 1996, the Board of Directors authorized Armstrong 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 repurchased approximately 4,017,000 shares through December 31, 1998, with total cash outlay of $248.1 million, including 355,000 repurchased in 1998. In June 1998, Armstrong 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 accumulated other comprehensive loss as of December 31, 2000, and December 31, 1999, is presented in the table below.

(millions)	2000	1999
Foreign currency translation adjustments and hedging activities	$ 29.3	$ 12.1
Unrealized loss on available for sale securities	2.0	--
Minimum pension liability adjustments	13.9	4.4
Total	$ 45.2	$ 16.5

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

(millions)	Pre-tax Amount	Tax Benefit	After tax amount
Foreign currency translation adjustments and hedging activities	($ 17.2)	--	($ 17.2)
Unrealized loss on available for sale securities	(2.0)	--	(2.0)
Minimum pension liability adjustments	(13.4)	$ 3.9	(9.5)
Total	($ 32.6)	$ 3.9	($ 28.7)

NOTE 25. SUPPLEMENTAL FINANCIAL INFORMATION

Selected operating expenses (millions)	2000	1999	1998
Maintenance and repair costs	$ 112.0	$ 110.0	$ 107.8
Research and development costs	60.0	46.4	36.7
Advertising costs	37.6	39.4	38.1

Other expense (income), net (millions)			
Interest and dividend income	$ (5.5)	$ (2.0)	$ (3.3)
Gain on sale of businesses, net	(60.2)	(1.0)	--
Demutualization proceeds	(5.2)	(2.6)	--
Dal-Tile gain	--	--	(12.8)
Domco litigation expense	--	--	12.3
Foreign currency transaction gain	(6.0)	(0.4)	0.3
Other	2.3	(0.7)	1.8
Total	$(74.6)	$ (6.7)	$ (1.7)

NOTE 26. SUPPLEMENTAL CASH FLOW INFORMATION

(millions)	2000	1999	1998
Interest paid	$ 100.4	$ 102.7	$ 48.2
Income taxes paid	14.0	47.1	25.7
Acquisitions:			
Fair value of assets acquired	$ 55.6	$ 3.8	$1,031.9
Cost in excess of net assets acquired	--	--	948.3
Less:			
Net assets in excess of consideration	24.2	--	--
Liabilities assumed	24.9	--	804.5
Cash paid, net of cash acquired	$ 6.5	$ 3.8	$1,175.7

NOTE 27. LITIGATION AND RELATED MATTERS

Asbestos-related Litigation

AWI is a defendant in personal injury claims and property damage claims related to asbestos containing products. On December 6, 2000, AWI filed a voluntary petition for relief ("the Filing") under Chapter 11 of the U.S. Bankruptcy Code to use the court supervised reorganization process to achieve a fair and final resolution of its asbestos liability. See Item 1 for further discussion.

Background

AWI's involvement in asbestos litigation relates primarily to its participation in the insulation contracting business. From around 1910 to 1933, AWI manufactured and installed some high-temperature insulation products, including some that contained asbestos. In 1939, AWI expanded its contract installation service to provide a greater range of high and low temperature contracting services to its customers. AWI generally manufactured its own low temperature insulation products, but did not manufacture the high temperature products used in its contracting operations. Some of the high temperature products furnished and installed in the contracting operations contained asbestos.

Effective January 1, 1958, AWI separated its insulation contracting business into a separate, independent subsidiary, Armstrong Contracting and Supply Corporation ("ACandS"). From January 1, 1958 through August 31, 1969, ACandS operated as an independent subsidiary in the insulation contracting business. During this time period, AWI licensed certain tradenames and trademarks to ACandS, which ACandS placed on certain insulation products manufactured by others. Other than two specific products, AWI did not manufacture or sell any asbestos-containing thermal insulation products during this period. In August 1969, AWI sold the ACandS subsidiary to a group of ACandS management employees and ACandS continues to operate independently as a subsidiary of Irex Corporation. AWI had no involvement with any asbestos-containing insulation materials after 1969.

In addition, AWI manufactured some resilient flooring that contained encapsulated asbestos until the early 1980's. AWI also manufactured some gasket materials that contained encapsulated asbestos until the mid-1980's.

Personal Injury Litigation

Nearly all the asbestos-related personal injury lawsuits brought against AWI relate to alleged exposure to asbestos-containing high-temperature insulation products. The majority of these claims seek compensatory and punitive damages. Claims may arise many years after first exposure to asbestos in light of the decades long latency period for asbestos-related injury. Product identification and determining exposure periods are difficult and uncertain. Over the long history of asbestos litigation involving hundreds of companies, various parties have tried to secure 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. AWI 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 from various jurisdictions and has been receptive to different approaches to the resolution of claims. Claims filed in state courts have not been directly affected by the transfer.

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 AWI. It was designed to establish a nonlitigation system for the resolution of those 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 September 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.

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

The Facility was established in 1985 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 AWI. At the time of the Filing, there were 16 members of the Center, including AWI. 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 among the member companies; adjustments over time due to the departure of some members and other factors resulted in some increased share for AWI.

As a result of the Filing, AWI is no longer an active participant in the Center. The extent and amount of AWI liabilities as a result of its participation in the Center have not been determined, but will be determined in AWI's Chapter 11 Case.

Number of Claims

The number of claims naming AWI as a defendant ranged from about 16,400 to 31,100 per year during the period from 1989 to 1997. However, subsequent to this time and up to the Filing, claim filings significantly surpassed this average as approximately 87,500 and 50,700 claims were filed in 1998 and 1999 respectively. AWI had expected the number of claims to decline in 2000. However, during the first eleven months of 2000 prior to the Filing, the Center received and verified approximately 53,000 claims. Claims from major, established law firms did decline, but this decline was more than offset by claims from new or previously low-volume law firms.

Before filing under the Bankruptcy Code, AWI pursued broad-based settlements of claims through the Center. The Center had reached Strategic Settlement Program ("SSP") agreements with law firms that covered approximately 130,000 claims that named AWI as a defendant, including agreements with 17 law firms covering approximately 36,800 claims during the first eleven months of 2000. These agreements typically provided for multiyear payments for settlement of current claims and established specific medical and other criteria for the settlement of future claims as well as annual limits on the number of claims that can be filed by these firms. These agreements also established fixed settlement values for different asbestos-related medical conditions which were subject to periodic re-negotiation over a period of 2 to 5 years. The plaintiff law firms were required to recommend settlements to their clients although future claimants are not legally obligated to accept the settlements. These agreements also provided for nominal payments to future claimants who are unimpaired but who are eligible for additional compensation if they develop a more serious asbestos-related illness. The Center could terminate an agreement with an individual law firm if a significant number of that firm's clients elect not to participate under the agreement. For some agreements, the component of the agreement that covered future claims was subject to re-negotiation if members left the Center. As a result of the Filing, AWI's obligations with respect to these settlements will be determined in the context of its Chapter 11 Case.

Fourth Quarter 2000 Events

On October 5, 2000, Owens Corning Fiberglass ("OCF"), a manufacturer of insulation, filed for protection under Chapter 11 of the Bankruptcy Code to address its asbestos liability. This filing adversely impacted AWI's negotiations to obtain a 364-day credit facility which were underway at the time. This credit facility was to replace an existing $450 million credit facility that expired on October 19, 2000. Following the OCF filing, the potential participants in the new credit facility decided to reevaluate their credit exposures to AWI, primarily due to AWI's asbestos liability. AWI could not reach agreement on a new facility with acceptable terms. The existing $450 million credit facility expired on October 19, 2000.

Additionally, AWI was concerned that a possible upward bias in the settlement demands of asbestos plaintiffs would occur given the exit from the tort system of OCF, an important defendant in asbestos litigation.

As set forth above, AWI filed for relief under Chapter 11 of the Bankruptcy Code on December 6, 2000. As a result, holders of asbestos claims are stayed from continuing to prosecute pending litigation and from filing new lawsuits against AWI. In addition, AWI ceased making payments with respect to asbestos claims, including payments pursuant to the outstanding SSP agreements. A separate creditors committee representing the interests of asbestos claimants has been appointed in the Chapter 11 Cases.

As a result of the Filing, AWI's present and future asbestos liability will be addressed in the Chapter 11 Case rather than through the Center and a multitude of lawsuits in different jurisdictions throughout the U.S. AWI believes that the Chapter 11 process provides it with the opportunity to change its approach to its asbestos liability and comprehensively address that liability in one forum. It is anticipated that all present and future asbestos claims will be resolved in the Chapter 11 Case, which could take several years.

Asbestos-Related Personal Injury Liability

In evaluating its estimated asbestos-related personal injury liability prior to the Filing, AWI reviewed, among other things, recent and historical settlement amounts, the incidence of past and recent claims, the mix of the injuries and occupations of the plaintiffs, the number of cases pending against it and the status and results of broad-based settlement discussions. Based on this review, AWI estimated its share of liability to defend and resolve probable asbestos-related personal injury claims. This estimate was highly uncertain due to the limitations of the available data and the difficulty of forecasting with any certainty the numerous variables that could affect the range of the liability.

AWI believes the range of probable and estimable liability is more uncertain now than previously. There are significant differences in the way the asbestos claims may be addressed under the bankruptcy process when compared to the tort system. Accordingly, AWI currently is unable to ascertain how prior experience with the number of claims and the amounts to settle claims will impact its ultimate liability in the context of its Chapter 11 Case.

As of September 30, 2000, AWI's estimate of its asbestos-related liability that was probable and estimable through 2006 ranged from $758.8 million to $1,363.3 million. AWI concluded that no amount within that range was more likely than any other and, therefore, reflected $758.8 million as a liability in the condensed consolidated financial statements in accordance with generally accepted accounting principles. Due to the increased uncertainty created as a result of the Filing, no change has been made to the previously recorded liability except to record payments of $68.2 million against that accrual in October and November 2000. The balance at December 31, 2000 is $690.6 million. It is reasonably possible, however, that the actual liability could be significantly higher than the recorded liability. As the Chapter 11 Cases proceed there should be more clarity as to the extent of the liability to be addressed in the Chapter 11 Cases.

Collateral Requirements

During 2000, AWI had secured a bond for $56.2 million to meet minimum collateral requirements established by the Center with respect to asbestos claims asserted against AWI. On October 27, 2000, the insurance company that underwrote the surety bond informed AWI and the Center of its intention not to renew the surety bond effective February 28, 2001. On February 6, 2001, the Center advised the surety of the Center's demand for payment of the face value of the bond. The surety filed a motion with the Court seeking to restrain the Center from drawing on the bond. The motion was not granted.

Property Damage Litigation

AWI is also one of many defendants in six pending property damage claims as of December 31, 2000 that were filed by public and private building owners. These cases present allegations of damage to the plaintiffs' 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. In the second quarter of 2000, AWI was served with a lawsuit seeking class certification of Texas residents who own property with asbestos-containing products. This case includes allegations that AWI asbestos-containing products caused damage to buildings and generally seeks compensatory damages and equitable relief, including testing, reimbursement for removal and diminution of property value. AWI vigorously denies the validity of the allegations against it in these actions and, in any event, believes that any costs will be covered by insurance. Continued prosecution of these actions and the commencement of any new asbestos property damage actions are also stayed due to the Filing. Consistent with prior periods and due to increased uncertainty, AWI has not recorded any liability related to these claims.

Insurance Coverage

During relevant time periods, AWI purchased primary and excess insurance policies providing coverage for personal injury claims and property damage claims. Certain policies also provide coverage to ACandS, Inc., the former subsidiary of AWI discussed above under "Background". AWI and ACandS agreed to share certain coverage on a first-come first-served basis and to reserve for ACandS a certain amount of excess coverage.

Wellington Agreement

In 1985, AWI and 52 other companies (asbestos defendants and insurers) signed the Wellington Agreement. This Agreement settled disputes concerning personal injury insurance coverage with signatory carriers. It provides broad coverage for both defense and indemnity and applies to both products hazard and nonproducts (general liability) coverages. Most of AWI resolutions of asbestos-related personal injury products hazard coverage matters with its solvent carriers has been achieved through the Wellington Agreement or other settlements.

Insurance Recovery Proceedings

A substantial portion of AWI's primary and excess remaining insurance asset is nonproducts (general liability) insurance for personal injury claims, including among others, those that involve alleged exposure during AWI's installation of asbestos insulation materials. AWI has entered into settlements with a number of the carriers resolving its coverage issues. However, an alternative dispute resolution ("ADR") procedure under the Wellington Agreement is under way against certain carriers to determine the percentage of resolved and unresolved claims that are nonproducts claims, to establish the entitlement to such coverage and to determine whether and how much reinstatement of prematurely exhausted products hazard insurance is warranted. The nonproducts coverage potentially available is substantial and includes defense costs in addition to limits. 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 AWI 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. One insurer has taken the position that it is entitled to litigate in court certain issues in the ADR proceeding. During 1999, AWI received preliminary decisions in the initial phases of the trial proceeding of the ADR which were generally favorable to AWI on a number of issues related to insurance coverage. However, during the fourth quarter of 2000, a new trial judge was selected for the ADR. AWI is uncertain at this time as to the impact, if any, this change will have on the preliminary decisions of the initial phases of the ADR. Further, management believes that one of the carriers has been experiencing financial difficulties, which could affect its ability to pay any ultimate judgment. AWI has not adjusted the recorded asset amount at December 31, 2000 related to this carrier. Because of the continuing ADR process and the possibilities for appeal on certain matters, AWI has not yet completely determined the financial implications of the ADR proceedings.

Insurance Asset
An insurance asset in respect of asbestos personal injury claims in the amount of $268.3 million is recorded as of December 31, 2000. Of the total recorded asset, approximately $77.2 million represents partial settlement for previous claims that will be paid in a fixed and determinable flow and is reported at its net present value discounted at 6.50%. The total amount recorded reflects AWI's belief in the availability of insurance in this amount, based upon AWI'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 that is in the trial phase of binding arbitration. Depending on further progress of the ADR, activities such as settlement discussions with insurance carriers party to the ADR and those not party to the ADR, the final determination of coverage shared with ACandS and the financial condition of the insurers, AWI may revise its estimate of probable insurance recoveries. Approximately $86 million of the $268.3 million asset is determined from agreed coverage in place and is therefore directly related to the amount of the liability and could decrease if the final amount of the liability decreases. Of the $268.3 million asset, $32.2 million has been recorded as a current asset reflecting management's estimate of the minimum insurance payments to be received in the next 12 months.

A significant part of the recorded asset relates to insurance that AWI believes is probable and will be obtained through settlements with the various carriers. Due to the Filing, the settlement process may be delayed, pending further clarification as to the asbestos liability. While AWI believes the Chapter 11 process will strengthen its position on resolving disputed insurance and may therefore result in higher settlement amounts than recorded, there has been no change in the recorded amounts due to the uncertainties created by the Filing. Accordingly, this asset could also change significantly based upon events which occur in the Court. Management estimates that the timing of future cash payments for the remainder of the recorded asset may extend beyond 10 years.

Income Statement Charges
AWI recorded charges to increase its estimate of probable asbestos-related liability by $236.0 million in the second quarter of 2000, $335.4 million in 1999 and $274.2 million in 1998. Prior to 1998, charges to increase the liability were effectively offset by corresponding increases in related insurance recoveries.

Cash Flow Impact
AWI paid $226.9 million for asbestos-related claims in the first eleven months of 2000 compared to $173.0 million in all of 1999. AWI received $27.7 million in asbestos-related insurance recoveries during 2000 compared to $58.7 million during 1999. During the pending Chapter 11 cases, AWI does not expect to make any further cash payments for asbestos-related claims, but AWI may continue to receive insurance proceeds under the terms of various settlement agreements.

Conclusion
Many uncertainties exist surrounding the financial impact of AWI's involvement with asbestos litigation. These uncertainties include the impact of the Filing and the Chapter 11 process, the number of future claims to be filed, the impact of any potential legislation and the impact of the ADR proceedings on the insurance asset. Accordingly, AWI is not revising its previously recorded liability. However, it is reasonably possible that AWI's total exposure to personal injury asbestos claims may be significantly different than the recorded liability.

Environmental Matters

Most of Armstrong's manufacturing and certain of Armstrong's research facilities are affected by various federal, state and local environmental requirements relating to the discharge of materials or the protection of the environment. Armstrong has made, and intends to continue to make, necessary expenditures for compliance with applicable environmental requirements at its operating facilities. Armstrong incurred capital expenditures of approximately $6.2 million in 2000, $5.5 million in 1999 and $6.7 million in 1998 associated with environmental compliance and control facilities. Armstrong anticipates that annual expenditures for those purposes will not change materially from recent experience. Armstrong does not anticipate that it will incur significant capital expenditures in order to meet the requirements of the Clean Air Act of 1990 and the final implementing regulations promulgated by various state agencies. However, applicable requirements under the Clean Air Act and other federal and state environmental laws continue to change. Until all new regulatory requirements are known, Armstrong cannot predict with certainty future capital expenditures associated with compliance with environmental requirements.

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 potential liability for the required investigation and remediation of each site and who, in some cases, have agreed to jointly fund that required investigation and remediation. 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. Armstrong has also been remediating environmental contamination resulting from past industrial activity at certain of its former plant sites. Armstrong's payments and remediation work on these sites is under review under light of our Chapter 11 filing.

Estimates of Armstrong's future environmental liability at any of the Superfund sites or current or former plant sites are based on evaluations of currently available facts regarding each individual site and consider factors such as Armstrong's activities in conjunction with the site, existing technology, presently enacted laws and regulations and prior company experience in remediating contaminated sites. Although current law imposes joint and several liability on all parties at 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, Armstrong's estimated liability reflects only Armstrong's expected share. In determining the probability of contribution, Armstrong considers the solvency of the parties, whether liability is being disputed, the terms of any existing agreements and experience with similar matters. The Chapter 11 Cases also may affect the ultimate amount of such contributions.

Liabilities of $13.5 million at December 31, 2000 and $13.2 million at December 31, 1999 were for potential environmental liabilities that Armstrong considers probable and for which a reasonable estimate of the probable liability could be made. Where existing data is sufficient to estimate the liability, that estimate has been used; where only a range of probable liability is available and no amount within that range is more likely than any other, the lower end of the range has been used. As assessments and remediation activities progress at each site, these liabilities are reviewed to reflect additional information as it becomes available. Due to the Chapter 11 Filing, $6.4 million of the December 31, 2000 environmental liabilities are classified as prepetition liabilities subject to compromise. As a general rule, such pre-petition liabilities that do not preserve company assets are addressed in the context of the Chapter 11 Cases. 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 in the consolidated financial statements and are either available through settlement or anticipated to be recovered through negotiation or litigation.

Actual costs to be incurred at identified sites may vary from the estimates, given the inherent uncertainties in evaluating environmental liabilities. Subject to the imprecision in estimating environmental remediation costs, Armstrong 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.

Note 28 - DIFFERENCES BETWEEN ARMSTRONG HOLDINGS INC. AND ARMSTRONG WORLD INDUSTRIES, INC.

The difference between the financial statements of AHI and Armstrong is primarily due to transactions related to the formation of Armstrong Holdings, Inc. and stock activity.

Independent Auditors' Report

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

We have audited the accompanying consolidated financial statements of Armstrong World Industries, Inc. and subsidiaries ("the Company") as listed in the accompanying index on page 35. 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 35. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Armstrong World Industries, Inc. and subsidiaries as of December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company and two of its domestic subsidiaries filed separate voluntary petitions for relief under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court on December 6, 2000. The Company has also defaulted on certain debt obligations. Although the Company and these operating subsidiaries are currently operating their businesses as debtors-in-possession under the jurisdiction of the Bankruptcy Court, the continuation of their businesses as going concerns is contingent upon, among other things, the ability to formulate a plan of reorganization which will gain approval of the creditors and confirmation by the Bankruptcy Court. The filing under Chapter 11 and the resulting increased uncertainty regarding the Company's potential asbestos liabilities, as discussed in Note 27 of the consolidated financial statements, raise substantial doubt about the Company's ability to continue as a going concern. The accompanying consolidated financial statements and financial statement schedule do not include any adjustments that might result from the outcome of these uncertainties.

KPMG LLP

February 26, 2001
Philadelphia, Pennsylvania

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

Not applicable.

PART III

Item 10. Directors and Executive Officers

The following information is current as of March 1, 2001. Each Executive Officer serves a one-year term until reelected or until his or her earlier death, resignation, retirement or replacement.

Directors of Armstrong Holdings, Inc.

H. Jesse Arnelle - Age 67; Director since 1995, Member -- Audit Committee and Finance Committee. Mr. Arnelle is Of Counsel with the law firm of Womble, Carlyle, Sandridge & Rice since October 1997 and former senior partner and co-founder of Arnelle, Hastie, McGee, Willis & Greene, a San Francisco-based corporate law firm from which he retired in 1996. He is a graduate of Pennsylvania State University and the Dickinson School of Law. Armstrong has retained Womble, Carlyle, Sandridge and Rice for many years, including 2000. Mr. Arnelle served as Vice Chairman (1992-1995) and Chairman (1996-1998) of the Board of Trustees of the Pennsylvania State University. He serves on the Boards of Waste Management, Inc., FPL Group, Inc., Eastman Chemical Company, Textron, Inc. and Gannett Corporation.

Van C. Campbell - Age 62; Director since 1991, Member -- Audit Committee and Finance Committee (Chairman); Former Vice Chairman, Corning Incorporated. Mr. Campbell graduated from Cornell University and holds an MBA degree from Harvard University. He retired in 1999 as Vice Chairman of Corning Incorporated (glass and ceramic products) and a member of its Board of Directors. He also serves on the Boards of Covance Inc., and Quest Diagnostics Incorporated. Mr. Campbell is a Trustee of the Corning Museum of Glass.

Donald C. Clark - Age 69; Director since 1996, Member -- Board Affairs and Governance Committee (Chairman) and Management Development and Compensation Committee. Former Chairman of the Board, Household International, Inc. Mr. Clark is a graduate of Clarkson University and Northwestern University where he earned his MBA degree. He joined Household International, Inc. (consumer financial services) in 1955 and, after holding a number of managerial and executive positions, was elected Chief Executive Officer in 1982 and Chairman of the Board in 1984. In 1994, he relinquished the title of Chief Executive Officer and retired as a Director and Chairman of the Board in May 1996, as a result of reaching Household's mandatory retirement age for employee directors. Mr. Clark is a life trustee of Northwestern University and Chairman of the Board of Trustees of Clarkson University. He is also a Director of The PMI Group, Inc. and a life director of Evanston Northwestern Healthcare.

Judith R. Haberkorn - Age 54; Director since July 1998, Member -- Board Affairs and Governance Committee and Management Development and Compensation Committee. Retired President - Consumer Sales and Service, Bell Atlantic. Ms. Haberkorn is a graduate of Briarcliff (N.Y.) College and completed the Advanced Management Program at Harvard Business School. From 1998 until her retirement in June 2000, she served as President - Consumer Sales & Service for Bell Atlantic (telecommunications). She previously served as President - Public & Operator Services (1997-1998), also at Bell Atlantic, and Vice President - Material Management (1990-1997) for NYNEX Telesector Resources Group (telecommunications). Ms. Haberkorn is a director of Enesco Corporation and serves on the advisory board of Norfolk Southern. She is the chair of the Committee of 200 and a member of The International Women's Forum and The Harvard Business School Network of Women Alumnae. She is a Vice President Emerita of The Harvard Business School Alumni Advisory Board and a member of the Visiting Committee.

John A. Krol - Age 64; Director since February 1998, Member -- Board Affairs and Governance Committee and Management Development and Compensation Committee; Former Chairman of the Board, E.I. du Pont de Nemours and Company. Mr. Krol is a graduate of Tufts University where he also received a master's degree in chemistry. From 1997 until his retirement in 1998, he was Chairman of the Board of DuPont (chemicals, fibers, petroleum, life sciences and diversified businesses), which he joined in 1963, and where he also served as Chief Executive Officer (1995-1998), President (1995-1997), Vice Chairman (1992-1995), and Senior Vice President of DuPont Fibers (1990-1992). He is a director of Mead Corporation, Milliken & Company and Molecular Circuitry Inc. Mr. Krol also serves on the Boards of Trustees of the Tufts University and the University of Delaware, and the corporate liaison board of the American Chemical Society. He is on the advisory Boards of Teijin Limited and Bechtel Corporation. He is a trustee of the Hagley Museum and the U.S. Council for International Business. He is also president of GEM: The National Consortium for Graduate Degrees for Minorities in Engineering and Science, Inc.

David M. Levan - Age 55; Director since February 1998, Member -- Board Affairs and Governance Committee and Management Development and Compensation Committee. Former Chairman, President and Chief Executive Officer, Conrail, Inc. Mr. LeVan is a graduate of Gettysburg College and the Harvard University Advanced Management Program. From May 1996 until his retirement in August 1998, he served as Chairman, President and Chief Executive Officer of Conrail (rail freight transportation), which he joined in 1978, and where he also served as Chief Operating Officer (1994-1996), Executive Vice President (1993-1994), and in various Senior Vice President positions (1990-1993). Mr. LeVan is a member of the Board of Trustees of Gettysburg College. He is also a member of the Board of the Philadelphia Fire Department Historical Corporation.

Michael D. Lockhart - Age 51; Director, Chairman of the Board and Chief Executive Office since August 2000. Director since November 2000 and Chairman since March 2001 of Armstrong World Industries, Inc. Mr. Lockhart previously served as Chairman and Chief Executive Officer of General Signal (a diversified manufacturer) headquartered in Stamford, CT from September 1995 until it was acquired in October 1998. He joined General Signal as President and Chief Operating Officer in September 1994. From 1981 until 1994, Mr. Lockhart worked for General Electric in various executive capacities in the GE Credit Corporation (now GE Capital), GE Transportation Systems and GE Aircraft Engines. He is a trustee of The Committee for Economic Development and a member of the Business Council for the Graduate School of Business at the University of Chicago.

James E. Marley - Age 65; Director 1988; Member -- Audit Committee (Chairman) and Finance Committee and Director of Armstrong World Industries, Inc. Former Chairman of the Board, AMP Incorporated. Mr. Marley is a graduate of Pennsylvania State University and earned a master's degree in mechanical engineering from Drexel University. From 1993 until his retirement (August 1998), he served as Chairman of the Board of AMP Incorporated (electrical/electronic connection devices), which he joined in 1963 and where he served as President and Chief Operating Officer (1990-1992) and President (1986-1990). He also serves on the Board of Arvin Meritor, Inc.

David W. Raisbeck - Age 51; Director since 1997, Member -- Audit Committee and Finance Committee. Vice Chairman, Cargill, Incorporated. Mr. Raisbeck is a graduate of Iowa State University and the executive MBA program at the University of Southern California. He joined Cargill, Incorporated (agricultural trading and processing businesses) in 1971 and has held a variety of merchandising and management positions focused primarily in the commodity and the financial trading businesses. Mr. Raisbeck was elected President of Cargill's Trading Sector in June 1993, a Director of Cargill's Board in August 1994, Executive Vice President in August 1995 and Vice Chairman in November 1999. He is a member of the Executive Committee and the ESOP Committee of the Cargill Board. He also serves as a Director of Eastman Chemical. Mr. Raisbeck is a member of the Chicago Mercantile Exchange and Minneapolis Grain Exchange. He is a governor of the Iowa State University Foundation and a member of the Dean's Advisory Council for the College of Business at Iowa State University. He serves on the board of the Greater Minneapolis YMCA.

Jerre L. Stead - Age 58; Director since 1992, Member -- Board Affairs and Governance Committee and Management Development and Compensation Committee (Chairman). Retired Chairman and Chief Executive Officer, Ingram Micro, Inc. Mr. Stead is a graduate of the University of Iowa and was a participant in the Advanced Management Program, Harvard Business School. From August 1996 until June 2000, he served as Chairman and Chief Executive Officer of Ingram Micro, Inc. (technology products and services). During 1995, he served as Chairman, President and Chief Executive Officer of Legent Corporation (integrated product and service software solutions) until its sale late in 1995. He was Executive Vice President, American Telephone and Telegraph Company (telecommunications) and Chairman and Chief Executive Officer of AT&T Global Information Solutions (computers and communicating), formerly NCR Corp. (1993-1994). He was President of AT&T Global Business Communications Systems (communications) (1991-1993) and Chairman, President and Chief Executive Officer (1989-1991) and President (1987-1989) of Square D Company (industrial control and electrical distribution products). In addition, he held numerous positions during a 21-year career at Honeywell. He is a Director of Thomas & Betts, Conexant Systems, Inc., Brightpoint Inc. and Mobility Electronics, Inc.

Executive Officers of Armstrong Holdings, Inc.

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

Frank A. Riddick, III - Age 44; Chief Executive Officer, Triangle Pacific Corp. since November 2000; President and Chief Operating Officer, Armstrong Holdings, Inc. since August 2000. Previously Executive Vice President and Chief Operating Officer since February 2000 and Senior Vice President, Finance and Chief Financial Officer, Armstrong World Industries, Inc. since April 1995; Controller FMC Corporation, Chicago, IL (chemicals, machinery), May 1993 - March 1995.

Matthew J. Angello - Age 41; Senior Vice President, Corporate Human Resources since October 2000. Previously Vice President, Human Resources, Floor Products Operations, Armstrong World Industries, Inc. since January 1997; Vice President and Senior Director, Human Resources, The Restaurant Company (food service) since 1992.

John N. Rigas - Age 52; Senior Vice President, Secretary and General Counsel since November 2000. Previously Deputy General Counsel-Litigation, Armstrong World Industries, Inc. since March 1999; worked for Dow Corning Corporation (specialty chemical company) from October 1982 until March 1999, his last title being Senior Managing Counsel.

E. Follin Smith - Age 41; Senior Vice President and Chief Financial Officer since March 2000. Previously Vice President and Treasurer, Armstrong World Industries, Inc. 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.

William C. Rodruan - Age 46; Vice President and Controller since July 1999. Previously Director, Corporate Transformation and Shared Services since February 1997 and Vice President of Finance, Corporate Retail Accounts, Armstrong World Industries, Inc. since July 1994.

Michael B. Shaffer - Age 34; Vice President Consulting and Audit Staff since March 2001. Previously held the following positions with General Electric and GE Capital (industrial manufacturing and financial services): Senior Vice President, National Trailer Storage, April 1999-February 2001; Senior Vice President, Quality, November 1998-April 1999; Manager, Financial Planning and Analysis, January 1997-November 1998; Manager, Sourcing Finance and Product Costing, October 1994-January 1997.

Directors of Armstrong World Industries, Inc. (See descriptions, above.)

Michael D. Lockhart

James E. Marley

John N. Rigas

Executive Officers of Armstrong World Industries, Inc.

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

Marc R. Olivie - Age 47; President and Chief Executive Officer, Armstrong Floor Products Operations and Corporate President since October 2000. Previously, President, Worldwide Building Products Operations since October 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.

Stephen J. Senkowski - Age 50; President and Chief Executive Officer, Armstrong Building Products Operations since October 2000. Previously, Senior Vice President-Americas, Building Products Operations, since April 2000; President/Chief Executive Officer, WAVE since July 1997; Vice President, Innovation Process, Building Products Operations since 1994.

Floyd F. Sherman -Age 61; President, July 1998 - November 2000 and Chairman of the Board since 1992 and Chief Executive Officer, July 1992-November 2000; President, 1981-November 1994, Triangle Pacific Corp.

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

E. Follin Smith - (See description, above.)

Stephen E. Stockwell - Age 55; Vice President, Corporate Alliances since December 2000. Previously Senior Vice President Floor Products, Americas, Residential Sales, since July 1998; President, Corporate Retail Accounts Division, November 1994-July 1998; Vice President, Corporate Retail Accounts, July 1994-November 1994; General Manager, Residential Sales, Floor Division, January 1994-July 1994; Field Sales Manager, Floor Division, 1988-1994.

Michael B. Shaffer - (See description, above.)

Involvement in Certain Legal Proceedings

On December 6, 2000, AWI and two of Armstrong's wholly owned subsidiaries, Nitram Liquidators, Inc. and Desseaux Corporation of North America, Inc., filed for reorganization under Chapter 11 of the U.S. Bankruptcy Code. Several of AHI's officers and directors are also officers or directors of AWI or the subsidiaries of Armstrong which filed for reorganization under Chapter 11. In addition, all present directors of AHI were or are directors of AWI within the past year. As such, these executive officers and directors have been associated with a corporation that filed a petition under the federal bankruptcy laws within the last five years.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires the registrant's officers and directors, and persons who own more than ten percent of the shares of Common Stock outstanding, to file periodic reports of ownership and changes in ownership with the Securities and Exchange Commission. Based solely on a review of copies of these reports furnished to Armstrong and AHI, Armstrong and AHI believe all of these reports were filed in a timely manner except as follows: George A. Lorch failed to timely report on a Form 4 the distribution of 14,915 shares of restricted stock on October 19, 2000. The grant had previously been reported on a Form 5 filed on January 31, 1997 as the acquisition of a derivative security. The vesting and distribution of this restricted stock should have been reported on a Form 4 as a settlement of a derivative security. This transaction was subsequently reported on a Form 5 on February 12, 2001.

Item 11. Executive Compensation

Executive Officers' Compensation

The following table shows the compensation received by the Chief Executive Officers and the four other highest paid individuals who served as executive officers of AHI or Armstrong during 2000. The data reflects compensation for services rendered to AHI and Armstrong and their subsidiaries in each of the last three fiscal years in the positions disclosed in Item 10.

TABLE 1: SUMMARY COMPENSATION TABLE

		ANNUAL COMPENSATION			LONG-TERM COMPENSATION			
					Awards		Payout	
Name and Current Principal Position	Year	Salary ($)	Bonus ($)/3/	Other Annual Compen-sation ($)/4/	AHI Restricted Stock Awards ($)/5/	AHI Securities Underlying Options/ SARs(#)	LTIP Payouts ($)	All Other Compen-sation ($)/6/
M. D. Lockhart Chairman and Chief Executive Officer, AHI; Chairman, Armstrong	2000	321,212/1/	5,401,640	-----	2,456,250	200,000	-----	-----
G. A. Lorch Advisor to the Chairman and Chief Executive Officer, AHI; formerly Chairman and Chief Executive Officer of Armstrong and AWI through August 7, 2000	2000	756,667/2/	-	-----	-----	168,000	-----	50,520
	1999	792,500	1,831,780			115,000		86,558
	1998	752,500	1,007,339			93,000		64,247
M. R. Olivie President & Chief Executive Officer, Armstrong Floor Products Operations and Corporate President, Armstrong	2000	392,875	565,144	-----	-----	60,000	-----	32,421
	1999	343,125	362,147			25,000		33,708
	1998	327,750	237,236			20,300		15,433
F. A. Riddick, III President and Chief Operating Officer, AHI; President & Chief Executive Officer, Triangle Pacific	2000	508,182	184,398	-----	818,750	90,000	-----	24,513
	1999	390,000	665,680		254,688	40,000		21,596
	1998	354,000	364,448			75,600		11,249
F. F. Sherman Chairman Triangle Pacific	2000	536,250	31,576	60,828	-----	70,000	-----	15,702
	1999	518,750	638,685	60,892		37,000		27,346
	1998	360,772	310,660			50,000		29,074
S. J. Senkowski President & Chief Executive Officer, Armstrong Worldwide Building Products Operations	2000	219,583	309,322	-----	-----	13,000	-----	6,104
	1999	133,830	172,925			6,500		4,800
	1998	120,960	138,311			3,460		5,798

/1/ Mr. Lockhart's employment with the company commenced August 7, 2000.

/2/ Mr. Lorch resigned as Chairman and Chief Executive Officer of AHI and Armstrong on August 7, 2000, when he became Advisor to the Chairman and CEO. Mr. Lorch retired December 1, 2000.

/3/ The amounts disclosed include the following items:

Mr. Lockhart had a guaranteed bonus for 2000 along with a $5,000,000 signing bonus. Messrs. Olivie, Riddick and Senkowski received supplemental bonuses of $250,000, $200,000 and $175,000 respectively. Mr. Olivie received $100,000 as a contract bonus for his new position as President & Chief Executive Officer of Armstrong Floor Products Operations.

/4/ Mr. Sherman received a car allowance of $56,736 in 1999 and in 2000. Otherwise, the aggregate value of personal benefits received by these officers did not exceed the lesser of $50,000 or 10% of combined salary and bonus.

/5/ The number and value of restricted stock held by each as of February 16, 2001, is as follows: Michael D. Lockhart - 150,000 ($588,000); Marc R. Olivie - 5,290 ($20,763) and Frank A. Riddick, III - 59,653 ($233,840). In 2000, Mr. Lockhart and Mr. Riddick received restricted stock awards of 150,000 and 50,000 shares respectively valued at the amounts disclosed on the grant date. These shares vest and become free of restrictions four years from the grant date.

/6/ Includes above-market interest credited to each individual's Armstrong Deferred Compensation Plan account: Floyd F. Sherman - $252 and Stephen J. Senkowski $97.

Includes the following vested amount in the Retirement Savings and Stock Ownership Plan for members' Equity and Match Accounts: George A. Lorch - $2,762; Marc R. Olivie - $4,805; Frank A. Riddick, III - $2,481; and Stephen J. Senkowski - $2,882.

Includes the following amount of non-elective contribution by Armstrong to each individual's Bonus Replacement Retirement Plan Account: George A. Lorch - $19,500; Marc R. Olivie - $18,500 and Frank A. Riddick, III - $17,600. This contribution results in a corresponding reduction in the amount of the executive's Management Achievement Plan payment.

Includes the following present value costs of Armstrong's portion of 2000 premiums for split-dollar life insurance: George A. Lorch - $28,258; Marc R. Olivie - $9,116; Frank A. Riddick, III - $4,432; and Stephen J. Senkowski - $3,125. The executives waived future participation in the Armstrong-paid group term life insurance program as a condition to participate in the split-dollar life insurance program.

Mr. Sherman had taxable income of $15,400 related to life insurance benefits provided by Triangle Pacific Corp.

Change in Control Agreements

Armstrong and AHI have entered into change in control ("CIC") agreements with a group of senior executives, including the officers named in the Summary Compensation Table. These agreements provide severance benefits in the event of a change in control of AHI. The purpose of the agreements is to foster the continued employment for key executives in the face of a possible change in control of AHI.

The severance benefits are payable if the executive is involuntarily terminated or terminates employment for good reason within three years following a change in control. Good reason to terminate employment exists if there are significant changes in the nature of the employment following the change in control. For example, a reduction in compensation, a change in responsibility, or a relocation of the place of employment would constitute significant changes. For the most senior officers, the agreement includes a provision where the executive may choose to terminate employment for any reason during the thirty-day period beginning twelve months following a qualifying change in control and receive severance benefits. The qualifying change in control must meet the definitions in (2) and (3) shown below. The agreement has an automatic renewal feature, meaning the agreements will continue in effect unless either Armstrong, AHI or the executive elects not to extend the agreement.

For the purposes of these agreements, a change in control includes the following: (1) acquisition by a person (excluding certain qualified owners) of beneficial ownership of 20% or more of AHI's common stock; (2) change in the composition of the Board of AHI, so that existing Board members and their approved successors do not constitute a majority of the Board; (3) consummation of a merger or consolidation of AHI, unless shareholders of voting securities immediately prior to the merger or consolidation continue to hold 66-2/3% or more of the voting securities of the resulting entity; and (4) shareholder approval of a liquidation or dissolution of AHI or sale of substantially all of AHI's assets.

Severance benefits under the agreements depend on the position the executive holds, but generally include: (1) a lump severance payment equal to two or three times the sum of the officer's annual base salary and the higher of either (a) the officer's highest annual bonus earned in the three years prior to termination or prior to the change in control or (b) the annual target bonus for the year in which the change in control occurs; (2) a lump payment of the portion of the target incentive award calculated by multiplying the target award by the fractional number of months completed in the performance award period;
(3) payment of remaining premium payments for split-dollar life insurance policies; (4) enhanced retirement benefits payable as a lump sum; (5) continuation of life, disability, accident and health insurance benefits for three years following termination; (6) full reimbursement for the payment of excise taxes; and (7) payment of legal fees in connection with a good faith dispute involving the agreement.

Employment Agreements

AHI and Armstrong amended their employment agreement with George A. Lorch as of August 7, 2000. The terms of this agreement were subsequently amended whereby Mr. Lorch continued employment in a non-executive capacity through November 30, 2000 at a base salary of $835,000 per year. Following Mr. Lorch's retirement on December 1, 2000, he agreed to provide consulting services to AHI through January 31, 2003 with compensation of $1.8 million due on February 1, 2001 and $125,000 per quarter beginning February 1, 2001 with the final payment due November 1, 2002. If AHI terminates the employment and consulting agreement with Mr. Lorch without "cause" or if Mr. Lorch terminates his employment and consulting engagement for "good reason," Mr. Lorch is entitled to all amounts payable under the agreement through January 31, 2003. Mr. Lorch's employment agreement also contains a non-competition provision that bars him from competing with AHI or any subsidiaries or affiliates for an additional two years. Mr. Lorch also entered into a Stock Option Surrender Agreement with AHI, under which he agreed to cancel options to purchase 559,380 shares of Armstrong stock in exchange for a payment of $1.0 million on February 1, 2001. In February 2001, subject to court approval in AWI's Chapter 11 case, the parties agreed to (i) void the Stock Option Surrender Agreement; (ii) extend Mr. Lorch's non-competition period an additional 2 years; and (iii) increase the $1.8 million payment referenced above to $2.8 million.

AHI and Armstrong entered into a three-year employment agreement with Michael D. Lockhart, effective August 7, 2000, in which Mr. Lockhart agreed to serve as Chairman of the Board and Chief Executive Officer of AHI at an initial base salary of $800,000 per year and a $5,000,000 one-time signing bonus. Portions of the signing bonus must be repaid to AHI if Mr. Lockhart terminates employment for any reason other than death, disability or good reason or is terminated for cause. The employment agreement is automatically renewed for an additional one-year term on the third anniversary of the date of the agreement and each successive anniversary, unless AHI gives notice not to extend the agreement at least 180 days prior to the anniversary date. If AHI terminates the employment agreement with Mr. Lockhart without "cause" or if Mr. Lockhart terminates his employment for "good reason" prior to the third year of the employment contact, Mr. Lockhart is entitled to receive (1) a lump-sum cash payment equal to his base salary, plus the higher of (i) his target bonus in the year of termination, or (ii) the highest bonus award earned during the last three years, including the year of termination, multiplied by either the number of years remaining in his employment agreement or by two ("2"), whichever is larger and (2) continuation of certain benefits for a period equal to the greater of two years or the remaining term of the agreement. If AHI terminates the employment agreement with Mr. Lockhart without "cause" or if Mr. Lockhart terminates his employment for "good reason" after the third year of the employment contact, Mr. Lockhart is entitled to receive (1) a lump-sum cash payment equal to his base salary, plus the higher of (i) his target bonus in the year of termination, or
(ii) the highest bonus award earned during the last three years, including the year of termination, multiplied by either the number of years remaining in his employment agreement or by one ("1"), whichever is larger and (2) continuation of certain benefits. Mr. Lockhart's employment agreement also contains a non-competition provision that bars him from competing with AHI or any subsidiaries or affiliates for a period of two years following his termination. The agreement also provides Mr. Lockhart with the opportunity to participate in all short-term and long-term incentive plans offered by AHI and Armstrong, including an annual cash incentive opportunity and an annual long-term incentive award under the company's stock incentive plan. The value of the long-term incentive award on the grant date is 150% of Mr. Lockhart's target annual cash compensation for the year.

AHI and Frank A. Riddick, III entered into a three-year employment agreement effective August 7, 2000, in which Mr. Riddick agreed to serve as President and Chief Operating Officer of AHI. In November 2000, Armstrong, Triangle Pacific Corp. and Mr. Riddick entered into an employment agreement to allow Mr. Riddick to also serve as Chief Executive Officer of Triangle Pacific Corp., a wholly-owned subsidiary of AHI and Armstrong. This employment agreement provides Mr. Riddick an initial base salary of $600,000 and is automatically renewed for an additional one-year term on the second anniversary of the date of the agreement and each successive anniversary, unless notice not to extend the period is provided by Triangle Pacific Corp. or by Mr. Riddick at least 180 days prior to the anniversary date. A special cash retention payment of $250,000 is payable December 28, 2001, provided Mr. Riddick is still employed by AHI, or has been terminated without "cause". If Triangle Pacific Corp. terminates the employment agreement with Mr. Riddick without "cause" or if Mr. Riddick terminates his employment for "good reason" during the term of the agreement, Mr. Riddick is entitled to receive (1) a lump-sum cash payment equal to three ("3") times the sum of his base salary plus the higher of (i) his target bonus in the year of termination, or (ii) the highest bonus award earned during the last three years, including the year of termination and (2) continuation of certain benefits for three years. If Triangle Pacific Corp. terminates the employment agreement with Mr. Riddick without "cause" or if Mr. Riddick terminates his employment for "good reason" at the end of the term of the agreement, Mr. Riddick is entitled to receive (1) a lump-sum cash payment equal to one and one-half ("1.5") times the sum of his base salary plus the higher of (i) his target bonus in the year of termination, or (ii) the highest bonus award earned during the last three years, including the year of termination and (2) continuation of certain benefits. Mr. Riddick's employment agreements also contain non-competition provisions that bar him from competing with AHI or any subsidiaries or affiliates for a period of two years following his termination. The agreement with Triangle Pacific Corp. and Armstrong also provides Mr. Riddick with the opportunity to participate in all short-term and long-term incentive plans offered to senior officers of Armstrong.

AHI and Armstrong entered into an employment agreement with Marc R. Olivie, effective October 1, 2000 and ending December 31, 2003. Mr. Olivie agreed to serve as President and Chief Executive Officer, Armstrong Floor Products Operations, Armstrong at an initial base salary of $500,000 and a one-time cash payment of $100,000. A special cash retention payment of $250,000 is payable December 28, 2001, provided Mr. Olivie is still employed by Armstrong or AHI, or has been terminated without "cause." If Armstrong terminates the employment agreement with Mr. Olivie without "cause" or if Mr. Olivie terminates his employment for "good reason," Mr. Olivie is entitled to receive a cash payment equal to the greater of (1) his base salary plus the target bonuses Mr. Olivie would have earned over the term of the agreement or (2) $1,100,000, and continuation of certain benefits for three years. If Mr. Olivie gives 90 days notice to voluntarily terminate his employment at the end of the term of the agreement, he will receive a $1,100,000 severance payment. Mr. Olivie's employment agreement also contains a non-competition provision that bars him from competing with AHI or any subsidiaries or affiliates for a period of two years following his termination. The agreement also provides Mr. Olivie with the opportunity to participate in the Management Achievement Plan. He will receive $500,000 in lieu of participation in any award in 2001, but will participate in long-term incentive plans for 2002-2003.

Severance Pay Plan for Salaried Employees

A Severance Pay Plan for AWI Salaried Employees was adopted in 1990. This plan is designed to cushion the effects of unemployment for certain salaried employees. The benefits are payable if a covered employee is terminated under certain circumstances. All salaried employees of AHI and AWI, including four of the executive officers named in the Summary Compensation Table, are eligible to participate in the plan. A participant will be entitled to severance pay if they are terminated and an exclusion does not apply. The employee is not entitled to severance pay if the reason for the termination is the following: (1) voluntary separation; (2) the employee accepts employment with the successor organization in connection with the sale of a plant, unit, division or subsidiary; (3) the employee rejects the offer of a similar position with comparable compensation in the same geographic area, made by AHI or AWI, their subsidiaries or any successor organization; or (4) misconduct or unsatisfactory performance. Severance benefits will be offset by payments made under CIC agreements or individual employment agreements.

Under the plan, the scheduled amount of the payment is based on the employee's length of service, reason for termination and cash compensation level. The amount of the payment ranges from a minimum of two weeks' pay (base salary plus target bonus) to a maximum of 52 weeks' pay. Effective July 2, 2001, a new schedule of payments applies that ranges from a minimum of two weeks' base salary to a maximum of 39 weeks' base salary. Subject to certain limitations, benefits may be paid by salary continuation or lump-sum payments. A participant may also choose a combination of periodic and lump-sum payments. The Severance Pay Committee retains the right to depart from the severance pay schedule where factors justify an upward or downward adjustment in the level of benefits. In no event may the severance benefit exceed two times the participant's annual compensation.

TABLE 2:OPTION/SAR GRANTS IN LAST FISCAL YEAR

The following table sets forth information regarding the grant of stock options during 2000 under AHI's Long-Term Stock Incentive Plan to each of the named executives:

Individual Grants					
Name	AHI Securities Underlying Options/SARs Granted/1/ (#)	Percent of Total Options/SARs Granted To Employees In Fiscal Year	Exercise Or Base Price ($/share)	Expiration Date	Grant Date Present Value/2/ ($)
M. D. Lockhart	100,000	5.6%	16.3750	8/07/10	83,387
M. D. Lockhart	100,000	5.6%	1.1875	12/07/10	22,659
G. A. Lorch	168,000	9.3%	19.4375	2/28/10	205,451
M. R. Olivie	60,000	3.3%	19.4375	2/28/10	75,519
F. A. Riddick, III	90,000	5.0%	19.4375	2/28/10	111,610
F. F. Sherman	70,000	3.9%	19.4375	2/28/10	87,549
S. J. Senkowski	13,000	0.7%	19.4375	2/28/10	18,448

/1/ These options become exercisable in equal installments at one, two and three years from the date of grant. The exceptions are in the case of death or disability and a defined change in control event. All stock options become exercisable immediately upon a change in control of AHI.

/2/ In accordance with Securities and Exchange Commission rules, the numbers in the column titled "Grant Date Present Value" were determined using the Black-Scholes model. These are not AHI or Armstrong's predictions. However, the following material weighted-average assumptions and adjustments were necessary:
(1) an option term of five years; (2) a volatility of 28%; (3) a dividend yield of 8.55%; (4) a risk free interest rate of 6.28%; and (5) a reduction of 17% to reflect the possibility that the above stock options will be forfeited prior to the expiration date.

Whether these options ever have actual value will depend on the future market price of AHI's stock. We cannot forecast this with any reasonable certainty.

TABLE 3: AGGREGATE OPTION/SAR EXERCISES IN LAST FISCAL YEAR AND FISCAL YEAR-END OPTION/SAR VALUES

The following table sets forth information regarding the exercise of AHI stock options during 2000 and the unexercised options held as of the end of 2000 by each of the named executives.

	AHI Shares Acquired On Exercise	Value Realized (market price at exercise less exercise price)	Securities Underlying Unexercised Options/SARs At Fiscal Year-End (#)		Value of Unexercised In-The-Money Options/SARs At Fiscal Year-End ($)	
Name	(#)	($)	Exercisable	Unexercisable	Exercisable	Unexercisable
M. D. Lockhart	0	0	0	200,000	0	87,500
G. A. Lorch	0	0	51,300	168,000	0	0
M. R. Olivie	0	0	0	60,000	0	0
F. A. Riddick, III	0	0	30,000	90,000	0	0
F. F. Sherman	0	0	0	70,000	0	0
S. J. Senkowski	0	0	1,655	13,000	0	0

RETIREMENT INCOME PLAN BENEFITS

The following table shows the estimated pension benefits payable to a participant at normal retirement age under Armstrong's Retirement Income Plan and Retirement Benefit Equity Plan. The Retirement Income Plan is a qualified defined benefit pension plan. The Retirement Benefit Equity Plan is a partially funded, nonqualified supplemental pension plan. It provides participants with benefits that would otherwise be denied by reason of certain Internal

Revenue Code limitations on qualified plan benefits. The amounts shown in Table 4 are based on compensation that is covered under the plans and years of service with Armstrong and its subsidiaries. Mr. Sherman does not participate in the Retirement Income Plan. Mr. Sherman participates in the Triangle Pacific Corp. Salaried Employees Profit Sharing Plan and the Triangle Pacific Corp Supplemental Profit Sharing and Deferred Compensation Plan.

TABLE 4: ANNUAL RETIREMENT BENEFIT BASED ON SERVICE/1/

Average Final Compensation/2/	15 Years	20 Years	25 Years	30 Years	35 Years	40 Years
$200,000	$44,000	$58,000	$73,000	$87,000	$102,000	$114,000
$400,000	$90,000	$120,000	$150,000	$180,000	$210,000	$234,000
$600,000	$137,000	$182,000	$228,000	$273,000	$319,000	$355,000
$800,000	$183,000	$244,000	$305,000	$366,000	$427,000	$475,000
$1,000,000	$230,000	$306,000	$383,000	$459,000	$536,000	$596,000
$1,200,000	$276,000	$368,000	$460,000	$552,000	$644,000	$716,000
$1,400,000	$323,000	$430,000	$538,000	$645,000	$753,000	$837,000
$1,600,000	$369,000	$492,000	$615,000	$738,000	$861,000	$957,000
$1,800,000	$416,000	$554,000	$693,000	$831,000	$970,000	$1,078,000
$2,000,000	$462,000	$616,000	$770,000	$924,000	$1,078,000	$1,198,000
$2,200,000	$509,000	$678,000	$848,000	$1,017,00	$1,187,000	$1,319,000
$2,400,000	$555,000	$740,000	$925,000	$1,110,000	$1,295,000	$1,439,000
$2,600,000	$602,000	$802,000	$1,003,000	$1,203,000	$1,404,000	$1,560,000
$2,800,000	$648,000	$864,000	$1,080,000	$1,296,000	$1,512,000	$1,680,000
$3,000,000	$695,000	$926,000	$1,158,000	$1,389,000	$1,621,000	$1,801,000

/1/ Benefits shown assume retirement in 2000. The benefits are computed as a straight life annuity beginning at age 65 and are not subject to deduction for Social Security or other offsets.

/2/ Calculated as the average annual compensation in the three highest paid years during the 10 years prior to retirement. Annual compensation equals the total of the amounts reported under the columns captioned "Salary" and "Bonus" in the Summary Compensation Table as well as Armstrong contributions under the Bonus Replacement Retirement Plan.

The 2000 annual compensation and estimated years of service for plan purposes for each of the executives named in the Summary Compensation Table were as follows: Michael D. Lockhart - $321,212 (0.4 years); George A. Lorch - $2,607,947 (37.5 years); Marc R. Olivie - $773,522 (24.2 years); Frank A. Riddick, III - $1,191,462 (20.8 years) and Steven J. Senkowski - $310,766 (27.6 years). Mr. Lockhart receives two years of service credit for every one year of actual service toward the calculation of his pension benefits under the Retirement Benefit Equity Plan. Messrs. Riddick and Olivie's estimated years of service include 15 and 20 years, respectively, of credit for prior service awarded to them upon their employment with Armstrong. The Armstrong retirement benefit will be reduced by the value of any defined benefit pension payable by previous employers for the respective period of the prior service credit.

Special provisions apply if the Retirement Income Plan is terminated within five years following an Extraordinary Event, as this item is defined in the Plan. In that event, Plan liabilities will first be satisfied; then, remaining Plan assets will be applied to increase retirement income to employees. The amount of the increase is based on the assumption that the employee would have continued employment with Armstrong until retirement. The executives named in the Summary Compensation Table, except for Mr. Sherman, would be entitled to this benefit.

Special provisions also apply in the event that a salaried member is terminated other than for cause or resigns for good reason, as those terms are defined in the plan, within two years following a change in control of Armstrong. If those members have at least 10 years of service and are at least 50 years in age, they would be eligible for early retirement without certain normal reductions applying. Those members would also receive some Social Security replacement benefits. Members with 15 or more years of service would also receive credit under the plan for an additional five years of service.

Compensation of Directors
AHI and Armstrong pay directors who are not employees a retainer of $50,000 per year. Shared directors receive only a single retainer. AHI and Armstrong nonemployee directors receive $1,200 for each Board meeting and $1,000 for each Committee (other than Executive Committee) meeting attended. Nonemployee members of AHI's Executive Committee receive an annual fee of $3,000. AHI and Armstrong also pay $2,500 per day plus reasonable expenses to directors for special assignments in connection with Board activity. Additionally, AHI pays an annual fee of $3,000 to each Committee chairperson.

AHI and Armstrong do not separately compensate directors who are officers or employees of AHI or Armstrong for services rendered as a director.

Discontinuation of Director's Retirement Benefits
In 1995, the Board discontinued the Directors Retirement Income Plan for directors who joined the Board after January 1, 1996. The four current directors who were then eligible for participation in the plan subsequently elected to opt out of participation. Consequently, no current director is eligible to participate in this plan. Under the plan, if a director attained six years of Board service, the director qualified for retirement benefits after leaving the Board. The annual retirement benefit equaled the Board retainer in effect on the date of termination. The benefit is payable for a period equal to the length of the director's Board service, but ceases upon a director's death. Messrs. Arnelle, Campbell, Marley and Stead elected to discontinue plan participation and waive their right to accrued benefits. As a result, they became eligible to receive phantom shares of AHI common stock. They each received an award of 200 phantom shares on January 1, 1996, and were to continue to receive 200 phantom shares every January 1 until attaining 12 years of Board service. On February 26, 2001, the Board amended the deferred compensation plan to discontinue the annual award of 200 phantom shares. In addition, they each received a phantom share award to replace the value of the accrued benefit the director elected to forfeit. This award was the greater of (1) 200 shares times the number of full years of Board service as of January 1, 1996, or (2) the number of shares whose fair market value as of January 1, 1996, equaled the present value of benefits accrued under the Directors' Retirement Income Plan.

Restricted Stock Plan for Nonemployee Directors
On February 26, 2001, the Board terminated the Restricted Stock Plan for Non-Employee Directors. Under this plan, each nonemployee director received an award of 200 shares of restricted common stock upon becoming a director and annual awards each July 1st. For 2000, each non-employee director was eligible to receive an award of 400 shares. All shares previously awarded have been distributed to the Directors.

Each nonemployee director has the right to receive dividends on, and has voting power with respect to, the shares.

Nonstatutory Stock Option Alternatives
Beginning in 1998, each director could elect to receive nonstatutory stock options instead of receiving other forms of compensation. Each year, a director could separately elect to receive stock options in lieu of each of the following year's: (1) scheduled cash payments; (2) phantom share award; and (3) award of common stock under the Restricted Stock Plan for Non-Employee Directors. This election must be made not later than December 1 in the year preceding the payment year.

The resulting stock options: (1) are granted at fair market value; (2) have a ten-year option term; (3) are immediately exercisable; and (4) are transferable for the benefit of an immediate family member.

For 2000, the following directors elected to receive the following stock options in lieu of other compensation:

Mr. Campbell - 2,010; Mr. Clark - 5,560; Ms. Haberkorn - 3,250 and Mr. LeVan - 5,260

Management Development and Compensation Committee
The Management Development and Compensation Committee members are Jerre L. Stead (Chairman); Donald C. Clark; Judith R. Haberkorn; John A. Krol; and David M. LeVan. The Management Development and Compensation Committee establishes the overall philosophy and policies governing compensation programs, including those subject to Section 162(m) of the Internal Revenue Code, for AHI and Armstrong management.

Item 12. Security Ownership of Certain Beneficial Owners and Management

Stock Ownership of Certain Beneficial Owners

AHI indirectly owns all of the capital stock of Armstrong. The following table sets forth each person or entity that may be deemed to have beneficial ownership of more than 5% of the outstanding common stock of AHI. This table shows ownership as of December 31, 2000, and is based upon information furnished to AHI. All Armstrong stock is owned by AHI, except for 11.6 million shares in Armstrong's treasury.

Name And Address Of Beneficial Owner	Amount And Nature Of Beneficial Ownership	Percent Of Class Outstanding/1/
Chase Manhattan Bank/2/ 4 Chase Metrotech Center 18th Floor West Brooklyn, NY 11245	2,339,917	5.73%
Dimensional Fund Advisors/3/ 1299 Ocean Ave., 11th floor, Santa Monica, CA 90401	2,124,000	5.20%

/1/ In accordance with applicable rules of the Securities and Exchange Commission, this percentage is based upon the total 40,844,585 shares of AHI common stock that were outstanding on December 31, 2000.

