ARMSTRONG WORLD INDUSTRIES INC

FORM 10-K
(Annual Report)

Filed 02/29/08 for the Period Ending 12/31/07

Address	2500 COLUMBIA AVE LANCASTER, PA 17603
Telephone	7173970611
CIK	0000007431
Symbol	AWI
SIC Code	3089 - Plastics Products, Not Elsewhere Classified
Industry	Constr. - Supplies & Fixtures
Sector	Capital Goods
Fiscal Year	12/31

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(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, 2007

OR

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

For the transition period from _______ to _______

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: None

Securities registered pursuant to Section 12(g) of the Act:
Title of each class
Common Stock ($0.01 par value)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days.
Yes ☒ No ☐

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Act).

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).
Yes ☐ No ☒

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.
Yes ☒ No ☐

The aggregate market value of the Common Stock of Armstrong World Industries, Inc. held by non-affiliates based on the closing price ($50.15 per share) on the New York Stock Exchange (trading symbol AWI) on June 30, 2007, was approximately $975 million. As of February 21, 2007, the number of shares outstanding of registrant's Common Stock was 56,870,880.

Documents Incorporated by Reference

None

TABLE OF CONTENTS

Uncertainties Affecting Forward-Looking Statements

Our disclosures here and in other public documents and comments contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act. Those statements provide our future expectations or forecasts, and can be identified by our use of words such as “anticipate,” “estimate,” “expect,” “project,” “intend,” “plan,” “believe,” “outlook,” etc. in discussions of future operating or financial performance, the outcome of contingencies such as liabilities or legal proceedings, or our ability to pay any dividends or take any particular corporate action.

Any of our forward-looking statements may turn out to be wrong. Our actual future results, or our ability to pay any dividend or take any particular corporate action, may differ materially. Forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. We undertake no obligation to update any forward-looking statement.

You should take into account risks and uncertainties that affect our business, operations and financial condition in evaluating any investment decision involving Armstrong. It is not possible to predict all factors that could cause actual results to differ materially from expected and historical results. The discussion in the “Risk Factors” section below at Item 1A is a summary of what we currently believe to be our most significant risk factors. Related disclosures in subsequent 10-K, 10-Q and 8-K reports should also be consulted.

PART I

ITEM 1. BUSINESS

Armstrong World Industries, Inc. (“AWI” or “the Company”) is a Pennsylvania corporation incorporated in 1891. We are a leading global producer of flooring products and ceiling systems for use primarily in the construction and renovation of commercial, institutional and residential buildings. Through our United States (“U.S.”) operations and U.S. and international subsidiaries, we design, manufacture and sell flooring products (primarily resilient and wood flooring) and ceiling systems (primarily mineral fiber, fiberglass and metal) around the world. We also design, manufacture and sell kitchen and bathroom cabinets in the U.S.

Our business strategy focuses on providing value to customers through product innovation, product quality and customer service. In our businesses, these factors are the primary determinants of market share gain or loss. Our objective is to ensure that anyone buying a hard surface floor or ceiling can find an Armstrong product that meets his or her needs. Our cabinet strategy is more focused – on stock cabinets in select geographic markets. In these segments, we have the same objectives: high quality, good customer service and products that meet our customers’ needs. Our markets are very competitive, which limits our pricing flexibility. This requires that we increase our productivity each year – both in our plants and in our administration of the businesses.

We maintain a website at http://www.armstrong.com. Information contained on our website is not incorporated into this document. Annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, all amendments to those reports and other information about us are available free of charge through this website as soon as reasonably practicable after the reports are electronically filed with the Securities and Exchange Commission (“SEC”). These materials are also available from the SEC’s website at www.sec.gov.

On December 6, 2000, AWI filed a voluntary petition for relief under Chapter 11 of the U.S. Bankruptcy Code in order to use the court-supervised reorganization process to achieve a resolution of AWI’s asbestos-related liability. On October 2, 2006, AWI’s plan of reorganization (the “POR”), as confirmed by the U.S. District Court for the District of Delaware by order dated August 18, 2006, became effective, and AWI emerged from Chapter 11. See Note 1 to the Consolidated Financial Statements for additional information about AWI’s Chapter 11 case.

In connection with its emergence from bankruptcy on October 2, 2006 (the “Effective Date”), AWI adopted fresh-start reporting in accordance with AICPA Statement of Position 90-7, “Financial Reporting by Entities in Reorganization under the Bankruptcy Code” (“SOP 90-7”). Adopting fresh-start reporting has resulted in material adjustments to the historical carrying amount of reorganized Armstrong’s assets and liabilities. See Note 3 to the Consolidated Financial Statements for more information. As a result, our post-emergence financial statements are not comparable to our pre-emergence financial statements. Despite the lack of comparability, we have combined the 2006 results of the Predecessor Company (which represent the first nine months of 2006 and include the impact of emergence) with the results of the Successor Company (which represent the last three months of 2006) to facilitate the year-to-year discussion of operating results in certain sections of this Form 10-K. The combined financial information for 2006 is merely cumulative and does not give pro forma effect to the Predecessor’s results as if the consummation of the POR and the related fresh-start reporting and other adjustments had occurred at the beginning of the period presented. Combining pre-emergence and post-emergence results is not in accordance with U.S. generally accepted accounting principles (“GAAP”).

Reportable Segments

Resilient Flooring — produces and sources a broad range of floor coverings primarily for homes and commercial and institutional buildings. Manufactured products in this segment include vinyl sheet, vinyl tile, linoleum flooring, automotive carpeting and other specialized textile floor products. In addition, our Resilient Flooring segment sources and sells laminate flooring products, ceramic tile products, adhesives, installation and maintenance materials and accessories. Resilient Flooring products are offered in a wide variety of types, designs and colors. We sell these products to wholesalers, large home centers, retailers, contractors and to the manufactured homes industry.

Wood Flooring — produces and sources wood flooring products for use in new residential construction and renovation, with some commercial applications in stores, restaurants and high-end offices. The product offering includes pre-finished solid and engineered wood floors in various wood species, and related accessories. Virtually all of our Wood Flooring's sales are in North America. Our Wood Flooring products are generally sold to independent wholesale flooring distributors and large home centers. Our products are principally sold under the brand names Bruce®, Hartco®, Robbins®, Timberland®, Armstrong™, HomerWood® and Capella®.

Building Products — produces suspended mineral fiber, soft fiber and metal ceiling systems for use in commercial, institutional and residential settings. In addition, our Building Products segment sources complementary ceiling products. Our products are available in numerous colors, performance characteristics and designs, and offer attributes such as acoustical control, rated fire protection and aesthetic appeal. Commercial ceiling materials and accessories are sold to ceiling systems contractors and to resale distributors. Residential ceiling products are sold primarily in North America to wholesalers and retailers (including large home centers). Suspension system (grid) products manufactured by WAVE are sold by both Armstrong and our WAVE joint venture.

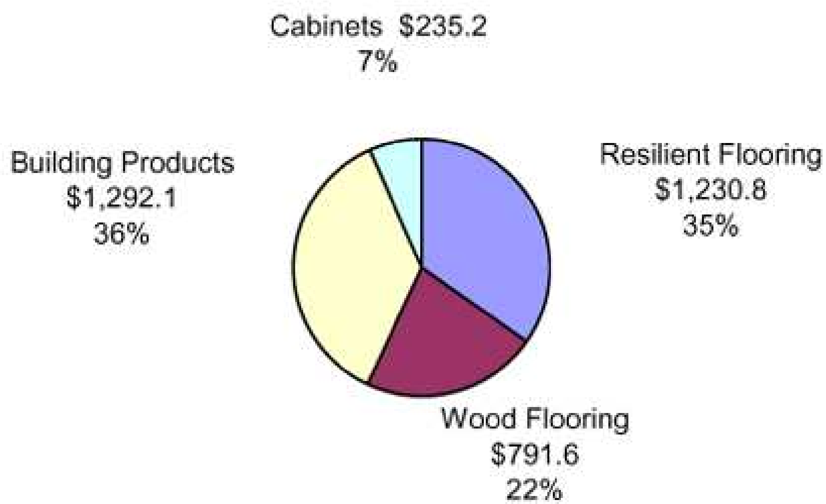
Cabinets — produces kitchen and bathroom cabinetry and related products, which are used primarily in the U.S. residential new construction and renovation markets. Through our system of Company-owned and independent distribution centers and through direct sales to builders, our Cabinets segment provides design, fabrication and installation services to single and multi-family homebuilders, remodelers and consumers under the brand names Armstrong® and Bruce®.

Unallocated Corporate - includes assets and expenses that have not been allocated to the business units. Unallocated Corporate assets are primarily deferred income tax assets, cash and cash equivalents, the Armstrong brand name and the U.S. prepaid pension cost. Expenses for our corporate departments and certain benefit plans are allocated to the reportable segments based on known metrics, such as time reporting, headcount, square-footage or net sales. The remaining expenses, which cannot be attributable to the reportable segments without a high degree of generalization, are reported in Unallocated Corporate.

Table of Contents

The following chart illustrates the breakdown of our consolidated net sales for the year ended December 31, 2007 by segment:

2007 Consolidated Net Sales by Segment
(in millions)



See Note 4 to the Consolidated Financial Statements and Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations of this Form 10-K for additional financial information on our reportable segments.

Markets
The major markets in which we compete are:

North American Residential. Approximately 45% of our total consolidated net sales are for North American residential use. Our Resilient Flooring, Wood Flooring, Building Products and Cabinets segments sell products for use in the home. Homeowners have a multitude of finishing solution options for every room in their house. For flooring, they can choose from our vinyl and wood products, for which we are North America's largest provider, or from our laminate and ceramic products. We compete directly with other domestic and international suppliers of these products. Our flooring products also compete with carpet, which we do not offer. Our ceiling products compete against mineral fiber and fiberglass products from other manufacturers, as well as drywall. In the kitchen and bath areas, we compete with thousands of other cabinet manufacturers that include large diversified corporations as well as small local craftsmen.

Our products are used in new home construction and existing home renovation work. Industry estimates are that existing home renovation (also known as replacement / remodel) work represents approximately two-thirds of the total North American residential market opportunity. Key U.S. statistics that indicate market opportunity include existing home sales (a key indicator for renovation opportunity), housing starts, housing completions, interest rates and consumer confidence. For our Resilient Flooring and Wood Flooring products, we believe there is some longer-term correlation between these statistics and our revenue, after reflecting a lag period between change in construction activity and our operating results of several months. However, we believe that consumers' preferences for product type, style, color, availability and affordability also significantly impact our revenue. Further, changes in inventory levels and product focus at national home centers, which are our largest customers, can also significantly impact our revenue. Sales of our ceiling products for residential use appear to follow the trend of existing home sales, with a several month lag period between change in existing home sales and our related operating results.

North American Commercial. Approximately 30% of our total consolidated net sales are for North American commercial use. Many of our products, primarily ceilings and Resilient Flooring, are used in commercial and institutional buildings. Our revenue opportunities come from new construction as well as renovation of existing buildings. Renovation work is estimated to represent approximately three-fourths of the total North American commercial market opportunity. Most of our revenue comes from four major segments of commercial building – office, education, retail and healthcare. We monitor U.S. construction starts (an indicator of U.S. monthly construction activity that provides us a reasonable indication of upcoming opportunity) and follow new projects. We have found that our revenue from new construction can lag behind construction starts by as much as one year. We also monitor office vacancy rates, GDP and general employment levels, which can indicate movement in renovation and new construction opportunities. We believe that these statistics, taking into account the time-lag effect, provide a reasonable indication of our future revenue opportunity from commercial renovation and new construction.

Outside of North America. The geographies outside of North America account for about one-fourth of our total consolidated net sales. Most of our revenues generated outside of North America are in Europe and are commercial in nature. For the countries in which we have significant revenue, we monitor various national statistics (such as GDP) as well as known new projects. Revenues come primarily from new construction and renovation work.

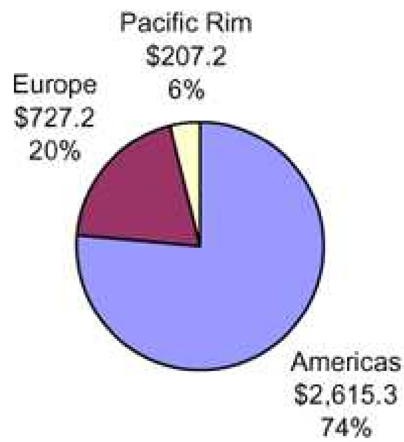
The following table provides an estimate of our segments' 2007 net sales, by major markets.

(Estimated percentages of individual segment's sales)	North American Residential	North American Commercial	Outside of North America	Total
Resilient Flooring	35%	30%	35%	100%
Wood Flooring	95%	5%	-	100%
Building Products	10%	50%	40%	100%
Cabinets	100%	-	-	100%

Geographic Areas

We sell our products in more than 80 countries. Approximately 74% of our 2007 revenue was derived from sales in the Americas, the vast majority of which came in the United States and Canada. The following chart illustrates the breakdown of our consolidated net sales for the year ended December 31, 2007 by region, based on where the sale was made:

2007 Consolidated Net Sales by Geography
(in millions)

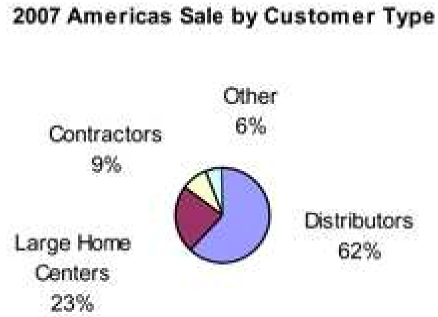


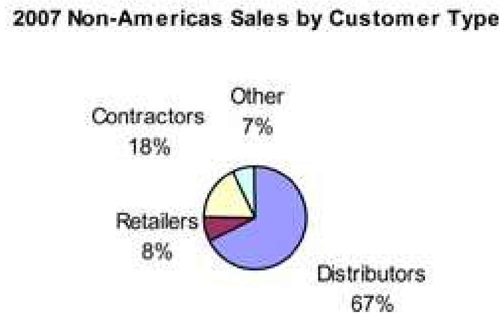
See Note 4 to the Consolidated Financial Statements and Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations of this Form 10-K for financial information by geographic areas.

Customers

We use our reputation, capabilities, service and brand recognition to develop long-standing relationships with our customers. We principally sell products through building materials distributors, who re-sell our products to retailers, builders, contractors, installers and others. In the commercial sector, we also sell to several contractors and to subcontractors' alliances. In the North American retail channel, which sells to end-users in the residential and light commercial segments, we have important relationships with national home centers such as The Home Depot, Inc. and Lowe's Companies, Inc. In the North American residential sector, we have important relationships with major homebuilders and buying groups.

The following charts illustrate the estimated breakdown of our 2007 consolidated net sales geographically by distribution channel:





Net sales to The Home Depot, Inc. were $364.1 million in 2006 and $384.1 million in 2005, which was in excess of 10% of our consolidated net sales for those years. Net sales to The Home Depot were less than 10% of consolidated net sales in 2007. Net sales to The Home Depot were recorded in our Resilient Flooring, Wood Flooring and Building Products segments. No other customers accounted for 10% or more of our total consolidated net sales.

Product Array and Impact on Performance

Each of our businesses offers a wide assortment of products that are differentiated by style/design and by performance attributes. Pricing for products within the assortment vary according to the level of value they provide. Changes in the relative quantity of products purchased at the different value points can impact year-to-year comparisons of net sales and operating income. Where significant, we discuss the impact of these relative changes as “product mix,” “customer mix” or “geographic mix” in Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations of this Form 10-K.

Competition

There is strong competition in all of our businesses. Principal methods of competition include product performance, product styling, service and price. Competition in North America comes from both domestic and international manufacturers. Additionally, some of our products compete with alternative products or finishing solutions. Our resilient, laminate and wood flooring products compete with carpet products, and our ceiling products compete with drywall and exposed structure (also known as open plenum). There is excess industry capacity for certain products in some geographies, which tends to increase price competition. The following companies are our primary competitors:

Flooring segments – Amtico International, Inc., Balta Industries, N.V., Beaulieu International Group, N.V., Congoleum Corporation, Faus, Inc., Forbo Holding AG, Gerflor Group, Interface, Inc., Krono Holding AG, Mannington Mills, Inc., Mohawk Industries, Inc., Pfleiderer AG, Shaw Industries, Inc., Tarkett AG and Wilsonart International.

Building Products – CertainTeed, Chicago Metallic Corporation, Georgia-Pacific Corporation, Knauf AMF GmbH & Co. KG, Lafarge SA, Odenwald Faserplattenwerk GmbH, Rockfon A/S, Saint-Gobain and USG Corporation.

Cabinets – American Woodmark Corporation, Fortune Brands, Inc. and Masco Corporation.

Raw Materials

Raw materials essential to our businesses are purchased worldwide in the ordinary course of business from numerous suppliers. The principal raw materials used in each business include the following:

Business	Principal Raw Materials
Resilient Flooring	Polyvinylchloride (“PVC”) resins and films, plasticizers, backings, limestone, pigments, linseed oil, inks and stabilizers
Wood Flooring	Hardwood lumber, veneer, coatings and stains
Building Products	Mineral fibers, perlite, waste paper, clays, starches and steel used in the production of metal ceilings and for our joint venture’s manufacturing of ceiling grids
Cabinets	Lumber, veneer, plywood, particleboard, fiberboard and components, such as doors and hardware

We also purchase significant amounts of packaging materials and consume substantial amounts of energy, such as electricity and natural gas, and water.

In general, adequate supplies of raw materials are available to all of our businesses. However, availability can change for a number of reasons, including environmental conditions, laws and regulations, shifts in demand by other industries competing for the same materials, transportation disruptions and/or business decisions made by, or events that affect, our suppliers. There is no assurance that a significant shortage of raw materials will not occur.

Prices for certain high usage raw materials can fluctuate dramatically. Cost increases for these materials can have a significant adverse impact on our manufacturing costs. Given the competitiveness of our markets, we may not be able to recover the increased manufacturing costs through increasing selling prices to our customers.

Sourced Products

Some of the products that we sell are sourced from third parties. The primary sourced products include laminate, wood flooring, vinyl sheet and tile and ceramic products, specialized ceiling products, and installation-related products and accessories for some of our manufactured products. We purchase some of our sourced products from suppliers that are located outside of the U.S, primarily from Asia and Europe. Sales of sourced products represented approximately 10% to 15% of our total consolidated revenue in 2007, 2006 and 2005.

In general, we believe we have adequate supplies of sourced products. However, we cannot guarantee that a significant shortage will not occur.

Hedging

We use financial instruments to hedge the following exposures: sourced product purchases denominated in foreign currency, cross-currency intercompany loans and energy. We use derivative financial instruments as risk management tools and not for speculative trading purposes. See Item 7A. Quantitative and Qualitative Disclosures About Market Risk and Note 20 to the Consolidated Financial Statements of this Form 10-K for more information.

Patent and Intellectual Property Rights

Patent protection is important to our business in the U.S. and other markets. Our competitive position has been enhanced by U.S. and foreign patents on products and processes developed or perfected within Armstrong or obtained through acquisitions and licenses. In addition, we benefit from our trade secrets for certain products and processes.

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

Certain of our trademarks, including without limitation, house marks Armstrong, Armstrong ™, Bruce®, Hartco®, Robbins®, Timberland®, Capella®, HomerWood® and DLW ™, and product line marks Allwood™, Arteffects®, Axiom®, Cirrus®, Corlon®, Cortega®, Designer Solarian®, Dune ™, Excelon®, Fundamentals®, Infusions®, Medintech®, Natural Creations®, Natural Inspirations®, Nature's Gallery®, Optima®, Rhinofloor®, Sahara ™, Scala®, Second Look®, Solarian®, SoundScapes®, ToughGuard® and Ultima® are important to our business because of their significant brand name recognition. Trademark protection continues in some countries as long as the mark is used, and continues in other countries as long as the mark is registered. Registrations are generally for fixed, but renewable, terms.

Employees

As of December 31, 2007, we had approximately 12,900 full-time and part-time employees worldwide, with approximately 9,300 employees located in the United States. Approximately 8,600 of the 12,900 are production and maintenance employees, of whom approximately 6,600 are located in the U.S. Approximately 67% of the production and maintenance employees in the U.S. are represented by labor unions. This percentage includes all production and maintenance employees at our plants and warehouses where labor unions exist. Outside the U.S., most of our production employees are covered by either industry-sponsored and/or state-sponsored collective bargaining mechanisms.

Research & Development

Research and development ("R&D") activities are important and necessary in helping us improve our products' competitiveness. Principal R&D functions include the development and improvement of products and manufacturing processes. We spent $43.8 million in 2007, $43.8 million in 2006 and $42.4 million in 2005 on R&D activities worldwide.

Environmental Matters

Most of our manufacturing and certain of our research facilities are affected by various federal, state and local environmental requirements relating to the discharge of materials or the protection of the environment. We make expenditures necessary for compliance with applicable environmental requirements at each of our operating facilities.

We are actively involved in proceedings under the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"), and similar state "Superfund" laws at four off-site locations. We have also been investigating and/or remediating environmental contamination allegedly resulting from past industrial activity at five domestic and five international current or former plant sites. Certain of AWI's environmental liabilities were discharged through its Chapter 11 Case while others were not. Those environmental obligations that AWI has with respect to property that it owns or operates or for which a non-debtor subsidiary is liable were unaffected by the Chapter 11 Case. Therefore, AWI and its subsidiaries are required to continue meeting their ongoing environmental compliance obligations at such properties.

Liabilities of $7.0 million and $5.9 million at December 31, 2007 and December 31, 2006, respectively, were for potential environmental liabilities that we consider probable and for which a reasonable estimate of the probable liability could be made.

ITEM 1A. RISK FACTORS

As noted in the introductory section titled, "Uncertainties Affecting Forward-Looking Statements" above, our business, operations and financial condition are subject to various risks. These risks should be taken into account in evaluating any investment decision involving Armstrong. It is not possible to predict or identify all factors that could cause actual results to differ materially from expected and historical results. The following discussion is a summary of what we believe to be our most significant risk factors. These and other factors could cause our actual results to differ materially from those in forward-looking statements made in this report.

We try to reduce both the likelihood that these risks will affect our businesses and their potential impact. But, no matter how accurate our foresight, how well we evaluate risks, and how effective we are at mitigating them, it is still possible that one of these problems or some other issue could have serious consequences for us, up to and including a materially adverse effect. See related discussions in this document and our other SEC filings for more details and subsequent disclosures.

Claims, Litigation and Regulatory Actions

While we strive to ensure that our products comply with applicable government regulatory standards and internal requirements, and that our products perform effectively and safely, customers from time to time could claim that our products do not meet contractual requirements, and users could be harmed by use or misuse of our products. This could give rise to breach of contract, warranty or recall claims, or claims for negligence, product liability, strict liability, personal injury or property damage. The building materials industry has been subject to claims relating to silicates, mold, PVC, formaldehyde, toxic fumes, fire-retardant properties and other issues, as well as for incidents of catastrophic loss, such as building fires. Product liability insurance coverage may not be available or adequate in all circumstances. In addition, claims may arise related to patent infringement, environmental liabilities, distributor terminations, commercial contracts, antitrust or competition law, employment law and employee benefits issues, and other regulatory matters. While we have in place processes and policies to mitigate these risks and to investigate and address such claims as they arise, we cannot predict the costs to defend or resolve such claims.

Construction activity variability and the size of the market opportunity

Our businesses have greater sales opportunities when construction activity is strong and, conversely, have fewer opportunities when such activity declines. Construction activity tends to increase when economies are strong, interest rates are favorable, government spending is strong, and consumers are confident. Since most of our sales are in the U.S., its economy is the most important for our business, but conditions in Europe, Canada and Asia also are relevant.

Raw materials and sourced product issues

The cost and availability of raw materials, packaging materials, energy and sourced products are critical to our operations. For example, we use substantial quantities of natural gas, petroleum-based raw materials, hardwood lumber and mineral fiber in our manufacturing operations. The cost of some items has been volatile in recent years and availability has sometimes been tight. We source some materials from a limited number of suppliers, which, among other things, increases the risk of unavailability. Limited availability could cause us to reformulate products or to limit our production. The impact of increased costs is greatest where our ability to pass along increased costs through price increases on our products is limited, whether due to competitive pressures or other factors.

Consumer preference and competition

Our customers consider our products' performance, product styling, customer service and price when deciding whether to purchase our products. Shifting consumer preference in our highly competitive markets, e.g. from residential vinyl products to other flooring products, styling preferences or inability to offer new competitive performance features could hurt our sales. For certain products, there is excess industry capacity in several geographic markets, which tends to increase price competition, as does competition from overseas competitors with lower cost structures.

International trade and operations
A significant portion of our products move in international trade, particularly among the U.S., Canada, Europe and Asia. Also, approximately 30% of our annual revenues are from operations outside the U.S. Our international trade is subject to currency exchange fluctuations, trade regulations, import duties, logistics costs and delays and other related risks. They are also subject to variable tax rates, credit risks in emerging markets, political risks, uncertain legal systems, restrictions on repatriating profits to the U.S., and loss of sales to local competitors following currency devaluations in countries where we import products for sale.

Challenges in executing operational restructuring actions
We look for ways to make our operations more efficient and effective. We reduce, move and expand our plants and operations as needed. Each action generally involves substantial planning and capital investment. We can err in planning and executing our actions, which could hurt our customer service and cause unplanned costs.

Labor contracts
Most of our manufacturing employees are represented by unions and are covered by collective bargaining or similar agreements that must be periodically renegotiated. Although we anticipate that we will reach new contracts as current ones expire, our negotiations may result in a significant increase in our costs. Failure to reach new contracts could lead to work stoppages, which could hurt production, revenues, profits and customer relations.

Dependence on key customers
Some of our businesses are dependent on a few key customers. For example, much of our North America revenue comes from sales to home center retailers, including The Home Depot, Inc. and Lowe’s Companies, Inc. We do not have long-term contracts with them. The loss of sales to one of these major customers, or changes in our business relationship with them, could hurt both our revenues and profits.

ITEM 2. PROPERTIES

Our world headquarters are in Lancaster, Pennsylvania. We own a 100-acre, multi-building campus comprising the site of our corporate headquarters, most operational headquarters, our U.S. R&D operations and marketing, and customer service headquarters. Altogether, our headquarters' operations occupy approximately one million square feet of floor space.

We produce and market Armstrong products and services throughout the world, operating 40 manufacturing plants in 10 countries as of December 31, 2007. Three of our plants are leased and the remaining 37 are owned. We have 25 plants located throughout the United States. In addition, we have an interest through our WAVE joint venture in seven additional plants in five countries.

Business Segment	Number of Plants	Location of Principal Facilities
Resilient Flooring	13	U.S. (California, Illinois, Mississippi, Oklahoma, Pennsylvania), Australia, Canada, Germany, Sweden and the U.K.
Wood Flooring	11	U.S. (Arkansas, Kentucky, Mississippi, Missouri, North Carolina, Pennsylvania, Tennessee, Texas, West Virginia)
Building Products	14	U.S. (Alabama, Florida, Georgia, Oregon, Pennsylvania), China, France, Germany and the U.K.
Cabinets	2	U.S. (Nebraska and Pennsylvania)

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

Production capacity and the extent of utilization of our facilities are difficult to quantify with certainty. In any one facility, utilization of our capacity varies periodically depending upon demand for the product that is being manufactured. We believe our facilities are adequate and suitable to support the business. 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

See Note 32 to the Consolidated Financial Statements, which is incorporated herein by reference, for a full description of our legal proceedings.

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

No matters were submitted to a vote of stockholders during the fourth quarter of 2007.

ITEM 4A. EXECUTIVE OFFICERS OF THE COMPANY

Executive Officer Information

The following information is current as of February 28, 2008. Each executive officer serves a one-year term until reelected or until his earlier death, resignation, retirement or removal.

Michael D. Lockhart

Age 58; Director since November 2000 and Chairman of the Board and Chief Executive Officer since March 2001. Chairman and Chief Executive Officer of our former holding company from August 2000 – December 2007. Mr. Lockhart previously served as Chairman and Chief Executive Officer of General Signal (a diversified manufacturer) headquartered in Stamford, Connecticut from September 1995 until it was acquired in October 1998. He joined General Signal as President and Chief Operating Officer in September 1994. From 1981 until 1994, Mr. Lockhart worked for General Electric in various executive capacities in the GE Credit Corporation (now GE Capital), GE Transportation Systems and GE Aircraft Engines.

F. Nicholas Grasberger, III

Age 44; Senior Vice President and Chief Financial Officer since January 2005. Previously Vice President and Chief Financial Officer of Kennametal, Inc. (a manufacturer of cutting tools and wear parts) August 2000 – December 2004. Formerly employed at H. J. Heinz (a global U.S. based food company) for eleven years, his last title being Treasurer.

Donald A. McCunniff

Age 50; Senior Vice President, Human Resources since March 2006. Previously Vice President Human Resources, Corporate, Honeywell International. Joined Honeywell in 1995 and served in various senior level Human Resources positions in Defense and Space, Electronics, Process Automation, and Aircraft Landing Systems.

Frank J. Ready

Age 46; President and Chief Executive Officer, North American Flooring Operations since June 2004. Previously Senior Vice President, Sales and Marketing, July 2003 – June 2004; Senior Vice President, Operations, December 2002 – July 2003; Senior Vice President, Marketing, June 2000 – December 2002.

John N. Rigas

Age 59; Senior Vice President and General Counsel since November 2000. Previously Deputy General Counsel-Litigation, March 1999 – November 2000; worked for Dow Corning Corporation (specialty chemical company) October 1982 – March 1999, his last title being Senior Managing Counsel.

William C. Rodruan

Age 53; Vice President and Controller since July 1999. Previously Director, Corporate Transformation and Shared Services, February 1997 – July 1999, and Vice President of Finance, Corporate Retail Accounts July 1994 – February 1997.

Stephen J. Senkowski

Age 56; Executive Vice President since April 2004, and President and Chief Executive Officer, Armstrong Building Products since October 2000; Senior Vice President, Americas, Building Products Operations, April 2000 – October 2000; President/Chief Executive Officer, WAVE (the Company’s ceiling grid joint venture) July 1997 – April 2000; Vice President, Innovation Process, Building Products Operations 1994 – July 1997.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Following AWI's emergence from Chapter 11, AWI's new common shares began trading on the New York Stock Exchange on October 10, 2006 under the ticker symbol "AWI". As of February 21, 2007, there were approximately 800 holders of record of AWI's Common Stock.

2007	First	Second	Third	Fourth	Total Year
Price range of common stock—high	$ 56.72	$ 57.48	$ 52.47	$ 44.28	$ 57.48
Price range of common stock—low	$ 41.55	$ 49.85	$ 35.04	$ 38.00	$ 35.04
2006					
Price range of common stock—high	n/a	n/a	n/a	$ 42.50	$ 42.50
Price range of common stock—low	n/a	n/a	n/a	$ 30.00	$ 30.00

The above figures represent the high and low intra-day sale prices for our common stock as reported by the New York Stock Exchange.

There were no dividends declared or paid during 2007 or 2006.

No Company securities were repurchased by the Company during 2007 or 2006.

On February 25, 2008, our Board of Directors declared a special cash dividend of $4.50 per common share, payable on March 31, 2008, to shareholders of record on March 11, 2008. This special cash dividend will result in an aggregate payment to our shareholders of approximately $260 million, based on the number of common shares currently outstanding.

Table of Contents

ITEM 6. SELECTED FINANCIAL DATA

(Dollars in millions except for per-share data)	Successor Company Year 2007	Successor Company Three Months Ended December 31, 2006	Predecessor Company Nine Months Ended September 30, 2006 (1)	Predecessor Company Year 2005	Predecessor Company Year 2004	Predecessor Company Year 2003
Income statement data						
Net sales	$ 3,549.7	$ 817.3	$ 2,608.6	$ 3,326.6	$ 3,279.1	$ 3,069.0
Cost of goods sold	2,685.3	660.4	2,028.7	2,651.8	2,654.4	2,461.4
Selling, general and administrative expenses	613.5	144.0	417.0	590.0	567.7	552.4
Charge for asbestos liability, net	–	–	–	–	–	81.0
Goodwill impairment	–	–	–	–	108.4	–
Restructuring charges, net	0.2	1.7	10.0	23.0	17.9	2.3
Equity (earnings) from joint ventures	(46.0)	(5.3)	(41.4)	(39.3)	(31.6)	(20.8)
Operating income (loss)	296.7	16.5	194.3	101.1	(37.7)	(7.3)
Interest expense	55.0	13.4	5.2	7.7	7.9	8.9
Other non-operating expense	1.4	0.3	1.0	1.5	3.1	5.7
Other non-operating (income)	(18.2)	(4.3)	(7.2)	(11.8)	(6.4)	(4.6)
Chapter 11 reorganization (income) costs, net	(0.7)	-	(1,955.5)	(1.2)	6.9	9.4
Income tax expense (benefit)	106.4	3.8	726.6	(1.2)	21.4	–
Earnings (loss) from continuing operations	152.8	3.3	1,424.2	106.1	(70.6)	(26.7)
Per common share – basic (a)	$ 2.73	$ 0.06	n/a	n/a	n/a	n/a
Per common share – diluted (a)	$ 2.69	$ 0.06	n/a	n/a	n/a	n/a
(Loss) earnings from discontinued operations	(7.5)	(1.1)	(68.4)	5.0	(9.1)	(12.6)
Net earnings (loss)	$ 145.3	$ 2.2	$ 1,355.8	$ 111.1	$(79.7)	$ (39.3)
Per common share – basic (a)	$ 2.59	$ 0.04	n/a	n/a	n/a	n/a
Per common share – diluted (a)	$ 2.56	$ 0.04	n/a	n/a	n/a	n/a
Dividends declared per share of common stock	n/a	n/a	n/a	n/a	n/a	n/a
Average number of common shares outstanding (in millions)	56.6	55.0	n/a	n/a	n/a	n/a
Average number of employees	13,500	14,500	14,700	14,900	15,400	15,800
Balance sheet data (end of period)						
Working capital	$ 1,003.7	$ 854.6		$ 1,128.0	$985.8	$933.3
Total assets	4,649.9	4,159.9		4,606.0	4,609.4	4,647.8
Liabilities subject to compromise	-	1.3		4,869.4	4,870.9	4,863.2
Net long-term debt (b)	485.8	801.5		21.5	29.2	39.4
Shareholders' equity (deficit)	2,437.2	2,164.5		(1,319.9)	(1,425.3)	(1,345.0)

(1) Reflects the effects of the Plan of Reorganization and fresh-start reporting. See Note 3 to the Consolidated Financial Statements.

Notes:

(a) See definition of basic and diluted earnings per share in Note 2 of the Consolidated Financial Statements. The common stock of the Predecessor Company was not publicly traded.

(b) Net long-term debt excludes debt subject to compromise for all periods presented.

Certain prior year amounts have been reclassified to conform to the current year presentation. See Note 2 to the Consolidated Financial Statements.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Armstrong World Industries, Inc. ("AWI") is a Pennsylvania corporation incorporated in 1891. When we refer to "we", "our" and "us" in this report, we are referring to AWI and its subsidiaries. References in this report to "reorganized Armstrong" are to AWI as it was reorganized under the Plan of Reorganization ("POR") on October 2, 2006, and its subsidiaries collectively. We use the term "AWI" when we are referring solely to Armstrong World Industries, Inc.

This discussion should be read in conjunction with the financial statements and the accompanying notes included elsewhere in this Form 10-K. This discussion contains forward-looking statements based on our current expectations, which are inherently subject to risks and uncertainties. Actual results and the timing of certain events may differ significantly from those referred to in such forward-looking statements. We undertake no obligation beyond what is required under applicable securities law to publicly update or revise any forward-looking statement to reflect current or future events or circumstances, including those set forth in the section entitled "Uncertainties Affecting Forward-Looking Statements" and elsewhere in this Form 10-K.

Financial performance metrics excluding the translation effect of changes in foreign exchange rates are not in compliance with U.S. generally accepted accounting principles ("GAAP"). We believe that this information improves the comparability of business performance by excluding the impacts of changes in foreign exchange rates when translating comparable foreign currency amounts. We calculate the translation effect of foreign exchange rates by applying constant foreign exchange rates to the equivalent periods' reported foreign currency amounts. We believe that this non-GAAP metric provides a clearer picture of our operating performance. Furthermore, management evaluates the performance of the businesses excluding the effects of foreign exchange rates.

In connection with its emergence from bankruptcy on October 2, 2006 (the "Effective Date"), AWI adopted fresh-start reporting in accordance with AICPA Statement of Position 90-7, "Financial Reporting by Entities in Reorganization under the Bankruptcy Code" ("SOP 90-7"). Adopting fresh-start reporting has resulted in material adjustments to the historical carrying amount of reorganized Armstrong's assets and liabilities. See Note 3 to the Consolidated Financial Statements for more information. As a result, our post-emergence financial statements are not comparable to our pre-emergence financial statements. Despite the lack of comparability, we have combined the 2006 results of the Predecessor Company (which represent the first nine months of 2006 and include the impact of emergence) with the results of the Successor Company (which represent the last three months of 2006) to facilitate the year-to-year discussion of operating results in certain sections of this Form 10-K, including relevant portions of Management's Discussion and Analysis. The combined financial information for 2006 merely combines the Predecessor and Successor periods and does not give pro forma effect to the Predecessor's results as if the consummation of the POR and the related fresh-start reporting and other adjustments had occurred at the beginning of the period presented. Combining pre-emergence and post-emergence results is not in accordance with GAAP.

We maintain a website at http://www.armstrong.com. Information contained on our website is not necessarily incorporated into this document. Annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, all amendments to those reports and other information about us are available free of charge through this website as soon as reasonably practicable after the reports are electronically filed with the Securities and Exchange Commission ("SEC"). These materials are also available from the SEC's website at www.sec.gov.

Table of Contents

Management's Discussion and Analysis of Financial Condition and Results of Operations
(dollar amounts in millions)

OVERVIEW

We are a leading global producer of flooring products and ceiling systems for use primarily in the construction and renovation of residential, commercial and institutional buildings. Through our United States ("U.S.") operations and U.S. and international subsidiaries, we design, manufacture and sell flooring products (primarily resilient and wood) and ceiling systems (primarily mineral fiber, fiberglass and metal) around the world. We also design, manufacture and sell kitchen and bathroom cabinets in the U.S. As of December 31, 2007 we operated 40 manufacturing plants in 10 countries, including 25 plants located throughout the U.S. Through WAVE, our joint venture with Worthington Industries, Inc., we also have an interest in 7 additional plants in 5 countries that produce suspension system (grid) products for our ceiling systems.

We report our financial results through the following segments: Resilient Flooring, Wood Flooring, Building Products, Cabinets and Unallocated Corporate. See "Results of Operations" and "Reportable Segment Results" for additional financial information on our consolidated company and our segments.

Our consolidated net sales for 2007 were $3.5 billion, approximately 4% greater than combined consolidated net sales in 2006. Operating income was $296.7 million in 2007, as compared to $210.8 million in 2006. Cash and cash equivalents increased by $250.5 million in 2007 compared to a $338.4 million decrease in 2006. In 2007:

- **Building Products** generated record sales and operating income, despite modest slowing in the U.S. commercial markets toward the end of the year.

- **Wood Flooring** sales declines reflect a significant exposure to new residential housing activity. Operating income benefited from the impact of fresh-start reporting and from manufacturing efficiencies that partially offset the impact of lower sales and higher raw material costs.

- Despite declines in the residential U.S. housing market, a strong start to the year drove modestly higher sales for **Cabinets.** Operating income increased primarily due to a large insurance settlement related to a warehouse fire.

- For **Resilient Flooring,** growth in international sales and substantial improvement in Americas' manufacturing and selling, general and administrative ("SG&A") efficiencies drove significantly higher operating income on roughly flat sales.

- **Corporate Unallocated** expense increased by $9 million, primarily due to the impact of costs related to our review of strategic alternatives and Chapter 11 related post-emergence expenses, partially offset by the impact of fresh-start reporting.

Factors Affecting Revenues

For an estimate of our segments' 2007 net sales by major markets, see "Markets" in Item 1. Business of this Form 10-K.

Markets. We compete in building material markets around the world. The majority of our sales are in North America and Europe. During 2007, these markets experienced the following:

- In 2007, housing starts in the North American residential market declined nearly 23% to 1.57 million units (at seasonally adjusted and annualized rates). The Canadian housing activity was flat at 0.23 million units, while the U.S. accounted for almost the entirety of the overall decline, falling 25.8% in 2007 to 1.34 million units started versus 1.81 million in 2006. Housing completions in the U.S. decreased by 23.9% in 2007 with approximately 1.514 million units completed. The sales of existing homes continued to fall in 2007, and registered a 12.8% decrease for the entire year over 2006, to 5.68 million.

Management's Discussion and Analysis of Financial Condition and Results of Operations
(dollar amounts in millions)

U.S. retail sales through building materials, garden equipment and supply stores (an indicator of home renovation activity) decreased 1.7% in 2007 over sales levels in 2006, according to figures from the U.S. Census Bureau. This reflects the overall weakness in the housing market, and we do not expect improvement in this area until housing sales stabilize.

- The North American commercial market strengthened in 2007 with construction completions in the office, healthcare, retail and education segments increasing by approximately 15.7%, 9.7%, 5.7% and 11.0%, respectively, in nominal dollar terms.
- Markets in Western European countries experienced modest growth, while Eastern European markets continued to grow.
- Growth continued across most Pacific Rim markets.

Quality and Customer Service. Our quality and customer service are critical components of our total value proposition. In 2007, we experienced no significant quality or customer service issues.

Pricing Initiatives . We periodically modify prices in response to changes in costs for raw materials and energy, and to market conditions and the competitive environment. The net impact of these pricing initiatives improved sales in 2007 compared to 2006.

The most significant of these pricing actions were:

- Resilient Flooring implemented price increases on selected products in 2007.
- Wood Flooring had no significant pricing actions in 2007.
- Building Products implemented price increases in Europe in February 2007 and in North America in June and December 2007.
- Cabinets implemented a February 2007 price increase.

In certain cases, realized price increases are less than the announced price increases because of competitive reactions and changing market conditions.

We estimate pricing actions increased our total consolidated net sales in 2007 compared to 2006 by approximately $60 million.

Mix. Each of our businesses offers a wide assortment of products that are differentiated by style/design and by performance attributes. Pricing for products within the assortment varies according to the level of value they provide. Changes in the relative quantity of products purchased at the different value points can impact year-to-year comparisons of net sales and operating income. We estimate mix changes increased our total consolidated net sales in 2007 compared to 2006 by approximately $60 million.

Factors Affecting Operating Costs

Operating Expenses. Our operating expenses consist of direct production costs (principally raw materials, labor and energy) and manufacturing overhead costs, costs to purchase sourced products and SG&A expenses.

Our largest individual raw material expenditures are for lumber and veneers, PVC resins and plasticizers. Natural gas is also a significant input cost. Fluctuations in the prices of these inputs are generally beyond our control and have a direct impact on our financial results. In 2007 the net impact of these input costs was approximately $35 million higher than in the same period of the previous year.

Management's Discussion and Analysis of Financial Condition and Results of Operations
(dollar amounts in millions)

Cost Reduction Initiatives. During 2004, we implemented several significant manufacturing and organizational programs to improve our cost structure and enhance our competitive position. We have incurred costs in subsequent years related to these previously announced cost reduction initiatives. The major 2004 programs were:

- We ceased production of certain products at our Resilient Flooring manufacturing plant in Lancaster, Pennsylvania, transferring production to other Resilient Flooring plants.
- We announced that we would cease production at our Building Products plant in The Netherlands. The plant ceased production in the first quarter of 2005, and production was transferred to another Building Products location.
- We ceased production at our Cabinets manufacturing plant in Morristown, Tennessee, transferring production to other Cabinets plants.
- We restructured the sales force and management structure in our North America flooring organization.
- We announced that we would cease production at our Wood Flooring manufacturing plant in Searcy, Arkansas. Production ended in the first quarter of 2005, and was transferred to other Wood Flooring plants.

These initiatives have been fully implemented, and we do not expect to incur additional expenses in future periods for these initiatives. We have realized our projected annual cost savings of approximately $58 million, when compared to the 2004 cost baseline. These projected savings were not fully realized until 2007.

We did not initiate any additional manufacturing or organizational programs in 2005.

In 2006 we announced that we would cease production at our Wood Flooring manufacturing plant in Nashville, Tennessee.

We incurred $0.2 million of restructuring charges in the Building Products segment in 2007 to implement the above cost reduction initiatives.

We incurred the following net expenses in 2006 to implement these cost reduction initiatives:

	Cost of Goods Sold	SG&A	Restructuring Charges	Total Expenses
Resilient Flooring	$ 10.1	$ 7.4	$ 9.9	$ 27.4
Wood Flooring	0.7	-	1.4	2.1
Building Products	0.2	-	0.5	0.7
Cabinets	-	-	-	-
Corporate Unallocated	-	-	(0.1)	(0.1)
Total Consolidated	$ 11.0	$ 7.4	$ 11.7	$ 30.1

Cost of goods sold includes $0.7 million of fixed asset impairments (incurred in the nine months ended September 30, 2006), $0.3 million of accelerated depreciation (incurred in the nine months ended September 30, 2006) and $10.0 million of other related costs in 2006 ($0.6 million incurred in the three months ended December 31, 2006 and $9.4 million incurred in the nine months ended September 30, 2006). The Resilient Flooring SG&A costs in 2006 (incurred in the nine months ended September 30, 2006) relate to the Lancaster Plant cost reduction initiative.

In 2006, we recorded a gain of $14.3 million from the sale of a warehouse which became available as a result of the Resilient Flooring cost reduction initiatives. This gain was recorded in SG&A.

(dollar amounts in millions)

Table of Contents

We incurred the following net expenses in 2005 due to implementing these cost reduction initiatives:

	Cost of Goods Sold	Restructuring Charges	Total Expenses
Resilient Flooring	$ 12.7	$ 16.2	$ 28.9
Wood Flooring	13.9	0.1	14.0
Building Products	1.6	6.3	7.9
Cabinets	1.2	0.4	1.6
Corporate Unallocated	-	-	-
Total Consolidated	$ 29.4	$ 23.0	$ 52.4

Cost of goods sold includes $14.3 million of fixed asset impairments, $7.1 million of accelerated depreciation and $8.0 million of other related costs in 2005.

See Note 15 to the Consolidated Financial Statements for more information on restructuring charges.

On-going Cost Improvements. In addition to the above-mentioned cost reduction programs we have an ongoing focus on continually improving our cost structure. As a result of these cost reduction initiatives and our on-going improvement efforts, we have realized significant reductions in our manufacturing conversion costs.

Fresh Start Reporting. In connection with its emergence from bankruptcy on October 2, 2006, AWI adopted fresh-start reporting. For administrative convenience, we selected September 30, 2006, following the close of business, as the date to adopt fresh-start reporting. See Note 3 to the Consolidated Financial Statements for more information.

Adopting fresh-start reporting resulted in material adjustments to the historical carrying amount of reorganized Armstrong's assets and liabilities. Certain of these adjustments impacted our statements of earnings for the periods following emergence, through changes in depreciation and amortization, costs for benefit plans, costs for hedging-related activity, inventory-related costs and WAVE expenses. In 2006, fresh-start reporting impacted fourth quarter earnings. Fresh-start reporting impacted all periods in 2007, with the fourth quarter's impact being different than the first three quarters due to the revisions made to the fresh-start balance sheet based upon filing our federal income tax return in September 2007 (see Note 3 to the Consolidated Financial Statements for more information). Please see page 34 for the dollar impact of fresh-start reporting by operating expense type for each period.

Employee Benefits . We recorded a pre-tax charge of $16.9 million in the fourth quarter of 2005 in cost of goods sold ($11.4 million) and SG&A ($5.5 million), related to changes made to the U.S. defined benefit pension plan. The changes were considered a curtailment under SFAS No. 88 "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits" ("FAS 88").

Review of Strategic Alternatives . On February 15, 2007, we announced that we had initiated a review of our strategic alternatives. On February 29, 2008, we announced that we have completed the strategic review process after extensive evaluation of alternatives, including a possible sale of our individual businesses and the entire company. The Board of Directors concluded that it is in the best interest of Armstrong and its shareholders to continue to execute our strategic operating plan under our current structure as a publicly traded company. We anticipate payments to advisors in conjunction with this conclusion will cost approximately $4.5 million in 2008.

See also "Results of Operations" for further discussion of other significant items affecting operating costs.

Factors Affecting Cash Flows

Typically, we generate cash in our operating activities, excluding the effects of our emergence from Chapter 11 in 2006. The amount of cash generated in a period is dependent on a number of factors, including the amount of operating profit generated, the amount of working capital (such as inventory, receivables and payables) required to operate our businesses and investments in property, plant & equipment and computer software (“PP&E”).

During 2007, our cash and cash equivalents increased by $250.5 million, as net cash from operating activities, including distributions from WAVE of $117.5 million and net U.S. federal income tax refunds of $209.1 million, more than offset net cash used for investing activities and for $300 million of voluntary debt principal prepayments. This compared to a cash and cash equivalents decrease of $338.4 million in 2006, which was primarily due to $1.1 billion of Chapter 11 emergence-related payments to creditors, partially offset by $800 million from new debt.

Deferred Income Taxes

Our Consolidated Balance Sheet as of December 31, 2007 includes deferred income tax assets of $972.7 million (see Note 16 to the Consolidated Financial Statements). Included in these amounts were deferred tax assets of $407.1 million and $66.3 million, respectively, relating to federal and state net operating loss carryforwards. These net operating losses arose in 2006 as a result of the amounts paid to the Asbestos Personal Injury Settlement Trust (“Asbestos PI Trust”). We have concluded, based on the weight of available evidence, that all but $9.1 million of these income tax benefits are more likely than not to be realized in the future. This amount represents a decrease of $14.5 million from the valuation allowances previously recorded with respect to these income tax benefits as of December 31, 2006.

In arriving at this conclusion, we considered the profit before tax generated for the years 1996 through 2007, as well as future reversals of existing taxable temporary differences and projections of future profit before tax. The federal income tax deduction resulting from the amounts paid to the Asbestos PI Trust created a net operating loss in 2006. Under the Internal Revenue Code, a net operating loss resulting from the payment of asbestos claims, including payments to the Asbestos PI Trust, can be carried back and offset against our federal taxable income in either the two or the ten preceding years, generating a refund of taxes paid for those years. We had assumed a two-year carryback for purposes of calculating the income tax provision for 2006. We continued to evaluate the carryback alternatives prior to filing our federal income tax return in September, 2007. The completed analysis indicated that the net present value from a ten-year carryback was modestly more than that from a two-year carryback, so we filed a ten-year carryback. Since the realizable book value of the net operating loss based on a ten-year carryback is lower than the calculation based upon a two-year carryback, the fresh–start balance sheet was revised to reflect the ten-year value. See Note 3 to the Consolidated Financial Statements for more information.

In addition, any loss remaining after carryback is available as a carryforward adjustment to reduce income taxes payable in future tax years. If certain specified changes occur in our ownership, there could be an annual limitation on the amount of the carryforwards that can be utilized. However, we cannot anticipate this change in assessing our valuation allowances. As a result, it is more likely than not that we will realize the federal deferred income tax asset value relating to these carryforwards.

In contrast to the results under the Internal Revenue Code, most states do not allow the carryback of a net operating loss in any significant amount. As a result, most of the state income tax benefits resulting from the amounts paid to the Asbestos PI Trust will be realized through a reduction of future state income tax liabilities by offsetting the net operating losses resulting from our payments to the Asbestos PI Trust against future state taxable income. Based on projections of future taxable income (consistent with historical results and anticipated future trends), for the loss carryforward periods allowed under current state income tax laws (generally five to twenty years) in the states in which we conduct business operations, we have concluded that all but $9.1 million of the $66.3 million of deferred state income tax benefits relating to our state net operating loss carryforwards is more likely than not to be realized.

We estimate we will need to generate future taxable income of approximately $1,163.2 million for federal income tax purposes, and $1,392.3 million for state income tax purposes in order to fully realize these deferred income tax assets.

Employees
As of December 31, 2007, we had approximately 12,900 full-time and part-time employees worldwide. This compares to approximately 14,500 employees as of December 31, 2006. The decline reflects the sale of our European Textiles and Sports Flooring business in April 2007 and headcount reductions as part of ongoing cost reduction efforts, primarily in the wood flooring segment.

During 2007, we negotiated two collective bargaining agreements and none of our locations experienced work stoppages. On December 31, 2007 the labor contract covering approximately 140 production employees at our Montreal resilient flooring plant expired. Management and labor are presently negotiating, and neither party believes a work stoppage is likely. Throughout 2008, collective bargaining agreements covering approximately 1,200 employees at six plants are scheduled to expire.

CRITICAL ACCOUNTING ESTIMATES
In preparing our consolidated financial statements in accordance with U.S. generally accepted accounting principles ("GAAP"), we are required to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. We evaluate our estimates and assumptions on an on-going basis, using relevant information from inside and outside the Company. We believe that our estimates and assumptions are reasonable. However, actual results may differ from what was estimated and could have a significant impact on the financial statements.

We have identified the following as our critical accounting estimates. We have discussed the application of these critical accounting estimates with our Audit Committee.

Fresh-Start Reporting and Reorganization Value – As part of our emergence from bankruptcy on October 2, 2006, we implemented fresh-start reporting in accordance with AICPA Statement of Position 90-7 ("SOP 90-7"), *Financial Reporting by Entities in Reorganization under the Bankruptcy Code.* Our assets, liabilities and equity were adjusted to fair value. In this regard, our Consolidated Financial Statements for periods subsequent to October 2, 2006 reflect a new basis of accounting and are not comparable to our historical consolidated financial statements for periods prior to October 2, 2006.