/2/ Chase Manhattan Bank serves as the trustee of the employee stock ownership portion of the Retirement Savings and Stock Ownership Plan (the "RSSOP"). In that capacity, Chase Manhattan Bank may be deemed to be the beneficial owner of 2,339,917 shares, or 5.73% of AHI outstanding shares. Chase Manhattan Bank holds shared voting power and no investment power with respect to these shares. Chase Manhattan Bank votes shares which are allocated to participant's accounts under the RSSOP in accordance with the participant's direction. Shares which are unallocated under the RSSOP and allocated shares for which the trustee does not receive directions are voted by the trustee in the same proportion as the directed shares are voted. In the event of a tender offer for the stock in the RSSOP, the trustee is required to tender unallocated shares in the same proportion that allocated shares are tendered. Chase Manhattan Bank disclaims beneficial ownership of all shares that have been allocated to the individual accounts of employee participants in the RSSOP for which directions are received.

/3/ Dimensional Fund Advisors Inc., advises that it is an investment advisor registered under Section 203 of the Investment Advisors Act of 1940, that furnishes investment advice to four investment companies registered under the Investment Company Act of 1940, and serves as investment manager to certain other commingled group trusts and separate accounts. These investment companies, trusts and accounts are the "Funds." In its role as investment advisor or manager, Dimensional advises that it possesses voting and/or investment power over the securities of the Issuer described in this schedule that are owned by the Funds. All securities reported in this schedule are owned by the Funds. Dimensional Fund Advisors Inc. disclaims beneficial ownership of such securities.

Security Ownership of Management

The following table shows the amount of AHI stock that each director, each individual named in the Summary Compensation Table, and all directors and executive officers owned as a group. The ownership rights in these shares consist of sole voting and investment power, except where otherwise indicated. This information is as of February 16, 2001. No Armstrong World Industries, Inc. stock is owned by anyone.

Name	Stock/1/	Stock Options Exercisable w/in 60 days	Total Beneficial Ownership	Deferred Stock Units/2/
H. Jesse Arnelle	1,946	0	1,946	1,703
Van C. Campbell	2,200	5,330	7,530	9,915
Donald C. Clark	4,448	12,080	16,528	1,894
Judith R. Haberkorn	772	4,970	5,742	1,910
John A. Krol	1,020	2,990	4,010	644
David M. LeVan	5,644	11,500	17,144	301
Michael D. Lockhart	151,500	0	151,500	0
James E. Marley	4,285	1,410	5,695	8,086
Marc R. Olivie	25,437	20,000	45,437	9,303
David W. Raisbeck	1,024	0	1,024	11,880
Frank A. Riddick, III	91,507	60,000	151,507	1,687
Stephen J. Senkowski	3,881	5,988	9,869	1,327
Floyd F. Sherman	15,712	23,333	39,045	0
Jerre L. Stead	4,400	3,260	7,660	2,094
Directors and executive officers as a group (19 persons)	362,184	199,769	561,953	53,952

/1/ Includes the following shares held by each nonemployee director under AHI's Restricted Stock Plan for Non-Employee Directors: H. Jesse Arnelle - 1,400; Van C. Campbell - 2,000; Donald C. Clark - 1,100; Judith R. Haberkorn - 600; John A. Krol - 900; David M. LeVan - 600; James E. Marley - 2,100; David W. Raisbeck - 900; Jerre L. Stead - 1,900. Each director holds voting but not investment power in these shares. The directors may also forfeit their rights to these shares in certain events.

Includes the following shares that may be deemed to be owned by the employee through the employee stock ownership accounts of AHI's Retirement Savings and Stock Ownership Plan ("RSSOP"): Frank A. Riddick, III - 1,272; Marc R. Olivie - 1,278; Stephen J. Senkowski - 2,062; and executive officers as a group - 11,734. Each of the above individuals and each member of the group holds shared voting power with AHI and no investment power with respect to these shares.

Includes the following shares indirectly owned and held in the savings accounts of the RSSOP accounts of the following individuals: Frank A. Riddick, III - 1,188; Marc R. Olivie - 3,301; Stephen J. Senkowski - 38 and executive officers as a group - 6,086.

Includes the following shares indirectly owned and held in the Bonus Replacement Retirement Plan accounts: Marc R. Olivie - 1,538 and executive officers as a group - 1,830.

Included also are 100 shares Jerre L. Stead owns jointly with his wife.

For each director, the shares listed under the "Total Beneficial Ownership" column represent less than 1.0% ownership of the outstanding shares on February 16, 2001. All current directors and officers as a group beneficially own 1.38% of the outstanding shares on February 16, 2001.

/2/ Includes phantom shares held in a stock subaccount under the Deferred Compensation Plan. The participants have no voting or investment power.

Item 13. Certain Relationships and Related Transactions

During 2000, AWI had various business arrangements with organizations with which certain directors are affiliated. However, none of those arrangements were material to either AWI or any of those organizations. Moreover, those transactions were pursuant to arm's length negotiations in the ordinary course of business and on terms we believe to be fair.

PART IV

Item 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

The financial statements filed as a part of this Annual Report on Form 10-K are listed in the "Index to Financial Statements and Schedules" on page 35.

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

	Exhibits
No. 3(a)	Armstrong Holdings, Inc.'s Amended and Restated Articles of Incorporation are incorporated herein by reference from Exhibit 3.1(i) to Armstrong Holdings, Inc.'s Report on Form 8-K dated May 9, 2000.
No. 3(b)	Armstrong Holdings, Inc.'s Bylaws, effective May 1, 2000.
No. 3(c)	Armstrong World Industries, Inc.'s restated Articles of Incorporation, as amended, are incorporated by reference herein from Armstrong World Industries, Inc.'s 1994 Annual Report on Form 10-K wherein they appear as Exhibit 3(b).
No. 3(d)	Armstrong World Industries, Inc.'s Bylaws as amended November 9, 2000.
No. 4(a)	Armstrong Holdings, Inc.'s Shareholder Summary of Rights to Purchase Preferred Stock dated as of March, 14, 2000 is incorporated by reference herein from Armstrong Holdings, Inc.'s registration statement on Form 8-K dated May 9, 2000, wherein it appeared as Exhibit 99.2.
No.4(b)	Armstrong World Industries, Inc.'s Retirement Savings and Stock Ownership Plan effective as of October 1, 1996, as amended November 5, 1999 is incorporated by reference herein from Armstrong World Industries, Inc.'s 1999 Annual Report on Form 10-K wherein it appeared as Exhibit 4(b). *
No. 4(c)	Armstrong World Industries, Inc.'s $450,000,000 Credit Agreement (5-year) dated as of October 29, 1998, among Armstrong World Industries, Inc., The Chase Manhattan Bank, as administrative agent, and the banks listed therein, is incorporated herein by reference from Armstrong World Industries, Inc.'s 1998 Annual Report on Form 10-K, wherein it appeared as Exhibit 4(f).
No. 4(d)	Armstrong World Industries, Inc.'s Indenture, dated as of August 6, 1996, between Armstrong World Industries, Inc. and The Chase Manhattan Bank, formerly known as Chemical Bank, as successor to Mellon Bank, N.A., as Trustee, is incorporated herein by reference from Armstrong World Industries, Inc.'s registration statement on Form S-3/A dated August 14, 1996, wherein it appeared as Exhibit 4.1.
No 4(e)	Instrument of Resignation, Appointment and Acceptance dated as of December 1, 2000 among Armstrong World Industries, Inc., The Chase Manhattan Bank and Wells Fargo Bank Minnesota, National Association, regarding Armstrong World Industries, Inc.'s Indenture, dated as of August 6, 1996, between Armstrong World Industries, Inc. and The Chase Manhattan Bank, formerly known as Chemical Bank, as successor to Mellon Bank, N.A., as Trustee.
No. 4(f)	Copy of portions of Armstrong World Industries, Inc.'s Board of Directors' Pricing Committee's resolutions establishing the terms and conditions of $200,000,000 of 6.35% Senior Notes Due 2003 and $150,000,000 of 6 1/2% Senior Notes Due 2005, is incorporated herein by reference from Armstrong World Industries, Inc.'s 1998 Annual Report on Form 10-K, wherein it appeared as Exhibit 4(h).
No. 4(g)	Copy of portions of Armstrong World Industries, Inc.'s Board of Directors' Pricing Committee's resolutions establishing the terms and conditions of $180,000,000 of 7.45% Senior Quarterly Interest Bonds Due 2038, is incorporated herein by reference from Armstrong World Industries, Inc.'s 1998 Annual Report on Form 10-K, wherein it appeared as Exhibit 4(i).

No. 4(h) Note Purchase Agreement dated June 19, 1989 for 8.43% Series A Guaranteed Serial ESOP Notes due 1989 -2001 and 9.00% Series B Guaranteed Serial ESOP Notes due 2000-2004 for the

Armstrong World Industries, Inc. Employee Stock Ownership Plan ("Share in Success Plan") Trust, with Armstrong World Industries, Inc. as guarantor is incorporated by reference herein from Armstrong Holdings, Inc. and Armstrong World Industries, Inc.'s registration statement on Form 10-Q for the quarter ended September 30, 2000, wherein it appeared as Exhibit 4(a).

No. 4(i)	Armstrong World Industries, Inc.'s $300,000,000 Revolving Credit and Guarantee Agreement dated December 6, 2000, between Armstrong World Industries, Inc. and The Chase Manhattan Bank and the banks referenced therein; the First Amendment to this Agreement, dated February 2, 2001; and the Amendment Letter to this Agreement, dated February 28, 2001.
	Armstrong Holdings, Inc. and Armstrong World Industries, Inc. agree to furnish to the Commission upon request copies of instruments defining the rights of holders of long-term debt of the registrants and their subsidiaries which are not filed herewith in accordance with applicable rules of the Commission because the total amount of securities authorized thereunder does not exceed 10% of the total assets of the registrants and their subsidiaries on a consolidated basis.
No. 10(i)(a)	Armstrong World Industries, Inc.'s Agreement Concerning Asbestos-Related Claims dated June 19, 1985, (the "Wellington Agreement") among Armstrong World Industries, Inc. and other companies is incorporated by reference herein from Armstrong World Industries, Inc.'s 1997 Annual Report on Form 10-K wherein it appeared as Exhibit 10(i)(a).
No. 10(i)(b)	Producer Agreement concerning Center for Claims Resolution, as amended, among Armstrong World Industries, Inc. and other companies is incorporated by reference herein from Armstrong World Industries, Inc.'s 1999 Annual Report on Form 10-K wherein it appeared as Exhibit 10(i)(b).
No. 10(i)(c)	Indenture, dated as of March 15, 1988, between Armstrong World Industries, Inc. and Morgan Guaranty Trust Company of New York, as Trustee, as to which The First National Bank of Chicago is successor trustee, (relating to Armstrong World Industries, Inc.'s $125 million 9-3/4% Debentures due 2008 and Series A Medium Term Notes) is incorporated herein by reference from Armstrong World Industries, Inc.'s 1995 Annual Report on Form 10-K wherein it appeared as Exhibit 4(c).
No. 10(i)(d)	Senior Indenture dated as of December 23, 1998 between Armstrong World Industries, Inc. and First National Bank of Chicago, as Trustee, is incorporated herein by reference from Armstrong World Industries, Inc.'s Registration Statement on Form S-3 (File No. 333- 74501) dated March 16, 1999, wherein it appeared as Exhibit 4.3.
No. 10(i)(e)	Global Note representing $200 million of 7.45% Senior Notes due 2029 is incorporated by reference herein from Armstrong World Industries, Inc.'s Report on Form 8-K which was filed with the Commission on May 29, 1999, wherein it appeared as Exhibit 4.2.
No. 10(i)(f)	Agreement and Plan of Merger dated as of June 12, 1998, among Armstrong World Industries, Inc., Triangle Pacific Corp., and Sapling Acquisition, Inc., is incorporated by reference herein from Armstrong World Industries, Inc.'s Form 8-K filed on June 15, 1998, wherein it appeared as Exhibit 10.1.
No. 10(i)(g)	Agreement and Plan of Merger, dated as of June 30, 1999 by and among AISI Acquisition Corp. and Armstrong World Industries, Inc and Armstrong Industrial Specialties, Inc. is incorporated by reference herein from Armstrong World Industries, Inc.'s Report on Form 8- K filed on July 14, 1999, wherein it appeared as Exhibit 1.
No. 10(iii)(a)	Armstrong World Industries, Inc.'s Long-Term Stock Option Plan for Key Employees, as amended, is incorporated by reference herein from Armstrong World Industries, Inc.'s 1995 Annual Report on Form 10-K wherein it appeared as Exhibit 10(iii)(a). *
No. 10(iii)(b)	Armstrong World Industries, Inc.'s Long Term Stock Incentive Plan is incorporated by reference herein from Armstrong

World Industries, Inc.'s 1998 Annual Report on Form 10-K
wherein it appeared as Exhibit 10(iii)(j). *

No. 10(iii)(c)	Armstrong World Industries, Inc.'s Directors' Retirement Income Plan, as amended, is incorporated by reference herein from Armstrong World Industries, Inc.'s 1996 Annual Report on Form 10-K wherein it appeared as Exhibit 10(iii)(c).*
No. 10(iii)(d)	Armstrong World Industries, Inc. and Armstrong Holdings, Inc.'s Management Achievement Plan for Key Executives, as amended February 26, 2001. *
No. 10(iii)(e)	Armstrong Wold Industries, Inc.'s Retirement Benefit Equity Plan (formerly known as the Excess Benefit Plan), as amended January 1, 2000 is incorporated by reference herein from Armstrong World Industries, Inc.'s 1999 Annual Report on Form 10-K wherein it appeared as Exhibit 10(iii)(e).*
No. 10(iii)(f)	Armstrong Holdings, Inc.'s Deferred Compensation Plan, as amended May 1, 2000.*
No. 10(iii)(g)	Armstrong World Industries, Inc.'s Employment Protection Plan for Salaried Employees of Armstrong World Industries, Inc., as amended, is incorporated by reference herein from Armstrong World Industries, Inc.'s 1994 Annual Report on Form 10-K wherein it appeared as Exhibit 10(iii)(g).*
No. 10(iii)(h)	Armstrong World Industries, Inc.'s Restricted Stock Plan For Non-employee Directors, as amended, is incorporated by reference herein from Armstrong World Industries, Inc.'s 1996 Annual Report on Form 10-K wherein it appeared as Exhibit 10(iii)(h).*
No. 10(iii)(i)	Armstrong World Industries, Inc.'s Severance Pay Plan for Salaried Employees, as amended October 31, 2000.*
No. 10(iii)(j)	Armstrong World Industries, Inc.'s 1999 Long Term Stock Incentive Plan is incorporated by reference herein from Armstrong World Industries, Inc.'s 1999 Annual Report on Form 10-K wherein it appeared as Exhibit 10(iii)(j).*
No. 10(iii)(k)	Form of Agreement between Armstrong World Industries, Inc. and certain of its Executive Officers, together with a schedule identifying those executives and the material differences among the agreements to which each executive is a party.*
No. 10(iii)(l)	Agreement between Armstrong Holdings, Inc. and Michael D. Lockhart, dated August 7, 2000 is incorporated by reference herein from Armstrong Holdings, Inc. and Armstrong World Industries, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2000, wherein it appeared as Exhibit 10(e).*
No. 10(iii)(m)	Form of Indemnification Agreement between Armstrong Holdings, Inc., Armstrong World Industries, Inc. and certain of its Directors and Officers, together with a schedule identifying those Directors and Officers, is incorporated by reference herein from Armstrong Holdings, Inc. and Armstrong World Industries, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2000, wherein it appeared as Exhibit 10(iii)(a).*
No. 10(iii)(n)	Amended and Restated Employment and Consulting Agreement between Armstrong Holdings, Inc., Armstrong World Industries, Inc. and George A. Lorch dated February 2001.*
No. 10(iii)(o)	Form of Indemnification Agreement between Armstrong Holdings, Inc. and certain of its Directors and Officers dated October 20, 2000, together with a schedule identifying those Directors and Officers and the material differences among the agreements to which each executive is a party.*
No. 10(iii)(p)	Form of Indemnification Agreement between Armstrong World Industries, Inc. and certain of its Directors and Officers, together with a schedule identifying those Directors and Officers dated October 20, 2000 and the material differences among the agreements to which each executive is a party.*
No. 10(iii)(q)	Armstrong World Industries, Inc.'s Bonus Replacement Retirement Plan, dated as of January 1, 1998, as amended, is incorporated by reference herein from Armstrong World Industries, Inc.'s 1998 Annual Report on Form 10-K wherein it appeared as Exhibit 10(iii)(m).*

No. 10(iii)(r)	Copy of Employment Agreement between the Armstrong World Industries, Inc. and George A. Lorch dated as of December 13, 1999 is incorporated herein by reference from Armstrong World Industries, Inc.'s 1999 Annual Report on Form 10-K wherein it appeared as Exhibit 10(iii)(n).*
No. 10(iii)(s)	Amended and Restated Employment and Consulting Agreement between Armstrong Holdings, Inc., Armstrong World Industries, Inc. and George A. Lorch dated August 7, 2000 and as amended October 30, 2000 is incorporated herein by reference from Armstrong Holdings, Inc. and Armstrong World Industries, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2000 wherein it appeared as Exhibit 10(c).*
No. 10(iii)(t)	Employment Agreement between Armstrong Holdings, Inc. and Michael D. Lockhart dated August 7, 2000 is incorporated herein by reference from Armstrong Holdings, Inc. and Armstrong World Industries, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2000 wherein it appeared as Exhibit 10(a).*
No. 10(iii)(u)	Employment Agreement between Armstrong Holdings, Inc. and Frank A. Riddick, III dated August 7, 2000 is incorporated herein by reference from Armstrong Holdings, Inc. and Armstrong World Industries, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2000 wherein it appeared as Exhibit 10(b).*
No. 10(iii)(v)	Employment Agreement between Triangle Pacific Corp. and Armstrong World Industries, Inc. and Frank A. Riddick, III dated November 14, 2000.*
No. 10(iii)(w)	Amendment to Employment Agreement between Armstrong Holdings, Inc. and Frank A. Riddick, III dated November 14, 2000.*
No. 10(iii)(x)	Employment Agreement between Armstrong World Industries, Inc. and Marc R. Olivie, dated October 1, 2000.*
No. 10(iii)(y)	Armstrong Holdings, Inc.'s Stock Award Plan is incorporated by reference herein from Armstrong Holdings, Inc.'s registration statement on form S-8 filed August 16, 2000, wherein it appeared as Exhibit 4.1.*
No. 10(iii)(z)	Terms of Restricted Stock for Stock Option Exchange Program Offered to Employees and Schedule of Participating Officers is incorporated by reference herein from Armstrong Holdings, Inc. and Armstrong World Industries, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2000 wherein it appeared as Exhibit 10(i).*
No. 10(iii)(aa)	Management Services Agreement between Armstrong Holdings, Inc. and Armstrong World Industries, Inc., dated August 7, 2000 is incorporated by reference herein from Armstrong Holdings, Inc. and Armstrong World Industries, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2000 wherein it appeared as Exhibit 10(g).*
No. 10(iii)(bb)	Agreement between Armstrong Holdings, Inc. and Armstrong World Industries, Inc. and Triangle Pacific Corp. dated November 14, 2000.*
No. 10(iii)(cc)	Stock Option Surrender Agreement between Armstrong Holdings, Inc. and George A. Lorch, dated September 25, 2000 is incorporated by reference herein from Armstrong Holdings, Inc. and Armstrong World Industries, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2000 wherein it appeared as Exhibit 10(d).*
No. 11(a)	Computation for basic earnings.
No. 11(b)	Computation for diluted earnings per share.
No. 21	List of Armstrong Holdings, Inc. and Armstrong World Industries, Inc.'s domestic and foreign subsidiaries.
No. 23	Consent of Independent Auditors.

No. 24 Powers of Attorney and authorizing resolutions.

* Compensatory Plan

b. The following reports on Form 8-K were filed during the last quarter of 2000:

On November 27, 2000, the registrant filed a report on Form 8-K discussing Armstrong World Industries Inc.'s failure to repay $50 million in commercial paper that was due November 22, 2000.

On December 7, 2000, the registrant filed a report on Form 8-K reporting that Armstrong World Industries Inc., Nitram Liquidators, Inc. and Desseaux North America, Inc. filed voluntary petitions for relief under Chapter 11 of Title 11 of the United States Code with the United States Bankruptcy Court for the District of Delaware in Wilmington.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ARMSTRONG HOLDINGS, INC.
(Registrant)

By /s/ Michael D. Lockhart

Chairman and Chief Executive Officer

Date: March 29, 2001

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant AHI and in the capacities and on the dates indicated.

Directors and Principal Officers of the registrant AHI:

Michael D. Lockhart	Chairman and Chief Executive Officer (Principal Executive Officer)
E. Follin Smith	Senior Vice President and Chief Financial Officer (Principal Financial Officer)
William C. Rodruan	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/ Michael D. Lockhart

(Michael D. Lockhart, as attorney-in-fact for AHI directors and on his own behalf) As of March 29, 2001

By: /s/ E. Follin Smith

(E. Follin Smith)
As of March 29, 2001

By: /s/ William C. Rodruan

(William C. Rodruan)
As of March 29, 2001

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ARMSTRONG WORLD INDUSTRIES, INC.
(Registrant)

By /s/ Michael D. Lockhart

Chairman and Chief Executive Officer

Date: March 29, 2001

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant Armstrong and in the capacities and on the dates indicated.

Directors and Principal Officers of the registrant Armstrong:

Michael D. Lockhart	Director and Chairman (Principal Executive Officer)
E. Follin Smith	Senior Vice President and Chief Financial Officer (Principal Financial Officer)
William C. Rodruan	Vice President and Controller (Principal Accounting Officer)
James E. Marley	Director
John N. Rigas	Director

By: /s/ Michael D. Lockhart

(Michael D. Lockhart, as attorney-in-fact for James E. Marley and on his own behalf)
As of March 29, 2001

By: /s/ E. Follin Smith

(E. Follin Smith)
As of March 29, 2001

By: /s/ William C. Rodruan

(William C. Rodruan)
As of March 29, 2001

By: /s/ John N. Rigas

(John N. Rigas)
As of March 29, 2001

SCHEDULE II

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

For Years Ended December 31
(amounts in millions)

Provision for Losses	2000	1999	1998
Balance at beginning of year	$ 21.6	$ 15.0	$ 10.1
Additions Charged to earnings	13.1	10.2	6.1
Deductions	(10.7)	(3.5)	(10.8)
Balances via acquisitions/(divestitures)	0.0	(0.1)	9.6
Balance at end of year	$ 24.0	$ 21.6	$ 15.0

Provision for Discounts	2000	1999	1998
Balance at beginning of year	$ 22.1	$ 31.3	$ 24.5
Additions charged to earnings	271.7	257.6	208.6
Deductions	(267.7)	(266.3)	(204.2)
Balance via acquisitions/(divestitures)	1.0	(0.5)	2.4
Balance at end of year	$ 27.1	$ 22.1	$ 31.3

Total Provision for Discounts and Losses	2000	1999	1998
Balance at beginning of year	$ 43.7	$ 46.3	$ 34.6
Additions charged to earnings	284.8	267.8	214.7
Deductions	(278.4)	(269.8)	(215.0)
Balances via acquisitions/(divestitures)	1.0	(0.6)	12.0
Balance at end of year	$ 51.1	$ 43.7	$ 46.3

EXHIBIT INDEX

No. 3(a)	Armstrong Holdings, Inc.'s Amended and Restated Articles of Incorporation are incorporated herein by reference from Exhibit 3.1(i) to Armstrong Holdings, Inc.'s Report on Form 8-K dated May 9, 2000.
No. 3(b)	Armstrong Holdings, Inc.'s Bylaws, effective May 1, 2000.
No. 3(c)	Armstrong World Industries, Inc.'s restated Articles of Incorporation, as amended, are incorporated by reference herein from Armstrong World Industries, Inc.'s 1994 Annual Report on Form 10-K wherein they appear as Exhibit 3(b).
No. 3(d)	Armstrong World Industries, Inc.'s Bylaws as amended November 9, 2000.
No. 4(a)	Armstrong Holdings, Inc.'s Shareholder Summary of Rights to Purchase Preferred Stock dated as of March, 14, 2000 is incorporated by reference herein from Armstrong Holdings, Inc.'s registration statement on Form 8-K dated May 9, 2000, wherein it appeared as Exhibit 99.2.
No. 4(b)	Armstrong World Industries, Inc.'s Retirement Savings and Stock Ownership Plan effective as of October 1, 1996, as amended November 5, 1999 is incorporated by reference herein from Armstrong World Industries, Inc.'s 1999 Annual Report on Form 10-K wherein it appeared as Exhibit 4(b). *
No. 4(c)	Armstrong World Industries, Inc.'s $450,000,000 Credit Agreement (5-year) dated as of October 29, 1998, among Armstrong World Industries, Inc., The Chase Manhattan Bank, as administrative agent, and the banks listed therein, is incorporated herein by reference from Armstrong World Industries, Inc.'s 1998 Annual Report on Form 10-K, wherein it appeared as Exhibit 4(f).
No. 4(d)	Armstrong World Industries, Inc.'s Indenture, dated as of August 6, 1996, between Armstrong World Industries, Inc. and The Chase Manhattan Bank, formerly known as Chemical Bank, as successor to Mellon Bank, N.A., as Trustee, is incorporated herein by reference from Armstrong World Industries, Inc.'s registration statement on Form S-3/A dated August 14, 1996, wherein it appeared as Exhibit 4.1.
No. 4(e)	Instrument of Resignation, Appointment and Acceptance dated as of December 1, 2000 among Armstrong World Industries, Inc., The Chase Manhattan Bank and Wells Fargo Bank Minnesota, National Association, regarding Armstrong World Industries, Inc.'s Indenture, dated as of August 6, 1996, between Armstrong World Industries, Inc. and The Chase Manhattan Bank, formerly known as Chemical Bank, as successor to Mellon Bank, N.A., as Trustee.
No. 4(f)	Copy of portions of Armstrong World Industries, Inc.'s Board of Directors' Pricing Committee's resolutions establishing the terms and conditions of $200,000,000 of 6.35% Senior Notes Due 2003 and $150,000,000 of 6 1/2% Senior Notes Due 2005, is incorporated herein by reference from Armstrong World Industries, Inc.'s 1998 Annual Report on Form 10-K, wherein it appeared as Exhibit 4(h).
No. 4(g)	Copy of portions of Armstrong World Industries, Inc.'s Board of Directors' Pricing Committee's resolutions establishing the terms and conditions of $180,000,000 of 7.45% Senior Quarterly Interest Bonds Due 2038, is incorporated herein by reference from Armstrong World Industries, Inc.'s 1998 Annual Report on Form 10-K, wherein it appeared as Exhibit 4(i).
No. 4(h)	Note Purchase Agreement dated June 19, 1989 for 8.43% Series A Guaranteed Serial ESOP Notes due 1989 -2001 and 9.00% Series B Guaranteed Serial ESOP Notes due 2000-2004 for the Armstrong World Industries, Inc. Employee Stock Ownership Plan ("Share in Success Plan") Trust, with Armstrong World Industries, Inc. as guarantor is incorporated by reference herein from Armstrong Holdings, Inc. and Armstrong World Industries, Inc.'s registration statement on Form 10-Q for the quarter ended September 30, 2000, wherein it appeared as Exhibit 4(a).

No. 4(i)	Armstrong World Industries, Inc.'s $300,000,000 Revolving Credit and Guarantee Agreement dated December 6, 2000, between Armstrong World Industries, Inc. and The Chase Manhattan Bank and the banks referenced therein; the First Amendment to this Agreement, dated February 2, 2001; and the Amendment Letter to this Agreement, dated February 28, 2001.
	Armstrong Holdings, Inc. and Armstrong World Industries, Inc. agree to furnish to the Commission upon request copies of instruments defining the rights of holders of long-term debt of the registrants and their subsidiaries which are not filed herewith in accordance with applicable rules of the Commission because the total amount of securities authorized thereunder does not exceed 10% of the total assets of the registrants and their subsidiaries on a consolidated basis.
No. 10(i)(a)	Armstrong World Industries, Inc.'s Agreement Concerning Asbestos-Related Claims dated June 19, 1985, (the "Wellington Agreement") among Armstrong World Industries, Inc. and other companies is incorporated by reference herein from Armstrong World Industries, Inc.'s 1997 Annual Report on Form 10-K wherein it appeared as Exhibit 10(i)(a).
No. 10(i)(b)	Producer Agreement concerning Center for Claims Resolution, as amended, among Armstrong World Industries, Inc. and other companies is incorporated by reference herein from Armstrong World Industries, Inc.'s 1999 Annual Report on Form 10-K wherein it appeared as Exhibit 10(i)(b).
No. 10(i)(c)	Indenture, dated as of March 15, 1988, between Armstrong World Industries, Inc. and Morgan Guaranty Trust Company of New York, as Trustee, as to which The First National Bank of Chicago is successor trustee, (relating to Armstrong World Industries, Inc.'s $125 million 9-3/4% Debentures due 2008 and Series A Medium Term Notes) is incorporated herein by reference from Armstrong World Industries, Inc.'s 1995 Annual Report on Form 10-K wherein it appeared as Exhibit 4(c).
No. 10(i)(d)	Senior Indenture dated as of December 23, 1998 between Armstrong World Industries, Inc. and First National Bank of Chicago, as Trustee, is incorporated herein by reference from Armstrong World Industries, Inc.'s Registration Statement on Form S-3 (File No. 333-74501) dated March 16, 1999, wherein it appeared as Exhibit 4.3.
No. 10(i)(e)	Global Note representing $200 million of 7.45% Senior Notes due 2029 is incorporated by reference herein from Armstrong World Industries, Inc.'s Report on Form 8-K which was filed with the Commission on May 29, 1999, wherein it appeared as Exhibit 4.2.
No. 10(i)(f)	Agreement and Plan of Merger dated as of June 12, 1998, among Armstrong World Industries, Inc., Triangle Pacific Corp., and Sapling Acquisition, Inc., is incorporated by reference herein from Armstrong World Industries, Inc.'s Form 8-K filed on June 15, 1998, wherein it appeared as Exhibit 10.1.
No. 10(i)(g)	Agreement and Plan of Merger, dated as of June 30, 1999 by and among AISI Acquisition Corp. and Armstrong World Industries, Inc and Armstrong Industrial Specialties, Inc. is incorporated by reference herein from Armstrong World Industries, Inc.'s Report on Form 8- K filed on July 14, 1999, wherein it appeared as Exhibit 1.
No. 10(iii)(a)	Armstrong World Industries, Inc.'s Long-Term Stock Option Plan for Key Employees, as amended, is incorporated by reference herein from Armstrong World Industries, Inc.'s 1995 Annual Report on Form 10-K wherein it appeared as Exhibit 10(iii)(a). *
No. 10(iii)(b)	Armstrong World Industries, Inc.'s Long Term Stock Incentive Plan is incorporated by reference herein from Armstrong World Industries, Inc.'s 1998 Annual Report on Form 10-K wherein it appeared as Exhibit 10(iii)(j). *
No. 10(iii)(c)	Armstrong World Industries, Inc.'s Directors' Retirement Income Plan, as amended, is incorporated by reference herein from Armstrong World Industries, Inc.'s 1996 Annual Report on Form 10-K wherein it appeared as Exhibit 10(iii)(c).*

No. 10(iii)(d) Armstrong World Industries, Inc. and Armstrong Holdings, Inc.'s Management Achievement Plan for Key Executives, as amended February 26, 2001. *

No. 10(iii)(e)	Armstrong World Industries, Inc.'s Retirement Benefit Equity Plan (formerly known as the Excess Benefit Plan), as amended January 1, 2000 is incorporated by reference herein from Armstrong World Industries, Inc.'s 1999 Annual Report on Form 10-K wherein it appeared as Exhibit 10(iii)(e).*
No. 10(iii)(f)	Armstrong Holdings, Inc.'s Deferred Compensation Plan, as amended May 1, 2000.*
No. 10(iii)(g)	Armstrong World Industries, Inc.'s Employment Protection Plan for Salaried Employees of Armstrong World Industries, Inc., as amended, is incorporated by reference herein from Armstrong World Industries, Inc.'s 1994 Annual Report on Form 10-K wherein it appeared as Exhibit 10(iii)(g). *
No. 10(iii)(h)	Armstrong World Industries, Inc.'s Restricted Stock Plan For Non-employee Directors, as amended, is incorporated by reference herein from Armstrong World Industries, Inc.'s 1996 Annual Report on Form 10-K wherein it appeared as Exhibit 10(iii)(h). *
No. 10(iii)(i)	Armstrong World Industries, Inc.'s Severance Pay Plan for Salaried Employees, as amended October 31, 2000. *
No. 10(iii)(j)	Armstrong World Industries, Inc.'s 1999 Long Term Stock Incentive Plan is incorporated by reference herein from Armstrong World Industries, Inc.'s 1999 Annual Report on Form 10-K wherein it appeared as Exhibit 10(iii)(j).*
No. 10(iii)(k)	Form of Agreement between Armstrong World Industries, Inc. and certain of its Executive Officers, together with a schedule identifying those executives and the material differences among the agreements to which each executive is a party. *
No. 10(iii)(l)	Agreement between Armstrong Holdings, Inc. and Michael D. Lockhart, dated August 7, 2000 is incorporated by reference herein from Armstrong Holdings, Inc. and Armstrong World Industries, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2000, wherein it appeared as Exhibit 10(e). *
No. 10(iii)(m)	Form of Indemnification Agreement between Armstrong Holdings, Inc., Armstrong World Industries, Inc. and certain of its Directors and Officers, together with a schedule identifying those Directors and Officers, is incorporated by reference herein from Armstrong Holdings, Inc. and Armstrong World Industries, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2000, wherein it appeared as Exhibit 10(iii)(a). *
No. 10(iii)(n)	Amended and Restated Employment and Consulting Agreement between Armstrong Holdings, Inc., Armstrong World Industries, Inc. and George A. Lorch dated February 2001. *
No. 10(iii)(o)	Form of Indemnification Agreement between Armstrong Holdings, Inc. and certain of its Directors and Officers dated October 20, 2000, together with a schedule identifying those Directors and Officers and the material differences among the agreements to which each executive is a party. *
No. 10(iii)(p)	Form of Indemnification Agreement between Armstrong World Industries, Inc. and certain of its Directors and Officers, together with a schedule identifying those Directors and Officers dated October 20, 2000 and the material differences among the agreements to which each executive is a party. *
No. 10(iii)(q)	Armstrong World Industries, Inc.'s Bonus Replacement Retirement Plan, dated as of January 1, 1998, as amended, is incorporated by reference herein from Armstrong World Industries, Inc.'s 1998 Annual Report on Form 10-K wherein it appeared as Exhibit 10(iii)(m). *
No. 10(iii)(r)	Copy of Employment Agreement between the Armstrong World Industries, Inc. and George A. Lorch dated as of December 13, 1999 is incorporated herein by reference from Armstrong World Industries, Inc.'s 1999 Annual Report on Form 10-K wherein it appeared as Exhibit 10(iii)(n). *
No. 10(iii)(s)	Amended and Restated Employment and Consulting Agreement between Armstrong Holdings, Inc., Armstrong World Industries, Inc. and George A. Lorch dated August 7, 2000

and as amended October 30, 2000 is incorporated herein by
reference from Armstrong Holdings, Inc. and Armstrong World

	Industries, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2000 wherein it appeared as Exhibit 10(c). *
No. 10(iii)(t)	Employment Agreement between Armstrong Holdings, Inc. and Michael D. Lockhart dated August 7, 2000 is incorporated herein by reference from Armstrong Holdings, Inc. and Armstrong World Industries, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2000 wherein it appeared as Exhibit 10(a). *
No. 10(iii)(u)	Employment Agreement between Armstrong Holdings, Inc. and Frank A. Riddick, III dated August 7, 2000 is incorporated herein by reference from Armstrong Holdings, Inc. and Armstrong World Industries, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2000 wherein it appeared as Exhibit 10(b). *
No. 10(iii)(v)	Employment Agreement between Triangle Pacific Corp. and Armstrong World Industries, Inc. and Frank A. Riddick, III dated November 14, 2000. *
No. 10(iii)(w)	Amendment to Employment Agreement between Armstrong Holdings, Inc. and Frank A. Riddick, III dated November 14, 2000. *
No. 10(iii)(x)	Employment Agreement between Armstrong World Industries, Inc. and Marc R. Olivie dated October 1, 2000. *
No. 10(iii)(y)	Armstrong Holdings, Inc.'s Stock Award Plan is incorporated by reference herein from Armstrong Holdings, Inc.'s registration statement on form S-8 filed August 16, 2000, wherein it appeared as Exhibit 4.1. *
No. 10(iii)(z)	Terms of Restricted Stock for Stock Option Exchange Program Offered to Employees and Schedule of Participating Officers is incorporated by reference herein from Armstrong Holdings, Inc. and Armstrong World Industries, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2000 wherein it appeared as Exhibit 10(i). *
No. 10(iii)(aa)	Management Services Agreement between Armstrong Holdings, Inc. and Armstrong World Industries, Inc., dated August 7, 2000 is incorporated by reference herein from Armstrong Holdings, Inc. and Armstrong World Industries, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2000 wherein it appeared as Exhibit 10(g). *
No. 10(iii)(bb)	Agreement between Armstrong Holdings, Inc. and Armstrong World Industries, Inc. and Triangle Pacific Corp. dated November 14, 2000. *
No. 10(iii)(cc)	Stock Option Surrender Agreement between Armstrong Holdings, Inc. and George A. Lorch, dated September 25, 2000 is incorporated by reference herein from Armstrong Holdings, Inc. and Armstrong World Industries, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2000 wherein it appeared as Exhibit 10(d). *
No. 11(a)	Computation for basic earnings.
No. 11(b)	Computation for diluted earnings per share.
No. 21	List of Armstrong Holdings, Inc. and Armstrong World Industries, Inc.'s domestic and foreign subsidiaries.
No. 23	Consent of Independent Auditors.
No. 24	Powers of Attorney and authorizing resolutions.

* Compensatory Plan

EXHIBIT 3(b)

BYLAWS
of
ARMSTRONG HOLDINGS, INC.
LANCASTER, PENNSYLVANIA
EFFECTIVE MAY 1, 2000

ARTICLE I

Office

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

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

ARTICLE II

Stockholders' Meetings

An annual meeting of stockholders shall be held in each calendar year on such date and at such time as may be fixed by the Board of Directors for the purpose of electing directors and the transaction of such other business as may properly come before the meeting.

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

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

Written notice of the place, day, and hour of all meetings of stockholders and, in the case of a special meeting, of the general nature of the business to be transacted, shall be given to each stockholder of record entitled to vote at the particular meeting either personally or by sending a copy of the notice through the mail, or by telegram, charges prepaid, to the address of the stockholder appearing on the books of the Company or supplied by him to the Company for the purpose of notice. Except as otherwise provided by these bylaws or by law, such notice shall be given at least five days before the date of the meeting by the President, Vice President, or Secretary. A waiver in writing of any written notice required to be given, signed by the person entitled to such notice, whether before or after the time stated, shall be deemed equivalent to the giving of such notice. Attendance of a person, either in person or by proxy, at any meeting shall constitute a waiver of notice of such meeting, except where a person attends a meeting for the express purpose of objecting to the transaction of any business because the meeting was not lawfully called or convened.

At any annual meeting or special meeting of stockholders, only such business as is properly brought before the meeting in accordance with this paragraph may be transacted. To be properly brought before any meeting, any proposed business must be either (a) specified in the notice of the meeting (or any supplement thereto) given by or at the direction of the Board of Directors,
(b) otherwise properly brought before the meeting by or at the direction of the Board of Directors, or (c) if brought before the meeting by a stockholder, then
(1) the stockholder must have been a stockholder of record on the record date for the determination of stockholders entitled to vote at such meeting, and (2) written notification of such proposed business must have been received by the Secretary of the Company not later than (i), with respect to business to be proposed at an annual meeting of stockholders, ninety (90) days prior to the anniversary date of the immediately preceding annual meeting; provided, that if the date of the annual meeting is more than thirty (30) days before or after the anniversary date of the immediately preceding annual meeting, the notification must have been received within fifteen (15) days after the public announcement by the Company of the date of the annual meeting, and (ii), with respect to business to be proposed at a special meeting of stockholders, the close of business on the fifteenth (15th) day following the date on which notice of such meeting is first given to stockholders or public disclosure of the meeting is made, whichever is earlier. Such stockholder notification shall set forth the nature of and reasons for the proposal in reasonable detail and, as to the stockholder giving notification, (1) the name and address, as they appear on the Company's books of such stockholder and (2) the class and total number of shares of the Company that are beneficially owned by such stockholder. Within fifteen
(15) days following receipt by the Secretary of a stockholder notification of proposed business pursuant hereto, the Company shall advise the stockholder of any deficiencies in the notification. The notifying stockholder may cure such deficiencies within fifteen (15) days after receipt of such advice, failing which the stockholder's notification shall be deemed invalid.

Nominations of candidates for election to the Board of Directors may be made by the Board of Directors or by any stockholder of the Company entitled to notice of, and to vote at, any meeting called for the election of directors. Nominations, other than those made by or on behalf of the Board of Directors of the Company, shall be made in writing and shall be received by the Secretary of the Company not later than (i), with respect to an election of directors to be held at an annual meeting of stockholders, ninety (90) days prior to the anniversary date of the immediately preceding annual meeting provided that if the date of the annual meeting is more than thirty (30) days before or after the anniversary date of the immediately preceding annual meeting, the stockholder nomination shall be received within fifteen (15) days after the public announcement by the Company of the date of the annual meeting, and (ii), with respect to an election of directors to be held at a special meeting of stockholders, the close of business on the fifteenth (15th) day following the date on which notice of such meeting is first given to stockholders or public disclosure of the meeting is made, whichever is earlier. Such nomination shall contain the following information to the extent known to the notifying stockholder: (a) the name, age, business address, and residence address of each proposed nominee and of the notifying stockholder; (b) the principal occupation of each proposed nominee; (c) a representation that the notifying stockholder intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice; (d) the class and total number of shares of the Company that are beneficially owned by the notifying stockholder and, if known, by the proposed nominee; (e) the total number of shares of the Company that will be voted by the notifying stockholder for each proposed nominee; (f) a description of all arrangements or understandings between the notifying stockholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the notifying stockholder; (g) such other information regarding each nominee proposed by such stockholder as would be required to be included in a proxy statement filed with the Securities and Exchange Commission pursuant to Rule 14(a) under the Securities Exchange Act of 1934, as amended, had the nominee been nominated, or intended to be nominated, by the Board of Directors; and (h) the consent of each nominee to serve as a director of the Company if so elected. Nominees of the Board of Directors shall, to the extent appropriate, provide the same information about themselves as in (a) through (h) above to the Secretary of the Company. The Company may request any proposed nominee to furnish such other information as may reasonably be required by the Company to determine the qualifications of the proposed nominee to serve as a director of the Company. Within fifteen (15) days following the receipt by the Secretary of a stockholder notice of nomination pursuant hereto, the Board Affairs and Governance Committee shall instruct the Secretary of the Company to advise the notifying stockholder of any deficiencies in the notice as determined by the Committee. The notifying stockholder shall cure such deficiencies within fifteen (15) days of receipt of such notice. No persons shall be eligible for election as a director of the Company unless nominated in accordance herewith. Nominations not made in accordance herewith may, in the discretion of the presiding officer at the meeting and with the advice of the Board Affairs and Governance Committee, be disregarded by the presiding officer and, upon his or her instructions, all votes cast for each such nominee may be disregarded. The determinations of the presiding officer at the meeting shall be conclusive and binding upon all stockholders of the Company for all purposes.

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

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

Every stockholder entitled to vote at a meeting of stockholders may authorize another person or persons to act for him by proxy. A proxy may be submitted to the Secretary by a stockholder in writing, by telephone, electronically or any other means permitted by law.

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

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

ARTICLE III

Directors

SECTION 1. The business and affairs of the Company shall be managed under the direction of a Board of Directors. The directors need not be stockholders of the Company. The Board shall consist of not less than eight (8) nor more than eleven (11) directors, the exact number to be fixed from time to time by the Board of Directors pursuant to a resolution adopted by a majority vote of the directors then in office, such number being in addition to any directors that the holders of any class of preferred stock, voting as a class, may be entitled to elect as provided in the Articles of Incorporation, as amended, or in a resolution of the Board establishing any series of preferred stock.

The directors, other than the directors to be elected by the holders of No Par Preferred Stock, voting as a class, shall be classified in respect to the time for which they shall severally hold office by dividing them into three classes, each consisting, as nearly as possible, of one-third of the whole number of such directors. At each annual meeting, the successors to the class of directors whose terms expire that year shall be elected to hold office for the term of three years. Each such director shall hold office for the term for which he is elected and until his successor shall have been elected and qualified. Any vacancy in the office of any such director shall be filled by an election by the Board for the unexpired term.

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

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

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

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

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

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

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

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

SECTION 6. The Board of Directors may, by resolution adopted by a majority of the whole Board, designate one or more committees, each committee to consist of two or more of the directors of the Company. The Board may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. Any such committee to the extent provided in such resolution shall have and exercise the authority of the Board in the management of the business and affairs of the Company.

ARTICLE IV

OFFICERS

President

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

Vice Presidents and Operation or Division Presidents

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

Chairman of the Board

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

Secretary

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

Assistant Secretaries

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

Treasurer

SECTION 6. The Treasurer shall have custody of funds of the Company and keep or cause to be kept accurate accounts of all money received or payments made in books kept for that purpose. He shall deposit all money received by him in the name and to the credit of the Company in such bank or other place or places of deposit as the Board of Directors shall designate. He shall be ex-officio an Assistant Secretary. He shall perform all the usual duties incident to the office of Treasurer.

Assistant Treasurers

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

Controller

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

Bonds

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

ARTICLE V

Seal

The Company shall have a seal which shall contain the words "Armstrong Holdings, Inc."

ARTICLE VI

Stock Certificates and Transfers

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

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

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

The Board of Directors may fix a time, not more than ninety (90) days prior to the date of any meeting of the stockholders, or the date fixed for the payment of any dividend or distribution or the date for the allotment of rights, or the date when any change or conversion or exchange of capital stock will be made or go into effect, as a record date for the determination of the stockholders entitled to notice of, or to vote at, any such meeting, or entitled to receive payment of any such dividend or distribution, or to receive any such allotment of rights, or to exercise the rights in respect to any such change, conversion, or exchange of capital stock. In such case, only such stockholders as shall be stockholders of record on the date so fixed shall be entitled to notice of, or to vote at, such meeting, or to receive payment of such dividend or distribution, or to receive such allotment of rights, or exercise such rights, as the case may be, notwithstanding any transfer of stock on the books of the Company after any record date fixed as aforesaid.

ARTICLE VII

Fiscal Year

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

ARTICLE VIII

Amendments

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

ARTICLE IX

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

SECTION 1. A director of the Company shall not be personally liable for monetary damages for any action taken or failure to take any action unless the

director has breached or failed to perform the duties of his or her office under
Section 8363 of the Pennsylvania Directors' Liability Act and such breach or failure to perform constitutes self-dealing, willful misconduct or recklessness; provided, however, that the foregoing provision shall not eliminate or limit the liability of a director (i) for any responsibility or liability of such director pursuant to any criminal statute, or (ii) for any liability of a director for the payment of taxes pursuant to local, state or federal law.

SECTION 2. The Company shall indemnify to the full extent authorized or permitted by law any person made, or threatened to be made, a party to or otherwise involved in (as a witness or otherwise) an action, suit or proceeding (whether civil, criminal, administrative or investigative, and whether by or in the right of the Company or otherwise) by reason of the fact that the person is or was a director or officer of the Company or while a director or officer of the Company, either serves or served as a director, officer, trustee, employee or agent of any other related enterprise or in connection with a related employee benefit plan at the request of the Company or serves or served as a director, officer, trustee, employee or agent of any other unrelated enterprise at the specific written request of the Company against any expenses and liability actually incurred including without limitation judgments and amounts paid or to be paid in settlement of and in actions brought by or in the right of the Company. Expenses incurred by such a person in defending a civil or criminal action, suit or proceeding or in enforcing any right under this Article shall be paid by the Company in advance of the final disposition of the action, suit or proceeding upon receipt of an undertaking by or on behalf of such person to repay such amount to the extent it shall ultimately be determined that such person is not entitled to be indemnified by the Company or, in the case of a criminal action, the majority of the Board of Directors so determines. The right to indemnification and advancement of expenses conferred in this Section shall not be deemed exclusive of any other rights to which any person indemnified may be entitled under any agreement, vote of stockholders or directors or otherwise, the Company having the express authority to enter such agreements as the Board of Directors deems appropriate for the indemnification of and advancement of expenses, including the creation of a fund therefor or equivalent guarantee, to present or future directors and officers of the Company in connection with their service as director or officer of the Company or their service as director, officer, trustee, employee or agent of any other enterprise or in connection with an employee benefit plan at the request of the Company. The right to indemnification and the advancement of expenses provided in this Section shall be a contract right, shall continue as to a person who has ceased to serve in the capacities described herein, and shall inure to the benefit of the heirs, executors and administrators of such person.

SECTION 3. No amendment, alteration or repeal of this Article IX, nor the adoption of any provision inconsistent with this Article IX, shall adversely affect any limitation on the personal liability of a director or officer, or the rights of a director or officer to indemnification and advancement of expenses, existing at the time of such amendment, modification or repeal, or the adoption of such an inconsistent provision.

EXHIBIT 3(d)

BYLAWS
of
ARMSTRONG WORLD INDUSTRIES, INC.
LANCASTER, PENNSYLVANIA
as amended November 9, 2000

ARTICLE I

Office

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

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

ARTICLE II

Stockholders' Meetings

An annual meeting of stockholders shall be held in each calendar year on such date and at such time as may be fixed by the Board of Directors for the purpose of electing directors and the transaction of such other business as may properly come before the meeting.

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

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

Written notice of the place, day, and hour of all meetings of stockholders and, in the case of a special meeting, of the general nature of the business to be transacted, shall be given to each stockholder of record entitled to vote at the particular meeting either personally or by sending a copy of the notice through the mail, or by telegram, charges prepaid, to the address of the stockholder appearing on the books of the Company or supplied by him to the Company for the purpose of notice. Except as otherwise provided by these bylaws or by law, such notice shall be given at least five days before the date of the meeting by the President, Vice President, or Secretary. A waiver in writing of any written notice required to be given, signed by the person entitled to such notice, whether before or after the time stated, shall be deemed equivalent to the giving of such notice. Attendance of a person, either in person or by proxy, at any meeting shall constitute a waiver of notice of such meeting, except where a person attends a meeting for the express purpose of objecting to the transaction of any business because the meeting was not lawfully called or convened.

Nominations of candidates for election to the Board of Directors may be made by the Board of Directors or by any stockholder of the Company entitled to notice of, and to vote at, any meeting called for the election of directors.

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

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

Every stockholder entitled to vote at a meeting of stockholders may authorize another person or persons to act for him by proxy. A proxy may be submitted to the Secretary by a stockholder in writing, by telephone, electronically or any other means permitted by law.

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

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

ARTICLE III

Directors

SECTION 1. The business and affairs of the Company shall be managed under the direction of a Board of Directors. The directors need not be stockholders of the Company. The Board shall consist of not less than three (3) directors, the exact number to be fixed from time to time by the Board of Directors pursuant to a resolution adopted by a majority vote of the directors then in office, such number being in addition to any directors that the holders of any class of preferred stock, voting as a class, may be entitled to elect as provided in the Articles of Incorporation, as amended, or in a resolution of the Board establishing any series of preferred stock.

The directors, other than the directors to be elected by the holders of No Par Preferred Stock, voting as a class, shall be classified in respect to the time for which they shall severally hold office by dividing them into three classes, each consisting, as nearly as possible, of one-third of the whole number of such directors. At each annual meeting, the successors to the class of directors whose terms expire that year shall be elected to hold office for the term of three years. Each such director shall hold office for the term for which he is elected and until his successor shall have been elected and qualified. Any vacancy in the office of any such director shall be filled by an election by the Board for the unexpired term.

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

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

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

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

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

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

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

SECTION 6. The Board of Directors may, by resolution adopted by a majority of the whole Board, designate one or more committees, each committee to consist of two or more of the directors of the Company. The Board may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. Any such committee to the extent provided in such resolution shall have and exercise the authority of the Board in the management of the business and affairs of the Company.

ARTICLE IV

OFFICERS

President

SECTION 1. The President shall be the chief executive officer of the Company. He shall preside at all meetings of the stockholders and, in the absence of a Chairman of the Board, at all meetings of the Board of Directors at which he is present. He shall be ex-officio a member of all standing committees. He shall have the custody of the corporate seal or may entrust the same to the Secretary. He shall make reports of the Company's business to the Board at such times as the Board shall require. He shall perform all the usual duties incident to the office of President. There may be more than one President, and if so, one shall be designated the Corporate President, who shall be considered the President for statutory purposes, and all others shall be considered statutory Vice Presidents.

Vice Presidents and Operation or Division Presidents

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

Chairman of the Board

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

Secretary

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

Assistant Secretaries

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

Treasurer

SECTION 6. The Treasurer shall have custody of funds of the Company and keep or cause to be kept accurate accounts of all money received or payments made in books kept for that purpose. He shall deposit all money received by him in the name and to the credit of the Company in such bank or other place or places of deposit as the Board of Directors shall designate. He shall be ex-officio an Assistant Secretary. He shall perform all the usual duties incident to the office of Treasurer.

Assistant Treasurers

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

Controller

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

Bonds

SECTION 9. Such officers and employees of the Company as the Board of Directors shall determine shall give bond for the faithful discharge of their duties in such form and for such amount and with such surety or sureties as the

Board shall require. The expense of procuring such bonds shall be borne by the Company.

ARTICLE V

Seal

The Company shall have a seal which shall contain the words "Armstrong World Industries, Inc."

ARTICLE VI

Stock Certificates and Transfers

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

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

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

The Board of Directors may fix a time, not more than ninety (90) days prior to the date of any meeting of the stockholders, or the date fixed for the payment of any dividend or distribution or the date for the allotment of rights, or the date when any change or conversion or exchange of capital stock will be made or go into effect, as a record date for the determination of the stockholders entitled to notice of, or to vote at, any such meeting, or entitled to receive payment of any such dividend or distribution, or to receive any such allotment of rights, or to exercise the rights in respect to any such change, conversion, or exchange of capital stock. In such case, only such stockholders as shall be stockholders of record on the date so fixed shall be entitled to notice of, or to vote at, such meeting, or to receive payment of such dividend or distribution, or to receive such allotment of rights, or exercise such rights, as the case may be, notwithstanding any transfer of stock on the books of the Company after any record date fixed as aforesaid.

ARTICLE VII

Fiscal Year

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

ARTICLE VIII

Amendments

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

ARTICLE IX

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

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

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

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

SECTION 3. No amendment, alteration or repeal of this Article IX, nor the adoption of any provision inconsistent with this Article IX, shall adversely affect any limitation on the personal liability of a director or officer, or the rights of a director or officer to indemnification and advancement of expenses, existing at the time of such amendment, modification or repeal, or the adoption of such an inconsistent provision.

EXHIBIT 4(e)

INSTRUMENT OF RESIGNATION, APPOINTMENT AND ACCEPTANCE, dated as of December 1, 2000, among ARMSTRONG WORLD INDUSTRIES, INC., a corporation duly organized and existing under the laws of the Commonwealth of Pennsylvania, having its principal office at 2500 Columbia Avenue, Lancaster, Pennsylvania 17603 (the "Company"), THE CHASE MANHATTAN BANK (successor-in-interest to Mellon Bank, N.A.), a corporation duly organized and existing under the laws of the State of New York, having its corporate trust office at One Oxford Centre, 301 Grant Street, Suite 1100, Pittsburgh, Pennsylvania 15219 (the "Resigning Trustee"), and WELLS FARGO BANK MINNESOTA, NATIONAL ASSOCIATION, a national association duly organized and existing under the laws of the United States, having its principal corporate trust office at Sixth and Marquette, Minneapolis, Minnesota 55479-0069 (the "Successor Trustee").

RECITALS

There are presently outstanding under an Indenture, dated as of August 6, 1996 (the "Indenture"), between the Company and the Resigning Trustee: (i) $200,000,000 in aggregate principal amount of the Company's 6.35% Senior Notes due 2003 (the "6.35% Notes"), pursuant to Board Resolutions dated August 6, 1998 and as set forth in an Officers' Certificate dated August 11, 1998; (ii) $150,000,000 in aggregate principal amount of the Company's 6 1/2% Senior Notes due 2005 (the "6 1/2% Notes"), pursuant to Board Resolutions dated August 6, 1998 and as set forth in an Officers' Certificate dated August 11, 1998; and
(iii) $180,000,000 in aggregate principal amount of the Company's 7.45% Senior Quarterly Interest Bonds due 2038 (the "QUIBS" and, together with the 6.35% Notes and the 6 1/2% Notes, the "Securities"), pursuant to Board Resolutions dated October 21, 1998 and as set forth in an Officers' Certificate dated October 28, 1998.

The Resigning Trustee wishes to resign as Trustee, Security Registrar, and the office or agency where the Securities may be presented or surrendered for payment, where the Securities may be surrendered for conversion and where notices and demands to or upon the Company in respect of the Securities and the Indenture may be served ("Paying Agent") with respect to all the Securities under the Indenture; the Company wishes to appoint the Successor Trustee to succeed the Resigning Trustee as Trustee, Security Registrar and Paying Agent with respect to all the Securities under the Indenture; and the Successor Trustee wishes to accept appointment as Trustee, Security Registrar and Paying Agent with respect to all the Securities under the Indenture.

NOW, THEREFORE, in consideration of the mutual covenants and promises herein, the receipt and sufficiency of which is hereby acknowledged, the Company, the Resigning Trustee and the Successor Trustee agree as follows:

ARTICLE ONE
THE RESIGNING TRUSTEE

Section 101. Pursuant to Section 6.10 of the Indenture, the Resigning Trustee hereby notifies the Company that the Resigning Trustee is hereby resigning as Trustee with respect to all the Securities under the Indenture.

Section 102. The Resigning Trustee hereby represents and warrants to the **Successor Trustee that:**

(a) No covenant or condition contained in the Indenture has been waived by the Resigning Trustee.

(b) There is no action, suit or proceeding pending or, to the best of the knowledge of the responsible officers of the Resigning Trustee assigned to its corporate trust department, threatened against the Resigning Trustee before any court or governmental authority arising out of any action or omission by the Resigning Trustee as Trustee under the Indenture.

(c) Interest on the 6.35% Notes and the 6 1/2% Notes has been paid through August 15, 2000. Interest on the QUIBS has been paid through October 15, 2000.

(d) To the best of the knowledge of the responsible officers of the Resigning Trustee assigned to its corporate trust department:

(i) no Event of Default and no event which, after notice or lapse of time or both, would become an Event of Default, has occurred and is continuing under the Indenture;

(ii) no covenant or condition contained in the Indenture has been waived by the Holders of the percentage in aggregate principal amount of the Securities required by the Indenture to effect any such waiver;

(iii) the Indenture has not been amended or modified and is in full force and effect; and

(iv) there is no action, suit or proceeding pending or threatened against the Company before any court or any governmental authority arising out of any action or omission by the Company under the Indenture.

Section 103. The Resigning Trustee hereby assigns, transfers, delivers and confirms to the Successor Trustee all right, title and interest of the Resigning Trustee in and to the trust under the Indenture and all the rights, powers, trusts and duties of the Trustee with respect to all the Securities under the Indenture. The Resigning Trustee shall execute and deliver such further instruments and shall do such other things as the Successor Trustee may reasonably require so as to more fully and certainly vest and confirm in the Successor Trustee all the rights, powers, trusts and duties hereby assigned, transferred, delivered and confirmed to the Successor Trustee.

Section 104. The Resigning Trustee hereby resigns as Security Registrar and Paying Agent with respect to all the Securities under the Indenture.

Section 105. The Resigning Trustee agrees to indemnify the Successor Trustee and save the Successor Trustee harmless from and against any and all costs, claims, liabilities, losses or damages whatsoever (including the reasonable fees, expenses and disbursements of the Successor Trustee's counsel and other advisors), that the Successor Trustee suffers or incurs without negligence or bad faith on its part arising solely out of actions or omissions of the Resigning Trustee. The Successor Trustee will furnish to the Resigning Trustee, promptly after receipt, all papers with respect to any action the outcome of which would make operative the indemnity provided for in this

Section. The Successor Trustee shall notify the Resigning Trustee promptly in writing (and, in any event, within no later than the fifth Business Day) of any claim for which it may seek indemnity. The Resigning Trustee shall have the option to defend the claim and the Successor Trustee shall cooperate fully in the defense. If the Resigning Trustee shall assume the defense, then the Resigning Trustee shall not pay for separate counsel of the Successor Trustee. The Resigning Trustee shall not be obligated to pay for any settlement made without its consent.

ARTICLE TWO
THE COMPANY

Section 201. The Company hereby certifies that annexed hereto marked Exhibit A is a copy of Board Resolutions duly adopted by the Board of Directors of the Company, and in full force and effect on the date hereof, authorizing certain officers of the Company to: (a) accept the Resigning Trustee's resignation as Trustee, Security Registrar and Paying Agent with respect to all the Securities under the Indenture; (b) appoint the Successor Trustee as Trustee, Security Registrar and Paying Agent with respect to all the Securities under the Indenture; and (c) execute and deliver such agreements and other instruments as may be necessary or desirable to effectuate the succession of the Successor Trustee as Trustee, Registrar and Paying Agent with respect to all the Securities under the Indenture.

Section 202. The Company hereby appoints the Successor Trustee as Trustee with respect to all the Securities under the Indenture and confirms to the Successor Trustee all the rights, powers, trusts and duties of the Trustee with respect to all the Securities under the Indenture. Pursuant to Section 6.11 of the Indenture, upon the request of the Successor Trustee the Company shall execute and deliver such further instruments as the Successor Trustee may reasonably require so as to more fully and certainly vest and confirm in the Successor Trustee all the rights, powers, trusts and duties hereby assigned, transferred, delivered and confirmed to the Successor Trustee.

Section 203. The Company hereby appoints the Successor Trustee as Security Registrar with respect to all the Securities pursuant to Section 3.5 of the Indenture and as Paying Agent with respect to all the Securities pursuant to Section 10.2 of the Indenture.

ARTICLE THREE
THE SUCCESSOR TRUSTEE

Section 301. The Successor Trustee hereby represents and warrants to the Resigning Trustee and to the Company that the Successor Trustee is qualified and eligible under the provisions of Section 6.9 of the Indenture to act as Trustee with respect to all the Securities under the Indenture.

Section 302. The Successor Trustee hereby accepts its appointment as Trustee with respect to all the Securities under the Indenture and shall hereby be vested with all the rights, powers, trusts and duties of the Trustee with respect to all the Securities under the Indenture.

Section 303. The Successor Trustee hereby accepts its appointment as Security Registrar and Paying Agent with respect to all the Securities under the Indenture.

Section 304. Promptly after the execution and delivery of this Instrument, the Successor Trustee, on behalf of the Company, shall cause a notice, forms of which are annexed hereto marked Exhibits B, C and D, to be sent to each Holder of the Securities pursuant to Section 6.10 of the Indenture.

ARTICLE FOUR
MISCELLANEOUS

Section 401. Except as otherwise expressly provided or unless the context otherwise requires, all terms used herein which are defined in the Indenture shall have the meanings assigned to them in the Indenture.

Section 402. This Instrument and the resignation, appointment and acceptance effected hereby shall be effective as of the close of business on the date first above written, upon the execution and delivery hereof by each of the parties hereto.

Section 403. Notwithstanding the resignation of the Resigning Trustee effected hereby, the Company shall remain obligated under Section 6.7 of the Indenture to compensate, reimburse and indemnify the Resigning Trustee in connection with its prior trusteeship under the Indenture.

Section 404. This Instrument shall be governed by and construed in accordance with the laws of the jurisdiction which govern the Indenture and its construction.

Section 405. This Instrument may be executed in any number of counterparts each of which shall be an original, but such counterparts shall together constitute but one and the same instrument.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, the parties hereto have caused this Instrument of Resignation, Appointment and Acceptance to be duly executed as of the day and year first above written.

ARMSTRONG WORLD INDUSTRIES, INC.

By

Name:

Title:

THE CHASE MANHATTAN BANK, as Resigning Trustee

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By
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  Name:    James R. Lewis
  Title:   Vice President
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WELLS FARGO BANK MINNESOTA,
NATIONAL ASSOCIATION, as Successor Trustee

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By
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  Name:    Gavin Wilkinson
  Title:   Vice President
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EXHIBIT A

BOARD RESOLUTIONS

The following is a true copy of resolutions duly adopted on November _____, 2000, by the Board of Directors of Armstrong World Industries, Inc.:

"RESOLVED, that the Corporation appoint Wells Fargo Bank Minnesota, National Association as successor Trustee ("Successor Trustee"), Security Registrar, and the office or agency where the Securities (as defined below) may be presented or surrendered for payment, where the Securities may be surrendered for conversion and where notices and demands to or upon the Corporation in respect of the Securities and the Indenture (as defined below) may be served ("Paying Agent") under the Indenture, dated as of August 6, 1996 (the "Indenture"), by and between the Corporation and The Chase Manhattan Bank ("Resigning Trustee"), as Trustee, pursuant to which the Corporation issued: (i) $200,000,000 in aggregate principal amount of the Corporation's 6.35% Senior Notes due 2003 (the "6.35% Notes"); (ii) $150,000,000 in aggregate principal amount of the Corporation's 6 1/2% Senior Notes due 2005 (the "6 1/2% Notes"); and (iii) $180,000,000 in aggregate principal amount of the Corporation's 7.45% Senior Quarterly Interest Bonds due 2038 (the "QUIBS" and, together with the 6.35% Notes and the 6 1/2% Notes, the "Securities"); and it is further

RESOLVED, that the Chairman of the Board, the President, any Executive Vice President, Vice President, the Treasurer or any Assistant Treasurer of the Corporation be, and each of them hereby is, authorized, empowered and directed to execute and deliver in the name and on behalf of the Corporation an instrument or instruments appointing Successor Trustee as the successor Trustee, Security Registrar and Paying Agent; and it is further

RESOLVED, that the proper officers of the Corporation are hereby authorized, empowered and directed to do or cause to be done all such acts or things, and to execute and deliver, or cause to be executed or delivered, any and all such agreements, amendments, instruments, certificates, documents or papers (including, without limitation, any and all notices and certificates required to be given or made on behalf of the Corporation to Successor Trustee or to Resigning Trustee) under the terms of any of the executed instruments in connection with the appointment of Successor Trustee, in the name and on behalf of the Corporation as any of such officers, in his/her discretion, may deem necessary or advisable to effectuate or carry out the purposes and intent of the foregoing resolutions and to exercise any of the Corporation's obligations under the instruments and agreements executed on behalf of the Corporation in connection with the appointment of Successor Trustee."

EXHIBIT B

Notice to Holders of Armstrong World Industries, Inc.'s 6.35% Senior Notes due 2003 (the "Notes"):

We hereby notify you of the resignation of The Chase Manhattan Bank (successor-in-interest to Mellon Bank, N.A.) as Trustee under the Indenture, dated as of August 6, 1996, pursuant to which your Notes were issued and are outstanding.

Armstrong World Industries, Inc. has appointed Wells Fargo Bank Minnesota, National Association, whose Corporate Trust Office is located at Sixth and Marquette, Minneapolis, Minnesota 55479-0069, as successor Trustee under the Indenture, which appointment has been accepted and has become effective as of December 1, 2000.

WELLS FARGO BANK MINNESOTA,
NATIONAL ASSOCIATION

Date: ____________________, 2000

EXHIBIT C

Notice to Holders of Armstrong World Industries, Inc.'s 6 1/2% Senior Notes due 2005 (the "Notes"):

We hereby notify you of the resignation of The Chase Manhattan Bank (successor-in-interest to Mellon Bank, N.A.) as Trustee under the Indenture, dated as of August 6, 1996, pursuant to which your Notes were issued and are outstanding.

Armstrong World Industries, Inc. has appointed Wells Fargo Bank Minnesota, National Association, whose Corporate Trust Office is located at Sixth and Marquette, Minneapolis, Minnesota 55479-0069, as successor Trustee under the Indenture, which appointment has been accepted and has become effective as of December 1, 2000.

WELLS FARGO BANK MINNESOTA,
NATIONAL ASSOCIATION

Date: ____________________, 2000

<u>**EXHIBIT D**</u>

Notice to Holders of Armstrong World Industries, Inc.'s 7.45% Senior Quarterly Interest Bonds due 2038 (the "Bonds"):

We hereby notify you of the resignation of The Chase Manhattan Bank (successor-in-interest to Mellon Bank, N.A.) as Trustee under the Indenture, dated as of August 6, 1996, pursuant to which your Bonds were issued and are outstanding.

Armstrong World Industries, Inc. has appointed Wells Fargo Bank Minnesota, National Association, whose Corporate Trust Office is located at Sixth and Marquette, Minneapolis, Minnesota 55479-0069, as successor Trustee under the Indenture, which appointment has been accepted and has become effective as of December 1, 2000.

WELLS FARGO BANK MINNESOTA,
NATIONAL ASSOCIATION

Date: ____________________, 2000

EXHIBIT 4(i)

REVOLVING CREDIT AND GUARANTY AGREEMENT

Among

ARMSTRONG WORLD INDUSTRIES, INC.
a Debtor and a Debtor-in-Possession under Chapter 11 of the Bankruptcy Code

as Borrower

and

THE SUBSIDIARIES OF THE BORROWER NAMED

HEREIN, each a Debtor and a Debtor-in-Possession under Chapter 11 of the Bankruptcy Code

as Guarantors

and

THE BANKS PARTY HERETO,

and

THE CHASE MANHATTAN BANK,

as Administrative Agent and Documentation Agent

CHASE SECURITIES INC.,
as Book Manager

and

Lead Arranger

Dated as of December 6, 2000

REVOLVING CREDIT AND GUARANTY AGREEMENT
Dated as of December 6, 2000

REVOLVING CREDIT AND GUARANTY AGREEMENT, dated as of December 6, 2000, among ARMSTRONG WORLD INDUSTRIES, INC., a Pennsylvania corporation (the "Borrower"), a debtor and debtor-in-possession in a case pending under Chapter 11 of the Bankruptcy Code, and certain of the subsidiaries of the Borrower signatory hereto (each a "Guarantor" and collectively, the "Guarantors"), each of which Guarantors referred to in this paragraph is a debtor and debtor-in-possession in a case pending under Chapter 11 of the Bankruptcy Code (the cases of the Borrower and the Guarantors, each a "Case" and collectively,

the "Cases"), THE CHASE MANHATTAN BANK, a New York banking corporation ("Chase"), each of the other financial institutions from time to time party hereto (together with Chase, the "Banks") and THE CHASE MANHATTAN BANK, as agent (in such capacity, the "Agent") for the Banks.

INTRODUCTORY STATEMENT

On December 6, 2000, the Borrower and the Guarantors filed voluntary petitions with the Bankruptcy Court initiating the Cases and have continued in the possession of their assets and in the management of their business pursuant to Sections 1107 and 1108 of the Bankruptcy Code.

The Borrower has applied to the Banks for a revolving credit and letter of credit facility in an aggregate principal amount not to exceed $400,000,000, all of the Borrower's obligations under which are to be guaranteed by the Guarantors.

The proceeds of the Loans will be used for working capital and other general corporate purposes of the Borrower and the Guarantors, which shall include intercompany loans and advances to Non-filed Subsidiaries to the extent permitted by this Agreement.

To provide guarantees and security for the repayment of the Loans, the reimbursement of any draft drawn under a Letter of Credit and the payment of the other obligations of the Borrower and the Guarantors hereunder and under the other Loan Documents (including, without limitation, Indebtedness of the Borrower to Chase or any of its banking Affiliates permitted by Section 6.03(vi), the Borrower and the Guarantors will provide to the Agent and the Banks the following (each as more fully described herein):

a guaranty from each of the Guarantors of the due and punctual payment and performance of the obligations of the Borrower hereunder;

an allowed administrative expense claim in each of the Cases pursuant to Section 364(c)(1) of the Bankruptcy Code having priority over all administrative expenses of the kind specified in Sections 503(b) and 507(b) of the Bankruptcy Code; and a perfected first priority Lien, pursuant to Section 364(c)(2) of the Bankruptcy Code, upon all cash and cash equivalents in the Letter of Credit Account, provided that following the Termination Date, amounts in the Letter of Credit Account shall not be subject to the Carve-Out hereinafter referred to.

All of the claims and the Liens granted hereunder in the Cases to the Agent and the Banks shall be subject to the Carve-Out to the extent provided in
Section 2.23.

Accordingly, the parties hereto hereby agree as follows:

DEFINITIONS

Defined Terms.

As used in this Agreement, the following terms shall have the meanings specified below:

"ABR Borrowing" shall mean a Borrowing comprised of ABR Loans.

"ABR Loan" shall mean any Loan bearing interest at a rate determined by reference to the Alternate Base Rate in accordance with the provisions of
Section 2.

"Additional Credit" shall have the meaning given such term in Section 4.02(d) hereof.

"Adjusted LIBOR Rate" shall mean, with respect to any Eurodollar Borrowing for any Interest Period, an interest rate per annum (rounded upwards, if necessary, to the next 1/16 of 1%) equal to the quotient of (a) the LIBOR Rate in effect for such Interest Period divided by (b) a percentage (expressed as a decimal) equal to 100% minus Statutory Reserves. For purposes hereof, the term "LIBOR Rate" shall mean the rate (rounded upwards, if necessary, to the next 1/16 of 1%) at which dollar deposits approximately equal in principal amount to such Eurodollar Borrowing and for a maturity comparable to such Interest Period are offered to the principal London office of the Agent in immediately available funds in the London interbank market at approximately 11:00 a.m., London time, two Business Days prior to the commencement of such Interest Period.

"Affiliate" shall mean, as to any Person, any other Person which, directly or indirectly, is in control of, is controlled by, or is under common control with, such Person. For purposes of this definition, a Person (a "Controlled Person") shall be deemed to be "controlled by" another Person (a "Controlling Person") if the Controlling Person possesses, directly or indirectly, power to direct or cause the direction of the management and policies of the Controlled Person whether by contract or otherwise.

"Agent" shall have the meaning set forth in the Introduction.

"Agreement" shall mean this Revolving Credit and Guaranty Agreement, as the same may from time to time be further amended, modified or supplemented.

"Alternate Base Rate" shall mean, for any day, a rate per annum (rounded upwards, if necessary, to the next 1/16 of 1%) equal to the greatest of

(a) the Prime Rate in effect on such day, (b) the Base CD Rate in effect on such day plus 1% and (c) the Federal Funds Effective Rate in effect on such day plus 1/2 of 1%. For purposes hereof, "Prime Rate" shall mean the rate of interest per annum publicly announced from time to time by the Agent as its prime rate in effect at its principal office in New York City; each change in the Prime Rate shall be effective on the date such change is publicly announced. "Base CD Rate" shall mean the sum of (a) the quotient of (i) the Three-Month Secondary CD Rate divided by (ii) a percentage expressed as a decimal equal to 100% minus Statutory Reserves and (b) the Assessment Rate. "Three-Month Secondary CD Rate" shall mean, for any day, the secondary market rate for three-month certificates of deposit reported as being in effect on such day (or, if such day shall not be a Business Day, the next preceding Business Day) by the Board through the public information telephone line of the Federal Reserve Bank of New York (which rate will, under the current practices of the Board, be published in Federal Reserve Statistical Release H.15(519) during the week following such day), or, if such rate shall not be so reported on such day or such next preceding Business Day, the average of the secondary market quotations for three-month certificates of deposit of major money center banks in New York City received at approximately 10:00 a.m., New York City time, on such day (or, if such day shall not be a Business Day, on the next preceding Business Day) by the Agent from three New York City negotiable certificate of deposit dealers of recognized standing selected by it. "Federal Funds Effective Rate" shall mean, for any day, the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published on the next succeeding Business Day by the Federal Reserve Bank of New York, or, if such rate is not so published for any day which is a Business Day, the average of the quotations for the day of such transactions received by the Agent from three Federal funds brokers of recognized standing selected by it. If for any reason the Agent shall have determined (which determination shall be conclusive absent manifest error) that it is unable to ascertain the Base CD Rate or the Federal Funds Effective Rate or both for any reason, including the inability or failure of the Agent to obtain sufficient quotations in accordance with the terms hereof, the Alternate Base Rate shall be determined without regard to clause (b) or (c), or both, of the first sentence of this definition, as appropriate, until the circumstances giving rise to such inability no longer exist. Any change in the Alternate Base Rate due to a change in the Prime Rate, the Three-Month Secondary CD Rate or the Federal Funds Effective Rate shall be effective on the effective date of such change in the Prime Rate, the Three-Month Secondary CD Rate or the Federal Funds Effective Rate, respectively.

"Applicable Margin" shall mean, for any day with respect to any ABR Loan or Eurodollar Loan, or with respect to any unreimbursed draws under Letters of Credit (as provided for in Section 2.03(d) or Letter of Credit Fees payable hereunder as the case may be, the applicable rate per annum set forth below under the caption "ABR Spread," "Eurodollar Spread," Unreimbursed L/C Rate," or (except as set forth in Section 2.21) "Letter of Credit Fee Rate" as the case may be, based upon the Total Facility Usage applicable on such date:

Total Facility Usage	ABR Spread	Eurodollar Spread	Unreimbursed L/C Rate	Letter of Credit Fee Rate
Less than $200,000,000	.50%	1.50%	.50%	1.50%
$200,000,000 to $400,000,000	1.00%	2.00%	1.00%	2.00%

"Assessment Rate" shall mean for any date the annual rate (rounded upwards, if necessary, to the next 1/100 of 1%) most recently estimated by the Agent as the then current net annual assessment rate that will be employed in determining amounts payable by the Agent to the Federal Deposit Insurance Corporation (or any successor) for insurance by such Corporation (or any successor) of time deposits made in dollars at the Agent's domestic offices.

"Assignment and Acceptance" shall mean an assignment and acceptance entered into by a Bank and an Eligible Assignee, and accepted by the Agent, substantially in the form of Exhibit C.

"Bankruptcy Code" shall mean The Bankruptcy Reform Act of 1978, as heretofore and hereafter amended, and codified as 11 U.S.C. Section 101 et seq.

"Bankruptcy Court" shall mean the United States Bankruptcy Court for the District of Delaware or any other court having jurisdiction over the Cases from time to time.

"Banks" shall have the meaning set forth in the Introduction.

"Board" shall mean the Board of Governors of the Federal Reserve **System of the United States.**

"Borrower" shall have the meaning set forth in the Introduction.

"Borrowing" shall mean the incurrence of Loans of a single Type made from all the Banks on a single date and having, in the case of Eurodollar Loans, a single Interest Period (with any ABR Loan made pursuant to Section 2.16 being considered a part of the related Borrowing of Eurodollar Loans).

"Borrowing Base" shall be defined in a manner satisfactory to the Agent and reflected in an amendment to this Agreement satisfactory to the Agent to be executed prior to the entry of the Final Order and approved by the Bankruptcy Court at the time of the entry thereof; such Borrowing Base shall include inventory and receivables, and certain other assets satisfactory to the Agent (as to which the Agent shall have received such appraisals and valuations as may have been requested by the Agent), of the Borrower meeting certain eligibility standards determined by the Agent. Borrowing Base standards may be fixed and revised from time to time solely by the Agent in its exclusive discretion and consistent with its standard practice with any changes in such standards to be effective 10 days after delivery of notice thereof to the Borrower. The Borrowing Base shall not include any assets of the Non-filed Subsidiaries, provided that the Borrower may request that the Borrowing Base include inventory and receivables, and certain other assets satisfactory to the Agent (as to which the Agent shall have received such appraisals and valuations as may have been requested by the Agent), meeting eligibility standards determined by the Agent of certain Domestic Subsidiaries if the Agent is satisfied in its sole judgment that such inventory, receivables and other assets are subject to valid and perfected first Liens in favor of the Borrower or the Agent.

"Borrowing Base Certificate" shall mean a certificate substantially in the form of an exhibit to the amendment to this Agreement referred to in the definition of "Borrowing Base" (with such changes therein as may be required by the Agent to reflect the components of and reserves against the Borrowing Base as provided for hereunder from time to time), executed and certified by a Financial Officer of the Borrower, which shall include appropriate exhibits and schedules as referred to therein.

"Business Day" shall mean any day other than a Saturday, Sunday or other day on which banks in the State of New York are required or permitted to close (and, for a Letter of Credit, other than a day on which the Fronting Bank issuing such Letter of Credit is closed); provided, however, that when used in connection with a Eurodollar Loan, the term "Business Day" shall also exclude any day on which banks are not open for dealings in dollar deposits on the London interbank market.

"Capital Expenditures" shall mean, for any period, the aggregate of all expenditures (whether paid in cash and not theretofore accrued subsequent to the date of this Agreement or accrued as liabilities during such period and including that portion of Capitalized Leases which is capitalized on the consolidated balance sheet of the Borrower and the Guarantors) net of cash amounts received by the Borrower and the Guarantors from other Persons during such period in reimbursement of Capital Expenditures made by the Borrower and the Guarantors, excluding interest capitalized during construction, by the Borrower and the Guarantors during such period that, in conformity with GAAP, are required to be included in or reflected by the property, plant, equipment or intangibles or similar fixed asset accounts reflected in the consolidated balance sheet of the Borrower and the Guarantors (including equipment which is purchased simultaneously with the trade-in of existing equipment owned by the Borrower or any of the Guarantors to the extent of the gross amount of such purchase price less the book value of the equipment being traded in at such time), but excluding expenditures made in connection with the replacement or restoration of assets, to the extent reimbursed or financed from insurance proceeds paid on account of the loss of or the damage to the assets being replaced or restored, or from awards of compensation arising from the taking by condemnation or eminent domain of such assets being replaced.

"Capitalized Lease" shall mean, as applied to any Person, any lease of property by such Person as lessee which would be capitalized on a balance sheet of such Person prepared in accordance with GAAP.

"Carve-Out" shall have the meaning set forth in Section 2.23.

"Cases" shall mean the Chapter 11 Cases of the Borrower and each of the Guarantors pending in the Bankruptcy Court.

"Change of Control" shall mean (i) the acquisition of ownership, directly or indirectly, beneficially or of record, by any Person or group (within the meaning of the Securities Exchange Act of 1934 and the rules of the Securities and Exchange Commission thereunder as in effect on the date hereof), of shares representing more than 50% of the aggregate ordinary voting power represented by the issued and outstanding capital stock of the Borrower; or (ii) the occupation of a majority of the seats (other than vacant seats) on the Board of Directors of the Borrower by Persons who were neither (A) nominated by the Board of Directors of the Borrower nor (B) appointed by directors so nominated.

"Chase" shall have the meaning set forth in the Introduction.

"Closing Date" shall mean the date on which this Agreement has been executed and the conditions precedent to the making of the initial Loans set forth in Section 4.01 have been satisfied or waived, which date shall occur promptly upon entry of the Interim Order, but not later than 10 days following the entry of the Interim Order.

"Code" shall mean the Internal Revenue Code of 1986, as amended.

"Commitment" shall mean, with respect to each Bank, the commitment of each Bank hereunder in the amount set forth opposite its name on Annex A hereto or as may subsequently be set forth in the Register from time to time, as the same may be reduced from time to time pursuant to Section 2.10 of this Agreement.

"Commitment Fee" shall have the meaning set forth in Section 2.20.

"Commitment Letter" shall mean that certain Commitment Letter dated **December 1, 2000 among the Agent, Chase Securities Inc. and the Borrower.**

"Commitment Percentage" shall mean at any time, with respect to each Bank, the percentage obtained by dividing its Commitment at such time by the Total Commitment at such time.

"Competitive Bid" means an offer by a Bank to make a Competitive Loan in accordance with Section 2.06A.

"Competitive Bid Rate" means, with respect to any Competitive Bid, the Margin or the Fixed Rate, as applicable, offered by the Bank making such Competitive Bid.

"Competitive Bid Request" means a request by the Borrower for Competitive Bids in accordance with Section 2.06A.

"Competitive Loan" means a Loan made pursuant to Section 2.06A.

"Consummation Date" shall mean the date of the substantial consummation (as defined in Section 1101 of the Bankruptcy Code and which for purposes of this Agreement shall be no later than the effective date) of a Reorganization Plan of the Borrower or any of the Guarantors that is confirmed pursuant to an order of the Bankruptcy Court.

"Cumulative Cash Flow" shall mean, as of the last day of each four (4) fiscal quarter period of the Borrower, the sum of the Borrower's EBITDA for such period plus the aggregate cash dividends received by the Borrower from the Guarantors and the Non-filed Subsidiaries during such period.

"Dollars" and "$" shall mean lawful money of the United States of **America.**

"Domestic Subsidiaries" shall mean, collectively, the direct and indirect domestic Subsidiaries of the Borrower, other than the Guarantors.

"EBITDA" shall mean, for any period, all as determined in accordance with GAAP, the consolidated net income (or net loss) of the Borrower and the Guarantors for such period, plus (a) the sum of (i) depreciation expense, (ii)

amortization expense, (iii) other non-cash expenses, (iv) provision for LIFO adjustment for inventory valuation, (v) net total Federal, state and local income tax expense, (vi) gross interest expense for such period less gross interest income for such period, (vii) extraordinary losses, (viii) any non-recurring charge or restructuring or reorganization charge (such as plant closing costs, severance costs and asbestos reserve changes) which in accordance with GAAP is not excluded from operating income, (ix) the cumulative effect of any change in accounting principles and (x) "Chapter 11 expenses" (or "administrative costs reflecting Chapter 11 expenses") as shown on the Borrower's consolidated statement of income for such period less (b)

extraordinary gains plus or minus (c) the amount of cash received or expended in such period in respect of any amount which, under clause (viii) above, was taken into account in determining EBITDA for such or any prior period.

"Eligible Assignee" shall mean (i) a commercial bank having total assets in excess of $1,000,000,000; (ii) a finance company, insurance company or other financial institution or fund, in each case acceptable to the Agent, which in the ordinary course of business extends credit of the type contemplated herein and has total assets in excess of $200,000,000 and whose becoming an assignee would not constitute a prohibited transaction under Section 4975 of ERISA; and (iii) any other financial institution satisfactory to the Borrower and the Agent.

"Environmental Lien" shall mean a Lien in favor of any Governmental Authority for (i) any liability under federal or state environmental laws or regulations, or (ii) damages arising from or costs incurred by such Governmental Authority in response to a release or threatened release of a hazardous or toxic waste, substance or constituent, or other substance into the environment.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended from time to time, and the regulations promulgated and rulings issued thereunder.

"ERISA Affiliate" shall mean any trade or business (whether or not incorporated) which is a member of a group of which the Borrower is a member and which is under common control within the meaning of Section 414(b) or (c) of the Code and the regulations promulgated and rulings issued thereunder.

"Eurocurrency Liabilities" shall have the meaning assigned thereto in Regulation D issued by the Board, as in effect from time to time.

"Eurodollar Borrowing" shall mean a Borrowing comprised of Eurodollar **Loans.**

"Eurodollar Loan" shall mean any Loan bearing interest at a rate determined by reference to the Adjusted LIBOR Rate in accordance with the provisions of Section 2.

"Event of Default" shall have the meaning given such term in Section 7.

"Fees" shall collectively mean the Commitment Fees, Letter of Credit

Fees and other fees referred to in Sections 2.19, 2.20 and 2.21.

"Filing Date" shall mean December 6, 2000.

"Final Order" shall have the meaning given such term in Section 4.02(d).

"Financial Officer" shall mean the Chief Financial Officer, Corporate **Controller, Treasurer or Assistant Treasurer of the Borrower.**

"Fixed Rate" means, with respect to any Competitive Loan (other than a Eurodollar Competitive Loan), the fixed rate of interest per annum specified by the Bank making such Competitive Loan in its related Competitive Bid.

"Fixed Rate Loan" means a Competitive Loan bearing interest at a Fixed **Rate.**

"Foreign Subsidiaries" shall mean, collectively, the direct and indirect foreign Subsidiaries of the Borrower.

"Fronting Bank" shall mean Chase (or any of its banking affiliates) or such other Bank (which other Bank shall be reasonably satisfactory to the Borrower) as may agree with Chase to act in such capacity.

"GAAP" shall mean generally accepted accounting principles applied in

accordance with Section 1.02.

"Governmental Authority" shall mean any Federal, state, municipal or other governmental department, commission, board, bureau, agency or instrumentality or any court, in each case whether of the United States or foreign.

"Guarantor" shall have the meaning set forth in the Introduction.

"Indebtedness" shall mean, at any time and with respect to any Person, (i) all indebtedness of such Person for borrowed money, (ii) all indebtedness of such Person for the deferred purchase price of property or services (other than property, including inventory, and services purchased, and expense accruals and deferred compensation items arising, in the ordinary course of business), (iii) all obligations of such Person evidenced by notes, bonds, debentures or other similar instruments (other than performance, surety and appeal bonds arising in the ordinary course of business), (iv) all indebtedness of such Person created or arising under any conditional sale or other title retention agreement with respect to property acquired by such Person (even though the rights and remedies of the seller or lender under such agreement in the event of default are limited to repossession or sale of such property), (v) all obligations of such Person under leases which have been or should be, in accordance with GAAP, recorded as capital leases, to the extent required to be so recorded, (vi) all reimbursement, payment or similar obligations of such Person, contingent or otherwise, under acceptance, letter of credit or similar facilities and all obligations of such Person in respect of (x) currency swap agreements, currency future or option contracts and other similar agreements designed to hedge against fluctuations in foreign interest rates and (y) interest rate swap, cap or collar agreements and interest rate future or option contracts; (vii) all Indebtedness referred to in clauses (i) through (vi) above guaranteed directly or indirectly by such Person, or in effect guaranteed directly or indirectly by such Person through an agreement (A) to pay or purchase such Indebtedness or to advance or supply funds for the payment or purchase of such Indebtedness, (B) to purchase, sell or lease (as lessee or lessor) property, or to purchase or sell services, primarily for the purpose of enabling the debtor to make payment of such Indebtedness or to assure the holder of such Indebtedness against loss in respect of such Indebtedness, (C) to supply funds to or in any other manner invest in the debtor (including any agreement to pay for property or services irrespective of whether such property is received or such services are rendered) or (D) otherwise to assure a creditor against loss in respect of such Indebtedness, and (viii) all Indebtedness referred to in clauses (i) through (vii) above secured by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any Lien upon or in property (including, without limitation, accounts and contract rights) owned by such Person, even though such Person has not assumed or become liable for the payment of such Indebtedness.

"Insufficiency" shall mean, with respect to any Plan, the amount, if any, of its unfunded benefit liabilities within the meaning of Section 4001 (a)(18) of ERISA.

"Interim Order" shall have the meaning given such term in Section 4.01(b).

"Interest Payment Date" shall mean (i) as to any Eurodollar Loan, the last day of each consecutive 30 day period running from the commencement of the applicable Interest Period, (ii) as to all ABR Loans, the last calendar day of each month and the date on which any ABR Loans are refinanced with Eurodollar Loans pursuant to Section 2.12 and (iii) as to any Competitive Loan, the last day of the Interest Period applicable thereto.

"Interest Period" shall mean, as to any Borrowing of Eurodollar Loans, the period commencing on the date of such Borrowing (including as a result of a refinancing of ABR Loans) or on the last day of the preceding Interest Period applicable to such Borrowing and ending on the numerically corresponding day (or if there is no corresponding day, the last day) in the calendar month that is one or three months thereafter, as the Borrower may elect in the related notice delivered pursuant to Sections 2.06(b) or 2.12; provided, however, that (i) if any Interest Period would end on a day which shall not be a Business Day, such Interest Period shall be extended to the next succeeding Business Day unless such next succeeding Business Day would fall in the next calendar month, in which case such Interest Period shall end on the next preceding Business Day, and (ii) no Interest Period shall end later than the Termination Date.

"Investments" shall have the meaning given such term in Section 6.10.

"Letter of Credit" shall mean any irrevocable letter of credit issued pursuant to Section 2.03, which letter of credit shall be (i) a standby or import documentary letter of credit, (ii) issued for purposes that are consistent with the ordinary course of business of the Borrower or any Subsidiary, or for such other purposes as are reasonably acceptable to the Agent, (iii) denominated in Dollars and (iv) otherwise in such form as may be reasonably approved from time to time by the Agent and the applicable Fronting Bank.

"Letter of Credit Account" shall mean the account established by the Borrower under the sole and exclusive control of the Agent maintained at the office of the Agent at 270 Park Avenue, New York, New York 10017 designated as the "Armstrong World Industries, Inc. Letter of Credit Account" that shall be used solely for the purposes set forth in Sections 2.03(b) and 2.13.

"Letter of Credit Fees" shall mean the fees payable in respect of Letters of Credit pursuant to Section 2.21.

"Letter of Credit Outstandings" shall mean, at any time, the sum of
(i) the aggregate undrawn stated amount of all Letters of Credit then outstanding plus (ii) all amounts theretofore drawn under Letters of Credit and not then reimbursed.

"Lien" shall mean any mortgage, pledge, security interest,

encumbrance, lien or charge of any kind whatsoever (including any conditional sale or other title retention agreement or any lease in the nature thereof).

"Loan" shall have the meaning given such term in Section 2.01; except

as used in Sections 2.01, 2.06, 2.08, 2.11 and 2.12, the term "Loan" shall include Competitive Loans for all purposes of this Agreement and the other Loan Documents.

"Loan Documents" shall mean this Agreement, the Letters of Credit, and any other instrument or agreement executed and delivered in connection herewith.

"Margin" means, with respect to any Competitive Loan bearing interest at a rate based on the LIBOR Rate, the marginal rate of interest, if any, to be added to or subtracted from the LIBOR Rate to determine the rate of interest applicable to such Loan, as specified by the Bank making such Loan in its related Competitive Bid.

"Maturity Date" shall mean twenty-four (24) months after the commencement of the Debtor's Case.

"Multiemployer Plan" shall mean a "multiemployer plan" as defined in Section 4001(a)(3) of ERISA to which the Borrower or any ERISA Affiliate is making or accruing an obligation to make contributions, or has within any of the preceding five plan years made or accrued an obligation to make contributions.

"Multiple Employer Plan" shall mean a Single Employer Plan, which (i) is maintained for employees of the Borrower or an ERISA Affiliate and at least one Person other than the Borrower and its ERISA Affiliates or (ii) was so maintained and in respect of which the Borrower or an ERISA Affiliate could have liability under Section 4064 or 4069 of ERISA in the event such Plan has been or were to be terminated.

"Net Debt" shall mean, on any day, the amount by which Total Facility Usage on such day exceeds the sum on such day of the Borrower's collected cash balances plus cash equivalents.

"Non-Filed Subsidiaries" shall mean the Domestic Subsidiaries and the **Foreign Subsidiaries.**

"Obligations" shall mean (a) the due and punctual payment of principal of and interest on the Loans and the reimbursement of all amounts drawn under Letters of Credit, and (b) the due and punctual payment of the Fees and all other present and future, fixed or contingent, monetary obligations of the Borrower and the Guarantors to the Banks and the Agent under the Loan Documents.

"Orders" shall mean the Interim Order and the Final Order of the Bankruptcy Court referred to in Sections 4.01(b) and 4.02(d).

"Other Taxes" shall have the meaning given such term in Section 2.18.

"PBGC" shall mean the Pension Benefit Guaranty Corporation, or any

successor agency or entity performing substantially the same functions.

"Pension Plan" shall mean a defined benefit pension or retirement plan which meets and is subject to the requirements of Section 401(a) of the Code.

"Permitted Investments" shall mean:

direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America (or by any agency thereof to the extent such obligations are backed by the full faith and credit of the United States of America), in each case maturing within twelve months from the date of acquisition thereof;

without limiting the provisions of paragraph (d) below, investments in commercial paper maturing within six months from the date of acquisition thereof and having, at such date of acquisition, a rating of at least "A-2" or the equivalent thereof from Standard & Poor's Corporation or of at least "P-2" or the equivalent thereof from Moody's Investors Service, Inc.;

investments in certificates of deposit, banker's acceptances and time deposits (including Eurodollar time deposits) maturing within six months from the date of acquisition thereof issued or guaranteed by or placed with (i) any domestic office of the Agent or the bank with whom the Borrower and the Guarantors maintain their cash management system, or (ii) any domestic office of any other commercial bank of recognized standing organized under the laws of the United States of America or any State thereof that has a combined capital and surplus and undivided profits of not less than $250,000,000 and is the principal banking Subsidiary of a bank holding company having a long-term unsecured debt rating of at least "A-2" or the equivalent thereof from Standard & Poor's Corporation or at least "P-2" or the equivalent thereof from Moody's Investors Service, Inc.;

investments in commercial paper maturing within six months from the date of acquisition thereof and issued by (i) the holding company of the Agent or (ii) the holding company of any other commercial bank of recognized standing organized under the laws of the United States of America or any State thereof that has (A) a combined capital and surplus in excess of $250,000,000 and (B) commercial paper rated at least "A-2" or the equivalent thereof from Standard & Poor's Corporation or of at least "P-2" or the equivalent thereof from Moody's Investors Service, Inc.;

investments in repurchase obligations with a term of not more than seven days for underlying securities of the types described in clause (a) above entered into with any office of a bank or trust company meeting the qualifications specified in clause (c) above;

investments in money market funds substantially all the assets of which are comprised of securities of the types described in clauses (a) through (e) above; and investments whether directly or indirectly, in the capital stock of the Guarantors and the other Subsidiaries of the Borrower by the Borrower.

"Permitted Liens" shall mean (i) Liens imposed by law (other than Environmental Liens and any Lien imposed under ERISA) for taxes, assessments or charges of any Governmental Authority for claims not yet due or which are being contested in good faith by appropriate proceedings and with respect to which adequate reserves or other appropriate provisions are being maintained in accordance with GAAP; (ii) Liens of landlords and Liens of carriers, warehousemen, mechanics, materialmen and other Liens (other than Environmental Liens and any Lien imposed under ERISA) in existence on the Filing Date or thereafter imposed by law and created in the ordinary course of business; (iii) Liens (other than any Lien imposed under ERISA) incurred or deposits made in the ordinary course of business (including, without limitation, surety bonds and appeal bonds) in connection with workers' compensation, unemployment insurance and other types of social security benefits, statutory obligations and other similar obligations or arising as a result of progress payments under government contracts; (iv) easements (including, without limitation, reciprocal easement agreements and utility agreements), rights-of-way, covenants, consents, reservations, encroachments, variations and zoning and other restrictions, charges or encumbrances (whether or not recorded) and interest of ground lessors, which do not interfere materially with the ordinary conduct of the business of the Borrower or any Guarantor, as the case may be, and which do not materially detract from the value of the property to which they attach or materially impair the use thereof to the Borrower or any Guarantor, as the case may be; (v) purchase money Liens (including Capitalized Leases) upon or in any property acquired or held in the ordinary course of business to secure the purchase price of such property or to secure Indebtedness permitted by Section 6.03(iv) solely for the purpose of financing the acquisition of such property; and (vi) extensions, renewals or replacements of any Lien referred to in paragraphs (i) through (v) above, provided that the principal amount of the obligation secured thereby is not increased and that any such extension, renewal or replacement is limited to the property originally encumbered thereby.

"Person" shall mean any natural person, corporation, division of a corporation, partnership, trust, joint venture, association, company, estate, unincorporated organization or government or any agency or political subdivision thereof.

"Plan" shall mean a Single Employer Plan or a Multiemployer Plan.

"Prepayment Date" shall mean forty-five (45) days after the Filing Date if the Final Order has not been entered by the Bankruptcy Court prior to the expiration of such forty-five (45) day period.

"Pre-Petition Payment" shall mean a payment (by way of adequate protection or otherwise) of principal or interest or otherwise on account of any pre-petition Indebtedness or trade payables or other pre-petition claims against the Borrower or any Guarantor.

"Register" shall have the meaning set forth in Section 10.03(d).

"Reorganization Plan" shall mean a plan of reorganization in any of the Cases.

"Required Banks" shall mean, at any time, Banks holding Loans representing in excess of 50% of the aggregate principal amount of such Loans outstanding or, if no such Loans are outstanding, Banks having Commitments representing in excess of 50% of the Total Commitment.

"Single Employer Plan" shall mean a single employer plan, as defined in Section 4001(a)(15) of ERISA, that (i) is maintained for employees of the Borrower or an ERISA Affiliate or (ii) was so maintained and in respect of which the Borrower could have liability under Section 4069 of ERISA in the event such Plan has been or were to be terminated.

"Statutory Reserves" shall mean on any date the percentage (expressed as a decimal) established by the Board and any other banking authority which is
(i) for purposes of the definition of Base CD Rate, the then stated maximum rate of all reserves (including, but not limited to, any emergency, supplemental or other marginal reserve requirement) for a member bank of the Federal Reserve System in New York City, for new three month negotiable nonpersonal time deposits in dollars of $100,000 or more or (ii) for purposes of the definition of Adjusted LIBOR Rate, the then stated maximum rate for all reserves (including but not limited to any emergency, supplemental or other marginal reserve requirements) applicable to any member bank of the Federal Reserve System in respect of Eurocurrency Liabilities (or any successor category of liabilities under Regulation D issued by the Board, as in effect from time to time). Such reserve percentages shall include, without limitation, those imposed pursuant to said Regulation. The Statutory Reserves shall be adjusted automatically on and as of the effective date of any change in such percentage.

"Subsidiary" shall mean, with respect to any Person (herein referred to as the "parent"), any corporation, association or other business entity (whether now existing or hereafter organized) of which at least a majority of the securities or other ownership interests having ordinary voting power for the election of directors is, at the time as of which any determination is being made, owned or controlled by the parent or one or more subsidiaries of the parent or by the parent and one or more subsidiaries of the parent.

"Super-majority Banks" shall have the meaning given such term in Section 10.10(b).

"Superpriority Claim" shall mean a claim against the Borrower and any Guarantor in any of the Cases which is an administrative expense claim having priority over any or all administrative expenses of the kind specified in Sections 503(b) or 507(b) of the Bankruptcy Code.

"Taxes" shall have the meaning given such term in Section 2.18.

"Termination Date" shall mean the earliest to occur of (i) the Prepayment Date, (ii) the Maturity Date, (iii) the Consummation Date and (iv) the acceleration of the Loans and the termination of the Total Commitment in accordance with the terms hereof.

"Termination Event" shall mean (i) a "reportable event", as such term is described in Section 4043 of ERISA and the regulations issued thereunder (other than a "reportable event" not subject to the provision for 30-day notice to the PBGC under Section 4043 of ERISA or such regulations) or an event described in Section 4068 of ERISA excluding events described in Section 4043(c)(9) of ERISA or 29 CFR (S)(S) 2615.21 or 2615.23 and excluding events which would not be reasonably likely (as reasonably determined by the Agent) to have a material adverse effect on the financial condition, operations, business, properties or assets of the Borrower and the Guarantors taken as a whole, or (ii) the withdrawal of the Borrower or any ERISA Affiliate from a Multiple Employer Plan during a plan year in which it was a "substantial employer", as such term is defined in Section 4001(c) of ERISA, or the incurrence of liability by the Borrower or any ERISA Affiliate under Section 4064 of ERISA upon the termination of a Multiple Employer Plan, or (iii) providing notice of intent to terminate a Plan pursuant to Section 4041(c) of ERISA or the treatment of a Plan amendment as a termination under Section 4041 of ERISA, or (iv) the institution of proceedings to terminate a Plan by the PBGC under Section 4042 of ERISA, or
(v) any other event or condition (other than the commencement of the Cases and the failure to have made any contribution accrued as of the Filing Date but not paid) which would reasonably be expected to constitute grounds under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Plan, or the imposition of any liability under Title IV of ERISA (other than for the payment of premiums to the PBGC).

"Total Commitment" shall mean, at any time, the sum of the Commitments at such time.

"Total Facility Usage" shall mean, at any time, the sum of (i) the aggregate outstanding principal amount of all Loans and (ii) the aggregate Letter of Credit Outstandings.

"Transferee" shall have the meaning given such term in Section 2.18.

"Type" when used in respect of any Loan or Borrowing shall refer to

the Rate of interest by reference to which interest on such Loan or on the Loans comprising such Borrowing is determined. For purposes hereof, "Rate" shall mean the Adjusted LIBOR Rate and the Alternate Base Rate.

"Unused Total Commitment" shall mean, at any time (i) the Total Commitment less (ii) the sum of (x) the aggregate outstanding principal amount of all Loans other than Competitive Loans and (y) the aggregate Letter of Credit Outstandings.

"Withdrawal Liability" shall have the meaning given such term under

Part I of Subtitle E of Title IV of ERISA.

Terms Generally. The definitions in Section 1.01 shall apply equally to both the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. All references herein to Sections, Exhibits and Schedules shall be deemed references to Sections of, and Exhibits and Schedules to, this Agreement unless the context shall otherwise require. Except as otherwise expressly provided herein, all terms of an accounting or financial nature shall be construed in accordance with GAAP, as in effect from time to time; provided, however, that for purposes of determining compliance with any covenant set forth in Section 6, such terms shall be construed in accordance with GAAP as in effect on the date of this Agreement applied on a basis consistent with the application used in the Borrower's audited financial statements referred to in Section 3.04.

AMOUNT AND TERMS OF CREDIT

Commitment of the Banks.

Each Bank severally and not jointly with the other Banks agrees, upon the terms and subject to the conditions herein set forth, to make revolving credit loans (each a "Loan" and collectively, the "Loans") to the Borrower at any time and from time to time during the period commencing on the date hereof and ending on the Termination Date (or the earlier date of termination of the Total Commitment) in an aggregate principal amount not to exceed, when added to such Bank's Commitment Percentage of the then aggregate Letter of Credit Outstandings (in excess of the amount of cash then held in the Letter of Credit Account pursuant to Section 2.03(b)), the Commitment of such Bank, which Loans may be repaid and reborrowed in accordance with the provisions of this Agreement. At no time following the entry by the Bankruptcy Court of the Final Order shall the sum of the then outstanding aggregate principal amount of the Loans and Competitive Loans (without duplication) plus the then aggregate Letter of Credit

Outstandings exceed the lesser of (i) the Total Commitment of $400,000,000, as the same may be reduced from time to time pursuant to Section 2.10 and (ii) the Borrowing Base.

Each Borrowing shall be made by the Banks pro rata in accordance with their

respective Commitments; provided, however, that the failure of any Bank to make any Loan shall not in itself relieve the other Banks of their obligations to lend.

Borrowing Base. Notwithstanding any other provision of this Agreement to the contrary, the aggregate principal amount of all outstanding Loans (including, without limitation, Competitive Loans) plus the then aggregate Letter of Credit Outstandings shall not at any time following the entry by the Bankruptcy Court of the Final Order exceed the Borrowing Base and no Loan shall be made or Letter of Credit issued in violation of the foregoing.

Letters of Credit.

Upon the terms and subject to the conditions herein set forth, the Borrower may request a Fronting Bank, at any time and from time to time after the date hereof and prior to the Termination Date, to issue, and, subject to the terms and conditions contained herein, such Fronting Bank shall issue, for the account of the Borrower or a Guarantor one or more Letters of Credit, provided that no Letter of Credit shall be issued if after giving effect to such issuance (i) the aggregate Letter of Credit Outstandings shall exceed $200,000,000 or (ii) the aggregate Letter of Credit Outstandings, when added to the aggregate outstanding principal amount of the Loans, would exceed the Total Commitment and, provided further that no Letter of Credit shall be issued if the Fronting Bank shall have received notice from the Agent or the Required Banks that the conditions to such issuance have not been met.

No Letter of Credit shall expire later than 60 days after the Maturity Date, provided that if any Letter of Credit shall be outstanding on the Termination Date, the Borrower shall, at or prior to the Termination Date, except as the Agent may otherwise agree in writing, (i) cause all Letters of Credit which expire after the Termination Date to be returned to the Fronting Bank undrawn and marked "canceled" or (ii) if the Borrower is unable to do so in whole or in part, either (x) provide a "back-to-back" letter of credit to one or more Fronting Banks in a form satisfactory to such Fronting Bank and the Agent (in their sole discretion), issued by a bank satisfactory to such Fronting Bank and the Agent (in their sole discretion), is in an amount equal to 105% of the then undrawn stated amount of all outstanding Letters of Credit issued by such Fronting Banks and/or (y) deposit cash in the Letter of Credit Account in an amount equal to 105% of the then undrawn stated amount of all Letter of Credit Outstandings as collateral security for the Borrower's reimbursement obligations in connection therewith, such cash to be remitted to the Borrower upon the expiration, cancellation or other termination or satisfaction of such reimbursement obligations.

The Borrower shall pay to each Fronting Bank, in addition to such other fees and charges as are specifically provided for in Section 2.21 hereof, such fees and charges in connection with the issuance and processing of the Letters of Credit issued by such Fronting Bank as are customarily imposed by such Fronting Bank from time to time in connection with letter of credit transactions.

Drafts drawn under each Letter of Credit shall be reimbursed by the Borrower in Dollars not later than the first Business Day following the date of draw and shall bear interest from the date of draw until the first Business Day following the date of draw at a rate per annum equal to the Alternate Base Rate plus the

Applicable Margin and thereafter until reimbursed in full at a rate per annum equal to the Alternate Base Rate plus the Applicable Margin plus two percent

(2%) (computed on the basis of the actual number of days elapsed over a year of 360 days). The Borrower shall effect such reimbursement (x) if such draw occurs prior to the Termination Date (or the earlier date of termination of the Total Commitment), in cash or through a Borrowing without the satisfaction of the conditions precedent set forth in Section 4.02 or (y) if such draw occurs on or after the Termination Date (or the earlier date of termination of the Total Commitment), in cash. Each Bank agrees to make the Loans described in clause (x) of the preceding sentence notwithstanding a failure to satisfy the applicable lending conditions thereto or the provisions of Sections 2.02.

Immediately upon the issuance of any Letter of Credit by any Fronting Bank, such Fronting Bank shall be deemed to have sold to each Bank other than such Fronting Bank and each such other Bank shall be deemed unconditionally and irrevocably to have purchased from such Fronting Bank, without recourse or warranty, an undivided interest and participation, to the extent of such Bank's Commitment Percentage, in such Letter of Credit, each drawing thereunder and the obligations of the Borrower and the Guarantors under this Agreement with respect thereto. Upon any change in the Commitments pursuant to Section 10.03, it is hereby agreed that with respect to all Letter of Credit Outstandings, there shall be an automatic adjustment to the participations hereby created to reflect the new Commitment Percentages of the assigning and assignee Banks. Any action taken or omitted by a Fronting Bank under or in connection with a Letter of Credit, if taken or omitted in the absence of gross negligence or willful misconduct, shall not create for such Fronting Bank any resulting liability to any other Bank.

In the event that a Fronting Bank makes any payment under any Letter of Credit and the Borrower shall not have reimbursed such amount in full to such Fronting Bank pursuant to this Section, the Fronting Bank shall promptly notify the Agent, which shall promptly notify each Bank of such failure, and each Bank shall promptly and unconditionally pay to the Agent for the account of the Fronting Bank the amount of such Bank's Commitment Percentage of such unreimbursed payment in Dollars and in same day funds. If the Fronting Bank so notifies the Agent, and the Agent so notifies the Banks prior to 11:00 a.m. (New York City time) on any Business Day, such Banks shall make available to the Fronting Bank such Bank's Commitment Percentage of the amount of such payment on such Business Day in same day funds. If and to the extent such Bank shall not have so made its Commitment Percentage of the amount of such payment available to the Fronting Bank, such Bank agrees to pay to such Fronting Bank, forthwith on demand such amount, together with interest thereon, for each day from such date until the date such amount is paid to the Agent for the account of such Fronting Bank at the Federal Funds Effective Rate. The failure of any Bank to make available to the Fronting Bank its Commitment Percentage of any payment under any Letter of Credit shall not relieve any other Bank of its obligation hereunder to make available to the Fronting Bank its Commitment Percentage of any payment under any Letter of Credit on the date required, as specified above, but no Bank shall be responsible for the failure of any other Bank to make available to such Fronting Bank such other Bank's Commitment Percentage of any such payment. Whenever a Fronting Bank receives a payment of a reimbursement obligation as to which it has received any payments from the Banks pursuant to this paragraph, such Fronting Bank shall pay to each Bank which has paid its Commitment Percentage thereof, in Dollars and in same day funds, an amount equal to such Bank's Commitment Percentage thereof.

Issuance. Whenever the Borrower desires a Fronting Bank to issue a Letter of Credit, it shall give to such Fronting Bank and the Agent at least two Business Days' prior written (including telegraphic, telex, facsimile or cable communication) notice (or such shorter period as may be agreed upon by the Agent, the Borrower and the Fronting Bank) specifying the date on which the proposed Letter of Credit is to be issued (which shall be a Business Day), the stated amount of the Letter of Credit so requested, the expiration date of such Letter of Credit and the name and address of the beneficiary thereof.

Nature of Letter of Credit Obligations Absolute. The obligations of the Borrower to reimburse the Banks for drawings made under any Letter of Credit shall be unconditional and irrevocable and shall be paid strictly in accordance with the terms of this Agreement under all circumstances, including, without limitation (it being understood that any such payment by the Borrower shall be without prejudice to, and shall not constitute a waiver of, any rights the Borrower might have or might acquire as a result of the payment by the Fronting Bank of any draft or the reimbursement by the Borrower thereof): (i) any lack of validity or enforceability of any Letter of Credit; (ii) the existence of any claim, setoff, defense or other right which the Borrower or any Guarantor may have at any time against a beneficiary of any Letter of Credit or against any of the Banks, whether in connection with this Agreement, the transactions contemplated herein or any unrelated transaction; (iii) any draft, demand, certificate or other document presented under any Letter of Credit proving to be forged, fraudulent, invalid or insufficient in any respect or any statement therein being untrue or inaccurate in any respect; (iv) payment by a Fronting Bank of any Letter of Credit against presentation of a demand, draft or certificate or other document which does not comply with the terms of such Letter of Credit; (v) any other circumstance or happening whatsoever, which is similar to any of the foregoing; or (vi) the fact that any Event of Default shall have occurred and be continuing.

Making of Loans.

Except as contemplated by Sections 2.06A and 2.11, Loans shall be either ABR Loans or Eurodollar Loans as the Borrower may request subject to and in accordance with this Section, provided that all Loans made pursuant to the same Borrowing shall, unless otherwise specifically provided herein, be Loans of the same Type. Each Bank may fulfill its Commitment with respect to any Eurodollar Loan or ABR Loan by causing any lending office of such Bank to make such Loan; provided that any such use of a lending office shall not affect the obligation of the Borrower to repay such Loan in accordance with the terms of this Agreement. Each Bank shall, subject to its overall policy considerations, use reasonable efforts (but shall not be obligated) to select a lending office which will not result in the payment of increased costs by the Borrower pursuant to
Section 2.15. Subject to the other provisions of this Section and the provisions of Section 2.12, Borrowings of Loans of more than one Type may be incurred at the same time, provided that no more than five (5) Borrowings of Eurodollar Loans may be outstanding at any time.

The Borrower shall give the Agent prior notice of each Borrowing hereunder of at least three Business Days for Eurodollar Loans and one Business Day for ABR Loans; such notice shall be irrevocable and shall specify the amount of the proposed Borrowing (which shall not be less than $5,000,000 (and integral multiples of $5,000,000) in the case of Eurodollar Loans and $5,000,000 (and integral multiples of $5,000,000) in the case of ABR Loans) and the date thereof (which shall be a Business Day) and shall contain disbursement instructions. Such notice, to be effective, must be received by the Agent not later than 1:00 p.m., New York City time, on the third Business Day in the case of Eurodollar Loans and 12:00 noon, New York City time on the first Business Day in the case of ABR Loans, preceding the date on which such Borrowing is to be made except as provided in the last sentence of this Section 2.06(b). Such notice shall specify whether the Borrowing then being requested is to be a Borrowing of ABR Loans or Eurodollar Loans. If no election is made as to the Type of Loan, such notice shall be deemed a request for Borrowing of ABR Loans. The Agent shall promptly notify each Bank of its proportionate share of such Borrowing, the date of such Borrowing, the Type of Borrowing or Loans being requested and the Interest Period or Interest Periods applicable thereto, as appropriate. On the borrowing date specified in such notice, each Bank shall make its share of the Borrowing available at the office of the Agent at 270 Park Avenue, New York, New York 10017, no later than 12:00 noon, New York City time, in immediately available funds. Upon receipt of the funds made available by the Banks to fund any borrowing hereunder, the Agent shall disburse such funds in the manner specified in the notice of borrowing delivered by the Borrower and shall use reasonable efforts to make the funds so received from the Banks available to the Borrower no later than 1:00 p.m. New York City time (other than as provided in the following sentence). Notwithstanding the first sentence of this subsection (b), the Borrower shall be permitted to request same day borrowings of ABR Loans and the Banks shall make such Borrowings available to the Borrower by 4:00 p.m., New York City time, on the same Business Day that the Borrower gives notice to the Agent of such Borrowing by 10:30 a.m., New York City time.

SECTION 2.06A Competitive Bid Procedure. (a) Subject to the terms and conditions set forth herein, from time to time during the period commencing on the date hereof and ending on the Termination Date (or the earlier date of termination of the Total Commitment), the Borrower may request Competitive Bids and may (but shall not have any obligation to) accept Competitive Bids and borrow Competitive Loans; provided that the aggregate principal amount of outstanding Competitive Loans at any time shall not exceed $25,000,000 and the provisions of Section 2.01(a) and Section 2.02 shall not have been violated by the making thereof. To request Competitive Bids, the Borrower shall notify the Agent of such request by telephone, in the case of a Eurodollar Borrowing, not later than 11:00 a.m., New York City time, four Business Days before the date of the proposed Borrowing and, in the case of a Fixed Rate Borrowing, not later than 10:00 a.m., New York City time, one Business Day before the date of the proposed Borrowing; provided that the Borrower may submit up to (but not more than) 3 Competitive Bid Requests on the same day, but a Competitive Bid Request shall not be made within five Business Days after the date of any previous Competitive Bid Request, unless any and all such previous Competitive Bid Requests shall have been withdrawn or all Competitive Bids received in response thereto rejected. Each such telephonic Competitive Bid Request shall be confirmed promptly by hand delivery or telecopy to the Agent of a written Competitive Bid Request in a form approved by the Agent and signed by the Borrower. Each such telephonic and written Competitive Bid Request shall specify the following information in compliance with Section 2.06(a):

(i) the aggregate amount of the requested Borrowing;

(ii) the date of such Borrowing, which shall be a Business Day;

(iii) whether such Borrowing is to be a Eurodollar Borrowing or a Fixed Rate Borrowing;

(iv) the Interest Period to be applicable to such Borrowing, which (x) in the case of a Eurodollar Borrowing, shall be a one-month period contemplated by the definition of the term "Interest Period" and (y) in the case of a Fixed Rate Borrowing, shall be no less than 3 days and no more than 20 days; and

(v) the location and number of the Borrower's account to which funds are to be disbursed, which shall comply with the requirements of this Agreement.

Promptly following receipt of a Competitive Bid Request in accordance with this Section, the Agent shall notify the Banks of the details thereof by telecopy, inviting the Banks to submit Competitive Bids.

(b) Each Bank in its sole determination may (but shall not have any obligation of any kind to) make one or more Competitive Bids to the Borrower in response to a Competitive Bid Request. Each Competitive Bid by a Bank must be in a form approved by the Agent and must be received by the Agent by telecopy, in the case of a Eurodollar Borrowing, not later than 9:30 a.m., New York City time, three Business Days before the proposed date of the Borrowing of such Competitive Loan, and in the case of a Fixed Rate Borrowing, not later than 9:30 a.m., New York City time, on the proposed date of the Borrowing of such Competitive Loan. Competitive Bids that do not conform to the form approved by the Agent may be rejected by the Agent, and the Agent shall notify the applicable Bank as promptly as practicable. Each Competitive Bid shall specify
(i) the principal amount (which shall be a minimum of $5,000,000 and an integral multiple of $1,000,000 and which may equal the entire principal amount of the Competitive Borrowing requested by the Borrower) of the Competitive Loan or Loans that the Bank is willing to make, (ii) the Competitive Bid Rate or Rates at which the Bank is prepared to make such Loan or Loans (expressed as a percentage rate per annum in the form of a decimal to no more than four decimal places) and (iii) the Interest Period applicable to each such Loan and the last day thereof.

(c) The Agent shall promptly notify the Borrower by telecopy of the Competitive Bid Rate and principal amount specified in each Competitive Bid and the identity of the Bank that shall have made such Competitive Bid.