Under fresh-start reporting, a reorganization value is determined and allocated to our net assets based on their relative fair values in a manner similar to the accounting provisions applied to business combinations under Statement of Financial Accounting Standards No. 141, *Business Combinations* . The estimates and assumptions used to derive the reorganization value and allocation of value to balance sheet accounts are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control. Modification to these assumptions could have significantly changed the reorganization value, and hence the resultant fair values of our assets and liabilities. Adjustments to the allocation of value to the balance sheet accounts could be made in future periods for tax-related items (see "Income Taxes" below).

The adoption of fresh-start reporting had a material effect on our Consolidated Financial Statements and was based on assumptions that employed a high degree of judgment. See Notes 1 and 3 to the Consolidated Financial Statements for further information relative to our reorganization and the assumptions used to value reorganized Armstrong.

Management's Discussion and Analysis of Financial Condition and Results of Operations
(dollar amounts in millions)

U.S. Pension Credit and Postretirement Benefit Costs – We maintain pension and postretirement plans throughout the world, with the most significant plans located in the U.S. The U.S. defined benefit pension plans were closed to new salaried and salaried production employees on January 1, 2005. We also froze benefits for certain non-production salaried employees effective February 28, 2006. Our defined benefit pension and postretirement benefit costs are developed from actuarial valuations. These valuations are calculated using a number of assumptions. Each assumption represents management's best estimate of the future. The assumptions that have the most significant impact on reported results are the discount rate, the estimated long-term return on plan assets and the estimated inflation in health care costs. These assumptions are generally updated annually. However, we also updated each of these assumptions and adopted Statement of Financial Accounting Standards No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans," as part of adopting fresh-start reporting in accordance with SOP 90-7.

The discount rate is used to determine retirement plan liabilities and to determine the interest cost component of net periodic pension and postretirement cost. Management utilizes the yield for Moody's AA-rated long-term corporate bonds as the primary basis for determining the discount rate. The duration of the securities underlying the Moody's AA-rated bond index is reasonably comparable to the duration of our retirement plan liabilities based on our review of the Hewitt yield curve. As of December 31, 2007, we assumed a discount rate of 5.85% compared with a discount rate of 5.75% as of December 31, 2006 for the U.S. plans. This increase is consistent with the increase in U.S. corporate bond yields during the year. The effects of the increased discount rate will be amortized against earnings as described below. A one-quarter percentage point decrease in the discount rate to 5.60% would increase 2008 operating income by $0.6 million, as the resulting decrease in the interest cost component of the pension expense calculation would more than offset the increased service cost component. A one-quarter percentage point increase in the discount rate to 6.10% would reduce 2008 operating income by $0.4 million.

We have two U.S. defined benefit pension plans, a qualified funded plan and a nonqualified unfunded plan. For the funded plan, the expected long-term return on plan assets represents a long-term view of the future estimated investment return on plan assets. This estimate is determined based on the target allocation of plan assets among asset classes and input from investment professionals on the expected performance of the equity and bond markets over 10 to 20 years. Over the last 10 years, the annualized return was approximately 8.2% compared to an average expected return of 8.5%. The expected long-term return on plan assets used in determining our 2007 U.S. pension credit was 8.0%. The actual return on plan assets achieved for 2007 was 10.4%. In accordance with GAAP, this excess will be amortized into earnings as described below. We do not expect to make cash contributions to the qualified funded plan during 2008. We have assumed a return on plan assets during 2008 of 8.0%. A one-quarter percentage point increase or decrease in this assumption would increase or decrease 2008 operating income by approximately $5.5 million. Contributions to the unfunded plan were $3.2 million in 2007 and were made on a monthly basis to fund benefit payments. We estimate the contributions to be approximately $3.4 million in 2008. See Note 18 to the Consolidated Financial Statements for more details.

Management's Discussion and Analysis of Financial Condition and Results of Operations
(dollar amounts in millions)

The estimated inflation in health care costs represents a long-term view (5-10 years) of the expected inflation in our postretirement health care costs. We separately estimate expected health care cost increases for pre-65 retirees and post-65 retirees due to the influence of Medicare coverage at age 65, as illustrated below:

	Assumptions			Actual		
	Post 65	Pre 65	Overall	Post 65	Pre 65	Overall
2006, nine months ended September 30	9.0%	7.0%	8.0%			
2006, three months ended December 31	12.0%	11.5%	11.8%			
2006, full year				9 %	(1)%	6 %
2007	12.0%	11.5%	11.8%	(2)%	(3)%	(2)%
2008	11.0%	10.5%	10.8%			

Actual health care cost increases were lower than expected in 2007, primarily due to favorable experience in medical claims costs and the impact of the implementation of a prescription drug deductible for certain retirees. In accordance with GAAP, the difference between the actual and expected health care costs is amortized into earnings as described below. As of December 31, 2007, health care cost increases are estimated to decrease by 1 percentage point per year until 2014, after which they are constant at 5%. A one percentage point increase in the assumed health care cost trend rate would reduce 2008 operating income by $0.6 million, while a one percentage point decrease in the assumed health care cost trend rate would increase 2008 operating income by $0.6 million. See Note 18 to the Consolidated Financial Statements for more details.

Actual results that differ from our various pension and postretirement plan estimates are captured as actuarial gains/losses and are amortized into future earnings over the expected remaining service period of plan participants, which is approximately 10 years depending on the participants in the plan, in accordance with GAAP. Changes in assumptions could have significant effects on earnings in future years.

Impairments of Long-Lived Tangible and Intangible Assets – In connection with our adoption of fresh-start reporting upon emerging from Chapter 11, all long-lived tangible and intangible assets were adjusted to fair value. We periodically review significant tangible and definite-lived intangible assets for impairment under the guidelines of the Financial Accounting Standards Board Statement No. 144 – "Accounting for the Impairment or Disposal of Long-Lived Assets" ("FAS 144"). In accordance with this Statement, we review our businesses for indicators of impairment such as operating losses and/or negative cash flows. If an indication of impairment exists, we compare the carrying amount of the asset group to the estimated undiscounted future cash flows expected to be generated by the assets. The amount of impairment loss to be recognized is then measured by comparing the asset group's carrying amount to its fair value. The estimate of an asset group's fair value is based on discounted future cash flows expected to be generated by the asset group. If the fair value is less than the carrying value of the asset group, we record an impairment charge equal to the difference between the fair value and carrying value of the asset group.

Our indefinite-lived intangibles are primarily trademarks and brand names, which are integral to our corporate identity and expected to contribute indefinitely to our corporate cash flows. Accordingly, they have been assigned an indefinite life. We perform annual impairment tests on these indefinite-lived intangibles under the guidelines of the Financial Accounting Standards Board Statement No. 142 –

"Goodwill and Other Intangible Assets" ("FAS 142"). These assets undergo more frequent tests if an indication of possible impairment exists.

The cash flow estimates used in applying FAS 142 and FAS 144 are based on management's analysis of information available at the time of the impairment test. Actual cash flows lower than the estimate could lead to significant future impairments. If subsequent testing indicates that new fair values are less than the values derived from fresh-start reporting, those values would be reduced and our future statements of income would be impacted.

See Notes 10 and 12 to the Consolidated Financial Statements for further information.

Sales-related Accruals – We provide direct customer and end-user warranties for our products. These warranties cover manufacturing defects that would prevent the product from performing in line with its intended and marketed use. The terms of these warranties vary by product line and generally provide for the repair or replacement of the defective product. We collect and analyze warranty claims data with a focus on the historical amount of claims, the products involved, the amount of time between the warranty claims and the products' respective sales and the amount of current sales.

We also maintain numerous customer relationships that incorporate different sales incentive programs (primarily volume rebates and promotions). The rebates vary by customer and usually include tiered incentives based on the level of customers' purchases. Certain promotional allowances are also tied to customer purchase volumes. We estimate the amount of expected annual sales during the course of the year and use the projected sales amount to estimate the cost of the incentive programs. For sales incentive programs that are on the same calendar basis as our fiscal calendar, actual sales information is used in the year-end accruals.

While historical results have not differed materially from our estimated accruals, future experience related to these accruals could differ significantly from the estimated amounts during the year. If this occurs, we would adjust our accruals accordingly. Our sales-related accruals totaled $80.3 million and $79.3 million as of December 31, 2007 and 2006, respectively. We record the costs of these accruals as a reduction to gross sales.

Income Taxes – Our effective tax rate is primarily determined based on our pre-tax income and the statutory income tax rates in the jurisdictions in which we operate. The effective tax rate also reflects the tax impacts of items treated differently for tax purposes than for financial reporting purposes. Some of these differences are permanent, such as expenses that are not deductible in our tax return, and some differences are temporary, reversing over time, such as depreciation expense. These temporary differences create deferred income tax assets and liabilities.

In accordance with the requirements for fresh-start reporting pursuant to SOP 90-7, we adopted FASB Interpretation No. 48 ("FIN 48"), Accounting for Uncertainty in Income Taxes, effective as of October 2, 2006. The transition adjustments, although not material in the aggregate, were shown as an adjustment to the fresh-start balance sheet as of October 2, 2006.

As further described in Note 16 to the Consolidated Financial Statements, our Consolidated Balance Sheet as of December 31, 2007 includes deferred income tax assets of $972.7 million. Included in these amounts are deferred federal and state income tax assets of $407.1 million and $66.3 million, respectively, relating to federal and state net operating loss carryforwards. These net operating losses arose primarily as a result of the amounts paid to the Asbestos PI Trust in 2006. We have concluded that all but $9.1 million of these income tax benefits are more likely than not to be realized in the future.

Deferred income tax assets and liabilities are recognized by applying enacted tax rates to temporary differences that exist as of the balance sheet date. We record valuation allowances to reduce our deferred income tax assets if it is more likely than not that some portion or all of the deferred income tax assets will not be realized. As of December 31, 2007, we have recorded valuation allowances totaling $225.0 million for various state and foreign net operating loss, capital loss and foreign tax credit carryforwards. While we have considered future taxable income in assessing the need for the valuation allowances based on our best available projections, if these estimates and assumptions change in the future or if actual results differ from our projections, we may be required to adjust our valuation allowances accordingly.

Inherent in determining our effective tax rate are judgments regarding business plans and expectations about future operations. These judgments include the amount and geographic mix of future taxable income, limitations on usage of net operating loss carryforwards after emergence from bankruptcy, potential tax law changes, the impact of ongoing or potential tax audits, earnings repatriation plans and other future tax consequences.

We establish reserves for tax positions that management believes are supportable, but are potentially subject to successful challenge by the applicable taxing authorities. We review these tax uncertainties in light of the changing facts and circumstances and adjust them when warranted. We have several tax audits in process in various jurisdictions.

If our actual results differ from the estimates and assumptions used, an adjustment affecting income tax expense would be necessary in the period that such determination is made, unless the change is related to a pre-emergence asset or liability that is required to be reflected as a balance sheet adjustment pursuant to Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("FAS 109") and SOP 90-7. Such adjustment could be material to our consolidated financial statements.

ACCOUNTING PRONOUNCEMENTS EFFECTIVE IN FUTURE PERIODS

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157 ("FAS 157"), "Fair Value Measurements," which establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. FAS 157 is generally effective for fiscal years beginning after November 15, 2007. However, the effective date for certain non-financial assets and liabilities was deferred to fiscal years beginning after November 15, 2008. We do not expect any material impact from adopting FAS 157.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159 ("FAS 159"), "The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115," which permits companies to measure financial instruments and certain other assets and liabilities at fair value on an instrument by instrument basis. FAS 159 is effective for fiscal years beginning after November 15, 2007. We do not expect any material impact from adopting FAS 159.

In March 2007, the FASB ratified Emerging Issues Task Force Issue No. 06-10 "Accounting for Collateral Assignment Split-Dollar Life Insurance Agreements" (EITF 06-10). EITF 06-10 provides guidance for determining a liability as well as recognition and measurement of the associated asset on the basis of the terms of the collateral assignment agreement. EITF 06-10 is effective for fiscal years beginning after December 15, 2007. We do not expect any material impact from adopting EITF 06-10.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 Revised 2007, "Business Combinations" ("FAS 141R"). FAS 141R revises the original FAS 141, while retaining the underlying concept that all business combinations be accounted for at fair value. However, FAS 141R changes the methodology of applying this concept in that acquisition costs will generally be expensed as incurred, non-controlling interests will be valued at fair value, in-process research and development will be recorded at fair value as an indefinite-lived intangible, restructuring costs associated with a business combination will generally be expensed subsequent to the acquisition and changes in deferred income tax asset allowances after the acquisition date generally will affect income tax expense. This pronouncement applies prospectively to all business combinations whose acquisition dates are on or after the beginning of the first annual period subsequent to December 15, 2008. We will consider, upon adoption, the impact of any future acquisitions.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, "Non-controlling Interests in Consolidated Financial Statements – an amendment of ARB No. 51" ("FAS 160").

FAS 160 requires the recognition of a non-controlling interest (formerly known as a "minority interest") as equity in the consolidated financial statements and separate from the parent's equity. The amount of net income attributable to the non-controlling interest will be included in consolidated net income on the face of the income statement. It also amends certain of ARB 51's consolidation procedures for consistency with the requirements of FAS 141R. This pronouncement is effective for fiscal years, and all interim periods within those fiscal years, beginning after December 15, 2008. Early adoption is not permitted. We do not expect any material impact from adopting FAS 160.

RESULTS OF OPERATIONS

Unless otherwise indicated, net sales in these results of operations are reported based upon the location where the sale was made. Certain prior year amounts have been reclassified to conform to the current year presentation. Please refer to Note 4 to the Consolidated Financial Statements for a reconciliation of operating income to consolidated income before income taxes and discontinued operations.

In connection with its emergence from bankruptcy on October 2, 2006 (the "Effective Date"), AWI adopted fresh-start reporting in accordance with AICPA Statement of Position 90-7, "Financial Reporting by Entities in Reorganization under the Bankruptcy Code" ("SOP 90-7"). Adopting fresh-start reporting has resulted in material adjustments to the historical carrying amount of reorganized Armstrong's assets and liabilities. See Note 3 to the Consolidated Financial Statements for more information. As a result, our post-emergence financial statements are not comparable to our pre-emergence financial statements. Despite the lack of comparability, we have combined the 2006 results of the Predecessor Company (which represent the first nine months of 2006 and include the impact of emergence) with the results of the Successor Company (which represent the last three months of 2006) to facilitate the year-to-year discussion of operating results in certain sections of this Form 10-K. The combined financial information for 2006 is merely cumulative and does not give pro forma effect to the Predecessor's results as if the consummation of the Plan and the related fresh-start reporting and other adjustments had occurred at the beginning of the period presented. Combining pre-emergence and post-emergence results is not in accordance with GAAP.

Management's Discussion and Analysis of Financial Condition and Results of Operations
(dollar amounts in millions)

2007 COMPARED TO 2006
CONSOLIDATED RESULTS

	Successor	Successor	Predecessor	Combined	Change is Favorable/ (Unfavorable)	
						Excluding
	Year 2007	Three Months Ended December 31, 2006	Nine Months Ended September 30, 2006	Year 2006	As Reported	Effects of Foreign Exchange Rates [1]
Net Sales:						
Americas	$ 2,614.7	$ 606.9	$ 2,011.3	$ 2,618.2	(0.1)%	(0.4)%
Europe	774.4	172.2	499.4	671.6	15.3%	6.0%
Pacific Rim	160.6	38.2	97.9	136.1	18.0%	10.6%
Total Consolidated Net Sales	$ 3,549.7	$ 817.3	$ 2,608.6	$ 3,425.9	3.6%	1.3%
Cost of goods sold	2,685.3	660.4	2,028.7	2,689.1		
SG&A	613.5	144.0	417.0	561.0		
Restructuring charges, net	0.2	1.7	10.0	11.7		
Equity earnings	(46.0)	(5.3)	(41.4)	(46.7)		
Operating Income	$ 296.7	$ 16.5	$ 194.3	$ 210.8		
Interest Expense	55.0	13.4	5.2	18.6		
Other non-operating expense	1.4	0.3	1.0	1.3		
Other non-operating (income)	(18.2)	(4.3)	(7.2)	(11.5)		
Chapter 11 reorganization (income), net	(0.7)	-	(1,955.5)	(1,955.5)		
Income tax expense	106.4	3.8	726.6	730.4		
Loss from discontinued operations	7.5	1.1	68.4	69.5		
Net earnings	$ 145.3	$ 2.2	$ 1,355.8	$ 1,358.0		

(1) Excludes favorable foreign exchange rate effect in translation of $78.4 million on net sales and $2.1 million on operating income

Consolidated net sales excluding the translation effect of changes in foreign exchange rates grew 1%. Equal benefits from price realization (approximately $60 million, as described previously in "Pricing Initiatives") and an improved mix of higher value products more than offset low single-digit volume decline.

Net sales in the Americas was essentially flat. Volume declined in the Wood Flooring and Resilient Flooring businesses. Net sales of Building Products and Resilient Flooring products benefited from a richer product mix, and Building Products realized price increases.

Excluding the translation effect of changes in foreign exchange rates, net sales in the European markets grew by $42 million due to a combination of volume growth, price realization and higher-value product mix.

Excluding the translation effect of changes in foreign exchange rates, net sales in the Pacific Rim increased $15 million on volume growth and improved product mix.

Operating expenses in the year 2007 and the three months ended December 31, 2006 were impacted by the effects of having adopted fresh-start reporting, as a result of AWI emerging from Chapter 11.

Management's Discussion and Analysis of Financial Condition and Results of Operations
(dollar amounts in millions)

Adopting fresh-start reporting resulted in material adjustments to the historical carrying amount of reorganized Armstrong's assets and liabilities. Certain of these adjustments impacted our statements of earnings for the periods following emergence, through changes in the items noted in the chart below. The amounts represent the post-emergence change in these items. Net sales were not impacted by fresh-start reporting. In addition, 2007 and 2006 operating expenses were impacted by several other significant items. The fresh-start and other significant items, which impacted cost of goods sold ("COGS"), selling, general and administrative expenses ("SG&A"), restructuring charges and equity earnings, include:

Increase / (Reduction) in Expenses

Item	Where Reported	Successor Year 2007	Successor Three Months Ended December 31, 2006	Predecessor Nine Months Ended September 30, 2006
Fresh-Start [1] :				
Change in depreciation and amortization	COGS	$ (2.1)	$ (1.3)	-
Change in costs for benefit plans	COGS	(20.2)	(4.6)	-
Impact on hedging-related activity	COGS	(5.8)	(1.0)	-
Inventory-related costs	COGS	-	29.6	-
Change in depreciation and amortization	SG&A	11.6	2.8	-
Change in costs for benefit plans	SG&A	(11.3)	(2.3)	-
Inventory-related costs (WAVE)	Equity Earnings	-	3.7	-
Expenses from WAVE step-up	Equity Earnings	6.7	1.7	-
Other Significant Items:				
Business interruption claim [2]	COGS	-	(4.7)	-
Cost reduction initiatives expenses [3]	COGS	-	0.7	$ 10.3
Product warranty accrual [4]	COGS	-	-	3.3
Contribution to Armstrong Foundation [5]	SG&A	-	-	5.0
Liability settlement related to a divested business [6]	SG&A	-		2.8
Patent infringement settlement [7]	SG&A	-	-	(8.6)
Cost reduction initiatives expenses [3]	SG&A	-	-	7.4
Gain on sale of properties [8]	SG&A	-	-	(17.0)
Insurance settlement [9]	SG&A	(5.0)	-	-
Environmental accrual [10]	SG&A	1.1	-	-
Chapter 11 related post-emergence expenses [11]	SG&A	7.1	4.6	-
Review of strategic alternatives [12]	SG&A	8.7	-	-
Cost reduction initiatives expenses [3]	Restructuring	0.2	1.6	10.1

(1) See Note 3 for more information on fresh-start reporting.
(2) In the fourth quarter of 2006, we received the final payment for a business interruption claim.
(3) See "Factors Affecting Operating Costs" and Note 15 for a discussion on the cost reduction expenses.
(4) The majority of the product warranty accrual increase was from revising certain assumptions that were used in prior periods when estimating the accrual.
(5) We made a contribution to the Armstrong Foundation (a community giving program funded by Armstrong) in the third quarter of 2006.
(6) We settled a liability related to a previously divested business in the third quarter of 2006 for an amount greater than what was previously accrued.
(7) In the first quarter of 2006, we recorded a gain from the settlement of a patent infringement case.
(8) During the year 2006, we recorded a gain from the sale of two buildings.
(9) We received an insurance settlement related to a Cabinet warehouse fire.
(10) We recorded an increase in the environmental accrual for a previously-owned property.
(11) These costs represent professional and administrative fees incurred primarily to resolve remaining claims related to AWI's Chapter 11 Case and distribute proceeds to creditors, and expenses incurred by Armstrong Holdings, Inc. as it completed its plan of dissolution.
(12) These expenses were incurred, primarily from advisors, in conducting our review of strategic alternatives.

Management's Discussion and Analysis of Financial Condition and Results of Operations
(dollar amounts in millions)

Cost of goods sold in 2007 was 75.6% of net sales, compared to 78.5% in 2006. The year-to-year change in the percentages is primarily due to the items detailed in the above table. In addition, 2007 benefited from higher selling prices, primarily in Building Products, and better manufacturing performance across most segments, which more than offset raw material inflation in Building Products and Wood Flooring.

SG&A expenses in 2007 were $613.5 million, or 17.3% of net sales compared to $561.0 million or 16.4% of net sales in 2006. The year-to-year change in the percentages was primarily due to the factors detailed in the above table. In addition, unallocated corporate expense increased due to higher benefit plan costs. Building Products increased spending to support its sales growth, but at a rate below the growth in sales.

Equity earnings, primarily from our WAVE joint venture, were $46.0 million in 2007, as compared to $46.7 million in 2006. Equity earnings in 2007 and 2006 were impacted by the items as detailed in the above table. See Note 11 for further information.

We recorded operating income of $296.7 million in 2007, compared to operating income of $210.8 million in 2006.

Interest expense was $55.0 million in 2007, compared to $18.6 million in 2006. Interest expense in both years was impacted by debt incurred as part of emerging from Chapter 11, although for only three months in 2006. In accordance with SOP 90-7, we did not record contractual interest expense on prepetition debt while in Chapter 11. This unrecorded interest expense was $57.6 million in 2006. Unrecorded interest expense reflects the amount of interest expense we would have incurred under the original maturities of prepetition debt.

Net Chapter 11 reorganization income in 2007 was $0.7 million compared to $1,955.5 million recorded in 2006. See Note 3 to the Consolidated Financial Statements for a detailed breakout of the 2007 and 2006 results.

Income tax expense was $106.4 million and $730.4 million in 2007 and 2006, respectively. The effective tax rate for 2007 was 41.0% as compared to a rate of 33.8% for 2006. Excluding the effect of fresh-start reporting and POR-related settlement adjustments, the 2006 effective tax rate was 38.3%. The effective tax rate for 2007 was higher than 2006 due to increased state income taxes, taxes on foreign source income and a reduced Medicare subsidy, partially offset by a reduction in nondeductible professional fees related to our Chapter 11 emergence and the review of strategic alternatives.

(dollar amounts in millions)

REPORTABLE SEGMENT RESULTS

Resilient Flooring

	Successor	Successor	Predecessor	Combined	Change is Favorable/ (Unfavorable)	
	Year 2007	Three Months Ended December 31, 2006	Nine Months Ended September 30, 2006	Year 2006	As Reported	Excluding Effects of Foreign Exchange Rates [1]
Net Sales:						
Americas	$ 826.4	$ 187.0	$ 662.6	$ 849.6	(2.7)%	(3.1)%
Europe	331.9	74.2	223.2	297.4	11.6 %	2.0 %
Pacific Rim	72.5	17.3	43.6	60.9	19.0 %	11.5 %
Total Segment Net Sales	$1,230.8	$ 278.5	$ 929.4	$1,207.9	1.9 %	(1.1)%
Operating Income (Loss)	$ 40.4	$ (1.2)	$ 12.6	$ 11.4		

(1) Excludes favorable foreign exchange rate effect in translation of $35.9 million on net sales and $1.5 million on operating income

Net sales in the Americas declined $23.2 million. Volume declined at a mid-single digit rate due to weakness in residential products, pricing was flat and product mix improved on growth in the sales of higher-value laminate and vinyl sheet products.

Excluding the translation effect of changes in foreign exchange rates, net sales in the European markets grew $6.4 million, primarily due to increased volume.

Excluding the translation effect of changes in foreign exchange rates, net sales in the Pacific Rim grew $7.2 million, primarily due to volume growth.

Operating income improved significantly, despite soft sales, due to lower manufacturing costs and reduced SG&A expenses. In addition, both 2007 and 2006 operating profit were impacted by the previously described items as detailed in the following table.

Increase / (Reduction) in Expenses

Item	Successor Year 2007	Successor Three Months Ended December 31, 2006	Predecessor Nine Months Ended September 30, 2006
Fresh-Start [1]			
Change in depreciation and amortization	$ (1.0)	$ (0.8)	-
Change in costs for benefit plans	(5.5)	(0.8)	-
Impact on hedging-related activity	(1.5)	(0.2)	-
Inventory-related costs	-	7.2	-
Other Significant Items:			
Business interruption claim [2]	-	(4.7)	-
Cost reduction initiative expenses [3]	-	0.8	$ 26.6
Gain on sale of properties [4]	-	-	(17.0)
Environmental accrual [5]	1.1	-	-

(1) See Note 3 for more information on fresh-start reporting.
(2) In the fourth quarter of 2006, we received the final payment for a business interruption claim.
(3) See "Factors Affecting Operating Costs" for a discussion on the cost reduction expenses.
(4) During 2006, we recorded a gain from the sale of two buildings.
(5) We recorded an increase in the environmental accrual for a previously-owned property.

Management's Discussion and Analysis of Financial Condition and Results of Operations
(dollar amounts in millions)

Wood Flooring

	Successor	Successor	Predecessor	Combined	
	Year 2007	Three Months Ended December 31, 2006	Nine Months Ended September 30, 2006	Year 2006	Change is (Unfavorable)
Total Segment Net Sales [1]	$ 791.6	$ 192.6	$ 645.0	$ 837.6	(5.5)%
Operating Income	$ 64.3	$ (0.2)	$ 46.2	$ 46.0	

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

Net sales decreased by $46.0 million due to lower volume driven by declines in the residential housing market.

Operating income increased by $18.3 million due to the previously described items as detailed in the following table. In addition, declining sales volume and raw material inflation more than offset improved manufacturing productivity. 2007 operating income included a $2.7 million SG&A expense for an increase to the reserve for doubtful accounts receivable related to a distributor.

Increase / (Reduction) in Expenses

Item	**Successor** **Year 2007**	**Successor** **Three Months Ended December 31, 2006**	**Predecessor** **Nine Months Ended September 30, 2006**
Fresh-Start: [1]			
Change in depreciation and amortization	$ (13.3)	$ (3.4)	-
Inventory-related costs	-	12.4	-
Other Significant Items:			
Cost reduction initiatives expenses [2]	-	1.4	$ 0.7
Product warranty accrual [3]	-	-	3.3

(1) See Note 3 for more information on fresh-start reporting.
(2) See "Factors Affecting Operating Costs" for a discussion on the cost reduction expenses.
(3) The majority of the product warranty accrual increase was from revising certain assumptions that were used in prior periods when estimating the accrual.

Management's Discussion and Analysis of Financial Condition and Results of Operations
(dollar amounts in millions)

Building Products

	Successor	Successor	Predecessor	Combined	Change is Favorable	
	Year 2007	Three Months Ended December 31, 2006	Nine Months Ended September 30, 2006	Year 2006	As Reported	Excluding Effects of Foreign Exchange Rates [(1)]
Net Sales:						
Americas	$ 761.5	$ 170.8	$ 529.3	$ 700.1	8.8%	8.3%
Europe	442.5	98.0	276.2	374.2	18.3%	9.1%
Pacific Rim	88.1	20.9	54.3	75.2	17.2%	9.8%
Total Segment Net Sales	$ 1,292.1	$ 289.7	$ 859.8	$ 1,149.5	12.4%	8.7%
Operating Income	$ 221.4	$ 24.9	$ 152.9	$ 177.8		

(1) Excludes favorable foreign exchange rate effect in translation of $40.7 million on net sales and $3.5 million on operating income

The Americas net sales increased $61.4 million. The improvement was primarily driven by price increases across the majority of channels and a more favorable mix of products. The improved product mix reflects a continued focus on developing and marketing high value products which satisfy today's design trends and higher acoustical performance needs.

Excluding the translation effect of changes in foreign exchange rates, net sales in Europe grew by $35.9 million. The sales improvement was driven equally by volume growth and improved pricing across both Western and Eastern Europe.

Excluding the translation effect of changes in foreign exchange rates, net sales in the Pacific Rim grew $7.5 million on strong sales in India, Australia and China.

Operating income increased by $43.6 million due to sales growth and improved manufacturing productivity. These benefits were partially offset by inflation in direct production costs and by increased investment in SG&A to support the sales growth. In addition, both 2007 and 2006 operating profit were impacted by the previously described items as detailed in the following table.

Increase / (Reduction) in Expenses

	Successor	Successor	Predecessor
Item	**Year 2007**	**Three Months Ended December 31, 2006**	**Nine Months Ended September 30, 2006**
Fresh-Start: [(1)]			
Change in depreciation and amortization	$ 22.1	$ 5.2	-
Change in costs for benefit plans	(6.3)	(1.3)	-
Impact on hedging-related activity	(4.3)	(0.8)	-
Inventory-related costs	-	9.2	-
Inventory-related costs (WAVE)	-	3.7	-
Expenses from WAVE step-up	6.7	1.7	-
Other Significant Items:			
Cost reduction initiatives expenses [(2)]	0.2	0.1	$ 0.6

(1) See Note 3 for more information on fresh-start reporting.
(2) See "Factors Affecting Operating Costs" for a discussion on the cost reduction expenses.

Management's Discussion and Analysis of Financial Condition and Results of Operations
(dollar amounts in millions)

Cabinets

	Successor	Successor	Predecessor	Combined	
	Year 2007	Three Months Ended December 31, 2006	Nine Months Ended September 30, 2006	Year 2006	Change is Favorable
Total Segment Net Sales [1]	$ 235.2	$ 56.5	$ 174.4	$ 230.9	1.9%
Operating Income	$ 10.5	$ 0.2	$ 6.1	$ 6.3	

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

Net sales grew $4.3 million as growth in the first half of the year was largely offset by declines in the second half related to deterioration in the U.S. housing market.

Operating income grew $4.2 million due to the previously described items as detailed in the following table. In addition, operating income was reduced by manufacturing inefficiencies.

Increase / (Reduction) in Expenses

	Successor	**Successor**	**Predecessor**
Item	**Year 2007**	**Three Months Ended December 31, 2006**	**Nine Months Ended September 30, 2006**
Fresh-Start: [1]			
Change in depreciation and amortization	$ (0.3)	$ 0.1	-
Inventory-related costs	-	0.8	-
Other Significant Items:			
Insurance settlement [2]	(5.0)	-	-

(1) See Note 3 for more information on fresh-start reporting.
(2) We received an insurance settlement related to a warehouse fire.

Management's Discussion and Analysis of Financial Condition and Results of Operations
(dollar amounts in millions)

Unallocated Corporate

Unallocated corporate expense of $39.9 million in 2007 increased from $30.7 million in 2006 ($7.2 million in the three months ended December 31, 2006 and $23.5 million in the nine months ended September 30, 2006). The changes were primarily due to higher benefit plan costs and the previously described items as detailed in the following table.

Increase / (Reduction) in Expenses

Item	Successor Year 2007	Successor Three Months Ended December 31, 2006	Predecessor Nine Months Ended September 30, 2006
Fresh-Start:			
Change in depreciation and amortization	$ 2.0	$ 0.3	-
Change in costs for benefit plans	(19.7)	(4.8)	-
Other Significant Items:			
Cost reduction initiatives expenses (2)	-	-	$ (0.1)
Contribution to Armstrong Foundation (3)	-	-	5.0
Liability settlement related to a divested business (4)	-	-	2.8
Patent infringement settlement (5)	-	-	(8.6)
Chapter 11 related post-emergence expenses (6)	7.1	4.6	
Review of strategic alternatives (7)	8.7	-	-

(1) See Note 3 for more information on fresh-start reporting.
(2) See "Factors Affecting Operating Costs" for a discussion on the cost reduction expenses.
(3) We made a contribution to the Armstrong Foundation (a community giving program funded by Armstrong) in the third quarter of 2006.
(4) We settled a liability related to a previously divested business in the third quarter of 2006 for an amount greater than what was previously accrued.
(5) In the first quarter of 2006, we recorded a gain from the settlement of a patent infringement case.
(6) These costs represent professional and administrative fees incurred primarily to resolve remaining claims related to AWI's Chapter 11 Case and distribute proceeds to creditors, and expenses incurred by Armstrong Holdings, Inc. as it completed its plan of dissolution.
(7) These expenses were incurred, primarily from advisors, in conducting our review of strategic alternatives.

FINANCIAL CONDITION AND LIQUIDITY

Cash Flow

The Consolidated Statements of Cash Flows combine the cash flows generated from discontinued operations with the cash flows from continuing operations within operating, investing and financing activities. Cash flows from discontinued operations were not material for each cash flow category. The absence of these cash flows from discontinued operations will not materially affect our future liquidity and capital resources.

As shown on the Consolidated Statements of Cash Flows, our cash and cash equivalents balance increased by $250.5 million in 2007 compared to a decrease of $338.4 million in 2006.

Operating activities in 2007 provided $575.2 million of net cash, primarily due to cash earnings, net U.S. federal income tax refunds of $209.1 million and distributions from WAVE of $117.5 million. In 2006 operating activities used $633.0 million ($95.1 million provided in the three months ended December 31, 2006 and $728.1 million used in the nine months ended September 30, 2006) primarily due to the settlement of liabilities subject to compromise (excluding prepetition debt) of $832.7 million.

Investing activities in 2007 used $36.7 million of cash primarily due to capital expenditures of $102.6 million partially offset by proceeds received from the divestiture of a business of $58.8 million. In 2006 investing activities used $172.0 million ($40.3 million used in the three months ended December 31, 2006 and $131.7 million used in the nine months ended September 30, 2006) due to capital expenditures of

(dollar amounts in millions)

$138.5 million and cash paid for acquisitions of $60.5 million, which were partially offset by proceeds from the sale of assets of $39.1 million. Year-to-year, capital expenditures decreased approximately $36 million as all our businesses were able to reduce their investments, partially due to prior years' spending, while still maintaining our operations.

Financing activities used $305.4 million of cash in 2007 primarily due to voluntary principal debt prepayments of $300 million. In 2006 financing activities provided $459.9 million ($8.1 million used in the three months ended December 31, 2006 and $468.0 million provided in the nine months ended September 30, 2006) due to the receipt of $800 million from the issuance of new debt upon emergence partially offset by payments of $300.7 million made as part of discharging the debt-related portion of liabilities subject to compromise.

Balance Sheet and Liquidity

Changes in significant balance sheet accounts and groups of accounts from December 31, 2006 to December 31, 2007 are as follows:

	Successor Company		
	December 31, 2007	December 31, 2006	Increase (Decrease)
Cash and cash equivalents	$ 514.3	$ 252.5	$ 261.8
Current assets, excluding cash and cash equivalents	986.7	1,108.1	(121.4)
Current assets	$ 1,501.0	$ 1,360.6	$ 140.4

The increase in cash and cash equivalents was described above (see "Cash Flow"). The decrease in current assets, excluding cash and cash equivalents, is primarily due to the divestiture of the assets of a discontinued business and a reduction in the income tax receivable due to the receipt of expected refunds, partially offset by smaller increases in inventories and other current assets.

	December 31, 2007	December 31, 2006	Increase
Property, plant and equipment, less accumulated depreciation and amortization ("PP&E")	$ 1,012.8	$ 966.2	$ 46.6

The increase in PP&E was primarily due to purchases of fixed assets of $102.6 million, 2007 adjustments to the October 2, 2006 fresh-start reporting balance sheet (see Note 3 for details) of $54.3 million and foreign currency translation effect of approximately $24 million. These were partially offset by depreciation of $123.4 million and a reclassification to Assets Held for Sale of $7.9 million.

	December 31, 2007	December 31, 2006	Increase
Prepaid pension costs	$ 708.0	$ 579.8	$ 128.2

The increase in prepaid pension cost was primarily due to balance sheet adjustments of $65.4 million between prepaid pension cost and other comprehensive income to reflect net unrecognized actuarial gains which arose during 2007 (see Note 18), and net periodic pension credits of $58.3 million.

Management's Discussion and Analysis of Financial Condition and Results of Operations
(dollar amounts in millions)

	December 31, 2007	December 31, 2006	(Decrease)
Investment in affiliates	$ 232.6	$ 294.6	$ (62.0)

The decrease in investments in affiliates was primarily due to distributions from WAVE of $117.5 million partially offset by equity earnings from WAVE of $46.0 million.

	December 31, 2007	December 31, 2006	Increase (Decrease)
Deferred income tax asset, current	$ 43.5	$ 6.8	$36.7
Deferred income tax asset, non-current	424.5	201.4	223.1
Deferred income tax liability, current	(29.5)	(2.4)	(27.1)
Deferred income taxes, non-current	(471.4)	(11.2)	(460.2)
	$ (32.9)	$ 194.6	$(227.5)

See Note 16 for further information on income taxes.

	December 31, 2007	December 31, 2006	Increase (Decrease)
Current installments of long-term debt	$ 24.7	$ 10.9	$ 13.8
Long-term debt, less current installments	485.8	801.5	(315.7)
Long-term debt	$ 510.5	$ 812.4	$ (301.9)

The decrease in long-term debt was primarily due to voluntary principal prepayments of $300.0 million.

Liquidity
Our liquidity needs for operations vary throughout the year. We retain lines of credit to facilitate our seasonal needs. On October 2, 2006, Armstrong executed a $1.1 billion senior credit facility arranged by Banc of America Securities LLC, J.P. Morgan Securities, Inc., and Barclays Capital. This facility was made up of a $300 million revolving credit facility (with a $150 million sublimit for letters of credit), a $300 million Term Loan A, and a $500 million Term Loan B. There were no outstanding borrowings under the revolving credit facility, but $29.6 million in letters of credit were outstanding as of December 31, 2007 and, as a result, availability under the revolving credit facility was $270.4 million.

Our credit facility contains two financial covenants, minimum Interest Coverage and maximum Indebtedness to EBITDA (Earnings Before Interest Taxes and Depreciation). Management believes that the likelihood of default under these covenants is remote. Fully borrowing our revolving credit facility would not violate these covenants.

During 2007 we made voluntary principal prepayments of $300.0 million reducing the $500 million Term Loan B.

On December 31, 2007, we also had outstanding letters of credit totaling $25.4 million arranged with another bank. Letters of credit are issued to third party suppliers, insurance and financial institutions and typically can only be drawn upon in the event of AWI's failure to pay its obligations to the beneficiary. We also have several commercial letters of credit whereby vendors are paid directly via the letter of credit.

Our foreign subsidiaries had available lines of credit totaling $35.5 million, of which $5.8 million was used as of December 31, 2007, leaving $29.7 million of unused lines of credit available for foreign borrowings. However, these lines of credit are uncommitted, and poor operating results or credit concerns at the related foreign subsidiaries could result in the lines being withdrawn by the lenders. We have been able to maintain and, as needed, replace credit facilities to support our foreign operations.

On February 25, 2008, we executed an amendment to our senior credit facility. This amendment (a) permits us to make "Special Distributions," including dividends (such as the special cash dividend described below) or other distributions (whether in cash, securities or other property) of up to an aggregate of $500 million at any time prior to February 28, 2009, (b) requires that we and our domestic subsidiaries maintain minimum liquidity of at least $100 million as of March 31, June 30, September 30 and December 31 of each year, which may be comprised of a combination of cash and cash equivalents and undrawn commitments under our revolving credit facility and (c) increases by 0.25% the borrowing margins in the pricing grid set forth in the facility for the revolving credit facility and Term Loan A.

Also on February 25, 2008, our Board of Directors declared a special cash dividend of $4.50 per common share, payable on March 31, 2008, to shareholders of record on March 11, 2008. This special cash dividend will result in an aggregate payment to our shareholders of approximately $260 million, based on the number of common shares currently outstanding.

The Board of Directors based its decision to declare a special dividend on the substantial amount of cash generated in 2007, and on expectations that future cash generation will more than meet Armstrong's needs.

We intend to pay the special cash dividend declared on February 25, 2008, out of our cash on hand and short-term borrowings under our revolving credit facility, if needed. We believe that our remaining cash on hand and cash generated from operations, together with lines of credit and the $300 million revolving credit facility, will be adequate to satisfy our minimum liquidity requirements and scheduled payments under our outstanding debt obligations, as well as address our foreseeable liquidity needs in the normal course of our business operations.

Management's Discussion and Analysis of Financial Condition and Results of Operations
(dollar amounts in millions)

2006 COMPARED TO 2005
CONSOLIDATED RESULTS

	Successor	Predecessor	Combined	Predecessor	Change is Favorable	
	Three Months Ended December 31, 2006	Nine Months Ended September 30, 2006	Year 2006	Year 2005	As Reported	Excluding Effects of Foreign Exchange Rates (1)
Net Sales:						
Americas	$ 606.9	$ 2,011.3	$ 2,618.2	$ 2,562.4	2.2%	1.8%
Europe	172.2	499.4	671.6	643.7	4.3%	4.8%
Pacific Rim	38.2	97.9	136.1	120.5	12.9%	13.6%
Total Consolidated Net Sales	$ 817.3	$ 2,608.6	$ 3,425.9	$ 3,326.6	3.0%	2.8%
Cost of goods sold	660.4	2,028.7	2,689.1	2,651.8		
SG&A	144.0	417.0	561.0	590.0		
Restructuring charges, net	1.7	10.0	11.7	23.0		
Equity earnings	(5.3)	(41.4)	(46.7)	(39.3)		
Operating Income	$ 16.5	$ 194.3	$ 210.8	$ 101.1		
Interest Expense	13.4	5.2	18.6	7.7		
Other non-operating expense	0.3	1.0	1.3	1.5		
Other non-operating (income)	(4.3)	(7.2)	(11.5)	(11.8)		
Chapter 11 reorganization (income), net	-	(1,955.5)	(1,955.5)	(1.2)		
Income tax expense (benefit)	3.8	726.6	730.4	(1.2)		
(Gain) loss from discontinued operations	1.1	68.4	69.5	(5.0)		
Net earnings	$ 2.2	$ 1,355.8	$ 1,358.0	$ 111.1		

(1) Excludes favorable foreign exchange rate effect in translation of $7.8 million on net sales and $2.0 million on operating income

Consolidated net revenue grew 3%, with positive contributions from both price and an improved mix of higher-value products offsetting a modest volume decline.

Net revenue in the Americas increased 2%, on volume growth in the Wood Flooring business and both price and a higher-value product mix improvement in the Building Products and Cabinets segments. Declines in Resilient Flooring volumes and lower Wood Flooring pricing partially offset this growth.

Excluding the translation effect of changes in foreign exchange rates, net revenue in the European markets grew by 5%, mainly in the Building Products segment. Improved product mix and price realization increased revenue and offset modest volume declines.

Excluding the translation effect of changes in foreign exchange rates, net revenue in the Pacific Rim increased 14% on volume and product mix improvement.

Operating expenses in 2006 were impacted by the effects of adopting fresh-start reporting, as a result of AWI emerging from Chapter 11 on October 2, 2006. Adopting fresh-start reporting resulted in material adjustments to the historical carrying amount of reorganized Armstrong's assets and liabilities. Certain of these adjustments impacted our statements of earnings for the periods following emergence, through changes in the items noted in the chart below. The amounts represent the post-emergence change in these items. Net sales were not impacted by fresh-start reporting. In addition, both 2006 and 2005 operating expenses were impacted by several other significant items. The fresh-start and other significant items, which impacted cost of goods sold ("COGS"), selling, general and administrative expenses ("SG&A"), restructuring charges and Equity Earnings, include:

(dollar amounts in millions)

Increase / (Reduction) in Expenses

Item	Where Reported	Successor Three Months Ended December 31, 2006	Predecessor Nine Months Ended September 30, 2006	Predecessor Year 2005
Fresh-Start [1] :				
Change in depreciation and amortization	COGS	$ (1.3)	-	-
Change in costs for benefit plans	COGS	(4.6)	-	-
Impact on hedging-related activity	COGS	(1.0)	-	-
Inventory-related costs	COGS	29.6	-	-
Change in depreciation and amortization	SG&A	2.8	-	-
Change in costs for benefit plans	SG&A	(2.3)	-	-
Inventory-related costs (WAVE)	Equity Earnings	3.7	-	-
Expenses from WAVE step-up	Equity Earnings	1.7	-	-
Other Significant Items:				
Business interruption claim [2]	COGS	(4.7)	-	$ (3.5)
Settlement of breach of contract dispute	COGS	-	-	(6.4)
Cost reduction initiatives expenses [3]	COGS	0.7	$ 10.3	29.4
Product warranty accrual [4]	COGS	-	3.3	-
Pension curtailment charge [3]	COGS	-	-	11.4
Fixed asset impairments	COGS	-	-	2.7
Contribution to Armstrong Foundation [5]	SG&A	-	5.0	-
Liability settlement related to a divested business [6]	SG&A	-	2.8	-
Patent infringement settlement [7]	SG&A	-	(8.6)	-
Cost reduction initiatives expenses [3]	SG&A	-	7.4	-
Gain on sale of properties [8]	SG&A	-	(17.0)	-
Pension curtailment charge [3]	SG&A	-	-	5.5
Chapter 11 related post-emergence expenses [9]	SG&A	4.6	-	-
Environmental charges	SG&A	-	-	3.1
Fixed asset impairments	SG&A	-	-	0.5
Cost reduction initiatives expenses [3]	Restructuring	1.6	10.1	23.0

(1) See Note 3 for more information on fresh-start reporting.
(2) In the fourth quarter of 2006, we received the final payment for a business interruption claim, totaling $4.7 million. We received $3.5 million in 2005 for the same claim.
(3) See "Factors Affecting Operating Costs" and Note 15 for a discussion on the cost reduction expenses and pension curtailment charges.
(4) The majority of the product warranty accrual increase was from revising certain assumptions that were used in prior periods when estimating the accrual.
(5) We made a contribution to the Armstrong Foundation (a community giving program funded by Armstrong) in the third quarter of 2006.
(6) We settled a liability related to a previously divested business in the third quarter of 2006 for an amount greater than what was previously accrued.
(7) In the first quarter of 2006, we recorded a gain from the settlement of a patent infringement case.
(8) During 2006, we recorded a gain from the sale of two buildings.
(9) AWI incurred expenses during the fourth quarter of 2006 for Chapter 11 related post-emergence activities.

Cost of goods sold in 2006 was 78.5% of net sales, compared to 79.7% in 2005. This reduction was the result of benefits from higher selling prices, primarily in Building Products, better manufacturing performance, mainly in the Resilient and Wood Flooring businesses, and improvement from higher sales. Cost of goods sold in 2006 also benefited from a larger U.S. pension plan credit. These factors more than offset raw material, energy and freight inflation across all businesses. In addition, cost of goods sold in 2006 and 2005 were impacted by the items as detailed in the above table.

SG&A expenses in 2006 were $561.0 million, or 16.4% of net sales compared to $590.0 million or 17.7% of net sales in 2005. The $29.0 million decrease was realized despite higher revenue and included the benefit from a larger U.S. pension plan credit. Resilient and Wood Flooring and Cabinets reduced spending, while Building Products grew at less than the rate of growth in revenue. In addition, both 2006 and 2005 SG&A expenses were impacted by the items as detailed in the above table.

Equity earnings, primarily from our WAVE joint venture, were $46.7 million in 2006, as compared to $39.3 million in 2005. 2006 results include expenses related to the adoption of fresh-start reporting as detailed in the above table. See Note 11 for further information.

We recorded operating income of $210.8 million in 2006, compared to operating income of $101.1 million in 2005.

Interest expense was $18.6 million in 2006, compared to $7.7 million in 2005. In accordance with SOP 90-7, we did not record contractual interest expense on prepetition debt during our Chapter 11 proceedings. This unrecorded interest expense was $57.6 million in 2006 and $82.8 million in 2005. Unrecorded interest expense reflects the amount of interest expense we would have incurred under the original maturities of prepetition debt. Included in the $18.6 million in 2006 was $12.2 million from debt incurred as part of emerging from Chapter 11.

Other non-operating income of $11.5 million in 2006 compared to $11.8 million in the prior year. The 2005 results included a $3.4 million gain on the sale of our equity investment in Interface Solutions, Inc.

Net Chapter 11 reorganization income in 2006 was $1,955.5 million compared to $1.2 million of income recorded in 2005. See Note 3 to the Consolidated Financial Statements for a detailed breakout of the 2006 results. 2005 income primarily resulted from income on cash balances and a reversal of an accrual for professional fees for certain advisors.

During 2006, income tax expense of $730.4 million compared to income tax benefit of $1.2 million in 2005. The effective tax rate for 2006 as reported was 33.8% and was 38.3% excluding the tax impact of fresh-start reporting and POR-related settlement adjustments. The 2005 tax rate was lower than 2006 primarily due to certain one-time benefits recorded during 2005 of approximately $61.2 million related to a subsidiary capital restructuring.

Management's Discussion and Analysis of Financial Condition and Results of Operations
(dollar amounts in millions)

REPORTABLE SEGMENT RESULTS
Resilient Flooring

	Successor	Predecessor	Combined	Predecessor	Change is Favorable/ (Unfavorable)	
	Three Months Ended December 31, 2006	Nine Months Ended September 30, 2006	Year 2006	Year 2005	As Reported	Excluding Effects of Foreign Exchange Rates (1)
Net Sales:						
Americas	$ 187.0	$ 662.6	$ 849.6	$ 882.8	(3.8)%	(4.3)%
Europe	74.2	223.2	297.4	296.9	0.2 %	0.7 %
Pacific Rim	17.3	43.6	60.9	52.9	15.1 %	16.1 %
Total Segment Net Sales	$ 278.5	$ 929.4	$ 1,207.9	$ 1,232.6	(2.0)%	(2.2)%
Operating Income	$ (1.2)	$ 12.6	$ 11.4	$ (28.4)		

(1) Excludes favorable foreign exchange rate effect in translation of $2.4 million on net sales and $1.5 million on operating income

Net sales in the Americas decreased primarily due to volume declines in residential products primarily as a result of declining U.S. housing markets. Laminate sales were down slightly as lower prices offset volume growth as increases in sales to other customers more than offset a reduction in sales to Lowes. Commercial product sales grew on a mix of higher-value products and better pricing.

Net sales in Europe grew slightly on improvements in price realization and improved value from product/geographic mix. Net sales in the Pacific Rim sustained double-digit growth rates in strong markets.

Despite the decline in sales, operating profit increased significantly as benefits from cost reduction initiatives and reduced SG&A expenses offset substantial increases in the costs of petroleum-based raw materials. In addition, both 2006 and 2005 operating profit were impacted by the items that were previously described, and are detailed in the following table.

Increase / (Reduction) in Expenses

Item	Successor Three Months Ended December 31, 2006	Predecessor Nine Months Ended September 30, 2006	Predecessor Year 2005
Fresh-Start (1)			
Change in depreciation and amortization	$ (0.8)	-	-
Change in costs for benefit plans	(0.8)	-	-
Impact on hedging-related activity	(0.2)	-	-
Inventory-related costs	7.2	-	-
Other Significant Items:			
Business interruption claim (2)	(4.7)	-	$ (3.5)
Settlement of breach of contract dispute	-	-	(5.2)
Cost reduction initiative expenses (3)	0.8	$ 26.6	28.9
Fixed asset impairments	-	-	1.8
Gain on sale of properties (4)	-	(17.0)	-
Environmental charges	-	-	3.1

(1) See Note 3 for more information on fresh-start reporting.
(2) In the fourth quarter of 2006, we received the final payment for a business interruption claim, totaling $4.7 million. We received $3.5 million in 2005 for the same claim.
(3) See "Factors Affecting Operating Costs" for a discussion on the cost reduction expenses and pension curtailment charges.
(4) During 2006, we recorded a gain from the sale of two buildings.

Management's Discussion and Analysis of Financial Condition and Results of Operations
(dollar amounts in millions)

Wood Flooring

	Successor	Predecessor	Combined	Predecessor	
	Three Months Ended December 31, 2006	Nine Months Ended September 30, 2006	Year 2006	Year 2005	Change is Favorable
Total Segment Net Sales [1]	$ 192.6	$ 645.0	$ 837.6	$ 833.9	0.4%
Operating Income	$ (0.2)	$ 46.2	$ 46.0	$ 60.9	

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

Net sales in 2006 were up only slightly as significant weakness in the final third of the year due to declines in the U.S. housing markets offset both growth through the majority of the year, and the benefit from acquisitions. Volume, excluding acquisitions, was up modestly for the year, despite an 8% volume decline in the fourth quarter. Declining price realization partially offset the volume growth.

Operating income declined approximately $15 million compared to the prior year. Higher lumber costs and increased promotional and marketing spending offset improved manufacturing efficiencies and the contribution from acquisitions. In addition, both 2006 and 2005 operating profit were impacted by the items that were previously described, and are detailed in the following table.

Increase / (Reduction) in Expenses

Item	Successor Three Months Ended December 31, 2006	Predecessor Nine Months Ended September 30, 2006	Predecessor Year 2005
Fresh-Start: [1]			
Change in depreciation and amortization	$ (3.4)	-	-
Inventory-related costs	12.4	-	-
Other Significant Items:			
Breach of contract settlement	-	-	$ (1.2)
Cost reduction initiatives expenses [2]	1.4	$ 0.7	14.0
Product warranty accrual [3]	-	3.3	-
Fixed Asset Impairments	-	-	1.4

(1) See Note 3 for more information on fresh-start reporting.
(2) See "Factors Affecting Operating Costs" for a discussion on the cost reduction expenses.
(3) The majority of the product warranty accrual increase was from revising certain assumptions that were used in prior periods when estimating the accrual.

Management's Discussion and Analysis of Financial Condition and Results of Operations
(dollar amounts in millions)

Building Products

	Successor	Predecessor	Combined	Predecessor	Change is Favorable	
	Three Months Ended December 31, 2006	Nine Months Ended September 30, 2006	Year 2006	Year 2005	As Reported	Excluding Effects of Foreign Exchange Rates [(1)]
Net Sales:						
Americas	$ 170.8	$ 529.3	$ 700.1	$ 633.2	10.6%	9.9%
Europe	98.0	276.2	374.2	346.8	7.9%	8.3%
Pacific Rim	20.9	54.3	75.2	67.6	11.2%	11.7%
Total Segment Net Sales	$ 289.7	$ 859.8	$ 1,149.5	$ 1,047.6	9.7%	9.5%
Operating Income	$ 24.9	$ 152.9	$ 177.8	$ 148.5		

(1) Excludes favorable foreign exchange rate effect in translation of $3.3 million on net sales and $0.5 million on operating income

The Americas sustained growth through the year to achieve record net sales. Sales primarily benefited from price increases made to offset inflationary pressures and an improved mix of higher-value sales.

Net sales in Europe grew $27 million as increased sales of metal ceilings and improved price and higher-value product mix offset volume declines in mineral fiber ceilings across weak Western European markets.

Net sales in the Pacific Rim increased almost $8 million on strong growth in India and Australia, and modest growth in China.

Building Products operating income grew 20% on higher sales. Improved performance by WAVE contributed an incremental $8 million of operating income. Higher sales offset significant increases in raw materials and energy costs and increased investment in SG&A. In addition, both 2006 and 2005 operating profit were impacted by the items that were previously described, and are detailed in the following table.

Increase / (Reduction) in Expenses

	Successor	**Predecessor**	**Predecessor**
Item	**Three Months Ended December 31, 2006**	**Nine Months Ended September 30, 2006**	**Year 2005**
Fresh-Start: [(1)]			
Change in depreciation and amortization	$ 5.2	-	-
Change in costs for benefit plans	(1.3)	-	-
Impact on hedging-related activity	(0.8)	-	-
Inventory-related costs	9.2	-	-
Inventory-related costs (WAVE)	3.7	-	-
Expenses from WAVE step-up	1.7	-	-
Other Significant Items:			
Cost reduction initiatives expenses [(2)]	0.1	$ 0.6	$ 7.9

(1) See Note 3 for more information on fresh-start reporting.
(2) See "Factors Affecting Operating Costs" for a discussion on the cost reduction expenses.

Management's Discussion and Analysis of Financial Condition and Results of Operations
(dollar amounts in millions)

Cabinets

	Successor	Predecessor	Combined	Predecessor	
	Three Months Ended December 31, 2006	Nine Months Ended September 30, 2006	Year 2006	Year 2005	Change is Favorable
Total Segment Net Sales [1]	$ 56.5	$ 174.4	$ 230.9	$ 212.5	8.7%
Operating Income	$ 0.2	$ 6.1	$ 6.3	$ (9.7)	

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

Net sales grew $18 million despite significant weakness in the final third of the year due to declines in the U.S. housing markets. Higher selling prices and a higher-value product mix, more than offset lower volume related to market weakness.

The sales growth primarily contributed to a $16 million increase in operating income, which also benefited from lower SG&A expense. In addition, both 2006 and 2005 operating profit were impacted by the items that were previously described, and are detailed in the following table.

Increase / (Reduction) in Expenses

Item	Successor Three Months Ended December 31, 2006	Predecessor Nine Months Ended September 30, 2006	Predecessor Year 2005
Fresh-Start: [1]			
Change in depreciation and amortization	$ 0.1	-	-
Inventory-related costs	0.8	-	-
Other Significant Items:			
Cost reduction initiatives expenses [2]	-	-	$ 1.6

(1) See Note 3 for more information on fresh-start reporting.
(2) See "Factors Affecting Operating Costs" for a discussion on the cost reduction expenses.

Management's Discussion and Analysis of Financial Condition and Results of Operations
(dollar amounts in millions)

Unallocated Corporate
Unallocated corporate expense of $30.7 million in 2006 ($7.2 million in the three months ended December 31, 2006 and $23.5 million in the nine months ended September 30, 2006) decreased from $70.2 million in 2005. This decrease included a $20 million increased U.S. pension credit related to plan changes and favorable asset performance. In addition, both 2006 and 2005 operating profit were impacted by the items that were previously described, and are detailed in the following table.

Increase / (Reduction) in Expenses

Item	Successor Three Months Ended December 31, 2006	Predecessor Nine Months Ended September 30, 2006	Predecessor Year 2005
Fresh-Start:			
Change in depreciation and amortization	$ 0.3	-	-
Change in costs for benefit plans	(4.8)	-	-
Other Significant Items:			
Cost reduction initiatives expenses (2)	-	$ (0.1)	-
Pension curtailment charge (2)	-	-	$ 16.9
Contribution to Armstrong Foundation (3)	-	5.0	-
Liability settlement related to a divested business (4)		2.8	-
Patent infringement settlement (5)	-	(8.6)	-
Chapter 11 related post-emergence expenses (6)	4.6	-	-

(1) See Note 3 for more information on fresh-start reporting.
(2) See "Factors Affecting Operating Costs" for a discussion on the cost reduction expenses and pension curtailment charges.
(3) We made a contribution to the Armstrong Foundation (a community giving program funded by Armstrong) in the third quarter of 2006.
(4) We settled a liability related to a previously divested business in the third quarter of 2006 for an amount greater than what was previously accrued.
(5) In the first quarter of 2006, we recorded a gain from the settlement of a patent infringement case.
(6) AWI incurred expenses during the fourth quarter of 2006 for Chapter 11 related post-emergence activities.

FINANCIAL CONDITION AND LIQUIDITY
Cash Flow
As shown on the Consolidated Statements of Cash Flows, our cash and cash equivalents balance decreased by $338.4 million in 2006 ($48.0 million increase in the three months ended December 31, 2006 and $386.4 million decrease in the nine months ended September 30, 2006), compared to an $86.3 million increase in 2005.

Operating activities in 2006 used $633.0 million of net cash ($95.1 million provided in the three months ended December 31, 2006 and $728.1 million used in the nine months ended September 30, 2006), which was an $802.7 million change from the $169.7 million provided in 2005. The change was primarily due to the settlement of liabilities subject to compromise (excluding prepetition debt) of $832.7 million ($28.6 million in the three months ended December 31, 2006 and $804.1 million in the nine months ended September 30, 2006).

Net cash used for investing activities was $172.0 million in 2006 ($40.3 million used in the three months ended December 31, 2006 and $131.7 million used in the nine months ended September 30, 2006), compared to $71.5 million used in 2005. The increase was primarily due to $60.5 million spent on acquisitions partially offset by increased proceeds from the sale of assets of $34.0 million. 2005 also benefited from $58.9 million from the sale of notes and the sale of an investment in an affiliate.

Management's Discussion and Analysis of Financial Condition and Results of Operations
(dollar amounts in millions)

Net cash totaling $459.9 million was provided by our financing activities in 2006 ($8.1 million used in the three months ended December 31, 2006 and $468.0 million provided in the nine months ended September 30, 2006), compared to $3.9 million used in 2005. In 2006, we received $800 million from the issuance of new debt upon emergence, while we used $300.7 million of cash as part of discharging the debt-related portion of liabilities subject to compromise. The change from 2005 to 2006 was also due to higher debt repayments in 2006 by subsidiaries not involved in our Chapter 11 case.

OFF-BALANCE SHEET ARRANGEMENTS

No disclosures are required pursuant to Item 303(a)(4) of Regulation S-K.

CONTRACTUAL OBLIGATIONS

As part of our normal operations, we enter into numerous contractual obligations that require specific payments during the term of the various agreements. The following table includes amounts ongoing under contractual obligations existing as of December 31, 2007. Only known payments that are dependent solely on the passage of time are included. Obligations under contracts that contain minimum payment amounts are shown at the minimum payment amount. Contracts that have variable payment structures without minimum payments are excluded. Purchase orders that are entered into in the normal course of business are also excluded because they are generally cancelable and not legally binding. Amounts are presented below based upon the currently scheduled payment terms. Actual future payments may differ from the amounts presented below due to changes in payment terms or events leading to payments in addition to the minimum contractual amounts.

	2008	2009	2010	2011	2012	Thereafter	Total
Long-Term Debt	$ 24.7	$ 31.1	$ 32.3	$ 234.7	$ 4.0	$ 183.7	$ 510.5
Scheduled Interest Payments (1)	26.9	24.1	22.2	18.5	10.7	8.2	110.6
Capital Lease Obligations (2)	0.4	-	-	-	-	-	0.4
Operating Lease Obligations (2)	16.0	13.4	8.6	4.7	2.6	6.5	51.8
Unconditional Purchase Obligations (3)	8.3	7.4	4.3	0.2	0.2	0.1	20.5
Other Long-Term Obligations (4), (5)	1.8	-	-	-	-	-	1.8
Total Contractual Obligations	$ 78.1	$ 76.0	$ 67.4	$ 258.1	$ 17.5	$ 198.5	$ 695.6

(1) For debt with variable interest rates, we projected future interest payments based on January 31, 2008 interest rates.

(2) Capital and operating lease obligations include the minimum lease payments due under existing lease agreements with noncancelable lease terms in excess of one year.

(3) Unconditional purchase obligations include (a) purchase contracts whereby we must make guaranteed minimum payments of a specified amount regardless of how little material is actually purchased ("take or pay" contracts) and (b) service agreements. Unconditional purchase obligations exclude contracts entered into during the normal course of business that are non-cancelable and have fixed per unit fees, but where the monthly commitment varies based upon usage. Cellular phone contracts are an example.

(4) Other long-term obligations include payments under severance agreements.

(5) Other long-term obligations does not include $180.7 million of liabilities under FIN 48. Of this amount, $146.4 million relates to the utilization of a 10-year carryback of net operating losses created by funding the Asbestos PI Trust under AWI's POR in October 2006. Due to the uncertainty relating to this and other positions, we are unable to reasonably estimate the ultimate amount or timing of the settlement of these issues. See Note 16 to the Consolidated Financial Statements for more information.

We have issued financial guarantees to assure payment on behalf of our subsidiaries in the event of default on various debt and lease obligations in the table above. We have not issued any guarantees on behalf of joint-venture or unrelated businesses.

We are party to supply agreements, some of which require the purchase of inventory remaining at the supplier upon termination of the agreement. The last such agreement will expire on July 31, 2010. Had these agreements terminated at December 31, 2007, Armstrong would have been obligated to purchase approximately $14.3 million of inventory. Historically, due to production planning, we have not had to purchase material amounts of product at the end of similar contracts. Accordingly, no liability has been recorded for these guarantees.

(dollar amounts in millions)

As part of our executive compensation plan, certain current and former executives participate in a split-dollar insurance program where we are responsible for remitting the premiums. Since 1998, the program was closed to new participants. As of December 31, 2007, we carried a cash surrender value asset of $8.5 million related to this program. Should we discontinue making premium payments, the insured executives have the right to the entire policy cash surrender value. In light of the Sarbanes-Oxley Act, we believe it is inappropriate to make the premium payments for three of the executives participating in this plan. As a result, we have required these three individuals to make the premium payments to continue the policy.

We utilize lines of credit and other commercial commitments in order to ensure that adequate funds are available to meet operating requirements. Letters of credit are issued to third party suppliers, insurance and financial institutions and typically can only be drawn upon in the event of our failure to pay our obligations to the beneficiary. This table summarizes the commitments we have available for use as of December 31, 2007. Letters of credit are currently arranged through our revolving credit facility. Certain letters of credit arranged with another bank prior to our Chapter 11 filing remain outstanding.

Other Commercial Commitments	**Total Amounts Committed**	**Less Than 1 Year**	**1 – 3 Years**	**4 – 5 Years**	**Over 5 Years**
Letters of Credit	$ 55.0	$ 55.0	-	-	-

In addition, we have lines of credit for certain international operations totaling $35.5 million, of which $5.8 million was used at December 31, 2007 and $29.7 million was available to ensure funds are available to meet operating requirements.

In disposing of assets, AWI and some subsidiaries have entered into contracts that included various indemnity provisions, covering such matters as taxes, environmental liabilities and asbestos and other litigation. Some of these contracts have exposure limits, but many do not. Due to the nature of the indemnities, it is not possible to estimate the potential maximum exposure under these contracts. For contracts under which an indemnity claim has been received, a liability of $6.3 million has been recorded as of December 31, 2007. See Note 32 of the Consolidated Financial Statements for additional information.

RELATED PARTIES

See Note 31 of the Consolidated Financial Statements for a discussion of our relationships with WAVE and Interface Solutions, Inc. ("ISI").

Related party transactions with executives and outside directors are discussed in Item 13 - Certain Relationships and Related Transactions, and Director Independence.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk
We are exposed to market risk from changes in foreign currency exchange rates, interest rates and commodity prices that could impact our results of operations and financial condition. We use forward swaps and option contracts to hedge currency and commodity exposures. We regularly monitor developments in the capital markets and only enter into currency and commodity transactions with established counterparties having investment-grade ratings. Exposure to individual counterparties is controlled, and thus we consider the risk of counterparty default to be negligible. Forward swap and option contracts are entered into for periods consistent with underlying exposure and do not constitute positions independent of those exposures. We use derivative financial instruments as risk management tools and not for speculative trading purposes. In addition, derivative financial instruments are entered into with a diversified group of major financial institutions in order to manage our exposure to potential nonperformance on such instruments.

Interest Rate Sensitivity
Armstrong is subject to interest rate variability on its Term Loan A, Term Loan B, revolving credit facility and other borrowings. There were no borrowings under the revolving credit facility as of December 31, 2007. A hypothetical increase of one-quarter percentage point in interest rates from December 31, 2007 levels would increase 2008 interest expense by approximately $1.2 million.

The table below provides information about our long-term debt obligations as of December 31, 2007 and December 31, 2006, including payment requirements and related weighted-average interest rates by scheduled maturity dates.

Successor Company Scheduled maturity date ($ millions)	2008	2009	2010	2011	2012	After 2013	Total
As of December 31, 2007							
Long-term debt:							
Fixed rate	$ 7.5	<$ 0.1	<$ 0.1	<$ 0.1	<$ 0.1	<$ 0.1	$ 7.6
Avg. interest rate	5.49%	4.25%	5.56%	5.63%	5.63%	5.63%	5.48%
Variable rate	$ 17.2	$ 31.0	$ 32.3	$ 234.7	$ 3.5	$ 184.2	$ 502.9
Avg. interest rate	6.23%	5.44%	6.23%	6.22%	6.72%	6.72%	6.36%

Successor Company Scheduled maturity date ($ millions)	2007	2008	2009	2010	2011	After 2012	Total
As of December 31, 2006							
Long-term debt:							
Fixed rate	$ 0.6	$ 0.5	<$ 0.1	<$ 0.1	<$ 0.1	<$ 0.1	$ 1.1
Avg. interest rate	7.54%	7.46%	5.85%	7.63%	7.63%	7.63%	7.49%
Variable rate	$ 10.3	$ 20.2	$ 34.0	$ 35.2	$ 237.7	$ 473.9	$ 811.3
Avg. interest rate	6.91%	6.87%	6.10%	6.86%	6.85%	7.10%	6.97%

Exchange Rate Sensitivity
We manufacture and sell our products in a number of countries throughout the world and, as a result, are exposed to movements in foreign currency exchange rates. To a large extent, our global manufacturing and sales provide a natural hedge of foreign currency exchange rate movement. We have used foreign currency forward exchange contracts to reduce our remaining exposure. At December 31, 2007, our major foreign currency exposures are to the Euro, the Canadian dollar and the British pound. A 10% strengthening of all currencies against the U.S. dollar compared to December 31, 2007 levels would decrease our 2008 earnings before income taxes by approximately $2.4 million.

We also use foreign currency forward exchange contracts to hedge exposures created by cross-currency intercompany loans.

The table below details our outstanding currency instruments as of December 31, 2007 and 2006.

On balance sheet foreign exchange related derivatives	Maturing in: 2008	2009	Total
Successor Company			
As of December 31, 2007			
Notional amounts (millions)	$ 158.4	$ 17.9	$ 176.3
Liabilities at fair value (millions)	($ 4.0)	($ 1.0)	($ 5.0)

	Maturing in: 2007	2008	Total
Successor Company			
As of December 31, 2006			
Notional amounts (millions)	$ 381.5	$ 0.0	$ 381.5
Liabilities at fair value (millions)	($ 2.0)	–	($ 2.0)

Commodity Price Sensitivity

We purchase natural gas for use in the manufacture of ceiling tiles and other products, as well as to heat many of our facilities. As a result, we are exposed to movements in the price of natural gas. We have a policy of reducing natural gas cost volatility through derivative instruments, including forward swap contracts, purchased call options and zero-cost collars. A 10% increase in natural gas prices compared to December 31, 2007 prices would increase our 2008 expenses by approximately $4.4 million. The table below provides information about our natural gas contracts as of December 31, 2007 and 2006 that are sensitive to changes in commodity prices. Notional amounts are in millions of Btu's (MMBtu), while the contract price ranges are shown as the price per MMBtu.

On balance sheet commodity related derivatives	Maturing in: 2008	2009	Total
Successor Company			
As of December 31, 2007			
Contract amounts (MMBtu)	4,700,000	1,370,000	6,070,000
Contract price range ($/MMBtu)	$7.00- $10.85	$8.00– $10.69	$7.00- $10.85
Liabilities at fair value (millions)	($ 1.4)	($ 0.1)	($ 1.5)

	Maturing in: 2007	2008	Total
Successor Company			
As of December 31, 2006			
Contract amounts (MMBtu)	4,670,000	1,410,000	6,080,000
Contract price range ($/MMBtu)	$8.50 - $11.85	$8.52 – $10.85	$8.50 - $11.85
Assets at fair value (millions)	$ 1.9	$ 0.6	$ 2.5

Table of Contents

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

SUPPLEMENTARY DATA
Quarterly Financial Information for the Years Ended December 31, 2007 and 2006 (Unaudited)

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

[(1)] The financial statements for the nine month period ended September 30, 2006 include the effects of the Plan of Reorganization and fresh-start reporting in accordance with SOP 90-7 (see Note 3 to the Consolidated Financial Statements).

Table of Contents

QUARTERLY FINANCIAL INFORMATION
ARMSTRONG WORLD INDUSTRIES, INC. (unaudited)

(millions except for per share data)		Successor Company			
		First	Second	Third	Fourth
2007	Net sales	$ 863.4	$ 920.6	$ 913.3	$ 852.4
	Gross profit	202.1	234.0	229.7	198.6
	Net earnings from continuing operations	30.7	52.7	48.4	21.0
	Per share of common stock:				
	Basic	$ 0.55	$ 0.94	$ 0.86	$ 0.37
	Diluted	$ 0.55	$ 0.93	$ 0.85	$ 0.37
	Net earnings	26.0	51.6	48.1	19.6
	Per share of common stock:				
	Basic	$ 0.47	$ 0.92	$ 0.86	$ 0.35
	Diluted	$ 0.46	$ 0.91	$ 0.85	$ 0.34
	Price range of common stock—high	$ 56.72	$ 57.48	$ 52.47	$ 44.28
	Price range of common stock—low	$ 41.55	$ 49.85	$ 35.04	$ 38.00

		Predecessor Company			Successor Company
		First	Second	Third (1)	Fourth
2006	Net sales	$ 822.2	$ 884.0	$ 902.4	$ 817.3
	Gross profit	167.6	203.8	208.5	156.9
	Net earnings from continuing operations	27.7	49.6	1,346.9	3.3
	Per share of common stock:				
	Basic	n/a	n/a	n/a	$ 0.06
	Diluted	n/a	n/a	n/a	$ 0.06
	Net earnings	28.0	40.2	1,287.6	2.2
	Per share of common stock:				
	Basic	n/a	n/a	n/a	$ 0.04
	Diluted	n/a	n/a	n/a	$ 0.04
	Price range of common stock—high	n/a	n/a	n/a	$ 42.50
	Price range of common stock—low	n/a	n/a	n/a	$ 30.00

(1) Reflects the effects of the Plan of Reorganization and fresh-start reporting. See Note 3 to the Consolidated Financial Statements.

There were no dividends paid in 2007 or 2006.

Note: The net sales and gross profit amounts reported above are reported on a continuing operations basis. The sum of the quarterly earnings per share data may not equal the total year amounts due to changes in the average shares outstanding.

Fourth Quarter 2007 Compared With Fourth Quarter 2006

Net sales of $852.4 million in the fourth quarter of 2007 increased from net sales of $817.3 million in the fourth quarter of 2006, an increase of 4.3%. Excluding the favorable effects of foreign exchange rates of $28.8 million, net sales increased 0.8%. Benefits from price realization and an improved mix of higher value products more than offset low single-digit volume decline. Primarily due to declining U.S. volumes, Resilient Flooring net sales decreased 0.8%, excluding the favorable effects of foreign exchange rates. Wood Flooring net sales decreased by 2.0% due to weakness in the U.S residential markets. Due to increased selling prices and improved product mix, Building Products net sales increased by 5.9%, excluding the favorable effects of foreign exchange rates of $14.4 million. Cabinets net sales decreased by 6.4% on lower volume. Net sales increased 0.5% in the Americas. Excluding the favorable effects of foreign exchange rates of $19.0 million, Europe net sales grew 2.8% and Pacific Rim sales increased 10.4%.

Operating expenses in the fourth quarter of 2007 and the fourth quarter of 2006 were impacted by the effects of having adopted fresh-start reporting, as a result of AWI emerging from Chapter 11. Net sales were not impacted by fresh-start reporting. In addition, 2007 and 2006 operating expenses were impacted by several other significant items. The fresh-start and other significant items, which impacted cost of goods sold ("COGS"), selling, general and administrative expenses ("SG&A"), restructuring charges and equity earnings, include:

Increase / (Reduction) in Expenses

Item	Where Reported	2007	2006
Fresh-Start [(1)] :			
Change in depreciation and amortization	COGS	$ 0.9	$ (1.3)
Change in costs for benefit plans	COGS	(5.1)	(4.6)
Impact on hedging-related activity	COGS	(1.2)	(1.0)
Inventory-related costs	COGS	-	29.6
Change in depreciation and amortization	SG&A	3.3	2.8
Change in costs for benefit plans	SG&A	(2.8)	(2.3)
Inventory-related costs (WAVE)	Equity Earnings		3.7
Expenses from WAVE step-up	Equity Earnings	1.7	1.7
Other Significant Items:			
Business interruption claim [(2)]	COGS	-	(4.7)
Cost reduction initiatives expenses [(3)]	COGS	-	0.7
Insurance settlement	SG&A	(5.0)	-
Environmental accrual	SG&A	1.1	-
Chapter 11 related post-emergence expenses [(4)]	SG&A	0.3	4.6
Review of strategic alternatives	SG&A	3.8	-
Cost reduction initiatives expenses [(3)]	Restructuring	-	1.6

(1) See Note 3 for more information on fresh-start reporting.
(2) In the fourth quarter of 2006, we received the final payment for a business interruption claim, totaling $4.7 million.
(3) See "Factors Affecting Operating Costs" and Note 15 for a discussion on the cost reduction expenses.
(4) AWI incurred $4.6 million in expenses during the fourth quarter of 2006 for Chapter 11 related post-emergence activities.

For the fourth quarter of 2007, the cost of goods sold was 76.7% of net sales, compared to 80.8% in 2006. The 4.1 percentage point improvement is primarily due to the items detailed in the above table. In addition, 2007 benefited from higher selling prices, primarily in Building Products, better manufacturing performance, mainly in the global Resilient Flooring, domestic Building Products and Wood Flooring businesses, and higher sales. These factors more than offset inflation across all businesses.

SG&A expenses for the fourth quarter of 2007 were $158.4 million as compared to $144.0 million for the fourth quarter of 2006. Resilient Flooring, Building Products and Wood Flooring all increased SG&A

spending, primarily to support our selling efforts. In addition, both 2007 and 2006 SG&A expenses were impacted by the items as detailed in the above table.

Operating income from continuing operations of $51.1 million in the fourth quarter of 2007 compared to operating income of $16.5 million in the fourth quarter of 2006.

The tax expense from continuing operations for the fourth quarter 2007 was $26.1 million versus $3.8 million for the same period of 2006. The effective tax rate for 2007 was 55.4% as compared to a rate of 53.5% for 2006. The effective tax rate for the fourth quarter was higher than the comparable 2006 period primarily due to nondeductible costs associated with the review of strategic alternatives, interest on federal tax reserves and taxes on foreign source income partially offset by lower nondeductible bankruptcy reorganization expenses.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended. Our internal control over financial reporting was designed to provide reasonable assurance to management and our Board of Directors regarding the reliability of financial reporting and the fair presentation of our financial statements.

With the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on our evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2007.

KPMG LLP, an independent registered public accounting firm, audited our internal control over financial reporting. Their audit report can be found on page 61.

/s/ Michael D. Lockhart
Michael D. Lockhart
Chairman and Chief Executive Officer

/s/ F. Nicholas Grasberger III
F. Nicholas Grasberger III
Senior Vice President and Chief Financial Officer

/s/ William C. Rodruan
William C. Rodruan
Vice President and Corporate Controller

Report of Independent Registered Public Accounting Firm

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

We have audited Armstrong World Industries, Inc. and subsidiaries' ("the Company") internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Armstrong World Industries, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the accompanying consolidated financial statements of the Company as listed in the accompanying index on page 56, and our report dated February 28, 2008 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Philadelphia, Pennsylvania
February 28, 2008

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders,
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 56. 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 56. 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 the standards of the Public Company Accounting Oversight Board (United States). 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, 2007 and December 31, 2006 for the Successor Company, and the results of their operations and their cash flows for the year ended December 31, 2007 and the three months ended December 31, 2006 for the Successor Company, and for the nine months ended September 30, 2006 and the year ended December 31, 2005 for the Predecessor Company, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Notes 1 and 3 to the consolidated financial statements, on August 18, 2006, the Bankruptcy Court confirmed the Company's Plan of Reorganization (the Plan), related to its Chapter 11 bankruptcy proceeding. The Plan became effective on October 2, 2006 and Armstrong World Industries, Inc. emerged from the Chapter 11 bankruptcy proceeding. In connection with its emergence from the Chapter 11 bankruptcy proceeding, the Company adopted fresh-start reporting pursuant to Statement of Position 90-7, "Financial Reporting by Entities in Reorganization Under the Bankruptcy Code" as of October 2, 2006. As a result, the financial statements of the Successor Company are presented on a different basis than those of the Predecessor Company and, therefore, are not comparable in all respects. As described in Note 3 to the consolidated financial statements, the Company has reflected the effects of the Plan and fresh-start reporting in the Predecessor Company for the nine month period ended September 30, 2006. As discussed in Note 2 to the consolidated financial statements, upon adoption of fresh-start reporting, the Company adopted FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109" and Statement of Financial Accounting Standards No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106, and 132(R)."

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 28, 2008 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

Philadelphia, Pennsylvania
February 28, 2008

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

	Successor Company		Predecessor Company	
	Year Ended December 31, 2007	Three Months Ended December 31, 2006	Nine Months Ended September 30, 2006 (1)	Year Ended December 31, 2005
Net sales	$ 3,549.7	$ 817.3	$ 2,608.6	$ 3,326.6
Cost of goods sold	2,685.3	660.4	2,028.7	2,651.8
Gross profit	864.4	156.9	579.9	674.8
Selling, general and administrative expenses	613.5	144.0	417.0	590.0
Restructuring charges, net	0.2	1.7	10.0	23.0
Equity earnings from joint ventures	(46.0)	(5.3)	(41.4)	(39.3)
Operating income	296.7	16.5	194.3	101.1
Interest expense (unrecorded contractual interest of $0.0, $0.0, $57.6 and $82.8, respectively)	55.0	13.4	5.2	7.7
Other non-operating expense	1.4	0.3	1.0	1.5
Other non-operating (income)	(18.2)	(4.3)	(7.2)	(11.8)
Chapter 11 reorganization (income), net	(0.7)	-	(1,955.5)	(1.2)
Earnings from continuing operations before income taxes	259.2	7.1	2,150.8	104.9
Income tax expense (benefit)	106.4	3.8	69.6	(1.2)
Income tax expense on settlement and fresh-start adjustments	-	-	657.0	-
Earnings from continuing operations	152.8	3.3	1,424.2	106.1
(Loss) gain from discontinued operations, net of tax of $0.3, $0.9, $(8.7) and $2.8	(7.5)	(1.1)	(68.4)	5.0
Net earnings	$ 145.3	$ 2.2	$ 1,355.8	$ 111.1
Earnings per share of common stock, continuing operations:				
Basic	$ 2.73	$0.06	n/a	n/a
Diluted	$ 2.69	$0.06	n/a	n/a
Loss per share of common stock, discontinued operations:				
Basic	$ (0.13)	$(0.02)	n/a	n/a
Diluted	$ (0.13)	$(0.02)	n/a	n/a
Net earnings per share of common stock:				
Basic	$2.59	$0.04	n/a	n/a
Diluted	$2.56	$0.04	n/a	n/a
Average number of common shares outstanding:				
Basic	56.0	55.0	n/a	n/a
Diluted	56.7	55.3	n/a	n/a

(1) Reflects the effects of the Plan of Reorganization and fresh-start reporting. See Note 3 to the Consolidated Financial Statements.

See accompanying notes to consolidated financial statements beginning on page 67.

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

Assets	Successor Company December 31, 2007	Successor Company December 31, 2006
Current assets:		
Cash and cash equivalents	$ 514.3	$ 252.5
Accounts and notes receivable, net	311.2	321.9
Inventories, net	543.5	521.7
Assets of discontinued business held for sale	-	121.6
Deferred income taxes	43.5	6.8
Income tax receivable	25.3	81.4
Other current assets	63.2	54.7
Total current assets	1,501.0	1,360.6
Property, plant and equipment, less accumulated depreciation and amortization of $ 158.9 and $ 28.8, respectively	1,012.8	966.2
Prepaid pension costs	708.0	579.8
Investment in affiliates	232.6	294.6
Intangible assets, net	686.5	669.9
Deferred income taxes	424.5	201.4
Other noncurrent assets	84.5	87.4
Total assets	$ 4,649.9	$ 4,159.9
Liabilities and Shareholders' Equity		
Current liabilities:		
Short-term debt	$ 3.9	$ 3.8
Current installments of long-term debt	24.7	10.9
Accounts payable and accrued expenses	438.7	432.5
Liabilities of discontinued business held for sale	-	53.3
Income tax payable	0.5	3.1
Deferred income taxes	29.5	2.4
Total current liabilities	497.3	506.0
Liabilities subject to compromise	-	1.3
Long-term debt, less current installments	485.8	801.5
Postretirement and postemployment benefit liabilities	318.6	373.7
Pension benefit liabilities	205.5	207.8
Other long-term liabilities	67.8	75.7
Income taxes payable	159.4	10.7
Deferred income taxes	471.4	11.2
Minority interest in subsidiaries	6.9	7.5
Total noncurrent liabilities	1,715.4	1,489.4
Shareholders' equity:		
Common stock, $ 0.01 par value per share, authorized 200 million shares; issued 56,828,754 shares in 2007 and 56,091,218 shares in 2006	0.6	0.6
Capital in excess of par value	2,112.6	2,099.8
Retained earnings	147.5	2.2
Accumulated other comprehensive income	176.5	61.9
Total shareholders' equity	2,437.2	2,164.5
Total liabilities and shareholders' equity	$ 4,649.9	$ 4,159.9

See accompanying notes to consolidated financial statements beginning on page 67.

Table of Contents

Armstrong World Industries, Inc., and Subsidiaries
Consolidated Statements of Shareholders' Equity
(amounts in millions)

	Successor Company				Predecessor Company			
	Year 2007		Three Months Ended December 31, 2006		Nine Months Ended September 30, 2006 (1)		Year 2005	
Common stock:								
Balance at beginning of period	$ 0.6		$ 0.6		$ 51.9		$ 51.9	
Cancellation of Predecessor common stock	-		-		(51.9)		-	
Issuance of Successor common stock	-		-		0.6		-	
Balance at end of period	$0.6		$ 0.6		$ 0.6		$ 51.9	
Capital in excess of par value:								
Balance at beginning of period	$ 2,099.8		$ 2,097.6		$ 172.6		$ 172.6	
Elimination of additional paid in capital due to cancellation of Predecessor common stock	-		-		(172.6)		-	
Paid in capital associated with issuance of Successor common stock	-		-		2,097.6		-	
Share-based employee compensation	12.8		2.2		-		-	
Balance at end of period	$ 2,112.6		$ 2,099.8		$ 2,097.6		$ 172.6	
Reduction for ESOP loan guarantee:								
Balance at beginning of period	$-		$ -		$ (142.2)		$ (142.2)	
Cancellation of Predecessor ESOP loan guarantee	-		-		142.2		-	
Balance at end of period	$-		$ -		$ -		$ (142.2)	
Retained earnings (accumulated deficit):								
Balance at beginning of period	$ 2.2		$ -		$ (910.8)		$ (1,021.9)	
Net earnings for period	145.3	$145.3	2.2	$ 2.2	1,355.8	$ 1,355.8	111.1	$ 111.1
Elimination of Predecessor retained earnings	-		-		(445.0)		-	
Balance at end of period	$ 147.5		$ 2.2		$ -		$ (910.8)	
Accumulated other comprehensive income (loss):								
Balance at beginning of period	$ 61.9		$ -		$ 37.1		$ 42.8	
Foreign currency translation adjustments	30.8		1.9		18.5		(14.1)	
Derivative (loss) gain, net	(5.4)		0.7		(9.5)		1.2	
Pension and postretirement adjustments	89.2		59.3		-		-	
Minimum pension liability adjustments	-		-		(0.7)		7.2	
Total other comprehensive income (loss)	114.6	114.6	61.9	61.9	8.3	8.3	(5.7)	(5.7)
Elimination of Predecessor accumulated other comprehensive income	-		-		(45.4)		-	
Balance at end of period	$ 176.5		$ 61.9		$ -		$37.1	
Comprehensive income		$259.9		$ 64.1		$ 1,364.1		$ 105.4
Less treasury stock at cost:								
Balance at beginning of period	$ -		$-		$ (528.5)		$ (528.5)	
Elimination of Predecessor treasury stock	-		-		528.5		-	
Balance at end of period	$ -		$ -		$ -		$ (528.5)	
Total shareholders' equity (deficit)	$ 2,437.2		$ 2,164.5		$ 2,098.2		$ (1,319.9)	

(1) Reflects the effects of the Plan of Reorganization and fresh-start reporting. See Note 3 to the Consolidated Financial Statements.

See accompanying notes to consolidated financial statements beginning on page 67.

Table of Contents

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

	Successor Company		Predecessor Company	
	Year 2007	Three Months ended December 31, 2006	Nine Months ended September 30, 2006 (1)	Year 2005
Cash flows from operating activities:				
Net earnings	$ 145.3	$ 2.2	$ 1,355.8	$ 111.1
Adjustments to reconcile net earnings to net cash provided by (used by) operating activities:				
Depreciation and amortization	137.8	32.2	101.2	141.0
Fixed asset impairments	-	-	0.6	17.6
Deferred income taxes	79.6	1.8	726.2	(24.6)
Share-based compensation	13.6	2.5	-	-
Gain on sale of assets	(0.6)	-	(17.1)	(0.2)
Gain on sale of notes	-	-	-	(10.4)
Equity earnings from affiliates, net	(46.0)	(5.3)	(41.4)	(39.0)
Distributions from equity affiliates	117.5	25.0	18.0	23.0
Chapter 11 reorganization costs (income), net	0.6	-	15.2	(1.2)
Chapter 11 reorganization costs payments	(0.2)	-	(13.1)	(12.7)
Post-emergence chapter 11 fees	7.1	4.6	-	-
Post-emergence chapter 11 payments	(11.5)	(1.5)	-	-
Restructuring charges, net of reversals	0.2	1.7	10.0	23.2
Restructuring payments	(2.7)	(0.4)	(3.0)	(24.0)
Asbestos-related insurance recoveries	-	-	7.0	-
Cash effect of hedging activities	(5.0)	(3.1)	(2.8)	21.9
Gain on discharge of debt and liabilities subject to compromise	(1.3)	-	(1,510.8)	-
Non-cash fresh-start adjustments	-	-	(389.5)	-
Changes in operating assets and liabilities:				
Receivables	29.4	49.6	(66.0)	(8.7)
Inventories	(12.7)	54.8	(12.7)	1.5
Other current assets	(7.5)	(5.1)	2.0	(3.7)
Other noncurrent assets	(51.6)	(13.9)	(45.3)	(16.8)
Accounts payable and accrued expenses	7.4	(13.6)	11.3	8.5
Income taxes payable	208.6	(4.6)	(64.7)	(16.7)
Other long-term liabilities	(16.6)	(1.8)	(10.5)	(20.1)
Cash distributed under the POR	(14.5)	(28.6)	(804.1)	-
Other, net	(1.7)	(1.4)	5.6	-
Net cash provided by (used by) operating activities	575.2	95.1	(728.1)	169.7
Cash flows from investing activities:				
Purchases of property, plant and equipment and computer software	(102.6)	(40.3)	(98.2)	(135.5)
Divestitures (acquisitions)	58.8	-	(60.5)	-
Proceeds from sale of notes	-	-	-	38.3
Acquisition of equity affiliate	(5.2)	-	(4.3)	-
Proceeds from sale of investment in affiliates	-	-	-	20.6
Loan to affiliate	-	-	(6.3)	-
Proceeds from insurance	6.7	-	-	-
Proceeds from the sale of assets	5.6	-	39.1	5.1
Purchase of minority interest	-	-	(1.5)	-
Net cash (used for) investing activities	(36.7)	(40.3)	(131.7)	(71.5)
Cash flows from financing activities:				
Increase/(decrease) in short-term debt, net	-	2.8	(15.2)	5.1
Issuance of long-term debt	5.0	-	800.0	-
Payments of long-term debt	(309.2)	(0.2)	(15.5)	(7.6)
Payments under the POR	-	-	(300.7)	-
Debt issuance costs	-	(10.7)	-	-
Other, net	(1.2)	-	(0.6)	(1.4)
Net cash (used for) provided by financing activities	(305.4)	(8.1)	468.0	(3.9)
Effect of exchange rate changes on cash and cash equivalents	17.4	1.3	5.4	(8.0)
Net increase (decrease) in cash and cash equivalents	$ 250.5	$ 48.0	$ (386.4)	$ 86.3
Cash and cash equivalents at beginning of period	$ 263.8	$ 215.8	$ 602.2	$ 515.9
Cash and cash equivalents at end of period	$ 514.3	$ 263.8	$ 215.8	$ 602.2
Cash and cash equivalents at end of period from discontinued operations	-	11.3	-	-
Cash and cash equivalents at end of period from continuing operations	$ 514.3	$ 252.5	$ 215.8	$ 602.2

(1) Reflects the effects of the Plan of Reorganization and fresh-start reporting. See Note 3 to the Consolidated Financial Statements.

See accompanying notes to consolidated financial statements beginning on page 67.

Armstrong World Industries, Inc., and Subsidiaries
Notes to Consolidated Financial Statements
(dollar amounts in millions)

NOTE 1. BUSINESS AND CHAPTER 11 REORGANIZATION

Armstrong World Industries, Inc. (“AWI”) is a Pennsylvania corporation incorporated in 1891. On December 6, 2000, AWI filed a voluntary petition for relief under Chapter 11 of the U.S. Bankruptcy Code in order to use the court-supervised reorganization process to achieve a resolution of AWI’s asbestos-related liability. On October 2, 2006, when all conditions precedent were met, AWI’s plan of reorganization (the “POR”), as confirmed by the U.S. District Court for the District of Delaware by order dated August 18, 2006, became effective, and AWI emerged from Chapter 11.

When we refer to “we”, “our” and “us” in this report, we are referring to AWI and its subsidiaries. References in this report to “reorganized Armstrong” are to AWI as it was reorganized under the POR on October 2, 2006, and its subsidiaries collectively. We use the term “AWI” when we are referring solely to Armstrong World Industries, Inc.

The following summarizes the events in its Chapter 11 case that led to AWI emerging from Chapter 11.

Proceedings under Chapter 11

On December 6, 2000, AWI filed a voluntary petition for relief (the “Filing”) under Chapter 11 of the U.S. Bankruptcy Code (the “Bankruptcy Code”) in the United States Bankruptcy Court for the District of Delaware (the “Bankruptcy Court”) in order to use the court-supervised reorganization process to achieve a resolution of AWI’s asbestos-related liability. Also filing under Chapter 11 were two of AWI’s wholly-owned subsidiaries, Nitram Liquidators, Inc. (“Nitram”) and Desseaux Corporation of North America, Inc. (“Desseaux”). The Chapter 11 cases are being jointly administered under case number 00-4471 (the “Chapter 11 Case”).

AWI’s other direct and indirect subsidiaries and affiliates, including Armstrong Wood Products Inc. (formerly Triangle Pacific Corp.), WAVE (AWI’s ceiling grid systems joint venture with Worthington Industries, Inc.), Armstrong Canada, and Armstrong DLW AG, were not a part of the Filing and accordingly, except for any asbestos-related liability that also relates, directly or indirectly, to the pre-Filing activities of AWI, the liabilities, including asbestos-related liability if any, of such companies were not resolved in AWI’s Chapter 11 Case.

Plan of Reorganization and Emergence

On November 4, 2002, AWI filed a plan of reorganization with the Bankruptcy Court. Subsequently, AWI filed several amendments to the plan, along with various exhibits. The Fourth Amended Plan of Reorganization was filed on May 23, 2003. This plan, as so amended and as modified through May 23, 2006, was confirmed by the U.S. District Court for the District of Delaware (the “Court”) on August 18, 2006. The plan, as confirmed, is referred to in this report as the “POR”. Pursuant to the POR, upon emergence from Chapter 11 on October 2, 2006, AWI’s existing shares were cancelled and new common shares of reorganized Armstrong and cash were issued to its unsecured creditors and to the Armstrong World Industries, Inc. Asbestos Personal Injury Settlement Trust (the “Asbestos PI Trust”), as described below. The POR excludes AWI’s Nitram and Desseaux subsidiaries, neither of which is material to Armstrong and which pursued separate resolutions of their Chapter 11 cases. See “Resolution of Nitram and Desseaux Cases” in this Note for further information.

Asbestos PI Trust

On October 2, 2006, the Asbestos PI Trust was created to address AWI’s personal injury (including wrongful death) asbestos-related liability. All present and future asbestos-related personal injury claims against AWI, including contribution claims of co-defendants, arising directly or indirectly out of AWI’s pre-Filing use of, or other activities involving, asbestos are channeled to the Asbestos PI Trust. See Note 32 under “Asbestos-Related Litigation” for more information on the Asbestos PI Trust.

Armstrong World Industries, Inc., and Subsidiaries
Notes to Consolidated Financial Statements
(dollar amounts in millions)

Matters Concerning AHI
Armstrong Holdings, Inc. (“AHI”) was a Pennsylvania corporation and was the publicly held parent holding company of AWI. AHI’s only operation was its indirect ownership, through Armstrong Worldwide, Inc. (“AWWD,” a Delaware corporation), of all of the capital stock of AWI. Upon AWI’s POR becoming effective on October 2, 2006, all then-current shares of AWI were cancelled, and AHI was not entitled to any distribution under the POR in respect of its former equity interest in AWI.

On August 23, 2006, AHI announced that it and AWWD had pending claims in AWI’s Chapter 11 Case (collectively, the “AHI Claim”). The AHI Claim related to intercompany charges and credits among the companies. During 2007 AHI and AWI reached, and the Bankruptcy Court approved, a settlement on all intercompany claim and tax matters. Under the settlement, AWI paid AHI approximately $22 million in cash and 98,697 shares of AWI common stock. The settlement gave AWI the right to make all relevant tax elections and file all required tax returns on behalf of the Armstrong group of companies for all relevant tax periods during which the two companies were affiliated, and to receive and retain all related tax refunds.

A final federal income tax return for AHI and AWI on a consolidated basis was filed in September 2007. AHI and AWI reported substantial tax losses in this final joint tax return for these companies. As permitted by its settlement with AHI, AWI chose to carry back its losses for ten years in the return.

Resolution of Disputed Claims
Except for one priority tax claim for $0.3 million that is currently being negotiated, the few claims in AWI’s Chapter 11 case that remained open as of the end of 2007 were resolved and closed in January and February 2008 pursuant to the Bankruptcy Court’s procedures for settlement of claims. AWI has made a final distribution to general unsecured creditors of AWI under the POR and will close the Chapter 11 estate after the final claim is resolved.

Resolution of Nitram and Desseaux Cases
In September 2007, Nitram and Desseaux proposed a joint plan of liquidation to the Bankruptcy Court. On December 17, 2007, the Bankruptcy Court approved the Joint Amended Plan of Liquidation (the “Joint Plan”). The Joint Plan became effective December 28, 2007. Armstrong contributed $0.2 million to the estate of Nitram and Desseaux. Armstrong and its subsidiaries subordinated their claims to those of other unsecured creditors under the Joint Plan and will receive no distribution from the bankruptcy estate in this case.

Claimants alleging personal injury claims under the Joint Plan are allowed to proceed only against the pre-existing insurance coverage assets of Nitram and will not share in any distribution of general assets.

Deadlines under the Joint Plan for claimants to file claims based on rejected executory contracts or unexpired leases, for administrative claims and for final fee applications passed in January 2008. Pending objections to certain claims are expected to be addressed by the Court in coming months. An initial distribution to unsecured creditors is expected in the second quarter of 2008. After all assets in the bankruptcy estate (other than insurance assets available to personal injury claimants) have been distributed, Nitram and Desseaux will dissolve.

As a result of the Joint Plan becoming effective on December 28, 2007, Armstrong recorded a $1.3 million gain from the discharge of liabilities subject to compromise. The gain was recorded as a Chapter 11 Reorganization activity (see below).

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

Armstrong World Industries, Inc., and Subsidiaries
Notes to Consolidated Financial Statements
(dollar amounts in millions)

Pursuant to SOP 90-7, AWI was required to segregate pre-Filing liabilities that were subject to compromise and report them separately on the balance sheet. Liabilities subject to compromise at December 31, 2006 totaled $1.3 million and related to Nitram and Desseaux.

SOP 90-7 also requires separate reporting of all revenues, expenses, realized gains and losses, and provision for losses related to the Filing as Chapter 11 reorganization costs, net. Accordingly, we recorded the following Chapter 11 reorganization activities during 2007, 2006 and 2005:

	Successor Company		Predecessor Company	
	Year 2007	Three Months Ended December 31, 2006	Nine Months Ended September 30, 2006	Year 2005
Professional fees	$0.6	$-	$30.2	$10.4
Interest (income)	-	-	(15.0)	(11.8)
Adjustments to pre-Filing liabilities	-	-	-	0.1
(Gain) from discharge of liabilities subject to compromise	(1.3)	-	(1,510.8)	-
(Gain) from fresh-start reporting	-	-	(459.9)	-
Other expense directly related to bankruptcy, net	-	-	-	0.1
Total Chapter 11 reorganization (income), net	$(0.7)	$-	$(1,955.5)	$(1.2)

Professional fees represent legal and financial advisory fees and expenses that were incurred directly as a result of the Filing. 2007 charges relate to Nitram and Desseaux.

Interest income represents income earned from short-term investments between the Filing date and AWI's emergence date.

Pursuant to SOP 90-7, AWI and its subsidiaries adopted fresh-start reporting upon AWI emerging from Chapter 11. The conditions required in order for AWI to adopt fresh-start reporting were met on October 2, 2006. For administrative convenience, we selected September 30, 2006, following the close of business, as the date to adopt fresh-start reporting. Consequently, the impact of emergence, including the gain on settlement of liabilities subject to compromise and the gain on fresh-start reporting, is reflected in the Predecessor Company for the nine months ended September 30, 2006 and the results of operations beginning October 1, 2006 are reflected within the Successor Company. We recorded gains of $1,510.8 million and $459.9 million from discharging the liabilities subject to compromise and adopting fresh-start reporting, respectively. See Note 3 for more information on the impact of the implementation of the plan of reorganization and fresh-start reporting.

AWI incurred $7.1 million and $4.6 million of expenses during the year 2007 and the three months ended December 31, 2006, respectively, for Chapter 11 related post-emergence activities. Pursuant to SOP 90-7, these expenses were reported as selling, general and administrative (SG&A) expenses.

Review of Strategic Alternatives

On February 15, 2007, we announced that we had initiated a review of our strategic alternatives. On February 29, 2008, we announced that we have completed the strategic review process after extensive evaluation of alternatives, including a possible sale of our individual businesses and the entire company. The Board of Directors concluded that it is in the best interest of Armstrong and its shareholders to continue to execute our strategic operating plan under our current structure as a publicly traded company.

Armstrong World Industries, Inc., and Subsidiaries
Notes to Consolidated Financial Statements
(dollar amounts in millions)

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation Policy . The consolidated financial statements and accompanying data in this report include the accounts of AWI and its majority-owned subsidiaries. The results of less than majority owned subsidiaries are accounted for under the equity method. All significant intercompany transactions have been eliminated from the consolidated financial statements.

Use of Estimates . These financial statements are prepared in accordance with U.S. generally accepted accounting principles. The statements include management estimates and judgments, where appropriate. Management utilizes estimates to record many items including asset values, allowances for bad debts, inventory obsolescence and lower of cost or market charges, warranty, workers' compensation, general liability and environmental claims and income taxes. When preparing an estimate, management determines the amount based upon the consideration of relevant information. Management may confer with outside parties, including outside counsel. Actual results may differ from these estimates.

Reclassifications . Our policy is to record distributions from equity investments using the equity in earnings method and report returns on investments as cash flows from operating activities. Accordingly, "Distributions from equity affiliates" in the prior years' Consolidated Statements of Cash Flows was reclassified from cash flows from investing activities to cash flows from operating activities. The amounts reclassified were $25.0 million in the three months ended December 31, 2006, $18.0 million in the nine months ended September 30, 2006 and $23.0 million in the year 2005.

Certain other amounts in the prior year's Consolidated Financial Statements and related notes thereto have been recast to conform to the 2007 presentation.

Revenue Recognition. We recognize revenue from the sale of products when persuasive evidence of an arrangement exists, title and risk of loss transfers to the customers, prices are fixed and determinable, and it is reasonably assured the related accounts receivable is collectible. Our sales terms primarily are FOB shipping point. We have some sales terms that are FOB destination. Our products are sold with normal and customary return provisions. Sales discounts are deducted immediately from the sales invoice. Provisions, which are recorded as a reduction of revenue, are made for the estimated cost of rebates, promotional programs and warranties. We defer recognizing revenue if special sales agreements, established at the time of sale, warrant this treatment.

Sales Incentives. Sales incentives are reflected as a reduction of net sales.

Shipping and Handling Costs. Shipping and handling costs are reflected in cost of goods sold.

Advertising Costs . We recognize advertising expenses as they are incurred.

Research and Development Costs. We recognize research and development costs as they are incurred.

Pension and Postretirement Benefits . We have benefit plans that provide for pension, medical and life insurance benefits to certain eligible employees when they retire from active service. Generally, for plans that maintain plan assets, our practice is to fund the actuarially determined current service costs and the amounts necessary to amortize prior service obligations for the pension benefits over periods ranging up to 30 years, but not in excess of the funding limitations.

Armstrong World Industries, Inc., and Subsidiaries
Notes to Consolidated Financial Statements
(dollar amounts in millions)

Taxes . The provision for income taxes has been determined using the asset and liability approach of accounting for income taxes to reflect the expected future tax consequences of events recognized in the financial statements. Deferred income tax assets and liabilities are recognized by applying enacted tax rates to temporary differences that exist as of the balance sheet date which result from differences in the timing of reported taxable income between tax and financial reporting.

Taxes collected from customers and remitted to governmental authorities are reported on a net basis.

Earnings per Common Share . Basic earnings per share is computed by dividing the earnings by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per common share reflects the potential dilution of securities that could share in the earnings.

Cash and Cash Equivalents . Cash and cash equivalents include cash on hand and short-term investments that have maturities of three months or less when purchased.

Concentration of Credit . We principally sell products to customers in the building products industries in various geographic regions. Net sales to The Home Depot, Inc. were $285.3 million in the nine months ended September 30, 2006 and $384.1 million in the year 2005, which is in excess of 10% of our consolidated net sales for those periods. Net sales to The Home Depot were less than 10% of consolidated net sales in the year 2007 and the three months ended December 31, 2006. Net sales to The Home Depot were recorded in our Resilient Flooring, Wood Flooring and Building Products segments. No other customers accounted for 10% or more of our total consolidated net sales.