(d) Subject only to the provisions of this paragraph, the Borrower may accept or reject any Competitive Bid. The Borrower shall notify the Agent by telephone, confirmed by telecopy in a form approved by the Agent, whether and to what extent it has decided to accept or reject each Competitive Bid, in the case of a Eurodollar Borrowing, not later than 10:30 a.m., New York City time, three Business Days before the date of the proposed Competitive Loan, and in the case of a Fixed Rate Borrowing, not later than 10:30 a.m., New York City time, on the proposed date of the Competitive Loan; provided that (i) the failure of the Borrower to give such notice shall be deemed to be a rejection of each Competitive Bid, (ii) the Borrower shall not accept a Competitive Bid made at a particular Competitive Bid Rate if the Borrower rejects a Competitive Bid made at a lower Competitive Bid Rate, (iii) the aggregate amount of the Competitive Bids accepted by the Borrower shall not exceed the aggregate amount of the requested Competitive Loan specified in the related Competitive Bid Request, (iv) to the extent necessary to comply with clause (iii) above, the Borrower may accept Competitive Bids at the same Competitive Bid Rate in part, which acceptance, in the case of multiple Competitive Bids at such Competitive Bid Rate, shall be made pro rata in accordance with the amount of each such Competitive Bid, and (v) except pursuant to clause (iv) above, no Competitive Bid shall be accepted for a Competitive Loan unless such Competitive Loan is in a minimum principal amount of $5,000,000 and an integral multiple of $1,000,000; provided further that if a Competitive Loan must be in an amount less than $5,000,000 because of the provisions of clause (iv) above, such Competitive Loan may be for a minimum of $1,000,000 or any integral multiple thereof, and in calculating the pro rata allocation of acceptances of portions of multiple Competitive Bids at a particular Competitive Bid Rate pursuant to clause (iv) the amounts shall be rounded to integral multiples of $1,000,000 in a manner determined by the Borrower. A notice given by the Borrower pursuant to this paragraph shall be irrevocable.

(e) The Agent shall promptly notify each bidding Bank by telecopy whether or not its Competitive Bid has been accepted (and, if so, the amount and Competitive Bid Rate so accepted), and each successful bidder will thereupon become bound, subject to the terms and conditions hereof, to make the Competitive Loan in respect of which its Competitive Bid has been accepted.

(f) If the Agent shall elect to submit a Competitive Bid in its capacity as a Bank, it shall submit such Competitive Bid directly to the Borrower at least one quarter of an hour earlier than the time by which the other Banks are required to submit their Competitive Bids to the Agent pursuant to paragraph (b) of this Section.

Repayment of Loans; Evidence of Debt.

The Borrower hereby unconditionally promises to pay to the Agent for the account of each Bank the then unpaid principal amount of each Loan on the Termination Date, provided that the principal amount of each Competitive Loan shall be paid on the last day of the Interest Period applicable thereto.

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.

The Agent shall maintain accounts in which it shall record (i) the amount of each Loan made hereunder, the Type thereof and the Interest Period applicable thereto, (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 Agent hereunder for the account of the Banks and each Bank's share thereof.

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

Any Bank may request that Loans made by it be evidenced by a promissory note. In such event, the Borrower shall 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 furnished by the Agent and reasonably acceptable to the Borrower. Thereafter, the Loans evidenced by such promissory note and interest thereon shall at all times (including after assignment pursuant to Section 10.03) 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).

Interest on Loans.

Subject to the provisions of Section 2.09, each ABR Loan shall bear interest (computed on the basis of the actual number of days elapsed over a year of 360 days) at a rate per annum equal to the Alternate Base Rate plus the Applicable

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Margin.

Subject to the provisions of Section 2.09, each Eurodollar Loan shall bear interest (computed on the basis of the actual number of days elapsed over a year of 360 days) at a rate per annum equal, during each Interest Period applicable thereto, to the Adjusted LIBOR Rate for such Interest Period in effect for such Borrowing plus the Applicable Margin.

Accrued interest on all Loans shall be payable monthly in arrears on each Interest Payment Date applicable thereto (provided, that interest on each Competitive Loan shall be payable on the last day of the Interest Period applicable thereto), at maturity (whether by acceleration or otherwise), after such maturity on demand and (with respect to Eurodollar Loans) upon any repayment or prepayment thereof (on the amount prepaid).

Default Interest. If the Borrower or any Guarantor, as the case may be, shall default in the payment of the principal of or interest on any Loan or in the payment of any other amount becoming due hereunder (including, without limitation, the reimbursement pursuant to Section 2.03(d) of any draft drawn under a Letter of Credit), whether at stated maturity, by acceleration or otherwise, the Borrower or such Guarantor, as the case may be, shall on demand from time to time pay interest, to the extent permitted by law, on such defaulted amount up to (but not including) the date of actual payment (after as well as before judgment) at a rate per annum (computed on the basis of the actual number of days elapsed over a year of 360 days) equal to two percent (2%) in excess of the interest rate which would otherwise be in effect from time to time with respect thereto.

Optional Termination or Reduction of Commitment. Upon at least two Business

Days' prior written notice to the Agent, the Borrower may at any time in whole permanently terminate, or from time to time in part permanently reduce, the Total Commitment. Each such reduction of the Commitments shall be in the principal amount of $5,000,000 or any integral multiple thereof. Simultaneously with each reduction or termination of the Commitment, the Borrower shall pay to the Agent for the account of each Bank the Commitment Fee accrued on the amount of the Commitment of such Bank so terminated or reduced through the date thereof. Any reduction of the Total Commitment pursuant to this Section shall be applied pro rata to reduce the Commitment of each Bank.

Alternate Rate of Interest. In the event, and on each occasion, that on the day two Business Days prior to the commencement of any Interest Period for a Eurodollar Loan, the Agent shall have determined (which determination shall be conclusive and binding upon the Borrower absent manifest error) that reasonable means do not exist for ascertaining the applicable Adjusted LIBOR Rate, the Agent shall, as soon as practicable thereafter, give written or telegraphic notice of such determination to the Borrower and the Banks, and any request by the Borrower for a Borrowing of Eurodollar Loans (including pursuant to a refinancing with Eurodollar Loans) pursuant to Section 2.06 or 2.12 shall be deemed a request for a Borrowing of ABR Loans. After such notice shall have been given and until the circumstances giving rise to such notice no longer exist, each request for a Borrowing of Eurodollar Loans shall be deemed to be a request for a Borrowing of ABR Loans.

Refinancing of Loans. The Borrower shall have the right, at any time, on three Business Days' prior irrevocable notice to the Agent (which notice, to be effective, must be received by the Agent not later than 1:00 p.m., New York City time, on the third Business Day preceding the date of any refinancing), (x) to refinance (without the satisfaction of the conditions set forth in Section 4 as a condition to such refinancing) any outstanding Borrowing or Borrowings of Loans of one Type (or a portion thereof) with a Borrowing of Loans of the other Type or (y) to continue an outstanding Borrowing of Eurodollar Loans for an additional Interest Period, subject to the following:

as a condition to the refinancing of ABR Loans with Eurodollar Loans and to the continuation of Eurodollar Loans for an additional Interest Period, no Event of Default shall have occurred and be continuing at the time of such refinancing;

if less than a full Borrowing of Loans shall be refinanced, such refinancing shall be made pro rata among the Banks in accordance with the respective principal amounts of the Loans comprising such Borrowing held by the Banks immediately prior to such refinancing;

the aggregate principal amount of Loans being refinanced shall be at least $5,000,000, provided that no partial refinancing of a Borrowing of Eurodollar Loans shall result in the Eurodollar

Loans remaining outstanding pursuant to such Borrowing being less than $5,000,000 in aggregate principal amount;

each Bank shall effect each refinancing by applying the proceeds of its new Eurodollar Loan or ABR Loan, as the case may be, to its Loan being refinanced;

the Interest Period with respect to a Borrowing of Eurodollar Loans effected by a refinancing or in respect to the Borrowing of Eurodollar Loans being continued as Eurodollar Loans shall commence on the date of refinancing or the expiration of the current Interest Period applicable to such continuing Borrowing, as the case may be;

a Borrowing of Eurodollar Loans may be refinanced only on the last day of an Interest Period applicable thereto; and

each request for a refinancing with a Borrowing of Eurodollar Loans which fails to state an applicable Interest Period shall be deemed to be a request for an Interest Period of one month.

In the event that the Borrower shall not give notice to refinance any Borrowing of Eurodollar Loans, or to continue such Borrowing as Eurodollar Loans, or shall not be entitled to refinance or continue such Borrowing as Eurodollar Loans, in each case as provided above, such Borrowing shall automatically be refinanced with a Borrowing of ABR Loans at the expiration of the then-current Interest Period. The Agent shall, after it receives notice from the Borrower, promptly give each Bank notice of any refinancing, in whole or part, of any Loan made by such Bank.

Mandatory Prepayment; Commitment Termination; Cash Collateral.

If at any time after the entry of the Final Order the aggregate principal amount of the outstanding Loans plus the undrawn amount of outstanding Letter of Credit Outstandings exceeds the lesser of (x) the Total Commitment and (y) the Borrowing Base, the Borrower will within three Business Days (i) prepay the Loans in an amount necessary to cause the aggregate principal amount of the outstanding Loans plus the aggregate Letter of Credit Outstandings to be equal

to or less than the Total Commitment and/or the Borrowing Base, as the case may be, and (ii) if, after giving effect to the prepayment in full of the Loans, the undrawn amount of outstanding Letter of Credit Outstandings in excess of the amount of cash held in the Letter of Credit Account exceeds the Total Commitment and/or the Borrowing Base, as the case may be, deposit into the Letter of Credit Account an amount equal to 105% of the amount by which the aggregate Letter of Credit Outstandings in excess of the amount of cash held in the Letter of Credit Account so exceeds the Total Commitment or Borrowing Base, as the case may be.

Upon the Termination Date, the Total Commitment shall be terminated in full and the Borrower shall pay the Loans in full and, except as the Agent may otherwise agree in writing, if any Letter of Credit remains outstanding, deposit into the Letter of Credit Account an amount equal to 105% of the amount by which the sum of the aggregate Letter of Credit Outstandings exceeds the amount of cash held in the Letter of Credit Account, such cash to be remitted to the Borrower upon the expiration, cancellation, satisfaction or other termination of such reimbursement obligations, or otherwise comply with Section 2.03 (b).

Optional Prepayment of Loans; Reimbursement of Banks.

The Borrower shall have the right at any time and from time to time to prepay any Loans, in whole or in part, (x) with respect to Eurodollar Loans, upon at least three Business Days' prior written, telex or facsimile notice to the Agent and (y) with respect to ABR Loans on the same Business Day if written, telex or facsimile notice is received by the Agent prior to 12:00 noon, New York City time, and thereafter upon at least one Business Day's prior written, telex or facsimile notice to the Agent; provided, however, that (i) each such partial prepayment shall be in multiples of $5,000,000, (ii) no prepayment of Eurodollar Loans shall be permitted pursuant to this Section 2.14(a) other than on the last day of an Interest Period applicable thereto unless such prepayment is accompanied by the payment of the amounts described in clause (i) of the first sentence of Section 2.14(b), and (iii) no partial prepayment of a Borrowing of Eurodollar Loans shall result in the aggregate principal amount of the Eurodollar Loans remaining outstanding pursuant to such Borrowing being less than $5,000,000. Each notice of prepayment shall specify the prepayment date, the principal amount of the Loans to be prepaid and in the case of Eurodollar Loans, the Borrowing or Borrowings pursuant to which made, shall be irrevocable and shall commit the Borrower to prepay such Loan by the amount and on the date stated therein. The Agent shall, promptly after receiving notice from the Borrower hereunder, notify each Bank of the principal amount of the Loans held by such Bank which are to be prepaid, the prepayment date and the manner of application of the prepayment.

The Borrower shall reimburse each Bank on demand for any loss incurred or to be incurred by it in the reemployment of the funds released (i) resulting from any prepayment (for any reason whatsoever, including, without limitation, refinancing with ABR Loans) of any Eurodollar Loan required or permitted under this Agreement, if such Loan is prepaid other than on the last day of the Interest Period for such Loan (including, without limitation, any such prepayment in connection with the syndication of the credit facility evidenced by this Agreement) or (ii) in the event that after the Borrower delivers a notice of borrowing under Section 2.06 in respect of Eurodollar Loans, such Loans are not made on the first day of the Interest Period specified in such notice of borrowing for any reason other than a breach by such Bank of its obligations hereunder. Such loss shall be the amount as reasonably determined by such Bank as the excess, if any, of (A) the amount of interest which would have accrued to such Bank on the amount so paid or not borrowed at a rate of interest equal to the Adjusted LIBOR Rate for such Loan, for the period from the date of such payment or failure to borrow to the last day (x) in the case of a payment or refinancing with ABR Loans other than on the last day of the Interest Period for such Loan, of the then current Interest Period for such Loan, or (y) in the case of such failure to borrow, of the Interest Period for such Loan which would have commenced on the date of such failure to borrow, over (B) the amount of interest which would have accrued to such Bank on such amount by placing such amount on deposit for a comparable period with leading banks in the London interbank market. Each Bank shall deliver to the Borrower from time to time one or more certificates setting forth the amount of such loss as determined by such Bank.

In the event the Borrower fails to prepay any Loan on the date specified in any prepayment notice delivered pursuant to Section 2.14(a), the Borrower on demand by any Bank shall pay to the Agent for the account of such Bank any amounts required to compensate such Bank for any loss incurred by such Bank as a result of such failure to prepay, including, without limitation, any loss, cost or expenses incurred by reason of the acquisition of deposits or other funds by such Bank to fulfill deposit obligations incurred in anticipation of such prepayment, but without duplication of any amounts paid under Section 2.14(b). Each Bank shall deliver to the Borrower from time to time one or more certificates setting forth the amount of such loss as determined by such Bank.

Any partial prepayment of the Loans by the Borrower pursuant to Sections 2.13 or 2.14 shall be applied as specified by the Borrower or, in the absence of such specification, as determined by the Agent, provided that in the latter case no Eurodollar Loans shall be prepaid pursuant to Section 2.13 to the extent that such Loan has an Interest Period ending after the required date of prepayment unless and until all outstanding ABR Loans and Eurodollar Loans with Interest Periods ending on such date have been repaid in full.

Notwithstanding anything to the contrary set forth herein, the Borrower shall not have the right to prepay Competitive Loans.

Reserve Requirements; Change in Circumstances.

Notwithstanding any other provision herein, if after the date of this Agreement any change in applicable law or regulation or in the interpretation or administration thereof by any Governmental Authority charged with the interpretation or administration thereof (whether or not having the force of law) shall change the basis of taxation of payments to any Bank of the principal of or interest on any Eurodollar Loan made by such Bank or any fees or other amounts payable hereunder (other than changes in respect of Taxes, Other Taxes and taxes imposed on, or measured by, the net income or overall gross receipts or franchise taxes of such Bank by the jurisdiction in which such Bank has its principal office or in which the applicable lending office for such Eurodollar Loan is located or by any political subdivision or taxing authority therein, or by any other jurisdiction or by any political subdivision or taxing authority therein other than a jurisdiction in which such Bank would not be subject to tax but for the execution and performance of this Agreement), or shall impose, modify or deem applicable any reserve, special deposit or similar requirement against assets of, deposits with or for the account of or credit extended by such Bank (except any such reserve requirement which is reflected in the Adjusted LIBOR Rate) or shall impose on such Bank or the London interbank market any other condition affecting this Agreement or the Eurodollar Loans made by such Bank, and the result of any of the foregoing shall be to increase the cost to such Bank of making or maintaining any Eurodollar Loan or to reduce the amount of any sum received or receivable by such Bank hereunder (whether of principal, interest or otherwise) by an amount deemed by such Bank to be material, then the Borrower will pay to such Bank in accordance with paragraph
(c) below such additional amount or amounts as will compensate such Bank for such additional costs incurred or reduction suffered.

If any Bank shall have determined that the adoption or effectiveness after the date hereof of any law, rule, regulation or guideline regarding capital adequacy, or any change in any of the foregoing or in the interpretation or administration of any of the foregoing by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by any Bank (or any lending office of such Bank) or any Bank's holding company with any request or directive regarding capital adequacy (whether or not having the force of law) of any such authority, central bank or comparable agency, has or would have the effect of reducing the rate of return on such Bank's capital or on the capital of such Bank's holding company, if any, as a consequence of this Agreement, the Loans made by such Bank pursuant hereto, such Bank's Commitment hereunder or the issuance of, or participation in, any Letter of Credit by such Bank to a level below that which such Bank or such Bank's holding company could have achieved but for such adoption, change or compliance (taking into account Bank's policies and the policies of such Bank's holding company with respect to capital adequacy) by an amount deemed by such Bank to be material, then from time to time the Borrower shall pay to such Bank such additional amount or amounts as will compensate such Bank or such Bank's holding company for any such reduction suffered.

A certificate of each Bank setting forth such amount or amounts as shall be necessary to compensate such Bank or its holding company as specified in paragraph (a) or (b) above, as the case may be, shall be delivered to the Borrower and shall be conclusive absent manifest error. The Borrower shall pay each Bank the amount shown as due on any such certificate delivered to it within 10 days after its receipt of the same. Any Bank receiving any such payment shall promptly make a refund thereof to the Borrower if the law, regulation, guideline or change in circumstances giving rise to such payment is subsequently deemed or held to be invalid or inapplicable.

Failure on the part of any Bank to demand compensation for any increased costs or reduction in amounts received or receivable or reduction in return on capital with respect to any period shall not constitute a waiver of such Bank's right to demand compensation with respect to such period or any other period. The protection of this Section shall be available to each Bank regardless of any possible contention of the invalidity or inapplicability of the law, rule, regulation, guideline or other change or condition which shall have occurred or been imposed.

Change in Legality.

Notwithstanding anything to the contrary contained elsewhere in this Agreement, if (x) any change after the date of this Agreement in any law or regulation or in the interpretation thereof by any Governmental Authority charged with the administration thereof shall make it unlawful for a Bank to make or maintain a Eurodollar Loan or to give effect to its obligations as contemplated hereby with respect to a Eurodollar Loan or (y) at any time any Bank determines that the making or continuance of any of its Eurodollar Loans has become impracticable as a result of a contingency occurring after the date hereof which adversely affects the London interbank market or the position of such Bank in such market, then, by written notice to the Borrower, such Bank may (i) declare that Eurodollar Loans will not thereafter be made by such

Bank hereunder, whereupon any request by the Borrower for a Eurodollar Borrowing shall, as to such Bank only, be deemed a request for an ABR Loan unless such declaration shall be subsequently withdrawn; and (ii) require that all outstanding Eurodollar Loans made by it be converted to ABR Loans, in which event all such Eurodollar Loans shall be automatically converted to ABR Loans as of the effective date of such notice as provided in paragraph (b) below. In the event any Bank shall exercise its rights under clause (i) or (ii) of this paragraph (a), all payments and prepayments of principal which would otherwise have been applied to repay the Eurodollar Loans that would have been made by such Bank or the converted Eurodollar Loans of such Bank shall instead be applied to repay the ABR Loans made by such Bank in lieu of, or resulting from the conversion of, such Eurodollar Loans.

For purposes of this Section 2.16, a notice to the Borrower by any Bank pursuant to paragraph (a) above shall be effective, if lawful, and if any Eurodollar Loans shall then be outstanding, on the last day of the then-current Interest Period, otherwise, such notice shall be effective on the date of receipt by the Borrower.

Pro Rata Treatment, etc. All payments and repayments of principal and interest in respect of the Loans (except as provided in Section 2.07(a) with respect to Competitive Loans and in Sections 2.15 and 2.16) shall be made pro rata among the Banks in accordance with the then outstanding principal amount of the Loans and/or participations in Letter of Credit Outstandings and all outstanding undrawn Letters of Credit (and the unreimbursed amount of drawn Letters of Credit) hereunder and all payments of Commitment Fees and Letter of Credit Fees (other than those payable to a Fronting Bank) shall be made pro rata among the Banks in accordance with their Commitments. All payments by the Borrower hereunder shall be (i) net of any tax applicable to the Borrower or Guarantor and (ii) made in Dollars in immediately available funds at the office of the Agent by 12:00 noon, New York City time, on the date on which such payment shall be due. Interest in respect of any Loan hereunder shall accrue from and including the date of such Loan to but excluding the date on which such Loan is paid in full or converted to a Loan of a different Type.

Taxes.

Any and all payments by the Borrower or any Guarantor hereunder shall be made free and clear of and without deduction for any and all current or future taxes, levies, imposts, deductions, charges or withholdings, and all liabilities with respect thereto, excluding (i) taxes imposed on or measured by the net income or overall gross receipts of the Agent or any Bank (or any transferee or assignee thereof, including a participation holder (any such entity being called a "Transferee")) and franchise taxes imposed on the Agent or any Bank (or Transferee) by the United States or any jurisdiction under the laws of which the Agent or any such Bank (or Transferee) is organized or in which the applicable lending office of any such Bank (or Transferee) is located or any political subdivision thereof or by any other jurisdiction or by any political subdivision or taxing authority therein other than a jurisdiction in which the Agent or such Bank (or Transferee) would not be subject to tax but for the execution and performance of this Agreement and (ii) taxes, levies, imposts, deductions, charges or withholdings ("Amounts") with respect to payments hereunder to a Bank (or Transferee) in accordance with laws in effect on the later of the date of this Agreement and the date such Bank (or Transferee) becomes a Bank (or Transferee, as the case may be), but not excluding, with respect to such Bank (or Transferee), any increase in such Amounts solely as a result of any change in such laws occurring after such later date or any Amounts that would not have been imposed but for actions (other than actions contemplated by this Agreement) taken by the Borrower after such later date (all such nonexcluded taxes, levies, imposts, deductions, charges, withholdings and liabilities being hereinafter referred to as "Taxes"). If the Borrower or any Guarantor shall be required by law to deduct any Taxes from or in respect of any sum payable hereunder to the Banks (or any Transferee) or the Agent, (i) the sum payable shall be increased by the amount necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section) such Bank (or Transferee) or the Agent (as the case may be) shall receive an amount equal to the sum it would have received had no such deductions been made, (ii) the Borrower shall make such deductions and (iii) the Borrower shall pay the full amount deducted to the relevant taxing authority or other Governmental Authority in accordance with applicable law.

In addition, the Borrower agrees to pay any current or future stamp or documentary taxes or any other excise or property taxes, charges, assessments or similar levies that arise from any payment made hereunder or from the execution, delivery or registration of, or otherwise with respect to, this Agreement or any other Loan Document (hereinafter referred to as "Other Taxes").

The Borrower will indemnify each Bank (or Transferee) and the Agent for the full amount of Taxes and Other Taxes paid by such Bank (or Transferee) or the Agent, as the case may be, and any liability (including penalties, interest and expenses) arising therefrom or with respect thereto, whether or not such Taxes or Other Taxes were correctly or legally asserted by the relevant taxing authority or other Governmental Authority. Such indemnification shall be made within 30 days after the date any Bank (or Transferee) or the Agent, as the case may be, makes written demand therefor. If a Bank (or Transferee) or the Agent shall become aware that it is entitled to receive a refund in respect of Taxes or Other Taxes as to which it has been indemnified by the Borrower pursuant to this Section, it shall promptly notify the Borrower of the availability of such refund and shall, within 30 days after receipt of a request by the Borrower, apply for such refund at the Borrower's expense. If any Bank (or Transferee) or the Agent receives a refund in respect of any Taxes or Other Taxes as to which it has been indemnified by the Borrower pursuant to this Section, it shall promptly notify the Borrower of such refund and shall, within 30 days after receipt of a request by the Borrower (or promptly upon receipt, if the Borrower has requested application for such refund pursuant hereto), repay such refund to the Borrower (to the extent of amounts that have been paid by the Borrower under this Section with respect to such refund plus interest that is received by the Bank (or Transferee) or the Agent as part of the refund), net of all out-of-pocket expenses of such Bank (or Transferee) or the Agent and without additional interest thereon; provided that the Borrower, upon the request of such Bank (or Transferee) or the Agent, agrees to return such refund (plus penalties, interest or other charges) to such Bank (or Transferee) or the Agent in the event such Bank (or Transferee) or the Agent is required to repay such refund. Nothing contained in this subsection (c) shall require any Bank (or Transferee) or the Agent to make available any of its tax returns (or any other information relating to its taxes that it deems to be confidential).

Within 30 days after the date of any payment of Taxes or Other Taxes withheld by the Borrower in respect of any payment to any Bank (or Transferee) or the Agent, the Borrower will furnish to the Agent, at its address referred to on the signature pages hereof, the original or a certified copy of a receipt evidencing payment thereof.

Without prejudice to the survival of any other agreement contained herein, the agreements and obligations contained in this Section shall survive the payment in full of the principal of and interest on all Loans made hereunder.

Each Bank (or Transferee) that is organized under the laws of a jurisdiction outside the United States shall, if legally able to do so, prior to the immediately following due date of any payment by the Borrower hereunder, deliver to the Borrower such certificates, documents or other evidence, as required by the Code or Treasury Regulations issued pursuant thereto, including (A) Internal Revenue Service Form W-8 or W-9 and (B) Internal Revenue Service Form 1001 or Form 4224 and any other certificate or statement of exemption required by Treasury Regulation Section 1.1441-1, 1.1441-4 or 1.1441-6(c) or any subsequent version thereof or successors thereto, properly completed and duly executed by such Bank (or Transferee) establishing that such payment is (i) not subject to United States Federal withholding tax under the Code because such payment is effectively connected with the conduct by such Bank (or Transferee) of a trade or business in the United States or (ii) totally exempt from United States Federal withholding tax or subject to a reduced rate of such tax under a provision of an applicable tax treaty. Unless the Borrower and the Agent have received forms or other documents satisfactory to them indicating that such payments hereunder are not subject to United States Federal withholding tax or are subject to such tax at a rate reduced by an applicable tax treaty, the Borrower or the Agent shall withhold taxes from such payments at the applicable statutory rate.

The Borrower shall not be required to pay any additional amounts to any Bank (or Transferee) in respect of United States Federal withholding tax pursuant to subsection (a) above if the obligation to pay such additional amounts would not have arisen but for a failure by such Bank (or Transferee) to comply with the provisions of subsection (f) above.

Any Bank (or Transferee) claiming any additional amounts payable pursuant to this Section 2.18 shall use reasonable efforts (consistent with legal and regulatory restrictions) to file any certificate or document requested by the Borrower or to change the jurisdiction of its applicable lending office if the making of such a filing or change would avoid the need for or reduce the amount of any such additional amounts that may thereafter accrue and would not, in the sole reasonable determination of such Bank (or Transferee), be otherwise materially disadvantageous to such Bank (or Transferee).

Certain Fees. The Borrower shall pay to the Agent, for the respective accounts of the Agent and the Banks, the fees set forth in that certain letter dated December 1, 2000 among the Agent, Chase Securities Inc. and the Borrower at the times set forth therein.

Commitment Fee. The Borrower shall pay to the Banks a commitment fee (the "Commitment Fee") for the period commencing on the date the Commitment Letter is executed to the Termination Date or the earlier date of termination of the Commitment, computed (on the basis of the actual number of days elapsed over a year of 360 days) at the rate of three-eighths of one percent (3/8%) per annum on the average daily Unused Total Commitment. Such Commitment Fee, to the extent then accrued, shall be payable (x) monthly, in arrears, on the last calendar day of each month, (y) on the Termination Date and (z) as provided in Section 2.10 hereof, upon any reduction or termination in whole or in part of the Total Commitment.

Letter of Credit Fees. The Borrower shall pay with respect to each Letter of Credit (i) to the Agent on behalf of the Banks a fee calculated (on the basis of the actual number of days elapsed over a year of 360 days) at the rate equal to the Applicable Margin per annum on the daily average Letter of Credit Outstandings, provided, that in the case of Letter of Credit Outstandings not in excess of $100,000,000, such percentage per annum shall be equal to 1.25% at all times during which Total Facility Usage is less than $200,000,000, and (ii) to the Fronting Bank such Fronting Bank's customary fees for issuance, amendments and processing referred to in Section 2.03. Accrued fees described in clause
(ii) of the first sentence of this paragraph in respect of each Letter of Credit shall be payable at times to be determined by the Fronting Bank, the Borrower and the Agent.

Nature of Fees. All Fees shall be paid on the dates due, in immediately available funds, to the Agent for the respective accounts of the Agent and the Banks, as provided herein and in the letter described in Section 2.19. Once paid, none of the Fees shall be refundable under any circumstances.

Priority and Liens. The Borrower and each of the Guarantors hereby covenants, represents and warrants that, upon entry of the Interim Order, the Obligations of the Borrower and the Guarantors hereunder and under the Loan Documents and in respect of Indebtedness owed to Chase and its banking Affiliates permitted by Section 6.03(vi): (i) pursuant to Section 364(c)(1) of the Bankruptcy Code, shall at all times constitute allowed administrative expense claims in the Cases having priority over all administrative expenses of the kind specified in Sections 503(b) or 507(b) of the Bankruptcy Code; and (ii) pursuant to Section 364(c)(2) of the Bankruptcy Code, shall at all times be secured by a perfected first priority Lien on all cash maintained in the Letter of Credit Account and any direct investments of the funds contained therein, subject only to (x) in the event of the occurrence and during the continuance of an Event of Default, the payment of allowed and unpaid professional fees and disbursements incurred by the Borrower, the Guarantors and any statutory committees appointed in the Cases in an aggregate amount not in excess of $5,000,000 and (y) the payment of unpaid fees pursuant to 28 U.S.C. ss. 1930 and to the Clerk of the Bankruptcy Court (collectively, the "Carve-Out"), provided that following the Termination Date, amounts in the Letter of Credit Account shall not be subject to the Carve-Out. The Banks agree that so long as no Event of Default shall have occurred, the Borrower and the Guarantors shall be permitted to pay compensation and reimbursement of expenses allowed and payable under 11 U.S.C. ss. 330 and 11 U.S.C. ss. 331, as the same may be due and payable, and the same shall not reduce the Carve-Out.

Right of Set-Off. Subject to the provisions of Section 7.01, upon the occurrence and during the continuance of any Event of Default, the Agent and each Bank is hereby authorized at any time and from time to time, to the fullest extent permitted by law and without further order of or application to the Bankruptcy Court, to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other indebtedness at any time owing by the Agent and each such Bank to or for the credit or the account of the Borrower or any Guarantor against any and all of the obligations of such Borrower or Guarantor now or hereafter existing under the Loan Documents, irrespective of whether or not such Bank shall have made any demand under any Loan Document and although such obligations may not have been accelerated. Each Bank and the Agent agrees promptly to notify the Borrower and Guarantors after any such set-off and application made by such Bank or by the Agent, as the case may be, provided that the failure to give such notice shall not affect the validity of such set-off and application. The rights of each Bank and the Agent under this Section are in addition to other rights and remedies which such Bank and the Agent may have upon the occurrence and during the continuance of any Event of Default.

Security Interest in Letter of Credit Account. Pursuant to Section

364(c)(2) of the Bankruptcy Code, the Borrower and the Guarantors hereby assign and pledge to the Agent, for its benefit and for the ratable benefit of the Banks, and hereby grant to the Agent, for its benefit and for the ratable benefit of the Banks, a first priority security interest, senior to all other Liens, if any, in all of the Borrower's and the Guarantors' right, title and interest in and to the Letter of Credit Account and any direct investment of the funds contained therein. Cash held in the Letter of Credit Account shall not be available for use by the Borrower, whether pursuant to Section 363 of the Bankruptcy Code or otherwise.

Payment of Obligations. Subject to the provisions of Section 7.01, upon the maturity (whether by acceleration or otherwise) of any of the Obligations under this Agreement or any of the other Loan Documents of the Borrower and the Guarantors, the Banks shall be entitled to immediate payment of such Obligations without further application to or order of the Bankruptcy Court.

No Discharge; Survival of Claims. Each of the Borrower and the Guarantors

agrees that (i) its obligations hereunder shall not be discharged by the entry of an order confirming a Plan of Reorganization (and each of the Borrower and the Guarantors, pursuant to Section 1141(d)(4) of the Bankruptcy Code, hereby waives any such discharge) and (ii) the Superpriority Claim granted to the Agent and the Banks pursuant to the Order and described in Section 2.23 and the Liens granted to the Agent pursuant to the Order and described in Sections 2.23 and 2.25 shall not be affected in any manner by the entry of an order confirming a Plan of Reorganization.

REPRESENTATIONS AND WARRANTIES

In order to induce the Banks to make Loans and issue and/or participate in Letters of Credit hereunder, the Borrower and each of the Guarantors jointly and severally represent and warrant as follows:

Organization and Authority. Each of the Borrower and the Guarantors (i) is

a corporation duly organized and validly existing under the laws of the State of its incorporation and is duly qualified as a foreign corporation and is in good standing in each jurisdiction in which the failure to so qualify would have a material adverse effect on the financial condition, operations, business, properties or assets of the Borrower and the Guarantors taken as a whole; (ii) subject to the entry by the Bankruptcy Court of the Interim Order (or the Final Order, when applicable) has the requisite corporate power and authority to effect the transactions contemplated hereby, and by the other Loan Documents to which it is a party, and (iii) subject to the entry by the Bankruptcy Court of the Interim Order (or the Final Order, when applicable) has all requisite corporate power and authority and the legal right to own, pledge, mortgage and operate its properties, and to conduct its business as now or currently proposed to be conducted.

Due Execution. Upon the entry by the Bankruptcy Court of the Interim Order

(or the Final Order, when applicable), the execution, delivery and performance by each of the Borrower and the Guarantors of each of the Loan Documents to which it is a party (i) are within the respective corporate powers of each of the Borrower and the Guarantors, have been duly authorized by all necessary corporate action including the consent of shareholders where required, and do not (A) contravene the charter or by-laws of any of the Borrower or the Guarantors, (B) violate any law (including, without limitation, the Securities Exchange Act of 1934) or regulation (including, without limitation, Regulations T, U or X of the Board of Governors of the Federal Reserve System), or any order or decree of any court or governmental instrumentality, (C) conflict with or result in a breach of, or constitute a default under, any material indenture, mortgage or deed of trust entered into after the Filing Date or any material lease, agreement or other instrument entered into after the Filing Date binding on the Borrower or the Guarantors or any of their properties, or (D) result in or require the creation or imposition of any Lien upon any of the property of any of the Borrower or the Guarantors other than the Liens granted pursuant to this Agreement or the Orders; and do not require the consent, authorization by or approval of or notice to or filing or registration with any Governmental Authority other than the entry of the Orders. Upon the entry by the Bankruptcy Court of the Interim Order (or the Final Order, when applicable), this Agreement has been duly executed and delivered by each of the Borrower and the Guarantors. This Agreement is, and each of the other Loan Documents to which the Borrower and each of the Guarantors is or will be a party, when delivered hereunder or thereunder, will be, a legal, valid and binding obligation of the Borrower and each Guarantor, as the case may be, enforceable against the Borrower and the Guarantors, as the case may be, in accordance with its terms and the Orders.

Statements Made. The information that has been delivered in writing by the Borrower or any of the Guarantors to the Agent or to the Bankruptcy Court in connection with any Loan Document, and any financial statement delivered pursuant hereto or thereto (other than to the extent that any such statements constitute projections), taken as a whole and in light of the circumstances in which made, contains no untrue statement of a material fact and does not omit to state a material fact necessary to make such statements not misleading; and, to the extent that any such information constitutes projections, such projections were prepared in good faith on the basis of assumptions, methods, data, tests and information believed by the Borrower or such Guarantor to be reasonable at the time such projections were furnished.

Financial Statements. The Borrower has furnished the Banks with copies of
(i) the audited consolidated financial statement and schedules of the Borrower and its consolidated Subsidiaries for the fiscal year ended December 31, 1999 and (ii) the unaudited consolidated financial statement and schedules of the Borrower and its consolidated Subsidiaries for the fiscal quarter ended September 30, 2000. Such financial statements present fairly the financial condition and results of operations of the Borrower and its consolidated Subsidiaries on a consolidated basis as of such date and for such period; such balance sheets and the notes thereto disclose all liabilities, direct or contingent, of the Borrower and its consolidated Subsidiaries as of the dates thereof required to be disclosed by GAAP and such financial statements were prepared in a manner consistent with GAAP. No material adverse change in the operations, business, properties, assets, prospects or condition (financial or otherwise) of the Borrower or the Borrower and its consolidated Subsidiaries, taken as a whole, has occurred from that set forth in the Borrower's consolidated financial statements for the fiscal quarter ended September 30, 2000 other than those which customarily occur as a result of events leading up to and following the commencement of a proceeding under Chapter 11 of the Bankruptcy Code and the commencement of the Cases (including, without limitation, those reflected in the financial projections heretofore made available to the Agent).

Ownership. Each of the Persons listed on Schedule 3.05 is a wholly-owned, direct or indirect Subsidiary of the Borrower, and the Borrower owns no other Subsidiaries, whether directly or indirectly, other than as set forth on Schedule 3.05.

Liens. Except for Liens existing on the Filing Date as reflected on Schedule 3.06, there are no Liens of any nature whatsoever on any assets of the Borrower or any of the Guarantors other than: (i) Permitted Liens; (ii) Liens permitted pursuant to Section 6.01(ii); and (iii) Liens in favor of the Agent and the Banks on the Letter of Credit Account. Neither the Borrower nor the Guarantors are parties to any contract, agreement, lease or instrument the performance of which, either unconditionally or upon the happening of an event, will result in or require the creation of a Lien on any assets of the Borrower or any Guarantor or otherwise result in a violation of this Agreement other than the Liens granted to the Agent and the Banks on the Letter of Credit Account as provided for in this Agreement.

Compliance with Law.

(i) The operations of the Borrower and the Guarantors comply in all material respects with all applicable environmental, health and safety statutes and regulations, including, without limitation, regulations promulgated under the Resource Conservation and Recovery Act (42 U.S.C. (S)(S) 6901 et seq.); (ii) to

the Borrower's and each of the Guarantor's knowledge, none of the operations of the Borrower or the Guarantors is the subject of any Federal or state investigation evaluating whether any remedial action involving a material expenditure by the Borrower or any Guarantor is needed to respond to a release of any Hazardous Waste or Hazardous Substance (as such terms are defined in any applicable state or Federal environmental law or regulations) into the environment; and (iii) to the Borrower's and each of the Guarantor's knowledge, the Borrower and the Guarantors do not have any material contingent liability in connection with any release of any Hazardous Waste or Hazardous Substance into the environment.

Neither the Borrower nor any Guarantor is, to the best of its knowledge, in violation of any law, rule or regulation, or in default with respect to any judgment, writ, injunction or decree of any Governmental Authority the violation of which, or a default with respect to which, would have a material adverse effect on the financial condition, operations, business, properties or assets of the Borrower and the Guarantors taken as a whole.

Insurance. All policies of insurance of any kind or nature owned by or issued to the Borrower and the Guarantors, including, without limitation, policies of life, fire, theft, product liability, public liability, property damage, other casualty, employee fidelity, workers' compensation, employee health and welfare, title, property and liability insurance, are in full force and effect and are of a nature and provide such coverage as is customarily carried by companies of the size and character of the Borrower and the Guarantors.

The Orders. On the date of the making of the initial Loans or the issuance of the initial Letters of Credit hereunder, whichever first occurs, the Interim Order will have been entered and will not have been stayed, amended, vacated, reversed or rescinded. On the date of the making of any Loan or the issuance of any Letter of Credit, the Interim Order or the Final Order, as the case may be, shall have been entered and shall not have been amended, stayed, vacated or rescinded. Upon the maturity (whether by the acceleration or otherwise) of any of the obligations of the Borrower and the Guarantors hereunder and under the other Loan Documents, the Banks shall, subject to the provisions of Section 7.01, be entitled to immediate payment of such obligations, and to enforce the remedies provided for hereunder, without further application to or order by the Bankruptcy Court.

Use of Proceeds. The proceeds of the Loans shall be used for working capital and for other general corporate purposes of the Borrower and the Guarantors which shall include interrogatory loans and advances to, and the issuance of Letters of Credit for the benefit of, the Non-filed Subsidiary, subject, in each case, to the limitations provided for in Section 6.10 hereof.

Litigation. Other than as set forth on Schedule 3.11, there are no unstayed actions, suits or proceedings pending or, to the knowledge of the Borrower or the Guarantors, threatened against or affecting the Borrower or the Guarantors or any of their respective properties, before any court or governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign, which is reasonably likely to be determined adversely to the Borrower or the Guarantors and, if so determined adversely to the Borrower or the Guarantors would have a material adverse effect on the financial condition, business, properties, prospects, operations or assets of the Borrower and the Guarantors, taken as a whole.

SECTION 1. CONDITIONS OF LENDING

Conditions Precedent to Initial Loans and Initial Letters of Credit. The

obligation of the Banks to make the initial Loans or the Fronting Bank to issue the initial Letter of Credit, whichever may occur first, is subject to the following conditions precedent:

Supporting Documents. The Agent shall have received for each of the Borrower and the Guarantors:

a copy of such entity's certificate of incorporation, as amended, certified as of a recent date by the Secretary of State of the state of its incorporation;

a certificate of such Secretary of State, dated as of a recent date, as to the good standing of and payment of taxes by that entity and as to the charter documents on file in the office of such Secretary of State; and

a certificate of the Secretary or an Assistant Secretary of that entity dated the date of the initial Loans or the initial Letter of Credit hereunder, whichever first occurs, and certifying (A) that attached thereto is a true and complete copy of the by-laws of that entity as in effect on the date of such certification, (B) that attached thereto is a true and complete copy of resolutions adopted by the Board of Directors of that entity authorizing the Borrowings and Letter of Credit extensions hereunder, the execution, delivery and performance in accordance with their respective terms of this Agreement, the Loan Documents and any other documents required or contemplated hereunder or thereunder and the granting of the security interest in the Letter of Credit Account, (C) that the certificate of incorporation of that entity has not been amended since the date of the last amendment thereto indicated on the certificate of the Secretary of State furnished pursuant to clause (i) above and (D) as to the incumbency and specimen signature of each officer of that entity executing this Agreement and the Loan Documents or any other document delivered by it in connection herewith or therewith (such certificate to contain a certification by another officer of that entity as to the incumbency and signature of the officer signing the certificate referred to in this clause (iii)).

Interim Order. At the time of the making of the initial Loans or at the time of the issuance of the initial Letters of Credit, whichever first occurs, the Agent and the Banks shall have received a signed copy of an order of the Bankruptcy Court in substantially the form of Exhibit A-1 (the "Interim Order") approving the Loan Documents and granting the Superpriority Claim status and

Liens on cash maintained in the Letter of Credit Account described in Section 2.23 which Interim Order (i) shall have been entered, upon an application or motion of the Borrower reasonably satisfactory in form and substance to the Agent, on such prior notice to such parties as may in each case be reasonably satisfactory to the Agent, (ii) shall authorize extensions of credit in amounts up to $150,000,000, (iii) shall approve the payment by the Borrower of all of the Fees set forth in Section 2.19, (iv) shall be in full force and effect, and
(v) shall not have been stayed, reversed, modified or amended in any respect; and, if the Interim Order is the subject of a pending appeal in any respect, neither the making of such Loans nor the issuance of such Letter of Credit nor the performance by the Borrower or any of the Guarantors of any of their respective obligations hereunder or under the Loan Documents or under any other instrument or agreement referred to herein shall be the subject of a presently effective stay pending appeal.

First Day Orders. All of the "first day orders" entered by the Bankruptcy Court at the time of the commencement of the Cases shall be reasonably satisfactory in form and substance to the Agent.

Opinion of Counsel. The Agent and the Banks shall have received the favorable written opinion of counsel to the Borrower and the Guarantors reasonably acceptable to the Agent, dated the date of the initial Loans or the issuance of the initial Letter of Credit, whichever first occurs, substantially in the form of Exhibit B.

Payment of Fees. The Borrower shall have paid to the Agent the then unpaid balance of all accrued and unpaid Fees due under and pursuant to this Agreement and the letter referred to in Section 2.19.

Corporate and Judicial Proceedings. All corporate and judicial proceedings and all instruments and agreements in connection with the transactions among the Borrower, the Guarantors, the Agent and the Banks contemplated by this Agreement shall be reasonably satisfactory in form and substance to the Agent, and the Agent shall have received all information and copies of all documents and papers, including records of corporate and judicial proceedings, which the Agent may have reasonably requested in connection therewith, such documents and papers where appropriate to be certified by proper corporate, governmental or judicial authorities.

Information. The Agent shall have received such information (financial or otherwise) as may be reasonably requested by the Agent and shall have discussed such information with the Borrower's management and shall be satisfied with the nature and substance of such information and such discussions.

Forecast. The Agent and the Banks shall have received from the Borrower a forecast on a monthly basis of the Borrower's anticipated cash receipts and disbursements for the period ending on the one year anniversary of the Filing Date, satisfactory in form and substance to them.

Compliance with Laws. The Borrower and the Guarantors shall have granted the Agent access to and the right to inspect all reports, audits and other internal information of the Borrower and the Guarantors relating to environmental matters, and any third party verification of certain matters relating to compliance with environmental laws and regulations requested by the Agent, and the Agent shall be reasonably satisfied that the Borrower and the Guarantors are in compliance in all material respects with all applicable environmental laws and regulations and be satisfied with the costs of maintaining such compliance.

UCC Searches. The Agent shall have received UCC searches conducted in the jurisdictions in which the Borrower conducts business (dated as of a date reasonably satisfactory to the Agent), reflecting the absence of Liens and encumbrances on the assets of the Borrower other than such Liens as may be satisfactory to the Agent.

Analysis. The Agent shall be satisfied with its analysis of the Borrower's inventory and receivables (including, without limitation) their inventory and receivables reporting and control systems.

Closing Documents. The Agent shall have received all documents required by this Agreement reasonably satisfactory in form and substance to the Agent.

Conditions Precedent to Each Loan and Each Letter of Credit. The obligation of the Banks to make each Loan and of the Fronting Bank to issue each Letter of Credit, including the initial Loan and the initial Letter of Credit, is subject to the following conditions precedent:

Notice. The Agent shall have received a notice with respect to such borrowing or issuance, as the case may be, as required by Section 2.

Representations and Warranties. All representations and warranties contained in this Agreement and the other Loan Documents shall be true and correct in all material respects on and as of the date of each Borrowing or the issuance of each Letter of Credit hereunder with the same effect as if made on and as of such date except to the extent such representations and warranties expressly relate to an earlier date.

No Default. On the date of each Borrowing hereunder or the issuance of each Letter of Credit, no Event of Default or event which upon notice or lapse of time or both would constitute an Event of Default shall have occurred and be continuing.

Orders. The Interim Order shall be in full force and effect and shall not have been stayed, reversed, modified or amended in any respect without the prior written consent of the Agent and the Required Banks, provided, that at the time of the making of any Loan or the issuance of any Letter of Credit the aggregate amount of either of which, when added to the sum of the principal amount of all Loans then outstanding and the Letter of Credit Outstandings, would exceed the amount authorized by the Interim Order (collectively, the "Additional Credit"), the Agent and each of the Banks shall have received a certified copy of an order of the Bankruptcy Court in substantially the form of Exhibit A-2 (the "Final Order"), which, in any event, shall have been entered by the Bankruptcy Court no later than 45 days after the Filing Date, and at the time of the extension of any Additional Credit the Final Order shall be in full force and effect, and shall not have been stayed, reversed, modified or amended in any respect without the prior written consent of the Agent and the Required Banks; and if either the Interim Order or the Final Order is the subject of a pending appeal in any respect, neither the making of the Loans nor the issuance of any Letter of Credit nor the performance by the Borrower or any Guarantor of any of their respective obligations under any of the Loan Documents shall be the subject of a presently effective stay pending appeal.

Payment of Fees. The Borrower shall have paid to the Agent the then unpaid balance of all accrued and unpaid Fees then payable under and pursuant to this Agreement and the letter referred to in Section 2.19.

Borrowing Base Certificate. Following the entry of the Final Order, the Agent shall have received the timely delivery of the most recent Borrowing Base Certificate (delivered no more than thirty (30) days prior to the making of a Loan or the issuance of a Letter of Credit) required to be delivered hereunder.

The request by the Borrower for, and the acceptance by the Borrower of, each extension of credit hereunder shall be deemed to be a representation and warranty by the Borrower that the conditions specified in this Section have been satisfied or waived at that time.

AFFIRMATIVE COVENANTS

From the date hereof and for so long as any Commitment shall be in effect or any Letter of Credit shall remain outstanding (in a face amount in excess of the amount of cash then held in the Letter of Credit Account, or in excess of the face amount of back-to-back letters of credit delivered, in each case pursuant to Section 2.03(b)), or any amount shall remain outstanding or unpaid under this Agreement, the Borrower and each of the Guarantors agree that, unless the Required Banks shall otherwise consent in writing, the Borrower and each of the Guarantors will:

Financial Statements, Reports, etc. Deliver to the Agent and each of the

Banks:

within 90 days after the end of each fiscal year, the Borrower's stand alone and the Borrower's consolidated balance sheet and related statement of income and cash flows, showing the financial condition of the Borrower alone and the Borrower and its consolidated Subsidiaries on a consolidated basis, respectively, as of the close of such fiscal year and the results of their respective operations during such year, the statement of the Borrower and the consolidated statement of the Borrower to be audited for the Borrower by KPMG LLP independent public accountants of recognized national standing acceptable to the Required Banks and accompanied, in each case, by an opinion of such accountants (which shall not be qualified in any material respect other than with respect to the Cases or a going concern qualification) and to be certified by a Financial Officer of the Borrower to the effect that such financial statements fairly present the financial condition and results of operations of the Borrower alone and the Borrower and its consolidated Subsidiaries on a consolidated basis, respectively, in accordance with GAAP;

within 45 days after the end of each of the first three fiscal quarters and within 90 days after the end of the fourth fiscal quarter of each fiscal year, the Borrower's stand alone and the Borrower's consolidated balance sheets and related statements of income and cash flows, showing the financial condition of the Borrower alone and the Borrower and its consolidated Subsidiaries on a consolidated basis as of the close of such fiscal quarter and the results of their operations during such fiscal quarter and the then elapsed portion of the fiscal year, each certified by a Financial Officer as fairly presenting the financial condition and results of operations of the Borrower alone and the Borrower and its consolidated Subsidiaries on a consolidated basis in accordance with GAAP, subject to normal year-end audit adjustments;

concurrently with any delivery of financial statements under (a) or (b) above as applicable, (i) a certificate of a Financial Officer certifying such statements (A) certifying that no Event of Default or event which upon notice or lapse of time or both would constitute an Event of Default has occurred, or, if such an Event of Default or event has occurred, specifying the nature and extent thereof and any corrective action taken or proposed to be taken with respect thereto and (B) setting forth computations in reasonable detail satisfactory to the Agent demonstrating compliance with the provisions of Sections 6.03, 6.04, 6.05 and 6.10 and (ii) a certificate (which certificate may be limited to accounting matters and disclaim responsibility for legal interpretations) of such accountants accompanying the audited consolidated financial statements delivered under (a) above certifying that, in the course of the regular audit of the business of the Borrower and its Subsidiaries, such accountants have obtained no knowledge that an Event of Default has occurred and is continuing, or if, in the opinion of such accountants, an Event of Default has occurred and is continuing, specifying the nature thereof and all relevant facts with respect thereto;

as soon as available, but no more than 45 days after the end of each of the first three fiscal quarters and within 90 days after the end of the fourth fiscal quarter of each fiscal year, the unaudited quarterly cash flow reports of the Borrower and the Guarantors on a consolidated basis and as of the close of such fiscal quarter and the results of their operations during such fiscal period and the then elapsed portion of the fiscal year;

at all times during which Total Facility Usage exceeds $50,000,000, not later than the first business day of each week a weekly report satisfactory to the Agent reflecting the Borrower's collected cash balances and cash equivalents as of Friday of the immediately preceding week;

as soon as possible, and in any event within 45 days of the Closing Date, separate consolidated pro forma balance sheets of the Borrower's and the Guarantors' financial condition as of the Filing Date;

as soon as possible, and in any event not later than 90 days after the filing date, the Agent shall have received audited financial statements for the Borrower alone for the fiscal year ended December 31, 1999;

not later than the first anniversary of the Filing Date, an annual update for the period through the Maturity Date of the forecast delivered to the Agent pursuant to Section 4.01(h), and prompt notice of any changes to such forecast or updates thereof, in each case satisfactory in form and substance to the Agent;

promptly after the same become publicly available, copies of all periodic and other reports, proxy statements and other materials filed by the Borrower with the Securities and Exchange Commission, or any governmental authority succeeding to any of or all the functions of said commission, or with any national securities exchange, as the case may be;

as soon as available and in any event (A) within 30 days after the Borrower or any of its ERISA Affiliates knows or has reason to know that any Termination Event described in clause (i) of the definition of Termination Event with respect to any Single Employer Plan of the Borrower or such ERISA Affiliate has occurred and (B) within 10 days after the Borrower or any of its ERISA Affiliates knows or has reason to know that any other Termination Event with respect to any such Plan has occurred, a statement of a Financial Officer of the Borrower describing such Termination Event and the action, if any, which the Borrower or such ERISA Affiliate proposes to take with respect thereto;

promptly and in any event within 10 days after receipt thereof by the Borrower or any of its ERISA Affiliates from the PBGC copies of each notice received by the Borrower or any such ERISA Affiliate of the PBGC's intention to terminate any Single Employer Plan of the Borrower or such ERISA Affiliate or to have a trustee appointed to administer any such Plan;

if requested by the Agent, promptly and in any event within 30 days after the filing thereof with the Internal Revenue Service, copies of each Schedule B (Actuarial Information) to the annual report (Form 5500 Series) with respect to each Single Employer Plan of the Borrower or any of its ERISA Affiliates;

within 10 days after notice is given or required to be given to the PBGC under
Section 302(f)(4)(A) of ERISA of the failure of the Borrower or any of its ERISA Affiliates to make timely payments to a Plan, a copy of any such notice filed and a statement of a Financial Officer of the Borrower setting forth (A) sufficient information necessary to determine the amount of the lien under
Section 302(f)(3), (B) the reason for the failure to make the required payments and (C) the action, if any, which the Borrower or any of its ERISA Affiliates proposed to take with respect thereto;

promptly and in any event within 10 days after receipt thereof by the Borrower or any ERISA Affiliate from a Multiemployer Plan sponsor, a copy of each notice received by the Borrower or any ERISA Affiliate concerning (A) the imposition of Withdrawal Liability by a Multiemployer Plan, (B) the determination that a Multiemployer Plan is, or is expected to be, in reorganization within the meaning of Title IV of ERISA, (C) the termination of a Multiemployer Plan within the meaning of Title IV of ERISA, or (D) the amount of liability incurred, or which may be incurred, by the Borrower or any ERISA Affiliate in connection with any event described in clause (A), (B) or (C) above;

promptly, from time to time, such other information regarding the operations, business affairs and financial condition of the Borrower or any Guarantor (including, without limitation, reports satisfactory to the Agent with respect to environmental matters), or compliance with the terms of any material loan or financing agreements as the Agent, at the request of any Bank, may reasonably request;

furnish to the Agent and its counsel promptly after the same is available, copies of all pleadings, motions, applications, judicial information, financial information and other documents filed by or on behalf of the Borrower or any of the Guarantors with the Bankruptcy Court in the Cases, or distributed by or on behalf of the Borrower or any of the Guarantors to any official committee appointed in the Cases.

Corporate Existence. Preserve and maintain in full force and effect all governmental rights, privileges, qualifications, permits, licenses and franchises necessary or desirable in the normal conduct of its business except
(i)(A) if in the reasonable business judgment of the Borrower or its subsidiary, as the case may be, it is in its best economic interest not to preserve and maintain such rights, privileges, qualifications, permits, licenses and franchises, and (B) such failure to preserve the same could not, in the aggregate, reasonably be expected to have a material adverse effect on the operations, business, properties, assets, prospects or condition (financial or otherwise) of the Borrower and the Guarantors, taken as a whole, and (ii) as otherwise permitted in connection with sales of assets permitted by Section 6.11.

Insurance. (a) Keep its insurable properties insured at all times, against such risks, including fire and other risks insured against by extended coverage, as is customary with companies of the same or similar size in the same or similar businesses; and maintain in full force and effect public liability insurance against claims for personal injury or death or property damage occurring upon, in, about or in connection with the use of any properties owned, occupied or controlled by the Borrower or any Guarantor, as the case may be, in such amounts and with such deductibles as are customary with companies of the same or similar size in the same or similar businesses and in the same geographic area; and (b) maintain such other insurance or self insurance as may be required by law.

Obligations and Taxes. With respect to the Borrower and each Guarantor, pay all its material obligations arising after the Filing Date promptly and in accordance with their terms and pay and discharge promptly all material taxes, assessments and governmental charges or levies imposed upon it or upon its income or profits or in respect of its property arising after the Filing Date, before the same shall become in default, as well as all material lawful claims for labor, materials and supplies or otherwise arising after the Filing Date which, if unpaid, would become a Lien or charge upon such properties or any part thereof; provided, however, that the Borrower and each Guarantor shall not be required to pay and discharge or to cause to be paid and discharged any such tax, assessment, charge, levy or claim so long as the validity or amount thereof shall be contested in good faith by appropriate proceedings (if the Borrower and the Guarantors shall have set aside on their books adequate reserves therefor).

Notice of Event of Default, etc. Promptly give to the Agent notice in writing of any Event of Default or the occurrence of any event or circumstance which with the passage of time or giving of notice or both would constitute an Event of Default.

Access to Books and Records. Maintain or cause to be maintained at all times true and complete books and records in accordance with GAAP of the financial operations of the Borrower and the Guarantors; and provide the Agent and its representatives access to all such books and records during regular business hours, in order that the Agent may examine and make abstracts from such books, accounts, records and other papers for the purpose of verifying the accuracy of the various reports delivered by the Borrower or the Guarantors to the Agent or the Banks pursuant to this Agreement or for otherwise ascertaining compliance with this Agreement; and at any reasonable time and from time to time during regular business hours, upon reasonable notice, permit the Agent and any agents or representatives (including, without limitation, appraisers) thereof and the Banks to visit the properties of the Borrower and the Guarantors.

Borrowing Base Certificate. After the entry of the Final Order furnish to the Agent as soon as available and in any event (i) within that number of days after the end of each month that is agreed upon by the Borrower and the Agent, of each month, a monthly Borrowing Base Certificate as of the last day of such month, (ii) if requested by the Agent at any other time when the Agent reasonably believes that the then existing Borrowing Base Certificate is materially inaccurate, as soon as reasonably available but in no event later than that number of Business Days after such request that is agreed upon by the Borrower and the Agent, a Borrowing Base Certificate showing the Borrowing Base as of the date so requested, in each case with supporting documentation, and
(iii) such other supporting documentation and additional reports with respect to the Borrowing Base as the Agent shall reasonably request.

Collateral Monitoring and Review. At any time upon the request of the Agent, permit the Agent or professionals (including consultants, accountants and appraisers) retained by the Agent or its professionals to conduct evaluations and appraisals of (i) the Borrower's practices in the computation of the Borrowing Base and (ii) the assets included in the Borrowing Base, and pay the reasonable fees and expenses in connection therewith (including, without limitation, the reasonable and customary fees and expenses associated with the Agent's Collateral Agent Services Group). In connection with any collateral monitoring or review and appraisal relating to the computation of the Borrowing Base, the Borrower shall make such adjustments to the Borrowing Base as the Agent shall reasonably require based upon the terms of this Agreement and results of such collateral monitoring, review or appraisal.

Projections. As soon as practicable, and in any event not later than January 15, 2001, furnish to the Agent the Borrower's projections prepared on a quarterly basis for the period through the Maturity Date which shall be satisfactory in form and substance to the Agent, and make its senior officers available to discuss the same with the Agent upon the Agent's reasonable request.