There are no significant concentrations of credit risk other than with The Home Depot, Inc. and Lowe's Companies, Inc. who together represented approximately 22% of our net trade receivables as of December 31, 2007 and 2006. We monitor the creditworthiness of our customers and generally do not require collateral.

Receivables . We sell the vast majority of our products to select, pre-approved customers using customary trade terms that allow for payment in the future. Customer trade receivables, customer notes receivable and miscellaneous receivables (which include supply related rebates and claims to be received, unpaid insurance claims from litigation and other), net of allowances for doubtful accounts, rebates, promotional programs and warranties are reported in accounts and notes receivable, net. Notes receivable from divesting certain businesses are included in other current assets and other non-current assets based upon the payment terms.

We establish credit worthiness prior to extending credit. We estimate the recoverability of current and non-current receivables each period. This estimate is based upon triggering events and new information in the period, which can include the review of any available financial statements and forecasts, as well as discussions with legal counsel and the management of the debtor company. As events occur which impact the collectibility of the receivable, all or a portion of the receivable is reserved. Account balances are charged off against the allowance when the potential for recovery is considered remote. We do not have any off-balance-sheet credit exposure related to our customers.

Inventories . Inventories are valued at the lower of cost or market. Inventories also include certain samples used in ongoing sales and marketing activities. Cash flows from the sale of inventory and the related cash receipts are classified as operating cash flows on the Consolidated Statements of Cash Flows. See Note 8 for further information on our accounting for inventories.

Property and Depreciation . Property, plant and equipment in place as of September 30, 2006 were set equal to fair value as of our emergence date and are currently stated at that value less accumulated depreciation and amortization. Property, plant and equipment acquired after our emergence date is stated at acquisition cost less accumulated depreciation and amortization.

Depreciation charges for financial reporting purposes are determined on a straight-line basis at rates calculated to provide for the full depreciation of assets at the end of their useful lives. Machinery and equipment includes manufacturing equipment (depreciated over 3 to 15 years), computer equipment (3 to 5 years) and office furniture and equipment (5 to 7 years). Within manufacturing equipment, assets that are subject to quick obsolescence or wear out quickly, such as tooling and engraving equipment, are depreciated over shorter periods (3 to 7 years). Heavy production equipment, such as conveyors and production presses, are depreciated over longer periods (15 years). Buildings are depreciated over 15 to 30 years, depending on factors such as type of construction and use. Computer software is depreciated over 3 to 7 years.

Impairment losses are recorded when indicators of impairment are present, such as operating losses and/or negative cash flows. If an indication of impairment exists, we compare the carrying amount of the asset group to the estimated undiscounted future cash flows expected to be generated by the assets. The amount of impairment loss to be recognized is then measured by comparing the asset group’s carrying amount to its fair value. The estimate of an asset group’s fair value is based on discounted future cash flows expected to be generated by the asset group. If the fair value is less than the carrying value of the asset group, we record an impairment charge equal to the difference between the fair value and carrying value of the asset group. Impairments of assets related to our manufacturing operations are recorded in cost of goods sold. 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 cost of goods sold or SG&A expenses.

Costs of the construction of certain property may include capitalized interest which is amortized over the estimated useful life of the related asset. There was no capitalized interest recorded in the nine months ended September 30, 2006 or the year 2005 due to the Chapter 11 Filing. There was also no capitalized interest in the three months ended December 31, 2006 or in the year 2007.

Plant and equipment held under capital leases are stated at the present value of the minimum lease payments. Plant and equipment held under capital leases and leasehold improvements are amortized on a straight line basis over the life of the lease plus any specific option periods.

Asset Retirement Obligations . We recognize the fair value of obligations associated with the retirement of tangible long-lived assets in the period in which they are incurred. Upon initial recognition of a liability, the discounted cost is capitalized as part of the related long-lived asset and depreciated over the corresponding asset’s useful life. Over time, accretion of the liability is recognized as an operating expense to reflect the change in the liability’s present value.

Goodwill and Other Intangibles . Goodwill and intangible assets with indefinite useful lives are tested for impairment annually in the fourth quarter. Effective with our emergence from Chapter 11 on October 2, 2006 and as part of fresh-start reporting, Predecessor Company goodwill was eliminated from our balance sheet and intangible assets were revalued. See Note 3 for further information. Intangible assets with determinable useful lives are amortized over their respective estimated useful lives and reviewed for impairment whenever events or circumstances indicate that its carrying amount may not be recoverable. See Note 12 for disclosure on goodwill and other intangibles.

Armstrong World Industries, Inc., and Subsidiaries
Notes to Consolidated Financial Statements
(dollar amounts in millions)

Foreign Currency Transactions. Assets and liabilities of our subsidiaries operating outside the United States which account in a functional currency other than U.S. dollars are translated using the year end exchange rate. Revenues and expenses are translated at exchange rates effective during each month. Foreign currency translation gains or losses are included as a component of accumulated other comprehensive income (loss) within shareholders' equity. Gains or losses on foreign currency transactions are recognized through the statement of earnings.

Financial Instruments and Derivatives . From time to time, we use derivatives and other financial instruments to offset the effect of currency, interest rate and commodity price variability. See Note 20 for further discussion.

Stock-based Employee Compensation. On January 1, 2006, we adopted FASB Statement No. 123 (revised 2004), "Share-Based Payment" ("FAS 123R"). Prior to January 1, 2006, we used the intrinsic value method for stock-based employee compensation. There would have been no effect on net income if we had applied the fair value recognition provisions of FAS 123R to share-based employee compensation in 2005. For awards with only service and performance conditions that have a graded vesting schedule, we recognize compensation expense on a straight-line basis over the vesting period for the entire award. See Note 25 for additional information on FAS 123R.

Recently Adopted Accounting Standards

In connection with AWI's emergence from Chapter 11 on October 2, 2006, reorganized Armstrong adopted fresh-start reporting in accordance with AICPA Statement of Position 90-7, "Financial Reporting by Entities in Reorganization Under the Bankruptcy Code" ("SOP 90-7"). As a result of the application of fresh-start reporting, changes in accounting principles that would have been required in reorganized Armstrong's financial statements within the twelve months following our emergence date were required to be adopted at the time fresh-start reporting was adopted. Accordingly, effective October 2, 2006 we adopted Financial Accounting Standards Board Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes" and Statement of Financial Accounting Standards No. 158 ("FAS 158"), "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans." We adopted no new accounting standards in 2007.

Recently Issued Accounting Standards

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157 ("FAS 157"), "Fair Value Measurements," which establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. FAS 157 is generally effective for fiscal years beginning after November 15, 2007. However, the effective date for certain non-financial assets and liabilities was deferred to fiscal years beginning after November 15, 2008. We do not expect any material impact from adopting FAS 157.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159 ("FAS 159"), "The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115," which permits companies to measure financial instruments and certain other assets and liabilities at fair value on an instrument by instrument basis. FAS 159 is effective for fiscal years beginning after November 15, 2007. We do not expect any material impact from adopting FAS 159.

In March 2007, the FASB ratified Emerging Issues Task Force Issue No. 06-10 "Accounting for Collateral Assignment Split-Dollar Life Insurance Agreements" (EITF 06-10). EITF 06-10 provides guidance for determining a liability as well as recognition and measurement of the associated asset on the basis of the terms of the collateral assignment agreement. EITF 06-10 is effective for fiscal years beginning after December 15, 2007. We do not expect any material impact from adopting EITF 06-10.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 Revised 2007, "Business Combinations" ("FAS 141R"). FAS 141R revises the original FAS 141, while retaining the underlying concept that all business combinations be accounted for at fair value. However, FAS 141R changes the methodology of applying this concept in that acquisition costs will generally be expensed as incurred, non-controlling interests will be valued at fair value, in-process research and development will be recorded at fair value as an indefinite-lived intangible, restructuring costs associated with a business combination will generally be expensed subsequent to the acquisition and changes in deferred tax asset allowances after the acquisition date generally will affect income tax expense. This pronouncement applies prospectively to all business combinations whose acquisition dates are on or after the beginning of the first annual period subsequent to December 15, 2008. We will consider, upon adoption, the impact of any future acquisitions.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, "Non-controlling Interests in Consolidated Financial Statements – an amendment of ARB No. 51" ("FAS 160"). FAS 160 requires the recognition of a non-controlling interest (formerly known as a "minority interest") as equity in the consolidated financial statements and separate from the parent's equity. The amount of net income attributable to the non-controlling interest will be included in consolidated net income on the face of the income statement. It also amends certain of ARB 51's consolidation procedures for consistency with the requirements of FAS 141R. This pronouncement is effective for fiscal years, and all interim periods within those fiscal years, beginning after December 15, 2008. Early adoption is not permitted. We do not expect any material impact from adopting FAS 160.

NOTE 3. PLAN OF REORGANIZATION AND FRESH-START REPORTING

In connection with its emergence from bankruptcy on October 2, 2006 (the "Effective Date"), AWI adopted fresh-start reporting in accordance with SOP 90-7. The conditions required in order for AWI to adopt fresh-start reporting were met on October 2, 2006. For administrative convenience, we selected September 30, 2006, following the close of business, as the date to adopt fresh-start reporting. Consequently, the impact of emergence, including the gain on settlement of liabilities subject to compromise and the gain on fresh-start reporting, is reflected in the Predecessor Company for the nine months ended September 30, 2006 and the results of operations beginning October 1, 2006 are reflected within the Successor Company. Adopting fresh-start reporting has resulted in material adjustments to the historical carrying amount of reorganized Armstrong's assets and liabilities. In addition, all accounting standards that are required to be adopted in the financial statements within twelve months following the adoption of fresh-start reporting, were adopted as of October 2, 2006. As a result, our post emergence financial statements are not comparable with our pre-emergence financial statements.

The approach used to determine reorganized Armstrong's reorganization value, as defined in SOP 90-7, was primarily based on a discounted cash flow approach, while also using a comparable company guideline method as a test for reasonableness of the derived value. These analyses are necessarily based on a variety of estimates and assumptions which, though considered reasonable by management, may not be realized and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond AWI's control.

The assumptions used in the discounted cash flow analysis regarding revenue, costs and cash flows were based on management's best estimate at the time the analysis was performed. Key assumptions included a four year operating horizon with a compound average growth rate (CAGR) in sales of 3%, an effective tax rate of 38% and a discount rate based on an estimated weighted average cost of capital of 10.5%. In addition to the cash flows during the projection period, a terminal value for the enterprise was developed based on a perpetuity growth model using a constant growth rate of 2.5%. Changes in these assumptions could have had a significant effect on the determination of AWI's reorganization value.

Armstrong World Industries, Inc., and Subsidiaries
Notes to Consolidated Financial Statements
(dollar amounts in millions)

In applying fresh-start reporting as of the Effective Date, the reorganization value of reorganized Armstrong was determined to be $2.94 billion. This amount is within the range of values from the Disclosure Statement that supported the POR. The shareholders' equity value was then derived as follows:

Reorganization value		$2,940.0
Less:	New interest bearing debt	(800.0)
	Predecessor debt assumed	(41.8)
Shareholders' equity		$2,098.2

Fresh-start reporting required us to allocate the reorganization value to our assets and liabilities based upon their estimated fair values in accordance with procedures specified by Statement of Financial Accounting Standards No. 141, "Business Combinations" ("FAS 141"). Adjustments necessary to state our balance sheet accounts at fair value were made such that the newly assigned fair values to our assets and liabilities fully reflected the emerged entity's reorganization value. No goodwill was assigned at emergence.

The following table provides a reconciliation of the Predecessor's consolidated balance sheet as of September 30, 2006 to that of the Successor's on October 1, 2006, reflecting the debt and equity restructuring, reorganization and fresh-start reporting adjustments. We are reflecting the issuance of debt and cash payments to creditors through October 17, 2006 (the initial distribution date, as determined by the POR) within the following table:

Armstrong World Industries, Inc., and Subsidiaries
Notes to Consolidated Financial Statements
(dollar amounts in millions)

	Predecessor Sept. 30, 2006	Plan of Reorganization		Fresh- Start		Successor Oct. 1, 2006
Current Assets:						
Cash and cash equivalents	$ 520.6	$ (304.8)	(A)	$ (5.9)	(J)	$ 209.9
Accounts and notes receivable, net	407.5			(46.8)	(J)	360.7
Inventories, net	542.6			27.0	(F,J)	569.6
Deferred income taxes	18.2			(17.2)	(I)	1.0
Assets of discontinued operations	-			120.7	(J)	120.7
Income tax receivable	18.2	(18.2)	(H)	78.5		78.5
Other current assets	60.7			(2.7)	(J)	58.0
Total current assets	1,567.8	(323.0)		153.6		1,398.4
Property, plant and equipment	1,194.2			(242.6)	(F,J)	951.6
Insurance receivable for asbestos	91.5	(91.5)	(B,C)			-
Prepaid pension costs	510.0			(25.1)	(F)	484.9
Investment in affiliates	95.0			219.2	(F)	314.2
Goodwill, net	143.1			(143.1)	(F,G)	-
Other intangibles, net	54.3			619.3	(F)	673.6
Deferred income taxes, noncurrent	967.4			(719.1)	(I)	248.3
Other noncurrent assets	97.5	(5.6)	(C)	(3.0)	(F,J)	88.9
Total assets	$ 4,720.8	$ (420.1)		$ (140.8)		$ 4,159.9
Current liabilities:						
Short-term debt	$0.4			$0.9	(J)	$1.3
Current portion of long term debt	0.9	5.0	(A,D)			5.9
Accounts payable and accrued expenses	415.9	69.1	(C)	(43.0)	(F,J)	442.0
Short term amounts due affiliates	10.1	(10.1)	(C)			-
Liabilities of discontinued operations	-			50.6	(J)	50.6
Income tax payable	7.5	(64.5)	(H)	60.6	(I,J)	3.6
Deferred income taxes	0.8	(0.8)	(H)	13.5		13.5
Total current liabilities	435.6	(1.3)		82.6		516.9
Liabilities subject to compromise	4,868.1	(4,866.8)	(C)			1.3
Long term debt, less current portion	12.1	795.0	(A,D)			807.1
Postretirement and postemployment liabilities	260.9			144.8	(F)	405.7
Pension benefit liabilities	230.7			(3.0)	(F,J)	227.7
Other long term liabilities	74.6	(1.0)	(C)	0.5	(F,J)	74.1
Income tax payable, noncurrent	-			11.9	(I)	11.9
Deferred income taxes, noncurrent	35.7	534.7	(H)	(560.7)	(I,J)	9.7
Minority interest in subsidiaries	7.3					7.3
Total noncurrent liabilities	621.3	1,328.7		(406.5)		1,543.5
Shareholders' equity:						
Common stock – predecessor	51.9	(51.9)	(E)			-
Common stock – successor	-	0.6	(E)			0.6
Capital in excess of par	172.6	1,480.1	(E)	444.9	(K)	2,097.6
Reduction for ESOP loan guarantee	(142.2)	142.2	(E)			-
Accumulated deficit	(803.4)	1,019.8	(C)	(216.4)	(K)	-
Accumulated other compr. income	45.4			(45.4)	(K)	-
Treasury stock-predecessor	(528.5)	528.5	(E)			-
Total shareholders' equity (deficit)	(1,204.2)	3,119.3		183.1	(F)	2,098.2
Total liabilities and shareholders' equity (deficit)	$ 4,720.8	$ (420.1)		$ (140.8)		$ 4,159.9

(dollar amounts in millions)

Notes to Reorganization and "Fresh-Start" Activity

(A) To reflect cash proceeds from the debt and payout to the unsecured creditors and Asbestos PI Trust pursuant to the distribution provisions of the Plan of Reorganization (POR) as follows:

Cash balance of Predecessor as of September 30, 2006		$ 520.6
Proceeds from Successor borrowing	$ 800.0	
Cash distributed to unsecured creditors	(362.0)	
Cash distributed to asbestos trust	(738.5)	
Cash distributed for convenience, cure and other	(4.3)	
Net change in cash	(304.8)	(304.8)
Cash balance of Successor prior to fresh-start adjustments		$215.8
Distributions made to date		$ 1,150.6
Distributions reserved and pending		$1.1

(B) To reflect assignment of asbestos insurance receivable to Asbestos PI Trust pursuant to POR.

(C) To adjust for discharge of liabilities subject to compromise, assumption of certain liabilities and net gain on settlement pursuant to the POR as follows:

Liabilities subject to compromise that were discharged:	
Debt (at face value)	$1,388.6
Asbestos related liability	3,190.6
Prepetition trade payables	57.1
Prepetition other payables and accrued interest	68.1
Amounts due to affiliates	4.7
ESOP loan guarantee	157.7
Total liabilities subject to compromise	4,866.8
Effect of new shares, new debt and other settlement items:	
Liabilities subject to compromise not discharged and reclassified to liabilities	(19.2)
Insurance receivable transferred to asbestos trust	(91.5)
Fair value of new equity issued	(2,098.2)
Proceeds of Successor debt to be paid to creditors	(775.0)
Available cash to be paid to creditors	(370.7)
Amounts due to affiliates settled in bankruptcy	10.1
Recognition of convenience, environmental and other claim liability	(5.5)
Other	(6.0)
Gross gain on settlement	1,510.8
Less: Professional fees payable	(4.3)
Less: Tax effect on settlement	(486.7)
Net gain on settlement	$1,019.8

(D) To record post emergence debt financing pursuant to the Senior Credit Agreement.

(E) To record cancellation of predecessor common stock, close out of remaining equity balances and issuance of successor common stock.

Armstrong World Industries, Inc., and Subsidiaries
Notes to Consolidated Financial Statements
(dollar amounts in millions)

(F) To set equity to reorganization value. Assets and liabilities then adjusted to fair value in connection with the application of fresh-start reporting. Adjustments creating net gain on fair value adjustments are as follows:

Inventory	$ 86.6
Property, plant and equipment	(172.3)
Prepaid pension costs	(22.8)
Investment in affiliates	219.2
Goodwill	(143.1)
Other intangibles	619.3
Postretirement and pension obligations	(146.2)
Other	19.2
Gain on fresh-start adjustments before tax	459.9
Less: Discontinued operation fair value adjustment	(70.4)
Less: Elimination of other comprehensive income	(45.4)
Less: Tax effect on fresh-start	(161.0)
Change in equity	$ 183.1

(See Note 6 for a summary of amounts reclassified to Assets and Liabilities of Discontinued Business Held for Sale)

(G) To eliminate Predecessor goodwill.
(H) To reflect tax effect on POR settlement items.
(I) To adjust deferred income taxes to reflect differences in the book versus tax basis of revalued assets and liabilities.
(J) To reclassify discontinued business as ‘Assets of discontinued business held for sale’ and ‘Liabilities of discontinued business held for sale.’
(K) To reset accumulated other comprehensive income and accumulated deficit to zero and adjust capital in excess of par to reorganization value.

2007 adjustments

In accordance with FAS 141, the allocation of equity value is subject to adjustment within a one year period when additional information on asset and liability valuations becomes available. Further, in accordance with Statement of Financial Accounting Standards No. 109, “Accounting for Income Taxes” (“FAS 109”), any subsequent releases of deferred income tax asset valuation allowances existing at October 2, 2006 may adjust the allocation of equity value in the future.

In this regard, the initial tax balances for the October 2, 2006 fresh-start balance sheet were calculated assuming that we would elect to carry back our net operating loss (“NOL”) two years when filing the 2006 tax returns. During 2007, we continued to evaluate carry back alternatives prior to filing our federal income tax returns in September 2007. Upon completion of this analysis, we decided to file a ten-year carryback. See Note 16 for more information. Since the realizable book value of the NOL based upon a ten-year carryback was different from the calculation based upon a two-year carryback, adjustments to the fresh-start balance sheet were recorded in the third quarter of 2007 to reflect the ten-year value.

During the fourth quarter of 2007, additional tax adjustments were recorded which further refined the realizable value of the NOL, recorded certain provision-to-return adjustments and released various state valuation allowances.

Armstrong World Industries, Inc., and Subsidiaries
Notes to Consolidated Financial Statements
(dollar amounts in millions)

Collectively, the adjustments described above were re-allocated to other assets and liabilities as follows:

Deferred income tax asset – current	$ 6.8
Property, plant & equipment	54.3
Income tax receivable	7.7
Investment in affiliates	12.6
Other intangibles	40.1
Deferred income tax asset- non current	(89.3)
Total assets	$ 32.2
Accrued expenses	$ (0.6)
Income tax payable – current	(0.6)
Deferred income tax liability - non current	(31.0)
Total liabilities	$ (32.2)

NOTE 4. NATURE OF OPERATIONS

Reportable Segments

Resilient Flooring — produces and sources a broad range of floor coverings primarily for homes and commercial and institutional buildings. Manufactured products in this segment include vinyl sheet, vinyl tile, linoleum flooring, automotive carpeting and other specialized textile floor products. In addition, our Resilient Flooring segment sources and sells laminate flooring products, ceramic tile products, adhesives, installation and maintenance materials and accessories. Resilient Flooring products are offered in a wide variety of types, designs and colors. We sell these products to wholesalers, large home centers, retailers, contractors and to the manufactured homes industry.

Wood Flooring — produces and sources wood flooring products for use in new residential construction and renovation, with some commercial applications in stores, restaurants and high-end offices. The product offering includes pre-finished solid and engineered wood floors in various wood species, and related accessories. Virtually all of our Wood Flooring's sales are in North America. Our Wood Flooring products are generally sold to independent wholesale flooring distributors and large home centers. Our products are principally sold under the brand names Bruce®, Hartco®, Robbins®, Timberland®, Armstrong™, HomerWood® and Capella®.

Building Products — produces suspended mineral fiber, soft fiber and metal ceiling systems for use in commercial, institutional and residential settings. In addition, our Building Products segment sources complementary ceiling products. Our products are available in numerous colors, performance characteristics and designs, and offer attributes such as acoustical control, rated fire protection and aesthetic appeal. Commercial ceiling materials and accessories are sold to ceiling systems contractors and to resale distributors. Residential ceiling products are sold primarily in North America to wholesalers and retailers (including large home centers). Suspension system (grid) products manufactured by WAVE are sold by both Armstrong and our WAVE joint venture.

Cabinets — produces kitchen and bathroom cabinetry and related products, which are used primarily in the U.S. residential new construction and renovation markets. Through our system of Company-owned and independent distribution centers and through direct sales to builders, our Cabinets segment provides design, fabrication and installation services to single and multi-family homebuilders, remodelers and consumers under the brand names Armstrong® and Bruce®.

Table of Contents

Armstrong World Industries, Inc., and Subsidiaries
Notes to Consolidated Financial Statements
(dollar amounts in millions)

Unallocated Corporate — includes assets and expenses that have not been allocated to the business units. Unallocated Corporate assets are primarily deferred income tax assets, cash and cash equivalents, the Armstrong brand name and the U.S. prepaid pension cost. Expenses for our corporate departments and certain benefit plans are allocated to the reportable segments based on known metrics, such as time reporting, headcount, square-footage or net sales. The remaining expenses, which cannot be attributable to the reportable segments without a high degree of generalization, are reported in Unallocated Corporate.

Successor Company For the year ended 2007	Resilient Flooring	Wood Flooring	Building Products	Cabinets	Unallocated Corporate	Total
Net sales to external customers	$ 1,230.8	$ 791.6	$ 1,292.1	$ 235.2	-	$ 3,549.7
Equity loss (earnings) from joint ventures	-	0.6	(46.6)	-	-	(46.0)
Segment operating income (loss) (1)	40.4	64.3	221.4	10.5	(39.9)	296.7
Restructuring charges, net of reversals	-	-	0.2	-	-	0.2
Segment assets	734.8	509.7	1,139.7	82.5	2,183.2	4,649.9
Depreciation and amortization	44.0	10.9	59.3	2.6	21.0	137.8
Fixed asset impairment loss	-	-	-	-	-	-
Investment in affiliates	0.1	-	232.5	-	-	232.6
Capital additions	29.9	17.8	37.7	4.4	11.8	101.6

Successor Company For the three months ended December 31, 2006	Resilient Flooring	Wood Flooring	Building Products	Cabinets	Unallocated Corporate	Total
Net sales to external customers	$278.5	$192.6	$289.7	$56.5	-	$817.3
Equity loss (earnings) from joint ventures	-	0.2	(5.5)	-	-	(5.3)
Segment operating income (loss) (1)	(1.2)	(0.2)	24.9	0.2	(7.2)	16.5
Restructuring charges, net of reversals	0.3	1.4	-	-	-	1.7
Segment assets	690.1	498.9	1,159.8	81.8	1,729.3	4,159.9
Depreciation and amortization	10.5	2.3	13.9	0.7	4.8	32.2
Fixed asset impairment loss	-	-	-	-	-	-
Investment in affiliates	-	4.0	290.6	-	-	294.6
Capital additions	10.3	10.2	12.1	1.5	4.1	38.2

Predecessor Company For the nine months ended September 30, 2006	Resilient Flooring	Wood Flooring	Building Products	Cabinets	Unallocated Corporate	Total
Net sales to external customers	$929.4	$645.0	$859.8	$174.4	-	$2,608.6
Equity loss (earnings) from joint ventures	-	0.1	(41.5)	-	-	(41.4)
Segment operating income (loss) (1)	12.6	46.2	152.9	6.1	(23.5)	194.3
Restructuring charges, net of reversals	9.6	-	0.5	-	(0.1)	10.0
Depreciation and amortization	35.2	15.0	27.7	2.1	17.8	97.8
Fixed asset impairment loss	-	0.6	-	-	-	0.6
Capital additions	20.8	23.9	34.1	3.8	10.0	92.6

Armstrong World Industries, Inc., and Subsidiaries
Notes to Consolidated Financial Statements
(dollar amounts in millions)

Predecessor Company For the year ended 2005	Resilient Flooring	Wood Flooring	Building Products	Cabinets	Unallocated Corporate	Total
Net sales to external customers	$ 1,232.6	$ 833.9	$ 1,047.6	$ 212.5	-	$ 3,326.6
Equity (earnings) from joint venture	-	-	(39.3)	-	-	(39.3)
Segment operating income (loss) [1]	(28.4)	60.9	148.5	(9.7)	(70.2)	101.1
Restructuring charges, net of reversals	16.2	0.1	6.3	0.4	-	23.0
Segment assets	715.9	646.4	613.2	99.1	2,374.8	4,449.4
Depreciation and amortization	55.6	19.0	33.9	2.4	25.5	136.4
Fixed asset impairment loss	1.8	15.3	0.5	-	-	17.6
Investment in affiliates	-	-	67.4	-	-	67.4
Capital additions	42.8	28.8	42.6	4.5	12.2	130.9

(1)Segment operating income (loss) is the measure of segment profit or loss reviewed by the chief operating decision maker. The sum of the segments' operating income (loss) equals the total consolidated operating income as reported on our income statement. The following reconciles our total consolidated operating income (loss) to income before taxes, extraordinary items, discontinued operations, and the cumulative effect of changes in accounting principles. These items are only measured and managed on a consolidated basis:

	Successor Company		Predecessor Company	
	Year 2007	Three months ended December 31, 2006	Nine months ended September 30, 2006 [1]	Year 2005
Segment operating income	$ 296.7	$ 16.5	$ 194.3	$ 101.1
Interest expense	55.0	13.4	5.2	7.7
Other non-operating expense	1.4	0.3	1.0	1.5
Other non-operating (income)	(18.2)	(4.3)	(7.2)	(11.8)
Chapter 11 reorganization (income), net	(0.7)	-	(1,955.5)	(1.2)
Earnings from continuing operations before income taxes	$259.2	$7.1	$2,150.8	$104.9

(1) Reflects the effects of the Plan of Reorganization and fresh-start reporting. See Note 3 to the Consolidated Financial Statements.

Accounting policies of the segments are the same as those described in the summary of significant accounting policies.

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

	Successor Company		Predecessor Company	
Geographic Areas Net trade sales	Year 2007	Three months ended December 31, 2006	Nine months ended September 30, 2006	Year 2005
Americas:				
United States	$2,409.7	$560.7	$1,825.2	$2,334.1
Canada	167.1	36.7	157.6	192.1
Other Americas	38.5	8.8	25.8	30.9
Total Americas	$2,615.3	$606.2	$2,008.6	$2,557.1
Europe:				
Germany	$164.6	$41.0	$115.6	$160.9
United Kingdom	140.4	31.6	94.6	126.6
Other Europe	422.2	91.2	270.3	341.2
Total Europe	$727.2	$163.8	$480.5	$628.7
Total Pacific Rim	$207.2	$47.3	$119.5	$140.8
Total net trade sales	$3,549.7	$817.3	$2,608.6	$3,326.6

Armstrong World Industries, Inc., and Subsidiaries
Notes to Consolidated Financial Statements
(dollar amounts in millions)

Long-lived assets (property, plant and equipment), net at December 31	Successor Company	
	2007	2006
Americas:		
United States	$747.0	$723.8
Other Americas	21.2	19.7
Total Americas	$768.2	$743.5
Europe:		
Germany	$108.7	$101.3
Other Europe	85.0	83.6
Total Europe	$193.7	$184.9
Total Pacific Rim	$50.9	$37.8
Total long-lived assets, net	$1,012.8	$966.2

The above balances exclude amounts related to discontinued operations.

NOTE 5. ACQUISITIONS

On April 3, 2006, we purchased certain assets and assumed certain liabilities of HomerWood, Inc., a hardwood flooring company. On May 1, 2006 we purchased certain assets and assumed certain liabilities of Capella Engineered Wood, LLC, a hardwood flooring company, and of its parent company, Capella, Inc. The combined purchase price of these acquisitions was $61.5 million. Both acquisitions were financed from existing cash balances. Both investments expanded Armstrong's wood flooring product offerings. The acquisitions were accounted for under the purchase method of accounting in the second quarter of 2006. Allocation of the purchase price to the fair value of tangible and identifiable intangible assets acquired in each transaction has been completed.

On August 20, 2007 we purchased the remaining 50% interest in Kunshan Holding Limited for approximately $5 million, at which time it became a wholly-owned subsidiary. The acquisition was accounted for under the purchase method of accounting during the third quarter of 2007. Preliminary allocation of the purchase price to the fair value of tangible and identifiable intangible assets acquired has been completed. Adjustments may be recorded in future periods as the allocation is finalized.

NOTE 6. DISCONTINUED OPERATIONS

On May 31, 2000, Armstrong completed its sale of all entities, assets and certain liabilities comprising its Insulation Products segment. During the fourth quarter of 2005, we recorded a net gain of $10.4 million due to the early settlement of the remaining notes receivable and the settlement of other disputed items. During the fourth quarter of 2006, we recorded a net gain of $1.7 million due to the settlement of various legal disputes. In accordance with Financial Accounting Standards Board ("FASB") Statement No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("FAS 144"), these adjustments were classified as discontinued operations since the original divestiture was reported as discontinued operations.

On March 27, 2007 we entered into an agreement to sell Tapijtfabriek H. Desseaux N.V. and its subsidiaries—the principal operating companies in our European Textile and Sports Flooring business. These companies were first classified as discontinued operations at October 2, 2006 when they met the criteria of FAS 144. The sale transaction was completed in April 2007 and total proceeds of $58.8 million have been received to-date. Certain additional post completion adjustments specified in the agreement are currently subject to dispute by the parties. We are claiming $7.8 million and, as such, have recorded a receivable related to the estimated amount of these adjustments that is classified in the December 31,

Armstrong World Industries, Inc., and Subsidiaries
Notes to Consolidated Financial Statements
(dollar amounts in millions)

2007 Consolidated Balance Sheet as part of "Other current assets." The matter will be referred to an independent expert for a final and binding determination.

Prior period results within the Consolidated Statement of Earnings have been recast to reflect the results of discontinued operations. The segment results in Note 4 exclude the amounts related to discontinued operations. The Consolidated Statements of Cash Flows do not separately report the cash flows of the discontinued operations.

Net sales, pre-tax income (loss) and net loss from discontinued operations, as well as net assets of Tapijtfabriek H. Desseaux N.V. and its subsidiaries are as follows:

	Successor Company		Predecessor Company	
	Year 2007	Three months ended December 30, 2006	Nine months ended September 30, 2006 (1)	Year 2005
Net sales	$ 59.8	$ 66.7	$ 187.1	$ 231.8
Pre-tax loss from discontinued operations	$ (1.4)	$ (2.8)	$ (6.7)	$ (2.6)
Fresh-start reporting adjustments	-	-	(70.4)	-
(Loss) gain on expected disposal of discontinued operations	(5.8)	2.6	-	10.4
Income tax (expense) benefit	(0.3)	(0.9)	8.7	(2.8)
Net (loss) income from discontinued operations	$ (7.5)	$ (1.1)	$ (68.4)	$ 5.0

(1) Reflects the effects of fresh-start reporting.

	Successor Company	
	December 31, 2007	December 31, 2006
Current assets	$ -	$119.8
Property, plant and equipment	-	1.6
Non-current assets	-	0.2
Assets of discontinued business held for sale	$ -	$121.6
Current liabilities	-	(47.9)
Other non-current liabilities	-	(5.4)
Liabilities of discontinued business held for sale	$ -	$(53.3)
Net assets	$ -	$68.3

Armstrong World Industries, Inc., and Subsidiaries
Notes to Consolidated Financial Statements
(dollar amounts in millions)

NOTE 7. ACCOUNTS AND NOTES RECEIVABLE

	Successor Company	
	December 31, 2007	December 31, 2006
Customer receivables	$ 342.3	$ 355.9
Customer notes	7.6	7.4
Miscellaneous receivables	14.6	18.2
Less allowance for discounts and losses	(53.3)	(59.6)
Net accounts and notes receivable	$311.2	$321.9

Generally, we sell our products to select, pre-approved customers whose businesses are affected by changes in economic and market conditions. We consider these factors and the financial condition of each customer when establishing our allowance for losses from doubtful accounts.

The above balances exclude amounts related to discontinued operations.

NOTE 8. INVENTORIES
Following are the components of our inventories:

	Successor Company	
	December 31, 2007	December 31, 2006
Finished goods	$ 355.7	$ 330.0
Goods in process	39.7	37.0
Raw materials and supplies	160.7	163.2
Less LIFO and other reserves	(12.6)	(8.5)
Total inventories, net	$543.5	$521.7

The above balances exclude inventories related to discontinued operations.

Approximately 65% and 70% of our total inventory in 2007 and 2006, respectively, was valued on a LIFO (last-in, first-out) basis. Inventory values were lower than would have been reported on a total FIFO (first-in, first-out) basis by $2.4 million at the end of 2007 and higher by $0.2 million at the end of 2006.

The distinction between the use of different methods of inventory valuation is primarily based on geographical locations and/or legal entities rather than types of inventory. The following table summarizes the amount of inventory that is not accounted for under the LIFO method.

	Successor Company	
	2007	2006
International locations	$ 158.8	$ 128.7
Cabinets	27.3	28.6
U.S. sourced products	2.0	1.4
Total	$188.1	$158.7

Armstrong World Industries, Inc., and Subsidiaries
Notes to Consolidated Financial Statements
(dollar amounts in millions)

Substantially all of our international locations use the FIFO method of inventory valuation (or other methods which closely approximate the FIFO method) primarily because either the LIFO method is not permitted for local tax and/or statutory reporting purposes, or the entities were part of various acquisitions that had adopted the FIFO method prior to our acquisition. In these situations, a conversion to LIFO would be highly complex and involve excessive cost and effort to achieve under local tax and/or statutory reporting requirements.

The sourced products represent certain finished goods sourced from third party manufacturers, primarily from foreign suppliers.

NOTE 9. OTHER CURRENT ASSETS

	Successor Company	
	December 31, 2007	December 31, 2006
Prepaid expenses	$ 36.4	$ 38.3
Other	10.3	11.2
Assets held for sale	7.9	0.7
Receivable related to discontinued operations	7.8	-
Fair value of derivative asset	0.8	4.5
Total other current assets	$ 63.2	$ 54.7

NOTE 10. PROPERTY, PLANT AND EQUIPMENT

	Successor Company	
	December 31, 2007	December 31, 2006
Land	$ 131.7	$ 124.2
Buildings	287.6	259.7
Machinery and equipment	664.6	512.3
Computer software	36.2	29.1
Construction in progress	51.6	69.7
Less accumulated depreciation and amortization	(158.9)	(28.8)
Net property, plant and equipment	$ 1,012.8	$ 966.2

The above balances exclude amounts related to discontinued operations.

Pursuant to SOP 90-7, upon adopting fresh-start reporting in 2006 we recorded a $242.6 million reduction to reflect the fair value of our net property, plant and equipment. In the third and fourth quarters of 2007, we recorded additional adjustments to increase the estimated fair value of net property, plant and equipment on our October 2, 2006 fresh-start balance sheet by $54.3 million ($48.8 million to machinery and equipment and $5.5 million to land). See Note 3 for further information.

In the fourth quarter of 2005, we recorded $17.6 million of fixed asset impairment charges, primarily in Wood Flooring. These impairment charges related to idle equipment and unused property associated with excess manufacturing capacity and products that will no longer be produced. These charges were recorded in cost of goods sold. The fixed asset impairment charges were triggered by an evaluation of production capacity for certain product lines.

See Note 2 for discussion of policies related to property and depreciation and asset retirement obligations.

Table of Contents

Armstrong World Industries, Inc., and Subsidiaries
Notes to Consolidated Financial Statements
(dollar amounts in millions)

NOTE 11. EQUITY INVESTMENTS
Investments in affiliates of $232.6 million at December 31, 2007 reflected the equity interest in our 50% investment in our WAVE joint venture.

On August 20, 2007 we purchased the remaining 50% interest in Kunshan Holding Limited (“Kunshan”), at which time it became a wholly-owned subsidiary. Our equity investment in Kunshan at December 31, 2006 of $4.0 million along with our additional investments was reclassified as part of the purchase accounting for the subsidiary.

The decrease in the investment balance from December 31, 2006 of $62.0 million is due to special distributions from WAVE and the Kunshan reclassification discussed above, partially offset by our equity interest in WAVE’s earnings and a $12.6 million adjustment to our fresh start balance sheet recorded in 2007 to increase our investment in WAVE. See Note 3 for information on fresh-start reporting.

See Note 2 for a discussion of the reclassification of distributions from equity affiliates on our cash flow statements.

		Successor Company		Predecessor Company	
Affiliate	Income Statement Classification	Year 2007	Three months ended December 31, 2006	Nine months ended September 30, 2006	Year 2005
WAVE	Equity earnings from joint venture	$ 46.6	$ 5.5	$ 41.5	$ 39.3
KHL	Equity loss from joint venture	(0.6)	(0.2)	(0.1)	-
ISI	Other non-operating income	-	-	-	4.1
ISI/Other	Other non-operating expense	-	-	-	(1.0)

In August 2005, we sold our equity interest in Interface Solutions, Inc.

We account for our WAVE joint venture using the equity method of accounting. Our recorded investment in WAVE was higher than our 50% share of the carrying values reported in WAVE’s consolidated financial statements by $219.2 million as of emerging from Chapter 11, by $213.7 million as of December 31, 2006 and by $219.7 million as of December 31, 2007. These differences are due to our adopting fresh-start reporting upon emerging from Chapter 11, while WAVE’s consolidated financial statements do not reflect fresh-start reporting. The differences are comprised of the following fair value adjustments to assets:

	December 31, 2007	December 31, 2006	October 2, 2006
Inventory	-	-	$ 3.7
Property, plant and equipment	$ 3.9	$ 5.1	5.4
Other intangibles	185.3	190.7	192.2
Goodwill	30.5	17.9	17.9
Total	$ 219.7	$ 213.7	$ 219.2

Armstrong World Industries, Inc., and Subsidiaries
Notes to Consolidated Financial Statements
(dollar amounts in millions)

Of the $192.2 million fair value adjustment to other intangibles upon emergence, $107 million is for identifiable intangible assets that have useful lives of between 15 and 20 years, while the remaining amount is for identifiable intangibles that have indefinite lives. Our equity earnings reported in the fourth quarter of 2006 were reduced by $5.4 million due to the impact of fresh-start reporting. See Exhibit 99 for WAVE's consolidated financial statements. Condensed financial data for WAVE is summarized below:

	December 31, 2007	December 31, 2006
Current assets	$ 131.0	$ 157.7
Non-current assets	30.9	28.2
Current liabilities	28.9	28.8
Other non-current liabilities	104.1	4.1

	Three months ended December 31, 2007	Three months ended December 31, 2006	Nine months ended September 30, 2006	2005
Net sales	$ 380.0	$ 88.6	$ 260.2	$ 307.7
Gross profit	134.9	21.3	102.8	99.1
Net earnings	107.0	21.9	83.0	78.6

See discussion in Note 31 for additional information on these related parties.

NOTE 12. GOODWILL AND INTANGIBLE ASSETS

Goodwill

As of January 1, 2006, we had goodwill of $134.2 million. Pursuant to SOP 90-7, we eliminated the existing goodwill of $143.1 upon adopting fresh-start reporting. The newly assigned fair values to our assets and liabilities fully reflect the emerged entity's reorganization value. No goodwill was assigned at emergence.

The following table represents the changes in goodwill for 2006:

Goodwill by segment	January 1, 2006	Goodwill acquired	Adjustments, net [1]	Fresh-Start Impacts	December 31, 2006
Wood Flooring	$ 108.2	$8.0	-	$ (116.2)	$ -
Building Products	13.4	-	$ 0.9	(14.3)	-
Cabinets	12.6	-	-	(12.6)	-
Total consolidated goodwill	$ 134.2	$8.0	$ 0.9	$ (143.1)	$ -

[1] Consists of the effects of foreign exchange.

Armstrong World Industries, Inc., and Subsidiaries
Notes to Consolidated Financial Statements
(dollar amounts in millions)

Other Intangible Assets
Pursuant to SOP 90-7, we recorded the estimated fair value of intangibles of $673.6 million upon adopting fresh-start reporting. In the third and fourth quarters of 2007, we recorded adjustments to increase the estimated fair value of intangibles by $28.6 million ($16.6 million to trademarks, $8.2 million to customer relationships and $3.8 million to developed technology). See Note 3 for a discussion of these adjustments.

The following table details amounts related to our intangible assets as of December 31, 2007 and 2006.

		Successor Company			
		December 31, 2007		December 31, 2006	
	Estimated Useful Life	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortizing intangible assets					
Customer relationships	20 years	$ 173.3	$ 10.5	$ 165.1	$ 2.1
Developed technology	15 years	81.7	6.6	77.9	1.2
Other	Various	12.4	1.1	10.1	0.4
Total		$ 267.4	$ 18.2	$ 253.1	$ 3.7
Non-amortizing intangible assets					
Trademarks and brand names	Indefinite	437.3		420.5	
Total other intangible assets		$ 704.7		$ 673.6	

Aggregate Amortization Expense	
Successor Company	
For the year ended December 31, 2007	$ 14.5
For the three months ended December 31, 2006	3.7
Predecessor Company	
For the nine months ended September 30, 2006	0.4

There are no intangible assets related to discontinued operations.

The annual amortization expense expected for the years 2008 through 2012 is as follows:

2008	$ 14.3
2009	14.3
2010	14.3
2011	14.3
2012	14.3

Armstrong World Industries, Inc., and Subsidiaries
Notes to Consolidated Financial Statements
(dollar amounts in millions)

NOTE 13. OTHER NON-CURRENT ASSETS

	Successor Company	
	December 31, 2007	December 31, 2006
Cash surrender value of Company owned life insurance policies	$ 52.9	$ 52.9
Other	31.6	34.5
Total other non-current assets	$ 84.5	$ 87.4

The above balances exclude amounts related to discontinued operations.

NOTE 14. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	Successor Company	
	December 31, 2007	December 31, 2006
Payables, trade and other	$ 241.7	$ 231.5
Employment costs	130.7	118.9
Other	66.3	82.1
Total accounts payable and accrued expenses	$ 438.7	$ 432.5

Certain other accounts payable and accrued expenses have been categorized as liabilities subject to compromise (see Note 1). The above balances exclude amounts related to discontinued operations.

NOTE 15. RESTRUCTURING AND OTHER ACTIONS
Net restructuring charges of $0.2 million, $1.7 million, $10.0 million and $23.0 million were recorded in the year 2007, the three months ended December 31, 2006, the nine months ended September 30, 2006 and the year 2005, respectively. The following table summarizes these charges:

	Successor Company		Predecessor Company			
Action Title	Year 2007	Three Months Ended December 31, 2006	Nine Months Ended September 30, 2006	Year 2005	(unaudited) Number of Employees Impacted	Segment
Lancaster Plant	-	$ 0.5	$ 9.6	$ 16.3	450	Resilient Flooring
Nashville Plant	-	1.4	-	-	270	Wood Flooring
Hoogezand	$ 0.2	-	0.5	6.3	130	Building Products
Other initiatives	-	(0.2)	(0.1)	0.4		Various
Total	$ 0.2	$ 1.7	$ 10.0	$ 23.0		

Armstrong World Industries, Inc., and Subsidiaries
Notes to Consolidated Financial Statements
(dollar amounts in millions)

Lancaster Plant : These charges related to the fourth quarter 2004 decision to cease commercial flooring production at Lancaster in 2006. We made this decision because of changes in the level and structure of demand for vinyl flooring products, because we had excess capacity in other plants and because Lancaster was our highest cost plant. Commercial flooring production requirements are being serviced in part by our other facilities around the world. We recorded no costs in 2007 related to this initiative, but recorded the following costs in 2006 and 2005:

	Successor Company	Predecessor Company	
	Three Months Ended December 31, 2006	Nine Months Ended September 30, 2006	Year 2005
Non-cash restructuring charges for enhanced retirement benefits	$ 0.5	$ 8.5	$ 14.1
Severance and related costs	-	1.1	2.2
Total restructuring charges	$ 0.5	$ 9.6	$ 16.3
Accelerated depreciation	-	$ 0.3	$ 6.4
Other related costs	$ 0.5	9.3	6.3
Total cost of goods sold	$ 0.5	$ 9.6	$ 12.7
Gain on sale of warehouse	-	$ (14.3)	-
Other related costs	-	7.4	-
Total SG&A	-	$ (6.9)	-

Other related costs recorded in cost of goods sold related primarily to commercial flooring site clean-up and maintenance costs and costs to redesign the remaining portions of the plant to function without the commercial flooring site. Other related costs in SG&A primarily related to the donation of the commercial flooring site to an outside party.

We have incurred project-to-date restructuring charges of $27.4 million related to costs for enhanced retirement benefits ($23.7 million) and severance and related employee costs ($3.7 million). We do not expect to incur any additional restructuring or other charges related to this initiative in the future.

Nashville : This charge is related to the fourth quarter 2006 decision to cease production at this facility in 2007. Production was halted in order to reduce excess capacity in our wood flooring facilities. Finished goods production ceased in January 2007, and all production activities ceased by the end of 2007. Solid hardwood flooring production requirements are being serviced by six of our existing plants in the United States. We have incurred project-to-date restructuring charges of $1.4 million for severance and related employee costs. We do not expect to incur additional restructuring charges related to this initiative in the future.

Hoogezand : These charges are related to the first quarter 2004 decision to close the manufacturing facility. The plant closure is the result of our decision to restructure our European production capacity in light of excess capacity in the European mineral and soft fiber ceiling industry. The plant was closed in the first quarter of 2005. The production was transferred to the Münster, Germany plant. This reduced employment by approximately 72 positions. We have incurred project-to-date restructuring charges of $17.9 million and do not expect to incur any additional restructuring charges related to this initiative. Additionally, we recorded $0.5 million of accelerated depreciation in cost of goods sold in 2005. We also recorded $0.2 million and $0.7 million of other related costs (primarily employee costs related to the shutdown activities) in cost of goods sold in 2006 and 2005, respectively. In 2005, we recorded fixed asset impairments of $0.4 million, also in cost of goods sold. In the fourth quarter of 2007, we sold this facility.

Armstrong World Industries, Inc., and Subsidiaries
Notes to Consolidated Financial Statements
(dollar amounts in millions)

The following table summarizes activity in the restructuring accruals for 2006 and 2007. Net charges in the table may not agree with the income statement due to non-cash charges for enhanced retirement benefits that did not affect the restructuring accrual amounts.

	Severance and Related Costs				Leases		
Predecessor Company:	Lancaster Plant	Nashville	Hoogezand	Other Initiatives	U.K. Lease	Other Initiatives	Total
December 31, 2005	$ 1.4	-	$ 0.3	$ 0.5	$ 4.7	$ 1.3	$ 8.2
Cash payments	(1.8)	-	(0.6)	(0.2)	(0.2)	-	(2.8)
Net charges	1.1	-	0.5	-	(0.1)	-	1.5
Other	-	-	-	-	0.4	-	0.4
September 30, 2006	$ 0.7	-	$ 0.2	$ 0.3	$ 4.8	$ 1.3	$ 7.3
Liability discharged upon emergence	-	-	-	-	-	(1.3)	(1.3)
Successor Company:							
Cash payments	(0.3)	-	-	-	(0.1)	-	(0.4)
Net charges	-	$ 1.4	-	(0.2)	-	-	1.2
Other	-	-	-	-	0.2	-	0.2
December 31, 2006	$ 0.4	$ 1.4	$ 0.2	$ 0.1	$ 4.9	$ -	$ 7.0
Cash payments	(0.4)	(1.4)	(0.3)	(0.1)	(0.5)	-	(2.7)
Net charges	-	-	0.2	-	-	-	0.2
Other	-	-	-	-	0.1	-	0.1
December 31, 2007	$ -	$ -	$ 0.1	$ -	$ 4.5	$ -	$ 4.6

The amounts in “Other” are related to the effects of foreign currency translation.

The Predecessor Company balances included $1.3 million reported in liabilities subject to compromise. This amount was discharged upon emergence from Chapter 11.

Substantially all of the remaining balance of the restructuring accrual as of December 31, 2007 relates to a noncancelable U.K. operating lease, which extends through 2017.

NOTE 16. INCOME TAXES

The tax effects of principal temporary differences between the carrying amounts of assets and liabilities and their tax bases are summarized in the table below. Management believes it is more likely than not that results of future operations will generate sufficient taxable income to realize deferred tax assets, net of valuation allowances, including the remaining federal net operating losses of $1,163.2 million principally resulting from the payment to the Asbestos PI Trust in 2006 under the POR that may be carried forward for the remaining 19 years. In arriving at this conclusion, we considered the profit before tax generated for the years 1996 through 2007, as well as future reversals of existing taxable temporary differences and projections of future profit before tax.

We have provided valuation allowances for certain state and foreign net operating loss carryforwards, foreign tax credits and other basis adjustments of $225.0 million. We have $1,570.3 million of state net operating loss carryforwards with expirations between 2008 and 2026, and $362.5 million of foreign net operating loss carryforwards, which are available for carryforward indefinitely.

The valuation allowance increased from 2006 by a net amount of $34.7 million. This includes an increase of $64.7 million for foreign tax credits and capital loss carryforwards, a decrease for state net operating losses of $14.5 million, and a decrease for foreign tax loss carryforwards of $15.5 million. The increase in the foreign tax credits was due to the election to carry back net operating losses ten years and an increase in the amount of unremitted earnings of foreign subsidiaries. The decrease in the valuation allowance for state net operating losses of $14.5 million was due to increases in state taxable income projections mainly due to additional taxable temporary differences reversing during the net operating loss carryforward period. This reduction was recorded as a balance sheet adjustment in accordance with FAS

Armstrong World Industries, Inc., and Subsidiaries
Notes to Consolidated Financial Statements
(dollar amounts in millions)

109 and SOP 90-7. No portion of this decrease in valuation allowance resulted in a reduction of income tax expense from continuing operations. The decrease in the valuation allowance for foreign tax loss carryforwards was primarily due to reductions in German tax rates, which also reduced the related deferred income tax asset. We estimate we will need to generate future taxable income of approximately $1,163.2 million for federal income tax purposes and $1,392.3 million for state income tax purposes in order to fully realize the deferred income tax assets discussed above.

Deferred income tax assets (liabilities)	Successor Company	
	December 31, 2007	December 31, 2006
Postretirement and postemployment benefits	$ 169.1	$ 189.5
Chapter 11 reorganization costs and restructuring costs	1.4	1.5
Pension benefit liabilities	21.5	34.8
Net operating losses	573.8	730.2
Foreign tax credit carryforward	105.3	38.5
Capital losses	16.7	14.2
Other	84.9	73.7
Total deferred income tax assets	972.7	1,082.4
Valuation allowances	(225.0)	(190.3)
Net deferred income tax assets	747.7	892.1
Intangibles	(316.3)	(304.2)
Accumulated depreciation	(117.6)	(90.1)
Prepaid pension costs	(268.4)	(225.6)
Tax on unremitted earnings	(51.0)	(39.8)
Inventories	(20.6)	(32.4)
Other	(6.7)	(5.4)
Total deferred income tax liabilities	(780.6)	(697.5)
Net deferred income tax (liabilities) assets	$ (32.9)	$ 194.6
Deferred income taxes have been classified in the Consolidated Balance Sheet as:		
Deferred income tax asset – current	$ 43.5	$ 6.8
Deferred income tax asset – non-current	424.5	201.4
Deferred income tax liability – current	(29.5)	(2.4)
Deferred income tax liability – non-current	(471.4)	(11.2)
Net deferred income tax (liabilities) assets	$ (32.9)	$ 194.6

The Successor Company balance excludes amounts related to discontinued operations.