NEGATIVE COVENANTS

From the date hereof and for so long as any Commitment shall be in effect or any Letter of Credit shall remain outstanding (in a face amount in excess of the amount of cash then held in the Letter of Credit Account, or in excess of the face amount of back-to-back letters of credit delivered, in each case pursuant to Section 2.03(b)) or any amount shall remain outstanding or unpaid under this Agreement, unless the Required Banks shall otherwise consent in writing, the Borrower and each of the Guarantors will not (and will not apply to the Bankruptcy Court for authority to):

Liens. Incur, create, assume or suffer to exist any Lien on any asset of the Borrower or the Guarantors, now owned or hereafter acquired by the Borrower or any of such Guarantors, or permit any Domestic Subsidiary so to do other than
(i) Liens which were existing on the Filing Date as reflected on Schedule 3.06 hereto; (ii) Permitted Liens; (iii) Liens on cash maintained in the Letter of Credit Account in favor of the Agent and the Banks; (iv) Liens securing purchase money Indebtedness or Capitalized Leases permitted by Section 6.03(iv); (v) in the case of Domestic Subsidiaries, Liens securing obligations outstanding in a principal amount not in excess of $50,000,000 in the aggregate for all of such Domestic Subsidiaries; and (vi) in the case of Domestic Subsidiaries, Liens in favor of the Borrower.

Merger, etc. Consolidate or merge with or into another Person or permit any of the Non-filed Subsidiaries so to do, except that (i) any Non-filed Subsidiary may merge with or into any other Non-filed Subsidiary or (ii) or any Non-filed Subsidiary may merge or consolidate in connection with asset dispositions permitted pursuant to Section 6.11.

Indebtedness. Contract, create, incur, assume or suffer to exist any Indebtedness, or permit any of the Domestic Subsidiaries so to do, except for
(i) Indebtedness under this Agreement; (ii) in the case of the Borrower and the Guarantors, Indebtedness incurred prior to the Filing Date (including existing Capitalized Leases); (iii) intercompany Indebtedness between the Borrower and the Guarantors, (iv) in the case of the Borrower, Indebtedness incurred subsequent to the Filing Date secured by purchase money Liens or Capitalized Leases in an aggregate amount not to exceed $15,000,000 to the extent permitted by Section 6.04; (v) Indebtedness arising from Investments among the Borrower and the Domestic Subsidiaries that are permitted hereunder; (vi) post-petition Indebtedness owed to banks or other financial institutions in respect of any overdrafts and related liabilities arising from treasury, depository and cash management services or in connection with any automated clearing house transfers of funds; (vii) hedging and foreign exchange transactions entered into in the ordinary course of business consistent with past practices; and (viii) in the case of the Domestic Subsidiaries, Indebtedness incurred prior to the Filing Date and set forth on Schedule 6.03 hereto, refinancings thereof, purchase money Indebtedness or Capitalized Leases and other Indebtedness in an aggregate amount not in excess of $50,000,000 for all of such Domestic Subsidiaries.

Capital Expenditures. Make, or permit the Non-filed Subsidiaries to make, Capital Expenditures in excess of $170,000,000 in the aggregate in any fiscal year.

Leverage Ratio. Permit the ratio of Net Debt on any day to the Borrower's

Cumulative Cash Flow for the then most recently ended four (4) fiscal quarters to be greater than 2.50 to 1 at any time.

Guarantees and Other Liabilities. Purchase or repurchase (or agree, contingently or otherwise, so to do) the Indebtedness of, or assume, guarantee (directly or indirectly or by an instrument having the effect of assuring another's payment or performance of any obligation or capability of so doing, or otherwise), endorse or otherwise become liable, directly or indirectly, in connection with the obligations, stock or dividends of any Person, except (i) for any guaranty of Indebtedness or other obligations of any Borrower, Guarantor or Non-filed Subsidiary if such guarantor could have incurred such Indebtedness or obligations under this Agreement and (ii) by endorsement of negotiable instruments for deposit or collection in the ordinary course of business.

Chapter 11 Claims. Incur, create, assume, suffer to exist or permit any other Super-Priority Claim which is pari passu with or senior to the claims of the Agent and the Banks against the Borrower and the Guarantors hereunder, except for the Carve-Out.

Dividends; Capital Stock. Declare or pay, directly or indirectly, any dividends or make any other distribution or payment, whether in cash, property, securities or a combination thereof, with respect to (whether by reduction of capital or otherwise) any shares of capital stock (or any options, warrants, rights or other equity securities or agreements relating to any capital stock), or set apart any sum for the aforesaid purposes, provided that any Guarantor may pay dividends to the Borrower.

Transactions with Affiliates. Sell or transfer any property or assets to, or otherwise engage in any other material transactions with, any of its Affiliates (other than the Borrower and its Subsidiaries), other than in the ordinary course of business at prices and on terms and conditions not less favorable to the Borrower or such Guarantor than could be obtained on an arm's-length basis from unrelated third parties.

Investments, Loans, Advances and Acquisitions. Purchase, hold or acquire any capital stock, evidences of indebtedness or other securities of, make or permit to exist any loans or advances to, or make or permit to exist any investment in, any other Person (all of the foregoing, "Investments") or make any acquisitions of assets other than in the ordinary course of business or except to the extent permitted by Section 6.04, except for (i) Permitted Investments, (ii) advances and loans among the Borrower and the Guarantors in the ordinary course of business consistent with past practices and (iii) advances and loans by the Borrower or the Guarantors to Non-filed Subsidiaries in the ordinary course of business consistent with past practices, provided that loans, advances and capital contribution after the Closing Date to Non-filed Subsidiaries made from the proceeds of Loans plus Letters of Credit issued for

the exclusive benefit of Non-filed Subsidiaries shall not exceed $100,000,000 at any one time outstanding.

Disposition of Assets. Sell or otherwise dispose of any assets (including, without limitation, the capital stock of any Subsidiary) or permit any of the Non-filed Subsidiaries so to

do except for (i) sales of inventory, fixtures and equipment in the ordinary course of business, (ii) sales of surplus equipment no longer used in production, (iii) in the case of the Borrower and the Guarantors, sales of other assets on an arm's-length basis for consideration in an amount not less than the fair market value thereof if the aggregate purchase price for all of such other assets does not exceed $75,000,000, and (iv) in the case of Non-filed Subsidiaries, the sale or other disposition of (x) the cabinets division of Triangle Pacific Corp. and the textile and sports business of the Borrowers' European Subsidiaries and (y) sales of other assets on an arm's-length basis for consideration in an amount not less than the fair market value thereof if the aggregate purchase price for all of such other assets referred to in this clause
(y) does not exceed $150,000,000.

Nature of Business. Modify or alter in any material manner the nature and type of its business as conducted at or prior to the Filing Date or the manner in which such business is conducted (except as required by the Bankruptcy Code), it being understood that asset sales permitted by Section 6.11 shall not constitute such a material modification or alteration.

EVENTS OF DEFAULT

Events of Default. In the case of the happening of any of the following events and the continuance thereof beyond the applicable period of grace if any (each, an "Event of Default"):

any material representation or warranty made by the Borrower or any Guarantor in this Agreement or in any Loan Document or in connection with this Agreement or the credit extensions hereunder or any material statement or representation made in any report, financial statement, certificate or other document furnished by the Borrower or any Guarantors to the Banks under or in connection with this Agreement, shall prove to have been false or misleading in any material respect when made or delivered; or

default shall be made in the payment of any (i) Fees or interest on the Loans when due, and such default shall continue unremedied for more than two (2) Business Days or (ii) principal of the Loans or other amounts payable by the Borrower hereunder (including, without limitation, reimbursement obligations or cash collateralization in respect of Letters of Credit), when and as the same shall become due and payable, whether at the due date thereof (including the Prepayment Date) or at a date fixed for prepayment thereof or by acceleration thereof or otherwise; or

default shall be made by the Borrower or any Guarantor in the due observance or performance of any covenant, condition or agreement contained in Section 6 hereof; or

default shall be made by the Borrower or any Guarantor in the due observance or performance of any other covenant, condition or agreement to be observed or performed pursuant to the terms of this Agreement or any of the other Loan Documents and such default shall continue unremedied for more than ten (10) days; or

any of the Cases shall be dismissed or converted to a case under Chapter 7 of the Bankruptcy Code or the Borrower or any Guarantor shall file a motion or other pleading seeking the dismissal of any of the Cases under Section 1112 of the Bankruptcy Code or otherwise; a trustee under Chapter 7 or Chapter 11 of the Bankruptcy Code, a responsible officer or an examiner with enlarged powers relating to the operation of the business (powers beyond those set forth in
Section 1106(a)(3) and (4) of the Bankruptcy Code) under Section 1106(b) of the Bankruptcy Code shall be appointed in any of the Cases and the order appointing such trustee, responsible officer or examiner shall not be reversed or vacated within 30 days after the entry thereof; or an application shall be filed by the Borrower or any Guarantor for the approval of any other Super-Priority Claim (other than the Carve-Out) in any of the Cases which is pari passu with or senior to the claims of the Agent and the Banks against the Borrower or any Guarantor hereunder, or there shall arise or be granted any such pari passu or senior Super-Priority Claim; or

the Bankruptcy Court shall enter an order or orders granting relief from the automatic stay applicable under Section 362 of the Bankruptcy Code to the holder or holders of any security interest to permit foreclosure (or the granting of a deed in lieu of foreclosure or the like) on any assets of the Borrower or any of the Guarantors which have a value in excess of $500,000 in the aggregate; or

a Change of Control shall occur; or

the Borrower shall fail to deliver a certified Borrowing Base Certificate when due and such default shall continue unremedied for more than three (3) Business Days; or

any material provision of any Loan Document shall, for any reason, cease to be valid and binding on the Borrower or any of the Guarantors, or the Borrower or any of the Guarantors shall so assert in any pleading filed in any court; or

an order of the Bankruptcy Court shall be entered reversing, amending, supplementing, staying for a period in excess of 10 days, vacating or otherwise modifying either of the Orders without the prior written consent of the Agent and the Required Banks; or

any judgment or order as to a post-petition liability or debt for the payment of money in excess of $1,000,000 shall be rendered against the Borrower or any of the Guarantors and shall not be satisfied and the enforcement thereof shall not have been stayed; or

any non-monetary judgment or order with respect to a post-petition event shall be rendered against the Borrower or any of the Guarantors which does or would reasonably be expected to (i) cause a material adverse change in the financial condition, business, prospects, operations or assets of the Borrower and the Guarantors taken as a whole on a consolidated basis, (ii) have a material adverse effect on the ability of the Borrower or any of the Guarantors to perform their respective obligations under any Loan Document, or (iii) have a material adverse effect on the rights and remedies of the Agent or any Bank under any Loan Document, and there shall be any period of 10 consecutive days during which a stay of enforcement of such judgment or order, by reason of a pending appeal or otherwise, shall not be in effect; or except as permitted by the Orders, the Borrower or the Guarantors shall make any Pre-Petition Payment other than Pre-Petition Payments authorized by the Bankruptcy Court (v) in accordance with other "first day" orders reasonably satisfactory to the Agent, (w) not in excess $25,000,000 in respect of certain critical vendors, (x) in connection with the assumption of executory contracts and unexpired leases, (y) in respect of accrued payroll and related expenses and employee benefits as of the Filing Date and (z) not in excess of $3,000,000 in respect of other obligations; or

any Termination Event described in clauses (iii) or (iv) of the definition of such term shall have occurred and shall continue unremedied for more than 10 days and the sum (determined as of the date of occurrence of such Termination Event) of the Insufficiency of the Plan in respect of which such Termination Event shall have occurred and be continuing and the Insufficiency of any and all other Plans with respect to which such a Termination Event (described in such clauses (iii) or (iv)) shall have occurred and then exist is equal to or greater than $5,000,000; or

(i) the Borrower or any ERISA Affiliate thereof shall have been notified by the sponsor of a Multiemployer Plan that it has incurred Withdrawal Liability to such Multiemployer Plan, (ii) the Borrower or such ERISA Affiliate does not have reasonable grounds to contest such Withdrawal Liability and is not in fact contesting such Withdrawal Liability in a timely and appropriate manner, and
(iii) the amount of such Withdrawal Liability specified in such notice, when aggregated with all other amounts required to be paid to Multiemployer Plans in connection with Withdrawal Liabilities (determined as of the date of such notification), exceeds $5,000,000 allocable to post-petition obligations or requires payments exceeding $500,000 per annum in excess of the annual payments made with respect to such Multiemployer Plans by the Borrower or such ERISA Affiliate for the plan year immediately preceding the plan year in which such notification is received; or

the Borrower or any ERISA Affiliate thereof shall have been notified by the sponsor of a Multiemployer Plan that such Multiemployer Plan is in reorganization or is being terminated, within the meaning of Title IV of ERISA, if as a result of such reorganization or termination the aggregate annual contributions of the Borrower and its ERISA Affiliates to all Multiemployer Plans that are then in reorganization or being terminated have been or will be increased over the amounts contributed to such Multiemployer Plans for the plan years that include the date hereof by an amount exceeding $5,000,000; or

the Borrower or any ERISA Affiliate shall have committed a failure described in
Section 302(f)(1) of ERISA (other than the failure to make any contribution accrued and unpaid as of the Filing Date) and the amount determined under
Section 302(f)(3) of ERISA is equal to or greater than $5,000,000; or

it shall be determined (whether by the Bankruptcy Court or by any other judicial or administrative forum) that the Borrower or any Guarantor is liable for the payment of claims arising out of any failure to comply (or to have complied) with applicable environmental laws or regulations the payment of which will have a material adverse effect on the financial condition, business, properties, operations or assets of the Borrower or the Borrower and its Subsidiaries, taken as a whole, and the enforcement thereof shall not have been stayed;

then, and in every such event and at any time thereafter during the continuance of such event, and without further order of or application to the Bankruptcy Court, the Agent may, and at the request of the Required Banks, shall, by notice to the Borrower (with a copy to counsel for any statutory committee appointed in the Cases and to the United States Trustee for the District of Delaware), take one or more of the following actions, at the same or different times (provided, that with respect to clause (iv) below, the Agent shall provide the Borrower (with a copy to counsel for any statutory committee appointed in the Cases and to the United States Trustee for the District of Delaware with five (5) Business Days' written notice prior to taking the action contemplated thereby and provided, further, that upon receipt of notice referred to in the immediately preceding clause with respect to the accounts referred to in clause (iv) below, the Borrower may continue to make ordinary course disbursements from such accounts (other than the Letter of Credit Account) but may not withdraw or disburse any other amounts from such accounts): (i) terminate forthwith the Total Commitment; (ii) declare the Loans then outstanding to be forthwith due and payable, whereupon the principal of the Loans together with accrued interest thereon and any unpaid accrued Fees and all other liabilities of the Borrower accrued hereunder and under any other Loan Document, shall become forthwith due and payable, without presentment, demand, protest or any other notice of any kind, all of which are hereby expressly waived by the Borrower and the Guarantors, anything contained herein or in any other Loan Document to the contrary notwithstanding; (iii) require the Borrower and the Guarantors upon demand to forthwith deposit in the Letter of Credit Account cash in an amount which, together with any amounts then held in the Letter of Credit Account, is equal to the sum of 105% of the then Letter of Credit Outstandings (and to the extent the Borrower and the Guarantors shall fail to furnish such funds as demanded by the Agent, the Agent shall be authorized to debit the accounts of the Borrower and the Guarantors maintained with the Agent in such amount five (5) Business Days after the giving of the notice referred to above); (iv) set-off amounts in the Letter of Credit Account or any other accounts maintained with the Agent and apply such amounts to the obligations of the Borrower and the Guarantors hereunder and in the other Loan Documents; and (v) exercise any and all remedies under the Loan Documents and under applicable law available to the Agent and the Banks.

THE AGENT

Administration by Agent. The general administration of the Loan Documents shall be by the Agent. Each Bank hereby irrevocably authorizes the Agent, at its discretion, to take or refrain from taking such actions as agent on its behalf and to exercise or refrain from exercising such powers under the Loan Documents as are delegated by the terms hereof or thereof, as appropriate, together with all powers reasonably incidental thereto. The Agent shall have no duties or responsibilities except as set forth in this Agreement and the remaining Loan Documents.

<u>**Advances and Payments**</u>

On the date of each Loan, the Agent shall be authorized (but not obligated) to advance, for the account of each of the Banks, the amount of the Loan to be made by it in accordance with its Commitment hereunder. Should the Agent do so, each of the Banks agrees forthwith to reimburse the Agent in immediately available funds for the amount so advanced on its behalf by the Agent, together with interest at the Federal Funds Effective Rate if not so reimbursed on the date due from and including such date but not including the date of reimbursement.

Any amounts received by the Agent in connection with this Agreement (other than amounts to which the Agent is entitled pursuant to Sections 2.19, 8.06, 10.05 and 10.06), the application of which is not otherwise provided for in this Agreement shall be applied, first, in accordance with each Bank's Commitment Percentage to pay accrued but unpaid Commitment Fees or Letter of Credit Fees, and second, in accordance with each Bank's Commitment Percentage to pay accrued but unpaid interest and the principal balance outstanding and all unreimbursed Letter of Credit drawings. All amounts to be paid to a Bank by the Agent shall be credited to that Bank, after collection by the Agent, in immediately available funds either by wire transfer or deposit in that Bank's correspondent account with the Agent, as such Bank and the Agent shall from time to time agree.

Sharing of Setoffs. Each Bank agrees that if it shall, through the exercise of a right of banker's lien, setoff or counterclaim against the Borrower, including, but not limited to, a secured claim under Section 506 of the Bankruptcy Code or other security or interest arising from, or in lieu of, such secured claim and received by such Bank under any applicable bankruptcy, insolvency or other similar law, or otherwise, obtain payment in respect of its Loans (other than Competitive Loans unless an Event of Default shall have occurred and be continuing) as a result of which the unpaid portion of its Loans is proportionately less than the unpaid portion of the Loans of any other Bank
(a) it shall promptly purchase at par (and shall be deemed to have thereupon purchased) from such other Bank a participation in the Loans of such other Bank, so that the aggregate unpaid principal amount of each Bank's Loans and its participation in Loans of the other Banks shall be in the same proportion to the aggregate unpaid principal amount of all Loans then outstanding as the principal amount of its Loans prior to the obtaining of such payment was to the principal amount of all Loans outstanding prior to the obtaining of such payment and (b) such other adjustments shall be made from time to time as shall be equitable to ensure that the Banks share such payment pro-rata, provided that if any such non-pro-rata payment is thereafter recovered or otherwise set aside such purchase of participations shall be rescinded (without interest). The Borrower expressly consents to the foregoing arrangements and agrees that any Bank holding (or deemed to be holding) a participation in a Loan may exercise any and all rights of banker's lien, setoff (in each case, subject to the same notice requirements as pertain to clause (iv) of the remedial provisions of Section 7.01) or counterclaim with respect to any and all moneys owing by the Borrower to such Bank as fully as if such Bank held a Note and was the original obligee thereon, in the amount of such participation.

Agreement of Required Banks. Upon any occasion requiring or permitting an approval, consent, waiver, election or other action on the part of the Required Banks, action shall be taken by the Agent for and on behalf or for the benefit of all Banks upon the direction of the Required

Banks, and any such action shall be binding on all Banks. No amendment, modification, consent, or waiver shall be effective except in accordance with the provisions of Section 10.10.

Liability of Agent.

The Agent when acting on behalf of the Banks, may execute any of its respective duties under this Agreement by or through any of its respective officers, agents, and employees, and neither the Agent nor its directors, officers, agents, employees or Affiliates shall be liable to the Banks or any of them for any action taken or omitted to be taken in good faith, or be responsible to the Banks or to any of them for the consequences of any oversight or error of judgment, or for any loss, unless the same shall happen through its gross negligence or willful misconduct. The Agent and its respective directors, officers, agents, employees and Affiliates shall in no event be liable to the Banks or to any of them for any action taken or omitted to be taken by them pursuant to instructions received by them from the Required Banks or in reliance upon the advice of counsel selected by it. Without limiting the foregoing, neither the Agent, nor any of its respective directors, officers, employees, agents or Affiliates shall be responsible to any Bank for the due execution, validity, genuineness, effectiveness, sufficiency, or enforceability of, or for any statement, warranty, or representation in, this Agreement, any Loan Document or any related agreement, document or order, or shall be required to ascertain or to make any inquiry concerning the performance or observance by the Borrower of any of the terms, conditions, covenants, or agreements of this Agreement or any of the Loan Documents.

Neither the Agent nor any of its respective directors, officers, employees, agents or Affiliates shall have any responsibility to the Borrower or the Guarantors on account of the failure or delay in performance or breach by any Bank or by the Borrower or the Guarantors of any of their respective obligations under this Agreement or any of the Loan Documents or in connection herewith or therewith.

The Agent, in its capacity as Agent hereunder, shall be entitled to rely on any communication, instrument, or document reasonably believed by such person to be genuine or correct and to have been signed or sent by a person or persons believed by such person to be the proper person or persons, and such person shall be entitled to rely on advice of legal counsel, independent public accountants, and other professional advisers and experts selected by such person.

Reimbursement and Indemnification. Each Bank agrees (i) to reimburse (x) the Agent for such Bank's Commitment Percentage of any expenses and fees incurred for the benefit of the Banks under this Agreement and any of the Loan Documents, including, without limitation, counsel fees and compensation of agents and employees paid for services rendered on behalf of the Banks, and any other expense incurred in connection with the operations or enforcement thereof not reimbursed by the Borrower or the Guarantors and (y) the Agent for such Bank's Commitment Percentage of any expenses of the Agent incurred for the benefit of the Banks that the Borrower has agreed to reimburse pursuant to
Section 10.05 and has failed to so reimburse and (ii) to indemnify and hold harmless the Agent and any of its directors, officers, employees, agents or Affiliates, on demand, in the amount of its proportionate share, from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs,

expenses, or disbursements of any kind or nature whatsoever which may be imposed on, incurred by, or asserted against it or any of them in any way relating to or arising out of this Agreement or any of the Loan Documents or any action taken or omitted by it or any of them under this Agreement or any of the Loan Documents to the extent not reimbursed by the Borrower or the Guarantors (except such as shall result from their respective gross negligence or willful misconduct).

Rights of Agent. It is understood and agreed that Chase shall have the same rights and powers hereunder (including the right to give such instructions) as the other Banks and may exercise such rights and powers, as well as its rights and powers under other agreements and instruments to which it is or may be party, and engage in other transactions with the Borrower or any Guarantor, as though it were not the Agent of the Banks under this Agreement.

Independent Banks. Each Bank acknowledges that it has decided to enter into this Agreement and to make the Loans hereunder based on its own analysis of the transactions contemplated hereby and of the creditworthiness of the Borrower and the Guarantors and agrees that the Agent shall bear no responsibility therefor.

Notice of Transfer. The Agent may deem and treat a Bank party to this Agreement as the owner of such Bank's portion of the Loans for all purposes, unless and until a written notice of the assignment or transfer thereof executed by such Bank shall have been received by the Agent.

Successor Agent. The Agent may resign at any time by giving written notice thereof to the Banks and the Borrower. Upon any such resignation, the Required Banks shall have the right to appoint a successor Agent, which shall be reasonably satisfactory to the Borrower. If no successor Agent shall have been so appointed by the Required Banks and shall have accepted such appointment, within 30 days after the retiring Agent's giving of notice of resignation, the retiring Agent may, on behalf of the Banks, appoint a successor Agent, which shall be a commercial bank organized under the laws of the United States of America or of any State thereof and having a combined capital and surplus of a least $100,000,000, which shall be reasonably satisfactory to the Borrower. Upon the acceptance of any appointment as Agent hereunder by a successor Agent, such successor Agent shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the retiring Agent, and the retiring Agent shall be discharged from its duties and obligations under this Agreement. After any retiring Agent's resignation hereunder as Agent, the provisions of this Section 8 shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Agent under this Agreement.

GUARANTY

<u>Guaranty</u>

Each of the Guarantors unconditionally and irrevocably guarantees the due and punctual payment and performance by the Borrower of the Obligations. Each of the Guarantors further agrees that the Obligations may be extended or renewed, in whole or in part, without notice to or further assent from it, and it will remain bound upon this guaranty notwithstanding any extension or renewal of any of the Obligations. The Obligations of the Guarantors shall be joint and several.

Each of the Guarantors waives presentation to, demand for payment from and protest to the Borrower or any other Guarantor, and also waives notice of protest for nonpayment. The Obligations of the Guarantors hereunder shall not be affected by (i) the failure of the Agent or a Bank to assert any claim or demand or to enforce any right or remedy against the Borrower or any other Guarantor under the provisions of this Agreement or any other Loan Document or otherwise;
(ii) any extension or renewal of any provision hereof or thereof; (iii) any rescission, waiver, compromise, acceleration, amendment or modification of any of the terms or provisions of any of the Loan Documents; (iv) the release, exchange, waiver or foreclosure of any security held by the Agent for the Obligations or any of them; (v) the failure of the Agent or a Bank to exercise any right or remedy against any other Guarantor; or (vi) the release or substitution of any Guarantor or any other Guarantor.

Each of the Guarantors further agrees that this guaranty constitutes a guaranty of performance and of payment when due and not just of collection, and waives any right to require that any resort be had by the Agent or a Bank to any security held for payment of the Obligations or to any balance of any deposit, account or credit on the books of the Agent or a Bank in favor of the Borrower or any other Guarantor, or to any other Person.

Each of the Guarantors hereby waives any defense that it might have based on a failure to remain informed of the financial condition of the Borrower and of any other Guarantor and any circumstances affecting the ability of the Borrower to perform under this Agreement.

Each Guarantor's guaranty shall not be affected by the genuineness, validity, regularity or enforceability of the Obligations or any other instrument evidencing any Obligations, or by the existence, validity, enforceability, perfection, or extent of any collateral therefor or by any other circumstance relating to the Obligations which might otherwise constitute a defense to this Guaranty. Neither of the Agent, nor any of the Banks makes any representation or warranty in respect to any such circumstances or shall have any duty or responsibility whatsoever to any Guarantor in respect of the management and maintenance of the Obligations.

Subject to the provisions of Section 7.01, upon the Obligations becoming due and payable (by acceleration or otherwise), the Banks shall be entitled to immediate payment of such Obligations by the Guarantors upon written demand by the Agent, without further application to or order of the Bankruptcy Court.

No Impairment of Guaranty. The obligations of the Guarantors hereunder shall not be subject to any reduction, limitation, impairment or termination for any reason, including, without limitation, any claim of waiver, release, surrender, alteration or compromise, and shall not be subject to any defense or set-off, counterclaim, recoupment or termination whatsoever by reason of the invalidity, illegality or unenforceability of the Obligations. Without limiting the generality of the foregoing, the obligations of the Guarantors hereunder shall not be discharged or impaired or otherwise affected by the failure of the Agent or a Bank to assert any claim or demand or to enforce any remedy under this Agreement or any other agreement, by any waiver or modification of any provision thereof, by any default, failure or delay, willful or otherwise, in the performance of the Obligations, or by any other act or thing or omission or delay to do any other act or thing which may or might in any manner or to any extent vary the risk of the Guarantors or would otherwise operate as a discharge of the Guarantors as a matter of law, unless and until the Obligations are paid in full.

Subrogation. Upon payment by any Guarantor of any sums to the Agent or a Bank hereunder, all rights of such Guarantor against the Borrower arising as a result thereof by way of right of subrogation or otherwise, shall in all respects be subordinate and junior in right of payment to the prior final and indefeasible payment in full of all the Obligations. If any amount shall be paid to such Guarantor for the account of the Borrower, such amount shall be held in trust for the benefit of the Agent and the Banks and shall forthwith be paid to the Agent and the Banks to be credited and applied to the Obligations, whether matured or unmatured.

MISCELLANEOUS

Notices. Notices and other communications provided for herein shall be in writing (including telegraphic, telex, facsimile or cable communication) and shall be mailed, telegraphed, telexed, transmitted, cabled or delivered to the Borrower or any Guarantor at 2500 Columbia Avenue, Lancaster, Pennsylvania 17604, Attention: E. Follin Smith and to a Bank or the Agent to it at its address set forth on Annex A, or such other address as such party may from time to time designate by giving written notice to the other parties hereunder. All notices and other communications given to any party hereto in accordance with the provisions of this Agreement shall be deemed to have been given on the fifth Business Day after the date when sent by registered or certified mail, postage prepaid, return receipt requested, if by mail; or when delivered to the telegraph company, charges prepaid, if by telegram; or when receipt is acknowledged, if by any telegraphic communications or facsimile equipment of the sender; in each case addressed to such party as provided in this Section 10.01 or in accordance with the latest unrevoked written direction from such party; provided, however, that in the case of notices to the Agent notices pursuant to the preceding sentence with respect to change of address and pursuant to Section 2 shall be effective only when received by the Agent.

Survival of Agreement, Representations and Warranties, etc. All warranties, representations and covenants made by the Borrower or any Guarantor herein or in any certificate or other instrument delivered by it or on its behalf in connection with this Agreement shall be considered to have been relied upon by the Banks and shall survive the making of the Loans herein contemplated regardless of any investigation made by any Bank or on its behalf and shall continue in full force and effect so long as any amount due or to become due hereunder is outstanding and unpaid and so long as the Commitments have not been terminated. All statements in any such certificate or other instrument shall constitute representations and warranties by the Borrower and the Guarantors hereunder with respect to the Borrower.

Successors and Assigns.

This Agreement shall be binding upon and inure to the benefit of the Borrower, the Agent and the Banks and their respective successors and assigns. Neither the Borrower nor any of the Guarantors may assign or transfer any of their rights or obligations hereunder without the prior written consent of all of the Banks. Each Bank may sell participations to any Person in all or part of any Loan, or all or part of its Commitment, in which event, without limiting the foregoing, the provisions of Section 2.15 shall inure to the benefit of each purchaser of a participation (provided that such participant shall look solely to the seller of such participation for such benefits and the Borrower's and the Guarantors' liability, if any, under Sections 2.15 and 2.18 shall not be increased as a result of the sale of any such participation) and the pro rata treatment of payments, as described in Section 2.17, shall be determined as if such Bank had not sold such participation. In the event any Bank shall sell any participation, such Bank shall retain the sole right and responsibility to enforce the obligations of the Borrower and each of the Guarantors relating to the Loans, including, without limitation, the right to approve any amendment, modification or waiver of any provision of this Agreement (provided that such Bank may grant its participant the right to consent to such Bank's execution of amendments, modifications or waivers which (i) reduce any Fees payable hereunder to the Banks, (ii) reduce the amount of any scheduled principal payment on any Loan or reduce the principal amount of any Loan or the rate of interest payable hereunder or (iii) extend the maturity of the Borrower's obligations hereunder). The sale of any such participation shall not alter the rights and obligations of the Bank selling such participation hereunder with respect to the Borrower.

Each Bank may assign to one or more Banks or Eligible Assignees all or a portion of its interests, rights and obligations under this Agreement (including, without limitation, all or a portion of its Commitment and the same portion of the related Loans at the time owing to it), provided, however, that (i) other than in the case of an assignment to a Person at least 50% owned by the assignor Bank, or by a common parent of both, or to another Bank, the Agent and the Fronting Bank must give their respective prior written consent to such assignment, which consent will not be unreasonably withheld, (ii) the aggregate amount of the Commitment and/or Loans of the assigning Bank subject to each such assignment (determined as of the date the Assignment and Acceptance with respect to such assignment is delivered to the Agent) shall, unless otherwise agreed to in writing by the Borrower and the Agent, in no event be less than $5,000,000 or the remaining portion of such Bank's Commitment and/or Loans, if less (or $1,000,000 in the case of an assignment between Banks) and (iii) the parties to each such assignment shall execute and deliver to the Agent, for its acceptance and recording in the Register (as defined below), an Assignment and Acceptance with blanks appropriately completed, together with a processing and recordation fee of $3,500 (for which the Borrower shall have no liability). Upon such execution, delivery, acceptance and recording, from and after the effective date specified in each Assignment and Acceptance, which effective date shall be within ten Business Days after the execution thereof (unless otherwise agreed to in writing by the Agent), (A) the assignee thereunder shall be a party hereto and, to the extent provided in such Assignment and Acceptance, have the rights and obligations of a Bank hereunder and (B) the Bank thereunder shall, to the extent provided in such Assignment and Acceptance, be released from its obligations under this Agreement (and, in the case of an Assignment and Acceptance covering all or the remaining portion of an assigning Bank's rights and obligations under this Agreement, such Bank shall cease to be a party hereto).

By executing and delivering an Assignment and Acceptance, the Bank assignor thereunder and the assignee thereunder confirm to and agree with each other and the other parties hereto as follows: (i) other than the representation and warranty that it is the legal and beneficial owner of the interest being assigned thereby free and clear of any adverse claim, such Bank assignor makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with this Agreement or any of the other Loan Documents or the execution, legality, validity, enforceability, genuineness, sufficiency or value of this Agreement or any of the other Loan Documents; (ii) such Bank assignor makes no representation or warranty and assumes no responsibility with respect to the financial condition of the Borrower or any Guarantor or the performance or observance by the Borrower or any Guarantor of any of its obligations under this Agreement or any of the other Loan Documents or any other instrument or document furnished pursuant hereto; (iii) such assignee confirms that it has received a copy of this Agreement and the other Loan Documents, together with copies of the financial statements referred to in Section 3.04 and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into such Assignment and Acceptance; (iv) such assignee will, independently and without reliance upon the Agent, such Bank assignor 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 action under this Agreement; (v) such assignee appoints and authorizes the Agent to take such action as agent on its behalf and to exercise such powers under this Agreement as are delegated to the Agent by the terms thereto, together with such powers as are reasonably incidental hereof; and (vi) such assignee agrees that it will perform in accordance with their terms all obligations that by the terms of this Agreement are required to be performed by it as a Bank.

The Agent shall maintain at its office a copy of each Assignment and Acceptance delivered to it and a register for the recordation of the names and addresses of the Banks and the Commitments of, and principal amount of the Loans owing to, each Bank from time to time (the "Register"). The entries in the Register shall be conclusive, in the absence of manifest error, and the Borrower, the Guarantors, the Agent and the Banks shall treat each Person the name of which is recorded in the Register as a Bank hereunder for all purposes of this Agreement. The Register shall be available for inspection by the Borrower or any Bank at any reasonable time and from time to time upon reasonable prior notice.

Upon its receipt of an Assignment and Acceptance executed by an assigning Bank and the assignee thereunder together with the fee payable in respect thereto, the Agent shall, if such Assignment and Acceptance has been completed with blanks appropriately filled and consented to by the Agent and the Fronting Bank (to the extent such consent is required hereunder), (i) accept such Assignment and Acceptance, (ii) record the information contained therein in the Register and (iii) give prompt written notice thereof to the Borrower (together with a copy thereof). No assignment shall be effective for purposes of this Agreement unless it has been recorded in the Register as provided in this paragraph.

Any Bank may, in connection with any assignment or participation or proposed assignment or participation pursuant to this Section 10.03, disclose to the assignee or participant or proposed assignee or participant, any information relating to the Borrower or any of the Guarantors furnished to such Bank by or on behalf of the Borrower or any of the Guarantors; provided that prior to any such disclosure, each such assignee or participant or proposed assignee or participant shall agree in writing to be bound by the provisions of Section 10.04.

The Borrower hereby agrees, to the extent set forth in the Commitment Letter, to actively assist and cooperate with the Agent in the Agent's efforts to sell participations herein (as described in Section 10.03(a)) and assign to one or more Banks or Eligible Assignees a portion of its interests, rights and obligations under this Agreement (as set forth in Section 10.03(b)).

Confidentiality. Each Bank agrees to keep any information delivered or made available by the Borrower or any of the Guarantors to it confidential from anyone other than persons employed or retained by such Bank who are or are expected to become engaged in evaluating, approving, structuring or administering the Loans; provided that nothing herein shall prevent any Bank from disclosing such information (i) to any of its Affiliates or to any other Bank, provided such Affiliate agrees to keep such information confidential to the same extent required by the Banks hereunder, (ii) upon the order of any court or administrative agency, (iii) upon the request or demand of any regulatory agency or authority, (iv) which has been publicly disclosed other than as a result of a disclosure by the Agent or any Bank which is not permitted by this Agreement, (v) in connection with any litigation to which the Agent, any Bank, or their respective Affiliates may be a party to the extent reasonably required, (vi) to the extent reasonably required in connection with the exercise of any remedy hereunder, (vii) to such Bank's legal counsel and independent auditors, and (viii) to any actual or proposed participant or assignee of all or part of its rights hereunder subject to the proviso in Section 10.03(f). Each Bank shall use reasonable efforts to notify the Borrower of any required disclosure under clause (ii) of this Section.

Expenses. Whether or not the transactions hereby contemplated shall be consummated, the Borrower and the Guarantors agree to pay all reasonable and documented out-of-pocket expenses incurred by the Agent (including but not limited to the reasonable fees and disbursements of Morgan, Lewis & Bockius LLP, special counsel for the Agent, any other counsel that the Agent shall retain and any internal or third-party appraisers, consultants and auditors advising the Agent and Chase Securities Inc.) in connection with the preparation, execution, delivery and administration of this Agreement and the other Loan Documents, the making of the Loans and the issuance of the Letters of Credit, the perfection of the Liens contemplated hereby, the syndication of the transactions contemplated hereby, the reasonable and customary costs, fees and expenses internally allocated charges and expenses relating to the Agent's initial and ongoing Borrowing Base examinations, of the Agent in connection with its monthly and other periodic field audits, monitoring of assets (including reasonable and customary internal collateral monitoring fees) and publicity expenses, and, following the occurrence of an Event of Default, all reasonable out-of-pocket expenses incurred by the Banks and the Agent in the enforcement or protection of the rights of any one or more of the Banks or the Agent in connection with this Agreement or the other Loan Documents, including but not limited to the reasonable fees and disbursements of any counsel for the Banks or the Agent. Such payments shall be made on the date of the Interim Order and thereafter on demand upon delivery of a statement setting forth such costs and expenses. Whether or not the transactions hereby contemplated shall be consummated, the Borrower and the Guarantors agree to reimburse the Agent and Chase Securities Inc. for the expenses set forth in the Commitment Letter and the reimbursement provisions thereof are hereby incorporated herein by reference. The obligations of the Borrower and the Guarantors under this Section shall survive the termination of this Agreement and/or the payment of the Loans.

Indemnity. The Borrower and each of the Guarantors agree to indemnify and hold harmless the Agent, Chase Securities Inc. and the Banks and their directors, officers, employees, agents and Affiliates (each an "Indemnified Party") from and against any and all expenses, losses, claims, damages and liabilities incurred by such Indemnified Party arising out of claims made by any Person in any way relating to the transactions contemplated hereby, but excluding therefrom all expenses, losses, claims, damages, and liabilities to the extent that they are determined by the final judgment of a court of competent jurisdiction to have resulted from the gross negligence or willful misconduct of such Indemnified Party. The obligations of the Borrower and the Guarantors under this Section shall survive the termination of this Agreement and/or the payment of the Loans.

CHOICE OF LAW. THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS SHALL IN ALL

RESPECTS BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF THE STATE OF NEW YORK APPLICABLE TO CONTRACTS MADE AND TO BE PERFORMED WHOLLY WITHIN SUCH STATE AND THE BANKRUPTCY CODE.

No Waiver. No failure on the part of the Agent or any of the Banks to exercise, and no delay in exercising, any right, power or remedy hereunder or any of the other Loan Documents shall operate as a waiver thereof, nor shall any single or partial exercise of any such right, power or remedy preclude any other or further exercise thereof or the exercise of any other right, power or remedy. All remedies hereunder are cumulative and are not exclusive of any other remedies provided by law.

Extension of Maturity. Should any payment of principal of or interest or any other amount due hereunder become due and payable on a day other than a Business Day, the maturity thereof shall be extended to the next succeeding Business Day and, in the case of principal, interest shall be payable thereon at the rate herein specified during such extension.

Amendments, etc.

No modification, amendment or waiver of any provision of this Agreement or any of the other Loan Documents, and no consent to any departure by the Borrower or any Guarantor therefrom, shall in any event be effective unless the same shall be in writing and signed by the Required Banks, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given; provided, however, that no such modification or amendment shall without the written consent of the Bank affected thereby (x) increase the Commitment of a Bank (it being understood that a waiver of an Event of Default shall not constitute an increase in the Commitment of a Bank), or (y) reduce the principal amount of any Loan or the rate of interest payable thereon, or extend any date for the payment of interest hereunder or reduce any Fees payable hereunder or extend the final maturity of the Borrower's obligations hereunder; and, provided, further, that no such modification or amendment shall without the written consent of all of the Banks (i) amend or modify any provision of this Agreement which provides for the unanimous consent or approval of the Banks,
(ii) amend this Section 10.10 or the definition of Required Banks, or (iii) amend or modify the Super-Priority Claim status of the Banks contemplated by
Section 2.23 provided, further, that no such modification or amendment shall without the written consent of the Super-majority Banks (as defined in subsection (b) below) release all or substantially all of the Guarantors. No such amendment or modification may adversely affect the rights and obligations of the Agent or any Fronting Bank hereunder or any Bank in the capacity referred to in Section 6.03(vi) without its prior written consent. No notice to or demand on the Borrower or any Guarantor shall entitle the Borrower or any Guarantor to any other or further notice or demand in the same, similar or other circumstances. Each assignee under Section 10.03(b) shall be bound by any amendment, modification, waiver, or consent authorized as provided herein, and any consent by a Bank shall bind any Person subsequently acquiring an interest on the Loans held by such Bank. No amendment to this Agreement shall be effective against the Borrower or any Guarantor unless signed by the Borrower or such Guarantor, as the case may be.

Notwithstanding anything to the contrary contained in Section 10.10(a), in the event that the Borrower requests that this Agreement be modified or amended in a manner which would require the unanimous consent of all of the Banks (or the consent described in clause (B) of the first sentence of Section 10.10(a)) and such modification or amendment is agreed to by the Super-majority Banks (as hereinafter defined), then with the consent of the Borrower and the Super-majority Banks, the Borrower and the Super-majority Banks shall be permitted to amend the Agreement without the consent of the Bank or Banks which did not agree to the modification or amendment requested by the Borrower (such Bank or Banks, collectively the "Minority Banks") to provide for (w) the termination of the Commitment of each of the Minority Banks, (x) the addition to this Agreement of one or more other financial institutions (each of which shall be an Eligible Assignee), or an increase in the Commitment of one or more of the Super-majority Banks, so that the Total Commitment after giving effect to such amendment shall be in the same amount as the Total Commitment immediately before giving effect to such amendment, (y) if any Loans are outstanding at the time of such amendment, the making of such additional Loans by such new financial institutions or Super-majority Bank or Banks, as the case may be, as may be necessary to repay in full the outstanding Loans of the Minority Banks immediately before giving effect to such amendment and (z) such other modifications to this Agreement as may be appropriate. As used herein, the term "Super-majority Banks" shall mean, at any time, Banks holding Loans representing at least 66-2/3% of the aggregate principal amount of the Loans outstanding, or if no Loans are outstanding, Banks having Commitments representing at least 66-2/3% of the Total Commitment.

Severability. Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

Headings. Section headings used herein are for convenience only and are not to affect the construction of or be taken into consideration in interpreting this Agreement.

Execution in Counterparts. This Agreement may be executed in any number of counterparts, each of which shall constitute an original, but all of which taken together shall constitute one and the same instrument.

Prior Agreements. This Agreement represents the entire agreement of the parties with regard to the subject matter hereof and the terms of any letters and other documentation entered into between the Borrower or a Guarantor and any Bank or the Agent prior to the execution of this Agreement which relate to Loans to be made hereunder shall be replaced by the terms of this Agreement (except as otherwise expressly provided herein with respect to the Commitment Letter and the fee letter referred to therein, including without limitation the Borrower's agreement to actively assist the Agent in the syndication of the transactions contemplated hereby referred to in Section 10.03(g) and including also the provisions of Section 2.19).

Further Assurances. Whenever and so often as reasonably requested by the Agent, the Borrower and the Guarantors will promptly execute and deliver or cause to be executed and delivered all such other and further instruments, documents or assurances, and promptly do or cause to be done all such other and further things as may be necessary and reasonably required in order to further and more fully vest in the Agent all rights, interests, powers, benefits, privileges and advantages conferred or intended to be conferred by this Agreement and the other Loan Documents.

WAIVER OF JURY TRIAL. EACH OF THE BORROWER, THE GUARANTORS, THE AGENT AND

EACH BANK HEREBY IRREVOCABLY WAIVES ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM ARISING OUT OF OR RELATING TO ANY OF THE LOAN DOCUMENTS OR THE TRANSACTIONS CONTEMPLATED THEREBY.

[SIGNATURE PAGES FOLLOWS]

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

BORROWER:

ARMSTRONG WORLD INDUSTRIES, INC.

By:

Title:

GUARANTORS:

NITRAM LIQUIDATORS, INC.

By:

Title:

DESSEAUX CORPORATION OF NORTH AMERICA

By:

Title:

THE CHASE MANHATTAN BANK,
Individually and as Agent

By:

Title:

ANNEX A
to
REVOLVING CREDIT AND GUARANTY AGREEMENT

Dated as of December 6, 2000

Bank	Commitment Amount	Commitment Percentage
The Chase Manhattan Bank 270 Park Avenue New York, New York 10017 Attn: Ms. Kelly Shield Vice President	$400,000,000	100%
Total	$400,000,000	100.0000%

SCHEDULE 6.03

EXISTING INDEBTEDNESS OF NON-FILED SUBSIDIARIES

Obligation	Amount
Funded Debt	
Bank Debt - Revolver	$ 450.0
Commercial Paper	50.0
6.35% Senior Notes Due 2003	199.9
7.45% Senior Notes Due 2029	199.8
7.45% Senior Quarterly Interest Bonds Due 2038	180.0
6.50% Senior Notes Due 2005	149.8
ESOP Debt	142.2
Make Whole Obligation on ESOP	15.5
9.75% Senior Notes Due 2008	125.0
MTN's Due 2000-2001	7.5
Beverly, WV (Capital Lease)	7.3
Interest Rate Swap Derivative Obligations	1.5
Merrill Lynch Zero Coupon Note Due 2013	3.5
Kankakee Tax Exempt Bond	10.8
Searcy, AL (IRB)	0.5
Somerset, KY (IRB)	10.0
Clinton County (PA)	8.5
Total Funded Debt	1,561.7
Other (Undrawn)	
Guarantees	See Attached
CCR Safeco Bond	56.2
Total Debt	$1,617.9

ARMSTRONG WORLD INDUSTRIES, INC.

GUARANTEES

COMPANY	BANK BENEFICIARY	AMOUNT	EXPIRE DATE
Armstrong World Industries (HK) Ltd. ("AHK")	Bank of America	3,000,000	02/28/01

COMPANY	BANK BENEFICIARY	AMOUNT	EXPIRE DATE
AHK	Bank of America	128,200	02.28/01
Triangle Pacific Corp. ("TRIP")	Bank of America Leasing and Capital LLP (Robbins)	5,259,844	N/A
Armstrong Building Products Company (Shanghai), Ltd. ("ABPC-China")	Bank of America	16,000,000	04/01/01
Armstrong World Industries Ltd.-Uxbridge, England	Barclays	14,720,000	04/30/01
Armstrong Building Products S.R.L.	Credito Italiano	2,718,000	02/28/01
Worthington Armstrong Venture (WAVE) - US (Benton Harbor)	Michigan Strategic Fund	3,550,000	10/01/22
50% of $7,100,000 Michigan Strategic Fund Limited Obligation Revenue Bond Issue			
Armstrong World Industries Canada Ltd.	Province of Quebec	1,029,975	06/30/04
Armstrong World Industries Canada AB	Skandinaviska Enskilda	1,400,800	01/31/02
Armstrong Building Products S.A.	Societe Generale	7,353,500	2/28/01
Armstrong Cork Finance Corp. ("ACFC")	Societe Generale	No amount.	no expiration/revocable by AWI upon notice to Societe Generale.
		AWI guarantees obligations from foreign exchange contracts with ACFC.	
Worthington Armstrong Venture Europe, S.A. ("WAVE EUR")	SODIE	467,950	12/31/00
ABPC-China	Standard Chartered	13,500,000	07/31/01
Armstrong World Industries (Delaware) Inc.			
ABPC-China	Standard Chartered	4,000,000	07/31/01
Armstrong World Industries Canada Ltd.	Banque Toronto Dominion	6,645,000	01/31/01
Armstrong World Industries Holding GmbH - Germany	Westdeutsche Landesbank Girozentrale	26,916,000	08/31/01

REVOLVING CREDIT AND GUARANTY AGREEMENT
TABLE OF CONTENTS

Page No.

ANNEX A	-	Commitment Amounts
EXHIBIT A-1	-	Form of Interim Order
EXHIBIT A-2	-	Form of Final Order
EXHIBIT B	-	Form of Opinion of Counsel
EXHIBIT C	-	Form of Assignment and Acceptance
SCHEDULE 3.05	-	Subsidiaries
SCHEDULE 3.06	-	Liens
SCHEDULE 3.11	-	Litigation
SCHEDULE 6.03	-	Existing Indebtedness of Non-filed Subsidiaries

FIRST AMENDMENT
TO REVOLVING CREDIT AND
GUARANTY AGREEMENT

FIRST AMENDMENT, dated as of February 2, 2001 (the "Amendment"), to the REVOLVING CREDIT AND GUARANTY AGREEMENT, dated as of December 6, 2000, among ARMSTRONG WORLD INDUSTRIES, INC., a Pennsylvania corporation (the "Borrower"), a debtor and debtor-in-possession under Chapter 11 of the Bankruptcy Code, the Guarantors named therein (the "Guarantors"), THE CHASE MANHATTAN BANK, a New York banking corporation ("Chase"), each of the other financial institutions party thereto (together with Chase, the "Banks") and THE CHASE MANHATTAN BANK, as Agent for the Banks (in such capacity, the "Agent"):

W I T N E S S E T H:

WHEREAS, the Borrower, the Guarantors, the Banks and the Agent are parties to that certain Revolving Credit and Guaranty Agreement, dated as of December 6, 2000, (as the same may be amended, modified or supplemented from time to time, the "Credit Agreement"); and

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

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

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

The second paragraph of the Introductory Statement is hereby amended by deleting the amount "$400,000,000" appearing therein and inserting in lieu thereof the amount "$300,000,000".

The fourth paragraph of the Introductory Statement is hereby amended by deleting the words "Section 6.03(vi)" appearing in the parenthesis set forth therein and inserting in lieu thereof the words "Sections 6.03(vi) and (vii)".

Section 1.01 of the Credit Agreement is hereby amended by inserting the following new definitions in appropriate alphabetical order:

"Account" shall mean any right to payment for goods sold, regardless of how such right is evidenced and whether or not it has been earned by performance.

"Adjusted Eligible Accounts Receivable" shall be equal to (a) Eligible

Accounts Receivable minus (b) the Dilution Reserve.

"Dilution Factors" shall mean, with respect to any period, the aggregate amount of all gross deductions, credit memos, returns, adjustments, allowances, bad debt write-offs and other non-cash credits.

"Dilution Ratio" shall mean, at any date, the amount (expressed as a percentage) equal to (a) the aggregate amount of the applicable Dilution Factors for the 12 most recently ended fiscal months divided by (b) total gross sales for the 12 most recently ended fiscal months.

"Dilution Reserve" shall mean, at any date, the applicable Dilution Ratio multiplied by the Eligible Accounts Receivable on such date.

"Eligible Accounts Receivable" shall mean the gross outstanding balance, determined in accordance with GAAP and stated on a basis consistent with the historical and current practices of the Borrower and the Guarantors as of the date hereof, of Accounts of the Borrower and the Guarantors that the Agent, in its reasonable discretion, shall deem eligible, less all finance charges, late fees and other fees that are unearned, and less (i) the value of any accrual which has been

recorded by the Borrower and the Guarantors with respect to downward price adjustments, (ii) the aggregate amount of all cash received in respect of the Accounts but not yet applied by the Borrower and the Guarantors to reduce the amount of Accounts, (iii) the amount of all actual returns, discounts, claims, credits, charges, price adjustments or other adjustments, (iv) the aggregate amount of all other reserves, limits and deductions provided for in this definition and elsewhere in this Agreement, (v) fees due to regional distribution centers as of the end of the most recent fiscal month which are incurred by the Borrower or the Guarantors for shipments made from regional distribution centers on behalf of the Borrower or the Guarantors it being agreed that such fees shall not be deducted if a non-offset agreement, in form and substance satisfactory to the Agent, shall have been executed by such regional distribution centers, (vi) amounts due to regional distribution centers as of the end of the most recent fiscal month in connection with the repurchase of Inventory by the Borrower or the Guarantors which was previously sold to such regional distribution centers, it being agreed that such amounts will not be deducted if a non-offset agreement, in form and substance satisfactory to the Agent, shall have been executed by such regional distribution centers, and (vii) such other reserves as the Agent, in its reasonable discretion after consultation with the Borrower, shall deem appropriate. Without in any way limiting the discretion of the Agent to deem an Account ineligible, the Agent shall not treat an Account as eligible if:

(a) the Borrower or the Guarantors have not complied with all material Requirements of Law, including, without limitation, all laws, rules, regulations and orders of any Governmental Authority relating to billing practices, fair credit reporting, equal credit opportunity, debt collection practices and consumer debtor protection, applicable to such Account (or any related contracts) or affecting the collectability of such Account;

(b) such Account is not assignable or a first priority security interest in such Account in favor of the Agent for the benefit of the Banks has not been obtained and fully perfected by (i) the entry of the Orders, or (ii) the filing of Uniform Commercial Code financing statements against the Borrower or the Guarantors;

(c) such Account is subject to any Lien whatsoever, other than Liens in favor of the Agent for the benefit of the Banks;

(d) the Borrower or the Guarantors, in order to be entitled to collect such Account, is required to perform any additional service for, or perform or incur any additional obligation to, the Account debtor;

(e) such Account does not constitute a legal, valid and binding irrevocable payment obligation of the Account debtor to pay the balance thereof in accordance with its terms or is subject to any defense, set-off, recoupment or counterclaim;

(f) the Account debtor is an employee of the Borrower or any Guarantor;

(g) such Account is an Account of the United States government, or any agency or instrumentality of the foregoing;

(h) an estimated or actual loss has been recognized in respect of such Account, as determined in accordance with the Borrower's or the Guarantors' usual business practice;

(i) any representation or warranty contained in this Agreement or in any other Loan Documents applicable either to Accounts in general or to any such specific Account has been breached with respect to such Account and such breach shall materially impair the value of such Account or any Lien in favor of the Agent with respect to such Account for the ratable benefit of the Banks;

(j) the Account debtor has filed a petition for relief under the Bankruptcy Code (or similar action under any successor law or under any comparable law), made a general assignment for the benefit of creditors, had filed against it any petition or other application for relief under the Bankruptcy Code (or similar action under any successor law or under any comparable law), failed, suspended business operations, become insolvent, called a meeting of its creditors for the purpose of obtaining any financial concession or accommodation, had or suffered a receiver or a trustee to be appointed for all or a significant portion of its assets or affairs, or shall generally not, or shall be unable to, or shall generally admit in writing its inability to pay its debts as such debts become due;

(k) any portion of such Account has remained unpaid for a period exceeding 60 days from the due date (but only to the extent of such overdue portion) or the Borrower or the Guarantors have reason to believe such Account is uncollectible;

(l) 50% or more of the outstanding amount of all Accounts from the Account debtor in respect of such Account have become, or have been determined by the Agent to be, ineligible pursuant to clause (k) above;

(m) the sale represented by such Account is to an Account debtor organized or located outside the United States, unless a letter of credit deemed acceptable by the Agent is held against such Account;

(n) the Account debtor is a (i) creditor, (ii) has or has asserted a right of setoff against the Borrower or any Guarantor or (iii) has disputed its liability (whether by chargeback or otherwise) or made any claim with respect to the Account or any other Account of the Borrower or any Guarantor which has not been resolved, in each case without duplication, to the extent of the amount owed by the Borrower or such Guarantor to the Account debtor, the amount of such actual or asserted right of setoff, or the amount of such dispute or claim as the case may be;

(o) such Account is (i) not denominated in Dollars or is (ii) payable outside the United States;

(p) the sale represented by such Account is on a bill-and-hold, undelivered sale, guaranteed sale, sale-or-return, consignment, or sale on approval basis or is subject to set-off or charge-back;

(q) the Agent believes, in its reasonable discretion (after consultation with the Borrower), that the collection of such Account is unlikely or that such Account may not be paid;

(r) the Borrower, any Guarantor or any other party to such Account, is in default in the performance or observance of any of the terms thereof in any material respect;

(s) the Borrower or the Guarantors do not have good title to such Account as sole owner of such Account;

(t) such Account does not arise from the sale and delivery of goods by the Borrower or the Guarantors;

(u) such Account is on terms other than those normal or customary in the business of the Borrower or the Guarantors;

(v) any amounts payable under or in connection with such Account are evidenced by chattel paper, promissory notes or other instruments, unless such chattel paper, promissory notes or instruments have been endorsed and delivered to the Agent;

(w) such Account has been placed with an attorney or other third party for collection;

(x) all Accounts of any single Account debtor and its Affiliates exceed 15% of the total amount of all gross accounts receivable at the time of any determination and such Account debtor does not have a long-term rating of at least BBB- or a short-term rating of at least A-3 by Standard & Poor's Rating Service or equivalent rating agency, then the Accounts in excess of such 15% shall be deemed to be ineligible;

(y) such Account is non-trade sundry; or

(z) such Account arises out of a sale made by the Borrower or any Guarantor to any of their respective Affiliates.

Without limiting the foregoing, in determining the aggregate amount of Accounts from the same Account debtor and any Affiliates thereof that are unpaid more than 60 days from the due date pursuant to clause (k) above, there shall be excluded the amount any net credit balance due and owing to the Account debtor in respect of Accounts that are so unpaid.

"Eligible Finished Goods" shall mean, on any date, the Inventory Value of finished goods of the Borrower and the Guarantors on such date as shown on the Borrower's or Guarantors' perpetual inventory records or equivalent reporting, including but not limited to commercial and residential ceiling and flooring products in accordance with their current and historical classification of finished goods meeting the definition of Eligible Inventory.

"Eligible Inventory" shall mean the Inventory Value of the Borrower on such date deemed by the Agent in good faith for inclusion in the calculation of the Borrowing Base reduced by (i) Inventory Reserves,
(ii) storage fees paid in connection with Inventory maintained at public warehouses with the amount to be deducted equal to the sum of the most recent three-months of storage fees incurred and (iii) such other reserves as the Agent, in its reasonable commercial discretion after consultation with the Borrower, shall deem appropriate. Without in any way limiting the discretion of the Agent to deem an item of inventory ineligible, the Agent shall not treat any item of inventory as eligible if:

(a) such item of Inventory is not assignable or a first priority security interest in such item of Inventory in favor of the Agent for the benefit of the Banks has not been obtained and fully perfected by (i) the entry of the Orders or (ii) the filing of Uniform Commercial Code financing statements against the Borrower or the Guarantors;

(b) such item of Inventory is subject to any prior Lien whatsoever, other than Liens in favor of the Agent for the benefit of the Banks;

(c) such item of Inventory (i) is damaged, not in good condition
(to the extent not provided for by reserves as described above) or (ii) does not meet all material standards imposed by any Governmental Authority having regulatory authority over such item of inventory, its use or its sale;

(d) such item of Inventory is not currently either readily usable or salable, at prices approximating at least the cost thereof, in the normal course of the business of the Borrower and the Guarantors (to the extent not provided for by reserves as described above);

(e) any event shall have occurred or any condition shall exist with respect to such item of Inventory which would substantially impede the ability of the Borrower and the Guarantors to continue to use or sell such item of Inventory in the normal course of business;

(f) any claim disputing the title of the Borrower or any Guarantor to, or right to possession of or dominion over, such item of Inventory shall have been asserted;

(g) any representation or warranty contained in this Agreement or in any other Loan Document applicable to either Inventory in general or to any such specific item of Inventory has been breached with respect to such items of Inventory, and such breach shall materially impair the value of such Inventory or the viability of any Lien in favor of the Agent with respect to such Inventory for the ratable benefit of the Banks;

(h) neither the Borrower nor any Guarantor has sole and good, valid and unencumbered title as sole owner of such item of Inventory;

(i) such item of Inventory has been consigned to other Persons, or is located at, or in the possession of, a vendor or customer of the Borrower or any Guarantor, or is in transit to or from, or held or stored by, third parties;

(j) such item of Inventory is located outside of the United States;

(k) such item of Inventory is evidenced by an Account;

(l) such item of Inventory is subject to any licensing, patent, royalty, trademark, trade name or copyright agreements with any third party from whom the Borrower has received notice of a dispute in respect of any such agreement;

(m) such item of Inventory consists of packing, pallets, packaging and/or shipping supplies or sundry miscellaneous materials;

(n) such item of Inventory is printed film, proprietary coating or other proprietary materials such as plasticizers mixed by Exxon Mobil using the Borrower's or Guarantors' specifications;

(o) such item of Inventory has been otherwise determined by the Agent (after consultation with the Borrower), exercising its commercially reasonable discretion, to be unacceptable because the Agent believes that such item of Inventory is not readily salable under the customary terms on which it is usually sold;

(p) it is located at any facility that the Borrower or any Guarantor has closed or plans to close within thirty (30) days from the date of determination of the most recent Borrowing Base;

(q) any merchandise classified by the Borrower as dropped patterns or odd-lots;

(r) such item of Inventory is rug Inventory manufactured from scrap;

(s) such item of Inventory is samples held at outside vendors; or

(t) such item of Inventory is "let down pigments" which are pigments mixed with limestone.