Armstrong World Industries, Inc., and Subsidiaries
Notes to Consolidated Financial Statements
(dollar amounts in millions)

	Successor Company		Predecessor Company	
Details of taxes	Year 2007	Three Months Ended December 31, 2006	Nine Months Ended September 30, 2006	Year 2005
Earnings (loss) from continuing operations before income taxes:				
Domestic	$ 221.4	$ 34.0	$ 1,950.1	$ 119.1
Foreign	42.1	(6.4)	196.0	(50.6)
Eliminations	(4.3)	(20.5)	4.7	36.4
Total	$ 259.2	$ 7.1	$ 2,150.8	$ 104.9
Income tax provision (benefit):				
Current:				
Federal	$ 4.8	-	$ (13.2)	$ 1.6
Foreign	17.4	$ 1.8	14.6	19.0
State	4.6	0.2	(1.0)	4.2
Total current	26.8	2.0	0.4	24.8
Deferred:				
Federal	72.5	3.7	761.6	(35.4)
Foreign	1.5	(1.7)	(6.2)	7.6
State	5.6	(0.2)	(29.2)	1.8
Total deferred	79.6	1.8	726.2	(26.0)
Total income taxes (benefit)	$ 106.4	$ 3.8	$ 726.6	$ (1.2)

At December 31, 2007, we had $152.3 million excess book basis (including unremitted earnings) in the shares of certain foreign subsidiaries for which no deferred income taxes have been provided because we consider the underlying earnings to be permanently reinvested. This basis difference could reverse through a sale of the subsidiaries, the receipt of dividends from the subsidiaries, as well as various other events. It is not practical to calculate the residual income tax which would result if these basis differences reversed due to the complexities of the tax law and the hypothetical nature of the calculations. We do, however, estimate that approximately $1.9 million in foreign withholding taxes would be payable if the underlying earnings were to be distributed.

Table of Contents

Armstrong World Industries, Inc., and Subsidiaries
Notes to Consolidated Financial Statements
(dollar amounts in millions)

	Successor Company		Predecessor Company	
Reconciliation to U.S. statutory tax rate	Year 2007	Three Months Ended December 31, 2006	Nine Months Ended September 30, 2006	Year 2005
Continuing operations tax at statutory rate	$ 90.7	$ 2.5	$ 752.8	$ 36.7
State income taxes (benefit), net of federal benefit (1)	6.7	-	(30.2)	3.4
Foreign losses (1)	6.0	4.8	35.7	22.7
Tax on foreign and foreign-source income	(1.7)	(5.0)	(1.1)	(1.0)
Bankruptcy reorganization expense	0.4	2.0	8.8	2.5
Benefit for subsidiary debt impairment	-	-	-	(29.6)
Capital loss utilization	-	-	-	(3.7)
Permanent book/tax differences	1.4	(0.8)	(25.8)	(6.1)
Permanent fresh-start adjustments	-	-	(0.9)	-
Permanent settlement adjustments	-	-	(39.6)	-
Tax on unremitted earnings	2.9	0.3	26.9	(26.1)
Tax expense (benefit) at effective rate	$ 106.4	$ 3.8	$ 726.6	$ (1.2)

(1) Includes impact of increases in valuation allowances.

	Successor Company		Predecessor Company	
Other taxes	Year 2007	Three Months Ended December 31, 2006	Nine Months Ended September 30, 2006	Year 2005
Payroll taxes	$ 77.1	$ 16.9	$ 55.3	$ 72.4
Property, franchise and capital stock taxes	18.3	4.6	12.3	15.4

The effective tax rate for the year ended December 31, 2007 includes a benefit of $5.0 million (net of federal benefit) for legislative changes in New York and Texas and $1.0 million for the reduction in the German income tax rate.

As previously described, we funded the Asbestos PI Trust in 2006 resulting in certain significant tax adjustments that impacted the effective tax rate for the nine months ended September 30, 2006. We reduced valuation allowances of approximately $29.2 million related to certain state net operating losses and deferred income tax assets as available evidence, including pre-tax profit projections and new deferred tax liabilities on fresh-start adjustments, indicated that it is more likely than not that these benefits will be realized. In addition, as part of fresh-start reporting, several significant balance sheet accounts were adjusted resulting in a permanent book versus tax difference which had an impact on the effective tax rate. These adjustments were primarily the reduction in the carrying value of nondeductible goodwill as well as certain other foreign currency translation accounts.

The effective tax rate for the three months ended December 31, 2006, reflects a tax benefit of $1.5 million related to a recent change in German tax law which allows for a recovery of previously frozen imputation tax credits. This benefit was more than offset, however, by foreign losses incurred during the quarter for which a full valuation allowance is required.

During the fourth quarter of 2005, we completed a restructuring of a subsidiary that resulted in tax benefits for the impairment of intercompany debt of $29.6 million and the utilization of capital losses of $3.7 million. The restructuring also caused the elimination of previously unremitted taxable earnings on which we had recorded a deferred income tax liability of $27.0 million.

Armstrong World Industries, Inc., and Subsidiaries
Notes to Consolidated Financial Statements
(dollar amounts in millions)

In October 2004, the American Jobs Creations Act of 2004 (the “AJCA”) was signed into law. The AJCA provided for a one-time tax deduction of 85% of certain foreign earnings that were repatriated in 2005. During 2005, we repatriated foreign earnings eligible for this deduction and recorded a net tax benefit of $0.4 million as a result of the reversal of deferred income taxes previously provided on these earnings.

The 2005 tax provision reflected the reversal of certain federal, state and foreign income tax accruals no longer required due to the completion of tax audits and expiration of statutes of limitation partially offset by certain nondeductible expenses.

In accordance with the requirements for fresh-start reporting pursuant to SOP 90-7, we adopted FIN 48 effective as of October 2, 2006. The transition adjustments, although not material in the aggregate, were shown as an adjustment to the October 2, 2006 fresh-start balance sheet.

We have $180.7 million of Unrecognized Tax Benefits (“UTB”) as of December 31, 2007. Of this amount, $3.4 million, if recognized in future periods, would impact the reported effective tax rate. The remaining amount of $177.3 million is generally related to issues that existed as of the adoption of fresh-start reporting, that if recognized, would result in balance sheet adjustments.

In October 2007 we received $178.7 million in refunds for federal income taxes paid over the preceding ten years. The refunds result from the carryback of a portion of net operating losses created by funding of the Asbestos PI Trust in October 2006. The tax refunds are subject to examination and adjustment by the Internal Revenue Service (IRS) under its normal audit procedures. Upon receipt of the refunds, AWI recorded a liability of $144.6 million on the balance sheet in the fourth quarter of 2007 pending completion of the IRS audit. Any tax losses disallowed for a ten-year carryback would be available to carry forward. This amount is included in the table of UTB’s below.

It is reasonably possible that certain UTB’s may increase or decrease within the next twelve months due to tax examination changes, settlement activities, expirations of statute of limitations, or the impact on recognition and measurement considerations related to the results of published tax cases or other similar activities. We estimate that statutes may expire with regard to $1.5 million of UTB’s over the next twelve months.

Under FIN 48, we elected to continue our prior practice of accounting for interest and penalties on uncertain tax positions as income tax expense consistently for all income tax purposes, and as a result have reported $4.0 million of interest and penalty exposure as accrued income tax in the statement of financial position as of December 31, 2007, of which $2.6 million was recognized as income tax during 2007.

We have significant operations in over 26 countries and file income tax returns in approximately 80 tax jurisdictions, in some cases for multiple legal entities per jurisdiction. Generally, we have open tax years subject to tax audit scrutiny on average of between three years to six years. We have not materially extended any open statutes of limitation for any significant location and have reviewed and accrued for, where necessary, tax liabilities for open periods. We have been audited in the United States, the most significant tax jurisdiction, for all tax years through 2003, resulting in the years 2004 through 2007 being subject to future potential tax audit adjustments while years prior to 2004 are settled. We are currently under audit for federal income tax purposes for the 2005 and 2006 tax years. In addition, examinations are in progress in The Netherlands and Germany. We have evaluated the need for tax reserves for these audits as part of our FIN 48 evaluation process.

(dollar amounts in millions)

Table of Contents

We had the following activity recorded for unrecognized tax benefits for the year ended December 31, 2007:

	Taxes Payable				
	Current	Non-Current	Taxes Receivable	NOL Carryforward	Total
Unrecognized tax benefits at December 31, 2006	$ -	$ 9.5	$ 8.3	$ 19.2	$ 37.0
Gross change for current year positions	-	1.4	-	-	1.4
Increases for prior period positions		5.2	-	157.2	162.4
Decrease for prior period positions	-	(2.1)	(8.3)	(9.3)	(19.7)
Decrease due to settlements and payments	-	(0.1)	-	-	(0.1)
Decrease due to statute expirations	-	(0.3)	-	-	(0.3)
Unrecognized tax benefits at December 31, 2007	$ -	$ 13.6	$ -	$ 167.1	$ 180.7

NOTE 17. DEBT

	Successor Company			
	2007	Average year-end interest rate	2006	Average year-end interest rate
Term Loan A due 2011	$ 296.3	6.22%	$ 300.0	6.85%
Term Loan B due 2013	195.5	6.72%	500.0	7.10%
Foreign banks due 2008	3.4	5.83%	2.8	4.17%
Bank loans due through 2012	8.2	5.30%	1.3	3.11%
Industrial development bonds due 2009	10.0	3.77%	10.0	4.26%
Capital lease obligations due through 2018	0.4	4.89%	1.1	7.63%
Other	0.6	7.79%	1.0	7.89%
Subtotal	514.4	6.34%	816.2	6.96%
Less current portion and short-term debt	28.6	6.03%	14.7	6.48%
Total long-term debt, less current portion	$ 485.8	6.36%	$ 801.5	6.97%

The above balances exclude amounts related to discontinued operations.

On October 2, 2006, Armstrong executed a $1.1 billion senior credit facility arranged by Banc of America Securities LLC, J.P. Morgan Securities, Inc., and Barclays Capital. This facility was made up of a $300 million revolving credit facility (with a $150 million sublimit for letters of credit), a $300 million Term Loan A, and a $500 million Term Loan B. This $1.1 billion senior credit facility is secured by U.S. personal property (excluding land and buildings), the capital stock of material U.S. subsidiaries, and a 65% pledge of the stock of our material foreign subsidiaries.

The senior credit facility includes two financial covenants which do not permit the ratio of consolidated funded indebtedness to consolidated EBITDA (earnings before interest, taxes, depreciation and amortization) (“Consolidated Leverage Ratio”) to be greater than 3.75 to 1.00 and the ratio of consolidated EBITDA to consolidated interest expense to be less than 3.00 to 1.00. We are in compliance with these covenants. Fully borrowing our revolving credit facility would not violate these covenants.

Table of Contents

Armstrong World Industries, Inc., and Subsidiaries
Notes to Consolidated Financial Statements
(dollar amounts in millions)

The Revolving Credit and Term Loan A portions are currently priced at a spread of 1.25% over LIBOR and the Term Loan B portion is priced at 1.75% over LIBOR for its entire term. As of December 31, 2007, the Term Loan A and Term Loan B were both fully drawn down (net of scheduled and voluntary principal payments) and are currently priced on a variable interest rate basis. The Term Loan A and Term Loan B portions of the credit facility may be prepaid without penalty at the maturity of their respective interest reset periods. Any amounts prepaid may not be reborrowed. The credit facility also includes an “incremental credit facility” feature under which the credit facility may be increased by an additional $200 million at our option.

On February 25, 2008, we executed an amendment to our senior credit facility. This amendment (a) permits us to make “Special Distributions,” including dividends (such as the special cash dividend described below) or other distributions (whether in cash, securities or other property) of up to an aggregate of $500 million at any time prior to February 28, 2009, (b) requires that we and our domestic subsidiaries maintain minimum liquidity of at least $100 million as of March 31, June 30, September 30 and December 31 of each year, which may be comprised of a combination of cash and cash equivalents and undrawn commitments under our revolving credit facility and (c) increases by 0.25% the borrowing margins in the pricing grid set forth in the facility for the revolving credit facility and Term Loan A.

Approximately $4.1 million of the remaining $22.6 million of debt (excluding Term Loans A and B) as of December 31, 2007 was secured with buildings and other assets. The credit lines at our foreign subsidiaries are subject to immaterial annual commitment fees.

As of December 31, 2006, approximately $4.1 million of the $16.2 million of total debt outstanding (excluding Term Loans A and B) was secured with buildings and other assets.

The decrease in long-term debt from December 31, 2006 to December 31, 2007 was primarily due to voluntary principal prepayments of $300.0 million.

Scheduled payments of long-term debt:

2008	$ 24.7
2009	31.1
2010	32.3
2011	234.7
2012	3.5
2013 and later	184.2

NOTE 18. PENSION AND OTHER BENEFIT PROGRAMS

We have defined benefit pension plans and postretirement medical and insurance benefit plans covering eligible employees worldwide. We also have defined-contribution pension plans for eligible employees. Benefits from defined benefit pension plans, which cover most employees worldwide, are based primarily on an employee’s compensation and years of service. We fund our pension plans when appropriate. The U.S. defined benefit pension plans were closed to new salaried and salaried production employees on January 1, 2005. We also froze benefits for certain non-production salaried employees effective February 28, 2006. We fund postretirement benefits on a pay-as-you-go basis, with the retiree paying a portion of the cost for health care benefits by means of deductibles and contributions.

UNITED STATES PLANS

The following tables summarize the balance sheet impact of the pension and postretirement benefit plans, as well as the related benefit obligations, assets, funded status and rate assumptions. The pension benefits disclosures include both the Retirement Income Plan (RIP) and the Retirement Benefit Equity Plan, which is a nonqualified, unfunded plan designed to provide pension benefits in excess of the limits defined under Sections 415 and 401(a)(17) of the Internal Revenue Code.

We use a December 31 measurement date for our U.S. defined benefit plans.

Armstrong World Industries, Inc., and Subsidiaries
Notes to Consolidated Financial Statements
(dollar amounts in millions)

U.S. defined-benefit pension plans	Successor Company Year 2007	Successor Company Three Months Ended December 31, 2006	Predecessor Company Nine Months Ended September 30, 2006 [1]
Change in benefit obligation:			
Benefit obligation as of beginning of period	$ 1,705.4	$ 1,705.0	$ 1,775.9
Service cost	16.9	3.4	13.6
Interest cost	96.3	24.3	69.4
Plan amendments	-	-	0.2
Effect of special termination benefits	-	0.5	8.5
Actuarial loss/(gain)	8.7	(0.5)	(78.0)
Benefits paid	(114.7)	(27.3)	(84.6)
Benefit obligation as of end of period	$ 1,712.6	$ 1,705.4	$ 1,705.0
Change in plan assets:			
Fair value of plan assets as of beginning of period	$ 2,238.7	$ 2,143.7	$ 2,089.2
Actual return on plan assets – gain	228.5	121.5	136.7
Employer contribution	3.2	0.8	2.4
Benefits paid	(114.7)	(27.3)	(84.6)
Fair value of plan assets as of end of period	$ 2,355.7	$ 2,238.7	$ 2,143.7
Funded status of the plans	$ 643.1	$ 533.3	$ 438.7

(1) Reflects the effects of fresh-start reporting.

U.S. defined-benefit pension plans	Successor Company Year 2007	Successor Company Three Months Ended December 31, 2006	Predecessor Company Nine Months Ended September 30, 2006
Weighted-average assumptions used to determine benefit obligations at end of period:			
Discount rate	5.85%	5.75%	5.75%
Rate of compensation increase	4.00%	4.00%	4.00%
Weighted-average assumptions used to determine net periodic benefit cost for the period:			
Discount rate	5.75%	5.75%	5.50%
Expected return on plan assets	8.00%	8.00%	8.00%
Rate of compensation increase	4.00%	4.00%	4.00%

Armstrong World Industries, Inc., and Subsidiaries
Notes to Consolidated Financial Statements
(dollar amounts in millions)

U.S. defined-benefit retiree health and life insurance plans	Successor Company Year 2007	Successor Company Three Months Ended December 31, 2006	Predecessor Company Nine Months Ended September 30, 2006 [1]
Change in benefit obligation:			
Benefit obligation as of beginning of period	$ 390.6	$ 391.5	$ 378.5
Service cost	1.8	0.7	1.8
Interest cost	19.1	5.4	14.9
Plan participants' contributions	6.7	1.6	4.7
Plan amendments	-	-	(3.4)
Effect of curtailments	-	-	(0.3)
Actuarial (gain)/loss	(50.3)	-	19.3
Benefits paid, gross	(33.3)	(9.3)	(25.3)
Medicare subsidy receipts	2.4	0.7	1.3
Benefit obligation as of end of period	$ 337.0	$ 390.6	$ 391.5
Change in plan assets:			
Fair value of plan assets as of beginning of period	-	-	-
Employer contribution	$ 24.2	$ 7.0	$ 19.3
Plan participants' contributions	6.7	1.6	4.7
Benefits paid, gross	(33.3)	(9.3)	(25.3)
Medicare subsidy receipts	2.4	0.7	1.3
Fair value of plan assets as of end of period	$ 0.0	$ 0.0	$ 0.0
Funded status of the plans	$ (337.0)	$ (390.6)	$ (391.5)

(1) Reflects the effects of fresh-start reporting.

U.S. defined-benefit retiree health and life insurance plans	Successor Company Year 2007	Successor Company Three Months Ended December 31, 2006	Predecessor Company Nine Months Ended September 30, 2006
Weighted-average discount rate used to determine benefit obligations at end of period	5.85%	5.70%	5.70%
Weighted-average discount rate used to determine net periodic benefit cost for the period	5.75%	5.70%	5.50%

Investment Policies

The RIP's primary investment objective is to increase the ratio of RIP assets to liabilities by maximizing the long-term return on investments while minimizing the likelihood of cash contributions over the next 5-10 years. This is to be achieved by (a) investing primarily in publicly-traded equities, (b) limiting return volatility by diversifying investments among additional asset classes with differing expected rates of return and return correlations, and (c) investing a portion of RIP assets in a bond portfolio whose duration is roughly equal to the duration of RIP liabilities. Derivatives may be used either to implement investment positions efficiently or to hedge risk but not to create investment leverage.

Armstrong World Industries, Inc., and Subsidiaries
Notes to Consolidated Financial Statements
(dollar amounts in millions)

Each asset class utilized by the RIP has a defined asset allocation target and allowable range. The table below shows the asset allocation target and the December 31, 2007 and 2006 position for each asset class:

	Successor Company		
Asset Class	Target Weight at December 31, 2007	Position at December 31, 2007	2006
Domestic equity	41%	38%	40%
International equity	22%	24%	23%
High yield bonds	5%	4%	5%
Long duration bonds	25%	27%	26%
Real estate	7%	6%	5%
Other fixed income	0%	1%	1%

Basis of Rate-of-Return Assumption
Long-term asset class return assumptions are determined based on input from investment professionals on the expected performance of the asset classes over 10 to 20 years. The forecasts were averaged to come up with consensus passive return forecasts for each asset class. An incremental component was added for the expected return from active management based both on the RIP's experience and on historical information obtained from the RIP's investment consultants. These forecast gross returns were reduced by estimated management fees and expenses, yielding a long-term return forecast of 8.00% per annum.

Amounts recognized in assets and liabilities at year end consist of:

	Pension Benefits		Retiree Health and Life Insurance Benefits	
	Successor Company		Successor Company	
	2007	2006	2007	2006
Prepaid pension costs	$ 687.8	$ 578.7	-	-
Accounts payable and accrued expenses	(3.4)	(3.5)	$ (30.2)	$ (30.7)
Postretirement and postemployment benefit liabilities	-	-	(306.8)	(359.9)
Pension benefit liabilities	(41.3)	(41.9)	-	-
Net amount recognized	$ 643.1	$ 533.3	$ (337.0)	$ (390.6)

Pre-tax amounts recognized in accumulated other comprehensive income at year end consist of:

	Pension Benefits		Retiree Health and Life Insurance Benefits	
	Successor Company		Successor Company	
	2007	2006	2007	2006
Net actuarial (gain)	$ (129.8)	$ (79.5)	$ (50.5)	-
Prior service cost (credit)	-	-	-	-
Accumulated other comprehensive income	$ (129.8)	$ (79.5)	$ (50.5)	$ -

No amounts in accumulated other comprehensive income are expected to be amortized into the pension credit in 2008. We expect to amortize $0.7 million of previously unrecognized net actuarial gains into postretirement benefit cost in 2008.

The accumulated benefit obligation for the U.S. defined benefit pension plans was $1,690.9 million and $1,686.0 million at December 31, 2007 and 2006, respectively.

(dollar amounts in millions)

Table of Contents

The following table relates to the Retirement Benefit Equity Plan, which is a nonqualified, unfunded plan designed to provide pension benefits in excess of the limits defined under Sections 415 and 401(a)(17) of the Internal Revenue Code.

	Successor Company	
U.S. pension plans with benefit obligations in excess of assets	2007	2006
Projected benefit obligation, December 31	$ 44.7	$ 45.4
Accumulated benefit obligation, December 31	43.5	43.3
Fair value of plan assets, December 31	-	-

	Successor Company		Predecessor Company	
The components of pension credit are as follows: U.S. defined-benefit pension plans	Year 2007	Three Months Ended December 31, 2006	Nine Months Ended September 30, 2006	Year 2005
Service cost of benefits earned during the period	$ 16.9	$ 3.4	$ 13.6	$ 24.7
Interest cost on projected benefit obligation	96.3	24.3	69.4	96.0
Expected return on plan assets	(169.4)	(42.5)	(121.5)	(158.5)
Amortization of prior service cost	-	-	6.7	16.0
Amortization of net actuarial loss	-	-	1.3	1.5
Net periodic pension credit	$ (56.2)	$ (14.8)	$ (30.5)	$ (20.3)

As a result of our announcement that certain non-production salaried employees would have their plan benefits frozen as of February 28, 2006, we recorded a curtailment charge of $16.9 million in the fourth quarter of 2005 in cost of goods sold ($11.4 million) and SG&A ($5.5 million). This charge is not reflected in the table above.

In addition, we recorded separate charges of $0.5 million in the three months ended December 31, 2006, $8.5 million in the nine months ended September 30, 2006 and $14.1 million in 2005 within restructuring expense for special termination benefits related to the closure of certain operations at a manufacturing plant in Lancaster. See Note 15 for further information.

	Successor Company		Predecessor Company	
The components of postretirement benefit costs are as follows: U.S. defined-benefit retiree health and life insurance plans	Year 2007	Three Months Ended December 31, 2006	Nine Months Ended September 30, 2006	Year 2005
Service cost of benefits earned during the period	$ 1.8	$ 0.7	$ 1.8	$ 2.9
Interest cost on accumulated postretirement benefit obligation	19.1	5.4	14.9	20.6
Amortization of prior service benefit	-	-	(4.8)	(5.6)
Amortization of net actuarial (gain)/loss	(0.9)	-	9.4	11.9
Net periodic postretirement benefit cost	$ 20.0	$ 6.1	$ 21.3	$ 29.8

Armstrong World Industries, Inc., and Subsidiaries
Notes to Consolidated Financial Statements
(dollar amounts in millions)

For measurement purposes, average rates of annual increase in the per capita cost of covered health care benefits of 10.5% for pre-65 retirees and 11.0% for post-65 retirees were assumed for 2008, decreasing 1% per year to an ultimate rate of 5%. 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	Increase	Decrease
Effect on total of service and interest cost components	$ 0.6	$ (0.6)
Effect on postretirement benefit obligation	10.4	(9.9)

We expect to contribute $3.4 million to our U.S. defined benefit pension plans and $30.2 million to our U.S. postretirement benefit plans in 2008.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid over the next ten years for our U.S. plans:

	Pension Benefits	Retiree Health and Life Insurance Benefits, Gross	Retiree Health Medicare Subsidy Receipts
2008	$ 110.5	$ 34.2	$ (4.0)
2009	110.6	35.9	(4.4)
2010	111.1	37.1	(4.7)
2011	112.0	37.2	(4.8)
2012	113.6	35.2	(5.0)
2013-2017	595.6	162.5	(26.8)

NON-U.S. PLANS

We have defined benefit pension plans covering employees in a number of foreign countries that utilize assumptions which are consistent with, but not identical to, those of the U.S. plans. The following tables summarize the balance sheet impact of foreign pension benefit plans, as well as the related benefit obligations, assets, funded status and rate assumptions.

Effective with our adoption of FAS 158, “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans,” on October 2, 2006, we use a December 31 measurement date for all of our non-U.S. defined benefit plans. Prior to our adoption of FAS 158, we used a December 31 measurement date for most of our non-U.S. defined benefit plans.

Armstrong World Industries, Inc., and Subsidiaries
Notes to Consolidated Financial Statements
(dollar amounts in millions)

	Successor Company		Predecessor Company
Non-U.S. defined-benefit plans	Year 2007	Three Months Ended December 31, 2006	Nine Months Ended September 30, 2006 [1]
Change in benefit obligation:			
Benefit obligation as of beginning of period	$ 406.5	$ 397.2	$ 377.6
Service cost	6.9	1.7	5.1
Interest cost	19.2	4.5	12.3
Plan participants' contributions	2.2	0.5	1.5
Measurement date adjustment	-	-	0.8
Foreign currency translation adjustment	29.2	11.8	26.3
Actuarial gain	(38.0)	(5.0)	(11.9)
Benefits paid	(23.0)	(4.2)	(14.5)
Benefit obligation as of end of period	$ 403.0	$ 406.5	$ 397.2
Change in plan assets:			
Fair value of plan assets as of beginning of period	$ 229.9	$ 215.7	$ 175.6
Actual return on plan assets - gain	7.8	7.4	9.3
Employer contributions	11.3	4.6	30.2
Plan participants' contributions	17.8	0.5	1.5
Foreign currency translation adjustment	2.2	5.9	14.1
Benefits paid	(23.0)	(4.2)	(15.0)
Fair value of plan assets as of end of period	$ 246.0	$ 229.9	$ 215.7
Funded status of the plans	$ (157.0)	$ (176.6)	$ (181.5)

(1)Reflects the effects of fresh-start reporting.

	Successor Company		Predecessor Company
Non-U.S. defined-benefit plans	Year 2007	Three Months Ended December 31, 2006	Nine Months Ended September 30, 2006
Weighted-average assumptions used to determine benefit obligations at end of period:			
Discount rate	5.5%	4.7%	4.6%
Rate of compensation increase	3.5%	3.2%	3.2%
Weighted-average assumptions used to determine net periodic benefit cost for the period:			
Discount rate	4.7%	4.6%	4.3%
Expected return on plan assets	6.6%	6.6%	6.5%
Rate of compensation increase	3.2%	3.2%	3.0%

Armstrong World Industries, Inc., and Subsidiaries
Notes to Consolidated Financial Statements
(dollar amounts in millions)

Investment Policies
Each of the funded non-US pension plan's primary investment objective is to earn sufficient long-term returns on investments both to increase the ratio of the assets to liabilities in order for the plans to meet their benefits obligations, and to minimize required cash contributions to the plans. This is to be achieved by (a) investing in publicly-traded equities, (b) limiting return volatility by diversifying investments among additional asset classes with differing expected rates of return and return correlations, and (c) utilizing long duration bonds to limit the volatility of the plans' asset/liability ratios.

Each of the plans has a targeted asset allocation for each asset class. The table below shows, for each asset class, the weighted average of the several plans' asset allocation targets and positions at December 31, 2007 and 2006:

	Successor Company		
	Target Weight at	Position at December 31,	
Asset Class	December 31, 2007	2007	2006
Equities	57%	61%	58%
Long duration bonds	24%	23%	28%
Other fixed income	10%	10%	7%
Real estate	9%	6%	7%

Basis of Rate-of-Return Assumption
Long-term asset class return forecasts were obtained from investment professionals. The forecasts were averaged to come up with consensus passive return forecasts for each asset class. These forecast asset class returns were weighted by the plans' target asset class weights, yielding a long-term return forecast of 6.6% for the year ended December 31, 2007, 6.6% per annum for the three month period ended December 31, 2006 and 6.5% per annum for the nine month period ended September 30, 2006.

Amounts recognized in the consolidated balance sheets consist of :

	Successor Company	
	2007	2006
Prepaid pension costs	$ 20.2	$ 1.1
Accounts payable and accrued expenses	(13.0)	(11.8)
Pension benefit liabilities	(164.2)	(165.9)
Net amount recognized	$ (157.0)	$ (176.6)

Pre-tax amounts recognized in accumulated other comprehensive income at year end consist of :

	Successor Company	
	2007	2006
Net actuarial (gain)	$ (41.7)	$ (9.0)
Prior service cost (credit)	-	-
Accumulated other comprehensive income	$ (41.7)	$ (9.0)

We expect to amortize $0.3 million of previously unrecognized net actuarial gains into pension cost in 2008.

The accumulated benefit obligation for the non-U.S. defined benefit pension plans was $376.0 million and $372.5 million at December 31, 2007 and 2006, respectively.

Armstrong World Industries, Inc., and Subsidiaries
Notes to Consolidated Financial Statements
(dollar amounts in millions)

Non-U.S. pension plans with benefit obligations in excess of assets	Successor Company 2007	Successor Company 2006
Projected benefit obligation, December 31	$ 177.2	$ 382.7
Accrued benefit obligation, December 31	172.0	350.0
Fair value of plan assets, December 31	-	205.0

The decrease in non-U.S. pension plans with benefit obligation in excess of assets occurred primarily because two of our funded plans became fully funded in relation to their benefit obligations during 2007.

The components of pension cost are as follows:	Successor Company		Predecessor Company	
Non-U.S. defined-benefit plans	Year 2007	Three Months Ended December 31, 2006	Nine Months Ended September 30, 2006	Year 2005
Service cost of benefits earned during the period	$ 6.9	$ 1.7	$ 5.1	$ 6.1
Interest cost on projected benefit obligation	19.2	4.5	12.3	17.7
Expected return on plan assets	(15.4)	(3.6)	(8.6)	(11.3)
Amortization of transition obligation (asset)	-	-	(0.1)	(0.1)
Amortization of prior service cost	-	-	0.4	0.5
Amortization of net actuarial loss	-	-	2.1	1.7
Net periodic pension cost	$ 10.7	$ 2.6	$ 11.2	$ 14.6

We expect to contribute $18.8 million to our non-U.S. defined benefit pension plans in 2008.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid over the next ten years:

	Pension Benefits
2008	$ 21.9
2009	23.0
2010	23.5
2011	24.8
2012	24.3
2013-2017	142.9

Costs for other worldwide defined contribution benefit plans and multiemployer pension plans were $15.2 million in 2007, $3.3 million in the three months ended December 31, 2006, $9.6 million in the nine months ended September 30, 2006 and $11.0 million in 2005.

(dollar amounts in millions)

NOTE 19. FINANCIAL INSTRUMENTS

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

	Successor Company			
	2007		2006	
(millions at December 31)	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Assets/(Liabilities):				
Long-term debt, including current portion	$ (510.5)	$ (502.0)	$ (812.4)	$ (812.4)
Foreign currency contract obligations	(5.0)	(5.0)	(2.0)	(2.0)
Natural gas contracts	(1.5)	(1.5)	2.5	2.5
Other energy contracts	-	-	(0.5)	(0.5)

The carrying amounts of cash and cash equivalents, receivables, accounts payable and accrued expenses, short-term debt and current installments of long-term debt approximate fair value because of the short-term maturity of these instruments. The fair value estimates of long-term debt were based upon quotes from major financial institutions taking into consideration current rates offered to us for debt of the same remaining maturities. The fair value estimates of foreign currency contract obligations are estimated from national exchange quotes. The fair value estimates of natural gas contracts are estimated by obtaining quotes from major financial institutions.

We utilize lines of credit and other commercial commitments in order to ensure that adequate funds are available to meet operating requirements. On December 31, 2007, we had a $300 million revolving credit facility with a $150 million sublimit for letters of credit, of which $29.6 million was outstanding. There were no outstanding borrowings under the revolving credit facility. Availability under this facility totaled $270.4 million as of December 31, 2007. Our foreign subsidiaries had available lines of credit totaling $35.5 million, of which $5.8 million was used, leaving $29.7 million of unused lines of credit available for foreign borrowings.

On December 31, 2007, we had outstanding letters of credit totaling $55.0 million, of which $29.6 million was issued under the revolving credit facility and $25.4 million were arranged with another bank. Letters of credit are issued to third party suppliers, insurance and financial institutions and typically can only be drawn upon in the event of AWI’s failure to pay its obligations to the beneficiary. We also have several commercial letters of credit whereby vendors are paid directly via the letter of credit.

NOTE 20. DERIVATIVE FINANCIAL INSTRUMENTS

We are exposed to market risk from changes in foreign currency exchange rates, interest rates and commodity prices that could impact our results of operations and financial condition. We use forward swaps and option contracts to hedge currency and commodity exposures. We regularly monitor developments in the capital markets and only enter into currency and swap transactions with established counter-parties having investment grade ratings. Exposure to individual counterparties is controlled and derivative financial instruments are entered into with a diversified group of major financial institutions. Forward swaps and option contracts are entered into for periods consistent with underlying exposure and do not constitute positions independent of those exposures. At inception, we formally designate and document our derivatives as either (1) a hedge of a forecasted transaction or “cash flow” hedge, or (2) a hedge of the fair value of a recognized liability or asset or “fair value” hedge. We use derivative financial instruments as risk management tools and not for speculative trading purposes.

Interest Rate Risk - There were no open interest rate derivatives as of December 31, 2007 and 2006. We may at some future date execute interest rate swaps to mitigate interest rate variability on our Term Loan A and B and other floating rate debt.

Armstrong World Industries, Inc., and Subsidiaries
Notes to Consolidated Financial Statements
(dollar amounts in millions)

Currency Rate Risk - We manufacture and sell our products in a number of countries throughout the world and, as a result, are exposed to movements in foreign currency exchange rates. To a large extent, our global manufacturing and sales provide a natural hedge of foreign currency exchange rate movement, as foreign currency expenses generally offset foreign currency revenues. We manage our cash flow exposures on a net basis and use derivatives to hedge our unmatched foreign currency cash inflows and outflows. At December 31, 2007, our major foreign currency exposures are to the Euro, the Canadian dollar, and the British pound.

We use foreign currency forward exchange contracts to reduce our exposure to the risk that the eventual net cash inflows and outflows, resulting from the sale of product to foreign customers and purchases from foreign suppliers, will be adversely affected by changes in exchange rates. These derivative instruments are used for forecasted transactions and are classified as cash flow hedges. Cash flow hedges are executed quarterly for up to 15 months forward and allow us to further reduce our overall exposure to exchange rate movements, since the gains and losses on these contracts offset losses and gains on the transactions being hedged. Gains and losses on these instruments are deferred in other comprehensive income until the underlying transaction is recognized in earnings. The net fair value of these instruments at December 31, 2007 was a liability of $5.5 million. A loss of $5.5 million is included in other comprehensive income related to changes in the fair value of our foreign currency forward exchange contracts, $4.5 million of which is expected to be charged to earnings in the next twelve months. The earnings impact is reported in either net sales or cost of goods sold to match the underlying transaction being hedged. The earnings impact of these hedges was a loss of less than $0.1 million during 2007. There were no circumstances where hedge treatment was discontinued during 2007. The earnings impact of the ineffective portion of these hedges was not material during 2007.

We also use foreign currency forward exchange contracts to hedge exposures created by cross-currency intercompany loans. The underlying intercompany loans are classified as short-term and translation adjustments related to these loans are recorded in other non-operating income or expense. The offsetting gains and losses on the related derivative contracts are also recorded in other non-operating income or expense. These transactions are executed on a six-month rolling basis and are offset or increased as repayment or additional intercompany loans are extended. The fair value of these instruments at December 31, 2007 was an asset of $0.5 million. During 2007, the net earnings impact of these transactions was a loss of $5.0 million recorded in other non-operating expense.

Commodity Price Risk - We purchase natural gas for use in the manufacture of ceiling tiles and other products and to heat many of our facilities. As a result, we are exposed to movements in the price of natural gas. We have a policy of reducing cost volatility by purchasing natural gas forward contracts, purchased call options, and zero-cost collars up to 15 months forward to reduce our overall exposure to natural gas price movements. The gains and losses on these transactions offset losses and gains on the transactions being hedged. These instruments are designated as cash flow hedges. The mark-to-market gain or loss on qualifying hedges is included in other comprehensive income to the extent effective, and reclassified into cost of goods sold in the period during which the underlying products are sold. The mark-to-market gains or losses on ineffective portions of hedges are recognized in cost of goods sold immediately. There were no circumstances where hedge treatment was discontinued during 2007. The fair value of these instruments at December 31, 2007 was a $1.5 million liability. There is also a loss of $2.2 million included in other comprehensive income related to changes in the fair value of our natural gas hedge contracts, of which $2.1 million is expected to be charged to earnings in the next twelve months. The remaining $0.1 million is expected to be charged to earnings in 2009. The earnings impact of hedges that matured during 2007, recorded in cost of goods sold, was $3.6 million of expense. The earnings impact of the ineffective portion of these hedges was not material during 2007.

Armstrong World Industries, Inc., and Subsidiaries
Notes to Consolidated Financial Statements
(dollar amounts in millions)

NOTE 21. GUARANTEES

In disposing of assets, AWI and some subsidiaries have entered into contracts that included various indemnity provisions, covering such matters as taxes, environmental liabilities and asbestos and other litigation. Some of these contracts have exposure limits, but many do not. Due to the nature of the indemnities, it is not possible to estimate the potential maximum exposure under these contracts. For contracts under which an indemnity claim has been received, a liability of $6.3 million has been recorded as of December 31, 2007. See Note 32 of the Consolidated Financial Statements for additional information.

NOTE 22. PRODUCT WARRANTIES

We provide direct customer and end-user warranties for our products. These warranties cover manufacturing defects that would prevent the product from performing in line with its intended and marketed use. The terms of these warranties vary by product and generally provide for the repair or replacement of the defective product. We collect and analyze warranty claims data with a focus on the historic amount of claims, the products involved, the amount of time between the warranty claims and their respective sales and the amount of current sales. The following table summarizes the activity for the accrual of product warranties for 2007 and 2006:

	Successor Company		Predecessor Company
	Year 2007	Three Months Ended December 31, 2006	Nine Months Ended September 30, 2006
Balance at beginning of period	$ 21.2	$ 22.6	$21.1
Reductions for payments	(22.8)	(9.4)	(23.9)
Current period warranty accruals	19.7	8.0	28.9
Preexisting warranty accrual changes	(0.9)	(0.2)	(0.3)
Acquisitions	-	-	0.6
Discontinued operations	-	-	(4.1)
Effects of foreign exchange translation	0.4	0.2	0.3
Balance at end of period	$ 17.6	$ 21.2	$ 22.6

The warranty reserve is recorded as a reduction of sales and accounts receivable. The above balances exclude amounts related to discontinued operations.

NOTE 23. OTHER LONG-TERM LIABILITIES

	Successor Company	
	December 31, 2007	December 31, 2006
Long-term deferred compensation arrangements	$ 35.7	$ 36.1
U.S. workers' compensation	15.8	15.5
Environmental liabilities	7.0	5.9
Other	9.3	18.2
Total other long-term liabilities	$ 67.8	$ 75.7

The above balances exclude amounts related to discontinued operations.

Armstrong World Industries, Inc., and Subsidiaries
Notes to Consolidated Financial Statements
(dollar amounts in millions)

NOTE 24. SAVINGS AND INVESTMENT PLAN (SIP)

The Savings and Investment Plan ("SIP") is a qualified defined contribution plan that includes a 401(k) elective deferral component and an Employee Stock Ownership Plan ("ESOP") component. A substantial portion of U.S. employees are eligible and participate. The SIP currently covers parent company nonunion employees, some parent company union employees, Wood Flooring salaried employees, and Cabinets salaried employees. We recorded costs for the SIP of $8.7 million in 2007, $1.9 million in the three months ended December 31, 2006, $6.2 million in the nine months ended September 30, 2006 and $6.5 million in 2005, which related to Company cash matching contributions.

In 1989, we established an ESOP that borrowed $270 million from banks and insurance companies, repayable over 15 years and guaranteed by AWI. The ESOP used the proceeds to purchase 5,654,450 shares of a new series of company convertible preferred stock. 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. 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. Effective March 1, 2005, the name of the plan was changed to the Savings and Investment Plan (SIP).

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 May 22, 2007, the SIP allocated 1,421,000 AHI shares to participants that remained outstanding, participants retired 3,003,000 shares, Armstrong contributed an additional 437,000 shares from its treasury (in 1999 and 2000) and the trustee purchased 243,000 shares on the open market to allocate to employees (in 1999 and 2000). During 2005 and 2004, the SIP sold 1,462,000 and 450,000 unallocated shares on the open market, respectively. The proceeds from the sale remained in the SIP until November 2006 when they were allocated to participants as a result of AWI's Chapter 11 emergence. As of December 31, 2006, there were no assets in the SIP that had yet to be allocated to participants. As of May 23, 2007, all remaining allocated outstanding shares were transferred out of the ESOP and into the 401(k) portion of the SIP.

On November 22, 2000, AWI failed to repay $50 million in commercial paper that was due. Subsequently, the remaining ESOP bond principal balance of $142.2 million became immediately payable along with a $15.5 million interest and tax make-whole premium. ESOP debt service payments had not been made since June 2000. As a result of the Chapter 11 Filing, AWI's guarantee of these ESOP loan obligations of $157.7 million was classified as a liability subject to compromise and was discharged as part of AWI's Chapter 11 emergence.

The SIP does not hold any shares of reorganized Armstrong.

NOTE 25. STOCK-BASED COMPENSATION PLANS

On January 1, 2006, we adopted FASB Statement No. 123 (revised 2004), "Share-Based Payment" ("FAS 123R"), which requires all share-based payment transactions to be recognized in the financial statements using a fair-value method of accounting. This statement replaced FASB Statement No. 123 and superseded APB Opinion No. 25. Prior to January 1, 2006, we used APB Opinion No. 25's intrinsic value method for stock-based employee compensation. There would have been no effect on 2005 net income if we had applied the fair value recognition provisions of FAS 123R to share-based employee compensation in that year because all outstanding awards were fully vested.

Predecessor Company

We used the modified prospective method of adopting FAS 123R, which does not require restatement of prior periods. There was no impact of adoption of the new standard because all of our outstanding stock options on January 1, 2006 were fully vested.

Armstrong World Industries, Inc., and Subsidiaries
Notes to Consolidated Financial Statements
(dollar amounts in millions)

Awards under the 1993 Long-Term Stock Incentive Plan ("1993 Plan") were made in the form of stock options, stock appreciation rights in conjunction with stock options, performance restricted shares and restricted stock awards. During 1999, we adopted the 1999 Long-Term Incentive Plan ("1999 Plan") which replaced the 1993 Plan. Pre-1999 grants made under predecessor plans were governed under the provisions of those plans. The 1999 Plan provided for the granting of incentive stock options, nonqualified stock options, stock appreciation rights, performance-restricted shares and restricted stock awards. The 1999 Plan also incorporated stock awards and cash incentive awards. During 2000, we adopted the Stock Award Plan ("2000 Plan") to enable stock awards and restricted stock awards to officers, key employees and non-employee directors. Upon AHI becoming AWI's corporate parent on May 1, 2000, all outstanding options and restricted shares granted by AHI were converted into equivalent options and restricted shares of AHI.

All three of the plans discussed above were terminated upon AWI emerging from Chapter 11 on October 2, 2006. No equity based compensation was granted between the Chapter 11 filing date and the Chapter 11 emergence date, other than commitments entered into prior to the Chapter 11 filing.

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

	Predecessor Company	
Changes in AHI option shares outstanding (thousands except for share price)	Nine Months Ended September 30, 2006	Year 2005
Option shares at beginning of period	1,987.3	2,264.0
Options granted	–	–
Option shares exercised	–	–
Options forfeited	(23.8)	(44.9)
Options expired	(189.8)	(231.8)
Option shares at end of period	1,773.7	1,987.3
Option shares exercisable at end of period	1,773.7	1,987.3
Shares available for grant	5,029.0	4,815.4
Weighted average price per share:		
Options outstanding	$ 24.67	$ 27.97
Options exercisable	$ 24.67	$ 27.97

Although the plans under which these options were issued were terminated upon AWI's emerging from Chapter 11, the existing option contracts remained enforceable against AHI until AHI's liquidation in December 2007. Reorganized Armstrong has no further liability under these plans.

Restricted stock awards were used for the purposes of recruitment, special recognition and retention of key employees. As of September 30, 2006, no award of restricted stock shares had been granted since 2000. As of September 30, 2006, there were 111,463 restricted shares of AHI common stock outstanding with 596 accumulated dividend equivalent shares. These awards expired upon AWI's emerging from Chapter 11 on October 2, 2006.

Successor Company
As of October 2, 2006, the Board of Directors of reorganized AWI adopted and the then sole shareholder of AWI approved, reorganized Armstrong's 2006 Long-Term Incentive Plan ("2006 Plan").

The 2006 Plan authorizes us to issue stock options, stock appreciation rights, restricted stock awards, stock units, performance-based awards and cash awards to officers and key employees. No more than

Armstrong World Industries, Inc., and Subsidiaries
Notes to Consolidated Financial Statements
(dollar amounts in millions)

5,349,000 common shares may be issued under the 2006 Plan, and the 2006 Plan will terminate on October 2, 2016, after which time no further awards may be made. As of December 31, 2007, 3,150,366 shares were available for future grants under the 2006 plan.

For grants made between our Chapter 11 emergence on October 2, 2006 and October 17, 2006, options were granted to purchase shares at a price equal to the volume weighted average closing price of the shares for the period October 18, 2006 through October 31, 2006. For grants made on or after October 18, 2006, options were granted to purchase shares at prices equal to the closing market price of the shares on the dates the options were granted. The options generally become exercisable in two to four years and expire 10 years from the date of grant.

	Successor Company Year Ended December 31, 2007			
	Number of shares (thousands)	Weighted-average exercise price	Weighted-average remaining contractual term (years)	Aggregate intrinsic value (millions)
Option shares outstanding at beginning of period	1,592.0	$ 38.42		
Options granted	64.1	52.38		
Option shares exercised				
Options forfeited	(86.3)	(38.47)		
Option shares outstanding at end of period	1,569.8	$ 38.99	8.8	$ 2.5
Option shares exercisable at end of period	–	–	–	–
Option shares expected to vest	1,516.4	–	–	$ 2.5

We have reserved sufficient authorized shares to allow us to issue new shares upon exercise of all outstanding options. When options are actually exercised, we will issue new shares, use treasury shares (if available), acquire shares held by investors, or a combination of these alternatives in order to satisfy the option exercises.

The fair value of option grants was estimated on the date of grant using the Black-Scholes option pricing model. The weighted average assumptions for the year 2007 and the three months ended December 31, 2006 are presented in the table below.

	Successor Company	
	Year 2007	Three Months Ended December 31, 2006
Weighted-average grant date fair value of options granted (dollars per option)	$ 20.64	$ 15.51
Assumptions		
Risk free rate of return	4.8%	4.6%
Expected term (in years)	6.0	6.5
Expected volatility	30.2%	33.2%
Expected dividend yield	0.0%	0.0%

The risk free rate of return is determined based on the implied yield available on zero coupon U.S. Treasury bills at the time of grant with a remaining term equal to the expected term of the option. The expected life is the midpoint of the average vesting period and the contractual life of the grant. Because reorganized Armstrong's stock has been trading for only a short period of time, the expected volatility is established based on an average of the actual historical volatilities of the stock prices of a peer group of companies. The expected dividend yield is assumed to be zero, again due to our limited history.

(dollar amounts in millions)

In addition to options, we also granted restricted stock and restricted stock units. These awards generally have vesting periods of two to four years. A summary of these awards follows:

	Successor Company Non-Vested Stock Awards	
	Number of Shares	Weighted-average fair value at grant date
January 1, 2007	530,650	$ 36.96
Granted	91,559	52.38
Vested	–	–
Forfeited	(31,275)	(39.12)
December 31, 2007	590,934	$39.24

In 2007, we granted 37,900 performance restricted shares to the company CEO, which entitles him to receive a specified number of shares of reorganized Armstrong's common stock on various vesting dates, provided certain cumulative financial targets are achieved over the three-year performance period. We estimated the fair value of performance share awards based on the market price of the underlying stock on the date of grant.

In addition to the equity awards described above, we also granted 81,244 phantom shares to non-employee directors which will be settled in the future for cash. These awards generally have vesting periods of one to three years, and as of December 31, 2007, 29,281 shares were vested. The awards are generally payable six months following the director's separation from service. The total liability recorded for these shares as of December 31, 2007 was $1.4 million.

We recognize compensation expense on a straight-line basis over the vesting period. Share-based compensation cost was $13.6 million ($8.8 million net of tax benefit) in 2007 and $2.5 million ($1.5 million net of tax benefit) in the three months ended December 31, 2006. Share-based compensation expense is recorded as a component of SG&A. There has been no cash flow impact to date of these awards.

As of December 31, 2007, there was $37.5 million of total unrecognized compensation cost related to non-vested share-based compensation arrangements. That cost is expected to be recognized over a weighted-average period of 2.8 years.

Armstrong World Industries, Inc., and Subsidiaries
Notes to Consolidated Financial Statements
(dollar amounts in millions)

NOTE 26. EMPLOYEE COMPENSATION

Employee compensation is presented in the table below. Charges for severance costs and early retirement incentives to terminated employees that were otherwise recorded as restructuring charges have been excluded.

	Successor Company		Predecessor Company	
Employee compensation cost	Year 2007	Three Months Ended December 31, 2006	Nine Months Ended September 30, 2006	Year 2005
Wages, salaries and incentive compensation	$ 755.8	$ 180.0	$ 555.6	$ 746.5
Payroll taxes	77.1	16.9	55.3	72.4
Pension expense (credits), net	(30.3)	(8.9)	(9.7)	22.2
Insurance and other benefit costs	84.0	23.3	64.2	92.8
Stock-based compensation	13.6	2.5	-	(0.1)
Total	$ 900.2	$ 213.8	$ 665.4	$ 933.8

On January 13, 2006 we announced that certain U.S. non-production salaried employees will have their pension plan benefits frozen as of February 28, 2006. As a result, we recorded a curtailment charge of $16.9 million in the fourth quarter of 2005. This amount is included in the pension expense reported in the table above.

NOTE 27. LEASES

We rent certain real estate and equipment. Several leases include options for renewal or purchase, and contain clauses for payment of real estate taxes and insurance. In most cases, management expects that in the normal course of business, leases will be renewed or replaced by other leases.

Rental expense was $23.5 million in the year 2007, $5.6 million in the three months ended December 31, 2006, $17.3 million in the nine months ended September 30, 2006 and $23.7 million in the year 2005. Future minimum payments at December 31, 2007, by year and in the aggregate, having noncancelable lease terms in excess of one year were as follows:

Scheduled minimum lease payments	Capital Leases	Operating Leases
2008	$ 0.4	$ 16.0
2009	-	13.4
2010	-	8.6
2011	-	4.7
2012	-	2.6
Thereafter	-	6.5
Total	$ 0.4	$ 51.8

Armstrong World Industries, Inc., and Subsidiaries
Notes to Consolidated Financial Statements
(dollar amounts in millions)

Assets under capital leases are included in the consolidated balance sheets as follows:

	Successor Company	
	December 31, 2007	December 31, 2006
Land	$ 1.6	$ 1.5
Building	3.2	4.6
Machinery	3.0	3.3
Less accumulated amortization	(1.1)	(0.2)
Net assets	$ 6.7	$ 9.2

The above balances exclude amounts related to discontinued operations.

NOTE 28. SHAREHOLDERS' EQUITY

There were no Successor Company treasury shares at December 31, 2007 or December 31, 2006.

The balance of each component of accumulated other comprehensive income as of December 31, 2007 and 2006 is presented in the table below.

	Successor Company	
	December 31, 2007	December 31, 2006
Foreign currency translation adjustments	$ 32.7	$ 1.9
Derivative (loss) gain, net	(4.7)	0.7
Pension and postretirement adjustments	148.5	59.3
Accumulated other comprehensive income	$ 176.5	$ 61.9

The amounts and related tax effects allocated to each component of other comprehensive income during 2007 are presented in the table below.

	Successor Company		
	Pre-tax Amount	Tax (Expense) Benefit	After tax Amount
Foreign currency translation adjustments	$ 35.7	$ (4.9)	$ 30.8
Derivative (loss) gain, net	(8.6)	3.2	(5.4)
Pension and postretirement adjustments	133.3	(44.1)	89.2
Total other comprehensive income	$ 160.4	$ (45.8)	$ 114.6

The above balances exclude amounts related to discontinued operations.

Armstrong World Industries, Inc., and Subsidiaries
Notes to Consolidated Financial Statements
(dollar amounts in millions)

NOTE 29. SUPPLEMENTAL FINANCIAL INFORMATION

	Successor Company		Predecessor Company	
Selected operating expenses	Year 2007	Three Months Ended December 31, 2006	Nine Months Ended September 30, 2006	Year 2005
Maintenance and repair costs	$ 116.9	$ 27.6	$ 88.3	$ 111.7
Research and development costs	43.8	11.5	32.3	42.4
Advertising costs	36.2	6.1	22.7	32.3
Other non-operating expense				
Foreign currency translation loss, net of hedging activity	$ 0.7	$ -	$ -	$ -
Equity loss in ISI	-	-	-	0.9
Other	0.7	0.3	1.0	0.6
Total	$ 1.4	$ 0.3	$ 1.0	$ 1.5
Other non-operating income				
Interest income	$ 15.3	$ 4.0	$ 2.9	$ 4.6
Foreign currency translation gain, net of hedging activity	2.5	0.3	4.2	2.8
Equity earnings in ISI	-	-	-	0.7
Gain on sale of ISI	-	-	-	3.4
Other	0.4	-	0.1	0.3
Total	$ 18.2	$ 4.3	$ 7.2	$ 11.8

NOTE 30. SUPPLEMENTAL CASH FLOW INFORMATION

	Successor Company		Predecessor Company	
	Year 2007	Three Months Ended December 31, 2006	Nine Months Ended September 30, 2006	Year 2005
Interest paid	$ 47.8	$ 9.9	$ 0.7	$ 2.5
Income taxes (refunded) paid, net	(181.4)	7.5	56.6	42.9

NOTE 31. RELATED PARTIES

We purchase grid products from WAVE, our 50%-owned joint venture with Worthington Industries. The total amount of these purchases was approximately $88 million in the year 2007, $22 million in the three months ended December 31, 2006, $54 million in the nine months ended September 30, 2006 and $68 million in the year 2005. We also provide certain selling, promotional and administrative processing services to WAVE for which we receive reimbursement. Those services amounted to $15.0 million in the year 2007, $3.4 million in the three months ended December 31, 2006, $10.3 million in the nine months ended September 30, 2006 and $13.0 million in the year 2005. The net amounts due from us to WAVE for all of our relationships were $5.8 million and $4.7 million at the end of 2007 and 2006, respectively. See Note 11 for additional information.

We sold 65% of our ownership in our gasket products subsidiary (now known as Interface Solutions, Inc. or “ISI”) on June 30, 1999. As part of the 1999 divestiture, we had agreed to continue to purchase a portion of the felt products used in the manufacturing of resilient flooring from ISI for an initial term of eight years. We were required to purchase at least 75% of our felt requirements from ISI. On August 8, 2005 we sold our remaining 35% equity interest in ISI and ISI is no longer considered a related party. Our purchases of felt products from ISI for the pre-divested part of 2005 were $16.4 million. Additionally, we had received nominal monthly payments from ISI for some logistics and administrative services. See Note 11 for additional information.

NOTE 32. LITIGATION AND RELATED MATTERS
ASBESTOS-RELATED LITIGATION
On October 2, 2006 (the "Effective Date"), AWI's plan of reorganization, which was confirmed by order dated August 18, 2006, became effective, and AWI emerged from Chapter 11. The following summarizes how the asbestos-related litigation matters were impacted by AWI's emergence. See Note 1 for additional information.

Prior to December 6, 2000, AWI had been named as a defendant in personal injury cases and property damage cases related to asbestos-containing products. On December 6, 2000, AWI filed a voluntary petition for relief ("the Filing") under Chapter 11 of the U.S. Bankruptcy Code to use the court-supervised reorganization process to achieve a resolution of AWI's asbestos-related liability.

Two of AWI's domestic subsidiaries also commenced Chapter 11 proceedings at the time of the Filing. AWI's other direct and indirect subsidiaries and affiliates, including Armstrong Wood Products Inc. (formerly Triangle Pacific Corp.), WAVE (Armstrong's ceiling grid systems joint venture with Worthington Industries, Inc.), Armstrong Canada and Armstrong DLW AG were not a part of the Filing and accordingly the liabilities, including asbestos-related liability if any, of such companies arising out of their own activities were not resolved in AWI's Chapter 11 Case except for any asbestos-related liability that also relates, directly or indirectly, to the pre-Filing activities of AWI.

Upon AWI's Plan of Reorganization becoming effective on October 2, 2006, the Asbestos PI Trust was created for the purpose of addressing and resolving AWI's personal injury (including wrongful death) asbestos-related liability. As of October 2, 2006, all present and future asbestos-related personal injury claims against AWI, including contribution claims of co-defendants, arising directly or indirectly out of AWI's pre-Filing use of or other activities involving asbestos were channeled to the Asbestos PI Trust.

As part of the POR, in accordance with an injunction issued under Section 524(g) of the Bankruptcy Code and entered in connection with the POR, various entities are protected from present and future asbestos-related personal injury claims. These entities include, among others, reorganized Armstrong, AHI, AWI's subsidiaries and other affiliates (as defined in the POR), and their respective officers and directors. Now that it has emerged from Chapter 11, AWI does not have any responsibility for these claims (including claims against AWI based solely on its ownership of a subsidiary or other affiliate), nor does it participate in their resolution. Accordingly, AWI has no recorded liability for asbestos-related personal injury claims as of December 31, 2007 and December 31, 2006.

On October 2, 2006, pursuant to the POR becoming effective, AWI transferred to the Asbestos PI Trust rights arising under liability insurance policies issued to AWI with respect to asbestos-related personal injury claims. As of October 2, 2006, resolution of asbestos-related personal injury insurance matters is the responsibility of the Asbestos PI Trust. As part of accounting for emergence, AWI reflected the transfer of these rights to the Asbestos PI Trust. Therefore, there is no recorded insurance asset in respect of asbestos claims as of December 31, 2007 and December 31, 2006.

However, although AWI's domestic and foreign subsidiaries and other affiliates have certain protection afforded by the 524(g) injunction, asbestos-related personal injury claims against them will be channeled to the Asbestos PI Trust only to the extent such claims directly or indirectly relate to the manufacturing, installation, distribution or other activities of AWI or are based solely on AWI's ownership of the subsidiaries or other affiliates (as distinguished from independent activities of the subsidiaries or affiliates). Currently, two asbestos-related personal injury litigations against subsidiaries of AWI allegedly arising out of such independent activities are pending. These claims will not be channeled to the Asbestos PI Trust under the POR. The subsidiaries deny liability and are aggressively defending the matters. AWI has not recorded any liability for these matters. Management does not expect that any sum that may be paid in connection with these matters will be material to reorganized Armstrong.

Armstrong World Industries, Inc., and Subsidiaries
Notes to Consolidated Financial Statements
(dollar amounts in millions)

In addition, workers' compensation claims brought against AWI or its subsidiaries or other affiliates will not be channeled to the Asbestos PI Trust. These claims remain subject to the workers' compensation process. Historically, workers' compensation claims against AWI and its subsidiaries have not been significant in number or amount. AWI honored its obligations with respect to such claims during the Chapter 11 Case and following emergence. Workers' compensation law provides that the employer is responsible for evaluation, medical treatment and lost wages as a result of a job-related injury. Currently, AWI has six pending workers' compensation claims, and a UK subsidiary has six employer liability claims involving alleged asbestos exposure.

There is uncertainty as to the effectiveness of the 524(g) injunction in precluding the assertion in foreign jurisdictions of asbestos-related personal injury claims, proceedings related thereto or the enforcement of judgments rendered in such proceedings.

Management believes that AWI, its subsidiaries and other affiliates are not subject to any asbestos-related personal injury claims that will not be channeled to the Asbestos PI Trust under the POR that, individually or collectively, would be material in amount to reorganized Armstrong.

ENVIRONMENTAL MATTERS

Environmental Expenditures

Our manufacturing and research facilities are affected by various federal, state and local environmental requirements relating to the discharge of materials or the protection of the environment. We make expenditures necessary for compliance with applicable environmental requirements at each of our operating facilities. Regulatory requirements continually change, therefore we cannot predict with certainty future expenditures associated with compliance with environmental requirements.

Environmental Remediation

Summary

We are actively involved in proceedings under the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"), and similar state "Superfund" laws at four off-site locations. We have also been investigating and/or remediating environmental contamination allegedly resulting from past industrial activity at five domestic and five international current or former plant sites. In most cases, we are one of many potentially responsible parties ("PRPs") which have potential liability for the required investigation and remediation of each site. In some cases, we have agreed to jointly fund that required investigation and remediation, while at some sites, we dispute the liability, the proposed remedy or the proposed cost allocation among the PRPs. We may also have rights of contribution or reimbursement from other parties or coverage under applicable insurance policies.

Estimates of our future environmental liability at the Superfund sites and current or former plant sites are based on evaluations of currently available facts regarding each individual site and consider factors such as our activities in conjunction with the site, existing technology, presently enacted laws and regulations and prior company experience in remediating contaminated sites. Although current law imposes joint and several liability on all parties at Superfund sites, our contribution to the remediation of these sites is expected to be limited by the number of other companies potentially liable for site remediation. As a result, our estimated liability reflects only our expected share. In determining the probability of contribution, we consider the solvency of other parties, whether liability is being disputed, the terms of any existing agreements and experience with similar matters, and the impact of AWI's emergence from Chapter 11 upon the validity of the claim.

Effects of Chapter 11

Upon AWI's emergence from Chapter 11 on October 2, 2006, AWI's environmental liabilities with respect to properties that AWI does not own or operate (such as formerly owned sites, or landfills to which AWI's waste was taken) were discharged. Claims brought by a federal or state agency alleging that AWI should reimburse the claimant for money that it spent cleaning up a site which AWI does not own or operate, and claims by private parties, such as other PRPs with respect to sites with multiple PRPs, were discharged upon emergence. Now that it has emerged from Chapter 11, AWI does not have any responsibility for these claims.

Those environmental obligations that we have with respect to AWI's subsidiaries, as well as those environmental claims AWI has with respect to property that it currently owns or operates, have not been discharged. Therefore, we will be required to continue meeting our on-going environmental compliance obligations at those sites.

In addition to the right to sue for reimbursement of the money it spends, however, CERCLA also gives the federal government the right to sue for an injunction compelling a defendant to perform a cleanup. Several state statutes give similar injunctive rights to those States. While we believe such rights against AWI were also discharged upon AWI's emergence from Chapter 11, there does not appear to be controlling judicial precedent in that regard. Thus, according to some cases, while a governmental agency's right to require AWI to reimburse it for the costs of cleaning up a site may be dischargeable, the same government agency's right to compel us to spend our money cleaning up the same site may not be discharged even though the financial impact to AWI would have been the same in both instances if the liability had not been discharged.

Specific Events

Upon emergence, AWI resolved its environmental liabilities at 45 sites through its Chapter 11 Case. The liabilities at 38 sites were resolved through the global environmental settlement ("Global Settlement") with the Department of Justice ("DOJ") and the EPA with respect to CERCLA liability. The Global Settlement, which was approved by the Bankruptcy Court in October 2005 and further amended in July 2007, provided EPA an approved proof of claim in the amount of $9.2 million, which included $7.8 million with respect to the Peterson Puritan site. At one CERCLA site, however, AWI will continue to participate in the cleanup under a previously approved Consent Decree. In addition to the federal claims resolved by the Global Settlement, AWI's emergence from Chapter 11 also resolved its environmental liabilities with respect to claims asserted by the State and/or private parties at 7 other sites.

AWI is subject to a unilateral order by the Oregon Department of Environmental Quality ("DEQ") to conduct a remedial investigation and feasibility study and any necessary remedial design and action at its St. Helens, Oregon facility, as well as the adjacent Scappoose Bay. AWI has denied liability for Scappoose Bay, but has cooperated with the DEQ regarding its owned property. Other potentially responsible parties who are not yet subject to orders by the DEQ include former property owners Owens Corning Fiberglass Corporation ("OC") and Kaiser Gypsum Company, Inc. ("Kaiser"). AWI has entered into an agreement with Kaiser for the sharing of costs and responsibilities with respect to the remedial investigation, feasibility study and remedy selection at the Armstrong property. OC has entered into a settlement with the DEQ, pursuant to which, OC has made a lump sum payment to the DEQ in exchange for contribution protection (including protection against common law and statutory contribution claims by AWI against OC), and a covenant not to sue, all with respect to the Armstrong property. AWI has reached an agreement with the DEQ as to how these funds will be made available to reimburse AWI and Kaiser for a portion of their shared costs of investigation and remediation of the property. AWI has recorded an environmental liability with respect to the investigation and feasibility study for the property we own. During the second quarter of 2007, AWI received a written request from the DEQ to perform investigations in Scappoose Bay. During the third quarter of 2007, the DEQ extended a similar request to both Kaiser and OC. Kaiser has told the DEQ it will conduct the requested investigation. AWI and OC have tentatively indicated that they will cooperate with Kaiser and provide a portion of the funding for the investigation, without waiving any defenses to liability. AWI continues to deny all liability for any contamination of the adjacent bay. We are not currently able to estimate with reasonable certainty any amounts we may incur with respect to the bay, although it is possible that such amounts may be material.

During the second quarter of 2007, AWI received a notice of violation and a monetary penalty assessment from the Nebraska Department of Environmental Quality ("NDEQ"). It alleged violations of our air emissions permit for our Auburn, Nebraska cabinet manufacturing facility. In September 2007, we entered into a Consent Order with the NDEQ resolving our liability with respect to this issue.

Armstrong World Industries, Inc., and Subsidiaries
Notes to Consolidated Financial Statements
(dollar amounts in millions)

Subsequent Events
During the first quarter of 2008, AWI received a Notice and Finding of Violation ("NFV") from the USEPA, Region 6, relating to air emissions from our Center, Texas hardwood flooring manufacturing facility. The NFV seeks monetary penalties in the amount of $0.2 million. Armstrong will take appropriate actions to defend itself against the allegations in the NFV in an effort to resolve its liability.

Summary of Financial Position
Liabilities of $7.0 million and $5.9 million at December 31, 2007 and December 31, 2006, respectively were for potential environmental liabilities that we consider probable and for which a reasonable estimate of the probable liability could be made. Where existing data is sufficient to estimate the liability, that estimate has been used; where only a range of probable liabilities 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 new information as it becomes available.

The estimated liabilities above do not take into account any claims for recoveries from insurance or third parties. Such recoveries, where probable, have been recorded as an asset in the consolidated financial statements and are either available through settlement or anticipated to be recovered through negotiation or litigation. The amount of the recorded asset for estimated recoveries was $2.1 million and $2.2 million at December 31, 2007 and December 31, 2006, respectively.

Actual costs to be incurred at identified sites may vary from our estimates. Based on our current knowledge of the identified sites, we are not able to estimate with reasonable certainty future costs which may exceed amounts already recognized.

PATENT INFRINGEMENT CLAIMS
We are a defendant in a lawsuit claiming patent infringement related to some of our laminate flooring products. We are being defended and indemnified by our supplier for costs and potential damages related to the litigation. The jury verdict has held the asserted patent claims to be non-infringed and invalid for a number of reasons. The plaintiff has stated that it will appeal.

In the second quarter of 2007, a second lawsuit claiming patent infringement related to some of our laminate flooring products was settled without cost to us. We obtained a release with respect to alleged past damages and certain limited undertakings not to assert the patents against us. Pursuant to its indemnity obligations, our supplier bore the costs of the litigation.

During the first quarter of 2006, a favorable settlement of a patent infringement case totaling $8.6 million was recorded within SG&A. This case, in which we were the plaintiff, related to a previously divested business. We received the proceeds in the second quarter of 2006.

BREACH OF CONTRACT CLAIM
Since 2003, we had been pursuing a breach of contract claim against a former laminate flooring supplier. An arbitration hearing was held in March 2005. In July 2005 the tribunal communicated that it intended to rule in Armstrong's favor. A hearing to address an award amount had been scheduled in September 2005. Prior to this scheduled hearing, the parties reached a settlement in which the supplier agreed to pay $6.75 million to Armstrong to resolve all existing and potential claims between the parties. The Bankruptcy Court approved the settlement in October 2005. Accordingly, we recorded a net gain in the third quarter of 2005 of $6.4 million in our Resilient Flooring ($5.2 million) and Wood Flooring ($1.2 million) segments.

Armstrong World Industries, Inc., and Subsidiaries
Notes to Consolidated Financial Statements
(dollar amounts in millions)

OTHER CLAIMS
Additionally, we are involved in various other claims and legal actions involving product liability, patent infringement, breach of contract, distributor termination, employment law issues (including one purported class action suit pending in California state court) and other actions arising in the ordinary course of business. While complete assurance cannot be given to the outcome of these claims, we do not believe there is a reasonable possibility that a loss exceeding amounts already recognized would be material.

NOTE 33. EARNINGS PER SHARE
The difference between the average number of basic and diluted common shares outstanding is due to contingently issuable shares. Earnings per share components may not add due to rounding.

NOTE 34. SUBSEQUENT EVENTS
On February 29, 2008, we announced that we have completed our strategic review process after extensive evaluation of alternatives, including a possible sale of our individual businesses and the entire company. The Board of Directors concluded that it is in the best interest of Armstrong and its shareholders to continue to execute our strategic operating plan under our current structure as a publicly traded company.

On February 25, 2008, we executed an amendment to our senior credit facility. This amendment (a) permits us to make “Special Distributions,” including dividends (such as the special cash dividend described below) or other distributions (whether in cash, securities or other property) of up to an aggregate of $500 million at any time prior to February 28, 2009, (b) requires that we and our domestic subsidiaries maintain minimum liquidity of at least $100 million as of March 31, June 30, September 30 and December 31 of each year, which may be comprised of a combination of cash and cash equivalents and undrawn commitments under our revolving credit facility and (c) increases by 0.25% the borrowing margins in the pricing grid set forth in the facility for the revolving credit facility and Term Loan A.

Also on February 25, 2008, our Board of Directors declared a special cash dividend of $4.50 per common share, payable on March 31, 2008, to shareholders of record on March 11, 2008. This special cash dividend will result in an aggregate payment to our shareholders of approximately $260 million, based on the number of common shares currently outstanding.

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

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

Our management, with the participation of our chief executive officer and our chief financial officer, performed an evaluation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 ("Exchange Act")) as of the end of the period covered by this Annual Report on Form 10-K. Our chief executive officer and our chief financial officer have concluded that our disclosure controls and procedures were effective to ensure that information required to be disclosed in reports we file or submit under the Exchange Act is (1) recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and (2) accumulated and communicated to our management, including our chief executive officer and our chief financial officer, to allow their timely decisions regarding required disclosure.

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the fiscal quarter ended December 31, 2007 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Management's Report on Internal Control over Financial Reporting and the Report of Independent Registered Public Accounting Firm are incorporated by reference to Item 8.

ITEM 9B. OTHER INFORMATION

On February 29, 2008, we announced that we have completed our strategic review process after extensive evaluation of alternatives, including a possible sale of our individual businesses and the entire company. The Board of Directors concluded that it is in the best interest of Armstrong and its shareholders to continue to execute our strategic operating plan under our current structure as a publicly traded company.

On February 25, 2008, we executed an amendment to our senior credit facility. This amendment (a) permits us to make "Special Distributions," including dividends (such as the special cash dividend described below) or other distributions (whether in cash, securities or other property) of up to an aggregate of $500 million at any time prior to February 28, 2009, (b) requires that we and our domestic subsidiaries maintain minimum liquidity of at least $100 million as of March 31, June 30, September 30 and December 31 of each year, which may be comprised of a combination of cash and cash equivalents and undrawn commitments under our revolving credit facility and (c) increases by 0.25% the borrowing margins in the pricing grid set forth in the facility for the revolving credit facility and Term Loan A.

Also on February 25, 2008, our Board of Directors declared a special cash dividend of $4.50 per common share, payable on March 31, 2008, to shareholders of record on March 11, 2008. This special cash dividend will result in an aggregate payment to our shareholders of approximately $260 million, based on the number of common shares currently outstanding.

The Board of Directors based its decision to declare a special dividend on the substantial amount of cash generated in 2007, and on expectations that future cash generation will more than meet Armstrong's needs.

The Board of Directors established Monday, June 23, 2008 as the date for the Company's annual meeting of shareholders. Shareholders of record at the close of trading on Friday, March 28, 2008 will be entitled to vote at that meeting. Pursuant to Article II, Section 5 of the Company's Bylaws, if a shareholder other than the Asbestos Personal Injury Settlement Trust should wish to propose business to come before that meeting, written notice of such business must be received by the Corporate Secretary of the Company no later than Thursday, March 20, 2008. Any such notice should be addressed to the attention of: Walter Gangl, Corporate Secretary, Armstrong World Industries, Inc., 2500 Columbia Avenue, Lancaster, PA 17603. It is recommended that any notice be sent via means that will provide confirmation of the delivery date.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by Item 10, other than information regarding the executive officers of the Company which is presented in Item 4A. Executive Officers of the Company, is incorporated by reference to the sections entitled “Code of Ethics,” “Board of Directors,” “Nominating and Governance Committee,” “Audit Committee and Audit Committee Expert,” “Management Development and Compensation Committee,” “Director Information” and “Section 16(a) Beneficial Ownership Reporting Compliance” in the Company’s proxy statement for its 2008 annual meeting of shareholders.

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 11 is incorporated by reference to the sections entitled “Compensation Discussion and Analysis,” “Compensation Committee Report,” “Summary Compensation Table,” “Grants of Plan-Based Awards,” “Outstanding Equity Awards at Fiscal Year-End,” “Option Exercises and Stock Vested,” “Pension Benefits,” “Nonqualified Deferred Compensation,” “Potential Payments Upon Termination or Change in Control,” “Compensation Committee Interlocks and Insider Participation” and “Compensation of Directors” in the Company’s proxy statement for its 2008 annual meeting of shareholders.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by Item 12 is incorporated by reference to the sections entitled “Security Ownership of Certain Beneficial Owners,” “Security Ownership of Management” and “Equity Compensation Plan Information” in the Company’s proxy statement for its 2008 annual meeting of shareholders.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by Item 13 is incorporated by reference to the sections entitled “Certain Relationships and Related Transactions” and “Director Independence” in the Company’s proxy statement for its 2008 annual meeting of shareholders.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by Item 14 is incorporated by reference to the section entitled “Audit Committee Report” in the Company’s proxy statement for its 2008 annual meeting of shareholders.

Table of Contents

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) (1) The financial statements and schedule of Armstrong World Industries, Inc. filed as a part of this 2007 Annual Report on Form 10-K is listed in the "Index to Financial Statements and Schedules" on page 56.

(a) (2) The financial statements required to be filed pursuant to Item 15(d) of Form 10-K are:

Worthington Armstrong Venture consolidated financial statements for the years ended December 31, 2007, 2006 and 2005 (filed herewith as Exhibit 99)

(a) (3) The following exhibits are filed as part of this 2007 Annual Report on Form 10-K:

Exhibit No.	Description
No. 2	Armstrong World Industries, Inc.'s Fourth Amended Plan of Reorganization, as amended by modifications through May 23, 2006 is incorporated by reference from the 2005 Annual Report on Form 10-K wherein it appeared as Exhibit 2.3.
No. 3.1	Amended and Restated Certificate of Incorporation of Armstrong World Industries, Inc. is incorporated by reference from the Current Report on Form 8-K dated October 2, 2006, wherein it appeared as Exhibit 3.1.
No. 3.2	Armstrong World Industries, Inc.'s Bylaws are incorporated by reference from the Current Report on Form 8-K dated October 2, 2006, wherein they appeared as Exhibit 3.2.
No. 4	Armstrong World Industries, Inc.'s Retirement Savings and Stock Ownership Plan effective as of October 1, 1996, as amended April 12, 2001 is incorporated by reference from the Quarterly Report on Form 10-Q for the quarter ended June 30, 2001, wherein it appeared as Exhibit 4. (SEC File No. 1-2116)*
No. 10.1	Directors' Retirement Income Plan, as amended, is incorporated by reference from the 1996 Annual Report on Form 10-K wherein it appeared as Exhibit 10(iii)(c). * (SEC File No. 1-2116)
No. 10.2	Management Achievement Plan for Key Executives, effective as of November 28, 1983, as amended April 30, 2007, is filed with this Report.*
No. 10.3	Retirement Benefit Equity Plan, effective January 1, 2005, as amended October 29, 2007, is filed with the Report.*
No. 10.4	Form of Change in Control Agreement with certain officers is incorporated by reference from the 2000 Annual Report on Form 10-K wherein it appears as Exhibit 10(iii)(k). * (SEC File No. 1-2116)
No. 10.5	Change in Control Agreement with Michael D. Lockhart, dated August 7, 2000 is incorporated by reference from the Quarterly Report on Form 10-Q for the quarter ended September 30, 2000, wherein it appeared as Exhibit 10 (e). * (SEC File No. 000-50408)

No. 10.6	Form of Indemnification Agreement among Armstrong Holdings, Inc., Armstrong World Industries, Inc. and certain directors and officers is incorporated by reference from the Quarterly Report on Form 10-Q for the quarter ended June 30, 2000, wherein it appeared as Exhibit 10(iii)(a). * (SEC File No. 000-50408)
No. 10.7	Form of Indemnification Agreement among Armstrong Holdings, Inc., Armstrong World Industries, Inc. and certain directors is incorporated by reference from the 2003 Annual Report on Form 10-K wherein it appeared as Exhibit 10 (iii)(q). * (SEC File No. 000-50408)
No. 10.8	Form of Indemnification Agreement among Armstrong Holdings, Inc., Armstrong World Industries, Inc. and certain directors is incorporated by reference from the 2001 Annual Report on Form 10-K wherein it appeared as Exhibit 10 (iii)(s). * (SEC File No. 000-50406)
No. 10.9	Bonus Replacement Retirement Plan, effective as of January 1, 1998, as amended January 1, 2007, is filed with this Report.*
No. 10.10	Employment Agreement with Michael D. Lockhart dated August 7, 2000 is incorporated by reference from the Quarterly Report on Form 10-Q for the quarter ended September 30, 2000 wherein it appeared as Exhibit 10(a). * (SEC File No. 000-50408)
No. 10.11	Amendment to August 7, 2000 Employment Agreement with Michael D. Lockhart is incorporated by reference from the Quarterly Report on Form 10-Q for the quarter ended March 31, 2001, wherein it appeared as Exhibit 10. *(SEC File No. 000-50408)
No. 10.12	Hiring Agreement with F. Nicholas Grasberger III dated January 6, 2005 is incorporated by reference from the Current Report filed on Form 8-K on January 6, 2005, wherein it appeared as Exhibit 10.1. *
No. 10.13	Change in Control Agreement with F. Nicholas Grasberger III dated January 6, 2005 is incorporated by reference from the Current Report filed on Form 8-K on January 6, 2005, wherein it appeared as Exhibit 10.2. *
No. 10.14	Indemnification Agreement with F. Nicholas Grasberger III dated January 6, 2005 is incorporated by reference from the Current Report filed on Form 8-K on January 6, 2005, wherein it appeared as Exhibit 10.3. *
No. 10.15	Armstrong World Industries, Inc.'s Nonqualified Deferred Compensation Plan effective January 2005 is incorporated by reference from the 2005 Annual Report on Form 10-K wherein it appeared as Exhibit 10.29. *
No. 10.16	Schedule of Armstrong World Industries, Inc. Nonemployee Director Compensation is incorporated by reference from the 2006 Annual Report on Form 10-K wherein it appeared as Exhibit 10.19. *
No. 10.17	Order of the U.S. District Court dated January 26, 2006, and related Armstrong World Industries, Inc.'s Motion for an Order Authorizing and Approving Continued Cash Retention Program for Key Employees, is incorporated by reference from the Current Report filed on Form 8-K/A on February 2, 2006, wherein it appeared as Exhibit 99.1 *

No. 10.18	Form of Long-Term Incentive Plan 2006 award letter regarding executive participation in the 1999 Long-Term Incentive Plan is incorporated by reference from the 2005 Annual Report on Form 10-K wherein it appeared as Exhibit 10.37. *
No. 10.19	Change in Control Agreement with Donald A. McCunniff dated March 13, 2006 is incorporated by reference from the Current Report filed on Form 8-K on March 14, 2006, wherein it appeared as Exhibit 10.1.*
No. 10.20	Indemnification Agreement with Donald A. McCunniff dated March 13, 2006 is incorporated by reference from the Current Report filed on Form 8-K on March 14, 2006, wherein it appeared as Exhibit 10.2. *
No. 10.21	Credit Agreement, dated as of October 2, 2006, by and among the Company, certain subsidiaries of the Company as guarantors, Bank of America, N.A., as Administrative Agent, the other lenders party thereto, JP Morgan Chase Bank, N.A. and Barclays Bank PLC, as Co-Syndication Agents and LaSalle Bank National Association and the Bank of Nova Scotia, as Co-Documentation Agents, is incorporated by reference from the Current Report on Form 8-K dated October 2, 2006, wherein it appeared as Exhibit 10.1.
No. 10.22	The Armstrong World Industries, Inc. Asbestos Personal Injury Settlement Trust Agreement dated as of October 2, 2006, by and among Armstrong World Industries, Inc. and, as trustees, Anne M. Ferazzi, Harry Huge, Paul A. Knuti, Lewis R. Sifford and Thomas M. Tully is incorporated by reference from the Current Report on Form 8-K dated October 2, 2006, wherein it appeared as Exhibit 10.2.
No. 10.23	Stockholder and Registration Rights Agreement, dated as of October 2, 2006, by and between Armstrong World Industries, Inc. and the Armstrong World Industries, Inc. Asbestos Personal Injury Asbestos Trust is incorporated by reference from the Current Report on Form 8-K dated October 2, 2006, wherein it appeared as Exhibit 10.3.
No. 10.24	Armstrong World Industries, Inc. 2006 Long-Term Incentive Plan is incorporated by reference from the Current Report on Form 8-K dated October 2, 2006, wherein it appeared as Exhibit 10.4.*
No. 10.25	Form of Armstrong World Industries, Inc. 2006 Long-Term Incentive Plan Stock Option Agreement is incorporated by reference from the Current Report on Form 8-K dated October 2, 2006, wherein it appeared as Exhibit 10.5. *
No. 10.26	Form of Armstrong World Industries, Inc. 2006 Long-Term Incentive Plan Restricted Stock Award Agreement is incorporated by reference from the Current Report on Form 8-K dated October 2, 2006, wherein it appeared as Exhibit 10.6. *
No. 10.27	Form of Armstrong World Industries, Inc. 2006 Long-Term Incentive Plan notice of restricted stock and/or option award is incorporated by reference from the Current Report on Form 8-K dated October 2, 2006, wherein it appeared as Exhibit 10.7. *
No. 10.28	Form of Indemnification Agreement for directors and officers of Armstrong World Industries, Inc. is incorporated by reference from the Current Report on Form 8-K dated October 2, 2006, wherein it appeared as Exhibit 10.8. * A Schedule of Participating Directors and Officers is incorporated by reference from the 2006 Annual Report on Form 10-K wherein it appeared as Exhibit 10.33.

No. 10.29	2006 Director Phantom Stock Unit Plan is incorporated by reference from the Current Report on Form 8-K dated October 23, 2006, wherein it appeared as Exhibit 10.1. *
No. 10.30	2006 Director Phantom Stock Unit Agreement is incorporated by reference from the Current Report on Form 8-K dated October 23, 2006, wherein it appeared as Exhibit 10.3. A Schedule of Participating Directors is incorporated by reference from the 2006 Annual Report on Form 10-K wherein it appeared as Exhibit 10.36. *
No. 10.31	2007 Award under the 2006 Director Phantom Stock Unit Agreement and the Schedule of Participating Directors are incorporated by reference from the Current Report on Form 8-K dated October 22, 2007, wherein they appeared as Exhibits 10.1 and 10.2, respectively. *
No. 10.32	Stipulation and Agreement with Respect to Claims of Armstrong Holdings, Inc. and Armstrong Worldwide, Inc.; and Motion for Order Approving Stipulation and Agreement are incorporated by reference from the Current Report on Form 8-K dated February 26, 2007, wherein they appeared as Exhibits 99.2 and 99.3, respectively.
No. 10.33	Share Purchase Agreement dated March 27, 2007, between the Company and NPM Capital N.V. and Flagstone Beheer B.V. for the sale of Tapijtfabriek H. Desseaux N.V. and its subsidiaries is incorporated by reference from the 2006 Annual Report on Form 10-K wherein it appeared as Exhibit 10.38.
No. 10.34	Form of Armstrong World Industries, Inc. grant letter used in connection with the equity grant of stock options and performance restricted shares under the 2006 Long-Term Incentive Plan to Michael D. Lockhart is filed with this Report. *
No. 10.35	Form of Armstrong World Industries, Inc. grant letter used in connection with awards of restricted stock under the 2006 Long-Term Incentive Plan is filed with this Report.*
No. 10.36	Amendment No. 1, dated February 25, 2008, to the Credit Agreement, dated October 2, 2006, by and among the Company, certain subsidiaries of the Company as guarantors, Bank of America, N.A., as Administrative Agent, the other lenders party thereto, JP Morgan Chase Bank, N.A. and Barclays Bank PLC, as Co-Syndication Agents and LaSalle Bank National Association and the Bank of Nova Scotia, as Co-Documentation Agents, is filed with this Report.
No. 11	Computation of earnings per share.
No. 21	Armstrong World Industries, Inc.’s domestic and foreign subsidiaries.
No. 23.1	Consent of Independent Registered Public Accounting Firm.
No. 23.2	Consent of Independent Registered Public Accounting Firm.
No. 24	Power of Attorney and authorizing resolution.
No. 31.1	Certification of Principal Executive Officer required by Rule 13a-15(e) or 15d-15(e) of the Securities Exchange Act.
No. 31.2	Certification of Principal Financial Officer required by Rule 13a-15(e) or 15d-15(e) of the Securities Exchange Act.

No. 32.1	Certification of Chief Executive Officer required by Rule 13a and 18 U.S.C. Section 1350 (furnished herewith).
No. 32.2	Certification of Chief Financial Officer required by Rule 13a and 18 U.S.C. Section 1350 (furnished herewith).
No. 99	Worthington Armstrong Venture consolidated financial statements for the years ended December 31, 2007, 2006 and 2005.

* Management Contract or Compensatory Plan.

Table of Contents

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: February 28, 2008

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, 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 AWI:

Name	Title
Michael D. Lockhart	Chairman and Chief Executive Officer (Principal Executive Officer)
F. Nicholas Grasberger III	Senior Vice President and Chief Financial Officer (Principal Financial Officer)
William C. Rodruan	Vice President and Controller (Chief Accounting Officer)
James J. Gaffney	Director
Robert C. Garland	Director
Judith R. Haberkorn	Director
James J. O’Connor	Director
Russell F. Peppet	Director
Arthur J. Pergament	Director
John J. Roberts	Director
Alexander M. Sanders, Jr.	Director

By: /s/ Michael D. Lockhart
(Michael D. Lockhart, as attorney-in-fact
for AWI directors and on his own behalf)
As of February 28, 2008

By: /s/ F. Nicholas Grasberger III
(F. Nicholas Grasberger III)
As of February 28, 2008

By: /s/ William C. Rodruan
(William C. Rodruan)
As of February 28, 2008

SCHEDULE II

Armstrong World Industries, Inc.
Valuation and Qualifying Reserves of Accounts Receivable
(amounts in millions)

	Successor Company		Predecessor Company	
Provision for Losses	Year Ended December 31, 2007	Three Months Ended December 31, 2006	Nine Months Ended September 30, 2006	Year Ended December 31, 2005
Balance at beginning of period	$ 10.6	$ 10.8	$ 10.8	$ 13.0
Additions charged to earnings	10.7	1.4	5.2	2.4
Deductions	(9.3)	(1.6)	(4.1)	(3.7)
Discontinued operations	-	-	(1.1)	(0.9)
Balance at end of period	$ 12.0	$ 10.6	$ 10.8	$ 10.8
Provision for Discounts and Warranties				
Balance at beginning of period	$ 49.0	$ 49.6	$ 39.8	$ 45.5
Additions charged to earnings	213.4	48.2	185.5	212.6
Deductions	(221.1)	(48.8)	(175.7)	(218.3)
Balance at end of period	$ 41.3	$ 49.0	$ 49.6	$ 39.8
Total Provision for Discounts, Warranties and Losses				
Balance at beginning of period	$ 59.6	$ 60.4	$ 50.6	$ 58.5
Additions charged to earnings	224.1	49.6	190.7	215.0
Deductions	(230.4)	(50.4)	(179.8)	(222.0)
Discontinued operations	-	-	(1.1)	(0.9)
Balance at end of period	$ 53.3	$ 59.6	$ 60.4	$ 50.6

Exhibit Index

Exhibit No.

No. 10.2	Management Achievement Plan for Key Executives, effective November 28, 1983, amended April 30, 2007.
No. 10.3	Retirement Benefit Equity Plan, effective January 1, 2005, amended October 29, 2007.
No. 10.9	Bonus Replacement Retirement Plan, effective January 1, 1998, amended January 1, 2007.
No. 10.34	Form of Armstrong World Industries, Inc. grant letter used in connection with the equity grant of stock options and performance restricted shares under the 2006 Long-Term Incentive Plan to Michael D. Lockhart.
No. 10.35	Form of Armstrong World Industries, Inc. grant letter used in connection with awards of restricted stock under the 2006 Long-Term Incentive Plan.
No. 10.36	Amendment No. 1, dated February 25, 2008, to the Credit Agreement, dated October 2, 2006, by and among the Company, certain subsidiaries of the Company as guarantors, Bank of America, N.A., as Administrative Agent, the other lenders party thereto, JP Morgan Chase Bank, N.A. and Barclays Bank PLC, as Co-Syndication Agents and LaSalle Bank National Association and the Bank of Nova Scotia, as Co-Documentation Agents.
No. 11	Computation of earnings per share.
No. 21	Armstrong World Industries, Inc.'s domestic and foreign subsidiaries.
No. 23.1	Consent of Independent Registered Public Accounting Firm.
No. 23.2	Consent of Independent Registered Public Accounting Firm.
No. 24	Power of Attorney and authorizing resolution.
No. 31.1	Certification of Principal Executive Officer required by Rule 13a-15(e) or 15d-15(e) of the Exchange Act.
No. 31.2	Certification of Principal Financial Officer required by Rule 13a-15(e) or 15d-15(e) of the Exchange Act.
No. 32.1	Certification of Chief Executive Officer required by Rule 13a and 18 U.S.C. Section 1350.
No. 32.2	Certification of Chief Financial Officer required by Rule 13a and 18 U.S.C. Section 1350.
No. 99	Worthington Armstrong Venture consolidated financial statements as of December 31, 2007 and 2006 and for the years ended December 31, 2007, 2006 and 2005.

Exhibit 10.2

MANAGEMENT ACHIEVEMENT PLAN

PLAN TEXT AND ADMINISTRATIVE GUIDELINES

ADOPTED BY BOARD OF DIRECTORS

NOVEMBER 28, 1983

AS AMENDED APRIL 30, 2007

ARMSTRONG WORLD INDUSTRIES, INC.

MANAGEMENT ACHIEVEMENT PLAN FOR KEY EXECUTIVES

AMENDED APRIL 30, 2007

(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. 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 the Company 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. The Chief Executive Officer of the Company may annually determine the non-executive officer participants and recommend executive 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 a target award expressed as a percentage of salary for each participant which shall be subject to approval by the Committee.

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 based on corporate and business unit results. Following the receipt of the recommendations from the Chief Executive Officer, the Committee shall determine the amount to be paid to participants based on corporate and business unit results. The maximum bonus achievement percentage for corporate and business unit performance shall be 200% of the target award. Within parameters established by the Committee, the Chief Executive Officer may increase or decrease the award payments for non-executive officer participants based on the Company’s evaluation of their individual performance. The award payments for executive officer participants shall be approved by the Committee. All award payments authorized by the Committee will be final.

D) The performance measures approved by the shareholders for determining awards under the Plan are: cash flow, earnings, operating income and sales. The Committee has established $3 million as the maximum amount that may be paid to any participant in any one year under the Plan.

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 a prorated award based on the Company's evaluation of their individual performance. 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. The Committee, in its absolute discretion, may determine to direct payment of all or any portion of an award to an individual notwithstanding the preceding two sentences.

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 10.3

As Amended October 29, 2007,
effective as of January 1, 2005

RETIREMENT BENEFIT EQUITY PLAN
OF
ARMSTRONG WORLD INDUSTRIES, INC.

This Retirement Benefit Equity Plan was originally established, pursuant to the authority of the Board of Directors of Armstrong World Industries, Inc., effective January 1, 1976 to pay supplemental retirement benefits to certain employees of the Company who have qualified or may qualify for benefits under the Retirement Income Plan for Employees of Armstrong World Industries, Inc. The Retirement Benefit Equity Plan was previously amended and restated as of March 1, 2004.

The Retirement Benefit Equity Plan is hereby amended and restated as of January 1, 2005 to comply with the requirements of Section 409A of the Internal Revenue Code of 1986 as amended and the guidance (including transitional guidance) thereunder.

All benefits payable under this Plan shall be paid out of the general assets of the Company, or from a trust, if any, established by the Company for the purpose of paying benefits under the Plan, the assets of which shall remain subject to the claims of judgment creditors of the Company in accordance with the provisions of any such trust.

Article 1. Definitions

1.01. "Actuarial Equivalent Present Value" shall refer to the present value of a Member's supplemental benefits. With respect to any Member who is eligible to retire or has retired under the Retirement Income Plan, such present value shall be determined using the actuarial assumptions and factors reasonably utilized under the Retirement Income Plan as of the date of determination applied to a single life annuity payable immediately. With respect to any Member who is not eligible to retire or has not retired under the Retirement Income Plan, such present value shall be determined using the actuarial assumptions and factors reasonably utilized under the Retirement Income Plan as of the date of determination applied to an age 65 single life annuity. The determination of Actuarial Equivalent Present Value shall reflect future assumed increases in the limitations under Section 415 of the Internal Revenue Code, with such future assumed increases being based on the interest rate that is used by the Committee to determine the amount of any employment taxes that may be owed under Section 3121(v) of the Internal Revenue Code.

1.02. "Board of Directors" shall mean the Board of Directors of the Company.

1.03. “Change in Control” shall mean the first to occur of any of the following events: (i) a Change in Ownership of the Company, (ii) a Change in Effective Control of the Company or (iii) a Change in the Ownership of a Substantial Portion of the Assets of the Company.

(a) A “Change in Ownership” of the Company occurs on the date that any one person, or more than one person acting as a group acquires ownership of stock of the Company that, together with stock held by such person or group, constitutes more than 50 percent of the total fair market value or total voting power of the stock of the Company.

(b) A “Change in Effective Control” of the Company occurs on the date that either:

(i) Any one person, or more than one person acting as a group, acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such person or persons) ownership of stock of the Company possessing 30 percent or more of the total voting power of the stock of the Company; or

(ii) a majority of members of the Company’s board of directors is replaced during any 12-month period by directors whose appointment or election is not endorsed by a majority of the members of the Company’s board of directors prior to the date of the appointment or election.

(c) A “Change in the Ownership of a Substantial Portion of the Assets of the Company” occurs on the date that any one person, or more than one person acting as a group, acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such person or persons) assets from the Company that have a total gross fair market value equal to or more than 40 percent of the total gross fair market value of all of the assets of the Company immediately prior to such acquisition or acquisitions. For this purpose, gross fair market value means the value of the assets being disposed of, determined without regard to any liabilities associated with such assets. There is no Change in Control event under this Section 1.03(c) when there is a transfer to an entity that is controlled by the shareholders of the transferring corporation immediately after the transfer.

The determination of whether a Change in Control event has occurred will be made in accordance with the requirements of Code Section 409A and the guidance issued thereunder. The foregoing definition of Change in Control shall exclude the occurrence of the date(s) on which (i) the Chapter 11 Plan of Reorganization of the Company shall become effective and (ii) the creation by the Company of the Asbestos Personal Injury Trust.

1.04. “Committee” shall mean the Retirement Committee as provided for in Article 4.

1.05. “Company” shall mean Armstrong World Industries, Inc. or any successor by merger, purchase or otherwise, with respect to its employees. The term Company shall also mean any other company participating in the Retirement Income Plan with respect to its employees if such Company adopts this Plan.

1.06. “Compensation” shall mean a Member’s “compensation” as determined under the Retirement Income Plan without regard to limitations under Section 401(a)(17) of the Internal Revenue Code, plus amounts deferred by the Member under the Armstrong Deferred Compensation Plan, if any, and amounts contributed by the Company to the Bonus Replacement Retirement Plan of Armstrong World Industries, Inc. (the “Bonus Replacement Retirement Plan”) on behalf of the Member in the year in which such contribution is made.

1.07. “Effective Date” shall mean January 1, 1976.

1.08. “Member” shall mean any person included in the membership of the Plan as provided in Article 2.

1.09. “Plan” shall mean the Retirement Benefit Equity Plan of Armstrong World Industries, Inc. as described herein or as hereafter amended.

1.10. “Specified Employee” shall mean, as determined pursuant to Section 409A of the Internal Revenue Code and regulations thereunder, a key employee (as defined in Section 416(i) of the Code without regard to paragraph 5 thereof) of the Company if any stock of the Company is publicly traded on an established securities market or otherwise.

1.11. “Retirement Income Plan” shall mean the Retirement Income Plan for Employees of Armstrong World Industries, Inc. as amended and restated as of January 1, 2007 as may be amended from time to time.

Article 2. Membership

2.01. Every person who was a member of the Plan as in effect on December 31, 1999 shall remain a Member of the Plan on or after January 1, 2000.

2.02. Every other employee of the Company shall become a Member of the Plan on the first day of the calendar year in which the Committee determines that:

(a) the employee’s benefit calculated under the Retirement Income Plan exceeds the allowed benefit under Section 415 of the Internal Revenue Code,

(b) the employee’s compensation exceeds the maximum allowed under Section 401(a)(17) of the Internal Revenue Code,

(c) the employee has compensation deferred under the terms of the Armstrong Deferred Compensation Plan,

(d) the employee is a key executive designated by the Board of Directors, or its delegate, to receive credit for employment prior to his Company employment for purposes of calculating his Retirement Income Plan benefit, as provided under Section 3.01 (a)(iii) of this Plan, or

(e) the employee has a contribution made on his behalf to the Bonus Replacement Retirement Plan.

Effective January 1, 2008, every other employee of the Company shall become a Member of the Plan on the first day of the calendar year following the calendar year in which the Committee makes the determination described above.

2.03. Membership under the Plan shall terminate if a Member’s employment with the Company terminates unless at that time the Member is entitled to retirement income payments pursuant to the Retirement Income Plan or benefits described in Section 3.04.

Article 3. Amount and Payment of Supplemental Benefits

3.01. The supplemental benefits under this Plan shall be payable by the Company only with respect to a Member who has retired or otherwise terminated his employment with the Company after becoming vested under the Retirement Income Plan. Any such supplemental benefits shall be payable from the general assets of the Company or from a trust, if any, established by the Company for the purpose of paying benefits under the Plan, the assets of which shall remain subject to the claims of judgment creditors of the Company in accordance with the provisions of any such trust.

The amount of any supplemental benefits payable to a Member pursuant to this Plan, expressed as a single life annuity payable as of the Member’s “normal retirement date” (as that term is defined in the Retirement Income Plan) or in the event the Member defers his retirement beyond his normal retirement date, his “deferred retirement date” (as that term is defined in the Retirement Income Plan), shall be equal to (a) minus (b) minus (c) minus (d), where:

(a) is the benefit calculated under the provisions of the Retirement Income Plan, but:

(i) disregarding any reduction in the amount of benefits under the Retirement Income Plan attributable to any provision therein incorporating limitations imposed by Section 415 of the Internal Revenue Code or Section 401(a)(17) of the Internal Revenue Code;

(ii) disregarding any reduction due to compensation deferred under the Armstrong Deferred Compensation Plan;

(iii) including, for purposes of calculating Total Service under the Retirement Income Plan, years of employment for a Member described in Section 2.02(d) which precede his Company employment to the extent so designated by the Board of Directors, or its delegate, at the time such individual is designated as eligible for membership in the Plan; and

(iv) including, for purposes of determining compensation, any amounts contributed on the Member's behalf to the Bonus Replacement Retirement Plan; and

(v) excluding any amount attributable to (1) an Extraordinary Event (as defined in the Retirement Income Plan) and (2) all retirement enhancements related to past and future service that may become payable due to a job loss following a Change in Control (as defined in the Retirement Income Plan) under the Retirement Income Plan.

(b) is the actual amount of benefits payable to or on account of the Member as calculated under the Retirement Income Plan, excluding any amounts attributable to (1) an Extraordinary Event (as defined in the Retirement Income Plan) and (2) all retirement enhancements related to past and future service that may become payable due to a job loss following a Change in Control (as defined in the Retirement Income Plan) under the Retirement Income Plan;

(c) is the value of the benefit (excluding the portion of such benefit attributable to employee contributions) which is payable, which has been paid or which will become payable to a Member described in Section 2.02(d) from a qualified defined benefit plan to the extent such plan takes into account the period of employment described in Section 3.01(a)(iii). In the event the Member has received, is receiving, or is scheduled to receive benefits from another such plan in any form other than a single life annuity or at a time other than when benefits commence under this Plan, the benefit to be taken into account under this subsection (c) shall be determined by the Company based on actuarial assumptions and factors reasonably utilized under the Retirement Income Plan as of the date of determination; and

(d) is the actuarial equivalent value of any supplemental benefits previously paid to the Member under this Plan, provided that the actuarial equivalent value of any supplemental benefits paid as a single sum shall be determined using the actuarial assumptions and factors reasonably utilized under the Retirement Income Plan as of the date of determination.

Notwithstanding the preceding provisions of this Section 3.01, in the event a retired or terminated Member's benefit calculated under the Retirement Income Plan is increased for any reason after the Member's supplemental benefit payments have commenced in an annuity form, the amount of any supplemental benefits payable to or on account of such Member under this Plan shall be reduced correspondingly on a prospective basis, and in the event such increase is made retroactively resulting in the overpayments of any or all of the Member's supplemental benefits, future benefit payments under this Plan shall be reduced to reflect such prior overpayments in any manner determined by the Committee, in its discretion, and applied on a consistent basis to all similarly situated Members, until an amount equal to the total overpayments in the Member's supplemental benefit payments are recovered.

3.02. Subject to the following rules, an employee of the Company who becomes a Member under this Plan in accordance with Section 2.02 shall elect in writing the form and timing of payment of the supplemental benefits payable on behalf of such Member under this Plan within the thirty (30) day period following the Committee's determination that such employee has become a Member.

(a) The Member may elect to have his supplemental benefits paid in the form of any annuity that is offered under the Retirement Income Plan (other than a level income life annuity or a level income joint and survivor annuity). Effective January 1, 2005, a Member may initially elect to have his benefit paid in the form of a "life annuity" and then, immediately prior to commencement of payment, elect the specific form of actuarially equivalent life annuity among those offered under the Retirement Income Plan.

(b) In no event shall the Member elect to have his supplemental benefits commence or be paid earlier than the later of: (i) the Member's attainment of age 55, or (ii) the date the Member first becomes eligible to receive his benefits under the Retirement Income Plan and in no event shall the Member elect to have his supplemental benefits commence or be paid later than the Member's attainment of age 65 or, if later, his actual retirement from the Company.

In no event shall the Member elect to have his supplemental benefits commence to be paid later than April 1 of the calendar year following the later of (x) the calendar year in which the Member attains age 70 1/2, or (y) the calendar year in which the Member terminates employment.

(c) In the event the Member fails to affirmatively elect the form and timing of payment of his supplemental benefits hereunder, the Member shall be deemed to have elected to have his supplemental benefits paid in the form and at the time that his benefits are paid under the Retirement Income Plan. Effective January 1, 2009, in the event the Member fails to affirmatively elect the form and timing of payment of his supplemental benefits hereunder, the Member shall be deemed to have elected to have his supplemental benefits paid in the form of a life annuity and at the later of the Member's attainment of age 55 or termination of employment.

(d) Notwithstanding any other provision of the Plan to the contrary, in the event the Member elects to receive a period certain annuity or joint and survivor annuity and either the beneficiary designated by the Member dies prior to the date the Member commences receiving his supplemental benefits or the Member designates his spouse as his beneficiary and the Member is not legally married to such spouse immediately preceding the date the Member commences receiving his supplemental benefits, the Member's election to receive such period certain annuity or joint and survivor annuity shall automatically be converted to an election to receive a single life annuity.

3.03. Notwithstanding the provisions of Section 3.02, a Member who has not commenced receiving payment of his supplemental benefits may request in writing to the Committee to amend the commencement date of his supplemental benefits elected by the Member under Section 3.02, in accordance with the following rules:

(a) A Member who has not commenced receiving payment of his supplemental benefits may request to amend the timing and/or form of payment of the supplemental benefits (subject to the limitations of Section 3.02(a)) provided: (i) the commencement date in the absence of such distribution election amendment is not within twelve (12) months of the date of the amendment; (ii) his amended commencement date is at least twelve (12) months (five (5) years for election amendments made on or after January 1, 2009) after the date of the distribution election amendment; and (iii) his amended commencement date is otherwise in conformance with the provisions of Section 3.02(b). Notwithstanding the foregoing, during calendar year 2007, a Member who has not yet commenced receiving payment of his supplemental benefits may request in writing to the Committee to amend the timing and/or form of payment (subject to the limitations of Section 3.02(a)) provided the amendment shall only apply to amounts that would not otherwise be payable in 2007 and shall not cause an amount to be paid in 2007 that would not otherwise be payable in 2007. Notwithstanding the foregoing, during calendar year 2008, a Member who has not yet commenced receiving payment of his supplemental benefits may request in writing to the Committee to amend the timing and/or form of payment (subject to the limitations of Section 3.02(a)) provided the amendment shall only apply to amounts that would not otherwise be payable in 2008 and shall not cause an amount to be paid in 2008 that would not otherwise be payable in 2008.

3.04. Notwithstanding the provisions of Section 3.01 and Section 3.02, supplemental benefits shall be payable under this Plan to or on account of a Member described in Section 2.02(d) who: (i) is involuntarily terminated after completing one year of service but prior to becoming vested in the Retirement Income Plan, and (ii) receives severance pay benefits under the Severance Pay Plan for Salaried Employees of Armstrong World Industries, Inc. or any individual severance agreement. The Member's supplemental benefits will be calculated using the guaranteed pension schedule for Salaried Employees of Armstrong World Industries, Inc. under the Retirement Income Plan multiplied by the total years of service credited for employment prior to his Company employment, as determined in Section 2.02(d) and his years of Company employment and shall be payable in the form of a single life annuity commencing as of the later of the Member's attainment of age 62 or the Member's termination date.