"Eligible Period Expense on Inventory" shall mean, on any date, non-direct production related expenses capitalized for financial statement purposes in a manner consistent with the Borrower's or the Guarantors' historical and current accounting practices.

"Eligible Raw Materials" shall mean, on any date, the Inventory Value of raw materials of the Borrower and the Guarantors on such date as shown on the Borrower's or Guarantors' perpetual inventory records or equivalent reporting, including but not limited to resin, paper, pigments, and plasticizer in accordance with their current and historical classification of raw material meeting the definition of Eligible Inventory.

"Eligible Work-In-Process" shall mean, on any date, the Inventory Value of work-in-process of the Borrower and the Guarantors on such date that constitutes work-in-process as shown on the Borrower's or Guarantors' perpetual inventory records or equivalent reporting in accordance with their current and historical classification of work-in-process meeting the definition of Eligible Inventory.

"Favorable Variance Reserve" shall mean an amount equal to the gross capitalized favorable variance (the amount whereby standard cost used to compute Inventory Value exceeds actual cost incurred) as classified under the Borrower's or Guarantor's current and historical variance cost categories.

"Inventory" shall mean "inventory" as such term is defined in the Bankruptcy Code, and shall also mean and include, without limitation, all goods of the Borrower and the Guarantors, whether now owned or hereafter acquired or in which the Borrower and the Guarantors now have or hereafter may acquire any right, title or interest and wherever located, whether in transit or otherwise, held for sale or lease, or furnished or to be furnished under contracts for service, sale or lease, including all goods returned or reclaimed from customers, and all raw materials, or consumed or to be used or consumed in its business, or in the processing, packaging or shipping of the same, and all finished goods and all assets of a type classified as inventory as reflected, in accordance with GAAP, as stated on a consistent basis with the historical and current practices of the Borrower and the Guarantors on the financial statements of the Borrower and the Guarantors.

"Inventory Reserves" shall mean with respect to Inventory of the Borrower and the Guarantors at any date, the amount equal to the sum of (i) the amount of any reserves maintained by the Borrower and the Guarantors for shrinkage and net realizable value in accordance with its historical and current accounting practices and (ii) the Turnover Reserve.

"Inventory Value" shall mean a dollar amount equal to the lesser of
(i) the standard cost (exclusive of favorable or unfavorable variances) of Inventory (which includes direct labor, raw materials and other direct manufacturing expenses and does not include Eligible Period Expense on Inventory), determined on a basis consistent with GAAP and with the Borrower's and Guarantors' current and historical accounting practice or (ii) the market value of such Inventory; provided, however that (a) in the event variances under the standard cost method are capitalized, favorable variances shall be treated according to the Favorable Variance Reserve and unfavorable variances shall not be added to Eligible Inventory, and (b) in the event variances under the standard cost method are expensed, a reserve shall be determined by the Agent as appropriate in order to adjust the standard cost of Eligible Inventory to approximate actual cost.

"PP&E Component" shall mean the lesser of (x) 33-1/3% of the Total Commitment and (y) $100,000,000; it being understood that this amount is based upon the liquidation value in place for machinery and equipment of the Borrower and the Guarantors at fourteen sites evaluated in the Daley-Hodkin Personal Property Auction Sale Value, Orderly Liquidation Value & Liquidation Value in Place Appraisal Report dated December 2000/January 2001 ("Daley-Hodkin Report"), a true and correct copy of which has been delivered to the Agent. This amount may be revised by the Agent in the Agent's exclusive judgment at any time after there shall have occurred sales of machinery and equipment (or casualty losses not covered by insurance) at any of the fourteen sites included in the Daley-Hodkin report and the corresponding aggregate sales proceeds from the machinery and equipment sale is greater than $5,000,000 and such assets have not been replaced by assets of equal or greater value.

"Requirements of Law" shall mean, as to any Person, the Certificate or Articles of Incorporation and By-Laws or other organizational or governing documents of such Person, and any law, treaty, rule or regulation or determination of an arbitrator or a court or other Governmental Authority, in each case applicable to or binding upon such Person or any of its property or to which such Person or any of its property is subject.

"Turnover Days" shall mean inventory, as of the most current Borrowing Base reporting date, determined in a manner consistent with historical accounting practices utilized for external reporting purposes (which shall include direct costs, period expenses, FIFO and LIFO adjustments), divided by cost of goods sold for the most recently ended 12 months, determined in an equivalent manner times 360.

"Turnover Reserve" shall mean, on any date, with respect to the Inventory, if Turnover Days for floor products exceeds 50 days or Turnover Days for building products exceeds 35 days then, in the Agent's exclusive judgment, an additional reserve for turnover may be included.

The definition of the term "Applicable Margin" set forth in Section 1.01 of the Credit Agreement is hereby amended by deleting the amount "$400,000,000" set forth in the interest rate grid appearing therein and inserting in lieu thereof the amount "$300,000,000".

The definition of the term "Borrowing Base" set forth in Section 1.01 of the Credit Agreement is hereby amended in its entirety to read as follows:

"Borrowing Base" shall mean, on any date, the amount (calculated based on the most recent Borrowing Base Certificate delivered pursuant to this Agreement) that is equal to the sum of (a) 85% of Adjusted Eligible Accounts Receivable plus (b) 60% of Eligible Finished Goods

plus (c) 15% of Eligible Raw Materials plus (d) 25% of Eligible

Work-in-Process plus (e) 60% of Eligible Period Expense on Inventory

plus (f) the PP&E Component, provided that the amount derived from clause (e) shall not comprise more than 15% of the Borrowing Base. Standards of eligibility and reserves and advance rates of the Borrowing Base may be revised and adjusted from time to time by the Agent in its sole discretion and consistent with its standard practice, with any changes in such standards to be effective 10 days after delivery of notice thereof to the Borrower.

The definition of the term "Borrowing Base Certificate" set forth in
Section 1.01 of the Credit Agreement is hereby amended in its entirety toward as follows:

"Borrowing Base Certificate" shall mean a certificate substantially in the form of Exhibit D hereto (with such changes therein as may be required by the Agent to reflect the components of and reserves against the Borrowing Base as provided for hereunder from time to time), executed and certified as accurate and complete by a Financial Officer of the Borrower, which shall include appropriate exhibits and schedules as referred to therein and as provided for in Section 5.07.

The definition of the term "Prepayment Date" set forth in Section 1.01 of the Credit Agreement is hereby amended in its entirety to read as follows:

"Prepayment Date" shall mean February 2, 2001 if the Final Order has not been entered by the Bankruptcy Court on or prior to such date.

Section 2.01(a) of the Credit Agreement is hereby amended by deleting the amount "$400,000,000" appearing in clause (i) thereof and inserting in lieu thereof the amount "$300,000,000."

Section 2.23 of the Credit Agreement is here by amended by deleting the words "Section 6.03(vi") appearing in the first sentence thereof and inserting in lieu thereof the words "Sections 6.03(vi) and (vii)".

Section 5.01(f) of the Credit Agreement is hereby amended by deleting the words "within 45 days of the Closing Date" appearing therein and inserting in lieu thereof the words "not later than February 16, 2001."

Section 5.01 of the Credit Agreement is hereby further amended by deleting the period at the end of clause (p) thereof and inserting in lieu thereof a comma, and by inserting the following new clause (q) at the end thereof:

"(q) promptly, notice of the sale or other disposition (or casualty loss) of any of the assets included in the PP&E Component with an aggregate book value of in excess of $5,000,000."

Section 5.07 of the Credit Agreement is hereby amended by deleting the words "within that number of days after the end of each month that is agreed upon by the Borrower and the Agent," appearing in clause (i) thereof and inserting in lieu thereof the words "within 20 days after the end".

Section 6.03 of the Credit Agreement is hereby amended by inserting the parenthetical phrase "(including, without limitation, overseas netting, pooling or sweep product arrangements)" immediately following the words "cash management services" appearing in clause (vi) thereof.

Section 6.10 of the Credit Agreement is hereby amended by deleting the proviso appearing in subsection (iii) thereof and inserting in lieu thereof the following:

"provided that loans, advances and capital contributions after the Closing Date to Non-filed Subsidiaries made from the proceeds of Loans plus Letters of Credit issued for the exclusive benefit of Non-filed

Subsidiaries shall not exceed $125,000,000 at any one time outstanding, of which not more than $100,000,000 shall be from the proceeds of Loans."

Annex A to the Credit Agreement is hereby replaced in its entirety by Annex A hereto.

The Credit Agreement is hereby further amended by including a new Exhibit D thereto in the form of Exhibit D hereto.

This Amendment shall not become effective until the date (the "Effective Date") on which this Amendment shall have been executed by the Borrower, the

Guarantors and Banks representing the Required Banks, and the Agent shall have received evidence satisfactory to it of such execution.

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

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

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

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

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

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

BORROWER:

ARMSTRONG WORLD INDUSTRIES, INC.

By:

Name:

Title:

GUARANTORS:

NITRAM LIQUIDATORS, INC.

By:

Title:

DESSEAUX CORPORATION OF NORTH AMERICA

By:

Title:

THE CHASE MANHATTAN BANK,
Individually and as Agent

By:

Title:

ANNEX A
to
REVOLVING CREDIT AND GUARANTY AGREEMENT

Dated as of December 6, 2000 (as amended)

Bank	Commitment Amount	Commitment Percentage
The Chase Manhattan Bank 270 Park Avenue New York, New York 10017 Attn: Ms. Kelly Shield Vice President	$300,000,000	100.0000%
Total	$300,000,000	100.0000%

THE CHASE MANHATTAN BANK
270 Park Avenue
New York, New York 10017

As of February 28, 2001

Armstrong World Industries, Inc.
2500 Columbia Avenue
Lancaster, Pennsylvania 17604
Attn: Ms. E. Follin Smith

Re: Amendment Letter

Ladies and Gentlemen:

This has reference to the Revolving Credit and Guaranty Agreement dated as of December 6, 2000, as heretofore amended (the "Credit Agreement") among Armstrong World Industries, Inc. (the "Borrower"), the Guarantors named therein, and The Chase Manhattan Bank, as Agent and as Bank. All terms used herein that are defined in the Credit Agreement shall have the same meanings herein.

The undersigned hereby agrees to amend the Credit Agreement (x) by amending Section 4.02(f) to delete, in its entirety, the parenthetical phrase "(delivered no more than thirty (30) days prior to the making of a Loan or the issuance of a Letter of Credit)" appearing therein,(y) by amending Section 5.07 to delete clause (i) thereof in its entirety and inserting in lieu thereof the following:

"(i) within 20 days after the end of each quarter, a Borrowing Base Certificate as of the last day of such quarter, provided, that the Borrower shall be required to furnish to the Agent a Borrowing Base Certificate within 20 days after the end of each month (as of the last day of such month) during which Total Facility Usage exceeded $50,000,000 at any time during such month"

and (z) by amending Section 6.06 to insert a new clause (iii) at the end thereof to read as follows:

"and (iii) any guaranty by the Borrower of obligations of any Non-filed Subsidiary in respect of loans and advances to such Non-filed Subsidiary in the ordinary course of its business consistent with past practice; provided that the obligation of Borrower under such guaranty is unsecured and is not a Superpriority Claim."

This Amendment Letter shall not become effective until the date on which counterparts of this Amendment Letter shall have been executed by the Borrower and the Guarantors.

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

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

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

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

Very truly yours,

THE CHASE MANHATTAN BANK,
Individually and as Agent

By:

Title:

Acknowledged and Agreed to as
of this 28th day of February, 2001

ARMSTRONG WORLD INDUSTRIES, INC.

By:
Title:

NITRAM LIQUIDATORS, INC.

By:
Title:

DESSEAUX CORPORATION OF NORTH AMERICA

By:

Title:

EXHIBIT 10(iii)(d)

MANAGEMENT ACHIEVEMENT PLAN

PLAN TEXT AND ADMINISTRATIVE GUIDELINES

ADOPTED BY BOARD OF DIRECTORS

NOVEMBER 28, 1983

AS AMENDED FEBRUARY 26, 2001

ARMSTRONG HOLDINGS, INC.

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 key employees can make to the achievement of Company goals. Armstrong Holdings, Inc. ("AHI") also adopted this Plan effective May 1, 2000. The Plan's 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, business unit and individual 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, business unit and individual goals. When the year is over, the results actually achieved will be evaluated against these goals to determine the amount, if any, of compensation that may be paid to 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 of AHI with the advice and counsel of its Chief Executive Officer. Designated subsidiary companies may adopt this Plan. Subject to compliance with the requirements of Section 162(m) of the Internal Revenue Code for deductibility of awards, the Board may amend or terminate the Plan from time to time so long as the amendment or termination does not adversely affect any rights or obligations with respect to awards for the then-current year or any prior year which has not yet been paid.

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. Each of the Chief Executive Officer of AHI and the President of the Company may 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 level of incentive awards which may be paid for the year based upon actual results 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 individual performance. Based on these factors, the Chief Executive Officer shall recommend to the Committee the percentage of the target award to be paid to each participant. Following the receipt of the recommendations from the Chief Executive Officer, the Committee shall determine the amount to be paid to participants.

D) The performance measures approved by the shareholders for determining awards under the Plan are: cash flow, earnings, operating income, return on shareholders' equity, sales and economic value added (EVA).

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 18 or 19 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 20 or 21 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 22 or higher 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 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. Employees who voluntarily terminate employment at any time from the beginning of the year until the award for that year is paid are not eligible for an award unless otherwise approved by the Committee.

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, the award may be paid to his heirs, estate or legal guardian. No awards under the Plan or any rights or interests therein shall be assignable or transferable by a participant.

C) No Rights to Awards - No employee or other person shall have any claim or right to be granted an award under the Plan. Neither the Plan nor any action taken hereunder shall be construed as giving any employee any right to be retained in the employ of the Company or any of its subsidiaries.

D) Withholding Taxes - The Company shall have the right to deduct from all awards hereunder paid all taxes required by law to be withheld with respect to such awards.

E) Funding of Plan - The Company shall not be required to establish any special or separate fund or to make any other segregation of assets to assure the payment of any award under the Plan.

7. Effective Date of the Plan

The effective date of the Plan shall be November 28, 1983.

EXHIBIT 10(iii)(f)

ARMSTRONG
DEFERRED COMPENSATION PLAN

The Armstrong Deferred Compensation Plan (the "Plan") was initially established by the Board of Directors of Armstrong World Industries, Inc. effective September 30, 1985, and was amended and restated effective as of January 1, 2000 and as of February 28, 2000. The Plan is hereby amended effective May 1, 2000 to reflect the establishment of Armstrong Holdings, Inc. by changing the sponsorship of the Plan from Armstrong World Industries, Inc. to Armstrong Holdings, Inc. and to make other related changes.

The Plan allows certain directors of the Corporation and management employees of the Companies 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 are required to defer receipt of a portion of their Compensation until termination of Board service.

1. DEFINITIONS

1.01 "Corporation" shall mean Armstrong Holdings, Inc. or any successor by merger, purchase or otherwise.

1.02 "Company" shall mean Armstrong World Industries, Inc. and any other subsidiary corporation controlled by the Corporation that adopted this Plan prior to May 1, 2000, or that adopts this Plan on or after May 1, 2000 with the permission of the Board of Directors of the Corporation.

1.03 "Committee" shall mean the Deferred Compensation Committee whose membership shall include the Chief Executive Officer of the Corporation and at least two (2) other employees of the Corporation or Armstrong World Industries, Inc. selected by the Chief Executive Officer.

1.04 "Compensation" for an employee Participant shall include a Participant's annual base salary and any actual bonus payable under the Participant's employing Company's annual bonus plan received by the employee for services with such Company and, in the case of a nonemployee director Participant, shall include payments by the Corporation to the director in the form of retainer fees, meeting fees, and special assignment fees, as well as share awards made by the Corporation 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.

1.05 "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.

1.06 "Participation Agreement" is the contract between a Participant and the Corporation or the Participant's employing Company (as the case may be) covering the Participant's participation in the Plan.

1.07 "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 Corporation and, within five (5) years thereafter, "disinterested directors" no longer constitute at least a majority of the entire Board of Directors of the Corporation, 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 Corporation's Articles of Incorporation as in effect on May 1, 2000.

1.08 "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.

1.09 "Termination Account Balance" at any date shall mean with respect to any Participant the sum of (a) plus (b), where (a) equals one hundred percent (100%) of the amount credited to the Participant's Cash Subaccount attributable to deferrals made prior to January 1, 1993, and earnings thereon, as determined pursuant to Section 1.09; and (b) equals ninety-four percent (94%) of the sum of
(i) the amount credited to the Participant's Cash Subaccount attributable to deferrals made on or after January 1, 1993, and earnings thereon, as determined pursuant to Section 1.09, (ii) the amount credited to the Participant's Stock Subaccount (including deferrals and earnings thereon), as determined pursuant to
Section 1.10, plus (iii) the amount credited to the Participant's Fund Subaccount (including deferrals and hypothetical earnings thereon), as determined pursuant to Section 1.11.

1.10 "Cash Subaccount" shall mean with respect to any Participant:

(a) The amount which the 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 subsection 3.02(g) or 3.02(h) of this Plan, plus

(b) Interest which is credited on each such deferral at a rate equal to the rate specified in the Participant's individual Participation Agreement for purposes of determining the Participant's Supplemental Retirement Account Balance, 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(h),

(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 (h).

1.11 "Stock Subaccount" at any date shall mean with respect to any Participant the amount which the Participant elects to defer and have credited to his Stock Subaccount in accordance with subsection 3.02(g) of this Plan or, in the case of a nonemployee director Participant, the share awards made by the Corporation on or after May 1, 2000 (and by Armstrong World Industries, Inc. prior to May 1, 2000) which the Participant defers in accordance with Subsection 3.02(i), 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(h), reduced by any amounts the Participant elects to transfer from this Subaccount to the Cash Subaccount or the Fund Subaccount in accordance with the provisions of Section 3.02(h). The Stock Subaccount shall be credited with a bookkeeping entry indicating the number of whole and fractional shares of the Corporation's 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 the Corporation's common stock credited to a Participant's Stock Subaccount shall be converted to an entry representing the number of additional shares of the Corporation's 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 the Corporation's common stock shall mean the closing price of a single share of common stock of the Corporation 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 such 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(h).

In the event of any changes in the outstanding shares of the Corporation's 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.

1.12 "Fund Subaccount" at any date shall mean with respect to any Participant the amount which the Participant elects to defer and have credited to his Fund Subaccount in accordance with subsection 3.02(g) 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(h), reduced by any amounts the Participant elects to transfer from this Subaccount to the Cash Subaccount or the Stock Subaccount in accordance with the provisions of Section 3.02(h). 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 Corporation or the Participant's employing 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 such investment designation had been followed (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 Corporation and those management employees of a Company 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 current Deferral Period shall be four (4) years, commencing on January 1, 1997.

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 Sections 3111(a) and (b) of the Internal Revenue Code of 1986, as amended, 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 a nonemployee director may defer for each year of the Deferral Period 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 Corporation to the director's Stock Subaccount under Section 3.02(i).

(d) The decision by a Participant to defer a portion of Compensation (other than share awards to nonemployee directors under Section 3.02(i)) 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(i)) 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(i) 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(i) for Participants who were directors prior to January 1, 1996.

(e) Except as provided below, 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) Notwithstanding the above, any employee Participant, after approval by 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 Participant is eligible to receive following the Participant's date of termination under the Employment Protection Plan for Salaried Employees, the Severance Pay Plan for Salaried Employees or any individual agreement.

(g) 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.

(h) At any time, a Participant may elect to convert all or a portion of amounts previously deferred under one Subaccount to any other Subaccount. 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 rate for amounts transferred to the Cash Subaccount shall be the rate in effect under the Participant's individual Participation Agreement in effect 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.

(i) Effective January 1, 1996, nonemployee directors of Armstrong World Industries, Inc. who were members of the Board of Directors of Armstrong World Industries, Inc. 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' 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 World Industries, Inc. common stock on January 1, 1996) equated to the present value of the benefits accrued under the Directors' Plan using a six and one-half percent (6-1/2%) 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 joined the Armstrong World Industries, Inc. Board after January 1, 1996 and nonemployee directors who join the Corporation's Board of Directors on or after May 1, 2000, shall be eligible to receive an annual award equivalent to two hundred (200) shares of Company 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.

Notwithstanding any provision to the contrary, for purposes of this subsection (i), the term "Company common stock" refers, prior to May 1, 2000, to the common stock of Armstrong World Industries, Inc. and on or after May 1, 2000, to the common stock of the Corporation.

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 the installment payments of the Participant's deferred Compensation and interest thereon are to commence, subject to the limitations of Section 4.03.

(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 that the installment payments of the Participant's benefits are to commence shall be irrevocable, except as provided in Article 4.

3.04 Deferral of Severance Pay: Each person eligible to participate in the Plan who is eligible to receive severance pay under a "change in control" provision shall be given the opportunity to elect to defer up to one hundred percent (100%) of any lump sum severance payment (hereinafter referred to as "Severance Pay") that becomes payable under such change in control provision. Any such deferral election and the payment of any deferred Severance Pay shall be in accordance with and subject to the following rules:

(a) The decision by a Participant to defer all or part of any Severance Pay must be made at least thirty (30) days prior to a "change in control," as such term is defined under the change in control provision under which the Participant is eligible to receive Severance Pay. The Participant's election to defer shall be made by the Participant giving written notice to the Corporation on the form provided for such purpose. The notice shall include the designation of the Subaccount (Cash, Stock or Fund, and if applicable, the investment fund or funds under the Fund Subaccount) to which any deferral of Severance Pay is to be credited. The designation of the Subaccounts shall be in accordance with the rules set forth in Section 3.02(g). Notwithstanding the above, a Participant may make an election subsequent to the above date, provided no such election shall be valid if made within 12 months of the Participant's termination of employment.

(b) At any time after the deferral of all or part of any Severance Pay, the Participant may elect to convert all or a portion of such deferred amount under one Subaccount to any other Subaccount. Any such election under this subsection (b) shall be in accordance with the rules and subject to the restrictions set forth in Section 3.02(h) above.

(c) The payment of any deferred Severance Pay shall be made in the same form and on the same date or dates as the Participant's supplemental retirement benefits attributable to the Deferral Period during which the Participant makes his or her election to defer all or part of any Severance Pay, in accordance with the provisions of Article 4.

(d) The Participant's designation of Beneficiary under Section 3.03(b) shall govern for purposes of paying any survivor benefit under Article 5 attributable to any deferred Severance Pay. The survivor benefit attributable to any deferred Severance Pay shall be paid in the same form and on the same date or dates as the survivor benefit under Article 5; provided, however, in calculating the survivor benefit attributable to the Participant's Severance Pay, the provisions of Section 5.01(b) and any other provision in Article 5 that references Section 5.01(b) shall not apply.

4. PAYMENT AND AMOUNT OF BENEFITS

4.01 A Participant's supplemental retirement benefits under this Plan shall be paid in substantially equal monthly installments under the declining balances methodology for one hundred twenty (120) months in the case of a nonemployee director Participant and for one hundred eighty (180) months in the case of an employee Participant; provided, however, that alternative payment schedules may be established by the Management Development and Compensation Committee (or such similar committee) of the Corporation's Board of Directors. The Participant's installment payments of his supplemental retirement benefits 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 payment will commence in all events not 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 may commence at any time subsequent to termination or retirement; provided, however, that payment will commence in all events not later than the first day of the month following the Participant's sixty-fifth (65th) birthday, regardless of whether the Participant has actually retired at that time.

Notwithstanding the foregoing, the Corporation 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.

4.02 The supplemental retirement benefits for a Deferral Period will be paid, but in a lesser amount, if:

(a) By the end of the Deferral Period the Compensation payable to a Participant has proved insufficient to accommodate full deferral;

(b) Prior to the end of the 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 the 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 within the Deferral Period due to severe financial hardship.

4.03 Notwithstanding any other provision of the Plan (including but not limited to Sections 4.05 and 4.06), if an employee Participant resigns without the written approval of the Committee or is discharged for willful, deliberate or gross misconduct as determined by the Committee or if a nonemployee director Participant terminates service on the Board of Directors prior to the completion of one (1) year of service, then in lieu of any other benefit under the Plan (including any single sum previously requested by the Participant under Section 4.05(b) or Section 4.06), the Participant shall be paid a single sum amount, as soon as practical following such resignation, discharge or termination (as the case may be) equal to the Participant's Termination Account Balance, and shall permanently forfeit the amount that represents the difference between the Participant's Supplemental Retirement Account Balance and Termination Account Balance.

4.04 Notwithstanding Section 4.03, if an employee Participant is terminated or terminates for good reason as set forth in the Employment Protection Plan for Salaried Employees or an individual agreement within three
(3) years following a Change in Control or if an employee Participant retires pursuant to an early retirement opportunity or any other severance arrangement in which the Participant agrees to commence payment of the supplemental retirement benefits following the Participant's sixty-fifth (65th) birthday and a Change in Control precedes the commencement of such payments, the Participant may request the payment of his Supplemental Retirement Account Balance in a single sum. Notwithstanding the preceding sentence, if such Participant requests that the single sum be paid on a date that is less than twelve (12) months from the date of such request, the Participant shall receive a single sum payment equal to the Participant's Termination Account Balance, and shall permanently forfeit the amount that represents the difference between the Participant's Supplemental Retirement Account Balance and Termination Account Balance.

4.05 Notwithstanding any other provision of the Plan to the contrary, a Participant may elect, upon written request to the Committee, to accelerate the commencement date of the installment payments to be made to the Participant and/or to receive a specified portion (including one hundred percent (100%)) of his supplemental retirement benefits under the Plan in a single sum payment, in accordance with the rules set forth below:

(a) A Participant may accelerate the commencement date upon which the installment payments of his supplemental retirement benefits are otherwise scheduled to commence, provided that the accelerated commencement date is otherwise permissible under Section 4.01 and is at least twelve (12) months from the date of such request.

(b) A Participant may request at any time the single sum payment of a specified dollar amount or percentage (including one hundred percent (100%)) of his supplemental retirement benefits. The Participant's single sum payment shall equal the specified dollar amount or percentage of the Participant's Supplemental Retirement Account Balance as of the payment date. Notwithstanding the preceding sentence, if such Participant requests that the single sum be paid on a date that is less than twelve (12) months from the date of such request, the Participant shall receive a single sum payment equal to the specified dollar amount or percentage of the Participant's Termination Account Balance as of the payment date and shall permanently forfeit the proportionate amount of his Supplemental Retirement Account Balance that would otherwise have been paid in a single sum if the Participant had requested that the single sum be paid on a date that is at least twelve (12) months from the date of the such request. If a Participant has commenced receiving installment payments of his supplemental retirement benefits, and the Participant is paid a single sum payment under this Section 4.05(b), each subsequent installment payment shall be reduced as necessary to reflect the single sum payment and the permanent forfeiture. A Participant shall be limited to two (2) single sum requests in any calendar year.

(c) Notwithstanding any other provision in the Plan to the contrary, a Participant who has requested, but not received, a single sum payment of all or part of his supplemental retirement benefits under the Plan may elect, upon written request to the Committee, to change the payment date of such single sum or revoke the payment of such single sum provided the payment date in the absence of such request is not within twelve (12) months of the date of the request. If the Participant requests an amended payment date that is less than twelve (12) months from the date of the request, the Participant shall receive a single sum payment equal to the specified dollar amount or percentage of the Participant's Termination Account Balance as of the payment date. Any such single sum paid under this Section 4.05(c), the forfeiture of a portion of the Participant's Supplemental Retirement Account, and the Participant's remaining installment payments in the event the Participant has commenced receiving installment payments, shall be administered in accordance with the provisions of Section 4.05(b) above.

4.06 Further, notwithstanding any other provision of the Plan to the contrary, a Participant may request a single sum payment of an amount necessary to satisfy a severe financial hardship. The Committee shall determine, based upon uniform, established standards, whether 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). Upon such determination, the Participant will receive an amount necessary to satisfy such financial hardship but in no event more than the balance of the Participant's Supplemental Retirement Account Balance as of the date of payment.

4.07 For purposes of any single sum payment made under Section 4.05(b) or 4.06, the Participant's request for such single sum payment shall designate the deferral period or periods and the dollar amount or percentage of the Participant's interest in his Cash Subaccount, Fund Subaccount and/or Stock Subaccount with respect to each such deferral period that shall be debited to derive the proceeds of the single sum payment. If the Participant designates more than one deferral period, the actual proceeds of the single sum shall be derived from the deferral periods in the order designated by the Participant, with the deferrals and earnings in a deferral period being fully exhausted before accessing each other deferral period according to the order designated by the Participant. With respect to each such deferral period, the proceeds shall be derived first from the Participant's deferrals to the Subaccount or Subaccounts designated by the Participant on a last deferred, first distributed basis, and then from earnings thereon.

5. SURVIVOR BENEFIT

5.01 If a Participant dies prior to the full distribution of his supplemental retirement benefits and prior to the commencement of the installment payments of his supplemental benefits, the Participant's designated beneficiary or the Participant's estate (in the event no beneficiary is designated) shall be entitled to a survivor benefit equal to the greater of (a) the Participant's Supplemental Retirement Account Balance as of the Participant's date of death, or (b) an amount equal to three (3) times the deferrals (but not earnings) credited to the Participant's Cash Subaccount, Stock Subaccount and Fund Subaccount for each Deferral Period that have not been previously distributed to the Participant under Article 4. Such survivor benefit shall be paid to the Participant's designated Beneficiary or estate (as the case may be) in substantially equal monthly installments under the declining balances methodology for a period of one hundred twenty (120) months, beginning as soon as practical after the Participant's death. Notwithstanding the preceding sentence, the Participant's designated beneficiary or the representative of the Participant's estate (as the case may be) may at any time request a single sum distribution equal to the survivor benefit determined under the first sentence of this Section 5.01 that remains to be paid to the beneficiary or the estate; provided, however, if the beneficiary or the estate's representative (whichever is applicable) requests a payment date within twelve (12) months of the date of such request, the single sum payment shall equal the remaining balance in the Participant's Termination Account if the survivor benefit is determined under clause (a) of the second preceding sentence and shall equal 94% of the remaining survivor benefit if the survivor benefit is determined under clause (b) of the second preceding sentence, and the remaining survivor benefit shall be permanently forfeited. Further, notwithstanding the second preceding sentence, the Committee may approve a single sum payment of the entire survivor benefit if such single sum is requested by the Beneficiary and necessitated by severe financial hardship (as defined in Section 3.02(e)).

5.02 If a Participant dies prior to the full distribution of his supplemental retirement benefits and after the commencement of the installment payments of his supplemental benefits, the remaining installments shall be paid, on their respective due dates, to the Participant's designated beneficiary or the Participant's estate (in the event no beneficiary is designated). Notwithstanding the preceding sentence, the Participant's designated beneficiary or the representative of the Participant's estate (as the case may be) may request a single sum distribution equal to the Participant's Supplemental Retirement Account Balance as of the payment date; provided, however, if the beneficiary or the representative of the estate (as the case may be) requests a payment date within twelve (12) months of the date of such request, the single sum payment shall equal the Participant's Termination Account Balance as of the payment date and the amount that represents the difference between the Participant's Supplemental Retirement Account Balance and Termination Account Balance shall be permanently forfeited.

5.03 If a beneficiary dies prior to the full distribution of the survivor benefit described in Section 5.01 or 5.02, the remaining installments of the survivor benefit payable to the beneficiary shall be paid, on their respective due dates, to the beneficiary's estate. Notwithstanding the preceding sentence, the representative of the beneficiary's estate may request a single sum distribution equal to the portion of the beneficiary's survivor benefit that remains to be paid as of the beneficiary's death; provided, however, if the estate's representative requests a payment date within twelve (12) months of the date of such request, the single sum payment shall equal the remaining balance in the Participant's Termination Account if the survivor benefit is determined under clause (a) of the first sentence of Section 5.01 or Section 5.02 and shall equal 94% of the remaining survivor benefit if the survivor benefit is determined under clause (b) of the first sentence of Section 5.01, and the remaining survivor benefit shall be permanently forfeited.

6. 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 (or such similar committee) of the Corporation's Board of Directors.

7. FINANCING

Obligations under this Plan may be financed by the purchase of one (1) or more policies of life insurance upon the lives of Participants, with the Corporation or 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 the Corporation or 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.

8. AMENDMENT OR TERMINATION

8.01 The Corporation's Board of Directors may, through written resolutions, terminate or amend this Plan at any time, including a retroactive amendment if necessary to bring this Plan into conformity with any law or governmental regulation relating to plans or trusts of this character; provided, however, that if the Plan is amended to discontinue or reduce the amount of supplemental retirement benefits payments (except as may be required pursuant to any plan arising from insolvency or bankruptcy proceedings) (a) any Participant who has commenced receiving installment payments of his supplemental retirement benefits prior to the effective date of the amendment shall continue to be paid his supplemental retirement benefits in the amount and manner (as provided under Articles 3 and 4 hereof) as they were being paid at the time of such amendment, and (b) any Participant who has not commenced receiving installments payment of his supplemental retirement benefits prior to the effective date of the amendment shall be entitled to receive (i) the supplemental retirement benefits accrued by such Participant as of the effective date of the amendment, with such supplemental retirement benefits being paid in the form and at the time elected by the Participant under Articles 3 and 4, and (ii) any legal fees and related expenses incurred by the Participant in receiving such supplemental retirement benefits (as permitted under Section 10.05) and interest under Section 10.06 (to the extent applicable). Notwithstanding the preceding sentence, any written employment agreement between the Executive Committee of a Company and any Participant described in clause (b) of the preceding sentence shall govern to the extent such agreement either amends or discontinues the Participant's supplemental retirement benefits under the Plan, and Section 4.03 shall govern to the extent any Participant is discharged for willful, deliberate or gross misconduct.

8.02 Notwithstanding the preceding provisions of Section 8.01, if the reason for termination or amendment is a change in the tax laws adversely affecting the financing of the supplemental retirement benefits or survivor benefits under the Plan, then the Corporation's Board of Directors 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 single 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.

9. ADMINISTRATION

9.01 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.

9.02 The expenses of administering the Plan shall be borne by the Corporation and the Companies. 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 Corporation and the Companies.

9.03 The Corporation 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.

10. CLAIMS PROCEDURE

10.01 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.

10.02 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.

10.03 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.

10.04 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 bind all parties concerned.

10.05 Attorney's Fees and Expenses. In the event a Participant's claim for benefits under this Plan is denied and the Participant successfully appeals the denial of such claim under the foregoing procedures, the Corporation or the Company shall pay or reimburse the legal fees and expenses directly incurred by the Participant in connection with his appeal subject to a maximum payment or reimbursement of one-third of the supplemental retirement benefits to which the Participant is entitled. Any such legal fees and expenses shall be paid to, or on behalf of, the Participant no later than thirty (30) days following the Participant's written request for the payment of such legal fees and expenses, provided the Participant supplies the Committee with evidence of the fees and expenses incurred by the Participant that the Committee, in its sole discretion, determines is sufficient.

10.06 Interest on Delayed Payments. Further, in the event a Participant's claim for supplemental retirement benefits under this Plan is denied and the Participant successfully appeals the denial of such claim under the foregoing procedures, the Corporation or the Company shall pay to the Participant interest on the portion of the Participant's supplemental retirement benefits that were not otherwise paid when due because of the initial denial of the claim. For purposes of the preceding sentence, interest shall accrue at an annual rate equal to the prime rate as quoted in the Wall Street Journal as of the date the supplemental retirement benefits would otherwise have been paid if the claim had not initially been denied, plus five percent (5%), and shall be adjusted as necessary to reflect any partial payment or payments of the amounts owed to the Participant.

11. MISCELLANEOUS

11.01 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.

11.02 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.

11.03 "Retirement" under the Company Pension Plan shall mean retirement under the Armstrong World Industries, Inc. 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 Section 4.04 of this Plan.

11.04 The Management Development and Compensation Committee (or such similar committee) of the Corporation's Board of Directors may at any time establish a trust to secure part or all of the obligations 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.

11.05 In the event that the Committee shall find that a Participant or other person entitled to benefits hereunder is unable to care for his or her affairs because of illness or accident, the Committee may direct that any benefit payment due him or her, unless claim shall have been made therefor by a duly appointed legal representative, be paid to the Participant's spouse, child, parent or other blood relative, or to a person with whom he or she resides, and any such payment so made shall be a complete discharge of the liabilities of the Corporation, any employing Company and the Plan therefor.

EXHIBIT 10(iii)(i)

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 or parent 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 "Eligible Earnings" shall mean:

(1) For the period November 1, 2000 through July 1, 2000 (inclusive), the Employee's current unadjusted annual base salary, plus the Employee's target bonus/incentive.

(2) For the period beginning July 2, 2001, the Employee's unadjusted annual base salary.

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.

1.11 "Weekly Eligible Earnings" shall mean Eligible Earnings divided by 52.

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) Any Participant who is involuntarily terminated (1) due to a reduction in the workforce of the office on location where he/she is employed; or (2) due to the fact that his/her position or position status has fundamentally altered, including changes due to a lack of promotability, will be eligible for severance benefits set forth in Schedule 2, provided (i) the Participant is notified in writing after November 1, 2000 that he/she will be terminated, and his or her employment ends on or before July 1, 2001; and (ii) the Participant is not otherwise excluded from receiving benefits under Paragraph (c) below.

(b) Any Participant who is involuntarily terminated (1) due to a reduction in the workforce of the office or location where he/she is employed; or (2) due to the fact that his/her position or position status has been fundamentally altered, including changes due to a lack of promotability, will be eligible for severance benefits set forth in Schedule 1, provided
(i) the Participant is notified in writing after July 1, 2001, that he/she will be terminated, and (ii) the Participant is not otherwise excluded from receiving benefits under Paragraph (c) below, or other.

(c) Any Participant whose employment with the Company is terminated by the Company for any of the reasons listed below shall not be eligible for benefits under the Plan:

(1) because of the death or Disability of the Employee;

(2) by the Company due to unacceptable job performance, or other disciplinary reasons, such as, for example, attendance issues, theft, insubordination

(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.

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 November 1, 2000, except for Employees notified in writing prior to that date, whose severance pay shall be calculated in the manner effect prior to that date, the Participant shall be paid a severance amount related to the Participant's Years of Service and Eligible Earnings. The amount of severance payment shall be calculated using the relevant Schedule as determined under Sections 2.02 and 2.05. Weeks of Severance for partial years of service will be calculated proportionately. Weekly Eligible Earnings shall be Eligible 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 in a lump sum within 30 days of termination, unless the Plan Administrator approves payment by salary continuation or some combination of periods or lump lump sum payments.

(e) Insurance Benefits. An eligible Participant's insurance benefits shall be determined in accordance with the applicable insurance benefit plan.

3.02 Other Circumstances That Can Result in Disqualification,

Forfeiture, Reduction or Suspension of Severance Benefits.

(a) Elective Deductions. An eligible Participant may elect to have insurance premiums for Company-sponsored insurance plans deducted from severance payments.

(b) Legally Required Deductions. Appropriate federal, state and local taxes will be withheld from all severance payments.

(c) Effect of Rehire or Reinstatement (Or An Offer of Same). If an eligible Participant is granted severance benefits and the Participant is either rehired or reinstated as a regular salaried employee on a regular full-time basis by the Company (or is offered rehire or reinstatement on a full-time basis by the Company) before the end of the pay continuation period, then the Participant forfeits any unpaid severance payments for the periods following rehire or reinstatement (or the date of offer of same). In addition, to the extent the number of weeks of severance paid to the Participant exceeds the length of the Participant's break in service, the Participant will be required to refund or reimburse the Company for the excess severance already paid to the Participant.

(d) Effect of Sale of Portion of Business Assets. Any Participant whose employment with the Company is terminated during or in anticipation of a sale of some, but not all, assets of the Company is not entitled to severance benefits if the purchaser of such assets offers 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. Any severance paid to the Participant shall be repaid to 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 Noncompete Agreement will receive severance in the amount of One Thousand Dollars ($1,000) as consideration for the Noncompete 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 30 days after the Participant's Date of Termination in order for the Participant to receive benefits under this Plan.

3.04 Impact of Armstrong Employment Protection Plan. Notwithstanding anything to the contrary in this Plan, in the event the Participant's Date of Termination coincides with or follows a change in control, as defined in the Armstrong Employment Protection Plan, no benefits will be paid under this Plan. This Plan applies only in the case of an eligible Participant whose employment has been terminated by the Company prior to the change in control and who is otherwise eligible to receive a benefit hereunder.

4. AMENDMENT OR TERMINATION.

The 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 10/31/00

The APPENDIX

Severance Pay Schedules

Effective November 1, 2000

Years of Service	Schedule 1	Number of Weeks Schedule 2
1 or less	2.0	2.0
2	2.0	2.0
3	3.0	3.0
4	4.0	4.0
5	5.0	5.0
6	6.0	6.0
7	7.0	7.0
8	8.0	8.0
9	9.0	9.0
10	10.0	10.0
11	11.0	11.0
12	12.0	12.0
13	13.0	13.0
14	14.0	14.0
15	16.0	16.0
16	18.0	18.0
17	20.0	20.0
18	22.0	22.0
19	24.0	24.0
20	26.0	26.0
21	28.0	28.0
22	30.0	30.0
23	32.0	32.0
24	34.0	34.0
25	36.0	36.0
26	38.0	38.0
27	39.0	40.0
28	39.0	44.0
29	39.0	48.0
30+	39.0	52.0

EXHIBIT 10(iii)(k)

AGREEMENT

THIS AGREEMENT, dated as of October 1, 1999, is made by and between Armstrong World Industries, Inc., a Pennsylvania corporation (the "Company"), and **FirstName** **LastName** (the "Executive").

WHEREAS, the Board considers it essential to the best interests of the Company to foster the continued employment of key management personnel; and

WHEREAS, the Board recognizes that, as is the case with many publicly held corporations, the possibility of a Change in Control exists and that such possibility, and the uncertainty and questions which it may raise among management, may result in the departure or distraction of management personnel to the detriment of the Company; and

WHEREAS, the Board has determined that appropriate steps should be taken to reinforce and encourage the continued attention and dedication of members of the Company's management, including the Executive, to their assigned duties without distraction in the face of potentially disturbing circumstances arising from the possibility of a Change in Control;

NOW, THEREFORE, in consideration of the premises and the mutual covenants herein contained, the Company and the Executive hereby agree as follows:

1. Defined Terms. The definitions of capitalized terms used in this Agreement are provided in the last Section hereof.

2. Term of Agreement. This Agreement shall commence on the date hereof and shall continue in effect through September 30, 2002; provided, however, that commencing on October 1, 2000 and each October 1 thereafter, the term of this Agreement shall automatically be extended for one additional year unless, not later than June 30 of that year, the Company or the Executive shall have given notice not to extend this Agreement or a Change in Control shall have occurred prior to such October 1; and further provided, however, that if a Change in Control shall have occurred during the term of this Agreement, this Agreement shall continue in effect for a period of not less than thirty-six (36) months beyond the month in which such Change in Control occurred.

3. Company's Covenants Summarized. In order to induce the Executive to remain in the employ of the Company and in consideration of the Executive's covenants set forth in Section 4 hereof, the Company agrees, under the

conditions described herein, to pay the Executive the Severance Payments and the other payments and benefits described herein. Except as provided in Section 10.1 hereof, no amount or benefit shall be payable under this Agreement unless there shall have been (or, under the terms of the second sentence of Section 6.1 hereof, there shall be deemed to have been) a termination of the Executive's employment with the Company following a Change in Control and during the term of this Agreement. This Agreement shall not be construed as creating an express or implied contract of employment and, except as otherwise agreed in writing between the Executive and the Company, the Executive shall not have any right to be retained in the employ of the Company.

4. The Executive's Covenants. The Executive agrees that, subject to the terms and conditions of this Agreement, in the event of a Potential Change in Control during the term of this Agreement, the Executive will remain in the employ of the Company until the earliest of (i) a date which is six (6) months after the date of such Potential Change in Control, (ii) the date of a Change in Control, (iii) the date of termination by the Executive of the Executive's employment for Good Reason or by reason of death or Disability, or (iv) the termination by the Company of the Executive's employment for any reason.

5. Compensation Other Than Severance Payments.

5.1. Following a Change in Control and during the term of this Agreement, during any period that the Executive fails to perform the Executive's full-time duties with the Company as a result of incapacity due to physical or mental illness, the Company shall pay the Executive's full salary to the Executive at the rate in effect at the commencement of any such period, together with all compensation and benefits payable to the Executive under the terms of any compensation or benefit plan, program or arrangement maintained by the Company during such period, until the Executive's employment is terminated by the Company for Disability.

5.2. If the Executive's employment shall be terminated for any reason following a Change in Control and during the term of this Agreement, the Company shall pay the Executive's full salary to the Executive through the Date of Termination at the rate in effect immediately prior to the Change in Control or at the time the Notice of Termination is given, whichever is greater, together with all compensation and benefits to which the Executive is entitled in respect of all periods preceding the Date of Termination under the terms of the Company's compensation and benefit plans, programs or arrangements.

5.3. If the Executive's employment shall be terminated for any reason following a Change in Control and during the term of this Agreement, the Company shall pay to the Executive the Executive's normal post-termination compensation and benefits as such payments become due. Such post-termination compensation and benefits shall be determined under, and paid in accordance with, the Company's retirement, insurance and other compensation or benefit plans, programs and arrangements as in effect immediately prior to the Change in Control or, if more favorable to the Executive, as in effect immediately prior to the Date of Termination.

6. Severance Payments.

6.1. The Company shall pay the Executive the payments described in this Section 6.1 (the "Severance Payments") upon the termination of the Executive's employment following a Change in Control and during the term of this Agreement, in addition to any payments and benefits to which the Executive is entitled under Section 5 and 8 hereof, unless such termination is (i) by the Company for Cause, (ii) by reason of death or Disability, or (iii) by the Executive without Good Reason. For purposes of this Agreement, the Executive's employment shall be deemed to have been terminated by the Company without Cause or by the Executive with Good Reason following a Change in Control if (i) the Executive's employment is terminated without Cause prior to a Change in Control which actually occurs during the term of this Agreement and such termination was at the request or direction of a Person who has entered into an agreement with the Company the consummation of which would constitute a Change in Control, (ii) the Executive terminates his employment with Good Reason prior to a Change in Control which actually occurs during the term of this Agreement and the circumstance or event which constitutes Good Reason occurs at the request or direction of such Person,
(iii) the Executive's employment is terminated by the Company without Cause or by the Executive for Good Reason prior to a Change in Control and the Executive reasonably demonstrates that such termination is otherwise in connection with or in anticipation of a Change in Control which actually occurs during the term of this Agreement; provided that any termination of the Executive's employment by the Company without Cause or by the Executive for Good Reason within the six (6) month period immediately preceding a Change in Control which actually occurs during the term of this Agreement shall be presumed to be a termination by the Company without Cause or by the Executive for Good Reason following a Change in Control, or (iv) the Executive's employment is terminated without Cause after a Potential Change in Control of the type described in paragraph (I) of the definition of "Potential Change in Control".

(A) In lieu of any further salary payments to the Executive for periods subsequent to the Date of Termination and in lieu of any severance benefit otherwise payable to the Executive, the Company shall pay to the Executive a lump sum severance payment, in cash, equal to three (3) times the sum of (i) the higher of the Executive's annual base salary in effect immediately prior to the occurrence of the event or circumstance upon which the Notice of Termination is based or the Executive's annual base salary in effect immediately prior to the Change in Control (the "Change in Control Salary"), and (ii) the higher of the highest annual bonus earned by the Executive pursuant to any annual bonus or incentive plan maintained by the Company in respect of the three (3) years immediately preceding that year in which the Date of Termination occurs or the highest annual bonus so earned in respect of the three (3) years immediately preceding that in which the Change in Control occurs (the "Change in Control Bonus").

(B) Notwithstanding any provision of any annual incentive plan to the contrary, the Company shall pay to the Executive a lump sum amount, in cash, equal to a pro rata portion to the Date of Termination of the value of the target incentive award under such plan for the then uncompleted period under such plan, calculated by multiplying the Executive's target award by the fraction obtained by dividing the number of full months and any fractional portion of a month during such performance award period through the Date of Termination by the total number of months contained in such performance award period.

(C) The Company shall (i) establish an irrevocable grantor trust holding an amount of assets sufficient to pay all such remaining premiums owed by the Company (which trust shall be required to pay such premiums), under any insurance policy insuring the life of the Executive under any "split dollar" insurance arrangement in effect between the Executive and the Company, and (ii) assign its interest in such policy or policies to the grantor trust.

(D) In addition to the retirement benefits to which the Executive is entitled under each Pension Plan or any successor plan thereto, the Company shall pay the Executive a lump sum amount, in cash, equal to the excess of (i) the actuarial equivalent of the aggregate retirement pension (taking into account any early retirement subsidies associated therewith and determined as a straight life annuity commencing at the date (but in no event earlier than the third anniversary of the Date of Termination) as of which the actuarial equivalent of such annuity is greatest) which the Executive would have accrued under the terms of all Pension Plans (without regard to any amendment to any Pension Plan made subsequent to the earlier of a Potential Change in Control or a Change in Control and on or prior to the Date of Termination, which amendment adversely affects in any manner the computation of retirement benefits thereunder), determined as if the Executive were fully vested thereunder and had accumulated (after the Date of Termination) thirty-six (36) additional months of age and service credit thereunder and had been credited under each Pension Plan during such period with compensation at the higher of (1) the Executive's compensation (as defined in such Pension Plan) during the twelve (12) months immediately preceding the Date of Termination or (2) the Executive's compensation (as defined in such Pension Plan) during the twelve (12) months immediately preceding the Change in Control, over (ii) the actuarial equivalent of the aggregate retirement pension (taking into account any early retirement subsidies associated therewith and determined as a straight life annuity commencing at the date (but in no event earlier than the Date of Termination) as

of which the actuarial equivalent of such annuity is greatest) which the Executive had accrued pursuant to the provisions of the Pension Plans as of the Date of Termination; provided, that the actuarial equivalent of such payment shall reduce the amount of the benefit enhancement to which the Executive may be entitled under the Company's Retirement Benefit Equity Plan due to enhanced Change in Control benefits under Article I, Section
(35), Article VI, Section (2), Article VI, Section (7), and Article VII,
Section (6) of the Company's Retirement Income Plan. For purposes of this
Section 6.1(D), "actuarial equivalent" shall be determined using the same assumptions utilized under the Company's Retirement Income Plan immediately prior to the Change in Control, to determine lump sum present values under Article VII, Section (7) of the Company's Retirement Income Plan.

(E) For the thirty-six (36) month period immediately following the Date of Termination, the Company shall arrange to provide the Executive (which includes the Executive's eligible dependents for purposes of this paragraph (E)) with life, disability, accident and health insurance benefits substantially similar to those which the Executive was receiving immediately prior to the Notice of Termination (without giving effect to any amendment to such benefits made subsequent to the earlier of a Potential Change in Control or a Change in Control which amendment adversely affects in any manner the Executive's entitlement to or the amount of such benefits); provided, however, that, unless the Executive consents to a different method, such health insurance benefits shall be provided through a third-party insurer. Benefits otherwise receivable by the Executive pursuant to this Section 6.1(E) shall be reduced to the extent comparable benefits (including continued coverage for any preexisting medical condition of any person covered by the benefits provided to the Executive and his eligible dependents immediately prior to the Notice of Termination) are actually received by or made available to the Executive by a subsequent employer without cost during the thirty-six
(36) month period following the Executive's termination of employment (and any such benefits actually received by or made available to the Executive shall be reported to the Company by the Executive).

(F) If the Executive would have become entitled to benefits under the Company's post-retirement health care or life insurance plans (as in effect immediately prior to a Potential Change in Control, the Change in Control or the Date of Termination, whichever is most favorable to the Executive) had the Executive's employment terminated at any time during the period of thirty-six (36) months after the Date of Termination, the Company shall provide such post-retirement health care or life insurance benefits to the Executive (subject to any employee contributions required under the terms of such plans at the level in effect immediately prior to the Change in Control or the Date of Termination, whichever is more favorable to the Executive) commencing on the later of (i) the date that such coverage would have first become available or (ii) the date that benefits described in subsection (E) of this Section 6.1 terminate.

(G) The Company will pay the Executive, at a daily salary rate calculated from the higher of the Executive's annual base salary in effect immediately prior to the occurrence of the event or circumstance upon which the Notice of Termination is based or the Executive's annual base salary in effect immediately prior to the Change in Control, an amount equal to all unused vacation days which would have been earned had the Executive continued employment through December 31 of the year in which the Date of Termination occurs.

(H) The Company shall pay the reasonable fees and expenses of a full service nationally recognized executive outplacement firm until the earlier of the date the Executive secures new employment or the date which is thirty-six (36) months following the Executive's Date of Termination; provided, that in no event shall the aggregate amount of such payment be greater than 20% of the Executive's Change in Control Salary.

6.2. (A) Anything in this Agreement to the contrary notwithstanding, in the event it shall be determined that any payment or distribution by the Company to or for the benefit of the Executive (whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise) (a "Payment") would be subject to the excise tax imposed by
Section 4999 of the Code or any interest or penalties are incurred by the Executive with respect to the excise tax (such excise tax, together with any such interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), then the Executive shall be entitled to receive an additional payment (a "Gross-Up Payment") in an amount such that after payment by the Executive of all taxes (including any interest or penalties imposed with respect to such taxes), including, without limitation, any income taxes (and any interest and penalties imposed with respect thereto) and Excise Tax imposed on the Gross-Up Payment, the Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payments.

(B) Subject to the provisions of Section 6.2(C), all determinations required to be made under this Section 6.2, including whether and when a Gross-Up Payment is required and the amount of such Gross-Up Payment, shall be made by a nationally recognized accounting firm designated by the Company (the "Accounting Firm") which shall provide detailed supporting calculations both to the Company and the Executive within fifteen (15) business days after there has been a Payment, or such earlier time as requested by the Company. In the event that the Accounting Firm is serving as accountant or auditor for the individual, entity or group effecting the Change in Control, the Company shall appoint another nationally recognized accounting firm to make the determinations required hereunder (which accounting firm shall then be referred to as the Accounting Firm hereunder). All fees and expenses of the Accounting Firm shall be borne solely by the Company. Any Gross-Up Payment, as determined pursuant to this Section 6, shall be paid by the Company to the Executive within five days of the receipt of the Accounting Firm's determination. Any determination by the Accounting Firm shall be binding upon the Company and the Executive. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments which will not have been made by the Company should have been made ("Underpayment"), consistent with the calculations required to be made hereunder. In the event that the Company exhausts its remedies pursuant to Section 6.2(C) and the Executive thereafter is required to make a payment of any Excise Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred and any such Underpayment shall be promptly paid by the Company to or for the benefit of the Executive.

(C) The Executive shall notify the Company in writing of any claim by the Internal Revenue Service that, if successful, would require the payment by the Company of the Gross-Up Payment. Such notification shall be given as soon as practicable but no later than ten (10) business days after the Executive is informed in writing of such claim and shall apprise the Company of the nature of such claim and the date on which such claim is requested to be paid. The Executive shall not pay such claim prior to the expiration of the 30-day period following the date on which it gives such notice to the Company (or such shorter period ending on the date any payment of taxes with respect to such claim is due). If the Company notifies the Executive in writing prior to the expiration of such period that it desires to contest such claim, the Executive shall:

(i) give the Company any information reasonably requested by the Company relating to such claim;

(ii) take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney reasonably selected by the Company;

(iii) cooperate with the Company in good faith in order effectively to contest such claim; and

(iv) permit the Company to participate in any proceedings relating to such claim;

provided, however, that the Company shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest and shall indemnify and hold the Executive harmless, on an after-tax basis, for any Excise Tax or income tax (including interest and penalties with respect thereto) imposed as a result of such representation and payment of costs and expenses. Without limitation on the foregoing provisions of this Section 6.2(C), the Company shall control all proceedings taken in connection with such contest and, at its sole option, may pursue or forego any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim and may, at its sole option, either direct the Executive to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and the Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; provided, however, that if the Company directs the Executive to pay such claim and sue for a refund, the Company shall advance the amount of such payment to the Executive, on an interest-free basis, and shall indemnify and hold the Executive harmless, on an after-tax basis, from any Excise Tax or income tax (including interest or penalties with respect thereto) imposed with respect to such advance or with respect to any imputed income with respect to such advance; and further provided that any extension of the statute of limitations relating to payment of taxes for the taxable year of the Executive with respect to which such contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Company's control of the contest shall be limited to issues with respect to which a Gross-Up Payment would be payable hereunder and the Executive shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

(D) If, after the receipt by the Executive of an amount advanced by the Company pursuant to Section 6.2(C), the Executive becomes entitled to receive any refund with respect to such claim, the Executive shall (subject to the Company's complying with the requirements of Section 6.2 (C)) promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If, after the receipt by the Executive of an amount advanced by the Company pursuant to Section 6.2(C), a determination is made that the Executive shall not be entitled to any refund with respect to such claim and the Company does not notify the Executive in writing of its intent to contest such denial of refund prior to the expiration of 30 days after such determination, then such advance shall be forgiven and shall not be required to be repaid and the amount of such advance shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid.

6.3. The payments provided for in subsections (A), (B), (C), (D) and (G) of
Section 6.1 hereof shall be made not later than the thirtieth (30th) day following the Date of Termination; provided, however, that if the amounts of such payments cannot be finally determined on or before such day, the Company shall pay to the Executive on such day an estimate, as determined in good faith by the Executive of the minimum

amount of such payments to which the Executive is clearly entitled and shall pay the remainder of such payments (together with interest at 120% of the rate provided in Section 1274(b)(2)(B) of the Code) as soon as the amount thereof can be determined but in no event later than the thirtieth (30th) day after the Date of Termination; provided, however, that in the event the Executive becomes entitled to Severance Payments pursuant to the second sentence of Section 6.1 (except for a termination occurring with respect to clause (iv) of such sentence, which shall be paid as set forth above) such payments shall be due and payable within thirty (30) days following the actual Change in Control that triggered the Severance Payments. In the event that the amount of the estimated payments exceeds the amount subsequently determined to have been due, such excess shall constitute a loan by the Company to the Executive, payable on the fifth (5th) business day after demand by the Company (together with interest at 120% of the rate provided in Section 1274(b)(2)(B) of the Code). In the event the Company should fail to pay when due the amounts described in subsections (A), (B), (C), (D) and (G) of Section 6.1 hereof, the Executive shall also be entitled to receive from the Company an amount representing interest on any unpaid or untimely paid amounts from the due date, as determined under this Section 6.3 (without regard to any extension of the Date of Termination pursuant to Section 7.3 hereof), to the date of payment at a rate equal to 120% of the rate provided in Section 1274(b)(2)(B) of the Code.

6.4. The Company also shall pay to the Executive all legal fees and expenses incurred by the Executive in disputing in good faith any issue hereunder relating to the termination of the Executive's employment, in seeking in good faith to obtain or enforce any benefit or right provided by this Agreement or in connection with any tax audit or proceeding to the extent attributable to the application of Section 4999 of the Code to any payment or benefit provided hereunder. Such payments shall be made within five (5) business days after delivery of the Executive's written requests for payment accompanied with such evidence of fees and expenses incurred as the Company reasonably may require.