3.05. If a Member is restored to employment with the Company after having retired, any monthly payments under the Plan shall be discontinued and, upon subsequent retirement or termination of employment with the Company, the Member's benefits under the Plan shall be recomputed in accordance with Section 3.01 and shall again become payable to such Member in accordance with the provisions of the Plan, including his election under Section 3.02.

3.06. In the event the dollar amount of the maximum benefit under the Retirement Income Plan pursuant to Section 415 of the Internal Revenue Code increases because of adjustments in the cost of living, the supplemental benefits of any Member payable under the Plan, whether or not in pay status, shall be recalculated to take into account the higher maximum benefit payable from the Retirement Income Plan. If payments have already commenced under the Retirement Income Plan and this Plan, benefit amounts under both plans shall be adjusted to reflect the higher maximum benefit, by increasing the amount paid under the Retirement Income Plan and decreasing the amount paid under this Plan, as soon as administratively possible after such a change. Notwithstanding the above, if the Retirement Income Plan is terminated, no adjustments shall be made to benefits payable under this Plan with respect to changes in the maximum benefit after the date of such termination.

3.07 In the event a Member dies after becoming vested under the Retirement Income Plan but prior to the date his supplemental benefits under this Plan are scheduled to commence or be paid, a spouse's benefit shall be payable to the Member's surviving spouse. The spouse's benefit shall be paid to the Member's surviving spouse in a life annuity, beginning as of the first day of the month immediately following the date of the Member's death or, if later, the date the Member would have attained age 55 if he had lived, under which each payment shall equal one-half ($^1/_2$) of the amount that would have been payable to the Member under Section 3.01 if the Member had elected a single life annuity under Section 3.02 with payments commencing as of the same date as the spouse's benefit.

3.08. Effective as of March 1, 2004, all rights and / or obligations of the Company to honor single-sum withdrawal requests shall be terminated.

3.09. Effective January 1, 2005, notwithstanding any provision of this Plan to the contrary, if the Member is considered a Specified Employee at termination of employment under such procedures as established by the Company in accordance with Section 409A of the Internal Revenue Code, benefit distributions that are made by reason of termination of employment may not commence earlier than six (6) months after the date of such termination of employment. Therefore, in the event this Section 3.09 is applicable to a Member, any distribution that would otherwise be paid to the Member within the first six months following the termination of employment shall be accumulated and paid to the Participant in a lump sum (payable with interest determined based upon the short-term applicable federal rate (AFR) for purposes of Section 1274(d) of the Internal Revenue Code for the November preceding the calendar year of the termination of employment) on the first day of the seventh month following the termination of employment. All subsequent distributions shall be paid in the manner specified.

3.10. Notwithstanding any other provision of the Plan to the contrary, a Member may request at any time to receive a lump sum distribution of a portion of his supplemental benefit due to an “Unforeseeable Emergency” as follows:

(a) “Unforeseeable Emergency” shall mean any severe financial hardship to the Member resulting from an illness or accident of the Member or his spouse or dependent (as defined in Section 152 of the Internal Revenue Code, without regard to Sections 152(b)(1), (b)(2) and (d)(1)(B) thereof), loss of the Member’s property due to casualty, or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Member.

(b) Any distribution pursuant to this provision is limited to the amount necessary to meet the emergency, and any amounts necessary to pay any federal, state, local or foreign income taxes or penalties reasonably anticipated to result from such distribution.

(c) The circumstances that will constitute an Unforeseeable Emergency will depend upon the facts of each case, but, in any case, payment may not be made to the extent that such hardship is or may be relieved (i) through reimbursement or compensation by insurance or otherwise or (ii) by liquidation of the Participant’s assets, to the extent the liquidation of such assets would not itself cause severe financial hardship.

(d) If the Committee determines that a Participant has demonstrated an Unforeseeable Emergency, the determination to make a distribution pursuant to this Section 3.10 remains in the sole discretion of the Committee.

(e) Any distribution due to an Unforeseeable Emergency shall be made by determining the Actuarial Equivalent Present Value of the Member’s supplemental benefits and a lump sum distribution shall not be in excess of such Actuarial Equivalent Present Value. In the event the distribution is less than the Actuarial Equivalent Present Value, the Actuarial Equivalent Present value of the Member’s supplemental benefits shall then be reduced in accordance with Section 3.01(d).

Article 4. Administration

4.01. The administration of the Plan and the responsibility for carrying out its provisions are vested in a Retirement Committee which shall be composed of the members of the Retirement Committee provided for under Article IX of the

Retirement Income Plan. The provisions of Article IX of the Retirement Income Plan concerning powers of the Committee shall apply under this Plan. The Retirement Committee shall have the full and exclusive discretion and authority to interpret the Plan and to determine all benefits and to resolve all questions arising from the administration, interpretation, and application of Plan provisions, either by general rules or by particular decisions, including determinations as to whether a claimant is eligible for benefits, the amount, form and timing of benefits, and any other matter (including any question of fact) raised by a claimant or identified by the Retirement Committee. All decisions of the Committee shall be conclusive and binding upon all affected persons. The expenses of the Committee shall be paid directly by the Company.

Article 5. General Provisions

5.01. The establishment of the Plan shall not be construed as conferring any legal rights upon any person for a continuation of employment, nor shall it interfere with the rights of the Company to discharge any employee and to treat him without regard to the effect which such treatment might have upon him as a Member of the Plan. No legal or beneficial interest in any of the Company's assets is intended to be conferred by the terms of the Plan.

5.02. In the event that the Committee shall find that a Member or other person entitled to benefits hereunder is unable to care for his affairs because of illness or accident, the Committee may direct that any benefit payment due him, unless claim shall have been made therefor by a duly appointed legal representative, be paid to his spouse, a child, a parent or other blood relative, or to a person with whom he resides, and any such payment so made shall be a complete discharge of the liabilities of the Company and the Plan therefor.

5.03. The Company shall have the right to deduct from each payment to be made under the Plan any required withholding taxes.

5.04. Subject to any applicable law, no benefit under the Plan shall be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance or charge, any attempt so to do shall be void, nor shall any such benefit be in any manner liable for or subject to garnishment, attachment, execution or levy, or liable for or subject to the debts, contracts, liabilities, engagements or torts of the Member. In the event that the Committee shall find that any Member or other person entitled to benefits hereunder has become bankrupt or has made any such attempt with respect to any such benefit, such benefit shall cease and terminate, and in that event the Board shall hold or apply the same to or for the benefit of such Member or other person entitled to benefits.

5.05. (a) In the event that a Member (i) is discharged for willful, deliberate, or gross misconduct as determined by the Board of Directors or a duly constituted committee thereof; or (ii) if following the Member's termination of employment with the Company and, within a period of three years thereafter, the Member engages in any business or enters into any employment which the Board of Directors or a duly constituted committee thereof determines to be either directly or indirectly competitive with the business of the Company or substantially injurious to the Company's financial interest (the occurrence of an event described in (i) or (ii) shall be referred to as "Injurious Conduct"), all benefits which would otherwise be payable to him under the Plan shall be forfeited. Further, the Board of Directors or a duly constituted committee thereof, in its discretion, may require the Member who has engaged in Injurious Conduct to return any amounts previously received by the Member, provided the right to require repayment under this subsection (a) must be exercised within ninety (90) days after the Board (or committee, as the case may be) first learns of the Injurious Conduct, but in no event later than twenty-four (24) months after the Member's termination of employment with the Company. A Member may request the Board of Directors or a duly constituted committee thereof, in writing, to determine whether any proposed business or employment activity would constitute Injurious Conduct. Such a request shall fully describe the proposed activity and the Board's (or the committee's, as the case may be) determination shall be limited to the specific activity so described.

(b) Notwithstanding the foregoing, benefits shall not cease or be forfeited or be required to be repaid merely because the Member (1) owns publicly traded shares of stock of a corporation which competes with the Company, or (2)(a) acts as a consultant for, (b) has an investment in, or (c) is a Board member of a business where after the Member notifies the Company in writing in advance of his potential involvement under (2)(a), (b) or (c), the Company's Board of Directors or a duly constituted committee thereof determines that the Member will not be in violation of the Company's Conflicts of Interest policy, or (3) becomes associated with a business which competes with the Company within two years following a "Change in Control" and is eligible for benefits under any individual severance agreement.

5.06. The Plan shall be constructed, regulated and administered under the laws of the Commonwealth of Pennsylvania.

5.07. The masculine pronoun shall mean the feminine wherever appropriate.

5.08. The Board of Directors may, through written resolutions adopted by the Board of Directors, amend or discontinue the Retirement Benefit Equity Plan at any time; provided, however, that if the Plan is amended to discontinue or reduce the amount of supplemental benefit payments (except as may be required pursuant to any plan arising from insolvency or bankruptcy proceedings) (a) any Member who is being paid his supplemental benefits immediately prior to the effective date of the amendment shall continue to be paid his supplemental benefits in the amount and manner (as provided under Article 3 hereof) as they were being paid at the time of such amendment, and (b) any Member who is not being paid his supplemental benefits immediately prior to the effective date of the amendment shall be entitled to receive (i) the supplemental benefits accrued by such Member as of the effective date of the amendment, with such supplemental benefits being paid at the time elected by the Member under Section 3.02, and (ii) any legal fees and related expenses incurred by the Member in receiving such supplemental benefits (as permitted under Section 5.09(e)) and interest under Section 5.09(f) (to the extent applicable). Notwithstanding the preceding sentence, any written employment agreement between the Executive Committee and any Member described in clause (b) of the preceding sentence shall govern to the extent such agreement either amends or discontinues the Member's supplemental benefits under the Plan, and Section 5.05 shall govern to the extent any Member engages in Injurious Conduct as defined under that section.

5.09. (a) Any person claiming a benefit, requesting an interpretation or ruling under the Plan, or requesting information under the Plan shall present the request in writing to the Committee which shall respond in writing as soon as practicable.

(b) If the claim or request is denied, the written notice of denial shall state:

(i) The reasons for denial, with specific reference to the Plan provisions on which the denial is based.

(ii) A description of any additional material or information required and an explanation of why it is necessary.

(iii) An explanation of the Plan's claim review procedure.

(c) Any person whose claim or request is denied or who has not received a response within thirty (30) days may request review by notice given in writing to the Committee. The claim or request shall be reviewed by the Committee who may, but shall not be required to, grant the claimant a hearing. On review, the claimant may have representation, examine pertinent documents, and submit issues and comments in writing.

(d) The decision on review shall normally be made within sixty (60) days. If an extension of time is required for a hearing or other special circumstances, the claimant shall be notified and the time limit shall be one hundred twenty (120) days. The decision shall be in writing and shall state the reasons and the relevant Plan provisions. All decisions on review shall be final and bind all parties concerned.

(e) In the event a Member's claim for supplemental benefits under this Plan is denied and the Member successfully appeals the denial of such claim under the foregoing procedures, the Company shall pay or reimburse the legal fees and expenses directly incurred by the Member in connection with his appeal subject to a maximum payment or reimbursement of one-third of the Actuarial Equivalent Present Value of the supplemental benefits to which the Member is entitled. For purposes of the preceding sentence, actuarial equivalence shall be determined using the actuarial assumptions and factors reasonably utilized under the Retirement Income Plan as of the date of determination. Any such legal fees and expenses shall be paid by the Company to, or on behalf of, the Member no later than thirty (30) days following the Member's written request for the payment of such legal fees and expenses, provided the Member supplies the Committee with evidence of the fees and expenses incurred by the Member that the Committee, in its sole discretion, determines is sufficient.

(f) Further, in the event a Member's claim for supplemental benefits under this Plan is denied and the Member successfully appeals the denial of such claim under the foregoing procedures, the Company shall pay to the Member interest on the portion of the Member's supplemental 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 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 Member.

Exhibit 10.9

BONUS REPLACEMENT RETIREMENT PLAN
OF ARMSTRONG WORLD INDUSTRIES, INC.

As Amended and Restated
Effective January 1, 2007

BONUS REPLACEMENT RETIREMENT PLAN
OF ARMSTRONG WORLD INDUSTRIES, INC.

Foreword

Effective January 1, 1998, Armstrong World Industries, Inc. adopted the Bonus Replacement Retirement Plan of Armstrong World Industries, Inc. (the "Plan") for the benefit of certain of its employees.

The Plan hereinafter set forth has been approved by the Board of Directors of Armstrong World Industries, Inc. and is intended to conform to the requirements of the Employee Retirement Income Security Act of 1974, as amended, and to qualify as a profit sharing plan under Section 401(a) of the Internal Revenue Code of 1986, as amended, or any other applicable sections thereof.

Since January 1, 1998, the Plan was amended as follows:

- The Plan was amended in December of 2002, but effective January 1, 1998, in response to IRS comments to include specific changes to the definition of compensation used in applying the limitations of Article XI, and to add language addressing the treatment of military service.
- Effective as of January 1, 2003, Armstrong Wood Products, Inc. (including its divisions AFP Wood Flooring and Armstrong Cabinet Products) was designated as a Participating Company and coverage was extended to include certain employees of AFP Wood Flooring and Armstrong Cabinet Products Divisions of Armstrong Wood Products, Inc. In addition, effective January 1, 2003, the Asset Manager Funds were removed from the Plan and the Fidelity Equity Income Fund, the Fidelity Intermediate Bond Fund, and the Fidelity Freedom Funds substituted in lieu thereof.

Effective January 1, 2003, the Plan was amended and restated to incorporate amendments adopted since the last restatement of the Plan. Since January 1, 2003, the Plan was amended from time to time to make various design and statutory changes, including the following:

- Effective March 1, 2005, the Plan was amended to remove the Money Market Fund as an available investment alternative.
- Effective January 1, 2007, the Plan was amended to remove the existing vesting schedule and 100% vest all contributions made to the Plan and to modify the default investment under the plan to be a target retirement Balanced Fund.

Unless a different date is specified in the Plan, a Plan amendment or in resolutions of the Retirement Committee or the Board of Directors of the Company, the Plan is hereby amended and restated effective as of January 1, 2007 to incorporate previous amendments to the Plan, with the intent that the amended and restated Plan shall be submitted to the Internal

Revenue Service for an advance determination that the Plan continues to be qualified under Code Section 401(a). However, any Plan provision necessary to comply with the requirements of federal legislation or regulations, which requirements have an earlier required effective date, shall be effective retroactively to the date required by the applicable law or regulation. In any case where a provision of the Plan has an effective date later than January 1, 2007, the language of the Plan as in effect immediately prior to this restatement shall continue to apply until such later effective date.

The rights to benefits of any eligible employee whose employment terminates prior to the effective date of any amendment to the Plan, and the rights of the Beneficiary of such eligible employee, shall be determined solely by the provisions of the Plan under which such eligible employee is covered, if any, as in effect at the time of such termination of employment, unless otherwise specifically provided herein.

BONUS REPLACEMENT RETIREMENT PLAN
OF ARMSTRONG WORLD INDUSTRIES, INC.

Table of Contents

ARTICLE I

Definitions

As used herein, unless otherwise defined or required by the context, the following words and phrases shall have the meanings indicated. Some of the words and phrases used in the Plan are not defined in this Article I, but, for convenience, are defined as they are introduced into the text.

1.1 Account" means the Member's account into which shall be credited the amounts in the Investment Funds attributable to contributions made by the Company on the Member's behalf pursuant to Section 3.1.

1.2 "Affiliated Company" means any company which is related to the Company as a member of a controlled group of corporations in accordance with Section 414(b) of the Code, or as a trade or business under common control in accordance with Section 414(c) of the Code, or any other entity to the extent it is required to be treated as an Affiliated Company in accordance with Section 414(o) of the Code and any regulations thereunder, or any organization which is part of an affiliated service group in accordance with Section 414(m) of the Code. For the purposes under the Plan of determining whether or not a person is an employee and the period of employment of such person, each such company shall be considered an Affiliated Company only for such period or periods during which such other company is a member of the controlled group or under common control.

1.3 "Beneficiary" means such beneficiary as may be designated pursuant to Section 2.3.

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

1.5 "Code" means the Internal Revenue Code of 1986, as amended.

1.6 "Committee" means the committee appointed in accordance with Section 8.1.

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

1.8 "Company Contributions" mean those contributions made by the Company under Section 3.1.

1.9 "Continuous Employment" means, subject to all of the provisions set forth herein, service with the Company or one or more Affiliated Companies, including successive service with two or more Affiliated Companies.

(a) Notwithstanding the foregoing, periods while on an uncompensated leave of absence or an uncompensated layoff shall be disregarded in the determination of an Employee's Continuous Employment.

(b) Continuous Employment shall be deemed terminated on the earliest of the following events:

(1) Death, retirement, resignation, or quit by the Employee;

(2) Discharge;

(3) Failure to return to work on:

(i) Expiration of approved leave of absence;

(ii) Recall after layoff;

(iii) Expiration of reemployment rights protected by law; or

(4) Elapse of 12 months following layoff without recall.

1.10 “Effective Date” means January 1, 1998, or such later date as of which the Plan is made applicable in accordance with Section 10.8.

1.11 “Employee” means a person in the employ of the Company or an Affiliated Company. The term “Employee” shall exclude any person who is (i) a leased employee, (ii) a member of a bargaining unit, and (iii) a foreign national or citizen of a territorial possession of the United States of America whose employment relationship or contract of employment originates at, and whose services are performed solely for and at, a branch facility of the Company outside the United States. The term “leased employee” shall mean any person (other than an Employee of the Company or an Affiliated Company) who pursuant to an agreement between the Company or Affiliated Company and any other person (“leasing organization”) has performed services for the Company or an Affiliated Company on a substantially full-time basis for a period of at least one year, and such services are performed under the primary direction or control by the Company or an Affiliated Company. A leased employee shall not be considered an Employee of the Company or an Affiliated Company if: (i) such individual is covered by a money purchase pension plan providing (1) an employer contribution of 10% of compensation as defined under Section 11.1, (2) immediate participation, and (3) full and immediate vesting; and (ii) leased employees do not constitute more than 20% of the Company’s nonhighly compensated workforce.

1.12 “ERISA” means the Employee Retirement Income Security Act of 1974, as amended.

1.13 “Fund” or “Investment Fund” means any of the separate funds in which contributions to the Plan are invested in accordance with Article IV.

1.14 “Insurance Company” means the insurance company which issues a contact, and any successor insurance company thereto.

1.15 “Insurance Contract” means a contract issued by an Insurance Company to fund benefits under the Plan, and any successor contract thereto.

1.16 “Investing Institution” means a Trustee, or Insurance Company, mutual fund or investment manager which is designated by the Committee, by Trust Agreement or Insurance Contract, to manage the Funds.

1.17 “Member” means any Employee who becomes a Member of this Plan as provided in Section 2.1.

1.18 “Named Fiduciary” means the Board of Directors, the Committee, and the Trustee.

1.19 “Participating Company” means the Company or any other Affiliated Company approved by the Committee.

1.20 “Plan” means the Bonus Replacement Retirement Plan of Armstrong World Industries, Inc. , as described herein.

1.21 “Plan Year” means the 12-month period beginning on January 1 and ending on the following December 31.

1.22 “Trust Agreement” means the agreement entered into between the Company and the Trustee to fund benefits under the Plan.

1.23 “Trust Fund” means the cash and other properties arising from contributions made by the Company in accordance with the provisions of this Plan and held and administered by the Trustee pursuant to the Trust Agreement.

1.24 “Trustee” means any bank or trust company designated by the Board of Directors under a trust agreement to receive Company Contributions made in accordance with Section 3.1.

1.25 “Valuation Date” means the date or dates, as applicable, on which the Trust Fund is valued in accordance with Article V.

ARTICLE II

Eligibility, Membership, and Beneficiary Designation

2.1 Eligibility . Each Employee of a Participating Company who, on the first day of the Plan Year, is (1) at a grade level of 18 or more on the Participating Company's organizational management system, and (2) eligible to participate in the Company's Management Achievement Plan shall become a Member on the later of (A) the Effective Date of the Plan, or (B) the date the Employee first satisfies the criteria for Plan eligibility. An Employee who has transferred from the employment of a foreign subsidiary of the Company to the employment of a Participating Company and who is accruing benefits under a retirement program maintained by such foreign subsidiary shall not become a Member of the Plan until the earliest of the date on which:

(a) He becomes a United States citizen;

(b) He is granted permanent resident alien status under the laws of the United States; or

(c) He ceases to accrue benefits under such foreign subsidiary retirement program.

2.2 Suspension of Membership due to Transfer to Non-Covered Employment . If, in any Plan Year, a Member is not in a category of employment described in Section 2.1 above as of the last day of such Plan Year, but continues in the employment of the Company or an Affiliated Company, he shall be a suspended Member for the entire such Plan Year subject to the following conditions:

(a) During the period of his suspension, the Member shall not be entitled to share in any allocations of Company Contributions. If during the period of his suspension his employment terminates or he retires or dies, there shall be a distribution of his Account in accordance with Article VI.

(b) If and when a suspended Member again becomes employed by the Company at a grade level of 18 or above, he shall again be an active Member as of that date and may share in any allocations of Company Contributions (in accordance with the terms of the Plan).

2.3 Beneficiary Designation . Subject to the rules set forth below with respect to married Members, each Member has the right to name a Beneficiary to receive any death benefits payable hereunder. Each Member also has the right, from time to time, to change any designation of Beneficiary. A designation or change of Beneficiary must be in writing on forms supplied by the Committee and any change of Beneficiary will not become effective until such change of Beneficiary is filed with the Committee or its designee whether or not the Member is alive at the time of such filing; provided, however, that any such change will not be effective with respect to any payments made by the Trustee in accordance with the Member's last designation and prior to the time such change was received by the Committee or its designee. In the case of any Member who is married on the date of his death, the Member's spouse as of his date of death shall be his Beneficiary unless such spouse shall have consented to a different Beneficiary on prescribed forms and before either a notary public or an individual designated by the Committee. Such spousal consent must acknowledge the effect of the Beneficiary designation. In the absence of an effective Beneficiary designation or if a named Beneficiary shall have died and no contingent Beneficiary shall have been properly designated, the first of the following classes of successive preference beneficiaries shall be the Beneficiary:

(a) the Member’s surviving spouse;

(b) the Member’s surviving children;

(c) the estate of the Member.

Any individual who is designated as an alternate payee under a “qualified domestic relations order” (as defined in Code Section 414(p)) relating to a Member’s Account under this Plan shall be treated as a Beneficiary hereunder, to the extent provided by such order. The Committee may require and rely upon such proof of death and such evidence of the right of any Beneficiary or other person to receive the undistributed value of a deceased Member’s Account as the Committee may deem proper, and its determination of death and of the right of such Beneficiary or other person to receive payment shall be conclusive.

ARTICLE III

Company Contributions

3.1 Company Contributions . The Company may contribute to the Plan the amounts necessary to make the following allocations.

(a) Allocations - Company Contributions for a Plan Year shall be allocated to the Accounts of Members who are employed in a category described in Section 2.1 on the last day of such Plan Year in accordance with the following:

(1) If a Member's employment grade is at least grade 18 but not more than grade 19 under the Company's organizational management system as of January 1 of the Plan Year, the Company Contributions allocated on behalf of such Member for the Plan Year shall be equal to the lesser of (i) 50% of the actual "gross bonus" (as such term is defined under the Company's Management Achievement Plan) awarded to the Employee under the Company's Management Achievement Plan with respect to services performed by the Member for the Company for the calendar year coinciding with such Plan Year, or (ii) $7,500.

(2) If a Member's employment grade is at least grade 20 but not more than grade 21 under the Company's organizational management system as of January 1 of the Plan Year, the Company Contributions allocated on behalf of such Member for the Plan Year shall be equal to the lesser of (i) 50% of the actual "gross bonus" awarded to the Employee under the Company's Management Achievement Plan with respect to services performed by the Member for the Company for the calendar year coinciding with such Plan Year, or (ii) $15,000.

(3) If a Member's employment grade is at least grade 22 under the Company's organizational management system as of January 1 of the Plan Year, the Company Contributions allocated on behalf of such Member for the Plan Year shall be equal to the lesser of (i) 50% of the actual "gross bonus" awarded to the Employee under the Company's Management Achievement Plan with respect to services performed by the Member for the Company for the calendar year coinciding with such Plan Year, or (ii) $20,000.

3.2 Return of Contributions . All Company Contributions are conditioned on their being allowed as a deduction for federal income tax purposes. Notwithstanding any provision of the Plan to the contrary, Company Contributions made to the Plan may be returned to the Company if:

(a) the contribution is made by reason of mistake of fact; or

(b) the contribution is conditioned on its deductibility under Code Section 404 and such deductibility is denied;

provided such return of contribution is made within one year of the mistaken payment of the contribution or the disallowance of the deduction, as the case may be. A contribution shall be considered to be made by reason of a mistake of fact if, for example, it is based on incorrect information as to eligibility or compensation of an Employee, a mathematical error or an erroneous belief that such contribution is consistent with the limitations of Section 11.1. So much of the contribution as is attributable to the mistake of fact shall be repaid by the Trustee upon demand by the Company upon presentation of evidence of the mistake of fact and calculation as to the impact of the mistake.

3.3 Vesting of Member's Account and Forfeitures . A Member shall have a vested and nonforfeitable interest in his Account immediately upon becoming a Member.

ARTICLE IV

Investment of Contributions

4.1 Investment Funds . Contributions to the Plan shall be invested by the Investing Institution in one or more of the following Investment Funds in accordance with Section 4.2:

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

(b) “Stable Value Fund” is one or more stable value funds, as may be available from time to time, invested in investment contracts issued by insurance companies and other financial institutions, fixed income securities such as U.S. Treasury and agency bonds, corporate bonds, mortgage-backed securities, asset-backed securities and bond funds, futures contracts, option contracts and swap agreements, and money market funds and other short term investments to provide daily liquidity, and may also include investment in any commingled trust fund qualified under Section 401(a) of the Code (or corresponding provisions of any subsequent Federal revenue law at the time in effect), which is invested primarily in similar types of securities.

(c) “Company Stock Fund” is a fund designed solely to invest in the common stock of Armstrong Holdings, Inc. or to hold the common stock of Armstrong Holdings, Inc. contributed to the Plan by the Company. Up to 100% of the assets of the Plan may be invested in the Company Stock Fund. As of May 1, 2000, each share of Company Stock held by the Plan will be converted into a share of common stock of Armstrong Holdings, Inc. Thereafter, any reference to “Company Stock” or “Company common stock” in the Plan shall refer to the common stock of Armstrong Holdings, Inc. Notwithstanding the foregoing, beginning January 1, 2001, the Company Stock Fund shall not be available as an Investment Fund with respect to investment elections under Section 4.1, changes in investment options under Section 4.2, and transfers between Investment Funds under Section 4.4.

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

Any such common, collective or commingled trust funds referred to in connection with the Funds referred to in Subsections 4.1(a), 4.1(b), or 4.1 (d) shall satisfy such requirements of

ERISA governing the establishment of such funds for the investment of assets of employee benefit plans qualified under Section 401(a) and exempt under Section 501(a) of the Code whereupon the instrument or instruments establishing such common, collective or commingled trust funds, as amended from time to time, shall constitute a part of this Plan and the Trust Agreement with respect to any assets of the Investment Fund(s) which are at the time invested in such funds. Any portion of an Investment Fund may, pending permanent investment or distribution, be invested in short term securities issued or guaranteed by the United States of America or any agency or instrumentality thereof or any other investments of a short term nature, including corporate obligations or participation's therein or through the medium of any common, collective or commingled trust fund maintained by the Trustee which is invested principally in property of the kind specified in this Section. A portion of an Investment Fund may be maintained in cash.

4.2 Investment Elections . Company Contributions made on a Member's behalf under Section 3.1 will be invested in multiples of 1%, in any one or more of the Investment Funds (other than the Company Stock Fund, with respect to Company Contributions made on and after January 1, 2001), as elected by the Member in accordance with such uniform rules as the Committee may adopt from time to time. If Company Contributions are made prior to the time that a Member has made an election under this Section 4.2, such Company Contributions shall be invested in the Balanced Fund until such investment election is received. Any Company Contributions that are designated by the Member to be invested in the Company Stock Fund shall be invested in a Balanced Fund until the Member properly designates the investment of such Company Contributions in and among the other Investment Funds available under Section 4.1.

4.3 Change in Investment Options . A Member may change his election of the Investment Funds (other than the Company Stock Fund, with respect to Company Contributions made on and after January 1, 2001) at any time with respect to any subsequent Company Contributions to be allocated on his behalf, by giving notice (including telephonic notice) to the Committee in such manner and within the time limit prescribed by the Committee.

4.4 Transfer Between Funds .

(a) An active or inactive Member may elect to transfer all or any portion of the value of his Account in one of the Investment Funds to any other Investment Fund (other than the Company Stock Fund, with respect to transfer requests made on and after January 1, 2001) at the following times (and under such uniform rules as the Committee may adopt from time to time):

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

(2) Any election to transfer from the Company Stock Fund may be made at any time. Effective January 1, 2007, transactions will be executed daily, and are subject to normal settlement timeframes and practices.

(b) Except as otherwise provided, transfers pursuant to this Section 4.4 may be made by telephoning notice to the Investing Institution, and shall be effective as soon as practicable following the Investing Institution's receipt of the notice.

4.5 Investment Options . Each Member is solely responsible for the selection of his investment option. The Investing Institutions, the Committee, the Company or any of the officers or supervisors of the Company are not empowered to advise a Member as to the manner in which his Account shall be invested. The fact that a security is available to Members for investment under the Plan shall not be construed as a recommendation for the purchase of that security, nor shall the designation of any option impose any liability on the Company, its directors, officers or employees, the Investing Institutions, the Committee or any Member of the Plan.

4.6 Voting Rights; Offer to Purchase Stock .

(a) Voting - All Company stock (including fractional shares), the value of which is allocated to Members' Accounts, shall be voted by the Trustee of the Trust, in accordance with instructions from the Members. Armstrong Holdings, Inc. shall provide Members with notices and information statements when voting rights are to be exercised, the content of which must generally be the same as for all holders of interests in Company stock. Fractional shares may be voted by the Trustee on a combined basis, in order to reflect the direction of the Members holding such shares. The Trustee shall tabulate the instructions and shall determine the ratio of votes for and against each proposition. The Trustee shall then vote all stock held by it, including stock for which no instructions have been received, in the ratios determined by the vote of those Members who returned voting instructions.

(b) Tender Offer Procedure - In the event any offer is made to shareholders of Armstrong Holdings, Inc. generally by any person corporation or other entity (the "Offeror") to purchase any or all of the outstanding stock of Armstrong Holdings, Inc., including the stock the value of which is then held in Members' Accounts, then and in that event the Trustee shall promptly forward to each Member all materials and written information furnished to the Trustee by the Offeror and/or by Armstrong Holdings, Inc. in connection therewith, and shall notify each Member in writing of the number of shares of Company stock the value of which is then credited to such Member's Account. Such notice shall also set forth the rights afforded each Member by the following sentence and shall state that, absent timely instructions from such Member to the Trustee, no tender to the Offeror shall be made of any of the shares specified in such written notice. Each Member shall be entitled to instruct the Trustee as to whether all (but not less than all) of the shares of Company stock standing to his credit should be tendered by the Trustee pursuant to such offer.

(c) Shares Tendered - The Trustee shall tender only those shares of Company stock the value of which is held in a Member's Account for which it receives instructions to so tender from such Member and shall not tender any shares as to which such instructions are not so received.

(d) Proceeds - In the event that Company stock the value of which is held in a Member's Account is tendered, the proceeds received upon the acceptance of such tender by the Offeror shall be credited to such Member’s Account. The Trustee shall invest amounts representing the proceeds of tendered Company stock and any earnings thereon, in accordance with instructions from the Committee.

4.7 Limitations . Provisions of this Article are subject to the limitations of any contract with any Investing Institution.

ARTICLE V

Valuation of a Member's Account

"Valuation Date" shall mean any day that the New York Stock Exchange is open for trading or such other date as may be designated by the Committee or its delegate. The Investment Funds described in Section 4.1 shall be valued on each Valuation Date in accordance with rules established by the Committee. Whenever a distribution to a Member is made, the amount paid to the Member shall be based on the value of the Member's Account determined as of the Valuation Date set forth in Article VI.

Each Member's Account will be credited, as of the Valuation Date on which such amounts are received by the Trustee, with all contributions made on the Member's behalf and debited with the amount of any distribution made to the Member or on the Member's behalf pursuant to Article VI. The Account of each Member will also be adjusted, as of each Valuation Date, for increases reflecting the Member's share of the net investment income and any realized and unrealized capital gains of the Funds and decreases reflecting the Member's share of any realized and unrealized losses, including capital losses, as well as the payment of brokerage fees and transfer taxes applicable to purchases and sales for each Investment Fund and all similar transactions, and any Plan administrative expenses to the extent they are not paid by the Company, of the Investment Funds that occurred since the last Valuation Date. Except to the extent otherwise reflected in the value of mutual fund shares, such Member's share of such income and losses will be that portion of the total net investment income, capital gains and losses of each such Investment Fund which bears the same ratio to such total as the balance of his Member Accounts attributable to each such Investment Fund on the preceding Valuation Date bears to the aggregate of the balances of all Member Accounts attributable to each such Investment Fund as of the preceding Valuation Date.

ARTICLE VI

Distributions

6.1 Distributions on Termination of Employment Other than by Reason of a Member's Death .

(a) Subject to Section 6.4, if a Member terminates employment for any reason other than death, he may elect (in the manner specified by the Committee) at any time following his termination to receive a single sum cash payment of his Account as soon as practicable following the Committee's receipt of the Member's election.

(b) If a Member is eligible to receive a distribution in accordance with subsection (a), he may request in the manner prescribed by the Committee (including telephonically) to have such distribution paid directly to him or paid as a "direct rollover distribution" (as defined in Code Section 402(c) and the regulations and other guidance issued thereunder).

(c) The amount of such distribution shall be valued as of the Valuation Date prior to the actual distribution, which will be on the date of the request or as soon as administratively feasible.

(d) Notwithstanding subsection (a), the portion of the Member's Account that is invested in the Company Stock Fund shall be distributed in a single sum in either cash or Company Stock (with cash for fractional shares), as elected by the Member. If the Member fails to elect, prior to the time the time such distribution is to be processed pursuant to the Member's election or pursuant to the requirements of Section 6.4, to receive the portion of his Account invested in the Company Stock Fund in shares of Company Stock, such distribution shall be made in cash.

(e) The Committee or its designee shall notify each Member, at such time and in such manner as required by Sections 402(f) and 411 (a)(11) of the Code and the regulations and other guidance issued thereunder, of his right to make a "direct rollover distribution," in accordance with Section 6.5 below, and his right to receive a distribution of his Account under this Section 6.1. Distribution of a Member's Account under the Plan may occur prior to 30 days after the Committee or its designee provides such notice, provided:

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

(2) the Member, after receiving the notice, requests to receive an immediate distribution in the manner prescribed by the Committee (including telephonically).

6.2 Distribution Upon a Member's Death .

(a) In the event a Member dies prior to his receipt of a distribution under Section 6.1, the entire value of his Account shall be paid in a single sum cash payment to the

Member's Beneficiary as soon as practicable following receipt of proper payment instructions by the Trustee from the Committee. The amount of such distribution shall be determined in accordance with Section 6.1(c), substituting "for payment instructions received" for the phrase "for any request made" in such section. The Committee shall provide the Trustee payment instructions as soon as practicable after the Member's death or notification of the Member's death, if later. No benefits shall be payable under this Section 6.2 to any Beneficiary if the Member dies after commencing to receive a distribution of his Accounts.

(b) Notwithstanding the foregoing, if the Member's Beneficiary is the Member's spouse, such Beneficiary may elect to defer receipt of the single sum payment beyond the date on which it normally would become payable, but in no event later than December 31 of the calendar year in which the Member would have attained age 70 $^1/_2$.

(c) In no event may a Beneficiary elect to receive a payment of a Member's Account in any form of payment other than a single sum payment. Further, if a spousal Beneficiary defers distribution of any amounts from the Plan, then prior to the distribution of such Account, the Beneficiary may not obtain any partial distributions. However, such Beneficiary may continue to invest amounts in the Member's Account in accordance with Article IV.

(d) Notwithstanding subsection (a), the portion of the Member's Account that is invested in the Company Stock Fund shall be distributed in a single sum in either cash or Company Stock (with cash for fractional shares), as elected by the Beneficiary. If the Beneficiary fails to elect to receive the portion of the Member's Account invested in the Company Stock Fund in shares of Company Stock, such distribution shall be made in cash.

6.3 Lost Members or Beneficiaries . If a Member or Beneficiary cannot be located by reasonable efforts of the Committee within a reasonable period of time after the latest date such benefits are otherwise payable under the Plan, the amount in such Member's Account shall be forfeited and used to reduce future Company Contributions, defray administrative expenses of the Plan, and restore Members' Accounts in accordance with this section; provided, however, that such forfeited amount shall be restored (without earnings) if, at any time, the Member or Beneficiary who was entitled to receive such benefit when it first became payable shall, after furnishing proof of his identity and right to make such claim to the Committee, file a written request for such benefit with the Committee.

6.4 Required Distributions .

(a) Notwithstanding anything to the contrary in this Plan, and subject to subsection (c) below, payments under the Plan to a Member shall begin not later than the 60th day after the latest of the close of the Plan Year in which:

(1) the Member attains age 65;

(2) occurs the tenth anniversary of the year in which the Member commences participation in the Plan; or

(3) the Member terminates employment.

(b) All payments under this Plan shall be adjusted to meet the requirements of Section 401(a)(9) of the Code and the regulations and other guidance issued thereunder, subject to the provisions of this Section 6.4. In addition, all distributions under the Plan shall comply with the incidental death benefit requirements of Section 401(a)(9)(G) of the Code.

(c) Payment of benefits to any Member who is not a 5% owner as defined in Code Section 416 shall be paid in the form of a lump sum payment not later than the April 1 following the later of: (i) the calendar year in which such Member attains age 70 $^{1}/_{2}$, or (ii) the calendar year in which such Member terminates employment. Payment of benefits to any Member who is a 5% owner as defined in Code Section 416 shall be paid in the form of a lump sum payment not later than the April 1 following the calendar year in which such Member attains age 70 $^{1}/_{2}$.

6.5 Direct Rollover Distributions. At the request of a Member, a surviving spouse of a Member, or a spouse or former spouse of a Member that is an alternate payee under a qualified domestic relations order under Section 10.5 (referred to as the “distributee”) and upon receipt of the direction of the Committee or its designee, the Trustee shall effectuate a direct rollover distribution of the amount requested by the distributee, in accordance with Code Section 401(a)(31), to an eligible retirement plan (as defined in Code Section 402(c)(8)(B)). Such amount may constitute all or any whole percent of any distribution from the Plan otherwise to be made to the distributee, provided that such distribution constitutes an “eligible rollover distribution” as defined in Code Section 402(c) Code and the regulations and other guidance issued thereunder. All direct rollover distributions shall be made in accordance with the following subsections (a) through (d):

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

(b) Direct rollover distributions shall be made in cash to the Trustee of the eligible retirement plan, in accordance with procedures established by the Committee, plus shares of common stock otherwise distributable under the Plan to the distributee, which shares shall be registered in a manner necessary to effectuate a direct rollover under Code Section 401(a)(31), provided, however, that the distributee may request that such direct rollover distribution be made entirely in cash in the manner described above.

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

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

6.6 Distributions on Sales of Businesses. For the sole purpose of determining a Member’s entitlement to a distribution under this Plan, no distribution shall be permitted upon the sale or other business disposition by the Company of a trade or business or the sale by the

Company of its interest in a subsidiary, with respect to a Member who is employed by such trade or business or subsidiary immediately prior to such sale or disposition and who continues in the employ of (i) the employer that acquires the assets of such trade or business or acquires the interest of such subsidiary or (ii) any other entity related to such employer.

6.7 Payments to Minors and Incompetents . If a Member or Beneficiary entitled to receive any benefits hereunder is a minor or is deemed by the Committee or is adjudged to be legally incapable of giving valid receipt and discharge for such benefits, they will be paid to such persons as the Committee might designate or to the duly appointed guardian. Any such payment shall be a complete discharge of the liability of the Plan and the Trust therefor.

ARTICLE VII

Management of Funds

7.1 General Responsibilities . All the funds of the Plan shall be held by a Trustee or Trustees appointed from time to time by the Board of Directors, in one or more trusts under a trust instrument or instruments approved or authorized by the Board of Directors for use in providing the benefits of the Plan; provided that no part of the corpus or income of the Trust Fund shall be used for, or diverted to, purposes other than for the exclusive benefit of Members and their Beneficiaries.

7.2 Funding Agreements .

(a) All the funds of the Plan shall be held by one or more Investing Institutions appointed from time to time by the Company under a Trust Agreement or an Insurance Contract adopted, or as amended, by the Company for the administration of the funds of the Plan. The Company shall have no liability for the investment of the funds paid over to the Investing Institution.

(b) The Company retains the right to act on behalf of all persons having an interest in any Trust Fund or under any Insurance Contract, and to enter into additional Trust Agreements or Insurance Contracts.

7.3 Investment Managers . The Committee may appoint one or more Investment Managers to manage the investment of all or any part of one or more of the Investment Funds. Every Investment Manager so appointed must meet the requirements of ERISA Section 3(38). An Investment Manager shall acknowledge in writing its appointment as a fiduciary of the Plan, and shall serve until a proper resignation is received by the Committee, or until it is removed and/or replaced by the Committee. The Committee and the Trustee shall be under no duty to question any direction or lack of direction of any Investment Manager, but shall act, and shall be fully protected in acting, in accordance with each such direction. An Investment Manager shall have sole investment responsibility for that portion of the Funds which it is appointed to manage, and no other Plan fiduciary shall have any responsibility for the investment of any asset of the Fund, the management of which has been delegated to an Investment Manager, or liability for any loss or diminution in value of the Fund resulting from any action directed, taken or omitted by an Investment Manager.

ARTICLE VIII

Administration of the Plan

8.1 The Committee . The administration of this Plan, the exclusive power to interpret and construe it and the responsibility for carrying out its provisions, shall be vested in the Committee, which shall consist of the same persons as constitute the Retirement Committee of the Retirement Income Plan for Employees of Armstrong World Industries, Inc. The Chairman and Secretary of the Retirement Income Plan's Committee shall be the Chairman and Secretary of this Committee. In the event no members of the Committee are in office, the Company shall be deemed the Committee.

8.2 Duties of the Committee . The members of the Committee may appoint from their number such subcommittees with such powers as they shall determine; may authorize one or more of their number or any agent to execute or deliver any instrument or make any payment on their behalf; may retain counsel, employ agents and provide for such clerical, accounting and consulting services as they may require in carrying out the provisions of the Plan; and may allocate among themselves or delegate to other persons all or such portion of their duties hereunder, other than those granted to any Investment Manager pursuant to Section 7.3 or the Trust agreement adopted for use in implementing the Plan, as they, in their sole discretion shall decide.

8.3 Meetings . The Committee shall hold meetings upon such notice, at such place or places, and at such time or times at it may from time to time determine.

8.4 Action by Majority . Any act which the Plan authorizes or requires the Committee to do may be done by a majority of its members. The action of such majority expressed from time to time by a vote at a meeting or in writing without a meeting shall constitute the action of the Committee and shall have the same effect for all purposes as if assented to by all members of the Committee at the time in office.

8.5 Compensation . No member of the Committee shall receive any compensation from the Plan for his services as such. However, all expenses of the Committee shall be paid by the Company.

8.6 Establishment of Rules . Subject to the provisions of any Insurance Contract and the limitations of the Plan, the Committee from time to time shall establish rules for the administration of the Plan and the transaction of its business. The Committee shall have the full and exclusive discretionary authority to interpret the Plan, to determine all benefits and to resolve all questions arising from the administration, interpretation, and application of Plan provisions, either by general rules or by particular decisions, including determinations as to whether a claimant is eligible for benefits, the amount, form and timing of benefits, and any other matter (including any question of fact) raised by a claimant or identified by the Committee. All decisions of the Committee shall be conclusive and binding upon all affected persons.

8.7 Prudent Conduct . The members of the Committee shall use that degree of care, skill, prudence and diligence that a prudent man acting in a like capacity and familiar with such matters would use in his conduct of a similar situation. A member of the Committee shall not be liable for the breach of fiduciary responsibility of another fiduciary unless (a) he participates knowingly in, or knowingly undertakes to conceal, an act or omission of such other fiduciary, knowing such act or omission is a breach; or (b) by his failure to discharge his duties solely in the interest of the Members and Beneficiaries for the exclusive purpose of providing their benefits and defraying reasonable expenses of administering the Plan not met by the Company, he has enabled such other fiduciary to commit a breach; or (c) he has knowledge of a breach by such other fiduciary and does not make reasonable efforts to remedy the breach; or (d) the Committee improperly allocates responsibilities among themselves or improperly delegates responsibilities to others, or fails to properly review any allocation or delegation of fiduciary responsibilities.

8.8 Indemnification . The Company will indemnify and save harmless the members of the Committee and any person to whom fiduciary responsibilities are delegated under this Plan against any cost or expense (including attorney's fees) or liability (including any sum paid in settlement of a claim with the approval of the Company) arising out of any act or omission to act, except in the case of willful misconduct.

ARTICLE IX

Amendment and Termination

This Plan may be terminated, modified, altered or amended by the Retirement Committee by resolution at any time, provided that no such termination, modification, alteration or amendment shall cause or permit the Trust Fund to be used for, or diverted to, any purposes other than for the exclusive benefit of the employees of the Company included in this Plan. In no case shall any amendment of this Plan cause the reduction or elimination of any Member's accrued benefit (including optional forms of benefit and the manner and timing thereof) in violation of Code Section 411(d)(6) or ERISA Section 204(g). Notwithstanding the foregoing, any modification or amendment of the Plan may be made, retroactively if necessary, which the Retirement Committee or its delegate deems necessary or proper to bring the Plan into conformity with any law or governmental regulation relating to plans or trusts of this character, including the qualification of any trust or other fund created under the Plan as exempt from income taxes under the Code. The Account balance of each affected Member shall continue to be held in trust until the Member is entitled to a distribution under Article VI.

ARTICLE X

General Provisions

10.1 Expenses . All costs and expenses in administering the Plan and managing the Trust Fund shall be paid from the Trust Fund and charged within the Trust Fund to the appropriate Investment Funds to which such costs and expenses are attributable to the extent such expenses are not paid by the Company. Notwithstanding the foregoing, brokerage fees, commissions, stock transfer taxes and other charges and expenses in connection with the purchase and sale of securities shall be paid from the Trust Fund and charged within the Trust Fund to the Investment Fund to which such charges and expenses are attributable.

10.2 Source of Payment . Benefits under the Plan shall be payable only out of the Trust Fund and the Company shall not have any legal obligation or liability to make any direct payment of benefits under the Plan. Neither the Company nor the Trustee guarantees the Trust Fund against any loss or depreciation, or guarantees the payment of any benefit hereunder. No persons shall have any rights under the Plan with respect to the Trust Fund, or against the Trustee or the Company, except as specifically provided for herein.

10.3 No Right of Employment . Nothing contained in the Plan shall be deemed to give any employee the right to be retained in the service of the Company or to interfere with the right of the Company to discharge or to retire any employee at any time.

10.4 Non-Alienation of Benefits . Except as specifically provided in the Plan, no benefit payable at any time under this Plan shall be subject in any manner to alienation, sale, transfer, assignment, pledge, attachment or encumbrance of any kind. Any attempt to alienate, sell, transfer, assign, pledge, attach or otherwise encumber any such benefit, whether presently or thereafter payable, shall be void. Neither any benefit, nor the Trust Fund shall, in any manner, be liable for or subject to the debts or liability of any employee included in this Plan or any beneficiary. If any employee included in this Plan or any Beneficiary shall attempt to or shall alienate, sell, transfer, assign, pledge, attach or otherwise encumber his rights or benefits under this Plan or any part thereof, or if by reason of bankruptcy or otherwise the rights or benefits of any employee included in this Plan or of any beneficiary would devolve upon anyone else or would not be enjoyed by him, then the Committee, in its discretion and to the extent permitted by law, may terminate his interest in any such right or benefit and direct the Trustee to hold or apply it for his use or account or for the use or account of his spouse, children, or other dependents or any of them in such manner as the Committee may deem proper.

10.5 Qualified Domestic Relations Orders . Notwithstanding any provision in the Plan to the contrary, the Committee shall take such steps as are necessary under the Plan to comply with the terms of any applicable “qualified domestic relations order” (as defined by Code Section 414 (p) and ERISA Section 206(d)). The Account of any Member subject to such an order shall be adjusted to reflect any payments made pursuant to such order. Payments may be made from this Plan pursuant to such an order at any time prior to earliest retirement age, as defined in the Code and ERISA. The Committee shall adopt such procedures as it deems necessary and appropriate to carry out the provisions of this Section.

10.6 Invalidity of Provisions . If any provision of this Plan is held invalid or unenforceable, such invalidity or unenforceability shall not affect any other provisions hereof, and this Plan shall be construed and enforced as if such invalid or unenforceable provision had not been included.

10.7 Failure to Initially Qualify Plan . In no event shall any part of the corpus or the income of the Plan be used for, or diverted to, any purpose other than the exclusive benefit of Members, former Members and their Beneficiaries hereunder. Notwithstanding the foregoing, in the event that the Internal Revenue Service initially determines that the Plan does not qualify under Code Section 401(a), all Company Contributions made prior to such initial determination as to the qualification of the Plan may be returned to the Company within one year of the denial of qualification.

10.8 Adoption of Plan by Subsidiary, Affiliated or Associated Company . The Company may, by resolution of the Board of Directors, exclude from participation in this Plan any or all of the Employees of the Company or an Affiliated Company. Any subsidiary company of the Company may, by action of its board of directors with the approval of the Board of Directors of the Company, adopt this Plan with respect to its Employees. The Company may, by resolution of the Board of Directors, or by action of the appropriate officers of the Company, make this Plan applicable to any Employees of the Company or an Affiliated Company. With respect to any such Employees to which this Plan is made applicable, Effective Date refers to the date as of which the Plan is made applicable to such Employees. The Committee shall adopt such procedures as it deems necessary and appropriate to carry out the provisions of this Section.

10.9 Mergers and Transfers . No merger or consolidation with, or transfer of assets or liabilities to, any profit sharing or retirement plan, shall be made unless the benefit each Member in this Plan would receive if the Plan were terminated immediately after such merger or consolidation, or transfer of assets and liabilities, would be at least as great as the benefit he would have received had the Plan terminated immediately before such merger, consolidation or transfer.

10.10 Compliance with Securities Laws . Any other provisions in this Plan to the contrary notwithstanding, purchase or distribution of Company common stock shall be subject to compliance with any applicable federal or state securities laws or rules and regulations thereunder.

10.11 Governing Law . To the extent such laws are not preempted by ERISA, the provisions of the Plan shall be interpreted in accordance with the laws of the Commonwealth of Pennsylvania.

10.12 Trust-to-Trust Transfers . In the event of a transfer from a qualified plan (other than a plan subject to the requirements of Section 417 of the Code), and at the discretion of the Committee, and pursuant to procedures issued by the Committee, the individuals who were participants in such other plan may be given the opportunity to elect to have their entire interests in such plan transferred directly on a trust-to-trust basis into this Plan. Any such transferred amounts shall be allocated to Accounts of Members as determined by the Committee.

10.13 Construction . The masculine pronoun includes the feminine and the singular includes the plural.

10.14 Nondiscrimination Testing . For purposes of satisfying the nondiscrimination requirements under Code Section 401(a)(4), the term "highly compensated employee" shall mean an Employee of the Company or an Affiliated Company who:

(a) was a 5% owner, as defined in Section 416(i)(1) of the Code, at any time during the Plan Year or the preceding Plan Year; or

(b) for the preceding Plan Year performed services for the Company or an Affiliated Company and received compensation (within the meaning of Treasury Regulation Section 1.415-2(d)(11)(i)) in excess of $80,000 (adjusted at the same time and in the same manner as under Section 415(d) of the Code). For purposes of the preceding sentence, "compensation" shall include elective deferrals made on behalf of the Employee under any qualified cash or deferred arrangement (as defined under Code Section 401(k)) maintained by the Company or an Affiliated Company, any cafeteria plan (as defined under Code Section 125) maintained by the Company or an Affiliated Company, and/or any qualified transportation fringe arrangement (as defined under Code Section 132(f)).

Notwithstanding the foregoing, the Committee may make a "top-paid group" election under the regulations or other guidance issued pursuant to Section 414(q) of the Code with respect to any preceding year. If such election is made, the foregoing provisions of subsection (b) shall be applied in accordance with such election. The "top-paid group" shall include all Employees who are in the top 20% of all Employees on the basis of compensation. For purposes of determining the number of employees in the "top-paid group," the following Employees shall be excluded: (i) Employees who have not completed six (6) months of service; (ii) Employees who normally work less than 17 1/2 hours per week; (iii) Employees who normally work not more than six (6) months during any calendar year; (iv) Employees who have not attained age 21; and (v) Employees who are nonresident aliens receiving no United States source income within the meaning of Sections 861(a)(3) and 911(d)(2) of the Code.

10.15 Military Service . Notwithstanding any other provision of this Plan to the contrary, contributions, benefits and service credits with respect to qualified military service will be provided in accordance with Code Section 414(u).