7. Termination Procedures and Compensation During Dispute.

7.1. Notice of Termination. After a Potential Change in Control or, if there is no Potential Change in Control, after a Change in Control and during the term of this Agreement, any purported termination of the Executive's employment (other than by reason of death) shall be communicated by written Notice of Termination from one party hereto to the other party hereto in accordance with Section 11 hereof. For purposes of this Agreement, a "Notice of Termination" shall mean a notice which shall indicate the specific termination provision in this Agreement relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated. Further, a Notice of Termination for Cause is required to include a copy of a resolution duly adopted by the affirmative vote of not less than three-quarters (3/4) of the entire membership of the Board at a meeting of the Board which was called and held for the purpose of considering such termination (after reasonable notice to the Executive and an opportunity for the Executive, together with the Executive's counsel, to be heard before the Board) finding that, in the good-faith opinion of the Board, the Executive was guilty of conduct set forth in clause (i) or (ii) of the definition of Cause herein, and specifying the particulars thereof in detail.

7.2. Date of Termination. "Date of Termination," with respect to any purported termination of the Executive's employment after a Change in Control and during the term of this Agreement, shall mean (i) if the Executive's employment is terminated for Disability, thirty (30) days after Notice of Termination is given (provided that the Executive shall not have returned to the full-time performance of the Executive's duties during such thirty (30) day period), and (ii) if the Executive's employment is terminated for any other reason, the date specified in the Notice of Termination (which, in the case of a termination by the Company, shall not be less than thirty (30) days (except in the case of a termination for Cause) and, in the case of a termination by the Executive, shall not be less than fifteen (15) days nor more than sixty (60) days, respectively, from the date such Notice of Termination is given).

7.3. Dispute Concerning Termination. If within fifteen (15) days after any Notice of Termination is given, or, if later, prior to the Date of Termination (as determined without regard to this Section 7.3), the party receiving such Notice of Termination notifies the other party that a dispute exists concerning the termination, the Date of Termination shall be extended until the date on which the dispute is finally resolved, either by mutual written agreement of the parties or by a final judgment, order or decree of an arbitrator or a court of competent jurisdiction (which is not appealable or with respect to which the time for appeal therefrom has expired and no appeal has been perfected); provided, however, that the Date of Termination shall be extended by a notice of dispute given by the Executive only if such notice is given in good faith and the Executive pursues the resolution of such dispute with reasonable diligence.

7.4. Compensation During Dispute. If a purported termination occurs following a Change in Control and during the term of this Agreement and the Date of Termination is extended in accordance with Section 7.3 hereof, the Company shall continue to pay the Executive the full compensation in effect when the notice giving rise to the dispute was given (including, but not limited to, salary) and continue the Executive as a participant in all compensation, benefit and insurance plans in which the Executive was participating when the notice giving rise to the dispute was given, until the Date of Termination, as determined in accordance with Section 7.3 hereof. Amounts paid under this Section 7.4 are in addition to all other amounts due under this Agreement and shall not be offset against or reduce any other amounts due under this Agreement.

8. Acceleration of Certain Stock-Based Benefits.

(A) Upon the occurrence of a Change in Control, all unvested options with respect to the Company's stock held by the Executive shall vest and become immediately exercisable and will be exercisable for a period ending on the later of (i) the fifth anniversary of such Change in Control or (ii) the last date that such option would otherwise be exercisable under the terms of the option agreement or the plan pursuant to which such option was granted; provided, that in no event shall any option be exercisable after the expiration of the original term of the option.

(B) Upon the occurrence of a Change in Control, all unearned performance restricted shares held by the Executive under the Company's Stock Plan shall be deemed to have been earned to the maximum extent permitted under the Stock Plan for any performance period not then completed and all earned but unvested performance restricted shares, including those deemed to be earned pursuant to this sentence, and all unvested restricted stock awards shall immediately vest and the restrictions on all shares subject to restriction shall lapse.

(C) For purposes of the Stock Plan and any stock option plan pursuant to which any stock options, performance restricted shares or restricted stock awards have been issued, this Agreement, which has been approved by the Management Development and Compensation Committee of the Board, shall constitute an amendment of the agreement or other instruments pursuant to which such stock options, performance restricted shares and restricted stock awards were issued in accordance with the terms of such plans. Notwithstanding the foregoing, in the event that this Section 8(C) is determined for any reason to be inconsistent with the terms of any plan pursuant to which such stock options, performance restricted shares and restricted stock awards were issued, the terms of this Agreement shall supersede the terms of such plan.

9. No Mitigation. The Company agrees that, if the Executive's employment with the Company terminates during the term of this Agreement, the Executive is not required to seek other employment or to attempt in any way to reduce any amounts payable to the Executive by the Company pursuant to Section 6 hereof or
Section 7.4 hereof. Further, the amount of any payment or benefit provided for in this Agreement (other than Section 6.1(E) hereof) shall not be reduced by any compensation earned by the Executive as the result of employment by another employer, by retirement benefits, by offset against any amount claimed to be owed by the Executive to the Company, or otherwise.

10. Successors; Binding Agreement.

10.1. In addition to any obligations imposed by law upon any successor to the Company, the Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. Failure of the Company to obtain such assumption and agreement prior to the effectiveness of any such succession shall be a breach of this Agreement and shall entitle the Executive to compensation from the Company in the same amount and on the same terms as the Executive would be entitled to hereunder if the Executive were to terminate the Executive's employment for Good Reason after a Change in Control, except that, for purposes of implementing the foregoing, the date on which any such succession becomes effective shall be deemed the Date of Termination.

10.2. This Agreement shall inure to the benefit of and be enforceable by the Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If the Executive shall die while any amount would still be payable to the Executive hereunder (other than amounts which, by their terms, terminate upon the death of the Executive) if the Executive had continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to the executors, personal representatives or administrators of the Executive's estate.

11. Notices. For the purpose of this Agreement, notices and all other communications provided for in the Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by United States registered mail, return receipt requested, postage prepaid, addressed, if to the Executive, to the address shown for the Executive in the personnel records of the Company and, if to the Company, to the address set forth below, or to such other address as either party may have furnished to the other in writing in accordance herewith, except that notice of change of address shall be effective only upon actual receipt:

To the Company:

Armstrong World Industries, Inc.
2500 Columbia Avenue
Lancaster, Pennsylvania 17603

Attention: General Counsel

12. Miscellaneous. No provision of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing and signed by the Executive and such officer as may be specifically designated by the Board. No waiver by either party hereto at any time of any breach by the other party hereto of, or of any lack of compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. This

Agreement supersedes any other agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof which have been made by either party. The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the Commonwealth of Pennsylvania. All references to sections of the Exchange Act or the Code shall be deemed also to refer to any successor provisions to such sections. Any payments provided for hereunder shall be paid net of any applicable withholding required under federal, state or local law and any additional withholding to which the Executive has agreed. The obligations of the Company and the Executive under Sections 6 and 7 hereof shall survive the expiration of the term of this Agreement. If the Executive elects not to enter into this Agreement, he will continue to be eligible for change in control benefits provided under the Company's Employment Protection Plan (if applicable), Retirement Income Plan and long-term incentive plans. The Executive agrees that this Agreement replaces the benefits to which he may otherwise be entitled to under the Company's Employment Protection Plan for salaried employees. The Company agrees that it will not argue in any form for any purpose that this Agreement constitutes an "employee benefit plan" within the meaning of Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended.

13. Validity. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

14. Counterparts. This Agreement may be executed in several counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same instrument.

15. Settlement of Disputes; Arbitration. All claims by the Executive for benefits under this Agreement shall be directed in writing to and determined by the Committee, which shall give full consideration to the evidentiary standards set forth in this Agreement. Any denial by the Committee of a claim for benefits under this Agreement shall be delivered to the Executive in writing and shall set forth the specific reasons for the denial and the specific provisions of this Agreement relied upon. The Committee shall afford a reasonable opportunity to the Executive for a review of the decision denying a claim and shall further allow the Executive to appeal to the Committee a decision of the Committee within sixty (60) days after notification by the Committee that the Executive's claim has been denied. Any further dispute or controversy arising under or in connection with this Agreement shall be settled exclusively by arbitration in Allegheny County, Pennsylvania in accordance with the rules of the American Arbitration Association then in effect; provided, however, that the evidentiary standards set forth in this Agreement shall apply. Judgment may be entered on the arbitrator's award in any court having jurisdiction. Notwithstanding any provision of this Agreement to the contrary, the Executive shall be entitled to seek

specific performance of the Executive's right to be paid until the Date of Termination during the pendency of any dispute or controversy arising under or in connection with this Agreement.

16. Definitions. For purposes of this Agreement, the following terms shall have the meanings indicated below:

(A) "Accounting Firm" shall have the meaning stated in Section 6.2(B)

hereof.

(B) "Beneficial Owner" shall have the meaning set forth in Rule 13d-3 under the Exchange Act.

(C) "Board" shall mean the Board of Directors of the Company.

(D) "Cause" for termination by the Company of the Executive's employment shall mean (i) the deliberate and continued failure by the Executive to devote substantially all the Executive's business time and best efforts to the performance of the Executive's duties after a demand for substantial performance is delivered to the Executive by the Board which specifically identifies the manner in which the Executive has not substantially performed such duties; (ii) the deliberate engaging by the Executive 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 Executive; or (iii) the Executive's conviction (or entering into a plea bargain admitting guilt) of any felony. For the purposes of this Agreement, no act, or failure to act, on the part of the Executive shall be considered "deliberate" unless done, or omitted to be done, by the Executive not in good faith and without reasonable belief that such action or omission was in the best interests of the Company. In the event of a dispute concerning the application of this provision, no claim by the Company that Cause exists shall be given effect unless the Company establishes to the Committee by clear and convincing evidence that Cause exists.

(E) A "Change in Control" shall be deemed to have occurred if the event set forth in any one of the following paragraphs shall have occurred:

(I) any Person is or becomes the Beneficial Owner, directly or indirectly, of securities of the Company (not including in the securities beneficially owned by such Person any securities acquired directly from the Company or its affiliates) representing 20% or more of either the then outstanding shares of common stock of the Company or the combined voting power of the Company's then outstanding securities, excluding any Person who becomes such a Beneficial Owner in connection with a transaction described in clause (i) of paragraph (III) below; or

(II) the following individuals cease for any reason to constitute a majority of the number of directors then serving:
individuals who, on the date hereof, constitute the Board and any new director (other than a director whose initial assumption of office is in connection with an actual or threatened election contest, including but not limited to a consent solicitation, relating to the election of directors of the Company) whose appointment or election by the Board or nomination for election by the Company's shareholders was approved by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors on the date hereof or whose appointment, election or nomination for election was previously so approved; or

(III) there is consummated a merger or consolidation of the Company (including a triangular merger to which the Company is a party) with any other corporation other than (i) a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior to such merger or consolidation continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or any parent thereof) at least 66 2/3% of the combined voting power of the voting securities of the Company or such surviving entity or any parent thereof outstanding immediately after such merger or consolidation, or
(ii) a merger or consolidation effected to implement a recapitalization of the Company (or similar transaction) in which no Person is or becomes the Beneficial Owner, directly or indirectly, of securities of the Company (not including in the securities Beneficially Owned by such Person any securities acquired directly from the Company or its subsidiaries) representing 20% or more of either the then outstanding shares of common stock of the Company or the combined voting power of the Company's then outstanding securities; or

(IV) the shareholders of the Company approve a plan of complete liquidation or dissolution of the Company or there is consummated an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets, other than a sale or disposition by the Company of all or substantially all of the Company's assets to an entity, at least 75% of the combined voting power of the voting securities of which are owned by shareholders of the Company in substantially the same proportions as their ownership of the Company immediately prior to such sale. Notwithstanding the foregoing, no "Change in Control" shall be deemed to have occurred if there is consummated any transaction or series of integrated transactions immediately following which the record holders of the common stock of the Company immediately prior to such transaction or series of transactions continue to have substantially the same proportionate ownership in an entity which owns all or substantially all of the assets of the Company immediately following such transaction or series of transactions.

(F) "Change in Control Salary" shall have the meaning stated in Section 6.1 hereof.

(G) "Change in Control Bonus" shall have the meaning stated in Section 6.1 hereof.

(H) "Code" shall mean the Internal Revenue Code of 1986, as amended from time to time.

(I) "Committee" shall mean (i) the individuals (not fewer than three in number) who, on the date six (6) months before a Change in Control, constitute the Management Development and Compensation Committee of the Board, plus (ii) in the event that fewer than three individuals are available from the group specified in clause (i) above for any reason, such individuals as may be appointed by the individual or individuals so available (including for this purpose any individual or individuals previously so appointed under this clause (ii)).

(J) "Company" shall mean Armstrong World Industries, Inc. and, except in determining under Section 16(E) hereof whether or not any Change in Control of the Company has occurred, shall include its subsidiaries and any successor to its business and/or assets which assumes and agrees to perform this Agreement by operation of law, or otherwise.

(K) "Date of Termination" shall have the meaning stated in Section 7.2 hereof.

(L) "Disability" shall be deemed the reason for the termination by the Company of the Executive's employment, if, as a result of the Executive's incapacity due to physical or mental illness, the Executive shall have been absent from the full-time performance of the Executive's duties with the Company for a period of six (6) consecutive months, the Company shall have given the Executive a Notice of Termination for Disability, and, within thirty (30) days after such Notice of Termination is given, the Executive shall not have returned to the full-time performance of the Executive's duties.

(M) "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended from time to time.

(N) "Excise Tax" shall have the meaning stated in Section 6.2(A)

hereof.

(O) "Executive" shall mean the individual named in the first paragraph of this Agreement.

(P) "Good Reason" for termination by the Executive of the Executive's employment shall mean the occurrence (without the Executive's express written consent) after any Change in Control, or prior to a Change in Control under the circumstances described in clauses (ii) or (iii) of the second sentence of
Section 6.1 hereof (treating all references in paragraphs (I) through (VII) below to a "Change in Control" as references to a "Potential Change in Control"), of any one of the following acts by the Company, or failures by the Company to act, unless, in the case of any act or failure to act described in paragraph (I), (V) , (VI) or (VII) below, such act or failure to act is corrected prior to the Date of Termination specified in the Notice of Termination given in respect thereof:

(I) the assignment to the Executive of any duties inconsistent with the Executive's status as an executive officer of the Company or a substantial adverse alteration in the nature or status of the Executive's responsibilities from those in effect immediately prior to the Change in Control;

(II) a reduction by the Company in the Executive's annual base salary as in effect on the date hereof or as the same may be increased from time to time except for (i) across-the-board salary reductions similarly affecting all salaried employees of the Company or (ii) across-the-board salary reductions similarly affecting all senior executive officers of the Company and all senior executives of any Person in control of the Company;

(III) the relocation of the Executive's principal place of employment to a location more than 50 miles from the Executive's principal place of employment immediately prior to the Change in Control (unless such relocation is closer to the Executive's principal residence) or the Company's requiring the Executive to be based anywhere other than such principal place of employment (or permitted relocation thereof) except for required travel on the Company's business to an extent substantially consistent with the Executive's present business travel obligations;

(IV) the failure by the Company, to pay to the Executive any portion of the Executive's current compensation or to pay to the Executive any portion of an installment of deferred compensation under any deferred compensation program of the Company, within seven (7) days of the date such compensation is due;

(V) the failure by the Company to continue in effect any compensation plan in which the Executive participates immediately prior to the Change in Control which is material to the Executive's total compensation, including but not limited to the Company's Base Salary Plan, Management Achievement Plan, 1984 Long-Term Stock Option Plan for Key Employees, 1993 Long-Term Stock Incentive Plan, 1999 Long-Term Incentive Plan, Armstrong Deferred Compensation Plan, Retirement Income Plan and Retirement Benefit Equity Plan, unless an equitable arrangement (embodied in an ongoing substitute or alternative plan) has been made with respect to such plan, or the failure by the Company to continue the Executive's participation therein (or in such substitute or alternative plan) on a basis not materially less favorable, both in terms of the amount or timing of payment of benefits provided and the level of the Executive's participation relative to other participants, as existed immediately prior to the Change in Control;

(VI) the failure by the Company to continue to provide the Executive with benefits substantially similar to those enjoyed by the Executive under any of the Company's pension, savings, life insurance, medical, health and accident, or disability plans in which the Executive was participating immediately prior to the Change in Control, the taking of any action by the Company which would directly or indirectly materially reduce any of such benefits or deprive the Executive of any material fringe benefit enjoyed by the Executive at the time of the Change in Control, or the failure by the Company to provide the Executive with the number of paid vacation days to which the Executive is entitled on the basis of years of service with the Company in accordance with the Company's normal vacation policy in effect at the time of the Change in Control; or

(VII) any purported termination of the Executive's employment which is not effected pursuant to a Notice of Termination satisfying the requirements of Section 7.1 hereof; for purposes of this Agreement, no such purported termination shall be effective.

Notwithstanding anything herein to the contrary, a termination of employment by the Executive for any reason during the 30-day period commencing on the one (1) year anniversary of a Change in Control shall

constitute Good Reason; provided, however, that solely for purposes of this paragraph, the term Change in Control shall include a merger described by
Section 16(E)(III) in which the Company is the surviving corporation or parent corporation and the holders of the voting securities of the Company outstanding immediately prior to such merger represent less than 66 2/3% of the combined voting power of the securities of the Company outstanding immediately after such merger, only if an event described in Section 16(E)(II) also occurs.

The Executive's right to terminate the Executive's employment for Good Reason shall not be affected by the Executive's incapacity due to physical or mental illness. The Executive's continued employment shall not constitute consent to, or a waiver of rights with respect to, any act or failure to act constituting Good Reason hereunder. For purposes of any determination regarding the existence of Good Reason, any claim by the Executive that Good Reason exists shall be presumed to be correct unless the Company establishes to the Committee by clear and convincing evidence that Good Reason does not exist.

(Q) "Gross-Up Payment" shall have the meaning stated in Section 6.2(A)

hereof.

(R) "Notice of Termination" shall have the meaning stated in Section 7.1 hereof.

(S) "Payment" shall have the meaning stated in Section 6.2(A) hereof.

(T) "Pension Plan" shall mean any tax-qualified, supplemental or excess benefit pension plan maintained by the Company and any other agreement entered into between the Executive and the Company which is designed to provide the Executive with supplemental retirement benefits.

(U) "Person" shall have the meaning given in Section 3(a)(9) of the Exchange Act, as modified and used in Sections 13(d) and 14(d) thereof, except that such term shall not include (i) the Company or any of its subsidiaries,
(ii) a trustee or other fiduciary holding securities under an employee benefit plan of the Company or any of its subsidiaries, (iii) an underwriter temporarily holding securities pursuant to an offering of such securities, (iv) a corporation owned, directly or indirectly, by the shareholders of the Company in substantially the same proportions as their ownership of stock of the Company, or (v) an entity or entities which are eligible to file and have filed a Schedule 13G under Rule 13d-l(b) of the Exchange Act, which Schedule indicates beneficial ownership of 15% or more of the outstanding shares of common stock of the Company or the combined voting power of the Company's then outstanding securities.

(V) "Potential Change in Control" shall be deemed to have occurred if the event set forth in any one of the following paragraphs shall have occurred:

(I) the Company enters into an agreement, the consummation of which would result in the occurrence of a Change in Control;

(II) the Company or any Person publicly announces an intention to take or to consider taking actions which, if consummated, would constitute a Change in Control; or

(III) any Person becomes the Beneficial Owner, directly or indirectly, of securities of the Company representing 15% or more of either the then outstanding shares of common stock of the Company or the combined voting power of the Company's then outstanding securities (not including in the securities beneficially owned by such Person any securities acquired directly from the Company or its affiliates).

(W) "Severance Payments" shall mean those payments described in Section 6.1 hereof.

(X) "Stock Plan" shall mean the Company's Long-Term Stock Incentive Plan, as the same may be amended from time to time, and any successor plan to such plan.

(Y) "Underpayment" shall have the meaning stated in Section 6.2(B) hereof.

ARMSTRONG WORLD INDUSTRIES, INC.

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By:
   ----------------------------------------
Name:     **ByName**
Title:    **ByTitle**


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        **FirstName** **LastName**
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Schedule of participating officers

Armstrong World Industries, Inc. has entered into substantially similar agreements with certain of its officers, including Frank A. Riddick, III, Marc R. Olivie, Stephen J. Senkowski, Floyd F. Sherman, Matthew J. Angello, John N. Rigas, E. Follin Smith, William C. Rodruan, Stephen E. Stockwell. Mr. Sherman's agreement has been modified in that it does not include Section 6.1(C) & (D); Ms. Smith and Mr. Rigas do not participate in the "split dollar" insurance arrangements referenced in Section 6.1(C); Mr. Rodruan's agreement has been modified in that Section 6.1(A) has been modified to provide a 2X multiplier, and Section 16(P) has been modified to remove the "modified single trigger" provision.

EXHIBIT 10(iii)(n)

February, 2001

Personal

Mr. George A. Lorch
250 Eshelman Road
Lancaster, PA 17601

RE: Amended and Restated Employment and Consulting Agreement

Dear Mr. Lorch:

Reference is made to that certain Amended and Restated Employment and Consulting Agreement, dated as of August 7, 2000, among Armstrong Holdings, Inc. (the "Company"), Armstrong World Industries, Inc. ("Armstrong") and George A. Lorch (the "Executive"), as amended by the letter agreement dated October 30, 2000 (as so amended, the "Agreement"). Capitalized terms utilized herein unless otherwise defined herein have the meanings ascribed to such terms in the Agreement.

This is to confirm our understanding with respect to certain amendments to the Agreement and related matters as follows:

1. Section 10.2 of the Agreement is hereby amended to delete the reference to "January 31, 2003" and to replace it with "January 31, 2005";

2. In consideration of the extension of the term of the noncompetition provision contained in Section 10.2 of the Agreement, clause (a) of Section 5.3 of the Agreement is hereby amended to delete the reference to "$1.8 million" and to replace it with "$2.8 million."

3. Section 6 of the Agreement is hereby amended by deleting the first sentence thereof in its entirety and replacing it with the following sentence:

During the term of this Agreement, during any period that the Executive is unable to perform the Executive's duties hereunder as a result of incapacity due to physical or mental illness, neither the Company nor Armstrong shall be required to pay any amounts payable to the Executive pursuant to this Agreement.

4. Section 6 of the Agreement is hereby amended by deleting the last sentence thereof in its entirety and replacing it with the following:

After January 31, 2001, the Change of Control Agreement shall terminate (including those provisions respecting the acceleration of benefits under any employee benefit plan of the Company or Armstrong, and any such acceleration previously requested by Executive shall not be effective).

5. Executive acknowledges that as of the date hereof, each of the Company and Armstrong has complied with all of its obligations under the Agreement, including all payment obligations thereunder (other than amounts to be paid pursuant to Section 5.3 thereof).

6. From and after the date on which this letter agreement becomes effective as provided in paragraph 8 hereof, Armstrong shall be responsible for the payment of all obligations to Executive under the Agreement.

7. Upon the effectiveness of this letter agreement, the Stock Option Surrender Agreement, dated September 25, 2000 shall be cancelled in all respects and all options referenced in such agreement and the related agreements shall be cancelled and void. In connection with such cancellation, Executive shall have no claims against either the Company, Armstrong or any Company Entity.

8. This letter agreement is subject to the entry of an order by the Bankruptcy Court in which Armstrong's chapter 11 case is pending, authorizing and approving Armstrong's assumption of the Agreement as amended hereby, pursuant to section 365 of the Bankruptcy Code. In the event such an order is not entered on or before March 30, 2001, this letter agreement shall be null and void and of no force or effect.

9. Promptly after the approval of this letter agreement as provided in paragraph 8 hereof, Armstrong shall pay to Executive the sum of $2.8 million provided in Section 5.3(a) of the Agreement and any payments due pursuant to
Section 5.3(b) of the Agreement.

Kindly acknowledge your agreement with the foregoing by executing this letter agreement in the space provided below and returning it to John Rigas.

Very truly yours,

Armstrong World Industries, Inc.

By:
Title

Armstrong Holdings, Inc.

By:
Title

Agreement to this 12 day
of February, 2001.

/s/ George A. Lorch

George A. Lorch

EXHIBIT 10(iii)(o)

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

This Agreement is made effective as of the 20th day of October, 2000, by and among Armstrong Holdings, Inc., a Pennsylvania corporation (the "Corporation"), Armstrong World Industries, Inc., also a Pennsylvania corporation (the "Subsidiary," and together with the Corporation referred to as the "Indemnitors") and **FirstName** (the "Indemnitee").

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

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

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

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

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

WHEREAS, in recognition of Indemnitee's need for substantial protection against personal liability in order to induce and retain Indemnitee's service to the Corporation, the increasing difficulty in obtaining satisfactory D & O Insurance coverage, and Indemnitee's reliance on the Bylaw, and in part to provide Indemnitee with specific contractual assurance that the protection promised by the Bylaw will be available to Indemnitee (regardless of, among other things, any amendment to or revocation of the Bylaws or any change in the composition of the Corporation's Board of Directors or acquisition transaction relating to the Corporation), the Indemnitors wish to provide in this Agreement for the indemnification of and the advancing of expenses to Indemnitee to the fullest extent (whether partial or complete) permitted by law and as set forth in this Agreement, and, to the extent insurance is maintained, for the continued coverage of Indemnitee under the Indemnitors' D & O Insurance policies.

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

1. Indemnity of Indemnitee.

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

(b) Subject to the foregoing limitation concerning certain proceedings initiated by the Indemnitee prior to a Change of Control, the Indemnitors shall pay the expenses (including attorneys' fees) incurred by Indemnitee in connection with any proceeding in advance of the final disposition thereof promptly after receipt by the Indemnitors of a request therefor stating in reasonable detail the expenses incurred or to be incurred.

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

2. Maintenance of Insurance and Funding.

(a) The Indemnitors represent that as of the present date, they have in force and effect the following policies of D & O Insurance (the "Insurance Policies"):

Insurer	Amount*
National Union Fire Insurance Company	$25 million
ACE Insurance Company Limited	$35 million

*Deductible zero where the insured is not permitted/required to indemnify; otherwise $2 million.

Subject only to the provisions of Section 2(b) hereof, the Indemnitors agree that, so long as Indemnitee shall continue to serve as an officer or director of the Corporation (or shall continue at the request of the Corporation to serve as a director, officer, trustee or representative of another corporation, partnership, joint venture, trust or other enterprise, including service with respect to an employee benefit plan) and thereafter so long as Indemnitee shall be subject to any possible claim or threatened, pending or completed action, suit or proceeding, whether civil, criminal or investigative, by reason of the fact that

Indemnitee was a director or officer of the Corporation (or served in any of said other capacities), the Indemnitors shall purchase and maintain in effect for the benefit of Indemnitee one or more valid, binding and enforceable policy or policies of D & O Insurance providing coverage at least comparable to that provided pursuant to the Insurance Policies.

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

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

(d) In the event of a Potential Change of Control or if and to the extent the Indemnitors are not required to maintain in effect the policy or policies of D & O Insurance described in Section 2(a) pursuant to the provisions of Section 2(b), the Indemnitors shall, upon written request by Indemnitee, create a "Trust" for the benefit of Indemnitee and from time to time, upon written request by Indemnitee, shall fund such Trust in an amount sufficient to pay any and all expenses, including attorneys' fees, and any and all liability and loss, including judgments, fines, ERISA excise taxes or penalties and amounts paid or to be paid in settlement actually and reasonably incurred by Indemnitee or on his or her behalf for which the Indemnitee is entitled to indemnification or with respect to which indemnification is claimed, reasonably anticipated or proposed to be paid in accordance with the terms of this Agreement or otherwise; provided that in no event shall more than $100,000 be required to be deposited in any Trust created hereunder in excess of the amounts deposited in respect of reasonably anticipated expenses, including attorneys' fees. The amounts to be deposited in the Trust pursuant to the foregoing funding obligation shall be determined by the Reviewing Person whose determination shall be final and conclusive. The Reviewing Person shall have no liability to the Indemnitee for his or her decisions hereunder. The terms of the Trust shall provide that upon a Change of Control (i) the Trust shall not be revoked or the principal thereof invaded, without the written consent of the Indemnitee, (ii) the Trust shall advance, within two business days of a request by the Indemnitee, any and all expenses, including attorneys' fees, to the Indemnitee (and the Indemnitee hereby agrees to reimburse the Trust under the circumstances under which the Indemnitee would be required to reimburse the Trustee under Section 5 of this Agreement), (iii) the Trust shall continue to be funded by the Indemnitors in accordance with the funding obligation set forth above, (iv) the Trustee shall promptly pay to the Indemnitee all amounts for which the Indemnitee shall be entitled to indemnification pursuant to this Agreement or otherwise, and (v) all unexpended funds in such Trust shall revert to the Indemnitors upon a final determination by the Reviewing Party or a court of competent jurisdiction, as the case may be, that the Indemnitee has been fully indemnified under the terms of this Agreement. The Trustee shall be a bank or trust company or other individual or entity chosen by the Indemnitee and acceptable to and approved of by the Indemnitors.

(e) For the purposes of this Agreement:

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

(ii) a "Potential Change of Control" shall occur if (A) the Corporation enters into an agreement or arrangement, the consummation of which would result in the occurrence of a Change in Control; (B) any person publicly announces a tender offer or comparable action which if consummated would constitute a Change of Control; (C) any person (other than a trustee or other fiduciary holding securities under an employee benefit plan of the Corporation acting in such capacity or a corporation owned, directly or indirectly, by the shareholders of the Corporation in substantially the same proportions as their ownership of stock of the Corporation), who is or becomes the beneficial owner, directly or indirectly, of securities of the Corporation representing 10% or more of the combined voting stock increases his or her beneficial ownership of such securities by 5% or more over the percentage so owned by such person on the date hereof; or (D) the Board of the Corporation adopts a resolution to the effect that, for the purposes of this Agreement, a Potential Change of Control has occurred.

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

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

3. Continuation of Indemnity.

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

4. Notification and Defense of Claim.

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

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

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

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

5. Undertaking to Repay Expenses.

In the event it shall ultimately be determined that the Indemnitee is not entitled to be indemnified for the expenses paid by the Indemnitors pursuant to
Section 1(b) hereof or otherwise or was not entitled to be fully indemnified, the Indemnitee shall repay to the Indemnitors such amount of the expenses or the appropriate portion thereof, so paid or advanced.

6. Notice.

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

7. Enforcement.

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

8. Severability.

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

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

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

9. Indemnification Under this Agreement Not Exclusive.

The indemnification provided by this Agreement shall not be deemed exclusive of any other rights to which the Indemnitee may be entitled under the Articles of Incorporation of the Corporation or its bylaws, any other agreement, any vote of stockholders or directors, or otherwise, both as to action in the Indemnitee's official capacity and as to action in another capacity while holding such office.

10. Miscellaneous.

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

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

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

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

ARMSTRONG HOLDINGS, INC.	ARMSTRONG WORLD INDUSTRIES, INC.
By ---------------------------------	By ---------------------------------
Title: Senior Vice President	Title: General Counsel

Indemnitee

Schedule of participating officers and directors

Armstrong Holdings, Inc. has entered into substantially similar agreements with certain of its directors and officers, including Michael D. Lockhart, Frank A. Riddick, III, Matthew J. Angello, John N. Rigas, E. Follin Smith, William C. Rodruan, Michael B. Schaffer. Mr. Lockhart and Mr. Schaffer's agreements are modified in that the D & O Insurance Policies referenced have total aggregate

limits of $150 million.

EXHIBIT 10(iii)(p)

INDEMNIFICATION AGREEMENT
FOR
DIRECTORS AND OFFICERS OF ARMSTRONG WORLD INDUSTRIES, INC.

This Agreement is made effective as of the 20th day of October, 2000, by and among Armstrong World Industries, Inc., a Pennsylvania corporation (the "Corporation"), Armstrong Holdings, Inc., also a Pennsylvania corporation (the "Parent," and together with the Corporation referred to as the "Indemnitors") and **FirstName** (the "Indemnitee").

WHEREAS, it is essential to the Corporation and the Parent that the Corporation retain and attract as directors and officers the most capable persons available; and

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

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

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

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

WHEREAS, in recognition of Indemnitee's need for substantial protection against personal liability in order to induce and retain Indemnitee's service to the Corporation, the increasing difficulty in obtaining satisfactory D & O Insurance coverage, and Indemnitee's reliance on the Bylaw, and in part to provide Indemnitee with specific contractual assurance that the protection promised by the Bylaw will be available to Indemnitee (regardless of, among other things, any amendment to or revocation of the Bylaws or any change in the composition of the Corporation's Board of Directors or acquisition transaction relating to the Corporation), the Indemnitors wish to provide in this Agreement for the indemnification of and the advancing of expenses to Indemnitee to the fullest extent (whether partial or complete) permitted by law and as set forth in this Agreement, and, to the extent insurance is maintained, for the continued coverage of Indemnitee under the Indemnitors' D & O Insurance policies.

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

1. Indemnity of Indemnitee.

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

(b) Subject to the foregoing limitation concerning certain proceedings initiated by the Indemnitee prior to a Change of Control, the Indemnitors shall pay the expenses (including attorneys' fees) incurred by Indemnitee in connection with any proceeding in advance of the final disposition thereof promptly after receipt by the Indemnitors of a request therefor stating in reasonable detail the expenses incurred or to be incurred.

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

2. Maintenance of Insurance and Funding.

(a) The Indemnitors represent that as of the present date, they have in force and effect the following policies of D & O Insurance (the "Insurance Policies"):

Insurer	Amount*
National Union Fire Insurance Company	$25 million
ACE Insurance Company Limited	$35 million

*Deductible zero where the insured is not permitted/required to indemnify; otherwise $2 million.

Subject only to the provisions of Section 2(b) hereof, the Indemnitors agree that, so long as Indemnitee shall continue to serve as an officer or director of the Corporation (or shall continue at the request of the Corporation to serve as a director, officer, trustee or representative of another corporation, partnership, joint venture, trust or other enterprise, including service with respect to an employee benefit plan) and thereafter so long as Indemnitee shall be subject to any possible claim or threatened, pending or completed action, suit or proceeding, whether civil, criminal or investigative, by reason of the fact that Indemnitee was a director or officer of the Corporation (or served in any of said other capacities), the Indemnitors shall purchase and maintain in effect for the benefit of Indemnitee one or more valid, binding and enforceable policy or policies of D & O Insurance providing coverage at least comparable to that provided pursuant to the Insurance Policies.

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

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

(d) In the event of a Potential Change of Control or if and to the extent the Indemnitors are not required to maintain in effect the policy or policies of D & O Insurance described in Section 2(a) pursuant to the provisions of Section 2(b), the Indemnitors shall, upon written request by Indemnitee, create a

"Trust" for the benefit of Indemnitee and from time to time, upon written request by Indemnitee, shall fund such Trust in an amount sufficient to pay any and all expenses, including attorneys' fees, and any and all liability and loss, including judgments, fines, ERISA excise taxes or penalties and amounts paid or to be paid in settlement actually and reasonably incurred by Indemnitee or on his or her behalf for which the Indemnitee is entitled to indemnification or with respect to which indemnification is claimed, reasonably anticipated or proposed to be paid in accordance with the terms of this Agreement or otherwise; provided that in no event shall more than $100,000 be required to be deposited in any Trust created hereunder in excess of the amounts deposited in respect of reasonably anticipated expenses, including attorneys' fees. The amounts to be deposited in the Trust pursuant to the foregoing funding obligation shall be determined by the Reviewing Person whose determination shall be final and conclusive. The Reviewing Person shall have no liability to the Indemnitee for his or her decisions hereunder. The terms of the Trust shall provide that upon a Change of Control (i) the Trust shall not be revoked or the principal thereof invaded, without the written consent of the Indemnitee, (ii) the Trust shall advance, within two business days of a request by the Indemnitee, any and all expenses, including attorneys' fees, to the Indemnitee (and the Indemnitee hereby agrees to reimburse the Trust under the circumstances under which the Indemnitee would be required to reimburse the Trustee under Section 5 of this Agreement), (iii) the Trust shall continue to be funded by the Indemnitors in accordance with the funding obligation set forth above, (iv) the Trustee shall promptly pay to the Indemnitee all amounts for which the Indemnitee shall be entitled to indemnification pursuant to this Agreement or otherwise, and (v) all unexpended funds in such Trust shall revert to the Indemnitors upon a final determination by the Reviewing Party or a court of competent jurisdiction, as the case may be, that the Indemnitee has been fully indemnified under the terms of this Agreement. The Trustee shall be a bank or trust company or other individual or entity chosen by the Indemnitee and acceptable to and approved of by the Indemnitors.

(e) For the purposes of this Agreement:

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

(ii) a "Potential Change of Control" shall occur if (A) the Parent enters into an agreement or arrangement, the consummation of which would result in the occurrence of a Change in Control; (B) any person publicly announces a tender offer or comparable action which if consummated would constitute a Change of Control; (C) any person (other than a trustee or other fiduciary holding securities under an employee benefit plan of the Corporation or the Parent acting in such capacity or a corporation owned, directly or indirectly, by the shareholders of the Parent in substantially the same proportions as their ownership of stock of the Parent), who is or becomes the beneficial owner, directly or indirectly, of securities of the Parent representing 10% or more of the combined voting stock increases his or her beneficial ownership of such securities by 5% or more over the percentage so owned by such person on the date hereof; or (D) the Board of the Parent adopts a resolution to the effect that, for the purposes of this Agreement, a Potential Change of Control has occurred.

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

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

3. Continuation of Indemnity.

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

4. Notification and Defense of Claim.

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

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

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

counsel shall be at the expense of the Indemnitors. The Indemnitors shall not be entitled to assume the defense of any action, suit or proceeding brought by or on behalf of the Indemnitors or as to which the Indemnitee shall have made the conclusion described in (ii) of this paragraph.

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

5. Undertaking to Repay Expenses.

In the event it shall ultimately be determined that the Indemnitee is not entitled to be indemnified for the expenses paid by the Indemnitors pursuant to
Section 1(b) hereof or otherwise or was not entitled to be fully indemnified, the Indemnitee shall repay to the Indemnitors such amount of the expenses or the appropriate portion thereof, so paid or advanced.

6. Notice.

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

7. Enforcement.

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

8. Severability.

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

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

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

9. Indemnification Under this Agreement Not Exclusive.

The indemnification provided by this Agreement shall not be deemed exclusive of any other rights to which the Indemnitee may be entitled under the Articles of Incorporation of the Corporation or its bylaws, any other agreement, any vote of stockholders or directors, or otherwise, both as to action in the Indemnitee's official capacity and as to action in another capacity while holding such office.

10. Miscellaneous.

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

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

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

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

ARMSTRONG HOLDINGS, INC.	ARMSTRONG WORLD INDUSTRIES, INC.
By ----------------------------------	By ----------------------------------
Title: Senior Vice President	Title: General Counsel

Indemnitee

SCHEDULE OF PARTICIPATING OFFICERS AND DIRECTORS

Armstrong World Industries, Inc. has entered into substantially similar agreements with certain of its directors and officers, including Michael D. Lockhart, John N. Rigas, Marc R. Olivie, Stephen J. Senkowski, Floyd F. Sherman, E. Follin Smith, William C. Rodruan, Stephen E. Stockwell, Michael B. Schaffer. Mr. Lockhart and Mr. Schaffer's agreements are modified in that the D & O

Insurance Policies referenced have total aggregate limits of $150 million.

EXHIBIT 10(iii)(v)

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT is made as of November 14, 2000 (the "Agreement"), by and between Triangle Pacific Corp., a Delaware corporation (the "Company") an indirect, wholly owned subsidiary of Armstrong Holdings, Inc. ("Holdings") and Armstrong World Industries, Inc. ("World"), and Frank A. Riddick III, an individual and resident of Lancaster County, Pennsylvania (the "Executive");

WITNESSETH:

WHEREAS, the Executive is currently serving as the President and Chief Operating Officer of Holdings; and

WHEREAS, the Company desires to employ the Executive and the Executive desires to serve the Company, in each case, on the terms and conditions set forth herein;

NOW, THEREFORE, in consideration of the premises and the respective covenants and agreements of the parties herein contained, and intending to be legally bound hereby, the parties hereto agree as follows:

1. DEFINED TERMS.

The definitions of capitalized terms used in this Agreement, unless otherwise defined herein, are provided in the last Section hereof.

2. EMPLOYMENT.

The Company hereby agrees to employ the Executive, and the Executive hereby agrees to serve the Company and its subsidiaries and affiliates, on the terms and conditions set forth herein, during the Term of this Agreement.

3. TERM OF AGREEMENT.

The Term will commence on the date first above written (the "Effective Date") and shall continue until the third anniversary of the Effective Date Time; provided, that commencing on the second anniversary of the Effective Date and on each succeeding anniversary thereafter, the Term of this Agreement shall automatically be extended for one (1) additional year unless the Company or the Executive shall have given written notice to the other at least 180 days prior to any such anniversary date to the effect that the Term of this Agreement shall not be extended. Notwithstanding anything in this Agreement to the contrary, the Company may terminate this

Agreement in the event of Executive's Disability; provided, that any such termination shall not, by itself, terminate the Executive's employment with the Company.

4. POSITION AND DUTIES.

During the Term of this Agreement, the Executive shall serve as Chief Executive Officer of the Company and shall also serve in any other executive officer position of the Company or its subsidiaries and affiliates as the Board may reasonably request. The Executive shall be the chief executive officer of the Company and shall have such duties and responsibilities as are customary for the Executive's position and such other duties not inconsistent therewith as the Board of Directors may reasonably assign from time to time. During the Term of this Agreement, excluding any periods of vacation and sick leave to which the Executive is entitled under this Agreement and the Company's policies and practices (as the same may be increased in the future), the Executive shall devote substantially all his working time and efforts to the business and affairs of the Company and its subsidiaries and affiliates and shall diligently and faithfully perform his duties to the best of his ability; provided, however, that (i) the Executive may continue to serve and perform his duties as President and Chief Operating Officer of Holdings, and (ii) the Executive may engage in activities relating to personal matters (including personal financial matters) and in such corporate, industry, civic and charitable activities, including membership on corporate and charitable boards of directors or trustees of non-affiliated companies and organizations, so long as such service does not substantially interfere with the performance of his duties hereunder or violate his obligations under Section 10 hereof.

5. COMPENSATION AND RELATED MATTERS.

5.1 BASE SALARY. The Company shall pay, or cause to be paid, to the Executive an annual base salary ("Base Salary") during the Term of this Agreement, which shall be at an initial rate of not less than $600,000 per year. The Base Salary shall be paid in accordance with the Company's payroll practices for its senior officers, but not less frequently than monthly, in arrears. For purposes of this Agreement, "Base Salary" shall include any increases in Base Salary during the Term of this Agreement. The Base Salary in effect from time to time shall not be decreased during the Term of this Agreement except in connection with across-the-board salary reductions similarly affecting all senior officers of the Company and all senior officers of any person in control of the Company which have been agreed to by the Executive. Compensation of the Executive by Base Salary payments shall not be deemed exclusive and shall not prevent the Executive from participating in any other compensation or benefit plan of the Company. The Base Salary payments (including any increased Base Salary payments) shall not in any way limit or reduce any other obligation of the Company hereunder, and no other compensation, benefit or payment hereunder shall in any way limit or reduce the obligation of the Company to pay the Executive's Base Salary.

5.2 BENEFIT PLANS. During the Term, the Executive and his eligible dependents shall be entitled to participate in and receive benefits under all "employee benefit plans" (as defined in Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended from time to time ("ERISA")), and employee benefit arrangements in which senior officers of World generally participated as of the date immediately prior to the Effective Date, including without limitation, (i) all savings, deferred compensation, profit sharing and retirement plans, practices, policies and programs and (ii) all welfare benefit plans, practices, policies and programs (including all medical, prescription, dental, disability, employee life insurance, group life insurance, group hospitalization, health, accidental death and travel accident insurance plans and programs) as are made generally available to senior officers of World as of the date immediately prior to the date hereof, in each case, as the benefits payable under the same may be increased from time to time, subject to and on a basis consistent with the terms, conditions and overall administration of such plans, practices, policies and programs, including provisions which permit such plans, practices, policies and programs to be modified or terminated, provided, that if the benefits provided under any such employee benefit plan, practice, policy or program in which the Executive participates should be reduced or terminated, the Executive shall be provided participation in another plan or program that provides the Executive with benefits at least comparable to those that were reduced or eliminated. The Executive's participation in such employee benefit plans, practices, policies and programs shall be at a level appropriate for the Executive's position. Such employee benefit plans, practices, policies and programs, shall include, without limitation, the plans, programs, policies and practices in which the Executive participates on the date of this Agreement.

5.3 INCENTIVE COMPENSATION. During the Term of this Agreement, the Executive shall be entitled to participate in and receive benefits under all annual incentive (bonus) plans and long-term incentive compensation plans in which other senior officers of World generally participated as of the date immediately prior to the Effective Date, including all restricted share, performance restricted share and stock option plans of Holdings. The Executive's participation in such incentive plans shall be at a level appropriate for the Executive's position. Without limiting the generality of the foregoing, the Executive shall be provided an annual incentive opportunity, as a percentage of the Executive's Base Salary at target performance levels, that is not less than the opportunity provided to the Executive by Holdings and World as of the date immediately prior to the Effective Date, which levels shall be reasonable and shall be adjusted for extraordinary events. Such incentive compensation shall be subject to and on a basis consistent with the terms, conditions and overall administration of such plans, including provisions which permit such plans to be modified or terminated, provided, that if the incentive compensation opportunities provided the Executive should be reduced or terminated, the Executive shall be provided participation in another plan that provides the Executive with an incentive compensation opportunity at least comparable to that which was reduced or eliminated. Such incentive compensation plans shall include, without limitation, the plans of Holdings and World in which the Executive participated as of the date immediately prior to the Effective Date.

5.4 SPECIAL INCENTIVE COMPENSATION. The Company shall pay the Executive
(i) in addition to any other annual incentive compensation to which the Executive may be entitled pursuant to Section 5.3, a one-time additional cash bonus of $200,000, payable at the same time as the annual incentive compensation to which the Executive is entitled pursuant to Section 5.3 for the year 2000 is paid, but in any event no later than March 31, 2001, and (ii) a one-time cash retention bonus of $200,000, payable on December 28, 2001; provided, that in

each case the Executive must be an employee of the Company on the date of such payment in order for him to be entitled to receive it.

5.5 OTHER BENEFITS. The Executive shall participate on the same terms and conditions as all other senior officers of World in all other benefit plans, programs, or arrangements as may be sponsored or maintained for senior officers of World generally as of the date immediately prior to the Effective Date (and as the benefits thereunder may be increased in the future) or which may hereafter be offered to senior officers of World generally and shall participate on the same terms and conditions as such senior officers of World generally participate.

5.6 FRINGE BENEFITS. During the Term of this Agreement, the Executive shall be entitled to receive all perquisites and fringe benefits which World made available to senior officers of World generally as of the date immediately prior to the Effective Date, including, but not limited to, all perquisites and fringe benefits provided to the Executive by Holdings and World on the date of this Agreement.

5.7 EXPENSES. During the Term of this Agreement, the Executive is authorized to incur, and shall be reimbursed by the Company for all reasonable and customary business-related expenses, including travel, entertainment, gifts and similar items, incurred by the Executive in connection with his employment hereunder.

5.8 WORKING FACILITIES. During the Term of this Agreement, the Company shall furnish the Executive with offices and working facilities in the Company's principal executive offices and shall provide secretarial and other assistance suitable to Executive's position and adequate for the performance of his duties hereunder.

5.9 VACATION. During the Term of this Agreement, the Executive shall be entitled to vacation in accordance with the Company's current policies and practices, provided that the Executive shall be entitled to not less than five
(5) weeks of vacation during each year of this Agreement, or such greater period as the Board shall approve, without reduction in salary or other benefits.

5.10 ANNUAL REVIEW. During the Term of this Agreement, the Board (or the compensation committee of the Board) shall in good faith review the Executive's total compensation package (including but not limited to the Base Salary provided for in Section 5.1, the benefit plans provided for in Section 5.2 and the short and long-term incentive compensation opportunity provided for in Section 5.3) at least annually for possible increase, taking into account, among other things, (i) the performance of the Executive, (ii) the performance of the Company, and (iii) the overall compensation of executives in similar positions at comparable companies.

6. COMPENSATION IN THE EVENT OF EXECUTIVE'S DISABILITY.

During the Term of this Agreement, during any period that the Executive fails to perform the Executive's full-time duties hereunder as a result of incapacity due to physical or mental illness, the Company shall pay, or cause to be paid, to the Executive his Base Salary at the rate in effect at the commencement of any such period, together with all compensation and benefits payable to the Executive under the terms of any compensation or benefit plan, program or arrangement maintained by the Company, World or Holdings for the benefit of the Executive during such period, until this Agreement is terminated by the Company for Disability; provided, however, that such payments shall be reduced by the sum of the amounts, if any, payable to the Executive at or prior to the time of any such payment under disability benefit plans of the Company, World or Holdings, which amounts were not previously applied to reduce any such payment.

7. TERMINATION COMPENSATION AND BENEFITS.

7.1 If the Executive's employment is terminated for any reason during the Term of this Agreement, the Executive shall be paid (or in accordance with Section 11.2 in the event of the Executive's death), (i) the Executive's Base Salary through the Date of Termination at the rate in effect immediately prior to the time the Notice of Termination is given, (ii) all compensation and benefits (other than severance compensation and benefits), including any short-term or long-term incentive compensation, to which the Executive is entitled, in accordance with the terms of the plans in which Executive participates, and (iii) any unreimbursed expenses payable pursuant to Section 5.7 of the Agreement that were incurred before the Date of Termination.

7.2 (a) In the event the Executive's employment is terminated during the Term of this Agreement by the Executive for Good Reason or by the Company for any reason other than Cause, death of the Executive or Disability, (i) the Company shall pay the Executive, in addition to amounts payable under Sections 7.1 and 7.3, a lump sum cash payment to be made within thirty (30) days after the Date of Termination equal to three times (the "Multiplier") the sum of (x) the higher of the Base Salary in effect immediately prior to the occurrence of the event or circumstance upon which the Notice of Termination is based or the Base Salary in effect immediately prior to the date of the Notice of Termination, and (y) the highest of the annual bonus that may be earned by the Executive if target performance levels are achieved in the year in which the Date of Termination occurs or the highest annual bonus earned by the Executive in respect of the three (3) years immediately preceding the year in which the Date of Termination occurs, in any case, pursuant to any annual incentive (bonus) plan covering the Executive, and (ii) the Company shall continue the benefits provided for in Section 5.2 of this Agreement for thirty-six (36) additional months after the Date of Termination; provided that the amounts payable to the Executive under this Section 7.2(a) shall be reduced by the amount of any one-time special bonus actually paid to the Executive pursuant to Section 5.4 hereof. The payments provided for in this Section 7.2(a) shall be in lieu of any severance compensation to which the Executive would otherwise be entitled under any severance plan or policy applicable to the Executive.

(b) In the event that the Company gives notice to the Executive in accordance with Section 3 of the Agreement that this Agreement shall not be extended and will terminate at the end of the then current Term, then (i) the Company shall, within thirty (30) days after the end of the Term, pay the Executive a lump sum cash payment in an amount determined in accordance with Section 7.2(a)(i) except that the Multiplier shall be one and one-half (1-1/2) instead of three (3), and (ii)) the Company shall continue the benefits provided for in Section 5.2 of this Agreement for eighteen (18) additional months after the end of the Term; provided that the amounts payable to the Executive under this Section 7.2(b) shall be reduced by the amount of any one-time special bonus actually paid to the Executive pursuant to Section 5.4 hereof. The payments provided for in this Section 7.2(b) shall be in lieu of any severance compensation to which the Executive would otherwise be entitled under any severance plan or policy applicable to the Executive.

7.3 If the Executive's employment is terminated for any reason during the Term of this Agreement, the Company shall pay the Executive's normal post-termination compensation and benefits (other than severance compensation and benefits) to the Executive as such payments become due. Such normal post-termination compensation and benefits (other than severance compensation and benefits) shall be determined under, and paid in accordance with World's retirement, insurance and other compensation or benefit plans, programs and arrangements (other than this Agreement), as applicable and as in effect on the date immediately prior to the date hereof.

7.4 (a) Anything in this Agreement to the contrary notwithstanding, in the event it shall be determined that any payment, benefit, or distribution by the Company or World or its affiliates to or for the benefit of the Executive, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise (a "Payment"), would be subject to the excise tax imposed by Section 4999 of the Code, or any interest or penalties with respect to such excise tax (such excise tax, together with any such interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), then the Executive shall be entitled to receive an additional payment ("Gross-Up Payment") in an amount such that after payment by the Executive of all taxes (including any interest or penalties imposed with respect to such taxes), including, without limitation, any income taxes and Excise Tax imposed upon the Gross-Up Payment, the Executive retains an amount of the Gross- Up Payment equal to the Excise Tax imposed upon the Payments.

(b) Subject to the provisions of Section 7.4(c) hereof, all determinations required to be made under this Section 7.4, including whether a Gross-Up Payment is required and the amount of such Gross-Up Payment and the assumptions to be used in arriving at such determinations, shall be made by the Company's principal outside accounting firm (the "Accounting Firm") which shall provide detailed supporting calculations both to the Board and the Executive within fifteen (15) business days after the Date of Termination and/or such earlier date(s) as may be requested by the Company or the Executive (each such date and the Date of Termination shall be referred to as a "Determination Date" for purposes of this Section 7.4(b) and Section 7.5 hereof). All fees and expenses of the Accounting Firm shall be borne solely by the Company. The initial Gross-Up Payment, if any, as determined pursuant to this Section

7.4(b), shall be paid by the Company to the Executive within thirty (30) days of the receipt of the Accounting Firm's determination. If the Accounting Firm determines that no Excise Tax is payable by the Executive, it shall furnish the Executive with a written opinion that failure to report the Excise Tax on the Executive's applicable federal income tax return would not result in the imposition of a negligence or similar penalty. Any determination by the Accounting Firm under this Section 7.4(b) shall be binding upon the Company and the Executive. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments which will not have been made by the Company should have been made ("Underpayment") consistent with the calculations required to be made hereunder. In the event that the Company exhausts its remedies pursuant to Section 7.4(c) and the Executive thereafter is required to make a payment of any Excise Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred and any such Underpayment shall be promptly paid by the Company to or for the benefit of the Executive.

(c) The Executive shall notify the Company in writing of any claim by the Internal Revenue Service that, if successful, would require the payment by the Company of an Underpayment. Such notification shall be given as soon as practicable but no later than ten (10) business days after the Executive is informed in writing of such claim and shall apprise the Company of the nature of such claim and the date on which such claim is requested to be paid. The Executive shall not pay such claim prior to the expiration of the thirty (30) day period following the date on which he gives such notice to the Company (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If the Company notifies the Executive in writing prior to the expiration of such period that it desires to contest such claim, the Executive shall:

(i) give the Company any information reasonably requested by the Company relating to such claim;

(ii) take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including, without limitation accepting legal representation with respect to such claim by an attorney reasonably selected by the Company;

(iii) cooperate with the Company in good faith in order to effectively contest such claim; and

(iv) permit the Company to participate in any proceeding relating to such claim; provided, however, that the Company shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest and shall indemnify and hold the Executive harmless, on an after-tax basis, for any Excise Tax or income tax, including interest and penalties with respect thereto, imposed as a result of such representation and payment of costs and expenses. Without limitation on the foregoing provisions of this Section 7.4(c), the Company shall control all proceedings taken in connection with such contest and, at its sole option, may pursue or forgo any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim and may, at its sole option, either direct the Executive to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and the Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; provided, however, that if the Company directs the Executive to pay such claim and sue for a refund, the Company shall advance the amount of such payment to the Executive on an interest-free basis and shall indemnify and hold the Executive harmless, on an after-tax basis, from any Excise Tax or income tax, including interest or penalties with respect thereto, imposed with respect to such advance or with respect to any imputed income with respect to such advance; and provided, further, that any extension of the statute of limitations relating to payment of taxes for the taxable year of the Executive with respect to which such contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Company's control of the contest shall be limited to issues with respect to which a Gross-Up Payment would be payable hereunder and the Executive shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

(d) If, after the receipt by the Executive of an amount advanced by the Company pursuant to Section 7.4(c) hereof, the Executive becomes entitled to receive any refund with respect to such claim, the Executive shall (subject to the Company's compliance with the requirements of Section 7.4(c) hereof) promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If, after the receipt by the Executive of an amount advanced by the Company pursuant to Section 7.4(c) hereof, a determination is made that the Executive shall not be entitled to any refund with respect to such claim and the Company does not notify the Executive in writing of its intent to contest such denial of refund prior to the expiration of thirty (30) days after such determination, then such advance shall be forgiven and shall not be required to be repaid.

7.5 The payments provided for in Section 7.4 hereof (other than Section 7.4(c) and (d)) shall be made not later than the thirtieth (30th) day following each Determination Date; provided, however, that if the amounts of such payments cannot be finally determined on or before such day, the Company shall pay to the Executive on such day an estimate, as determined by the Executive, of the minimum amount of such payments to which the Executive is clearly entitled and shall pay the remainder of such payments (together with interest at the rate provided in Section 1274(b)(2)(B) of the Code) as soon as the amount thereof can be determined but in no event later than the forty-fifth (45th) day after each Determination Date. In the event that the amount of the estimated payments exceeds the amount subsequently determined to have been due, such excess shall constitute a loan by the Company to the Executive, payable on the fifth (5th) business day after demand by the Company (together with interest at the rate provided in Section 1274(b)(2)(B) of the Code).

8. TERMINATION PROCEDURES.

8.1 NOTICE OF TERMINATION. During the Term of this Agreement, any purported termination of the Executive's employment (other than by reason of death) shall be communicated by written Notice of Termination from one party hereto to the other party hereto in accordance with Section 12 hereof. For purposes of this Agreement, a "Notice of Termination" shall mean a notice which shall indicate the specific termination provision in this Agreement relied upon and, in the case of a termination by the Company for Cause or by the Executive for Good Reason, shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated. Further, a Notice of Termination for Cause is required to include a copy of a resolution duly adopted by the affirmative vote of not less than three-quarters (3/4) of the entire membership of the Board at a meeting of the Board which was called and held for the purpose of considering such termination (after reasonable notice to the Executive and an opportunity for the Executive, together with the Executive's counsel, to be heard before the Board) finding that, in the good faith opinion of the Board, the Executive was guilty of conduct set forth in the definition of Cause herein, and specifying the particulars thereof in detail.

8.2 DATE OF TERMINATION. "Date of Termination," with respect to any purported termination of the Executive's employment during the Term of this Agreement, shall mean (i) if the Executive's employment is terminated by his death, the date of his death, (ii) if the Executive's employment is terminated by the Executive other than for Good Reason, the date specified in the Notice of Termination (which shall not be less than one hundred eighty (180) days) after such Notice of Termination is given, (iii) if the Executive's employment is terminated by the Company for Cause, on the date that the Notice of Termination is sent by the Board in accordance with Section 8.1, and (iv) if the Executive's employment is terminated for any other reason, the date specified in the Notice of Termination (which shall not be less than sixty (60) days) after such Notice of Termination is given.

9. NO MITIGATION.

The Company agrees that, if the Executive's employment hereunder is terminated during the Term of this Agreement, the Executive is not required to seek other employment or to attempt in any way to reduce any amounts payable to the Executive by the Company hereunder. Further, the amount of any payment or benefit provided for hereunder (other than pursuant to Section 7.4(d) hereof) shall not be reduced by any compensation earned by the Executive as the result of employment by another employer, by retirement benefits, by offset against any amount claimed to be owed by the Executive to the Company, or otherwise.

10. CONFIDENTIALITY AND NONCOMPETITION.

10.1 The Executive shall not, during or after the Term of this Agreement, without the prior written consent of the Company disclose to any entity or person any information which is treated as confidential by the Company or any of its subsidiaries or affiliates (each, a "Company Entity"), and is not generally known or available in to the public, provided, that the Executive may make disclosures of such confidential information (i) during the Term of this Agreement in the course of and to the extent required by and consistent with the performance of his duties hereunder, and (ii) to the extent required by law or legal process.

10.2 Except as permitted by the Company with its prior written consent, the Executive shall not, during the Executive's employment with the Company and for the period ending twenty-four (24) months after the Executive's employment with the Company terminates for any reason, directly or indirectly, own, enter into the employ of or render, any services (whether as a consultant or otherwise) to any person, firm or corporation within the United States or any foreign country in which the Company is doing or is contemplating doing business on the Date of Termination which is a competitor of any Company Entity with respect to products which any Company Entity is then producing or services which any Company Entity is then providing (a "Competitor"), or approach, canvass, solicit, or otherwise endeavor to entice away from the Company, any customer in respect of any service or product in any way competitive with the services or products supplied by any Company Entity to such customer, or solicit the services of, or endeavor to entice away from the Company, any director, executive officer or employee of the Company; provided, that it shall not be a violation of this provision for the Executive to be employed by, or render services to, a Competitor, if the Executive renders those services only with respect to those lines of business of the Competitor which are not directly competitive with a line of business of any Company Entity or are located in any country in which the Company does not do business and was not contemplating doing business on the Date of Termination.

10.3 The Executive acknowledges and agrees that any breach of this
Section 10 by the Executive will result in immediate and irreparable harm to the Company, the amount of which will be extremely difficult to ascertain, and that the Buyer could not be reasonably or adequately compensated by damages in an action at law. For these reasons, the Company shall have the right to obtain such preliminary, temporary or permanent mandatory or restraining injunctions, orders or decrees as may be necessary to protect the Company against or on account of any breach by the Executive of the provisions of this Section 10 without proof of any actual damage caused to the Company.

11. SUCCESSORS; BINDING AGREEMENT.

11.1 In addition to any obligations imposed by law upon any successor to the Company, the Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company, as the case may be, to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. Failure of the Company to obtain such assumption and agreement upon the effectiveness of any such succession shall be a breach of this Agreement and shall entitle the Executive to compensation from the Company in the same amount and on the same terms as the Executive would be entitled to hereunder if the Executive were to terminate the Executive's employment for Good Reason, except that, for purposes of implementing the foregoing, the date on which any such succession becomes effective shall be deemed the Date of Termination.

11.2 This Agreement shall inure to the benefit of and be enforceable by the Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If the Executive shall die while any amount would still be payable to the Executive hereunder (other than amounts which, by their terms, terminate upon the death of the Executive) if the Executive had continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to the executors, personal representatives or administrators of the Executive's estate.

12. NOTICES.

For the purpose of this Agreement, notices and all other communications provided for in the Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by United States registered mail, return receipt requested, postage prepaid, addressed to the respective addressees set forth below, or to such other address as either party may have furnished to the other in writing in accordance herewith, except that notice of change of address shall be effective only upon actual receipt:

To the Company, World or Holdings:

c/o Armstrong Holdings, Inc.
2500 Columbia Avenue
Lancaster, PA 17603
Attention: Senior Vice President, Human Resources Telecopy: 717-396-6119

To the Executive:

At the Executive's residence address as maintained by the Company in the regular course of its business for payroll purposes.

13. MISCELLANEOUS.

If the Executive, in his capacity as an officer, approves in writing, or if the Executive is elected as a director, if the Executive, in his capacity as a director, votes for any action that will adversely affect the Executive's rights under this Agreement, such vote or approval shall be deemed to constitute the Executive's consent to such action under this Agreement; otherwise, no provision of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing and signed by the Executive and such officers as may be specifically designated by the Board. No waiver by any party hereto at any time of any breach by any other party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. No agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by any party which are not expressly set forth in this Agreement. This Agreement sets forth the entire agreement of the parties hereto in respect of the subject matter contained herein and supersedes all prior agreements, promises, covenants, arrangements, communications, representations or warranties, whether oral or written, by any officer, employee or representative of any party hereto; and any prior agreement of the parties hereto in respect of the subject matter contained herein is hereby terminated and canceled, except as otherwise provided in this Agreement. Nothing in this Section 13 shall affect the Executive's rights under the Change in Control Agreement or the Indemnification Agreement between Holdings and the Executive. The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the Commonwealth of Pennsylvania, without giving effect to choice of law principles.

All references to sections of the Code shall be deemed also to refer to any successor provisions to such sections. There shall be withheld from any payments provided for hereunder any amounts required to be withheld under federal, state or local law and any additional withholding amounts to which the Executive has agreed. The obligations under this Agreement of the Company or the Executive which by their nature and terms require satisfaction after the end of the Term shall survive such event and shall remain binding upon such party.

14. VALIDITY.

The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

15. COUNTERPARTS.

This Agreement may be executed in several counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same instrument.

16. SETTLEMENT OF DISPUTES; ARBITRATION.

All claims by the Executive for benefits under this Agreement shall be in writing and shall be directed to and initially determined by the Board. Any denial by the Board of a claim for benefits under this Agreement shall be delivered to the Executive in writing and shall set forth the specific reasons for the denial and the specific provisions of this Agreement relied upon. The Board shall afford a reasonable opportunity to the Executive for a review of the decision denying a claim and shall further allow the Executive to appeal to the Board a decision of the Board within sixty (60) days after notification by the Board that the Executive's claim has been denied. To the extent permitted by applicable law and subject to the right of the Company to seek equitable relief in a court pursuant to Section 10.3, any further dispute or controversy arising under or in connection with this Agreement shall be settled exclusively by arbitration in Allegheny County, Pennsylvania, in accordance with the Commercial Arbitration Rules of the American Arbitration Association then in effect. Judgment may be entered on the arbitrator's award in any court having jurisdiction.

17. FEES AND EXPENSES.

The Company shall pay to the Executive all reasonable legal fees and expenses incurred by the Executive in disputing any termination or in seeking in good faith to obtain or enforce any benefit or right provided by this Agreement or in connection with any tax audit or proceeding to the extent attributable to the application of Section 4999 of the Code to any payment or benefit provided hereunder; provided, however, the Company shall not be required to pay to the Executive legal fees and expenses to the extent such legal fees and expenses were incurred in connection with a contest controlled by the Company pursuant to
Section 7.4(c) hereof in connection with which the Company complied with its obligations under said Section 7.4(d). Such payments shall be made within thirty
(30) business days after delivery of the Executive's written request for payment accompanied with such evidence of fees and expenses incurred as the Company reasonably may require.

18. COORDINATION OF BENEFITS.

18.1 Notwithstanding anything in this Agreement to the contrary, if the Executive is paid "Severance Payments" under that certain Agreement dated between Holdings and the Executive in connection with a Change in Control (as defined therein), then this Agreement (including Section 10.2 hereof) shall forthwith terminate and the Executive shall not be entitled to the payment of any amounts under this Agreement other than pursuant to Section 7.1 hereof (and any amounts theretofore paid to the Executive pursuant to Sections 7.2 or 5.4, hereof shall be credited against any "Severance Payments" to which the Executive is entitled under said Change in Control Agreement).

18.2 If and to the extent that World (or Holdings) pays and provides the compensation and benefits to which the Executive is entitled under this Agreement, then the compensation and benefits to which the Executive and/or his eligible dependents or beneficiaries are entitled from the Company under this Agreement shall be reduced to such extent.

19. DEFINITIONS.

For purposes of this Agreement, the following terms shall have the meaning indicated below:

(a) "Base Salary" shall have the meaning stated in Section 5.2 hereof.

(b) "Board" shall mean the Board of Directors of the Company.

(c) "Cause" for termination by the Company of the Executive's employment, for purposes of this Agreement, shall mean (i) the willful and continued failure by the Executive to substantially perform the Executive's duties hereunder (other than any such failure resulting from the Executive's incapacity due to physical or mental illness or any such actual or anticipated failure after the issuance of a Notice of Termination for Good Reason by the Executive pursuant to Section 8.1) after a written demand for substantial performance is delivered to the Executive by the Board, which demand specifically identifies the manner in which the Board believes that the Executive has not substantially performed the Executive's duties, or (ii) the willful engaging by the Executive in conduct which is demonstrably and materially injurious to the Company, monetarily or otherwise, including but not limited to fraud or embezzlement by the Executive, or (iii) the Executive's conviction (or entering into a plea bargain admitting guilt) of any felony, or
(iv) a material breach by the Executive of this Agreement, including a violation of Section 10. For purposes of clauses (i) and (ii) of this definition, no act, or failure to act, on the Executive's part shall be deemed "willful" unless done, or omitted to be done, by the Executive not in good faith and without reasonable belief that the Executive's act, or failure to act, was in the best interest of the Company.

(d) "Code" shall mean the Internal Revenue Code of 1986, as amended from time to time.

(e) "Date of Termination" shall have the meaning stated in Section 8.2 hereof.

(f) "Disability" shall be deemed the reason for the termination of this Agreement by the Company, if, as a result of the Executive's incapacity due to physical or mental illness, the Executive shall have been absent from the full-time performance of the Executive's duties hereunder for a period of six
(6) consecutive months.

(g) "Excise Tax" shall have the meaning stated in Section 7.4(a) hereof.

(h) "Executive" shall mean the individual named in the first paragraph of this Agreement.

(i) "Good Reason" for termination by the Executive of the Executive's employment shall mean the occurrence (without the Executive's express written consent), of any one of the following acts by the Company, or failures by the Company to act, unless, in the case of any act or failure to act described in paragraphs (i) or (ii) below, such act or failure to act is corrected prior to the Date of Termination specified in the Notice of Termination given in respect thereof:

(i) the assignment to the Executive of any duties inconsistent with the Executive's status as an executive officer of the Company or a substantial alteration in the nature or status of the Executive's responsibilities consistent with the title set forth in Section 4, unless the Executive has indicated to the Company his intention to terminate his employment prior to the end of the Term, and such assignment or alteration is made by the Board in good faith in order to facilitate a transition to successor management;

(ii) the removal (whether or not accompanied by a termination of the Executive's employment by Holdings) of Executive as President and Chief Operating Officer of Holdings for any reason other than Cause (with the determinations required of the Board in the definition of Cause being made by the Board of Directors of Holdings);

(iii) the public announcement of the appointment of any person other than the Executive to succeed Michael D. Lockhart as Chief Executive Officer of Holdings (or its successor);

(iv) any material breach of any provision of this Agreement by the Company;

(v) the relocation of the Executive's principal place of employment to a location more than 250 miles from the Executive's principal place of employment (unless such relocation is closer to the Executive's principal residence) or the Company's requiring the Executive to be based anywhere other than such principal place of employment (or permitted relocation thereof) except for required travel on the Company's business to an extent substantially consistent with the Executive's present business travel obligations;

(vi) a reduction by the Company in the Executive's Base Salary as in effect on the date hereof or as the same may be increased from time to time except for across-the-board salary reductions similarly affecting all senior officers of the Company and all senior officers of any person in control of the Company; or

(vii) the failure by the Company to continue in effect any employee benefit plan or incentive compensation plan in which the Executive currently participates which is material to the Executive's total compensation, unless such plan or arrangement has been replaced by a new plan on a basis not materially less favorable, both in terms of the amount or timing of payment of benefits provided and the level of the Executive's participation relative to other participants.

The Executive's right to terminate the Executive's employment for Good Reason shall not be affected by the Executive's incapacity due to physical or mental illness. The Executive's continued employment shall not constitute consent to, or a waiver of rights with respect to, any act or failure to act constituting Good Reason hereunder.

(j) "Gross-Up Payment" shall have the meaning stated in Section 7.4(a) hereof.

(k) "Notice of Termination" shall have the meaning stated in Section 8.1 hereof.

(l) "Severance Payments" shall mean those payments described in Section 7.2 hereof.

(m) "Term" shall have the meaning stated in Section 3 hereof.

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

TRIANGLE PACIFIC CORP.

By:

Name:
Title: Senior Vice President, Human Resources

EXECUTIVE

Frank A. Riddick III

EXHIBIT 10(iii)(w)

AMENDMENT TO
EMPLOYMENT AGREEMENT

THIS AMENDMENT TO EMPLOYMENT AGREEMENT is made as of November 14, 2000 (the "Amendment"), by and between Armstrong Holdings, Inc., a Pennsylvania corporation (the "Company"), and Frank A. Riddick III, an individual and resident of Lancaster County, Pennsylvania (the "Executive").

WHEREAS, the Executive is currently serving as the President and Chief Operating Officer of the Company pursuant to an Employment Agreement dated as of August 7, 2000, between the Executive and the Company and joined by Armstrong World Industries, Inc. (the "Agreement");

WHEREAS, the Board desires Executive to also serve as the Chief Executive Officer of Triangle Pacific Corp. ("Triangle Pacific"), which is an indirect, wholly-owned subsidiary of Holdings, and in connection with that office, Executive is entering into an employment agreement of even date with Triangle Pacific (the "Triangle Pacific Agreement"); and

WHEREAS, the Company desires to continue to employ the Executive and the Executive desires to continue to serve the Company, but as a result of the Executive's contemporaneous employment by Triangle Pacific, it is appropriate to amend the Agreement in certain respects as set forth herein;

NOW, THEREFORE, in consideration of the premises and the respective covenants and agreements of the parties herein contained, and intending to be legally bound hereby, the parties hereto agree as follows:

1. DEFINED TERMS.

Capitalized terms used here have the meanings as in the Agreement, unless otherwise defined here.

2. EMPLOYMENT.

The Company hereby agrees to continue to employ the Executive, and the Executive hereby agrees to continue to serve the Company and its subsidiaries and affiliates, on the terms and conditions set forth herein, during the Term of this Agreement.

3. POSITION AND DUTIES.

During the Term of this Agreement, the parties hereto agree that the Executive will serve and perform his duties and responsibilities as President and Chief Executive Officer of Triangle Pacific as an additional assigned duty under the Agreement.

4. COORDINATION OF COMPENSATION.

Salary and other amounts or benefits paid or provided to the Executive by or on behalf of Triangle Pacific in connection with his duties there shall be credited against the corresponding obligations of the Company to the Executive under this Agreement so as to avoid double payments.

5. NOTICES.

For the purpose of the Agreement, notices and all other communications provided for in the Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by United States registered mail, return receipt requested, postage prepaid, addressed to the respective addressees set forth below, or to such other address as either party may have furnished to the other in writing in accordance herewith, except that notice of change of address shall be effective only upon actual receipt:

To the Company:

Armstrong Holdings, Inc.
2500 Columbia Avenue
Lancaster, PA 17603
Attention: Senior Vice President, Human Resources Telecopy: 717-396-6119

To World:

Armstrong World Industries, Inc. 2500 Columbia Avenue
Lancaster, PA 17603
Attention: Vice President, Compensation & Benefits Telecopy: 717-396-6121

To the Executive:

At the executive's residence address as maintained by the Company and/or Triangle Pacific in the regular course of business for payroll purposes.

6. GUARANTEE OF TRIANGLE PACIFIC OBLIGATIONS.

The Company hereby unconditionally guarantees the payment and performance of the obligations of Triangle Pacific to the Executive under the Triangle Pacific Employment Agreement, as the same may be amended from time to time.

7. CERTAIN RESTRICTED STOCK.

The restricted Common Stock of the Company which was awarded to the Executive on August 7, 2000 shall vest and become free of restrictions in the event that the Executive is entitled to the payment of termination compensation and benefits pursuant to the provisions of the Triangle Pacific Employment Agreement.

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

ARMSTRONG HOLDINGS, INC.

By:

Name:

Title: Senior Vice President, Human Resources

EXECUTIVE

ARMSTRONG WORLD INDUSTRIES, INC. agrees to be jointly and severally bound by the terms of this Agreement, including specifically with respect to the obligations of the Company hereunder.

By:

	Name:
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Frank A. Riddick III	Title: Senior Vice President & Chief Financial Officer

EXHIBIT 10(iii)(x)

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT is made as of October 1, 2000 (the "Agreement") by and among Armstrong World Industries, Inc., a Pennsylvania corporation (the "Company"), its parent, Armstrong Holdings, Inc., a Pennsylvania corporation ("Holdings"), and Marc R. Olivie, an individual and resident of Lancaster County, Pennsylvania (the "Executive");

WITNESSETH:

WHEREAS, the Executive is currently serving as the President of Worldwide Floor Products Operations of the Company; and

WHEREAS, the Company desires to provide for the continued employment of the Executive and the Executive desires to serve the Company, in each case, on the terms and conditions set forth herein;

NOW, THEREFORE, in consideration of the premises and the respective covenants and agreements of the parties herein contained, and intending to be legally bound hereby, the parties hereto agree as follows:

1. DEFINED TERMS.

The definitions of capitalized terms used in this Agreement, unless otherwise defined herein, are provided in the last Section hereof.

2. EMPLOYMENT.

The Company hereby agrees to employ the Executive, and the Executive hereby agrees to serve the Company and its subsidiaries and affiliates, on the terms and conditions set forth herein, during the Term of this Agreement.

3. TERM OF AGREEMENT.

The Term will commence on the date first above written (the "Effective Date") and shall continue until December 31, 2003. The parties agree that there shall be no extensions of this Agreement. Notwithstanding anything in this Agreement to the contrary, the Company may terminate this Agreement in the event of Executive's Disability; provided, that any such termination shall not, by itself, terminate the Executive's employment with the Company.

4. POSITION AND DUTIES.

During the Term of this Agreement, the Executive shall serve as President of Worldwide Floor Products Operations of the Company and shall also serve in any other executive officer position of the Company or its subsidiaries and affiliates as the Board of Directors of Holdings may reasonably request. The Executive shall be the chief executive of the Company's floor products division and shall have such duties and responsibilities as are customary for the Executive's position and such other duties not inconsistent therewith as the Board of Directors of Holdings may reasonably assign from time to time. During the Term of this Agreement, excluding any periods of vacation and sick leave to which the Executive may be entitled under the Company's policies and practices (as the same may be increased in the future), the Executive shall devote substantially all his working time and efforts to the business and affairs of the Company and its subsidiaries and affiliates and shall diligently and faithfully perform his duties to the best of his ability; provided, however, that the Executive may engage in activities relating to personal matters (including personal financial matters) and in such corporate, industry, civic and charitable activities, including membership on corporate and charitable boards of directors or trustees of non-affiliated companies and organizations, so long as such service does not substantially interfere with the performance of his duties hereunder or violate his obligations under Section 10 hereof.

5. COMPENSATION AND RELATED MATTERS.

5.1. HIRING AND RETENTION COMPENSATION.

(a) HIRING COMPENSATION. On the Effective Date, or as soon as administratively practicable thereafter after the execution of this Agreement, the Company shall provide the executive a cash payment of $100,000.

(b) RETENTION COMPENSATION. In addition to Base Salary and Incentive Compensation, as provided herein, the Company shall pay, or cause to be paid, to the Executive a special cash retention payment of $250,000, payable on December 28, 2001, provided the Executive is then still employed by the Company or by Holdings, or if the Executive is not so employed, his employment has been terminated by the Company without Cause.

5.2. BASE SALARY. The Company shall pay, or cause to be paid, to the Executive an annual base salary ("Base Salary") during the Term of this Agreement, which shall be at an initial rate of $500,000 per year. The Base Salary shall be paid in accordance with the Company's payroll practices for its senior officers, but not less frequently than monthly, in arrears. For purposes of this Agreement, "Base Salary" shall include any increases in Base Salary during the Term of this Agreement. The Company will review the Executive's Base Salary effective April 1, 2002 and April 1, 2003 to consider possible increases in such base salary. Any decision to increase the Executive's Base Salary will be made in the sole discretion of the Company.

The Base Salary in effect from time to time shall not be decreased during the Term of this Agreement except in connection with across-the-board salary reductions similarly affecting all senior officers of the Company and all senior officers of any person in control of the Company which have been agreed to by the Executive. Compensation of the Executive by Base Salary payments shall not be deemed exclusive and shall not prevent the Executive from participating in any other compensation or benefit plan of the Company. The Base Salary payments (including any increased Base Salary payments) shall not in any way limit or reduce any other obligation of the Company hereunder, and no compensation, benefit or payment hereunder shall in any way limit or reduce the obligation of the Company to pay the Executive's Base Salary.

5.3. BENEFIT PLANS. During the Term, the Executive and his eligible dependents shall be entitled to participate in and receive benefits under all "employee benefit plans" (as defined in Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended from time to time ("ERISA")), and employee benefit arrangements in which senior officers of the Company generally participate, including without limitation, (i) all savings, deferred compensation, profit sharing and retirement plans, practices, policies and programs and (ii) all welfare benefit plans, practices, policies and programs (including all medical, prescription, dental, disability, employee life insurance, group life insurance, group hospitalization, health, accidental death and travel accident insurance plans and programs) as are made generally available to senior officers of the Company, subject to and on a basis consistent with the terms, conditions and overall administration of such plans, practices, policies and programs, including provisions which permit such plans, practices, policies and programs to be modified or terminated, provided, that if the Company reduces the benefits provided under or terminates any such employee benefit plan, practice, policy or program in which the Executive participates, the Company shall offer to the Executive participation in another plan or program that provides the Executive with benefits at least comparable to those that were reduced or eliminated. The Executive's participation in such employee benefit plans, practices, policies and programs shall be at a level appropriate for the Executive's position. Such employee benefit plans, practices, policies and programs, shall include, without limitation, the plans, programs, policies and practices in which the Executive participates on the date of this Agreement.

5.4. INCENTIVE COMPENSATION. During the Term of this Agreement, the Executive shall be entitled to participate in and receive benefits under all annual incentive (bonus) plans and long-term incentive compensation plans in which other senior officers of the Company generally participate, including all restricted share, performance restricted share and stock option plans of the Company, except as set forth in this paragraph 5.4. The Executive's participation in such plans, or any exceptions to the Executive's general participation in such plans, is as follows:

(a) In addition to any amount otherwise payable to Executive under the Management Achievement Plan for the calendar year 2000, the Company will pay, or will cause to be paid, to Executive, a supplemental Management Achievement Plan bonus of $250,000 on, or as soon as practicable after March 1, 2001, provided that Executive is employed by the Company or Holdings on March 1, 2001, or if the Executive is not so employed, his employment has been terminated by the Company without Cause.

(b) For calendar year 2001, the Executive will participate in the Management Achievement Plan at a target bonus of $500,000. The Executive will be eligible to earn up to a maximum of $500,000 to the extent Company results, business unit results, and individual performance warrant this payout under the Incentive Payout Achievement Schedules. For purposes of the definition of "annual bonus" under the Executive's Individual Change in Control

Agreement, the Executive's annual bonus earned for 2001 shall be the sum of $500,000 plus the amount earned under the Management Achievement Plan.

(c) For the calendar year 2001, the Executive will not be eligible to participate in any long-term incentive plan offering. In lieu of such payment, the Executive shall receive a payment of $500,000, payable on or about March 1, 2002.

(d) For calendar years 2002 and 2003 the Executive will participate in the Company's standard executive compensation program where his target bonus will be 60 percent of base salary, and the targeted present value of his long-term incentive award will be 160 percent of base salary.

The Executive's long-term incentive plan participation for 2002 and 2003 will be based, on the Company's financial results for 2001, 2002 and 2003, except that for 2001 the results will be equal to the targeted financial performance regardless of the actual results. Any cash amounts payable to the Executive under the long term incentive plan for 2002 and 2003 shall both be paid in March, 2004.

(e) (1) Any payment of annual incentive or long-term cash compensation, other than that described in Section 5.4(a) above, will be payable to the Executive without regard to whether the Executive is employed on the date of such payment. However, he must be employed on the last day of any performance period in order to receive any incentive or long-term compensation payment for that performance period, except in the case of Executive's termination due to death, Disability, the expiration of this Agreement or involuntary termination other than for Cause.

(2) If any of the Executive's long term incentive awards are provided in stock options or performance shares, the performance shares and the stock options will continue to vest notwithstanding, the Executive's termination of employment at the end of the term of this Agreement, or the Executive's involuntary termination other than for Cause. However, the continued vesting of the performance shares will be dependent upon the fulfillment of the performance criteria contained in the performance share award.

(3) Otherwise, all other terms and conditions of the annual incentive (bonus) plans and long-term incentive compensation plans shall apply to the Executive.

(f) For the period of October 1, 2000, through December 31, 2000, the Executive's bonus under the business unit segment of the Management Achievement Plan will be based upon the higher achievement factor comparing Worldwide Building Products Operations with Worldwide Floor Products Operations.

Otherwise, such incentive compensation shall be subject to, and on a basis consistent with the terms, conditions and overall administration of such plans, including provisions which permit such plans to be modified or terminated, provided, that if the Company reduces the incentive compensation opportunities provided under, or terminates any such plan in which the Executive participates, the Company shall offer to the Executive participation in another plan that provides the Executive with an incentive compensation opportunity at least comparable to that which was reduced or eliminated, which has been agreed to by the Executive. Such incentive compensation plans shall include, without limitation, the plans in which the Executive participates on the date of this Agreement.

5.5. OTHER BENEFITS. The Executive shall participate on the same terms and conditions as all other senior officers of the Company in all other benefit plans, programs, or arrangements as may be now or hereafter sponsored or maintained for senior officers of the Company generally and shall participate on the same terms and conditions as other senior officers generally participate.

5.6. FRINGE BENEFITS. During the Term of this Agreement, the Executive shall be entitled to receive all perquisites and fringe benefits which the Company makes available to senior officers of the Company generally, including, but not limited to, all perquisites and fringe benefits provided to the Executive on the date of this Agreement.

5.7. EXPENSES. During the Term of this Agreement, the Executive is authorized to incur, and shall be reimbursed by the Company for all reasonable and customary business-related expenses, including travel, entertainment, gifts and similar items, incurred by the Executive in connection with his employment hereunder.

5.8. WORKING FACILITIES. During the Term of this Agreement, the Company shall furnish the Executive with offices and working facilities in the Company's principal executive offices and shall provide secretarial and other assistance suitable to Executive's position and adequate for the performance of his duties hereunder.

5.9. VACATION. During the Term of this Agreement, the Executive shall be entitled to vacation in accordance with the Company's current policies and practices, and further provided that the Executive shall be entitled to not less than five (5) weeks of vacation to which Executive was entitled just prior to entering into this Agreement, or such greater period as the Board shall approve, without reduction in salary or other benefits.

5.10. ANNUAL REVIEW. During the Term of this Agreement, the Company shall in good faith review the Executive's total compensation package (including but not limited to the Base Salary provided for in Section 5.2, the benefit plans provided for in Section 5.3 and the short and long-term incentive compensation opportunity provided for in Section 5.4) at least annually for possible increase, taking into account, among other things, (i) the performance of the Executive, (ii) the performance of the Company, and (iii) the overall compensation of executives in similar positions at comparable companies.

6. COMPENSATION IN THE EVENT OF EXECUTIVE'S DISABILITY.

During the Term of this Agreement, during any period that the Executive fails to perform the Executive's full-time duties hereunder as a result of incapacity due to physical or mental illness, the Company shall pay, or cause to be paid, to the Executive his Base Salary at the rate in effect at the commencement of any such period, together with all compensation and benefits payable to the Executive under the terms of any compensation or benefit plan, program or arrangement maintained by the Company for the benefit of the Executive during such period, until this Agreement is terminated by the Company for Disability; provided, however, that such payments shall be reduced by the sum of the amounts, if any, payable to the Executive at or prior to the time of any such payment under disability benefit plans of the Company, which amounts were not previously applied to reduce any such payment.

7. TERMINATION COMPENSATION AND BENEFITS.

7.1. If the Executive' employment is terminated for any reason during the Term of this Agreement, the Company shall pay to the Executive (or in accordance with Section 11.2 in the event of the Executive's death), (i) the Executive's Base Salary through the Date of Termination at the rate in effect immediately prior to the time the Notice of Termination is given, (ii) all compensation and benefits (other than severance compensation and benefits) payable to the Executive through the Date of Termination or thereafter under the terms of any compensation or benefit plan, program or arrangement maintained by the Company during such period, including any short-term or long-term incentive compensation to which the Executive is entitled, by virtue of previous awards, in accordance with the terms of the incentive plans in which Executive participates, and (iii) any unreimbursed expenses payable pursuant to Section 5.7 of the Agreement that were incurred before the Date of Termination.

7.2. In the event the Executive's employment is terminated during the Term of this Agreement by the Executive for Good Reason, or by the Company for any reason other than Cause, death of the Executive or disability, (i) the Company shall pay, in addition to amounts payable under Sections 7.1 and 7.4, a cash severance benefit to the Executive which will be the greater of (a) the amount of Executive's Base Salary plus annual target bonuses that the Executive would have earned over the remainder of the Term of the Employment Agreement, or (b) One Million One Hundred Thousand ($1,100,000.00) Dollars, and (ii) the Company shall continue the benefits provided for in Section 5.3 of this Agreement for thirty-six (36) additional months after the Date of Termination. For the purposes of this Agreement, the phrase "Good Reason" shall have the same definition as in the individual Change in Control Agreement previously entered into by the Executive. Further provided, that in the event that Executive's employment is terminated under conditions that provide severance benefits under the Executive's individual Change in Control Agreement, then the terms of the individual's Change in Control Agreement shall control and the Executive shall be entitled to no severance benefits pursuant to this Agreement.

7.3. If the Executive provides the Company with a minimum of ninety (90) days written advance notice to the Company of his voluntary termination at the end of the Term of this Agreement, then Executive shall receive severance pay in the amount of $1.1 million. This provision expires on December 31, 2003 and will not be extended. The Executive will not be eligible for this severance payment if the Executive voluntarily terminates his employment with the Company any time prior to December 31, 2003.

7.4. If the Executive's employment is terminated for any reason during the Term of this Agreement, the Company shall pay the Executive's normal post-termination compensation and benefits (other than severance compensation and benefits) to the Executive as such payments become due. Such normal post-termination compensation and benefits (other than severance compensation and benefits) shall be determined under, and paid in accordance with the Company's retirement, insurance and other compensation or benefit plans, programs and arrangements (other than this Agreement), as applicable.

7.5. GROSS UP PAYMENTS.

(a) Anything in this Agreement to the contrary notwithstanding, in the event it shall be determined that any payment, benefit, or distribution by the Company or its affiliates to or for the benefit of the Executive, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise (a "Payment"), would be subject to the excise tax imposed by Section 4999 of the Code, or any interest or penalties with respect to such excise tax (such excise tax, together with any such interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), then the Executive shall be entitled to receive an additional payment ("Gross-Up Payment") in an amount such that after payment by the Executive of all taxes (including any interest or penalties imposed with respect to such taxes), including, without limitation, any income taxes and Excise Tax imposed upon the Gross-Up Payment, the Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payments.

(b) Subject to the provisions of Section 7.5(c) hereof, all determinations required to be made under this Section 7.5, including whether a Gross-Up Payment is required and the amount of such Gross-Up Payment and the assumptions to be used in arriving at such determinations, shall be made by the Company's principal outside accounting firm (the "Accounting Firm") which shall provide detailed supporting calculations both to the Board and the Executive within fifteen (15) business days after the Date of Termination and/or such earlier date(s) as may be requested by the Company or the Executive (each such date and the Date of Termination shall be referred to as a "Determination Date" for purposes of this Section 7.5. All fees and expenses of the Accounting Firm shall be borne solely by the Company. The initial Gross-Up Payment, if any, as determined pursuant to this Section 7.5(b), shall be paid by the Company to the Executive within thirty (30) days of the receipt of the Accounting Firm's determination. If the Accounting Firm determines that no Excise Tax is payable by the Executive, it shall furnish the Executive with a written opinion that failure to report the Excise Tax on the Executive's applicable federal income tax return would not result in the imposition of a negligence or similar penalty. Any determination by the Accounting Firm under this Section 7.5(b) shall be binding upon the Company and the Executive. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments which will not have been made by the Company should have been made ("Underpayment") consistent with the calculations required to be made hereunder. In the event that the Company exhausts its remedies pursuant to Section 7.5(c) and the Executive thereafter is required to make a payment of any Excise Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred and any such Underpayment shall be promptly paid by the Company to or for the benefit of the Executive.

(c) The Executive shall notify the Company in writing of any claim by the Internal Revenue Service that, if successful, would require the payment by the Company of an Underpayment. Such notification shall be given as soon as practicable but no later than ten (10) business days after the Executive is informed in writing of such claim and shall apprise the Company of the nature of such claim and the date on which such claim is requested to be paid. The Executive shall not pay such claim prior to the expiration of the thirty (30) day period following the date on which he gives such notice to the Company (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If the Company notifies the Executive in writing prior to the expiration of such period that it desires to contest such claim, the Executive shall:

(i) give the Company any information reasonably requested by the Company relating to such claim;

(ii) take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including, without limitation accepting legal representation with respect to such claim by an attorney reasonably selected by the Company;

(iii) cooperate with the Company in good faith in order to effectively contest such claim; and

(iv) permit the Company to participate in any proceeding relating to such claim; provided, however, that the Company shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest and shall indemnify and hold the Executive harmless, on an after-tax basis, for any Excise Tax or income tax, including interest and penalties with respect thereto, imposed as a result of such representation and payment of costs and expenses. Without limitation on the foregoing provisions of this Section 7.5(c), the Company shall control all proceedings taken in connection with such contest and, at its sole option, may pursue or forgo any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim and may, at its sole option, either direct the Executive to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and the Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; provided, however, that if the Company directs the Executive to pay such claim and sue for a refund, the Company shall advance the amount of such payment to the Executive on an interest-free basis and shall indemnify and hold the Executive harmless, on an after-tax basis, from any Excise Tax or income tax, including interest or penalties with respect thereto, imposed with respect to such advance or with respect to any imputed income with respect to such advance; and provided, further, that any extension of the statute of limitations relating to payment of taxes for the taxable year of the Executive with respect to which such contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Company's control of the contest shall be limited to issues with respect to which a Gross-Up Payment would be payable hereunder and the Executive shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

(d) If, after the receipt by the Executive of an amount advanced by the Company pursuant to Section 7.5(c) hereof, the Executive becomes entitled to receive any refund with respect to such claim, the Executive shall (subject to the Company's compliance with the requirements of Section 7.5(c) hereof) promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If, after the receipt by the Executive of an amount advanced by the Company pursuant to Section 7.5(c) hereof, a determination is made that the Executive shall not be entitled to any refund with respect to such claim and the Company does not notify the Executive in writing of its intent to contest such denial of refund prior to the expiration of thirty (30) days after such determination, then such advance shall be forgiven and shall not be required to be repaid.

(e) The payments provided for in Section 7.5 hereof (other than Section 7.5(c) and (d)) shall be made not later than the thirtieth (30th) day following each Determination Date; provided, however, that if the amounts of such payments cannot be finally determined on or before such day, the Company shall pay to the Executive on such day an estimate, as determined by the Executive, of the minimum amount of such payments to which the Executive is clearly entitled and shall pay the remainder of such payments (together with interest at the rate provided in Section 1274(b)(2)(B) of the Code) as soon as the amount thereof can be determined but in no event later than the forty-fifth (45th) day after each Determination Date. In the event that the amount of the estimated payments exceeds the amount subsequently determined to have been due, such excess shall constitute a loan by the Company to the Executive, payable on the fifth (5th) business day after demand by the Company (together with interest at the rate provided in Section 1274(b)(2)(B) of the Code).

8. TERMINATION PROCEDURES.

8.1. NOTICE OF TERMINATION. During the Term of this Agreement, any purported termination of the Executive's employment (other than by reason of death) shall be communicated by written Notice of Termination from one party hereto to the other party hereto in accordance with Section 12 hereof. For purposes of this Agreement, a "Notice of Termination" shall mean a notice which shall indicate the specific termination provision in this Agreement relied upon and, in the case of a termination by the Company for Cause or by the Executive for Good Reason, shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated

8.2. DATE OF TERMINATION. "Date of Termination," with respect to any purported termination of the Executive's employment during the Term of this Agreement, shall mean (i) if the Executive's employment is terminated by his death, the date of his death, (ii) if the Executive's employment is terminated by the Executive other than for Good Reason, the date specified in the Notice of Termination (which shall not be less than ninety (90) days) after such Notice of Termination is given, (iii) if the Executive's employment is terminated by the Company for Cause, on the date that the Notice of Termination is sent by the Company in accordance with Section 8.1, (iv) if terminated pursuant to paragraph 7.2, the date shall be December 31, 2003, and (v) if the Executive's employment is terminated for any other reason, the date specified in the Notice of Termination (which shall not be less than ninety (90) days) after such Notice of Termination is given.

9. NO MITIGATION.

The Company agrees that, if the Executive's employment hereunder is terminated during the Term of this Agreement, the Executive is not required to seek other employment or to attempt in any way to reduce any amounts payable to the Executive by the Company hereunder. Further, the amount of any payment or benefit provided for hereunder shall not be reduced by any compensation earned by the Executive as the result of employment by another employer, by retirement benefits, by offset against any amount claimed to be owed by the Executive to the Company, or otherwise.

10. CONFIDENTIALITY AND NONCOMPETITION.

10.1. The Executive shall not, during or after the Term of this Agreement, without the prior written consent of the Company disclose to any entity or person any information which is treated as confidential by the Company or any of their subsidiaries or affiliates (each, a "Company Entity"), and is not generally known or available in to the public, provided, that the Executive may make disclosures of such confidential information (i) during the Term of this Agreement in the course of and to the extent required by and consistent with the performance of his duties hereunder, and (ii) to the extent required by law or legal process.

10.2. (a) Except as permitted by the Company with its prior written consent, the Executive shall not, during the Executive's employment with the Company and for the period ending twenty-four (24) months after the Executive's employment with the Company terminates for any reason, directly or indirectly, own, enter into the employ of or render, any services (whether as a consultant or otherwise) to any person, firm or corporation within the United States or any foreign country in which the Company is doing or is contemplating doing business on the Date of Termination which is a competitor of any Company Entity with respect to products which any Company Entity is then producing or services which any Company Entity is then providing (a "Competitor"), or approach, canvass, solicit, or otherwise endeavor to entice away from the Company, any customer in respect of any service or product in any way competitive with the services or products supplied by any Company Entity to such customer, or solicit the services of, or endeavor to entice away from the Company, any director, executive officer or employee of the Company, without the written consent of the Company; provided, that it shall not be a violation of this provision for the Executive to be employed by, or render services to, a Competitor, if the Executive renders those services only with respect to those lines of business of the Competitor which are not directly competitive with a line of business of any Company Entity or are located in any country in which the Company does not do business and was not contemplating doing business on the Date of Termination.

(b) If the Executive's employment is terminated pursuant to paragraph 7.2, and the Executive agrees not to receive the $ 1,100,000.00 severance payment set forth therein, then Executive may solicit employees of the Company. All other provisions remain in full force and effect.

(c) The prohibitions contained in paragraphs 10.2(a) and 10.2(b) shall cease to apply if the Company or Holdings reject, including a court ordered rejection or termination, repudiate or breach this Agreement in any way, including the failure to pay in full when due the amounts to which the Executive is entitled hereunder and under his individual Change in Control Agreement.

10.3. The Executive acknowledges and agrees that any breach of this Section 10 by the Executive will result in immediate and irreparable harm to the Company, the amount of which will be extremely difficult to ascertain, and that the Company could not be reasonably or adequately compensated by damages in an action at law. For these reasons, the Company shall have the right to obtain such preliminary, temporary or permanent mandatory or restraining injunctions, orders or decrees as may be necessary to protect the Company against or on account of any breach by the Executive of the provisions of this Section 10 without proof of any actual damage caused to the Company.

11. SUCCESSORS; BINDING AGREEMENT.

11.1. In addition to any obligations imposed by law upon any successor to the Company, the Company will require any successor (whether direct or indirect, by purchase, merger, consolidation, bankruptcy or otherwise) to all or substantially all of the business and/or assets of the Company, or all or substantially all of the assets of the Company's line of business in which the Executive is employed, as the case may be, to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. Failure of the Company to obtain such assumption and agreement upon the effectiveness of any such succession shall be a breach of this Agreement and shall entitle the Executive to compensation from the Company in the same amount and on the same terms as the Executive would be entitled to hereunder if the Executive were to terminate the Executive's employment for Good Reason, except that, for purposes of implementing the foregoing, the date on which any such succession becomes effective shall be deemed the Date of Termination.

11.2. This Agreement shall inure to the benefit of and be enforceable by the Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If the Executive shall die while any amount would still be payable to the Executive hereunder (other than amounts which, by their terms, terminate upon the death of the Executive) if the Executive had continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to the executors, personal representatives or administrators of the Executive's estate.

12. NOTICES.

For the purpose of this Agreement, notices and all other communications provided for in the Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by United States registered mail, return receipt requested, postage prepaid, addressed to the respective addressees set forth below, or to such other address as either party may have furnished to the other in writing in accordance herewith, except that notice of change of address shall be effective only upon actual receipt:

To the Company:

Armstrong World Industries, Inc. 2500 Columbia Avenue
Lancaster, PA 17603
Attention: Vice President, Compensation and Benefits Telecopy: 717-396-6119

To Holdings:

Armstrong Holdings, Inc.
2500 Columbia Avenue
Lancaster, PA 17603
Attention: Executive Vice President, Human Resources Telecopy: 717-396-6119

To the Executive:

Marc R. Olivie

At the Executive's residence address as maintained by the Company in the regular course of its business for payroll purposes.

13. MISCELLANEOUS.

If the Executive, in his capacity as an officer, approves in writing, or if the Executive is elected as a director, if the Executive, in his capacity as a director, votes for any action that will adversely affect the Executive's rights under this Agreement, such vote or approval shall be deemed to constitute the Executive's consent to such action under this Agreement; otherwise, no provision of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing and signed by the Executive and such officers as may be specifically designated by the Board. No waiver by any party hereto at any time of any breach by any other party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. No agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by any party which are not expressly set forth in this Agreement, in the letter to Executive from Matthew J. Angelo dated November 7, 2000 and, as applicable to benefits under the Company's Retirement Income Plan, the letter to the Executive from George A. Lorch, dated August 31, 1996. Except as provided in the immediately preceding sentence, this Agreement sets forth the entire agreement of the parties hereto in respect of the subject matter contained herein and supersedes all prior agreements, promises, covenants, arrangements, communications, representations or warranties, whether oral or written, by any officer, employee or representative of any party hereto; and any prior agreement of the parties hereto in respect of the subject matter contained herein is hereby terminated and canceled, except as otherwise provided in this Agreement. Nothing in this
Section 13 shall affect the Executive's rights under the Change in Control Agreement between the Company and the Executive. The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the Commonwealth of Pennsylvania, without giving effect to choice of law principles.

All references to sections of the Code shall be deemed also to refer to any successor provisions to such sections. There shall be withheld from any payments provided for hereunder any amounts required to be withheld under federal, state or local law and any additional withholding amounts to which the Executive has agreed. The obligations under this Agreement of the Company or the Executive which by their nature and terms require satisfaction after the end of the Term shall survive such event and shall remain binding upon such party.

14. VALIDITY.

The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

15. COUNTERPARTS.

This Agreement may be executed in several counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same instrument.

16. SETTLEMENT OF DISPUTES; ARBITRATION.

All claims by the Executive for benefits under this Agreement shall be in writing and shall be directed to and initially determined by the Board. Any denial by the Board of a claim for benefits under this Agreement shall be delivered to the Executive in writing and shall set forth the specific reasons for the denial and the specific provisions of this Agreement relied upon. The Board shall afford a reasonable opportunity to the Executive for a review of the decision denying a claim and shall further allow the Executive to appeal to the Board a decision of the Board within sixty (60) days after notification by the Board that the Executive's claim has been denied. To the extent permitted by applicable law and subject to the right of the Company to seek equitable relief in a court pursuant to Section 10.3, any further dispute or controversy arising under or in connection with this Agreement shall be settled exclusively by arbitration in Lancaster County, Pennsylvania, in accordance with the Commercial Arbitration Rules of the American Arbitration Association then in effect. Judgment may be entered on the arbitrator's award in any court having jurisdiction.

17. FEES AND EXPENSES.

The Company shall pay to the Executive all reasonable legal fees and expenses incurred by the Executive in disputing any termination or in seeking in good faith to obtain or enforce any benefit or right provided by this Agreement. Such payments shall be made within thirty (30) business days after delivery of the Executive's written request for payment accompanied with such evidence of fees and expenses incurred as the Company reasonably may require.

18. COORDINATION OF BENEFITS.

Notwithstanding anything in this Agreement to the contrary, if the Executive is paid "Severance Payments" under that certain Agreement dated between the Company and the Executive in connection with a Change in Control (as defined therein), then this Agreement (including Section 10.2 hereof) shall forthwith terminate and the Executive shall not be entitled to the payment of any amounts under this Agreement other than pursuant to Section 7.1 hereof (and any amounts theretofore paid to the Executive pursuant to Section 7.2, hereof shall be credited against any "Severance Payments" to which the Executive is entitled under said Change in Control Agreement).

19. HOLDINGS AS ADDITIONAL PARTY AND OBLIGOR. Armstrong Holdings, Inc., agrees to be jointly and several bound by the terms of this Agreement, and agrees to timely discharge any obligation of the Company hereunder not discharged by the Company, including, without limitation, the Company's obligations to pay compensation, and to provide benefits, to Executive under Sections 5, 6 and 7 hereof.

20. DEFINITIONS.

For purposes of this Agreement, the following terms shall have the meaning indicated below:

(a) "Base Salary" shall have the meaning stated in Section 5.2 hereof.

(b) "Board" shall mean the Board of Directors of the Company.

(c) "Cause" for termination by the Company of the Executive's employment, for purposes of this Agreement, shall mean (i) the willful and continued failure by the Executive to substantially perform the Executive's duties hereunder (other than any such failure resulting from the Executive's incapacity due to physical or mental illness or any such actual or anticipated failure after the issuance of a Notice of Termination for Good Reason by the Executive pursuant to Section 8.1) after a written demand for substantial performance is delivered to the Executive by the Board, which demand specifically identifies the manner in which the Board believes that the Executive has not substantially performed the Executive's duties, or (ii) the willful engaging by the Executive in conduct which is demonstrably and materially injurious to the Company, monetarily or otherwise, including but not limited to fraud or embezzlement by the Executive, or (iii) the Executive's conviction (or entering into a plea bargain admitting guilt) of any felony, or (iv) a material breach by the Executive of this Agreement, including a violation of Section 10. For purposes of clauses (i) and (ii) of this definition, no act, or failure to act, on the Executive's part shall be deemed "willful" unless done, or omitted to be done, by the Executive not in good faith and without reasonable belief that the Executive's act, or failure to act, was in the best interest of the Company.

(d) "Company Entity" shall have the meaning stated in Section 10.1 hereof.

(e) "Code" shall mean the Internal Revenue Code of 1986, as amended from time to time.

(f) "Date of Termination" shall have the meaning stated in Section 8.2 hereof.

(g) "Disability" shall be deemed the reason for the termination of this Agreement by the Company, if, as a result of the Executive's incapacity due to physical or mental illness, the Executive shall have been absent from the full-time performance of the Executive's duties hereunder for a period of six (6) consecutive months.

(h) "Executive" shall mean the individual named in the first paragraph of this Agreement.

(i) "Excise Tax" shall have the meaning stated in Section 7.5(a) hereof.

(j) "Gross-Up Payment" shall have the meaning stated in Section 7.5(a) hereof.

(k) "Notice of Termination" shall have the meaning stated in Section 8.1 hereof.

(l) "Severance Payments" shall mean those payments described in
Section 7.2 hereof.

(m) "Term" shall have the meaning stated in Section 3 hereof.

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

ARMSTRONG WORLD INDUSTRIES, INC.

By:
Name: E. Follin Smith Title: Senior Vice President and Chief Financial Officer

ARMSTRONG HOLDINGS, INC.

By:
Name: Matthew J. Angello Title: Senior Vice President, Human Resources

EXECUTIVE

Marc R. Olivie

EXHIBIT 10(iii)(bb)

AGREEMENT

THIS AGREEMENT is made as of November 14, 2000 by and among Armstrong Holdings, Inc. ("Holdings"), Armstrong World Industries, Inc. ("World") and Triangle Pacific Corp. ("Triangle Pacific");

WHEREAS, Triangle Pacific is a party an Employment Agreement of even date (the "Riddick Employment Agreement") with Frank A. Riddick, III (the "Executive"), pursuant to which Triangle Pacific has become the Executive's employer and has become obliged for the Executive's compensation and other contractual rights under that Agreement; and

WHEREAS, Triangle Pacific and World are parties to a Consulting Agreement dated January 1, 1999 (the "Consulting Agreement") as well as to certain other subsequent arrangements between them pursuant to which World has provided certain services and Triangle Pacific has paid World therefor; and

WHEREAS, Holdings and World are parties to an Affiliate Agreement dated May 1, 2000, as amended by a Management Services Agreement dated August 7, 2000 (the "Management Services Agreement") pertaining to the allocation of responsibility for certain expenses between them, including payment of compensation due the executive for his services up to this date, which they wish to modify in this Agreement; and

WHEREAS, for administrative purposes, Triangle Pacific desires World to fulfill certain of Triangle Pacific's obligations to the Executive under the Riddick Employment Agreement and World is willing to do so as provided herein;

NOW, THEREFORE, the parties hereto, intending to be legally bound, agree as follows:

1. World shall pay and otherwise provide to Executive the compensation and benefits to which Executive is entitled from Triangle Pacific under the Riddick Employment Agreement until such time as either (i) World notifies Triangle Pacific in writing that it will no longer continue to do so, or
(ii) Triangle Pacific notifies World in writing that it no longer desires World to continue to do so. World will contemporaneously cease payments to the Executive on Holdings' behalf under the Management Services Agreement.

2. Triangle Pacific shall reimburse World from time to time, but no less frequently than annually, for the cost of the compensation and benefits which World pays and provides to the Executive pursuant to Section 1, such cost to be reasonably determined by the finance departments of World and Triangle Pacific, respectively. The Consulting Agreement is hereby terminated, and no further payments thereunder will be owed by Triangle Pacific to World. Instead, henceforth World will track actual services provided to Triangle Pacific outside of those parties' existing expense allocation arrangements, and will from time to time, but no less frequently than annually, bill Triangle Pacific for the extra cost to World of providing those services over and above its cost of providing such services for its own operations. All other specific expense allocation and service agreements between those parties, such as for computer services, shall continue on their existing terms.

3. Any disputes among or between the parties pertaining hereto will be handled according to the dispute resolution procedures set out in the Affiliate Agreement, which Triangle Pacific hereby adopts.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

ARMSTRONG HOLDINGS, INC.	TRIANGLE PACIFIC CORP.
By: -------------------------------------	By: ----------------------------------
Name: -----------------------------------	Name: --------------------------------
Title: ----------------------------------	Title: -------------------------------

ARMSTRONG WORLD INDUSTRIES, INC.

By: -------------------------------------

Name: -----------------------------------

Title:

EXHIBIT NO. 11(a)

ARMSTRONG HOLDINGS, INC. AND SUBSIDIARIES

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

	2000	1999	1998
Basic earnings (loss) per share			
Net earnings (loss)	$ 12.2	$ 14.3	$ (9.3)
Average number of common shares outstanding	40.2	39.9	39.8
Basic earnings (loss) per share	$ 0.30	$ 0.36	$(0.23)

EXHIBIT NO. 11(b)

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

Diluted earnings (loss) per share	2000	1999	1998
Net earnings (loss)	$ 12.2	$ 14.3	$ (9.3)
Average number of common shares outstanding	40.2	39.9	39.8
Average number of common shares issuable under stock options	0.3	0.3	0.6
Average number of common and common stock equivalents outstanding	40.5	40.2	40.4
Diluted earnings (loss) per share	$ 0.30	$0.36	$(0.23)

Diluted earnings (loss) per share for 1998 was antidilutive.

Exhibit No. 21

Subsidiaries of Armstrong Holdings, Inc. as of 12/31/00

Armstrong Holdings, Inc.'s subsidiaries include all of the Armstrong World Industries, Inc subsidiaries, plus Armstrong World Industries, Inc. (Pennsylvania) and its direct parent company, Armstrong Worldwide, Inc. (Delaware).

EXHIBIT NO. 21

Subsidiaries of Armstrong World Industries, Inc. as of 12/31/00

Armstrong World Industries, Inc. is owned 100% by Armstrong Holdings, Inc., which also owns 100% of Armstrong Worldwide, Inc.

AWI Domestic Subsidiaries	Jurisdiction of Incorporation
Armstrong Cork Finance Corporation	Delaware
Armstrong Enterprises, Inc.	Vermont
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
Armstrong.com Holding Company	Delaware
AWI Licensing Company	Delaware
A W I (NEVADA), INC.	Nevada
Charleswater Products, Inc.	Delaware
Chemline Industries, Inc.	Delaware
Desseaux Corporation of North America	Delaware
Interface Solutions Holding, Inc. (35% owned; holds Armstrong's interest in Interface Solutions, Inc.)	Delaware
I.W. Insurance Company	Vermont
Natural Plastic Research Institute	Delaware
Nitram Liquidators, Inc.	Delaware
Triangle Pacific Corp.	Delaware
Worthington Armstrong Venture (50%-owned unincorporated affiliate)	

AWI Foreign Subsidiaries	
AIPB SPRL	Belgium
Alphacoustic (UK) Ltd.	United Kingdom
Armstrong (Floor) Holdings, B.V.	Netherlands
Armstrong (Floor) Holdings Ltd.	United Kingdom
Armstrong (Japan) K.K.	Japan
Armstrong (Singapore) Pte. Ltd.	Singapore
Armstrong (U.K.) Investments	United Kingdom
Armstrong Architectural Products S.L.	Spain
Armstrong Building Products	United Kingdom
Armstrong Building Products B.V.	Netherlands
Armstrong Building Products Company (Shanghai) Ltd.	PRC
Armstrong Building Products G.m.b.H.	Germany
Armstrong Building Products S.A.	France
Armstrong Building Products S.r.l.	Italy
Armstrong DLW AG	Germany
Armstrong Europa G.m.b.H.	Germany
Armstrong Europe Services	United Kingdom
Armstrong FSC, Ltd.	Bermuda
Armstrong Floor Products Europe G.m.b.H.	Germany
Armstrong Floor Products Europe Ltd.	United Kingdom
Armstrong Floor Products Europe S.a.r.l.	France
Armstrong Metal Ceilings Limited	United Kingdom
Armstrong Nova Scotia Unlimited Liability Company	Canada
Armstrong World do Brasil Ltda.	Brazil

Armstrong World Industries (Australia) Pty. Ltd.	Australia
Armstrong World Industries (China) Ltd.	PRC
Armstrong World Industries (H.K.) Limited	Hong Kong
Armstrong World Industries (India) Pvt. Ltd.	India
Armstrong World Industries (Thailand) Ltd.	Thailand
Armstrong World Industries AB	Sweden
Armstrong World Industries Canada Ltd.	Canada
Armstrong World Industries Holding G.m.b.H.	Germany
Armstrong World Industries Ltd.	United Kingdom
Armstrong World Industries Mauritius	Mauritius
Armstrong World Industries Pty. Ltd.	Australia
Armstrong World Industries de Mexico, S.A. de C.V.	Mexico
Gema Holding AG	Switzerland
Liberty Commercial Services Ltd.	Bermuda
Novita Market SA (30%-owned affiliate)	Poland
Perfiles y Techos, S.L. (known as Peytesa) (owned by WAVE)	Spain
Worthington Armstrong Metal Products Co. (Shanghai) Ltd. (owned by WAVE)	PRC
Worthington Armstrong UK Ltd. (owned by WAVE)	United Kingdom
Worthington Armstrong Europe S.A. (owned by WAVE)	France

EXHIBIT NO. 23

Consent of Independent Auditors

The Board of Directors
Armstrong Holdings, Inc.:

We consent to incorporation by reference in Registration Statement No. 333-74501 on Form S-3 and the Registration Statements No., 33-91890, 33-18996, 33-18997, 33-29768, 33-65768, 333-74633, 333-79093 and 333-43872 on Form S-8 of Armstrong Holdings, Inc. of our report dated February 26, 2001, relating to the consolidated balance sheets of Armstrong Holdings, Inc., and subsidiaries as of December 31, 2000 and 1999 and the related consolidated statements of earnings, cash flows and shareholders' equity and the related financial statement schedule for each of the years in the three-year period ended December 31, 2000, which report appears in the December 31, 2000 annual report on Form 10-K of Armstrong Holdings, Inc.

Our report dated February 26, 2001, contains an explanatory paragraph that states three of the Company's domestic subsidiaries, including Armstrong World Industries, Inc. filed separate voluntary petitions for relief under Chapter 11 of the United States Bankruptcy Code on December 6, 2000 and Armstrong World Industries, Inc. has also defaulted on certain debt obligations. Our report also states that the filing under Chapter 11 and the resulting increased uncertainty regarding the Company's potential asbestos liabilities raise substantial doubt about the Company's ability to continue as a going concern. The accompanying consolidated financial statements and financial statement schedule do not include any adjustments that might result from the outcome of these uncertainties.

KPMG LLP

Philadelphia, Pennsylvania
March 27, 2001

EXHIBIT NO. 23

Consent of Independent Auditors

The Board of Directors
Armstrong World Industries, Inc.:

We consent to incorporation by reference in Registration Statement No. 333-74501 on Form S-3 and the Registration Statements No. 33-91890, 33-18996, 33-18997, 33-29768, 33-65768, 333-74633 and 333-79093 on Form S-8 of Armstrong World Industries, Inc. of our report dated February 26, 2001, relating to the consolidated balance sheets of Armstrong World Industries, Inc., and subsidiaries as of December 31, 2000 and 1999 and the related consolidated statements of earnings, cash flows and shareholders' equity and the related financial statement schedule for each of the years in the three-year period ended December 31, 2000, which report appears in the December 31, 2000 annual report on Form 10-K of Armstrong World Industries, Inc.

Our report dated February 26, 2001, contains an explanatory paragraph that states the Company and two of its domestic subsidiaries filed separate voluntary petitions for relief under Chapter 11 of the United States Bankruptcy Code on December 6, 2000 and the Company has also defaulted on certain debt obligations. Our report also states that the filing under Chapter 11 and the resulting increased uncertainty regarding the Company's potential asbestos liabilities raise substantial doubt about the Company's ability to continue as a going concern. The accompanying consolidated financial statements and financial statement schedule do not include any adjustments that might result from the outcome of these uncertainties.

KPMG LLP

Philadelphia, Pennsylvania

March 27, 2001

EXHIBIT NO. 24

ARMSTRONG WORLD INDUSTRIES, INC.

POWER OF ATTORNEY

Re: 2000 Annual Report on Form 10-K -

I, James E. Marley, as a Director of Armstrong World Industries, Inc., do hereby constitute and appoint MICHAEL D. LOCKHART or, in the case of his absence or inability to act as such, JOHN N. RIGAS, or, in the case of his absence or inability to act as such, WALTER T. GANGL, my agent, to sign in my name and on my behalf the Company's Annual Report on Form 10-K for the year ended December 31, 2000, 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 26, 2001

(EXHIBIT NO. 24)

I, Walter T. Gangl Assistant 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 1st day of March, 2001, at which a quorum was present and acting throughout, the following resolution was adopted and is now in full force and effect: RESOLVED That the execution of the Company's 2000 annual report on Form 10-K by members of the Board of Directors through powers of attorney granting Messrs. Lockhart, Rigas and Gangl the power to sign on their behalf is authorized.

IN WITNESS WHEREOF, I have hereunto set my hand and the seal of said corporation this 26th day of March, 2001.

/s/ Walter T. Gangl

Assistant Secretary

EXHIBIT NO. 24

ARMSTRONG HOLDINGS, INC.

POWER OF ATTORNEY

Re: 2000 Annual Report on Form 10-K -

I, James E. Marley, as a Director of Armstrong Holdings, Inc., do hereby constitute and appoint MICHAEL D. LOCKHART or, in the case of his absence or inability to act as such, JOHN N. RIGAS, or, in the case of his absence or inability to act as such, WALTER T. GANGL, my agent, to sign in my name and on my behalf the Company's Annual Report on Form 10-K for the year ended December 31, 2000, 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 26, 2001

(EXHIBIT NO. 24)

All powers of attorney required to be filed are substantially identical in all material respects. Therefore, in accordance with SEC Regulation 229.601(a) Instruction 2, only the foregoing copy is being included except, however, that the manually signed copy filed with the Securities and Exchange Commission includes a complete set of powers of attorney.

All powers of attorney differ only from the form of the foregoing in that they are executed by the following parties in the capacities indicated on or about February 26, 2001.

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, John N. Rigas, Senior Vice President and Secretary of Armstrong Holdings, Inc., a corporation organized and existing under the laws of the Commonwealth of Pennsylvania, do hereby certify that, at a meeting of the Board of Directors of said corporation duly held on the 26th day of February, 2001, at which a quorum was present and acting throughout, the following resolution was adopted and is now in full force and effect:

RESOLVED That the execution of the Company's 2000 annual report on Form 10-K by members of the Board of Directors through powers of attorney granting Messrs. Lockhart, Rigas and Gangl the power to sign on their behalf is authorized.

IN WITNESS WHEREOF, I have hereunto set my hand and the seal of said corporation this 26th day of March, 2001.

/s/ John N. Rigas

Sr. Vice President & Secretary

End of Filing