ARTICLE XI

Contribution Limitations

11.1 Annual Addition Limitation .

(a) Notwithstanding any provision of the Plan to the contrary, in no event shall the Annual Addition (as hereinafter defined) with respect to any Member in any calendar year (which shall be the "Limitation Year") exceed the lesser of:

(1) 25% (100% effective January 1, 2002) of the Member's compensation (as defined below); or

(2) the dollar limit in effect for such calendar year in accordance with Code Section 415(c)(1)(A) ($40,000 effective January 1, 2002), and the adjustments for increases in cost of living as established by regulations issued pursuant to Code Section 415(d).

(b) For purposes of this Section 11.1, the term "Annual Addition" with respect to any Member means the Company Contributions made pursuant to Section 3.1 allocated to the Member's Account and amounts described in Code Sections 415(l)(1) and 419A(d)(2).

(c) For purposes of subsection (a)(1), a Member's compensation shall be determined under Treasury Regulation Section 1.415-2(d)(11)(i)) and shall be defined as wages within the meaning of Code Section 3401(a) and all other payments of compensation to the Member by the Company or any Affiliated Company (in the course of the Company's or Affiliated Company's trade or business) for which the Company or Affiliated Company is required to furnish the Member a written statement under Codes Sections 6041(d), 6051(a)(3) and 6052, but determined without regard to any rules under Code Section 3401(a) that limit the remuneration included in wages based on the nature or location of the employment or the services performed, and shall include elective deferrals made on behalf of the Member under any qualified cash or deferred arrangement (as defined under Code Section 401(k)) maintained by the Company or an Affiliated Company, any cafeteria plan (as defined under Code Section 125) maintained by the Company or an Affiliated Company, and/or any qualified transportation fringe arrangement (as defined under Code Section 132(f)).

(d) If a Member is also participating in another tax-qualified defined contribution plan maintained by the Company or an Affiliated Company (as modified by application of Code Section 415(h)), the otherwise applicable limitation on Annual Additions under this Plan shall be reduced by the amount of annual additions (within the meaning of Code Section 415(c)(2)) under any such other defined contribution plan.

(e) For Plan Years beginning prior to January 1, 2000, if a Member in this Plan is a Member in any tax-qualified defined benefit plan maintained by the Company or any Affiliated Company (as modified by application of Code Section 415(h)), the overall limitation of Code Section 415(e) shall be complied with by limiting the amount of contributions that may be made on behalf of a Member under this Plan.

(f) Excess Company Contributions, as determined under subsections (a) through (d) above, shall be used to reduce future Company Contributions on behalf of the Member for the next succeeding Limitation Year and succeeding Limitation Years as necessary. If the Member is not covered by the Plan as of the end of such succeeding year, but an excess amount still exists, such excess amount will be held unallocated in a suspense account. The suspense account will be applied to reduce future contributions on behalf of the other Members entitled to an allocation, in that Limitation Year, and succeeding Limitation Years, if necessary.

11.2 Top-Heavy Provisions .

(a) Special Top-Heavy Definitions . For purposes of this Section 11.2, the following terms shall have the following meanings:

(1) "Determination Date" means, with respect to any Plan Year, the last Valuation Date of the preceding Plan Year.

(2) "Key Employee" means a Member or former member who is a "key employee" as defined in Code Section 416(i).

(3) "Permissive Aggregation Group" means, with respect to a given Plan Year, this Plan and all other plans of the Company and its Affiliated Companies (other than those included in the Required Aggregation Group) which, when aggregated with the plans in the Required Aggregation Group, continue to meet the requirement of Code Sections 401(a)(4) and 410.

(4) "Present Value of Accounts" means, as of a given Determination Date, the sum of the Members' Accounts under the Plan as of such Valuation Date. The determination of the Present Value of Accounts shall take into consideration distributions made to or on behalf of the Member in the Plan Year ending on the Determination Date and the four preceding Plan Years, but shall not take into consideration the Accounts of any Member who has not performed any services for the Company during the five year period ending on the Determination Date. Notwithstanding the foregoing, effective for Plan Years beginning on and after January 1, 2002, all distributions made with respect to a Member under the Plan and any plan aggregated with the Plan under Code Section 416(g)(2) during the one-year period ending on the Determination Date shall be taken into account in determining the Present Value of Accounts for the Member. The preceding sentence shall also apply to distributions under a terminated plan which, had it not been terminated, would have been aggregated with the Plan under Code Section 416(g)(2)(A)(i). In the case of a distribution made for a reason other than separation from service, death, or disability, this provision shall be applied by substituting "five-year period" for "one-year period." Further, notwithstanding the foregoing, the Present Value of Accounts of an individual who has not performed services for the Company or an Affiliated Company during the one-year period ending on the Determination Date will not be taken into account.

(5) "Required Aggregation Group" means with respect to a given Plan Year, (i) this Plan, (ii) each other plan of the Company and its Affiliated Companies in which a Key Employee is a participant (regardless of whether the plan has terminated within the last five

(5) Plan Years), and (iii) each other plan of the Company and its Affiliated Companies which enables a plan described in (i) or (ii) to meet the requirements of Code Sections 401(a)(4) or 410.

(6) "Top-Heavy" means, with respect to the Plan for a Plan Year:

(i) that the Present Value of Accounts of Key Employees exceeds 60% of the Present Value of Accounts of all Members; or

(ii) the Plan is part of a Required Aggregation Group and such Required Aggregation Group is a Top-Heavy Group, unless the Plan or such Top-Heavy Group is itself part of a Permissive Aggregation Group which is not a Top-Heavy Group.

(7) "Top-Heavy Group" means, with respect to a given Plan Year, a group of Plans of the Company which, in the aggregate, meet the requirements of the definition contained in Code Section 416(g)(2)(B). Solely for the purpose of determining if the Plan, or any other Plan included in a required aggregation group of which this Plan is a part, is top-heavy (within the meaning of Code Section 416(g)) the accrued benefit of an Employee other than a key employee (within the meaning of Code Section 416(i)(1)) shall be determined under (1) the method, if any, that uniformly applies for accrual purposes under all Plans maintained by the Company, or (ii) if there is no such method, as if such benefit accrued not more rapidly than the slowest accrual rate permitted under the fractional accrual rate of Code Section 411(b)(1)(C).

(b) Special Top-Heavy Rules . Notwithstanding any other provision of the Plan to the contrary, the following provisions of this Section 11.2 shall automatically become operative and shall supersede any conflicting provisions of the Plan if, in any Plan Year, the Plan is Top-Heavy.

(1) The minimum Company Contribution during the Plan Year on behalf of a Member who is not a Key Employee shall be equal to the lesser of (i) 3% of such Member's compensation (as defined under Section 11.1(c)); or (ii) the percentage of compensation at which Company Contributions are made (or required to be made) under the Plan on behalf of the Key Employee for whom such percentage is the highest.

(2) The provisions of this subsection (b)(2) shall apply with regard to Plan Years beginning before January 1, 2000. In order to comply with the requirements of Code Section 416(h), in the case of a Member who is or has also participated in a defined benefit plan of the Company (or any Affiliated Company that is required to be aggregated with the Company in accordance with Section 415 (h) of the Code) in any Plan Year in which the Plan is Top-Heavy, there shall be imposed under such defined benefit plan the following limitation in addition to any limitation which may be imposed as described in Section 11.1. In any such year, for purposes of satisfying the aggregate limit on contributions and benefits imposed by Section 415(e) of the Code, contributions to this Plan shall, except as hereinafter described, be reduced so as to comply with a limit determined in accordance with Section 415(e) of the Code, but with the number "1.0" substituted for the number "1.25" in the "defined benefit plan fraction" (as defined in Section 415(e)(2) of the Code) and in the "defined contribution plan fraction" (as defined in Section 415(e)(3) of the Code). Notwithstanding the foregoing, if the application of the additional limitation set forth in this Subsection 11.2(b) would result in the

reduction of accrued benefits of any Member under the defined benefit plan, such additional limitation shall not become operative, so long as (i) no additional Company Contributions, forfeitures or voluntary nondeductible contributions are allocated to such Member's accounts under any defined contribution plan maintained by the Company including this Plan and (ii) no additional benefits accrue to such Member under any defined benefit plan maintained by the Company. Accordingly, in any Plan Year that the Plan is Top-Heavy, no additional benefits shall accrue under the defined benefit plan on behalf of any Member whose overall benefits under the defined benefit plan otherwise would be reduced in accordance with the limitation described in this subsection (b)(2).

(3) A Member who is not a Key Employee is entitled to all of his Account under the Plan following the vesting schedule provided in Section 3.3 before or while the Plan is a Top Heavy Plan. In the event the Plan previously was a Top-Heavy Plan but subsequently is not a Top-Heavy Plan, the Plan will follow the vesting schedule provided in Section 3.3.

(4) In the event that Congress should provide by statute, or the Treasury Department should provide by regulation or ruling, that the limitations provided in this Section 11.2 are no longer necessary for the Plan to meet the requirements of Section 401 or other applicable law then in effect, such limitations shall become void and shall no longer apply, without the necessity of further amendment to the Plan.

IN WITNESS WHEREOF, the Committee has executed this Plan on the _______day of April, 2007.

F. Nicholas Grasberger	Donald A. McCunniff
John N. Rigas	R. Scott Webster

Exhibit No. 10.34

[Date]

PERSONAL & CONFIDENTIAL

Michael D. Lockhart
Office of the Chairman

Subject: yyyy Long-Term Incentive Equity Grants

Dear Mike:

The Management Development and Compensation Committee of the Board of Directors (the "Committee") of Armstrong World Industries, Inc. ("AWI" or the "Company") granted you the following Long-Term Incentive Equity Grants effective mm/dd/yyyy.

xxxxx Stock Options to purchase AWI common stock
xxxxx Performance Restricted Shares

These awards are made under the Company's 2006 Long-Term Incentive Plan (the "Plan"), and are subject to the terms of the Plan and of this grant letter. In the event of any questions or dispute concerning these awards, the decisions and interpretations of the Board of Directors and, where applicable, the Committee administering the Plan, will be binding, conclusive and final.

A copy of the Plan is enclosed. Also enclosed is the 2006 Long-Term Incentive Plan Summary, which together with the Company's current Form 10-K Annual Report constitutes part of the Prospectus covering the securities. Form 10-K Annual Reports are available from the Treasurer's Office.

Stock Options
Each Stock Option entitles you to purchase one share of AWI common stock at an exercise price equal to $xx.xx which was the closing price of AWI shares as reported by the New York Stock Exchange on mm/dd/yyyy.

These option grants are "non-qualified" stock options for tax purposes and accordingly are not subject to the additional restrictions or tax treatment applicable to qualified (also called "incentive") stock options. The Stock Options will have a ten-year term starting mm/dd/yyyy. The Stock Options will vest and become exercisable in three installments at one, two and three years from mm/dd/yyyy as follows: xxxx shares on mm/dd/yyyy; xxxx shares on mm/dd/yyyy; and xxxx shares on mm/dd/yyyy. If you remain employed by Armstrong on a scheduled vesting date, you will become entitled to exercise the respective Stock Option installment, subject to the provisions set out below and in the Plan.

If you terminate employment due to voluntary resignation without "Good Reason" ("Good Reason" is defined pursuant to the terms of an individual Change in Control Agreement in effect on that date), or if you are terminated due to willful, deliberate or gross misconduct, you will forfeit all vested and unvested Stock Options.

If you terminate employment due to voluntary retirement (minimum age 55 with 5 years of service) without Good Reason, you will forfeit all unvested Stock Options, and you will have until the earlier of five years from the date of retirement or the Stock Option expiration date to exercise any vested Stock Options.

If you are involuntarily terminated for reasons other than willful, deliberate or gross misconduct, you will forfeit all unvested Stock Options, and you will have until the earlier of three months from the date of termination or the Stock Option expiration date to exercise any vested Stock Options.

In the event of your long-term disability or death which occurs after mm/dd/yyyy, all unvested Stock Options will immediately vest and be exercisable. You or your beneficiary will have until the earlier of three years from the date of disability or death, or the Stock Option expiration date to exercise any outstanding Stock Options, provided that in the case of death, your legal representative or beneficiary will have a minimum of one year from the date of death to exercise any outstanding Stock Options without regard to the scheduled Stock Option expiration date. In the event of your long-term disability or death on or before mm/dd/yyyy , you will forfeit all unvested Stock Options.

If you resign or retire for Good Reason after mm/dd/yyyy , all unvested Stock Options will immediately vest and be exercisable. You will have until the earlier of five years from the date of resignation or retirement, or the Stock Option expiration date to exercise any outstanding Stock Options. If you resign or retire on or before mm/dd/yyyy , you will forfeit all unvested stock options.

Upon a Change in Control of AWI, all unvested Stock Options will immediately vest and be exercisable. You will have until the earlier of five years from the date of Change in Control or the Stock Option expiration date to exercise any outstanding Stock Options.

In accordance with Section 6(c) of the Plan, you may pay the exercise price by delivering shares of AWI stock you have owned for at least six months. You may also elect to satisfy your tax withholding obligations by requesting that the Company withhold shares of common stock that would otherwise be delivered to you.

Performance Restricted Shares

This Performance Restricted Share grant allows you to earn up to 150% of the number of Performance Restricted Shares specified below if Armstrong is able to significantly exceed the financial targets established by the Committee for this grant during the three-year period of mm/dd/yyyy through mm/dd/yyyy . Shares of AWI common stock earned, if any, will be distributed to you following the conclusion of the performance period and after the actual financial results have been certified by the Committee.

The Committee has established the following performance schedule that will be used to determine the number of Performance Restricted Shares you will earn. The percentage of shares to be earned is illustrated in the following schedule. Actual financial results will be used to interpolate the percentage of shares earned to the nearest whole number.

Percentage of Financial Target Achieved	Percentage of Performance Restricted Shares Earned
Less than 80%	0%
80%	50%
85%	70%
90%	90%
95%	95%
100%	100%
110%	110%
120%	120%
130%	130%
140%	140%
150% and higher	150% (maximum payout)

At this time no shares of AWI common stock in respect of this grant have been issued in your name. Each Performance Restricted Share granted is credited to an account maintained for you. During the three-year performance period, you will have no ownership or voting rights relative to these shares. If AWI makes cash dividend payments to holders of its common stock during the performance period, you will accrue an amount equal to the dividend that would have been paid on the stated number of shares in this grant in a non-interest bearing account. You will receive a cash payment for the accrued dividends following the conclusion of the performance period. Such payment shall be adjusted, up or down, in proportion to the number of shares earned.

The Performance Restricted Share grant is divided into two components of xxxx shares each. 100% of the first component will be earned by you if Armstrong's three-year cumulative normalized earnings before interest, taxes, depreciation and amortization (EBITDA) reach the Committee-established target of $xxx million. The EBITDA results will be normalized for the same exclusions that apply to the Company's Management Achievement Plan. 100% of the second component will be earned if Armstrong's three-year cumulative free cash flow (excluding acquisition, divestiture and other unusual items) amounts to $xxx million.

If you terminate employment due to voluntary resignation or retirement without "Good Reason" prior to mm/dd/yyyy , you will forfeit this Performance Restricted Share grant and accrued dividends. If you are terminated as a result of willful, deliberate or gross misconduct you will forfeit this grant and accrued dividends.

In the event of your resignation or retirement for Good Reason after mm/dd/yyyy , or your long-term disability, death, or involuntary termination for reasons other than willful, deliberate or gross misconduct after mm/dd/yyyy , you would be eligible for a pro-rated payment based on the length of your employment over the three-year performance period. The share payment would be determined using the three-year cumulative actual financial results and distributed to you in early yyyy . If you terminate for any such reason on or before mm/dd/yyyy , you will forfeit the grant and accrued dividends.

In the event of a Change in Control of AWI, all Performance Restricted Shares will be deemed to have been earned to the maximum extent (150% of the number of shares stated above) and issued to you along with accrued dividends upon that event.

In accordance with Section 6(c) of the Plan, you may elect to satisfy your tax withholding obligations by requesting that the Company withhold shares of common stock that would otherwise be delivered to you.

Forfeiture of Awards
The Plan provisions described under Section 13, Certain Termination of Employment; Forfeitures, limit your rights to Performance Restricted Shares and Stock Options under certain circumstances. Events that may result in forfeiture of these awards include willful, deliberate or gross misconduct, or post-termination engagement in any business or employment determined to be competitive with or substantially injurious to the Company's business interests. These forfeiture provisions apply for a period of two years following your termination of employment.

Please contact me if you have questions regarding these documents.

Sincerely,

(s/ _______________)
Senior Vice President, Human Resources

Exhibit 10.35

[Date]

PERSONAL & CONFIDENTIAL

[Name]
[Location]

Subject: yyyy Restricted Stock Award (Please retain this for your records)

Dear [Name]:

The Management Development and Compensation Committee of the Board of Directors granted you a Restricted Stock Award effective mm/dd/yyyy . This award consists of xxxx shares of Restricted Stock of Armstrong World Industries, Inc. ("AWI" or the "Company"). This award is made under the Company's 2006 Long-Term Incentive Plan (the "Plan"). This award represents the long-term incentive component of Armstrong's senior management compensation program for yyyy .

This award is subject to all terms and conditions stated in the Plan and in this letter. In the event of any question or dispute concerning this grant, the decisions and interpretations of the Committee administering the Plan will be binding, conclusive and final.

A copy of the Plan is enclosed. Also enclosed is the Plan Summary which, together with the Company's current Form 10-K Annual Report, constitutes part of the prospectus covering the securities. Form 10-K Annual Reports can be found on the Armstrong CorkBoard or Armstrong.com. You can also request a paper copy from the Treasurer's Office.

These shares of AWI common stock are being registered in your name pending distribution following the specified restriction period, and are subject to forfeiture in accordance with the terms of this grant. While you have the right to vote the shares, during the restriction period these shares may not be pledged, sold or transferred other than by will or the laws of descent and distribution. To facilitate this, you must sign and return the enclosed stock power covering these shares.

The Restriction Periods applicable to this grant are as follows:

Number of Shares	End of Restriction Period
xxxx	mm/dd/yyyy
xxxx	mm/dd/yyyy
xxxx	mm/dd/yyyy

As indicated above, restrictions will lapse on your Restricted Stock Award in three equal installments in two, three and four years from the grant date. If you remain employed by Armstrong when the restrictions lapse, you will receive unrestricted ownership of the respective Restricted Stock Award installment. The Committee may accelerate or waive such restrictions, in whole or in part, based on service and such other factors as the Committee may determine. If AWI makes cash dividend payments to holders of AWI common stock during the restriction period, you will accrue an amount equal to the dividend payment in a non-interest bearing account. You will receive a cash payment for the accrued dividends when the restrictions lapse on the underlying Restricted Stock Award. In the event of a Change in Control of AWI, all shares of Restricted Stock and accrued dividends will become free of restrictions.

If you terminate employment due to voluntary resignation or retirement without "Good Reason" (as defined below) or if you are involuntarily terminated, you will forfeit all shares of Restricted Stock and accrued dividends. Retirement is defined as termination from Armstrong at age 55 or higher following five years of service. In the event of your death, long-term disability, or resignation or retirement for Good Reason, all shares of Restricted Stock and accrued dividends will become free of restrictions.

Good Reason for purposes of this Restricted Stock Award is defined as the occurrence of any one of the following events which occurs prior to mm/dd/yyyy :

- the assignment to the manager of any duties which constitutes a significant reduction in the manager's responsibilities or any demotion of the manager
- a reduction by the Company of more than 10% to the sum of the manager's annual base salary and short-term incentive target award
- the relocation of the manager's place of employment by more than 50 miles unless such relocation is closer to the manager's residence
- the involuntary termination of the manager in connection with the sale of a business

A stock certificate for the shares will be distributed to you following the expiration of the restriction period or when the shares are otherwise free of restrictions. In accordance with Section 18 of the Plan, you may elect to satisfy your tax withholding obligations by requesting that the Company withhold shares of stock that would otherwise be delivered to you. Otherwise, as a condition to receive the shares, you must remit to the Company all applicable taxes required to be withheld in connection with this grant.

Also enclosed for your review is an IRC Section 83(b) Description concerning your choice to recognize income for federal income tax purposes now rather than when the restrictions lapse. You should consult with your personal tax advisor on the merits and risks of making an 83(b) election.

Forfeiture of Awards

The Plan provisions described under Section 13, Certain Termination of Employment; Forfeitures, limit your rights to receive payment of Restricted Stock under certain circumstances. Events that may result in forfeiture of these grants include termination for willful, deliberate or gross misconduct, or post-termination engagement in any business or employment determined to be competitive with or substantially injurious to the Company's business interest. These forfeiture provisions will apply for a period of two years following your termination of employment.

Please contact Human Resources if you have questions regarding these documents.

Sincerely,

(s/ _____________)

Chairman and Chief Executive Officer

AMENDMENT NO. 1

THIS AMENDMENT NO. 1, dated as of February _, 2008 (this " Amendment "), of that certain Credit Agreement referenced below is by and among Armstrong World Industries, Inc., a Pennsylvania corporation (the " Borrower "), the Lenders identified on the signature pages hereto and Bank of America, N.A., as Administrative Agent. Capitalized terms used but not otherwise defined herein shall have the meanings provided in the Credit Agreement.

W I T N E S S E T H

WHEREAS, a $300 million revolving credit facility, $300 million pro rata term loan and $500 million institutional term loan have each been established in favor of the Borrower pursuant to the terms of that certain Credit Agreement dated as of October 2, 2006 (as amended, restated, supplemented or otherwise modified from time to time, the " Credit Agreement "), among the Borrower, the Lenders, and Bank of America, N.A., as Administrative Agent;

WHEREAS, the Borrower has requested certain modifications to the terms of the Credit Agreement; and

WHEREAS, the Lenders have agreed to the requested modifications on the terms and conditions set forth herein;

NOW, THEREFORE, in consideration of these premises and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows:

1. Amendments to Credit Agreement . The Credit Agreement is amended as follows:

1.1 In Section 1.01 (Defined Terms) of the Credit Agreement, the pricing grid set forth in the definition of "Applicable Rate" is amended to read as follows:

Pricing Tier	Consolidated Leverage Ratio	Commitment Fee	Letters of Credit	Eurodollar Rate Loans	Base Rate Loans
1	≥ 3.50:1	0.500%	2.25%	2.25%	1.25%
2	≥ 3.00:1 but <3.50:1	0.500%	2.00%	2.00%	1.00%
3	≥ 2.00:1 but <3.00:1	0.375%	1.75%	1.75%	0.75%
4	≥ 1.00:1 but <2.00:1	0.200%	1.50%	1.50%	0.50%
5	<1.00:1	0.175%	1.25%	1.25%	0.25%

1.2 Section 7.11 (Use of Proceeds) of the Credit Agreement is amended to read as follows:

7.11 Use of Proceeds .

Use the proceeds of the Credit Extensions (a) to fund payments under the Reorganization Plan and (b) to finance working capital, capital expenditures and other lawful corporate purposes (including the funding of Special Distributions (as defined in Section 8.06(c)); provided that in no event shall the proceeds of the Credit Extensions be used in contravention of any Law or of any Loan Document.

1.3 Section 8.06 (Restricted Payments) of the Credit Agreement is amended by deleting the “and” at the end of subsection (b) and amending subsection (c) and incorporating a new subsection (d), in each case to read as follows:

(c) the Borrower may declare and make other Restricted Payments in any fiscal year in an amount not exceed the sum of (i) $25,000,000 plus (ii) an amount equal to the difference of (A) twenty-five percent (25%) of cumulative Consolidated Net Income earned after the Closing Date minus (B) the aggregate amount of Restricted Payments in excess of $25,000,000 in any fiscal year after the Closing Date (but excluding Special Distributions for purposes hereof), with unused amounts in any fiscal year being carried over to succeeding fiscal years; and

(d) so long as no Event of Default shall exist immediately before or after giving effect thereto, the Borrower may make special Restricted Payments (“ Special Distributions ”) in an aggregate amount of up to $500,000,000 at any time on or before February 28, 2009; provided that if the Borrower makes Special Distributions, the Borrower shall not make any Restricted Payments pursuant to subsection (c) above until after February 28, 2009.

1.4 Section 8.11 (Financial Covenants) of the Credit Agreement is amended incorporating a new subsection (c) to read as follows:

(c) Minimum Liquidity . Permit as of the end of any fiscal quarter of the Borrower minimum liquidity of the Borrower and its Domestic Subsidiaries to be less than $100 million, which may be comprised of a combination of unrestricted readily-available domestic cash and Cash Equivalents and undrawn Revolving Commitments, but only to the extent that, if drawn, the Borrower would be in compliance with the financial covenants under this Section 8.11 after giving effect thereto on a Pro Forma Basis.

2. Conditions Precedent . This Amendment shall become effective upon prior or simultaneous satisfaction of the following conditions, in form and substance reasonably satisfactory to the Administrative Agent:

(a) receipt by the Administrative Agent of executed copies of the consent and direction letter to this Amendment from the Required Lenders;

(b) receipt by the Administrative Agent of executed copies of the signature pages to this Amendment from the Loan Parties;

(c) receipt by the Administrative Agent of favorable opinions of (i) Weil, Gotshal & Manges LLP, legal counsel to the Loan Parties, and (ii) in-house counsel to the Loan Parties with respect to Pennsylvania law, in each case, addressed to the Administrative Agent and each Lender, dated as of the date of this Amendment, and in form and substance satisfactory to the Administrative Agent;

(d) receipt by the Administrative Agent of the following, each of which shall be originals or facsimiles (followed promptly by originals), in form and substance satisfactory to the Administrative Agent and its legal counsel:

(i) copies of the Organization Documents of each Loan Party certified to be true and complete as of a recent date by the appropriate Governmental Authority of the state or other jurisdiction of its incorporation or organization, where applicable, and certified by a secretary or assistant secretary of such Loan Party to be true and correct as of the date of this Amendment, unless a Responsible Officer of the Borrower certifies in a certificate that the Organization Documents previously delivered to the Administrative Agent in connection with the Credit Agreement have not been amended, supplemented or otherwise modified and remain in full force and effect as of the date hereof;

(ii) incumbency certificates identifying the Responsible Officers of the Loan Parties who are authorized to execute this Amendment and related documents and to act on the Loan Parties' behalf in connection with this Agreement and the Credit Documents, unless a Responsible Officer of the Borrower certifies in a certificate that the incumbency certificates previously delivered to the Administrative Agent in connection with the Credit Agreement have not been amended, supplemented or otherwise modified and remain in full force and effect as of the date hereof.

(iii) such certificates of resolutions or other action, incumbency certificates and/or other certificates of Responsible Officers of each Loan Party as the Administrative Agent may require evidencing the identity, authority and capacity of each Responsible Officer thereof authorized to act as a Responsible Officer in connection with this Amendment; and

(iv) such documents and certifications as the Administrative Agent may reasonably require to evidence that each Loan Party is duly organized or formed, and is validly existing, and in good standing in its state of organization or formation;

(e) payment of an amendment fee, for the benefit of each Lender consenting to this Amendment, in an amount equal to 0.25% of the aggregate Commitments of each such consenting Lender and all other fees (including all reasonable fees, expenses and disbursements of Moore & Van Allen PLLC) due in connection herewith, which fees shall be deemed fully earned and due and payable on the effective date of this Amendment.

3. Effectiveness of Amendment . Upon satisfaction of the condition precedent set forth in Section 2 hereof, all references to the Credit Agreement in each of the Loan Documents shall hereafter mean the Credit Agreement as amended by this Amendment.

4. Representations and Warranties; Defaults . The Borrower affirms that upon authorization by the Board of Directors of this Amendment, the following:

(a) all necessary action by the Loan Parties to authorize the execution, delivery and performance of this Amendment has been taken;

(b) after giving effect to this Amendment, the representations and warranties set forth in the Credit Agreement and the other Loan Documents are true and correct in all material respects as of the date hereof (except those which expressly relate to an earlier period); and

(c) after giving effect to this Amendment, no Default or Event of Default shall exist.

5. Full Force and Effect . Except as modified hereby, all of the terms and provisions of the Credit Agreement and the other Loan Documents (including schedules and exhibits thereto) shall remain in full force and effect.

6. Affirmation of Liens and Security Interests . The Loan Parties hereby affirm the liens and security interests created and granted in the Loan Documents and agree that this Amendment is not intended to, nor shall it, adversely affect or impair such liens and security interests in any manner.

7. Expenses . The Loan Parties agree to pay all reasonable costs and expenses of the Administrative Agent in connection with the preparation, execution and delivery of this Amendment, including the reasonable fees and expenses of Moore & Van Allen, PLLC.

8. Counterparts . This Amendment may be executed in any number of counterparts, each of which when so executed and delivered shall be deemed an original, and it shall not be necessary in making proof of this Amendment to produce or account for more than one such counterpart.

9. Governing Law . This Amendment shall be governed by, and construed in accordance with, the law of the State of New York applicable to agreements made and to be performed entirely within such state.

Exhibit No. 11

ARMSTRONG WORLD INDUSTRIES, INC. AND SUBSIDIARIES

COMPUTATION OF EARNINGS PER SHARE
(AMOUNTS IN MILLIONS EXCEPT FOR PER-SHARE DATA)

	Year Ended December 31, 2007	Three Months Ended December 31, 2006	Nine Months Ended September 30, 2006	Year Ended December 31, 2005
Basic earnings per share				
Net earnings	$ 145.3	$ 2.2	n/a	n/a
Basic weighted average number of common shares outstanding	56.0	55.0	n/a	n/a
Basic earnings per share	$ 2.59	$ 0.04	n/a	n/a
Diluted earnings per share				
Net earnings	$ 145.3	$ 2.2	n/a	n/a
Basic weighted average number of common shares outstanding	56.0	55.0	n/a	n/a
Weighted average number of common shares issuable under stock option or unvested stock grants	0.7	0.3	n/a	n/a
Diluted weighted average number of common shares outstanding	56.7	55.3	n/a	n/a
Diluted earnings per share	$2.56	$0.04	n/a	n/a

Exhibit No. 21

Subsidiaries of Armstrong World Industries, Inc.
As of February 28, 2008

The following is a list of subsidiaries of Armstrong World Industries, Inc., omitting certain subsidiaries, which, considered in the aggregate as a single subsidiary, would not constitute a significant subsidiary.

U.S. Subsidiaries	Jurisdiction of Incorporation
Armstrong Cork Finance LLC	Delaware
Armstrong NW LLC	Delaware
Armstrong Hardwood Flooring Company	Tennessee
Armstrong Realty Group, Inc.	Pennsylvania
Armstrong Ventures, Inc.	Delaware
Armstrong Wood Products, Inc.	Delaware
Armstrong World Industries (Delaware) LLC	Delaware
AWI Licensing Company	Delaware
HomerWood Hardwood Flooring Company	Delaware
Worthington Armstrong Venture (50% owned Delaware General Partnership)	

Non-U.S. Subsidiaries	Jurisdiction of Incorporation
Armstrong (U.K.) Investments	United Kingdom
Armstrong Architectural Products S.L.	Spain
Armstrong Building Products B.V.	Netherlands
Armstrong Building Products Company (Shanghai) Ltd. (80% owned affiliate)	PRC
Armstrong Building Products G.m.b.H.	Germany
Armstrong DLW AG	Germany
Armstrong DLW Licensing GmbH	Germany
Armstrong Metal Ceilings Limited	United Kingdom
Armstrong Metalldecken AG	Switzerland
Armstrong Metalldecken GmbH	Austria
Armstrong Metalldecken Holdings AG	Switzerland
Armstrong World Industries (Australia) Pty. Ltd.	Australia
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

Exhibit No. 23.1

Consent of Independent Registered Public Accounting Firm

The Board of Directors
Armstrong World Industries, Inc.:

We consent to the incorporation by reference in Registration Statement No. 333-138034 on Form S-8 of Armstrong World Industries, Inc. of our reports dated February 28, 2008, with respect to the consolidated balance sheets of Armstrong World Industries, Inc., and subsidiaries as of December 31, 2007 and December 31, 2006 for the Successor Company, and the related consolidated statements of earnings, cash flows and shareholders' equity and the related financial statement schedule for the year ended December 31, 2007 and three months ended December 31, 2006 for the Successor Company and the nine months ended September 30, 2006 and the year ended December 31, 2005 for the Predecessor Company, and the effectiveness of internal control over financial reporting as of December 31, 2007, which reports appear in the December 31, 2007 annual report on Form 10-K of Armstrong World Industries, Inc.

Our report on the consolidated financial statements and related financial statement schedule dated February 28, 2008, contains a paragraph that states Armstrong World Industries, Inc. emerged from the Chapter 11 bankruptcy proceeding. In connection with its emergence from the Chapter 11 bankruptcy proceeding, the Company adopted fresh-start reporting pursuant to Statement of Position 90-7, "Financial Reporting by Entities in Reorganization Under the Bankruptcy Code" as of October 2, 2006. As a result, the financial statements of the Successor Company are presented on a different basis than those of the Predecessor Company and, therefore, are not comparable in all respects. The Company has reflected the effects of the Plan and fresh-start reporting in the Predecessor Company for the nine month period ended September 30, 2006. Our report dated February 28, 2008 also states that, upon adoption of fresh-start reporting, the Company adopted FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109" and Statement of Financial Accounting Standards No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106, and 132(R)."

/s/ KPMG LLP

Philadelphia, Pennsylvania
February 28, 2008

Exhibit No. 23.2

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in Registration Statement No. 333-138034 on Form S-8 of Armstrong World Industries, Inc. of our report dated February 20, 2008, with respect to the consolidated balance sheets of Worthington Armstrong Venture and subsidiaries as of December 31, 2007 and 2006 and the related consolidated statements of income, partners' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2007, which report is included in the December 31, 2007 annual report on Form 10-K of Armstrong World Industries, Inc.

/s/ KPMG LLP

Harrisburg, Pennsylvania
February 28, 2008

Exhibit No. 24

ARMSTRONG WORLD INDUSTRIES, INC.
CERTIFICATION REGARDING
POWER OF ATTORNEY

I, Walter T. Gangl, Deputy General Counsel and Corporate 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 25 th day of February, 2008, 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 2007 Annual Report on Form 10-K on behalf of the Company and by members of the Board of Directors through respective 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 25 th day of February, 2008.

/s/ Walter T. Gangl
Walter T. Gangl
Deputy General Counsel and Corporate Secretary

Exhibit No. 24

ARMSTRONG WORLD INDUSTRIES, INC.
POWER OF ATTORNEY

RE: 2007 ANNUAL REPORT ON FORM 10-K

I, Michael D. Lockhart, as a Director of Armstrong World Industries, Inc., do hereby constitute and appoint, 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, 2007, 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/ Michael D. Lockhart
Michael D. Lockhart
Dated: February 25, 2008

Each of the undersigned hereby constitutes and appoints, 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, as attorney-in-fact, for her or for him, to sign the Company's Annual Report on Form 10-K for the year ended December 31, 2007, 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 each signed personally.

Pursuant to the Securities and Exchange Act of 1934, as amended, this Report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

James J. Gaffney	Director	February 25, 2008
Robert C. Garland	Director	February 25, 2008
Judith R. Haberkorn	Director	February 25, 2008
James J. O'Connor	Director	February 25, 2008
Russell F. Peppet	Director	February 25, 2008
Arthur J. Pergament	Director	February 25, 2008
John J. Roberts	Director	February 25, 2008
Alexander M. Sanders, Jr.	Director	February 25, 2008

Exhibit No. 31.1

I, Michael D. Lockhart, certify that:

1) I have reviewed this report on Form 10-K of Armstrong World Industries, Inc.;

2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) or 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: February 28, 2008

/s/ Michael D. Lockhart
Michael D. Lockhart
Chairman and Chief Executive Officer

I, F. Nicholas Grasberger III, certify that:

1) I have reviewed this report on Form 10-K of Armstrong World Industries, Inc.;

2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) or 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: February 28, 2008

/s/ F. Nicholas Grasberger III
F. Nicholas Grasberger III
Senior Vice President and Chief Financial Officer

Exhibit No. 32.1

Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.

Armstrong World Industries, Inc.
(the “Company”)

Written Statement by Chief Executive Officer
Pursuant to Section 906 of Sarbanes-Oxley Act of 2002

I certify to the best of my knowledge and belief that the Company’s Form 10-K annual report containing its financial statements for the fiscal year ended December 31, 2007 fully complies with the requirements of section 13(a) of the Securities Exchange Act of 1934, and that information contained in that report fairly presents, in all material respects, the financial condition and results of operations of the Company as of that date.

/s/ Michael D. Lockhart
Michael D. Lockhart
Chairman and Chief Executive Officer
Armstrong World Industries, Inc.

Dated: February 28, 2008

Exhibit No. 32.2

Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.

Armstrong World Industries, Inc.
(the "Company")

Written Statement by Chief Financial Officer
Pursuant to Section 906 of Sarbanes-Oxley Act of 2002

I certify to the best of my knowledge and belief that the Company's Form 10-K annual report containing its financial statements for the fiscal year ended December 31, 2007 fully complies with the requirements of section 13(a) of the Securities Exchange Act of 1934, and that information contained in that report fairly presents, in all material respects, the financial condition and results of operations of the Company as of that date.

/s/ F. Nicholas Grasberger III
F. Nicholas Grasberger III
Senior Vice President and Chief Financial Officer
Armstrong World Industries, Inc.

Dated: February 28, 2008

Exhibit No. 99

WORTHINGTON ARMSTRONG VENTURE

Consolidated Financial Statements

December 31, 2007 and 2006

(With Independent Auditors’ Report Thereon)

WORTHINGTON ARMSTRONG VENTURE

Table of Contents

Independent Auditors' Report

The Board of Directors
Worthington Armstrong Venture:

We have audited the accompanying consolidated balance sheets of Worthington Armstrong Venture and subsidiaries (a general partnership) (the Company) as of December 31, 2007 and 2006, and the related consolidated statements of income, partners' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2007. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 Worthington Armstrong Venture and subsidiaries as of December 31, 2007 and 2006, and the results of their operations and their cash flows for the three-year period ended December 31, 2007, in conformity with U.S. generally accepted accounting principles.

/s/ KPMG LLP

Harrisburg, Pennsylvania
February 20, 2008

WORTHINGTON ARMSTRONG VENTURE

Consolidated Balance Sheets

December 31, 2007 and 2006

(In thousands)

	2007	2006
Assets		
Current assets:		
Cash and cash equivalents	$ 47,304	72,025
Accounts receivable, net	45,876	45,658
Inventory, net	36,283	38,979
Other current assets	1,511	1,067
Total current assets	130,974	157,729
Property, plant, and equipment, net	28,192	25,776
Goodwill	2,319	2,082
Other assets	459	288
Total assets	$161,944	185,875
Liabilities and Partners' Equity		
Current liabilities:		
Accounts payable	$ 17,774	20,434
Accrued expenses	10,419	6,521
Taxes payable	741	1,897
Total current liabilities	28,934	28,852
Long-term liabilities:		
Deferred income taxes	673	457
Long-term debt	100,000	—
Other long-term liabilities	3,467	3,616
Total long-term liabilities	104,140	4,073
Total liabilities	133,074	32,925
Partners' equity:		
Contributed capital	22,438	22,638
Retained earnings	—	127,757
Accumulated other comprehensive income	6,432	2,555
Total partners' equity	28,870	152,950
Total liabilities and partners' equity	$161,944	185,875

See accompanying notes to consolidated financial statements.

WORTHINGTON ARMSTRONG VENTURE

Consolidated Statements of Income

Years ended December 31, 2007, 2006, and 2005

(In thousands)

	2007	2006	2005
Net sales	$ 379,988	348,811	307,740
Cost of sales	(245,061)	(224,735)	(208,628)
Gross margin	134,927	124,076	99,112
Selling, general, and administrative expenses	(22,310)	(19,038)	(18,829)
	112,617	105,038	80,283
Other income, net	114	100	123
Interest income	2,162	3,679	1,985
Interest expense	(4,400)	(177)	(1,452)
Income before income tax expense	110,493	108,640	80,939
Income tax expense	(3,450)	(3,754)	(2,299)
Net income	$ 107,043	104,886	78,640

See accompanying notes to consolidated financial statements.

WORTHINGTON ARMSTRONG VENTURE

Consolidated Statements of Partners' Equity and Comprehensive Income

Years ended December 31, 2007, 2006, and 2005

(In thousands)

	Contributed capital					
	Armstrong Ventures, Inc.	The Worthington Steel Company	Retained earnings	Accumulated other comprehensive income (loss)	Total partners' equity	Comprehensive income
Balance, January 1, 2005	$ 12,925	9,713	76,231	3,573	102,442	$ 65,146
Net income	—	—	78,640	—	78,640	$ 78,640
Distributions	—	—	(46,000)	—	(46,000)	—
Additional minimum pension liability	—	—	—	(153)	(153)	(153)
Foreign currency translation adjustments	—	—	—	(3,977)	(3,977)	(3,977)
Balance, December 31, 2005	12,925	9,713	108,871	(557)	130,952	$ 74,510
Net income	—	—	104,886	—	104,886	$ 104,886
Distributions	—	—	(86,000)	—	(86,000)	—
Reduction in minimum pension liability	—	—	—	40	40	40
Foreign currency translation adjustments	—	—	—	3,072	3,072	3,072
Balance, December 31, 2006	12,925	9,713	127,757	2,555	152,950	$ 107,998
Net income	—	—	107,043	—	107,043	$ 107,043
Distributions	(100)	(100)	(234,800)	—	(235,000)	—
Change in funded status of pension plan	—	—	—	252	252	252
Foreign currency translation adjustments	—	—	—	3,625	3,625	3,625
Balance, December 31, 2007	$ 12,825	9,613	—	6,432	28,870	$ 110,920

See accompanying notes to consolidated financial statements.

WORTHINGTON ARMSTRONG VENTURE

Consolidated Statements of Cash Flows

Years ended December 31, 2007, 2006, and 2005

(In thousands)

	2007	2006	2005
Cash flows from operating activities:			
Net income	$ 107,043	104,886	78,640
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	3,276	4,367	5,087
Deferred income taxes	53	11	(433)
Change in accounts receivable	974	(7,768)	(1,457)
Change in inventory	3,632	(8,660)	10,549
Change in accounts payable and accrued expenses	(400)	7,258	(570)
Other	(547)	803	(737)
Net cash provided by operating activities	114,031	100,897	91,079
Cash flows from investing activities:			
Purchases of property, plant, and equipment	(5,051)	(2,556)	(2,993)
Sale of property, plant, and equipment	—	13	44
Net cash used in investing activities	(5,051)	(2,543)	(2,949)
Cash flows from financing activities:			
Issuance (payments) of long-term debt	100,000	—	(50,000)
Distributions paid	(235,000)	(86,000)	(46,000)
Issuance costs related to debt	(232)	—	(317)
Net cash used in financing activities	(135,232)	(86,000)	(96,317)
Effect of exchange rate changes on cash and cash equivalents	1,531	981	(807)
Net increase (decrease) in cash and cash equivalents	(24,721)	13,335	(8,994)
Cash and cash equivalents at beginning of year	72,025	58,690	67,684
Cash and cash equivalents at end of year	$ 47,304	72,025	58,690
Supplemental disclosures:			
Cash and cash equivalents paid for interest	$ 2,590	102	1,067
Cash and cash equivalents paid for income taxes	3,937	2,221	2,295

See accompanying notes to consolidated financial statements.

(1) Description of Business

Worthington Armstrong Venture (the Company) is a general partnership, formed in June 1992, between Armstrong Ventures, Inc. (Armstrong), a subsidiary of Armstrong World Industries Inc., and The Worthington Steel Company (Worthington), a Delaware corporation (a subsidiary of Worthington Industries, Inc.). Its business is to manufacture and market suspension systems for commercial and residential ceiling markets throughout the world. The Company has manufacturing plants located in the United States, France, Spain, the United Kingdom, and the Peoples Republic of China.

(2) Summary of Significant Accounting Policies

(a) Use of Estimates

These consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America and include management estimates and judgments, where appropriate. Significant items subject to such estimates and assumptions include the carrying amount of property, plant, and equipment and goodwill; valuation allowances for receivables and inventories; and assets and obligations related to employee benefits. Actual results could differ from those estimates.

(b) Consolidation Policy

The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany transactions have been eliminated.

(c) Revenue Recognition

The Company recognizes revenue from the sale of products and the related accounts receivable when title transfers, generally on the date of shipment. At the time of shipment, a provision is made for estimated applicable discounts and losses that reduces revenue. Sales with independent U.S. distributors of products to major home center retailers are recorded when the products are shipped from the distributor's locations to these retailers.

(d) Advertising Costs

The Company recognizes advertising expenses as they are incurred. Advertising expense was $970,000, $849,000 and $812,000 for the years ended December 31, 2007, 2006, and 2005, respectively.

(e) Research and Development Expenditures

The Company recognizes research and development expense as expenditures are incurred. Total research and development expense was $3,734,000, $2,805,000 and $2,358,000 for the years ended December 31, 2007, 2006, and 2005, respectively.

(f) Taxes

The Company is a general partnership in the United States, and accordingly, generally all U.S. federal and state income taxes are the responsibility of the two general partners. Deferred income tax assets and liabilities are recognized for foreign subsidiaries for taxes estimated to be payable in

(Continued)

future years based upon differences between the financial reporting and tax bases of assets and liabilities. Deferred tax assets and liabilities are determined using enacted rates expected to apply to taxable income in the years the temporary differences are expected to be recovered or settled.

(g) Cash and Cash Equivalents

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

(h) Trade Accounts Receivable

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The Company maintains an allowance for doubtful accounts for estimated losses inherent in its accounts receivable portfolio. In establishing the required allowance, management considers historical losses, current receivables aging, and existing industry and national economic data. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Company does not have any off-balance-sheet credit exposure related to its customers.

(i) Inventories

Inventories are valued at the lower of cost or market. Cost is determined on the first-in, first-out (FIFO) method.

(j) Long-Lived Assets

Property, plant, and equipment are stated at cost, with accumulated depreciation and amortization deducted to arrive at net book value. Depreciation charges are determined generally on the straight-line basis over the useful lives as follows: buildings, 30 years; machinery and equipment, 5 to 15 years; and leasehold improvements over the shorter of 10 years or the life of the lease. 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. If an impairment exists, the asset is reduced to fair value.

(k) Goodwill

Goodwill is tested for impairment at least annually. The impairment tests performed in 2007, 2006, and 2005 did not result in an impairment of the Company's goodwill.

(l) Foreign Currency Translation and Transactions

For subsidiaries with functional currencies other than the U.S. dollar, income statement items are translated into dollars at average exchange rates throughout the year and balance sheet items are translated at year-end exchange rates. Gains or losses on foreign currency transactions are recognized in other income, net in the accompanying consolidated statements of income. Gains and losses on foreign translation are recognized in accumulated other comprehensive income in the accompanying consolidated balance sheets.

(Continued)

(m) Reclassifications

Computer software amounts have been reclassified from other intangibles to property, plant, and equipment for 2007 and 2006.

(3) Accounts Receivable

The Company sells its products to select, preapproved customers whose businesses are directly affected by changes in economic and market conditions. The Company considers these factors and the financial condition of each customer when establishing its allowance for losses from doubtful accounts. The allowance for doubtful accounts was $283,000 and $346,000 at December 31, 2007 and 2006, respectively.

(4) Inventory

	2007	2006
	(In thousands)	
Finished goods	$15,446	15,853
Goods in process	120	53
Raw materials	17,323	19,773
Supplies	3,394	3,300
Total inventories	$36,283	38,979

(5) Property, Plant, and Equipment

	2007	2006
	(In thousands)	
Land	$ 1,407	1,334
Buildings	13,716	13,425
Machinery and equipment	66,816	62,796
Computer software	713	525
Construction in process	4,167	1,372
	86,819	79,452
Accumulated depreciation and amortization	(58,627)	(53,676)
Total property, plant, and equipment, net	$ 28,192	25,776

Depreciation and amortization expense were $3,276,000, $4,367,000 and $5,087,000 in 2007, 2006, and 2005, respectively.

(6) Goodwill

Goodwill increased (decreased) by $237,000, $189,000 and $(257,000) during 2007, 2006, and 2005, respectively, due to foreign currency translation.

(Continued)

(7) Fair Value of Financial Instruments

The Company does not hold or issue financial instruments for trading purposes. The carrying amounts of cash and cash equivalents, accounts receivable, and accounts payable approximate their fair value due to the short-term maturity of these instruments. The carrying value of debt approximates fair value as the debt carries a variable interest rate.

(8) Debt

In September 2005, the Company paid off its $50 million Term Loan and established a $50 million revolving line of credit. In May 2007, the Company amended the line of credit facility to extend the credit agreement to May 2012 and to increase the line of credit to $150 million. The revolving line of credit is unsecured. At December 31, 2007, there was $100 million outstanding on this line of credit.

The line of credit contains certain restrictive financial covenants, including, among others, interest coverage and leverage ratios, as well as restrictions on dividends. The Company was in compliance with its covenants as of December 31, 2007 and 2006.

(9) Pension Benefit Programs

The Company contributes to the Worthington deferred profit sharing plan for all other eligible U.S. employees. Cost for this plan was $901,000, $836,000 and $658,000 for 2007, 2006, and 2005, respectively. The Company also contributes to government-related pension programs in a number of foreign countries. The cost for these plans amounted to $209,000, $184,000 and $155,000 for 2007, 2006, and 2005, respectively.

The Company also has a defined benefit pension plan for eligible hourly employees in its former manufacturing plant located in Malvern, Pennsylvania. This plan was curtailed in January 2004 due to the consolidation of the Company’s East coast operations, which eliminated the expected future years of service for participants in the plan.

The following table sets forth the defined benefit pension plan’s benefit obligations, fair value of plan assets, and funded status at December 31, 2007 and 2006:

	2007	2006
	(In thousands)	
Projected benefit obligation at beginning of year	$8,999	8,976
Administrative cost	102	98
Interest cost	498	479
Actuarial (gain) loss	(161)	79
Benefits paid	(735)	(633)
Projected benefit obligation at end of year	$8,703	8,999

	2007	2006
	(In thousands)	
Benefit obligation at December 31	$ 8,703	8,999
Fair value of plan assets as of December 31	7,636	7,784
Funded status at end of year	$(1,067)	(1,215)
Amounts recognized in the balance sheets consist of:		
Noncurrent liabilities	$(1,067)	(1,215)
Accumulated other comprehensive income	2,156	2,408

Amounts recognized in accumulated other comprehensive income represent unrecognized net actuarial losses.

The components of net periodic benefit cost (benefit) are as follows:

	2007	2006	2005
		(In thousands)	
Administrative Cost	$ 102	98	95
Interest Cost	498	479	469
Expected return on plan assets	(596)	(590)	(617)
Recognized net actuarial loss	101	143	31
Net periodic benefit cost (benefit)	$ 105	130	(22)

The net loss for the defined benefit pension plan that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year is $100,000.

Weighted average assumptions used to determine benefit obligations for the years ended and as of December 31, 2007 and 2006 are as follows:

	2007	2006
Weighted average assumptions for year ended December 31:		
Discount rate	5.75%	5.25%
Expected long-term rate of return on plan assets	8.00	8.00
Weighted average assumptions as of December 31:		
Discount rate	5.85%	5.75%
Expected long-term rate of return on plan assets	8.00	8.00

The Company’s overall expected long-term rate of return on plan assets is 8%. In developing the 8% expected long-term rate of return assumption, the Company considered its historical compounded return and reviewed asset class return expectations and long-term inflation assumptions.

The primary investment objective of the defined benefit pension plan is to achieve long-term growth of capital in excess of 8% annually, exclusive of contributions or withdrawals. This objective is to be achieved through a balanced portfolio comprised of equities, fixed income and cash investments.

(Continued)

Each asset class utilized by the defined benefit pension plan has a targeted percentage. The following table shows the asset allocation target and the December 31, 2007 and 2006 position:

		Position at December 31	
	Target weight	2007	2006
Equity securities	65%	69%	69%
Fixed income securities	35	29	28
Cash and equivalents	—	2	3

The Company made no contributions to the U.S. defined benefit pension plan in 2007, 2006, or 2005 and does not expect to contribute to the plan in 2008.

The benefits expected to be paid in each of the next five years and in the aggregate for the five years thereafter are shown in the following table (in thousands):

Expected future payments for period ending December 31:	
2008	$ 565
2009	560
2010	580
2011	580
2012 – 2016	2,930

The expected benefits are based on the same assumptions used to measure the Company’s benefit obligation at December 31, 2007.

(10) Income Taxes

The Company is a general partnership in the United States, and accordingly, generally all U.S. federal and state income taxes are the responsibility of the two general partners. Therefore, no income tax provision has been recorded on U.S. income. There are no significant differences between the statutory income tax rates in foreign countries where the Company operates and the income tax provision recorded in the income statements. No deferred taxes, including withholding taxes, have been provided on the unremitted earnings of foreign subsidiaries as the Company’s intention is to invest these earnings permanently.

Deferred tax balances recorded on the balance sheets relate primarily to depreciation, tax-deductible goodwill, and accrued expenses. In 2007, the provision for income tax expense was $3,450,000 comprising $3,292,000 current and $158,000 deferred. In 2006, the provision for income tax expense (benefit) was $3,754,000 comprising $3,856,000 current and $(102,000) deferred. In 2005, the provision for income tax expense (benefit) was $2,299,000 comprising $2,338,000 current and $(39,000) deferred.

(11) Leases

The Company rents certain real estate and equipment. Several leases include options for renewal or purchase and contain clauses for payment of real estate taxes and insurance. In most cases, management expects that in the normal course of business, leases will be renewed or replaced by other leases. Rent expense during 2007, 2006, and 2005 amounted to $2,470,000, $2,337,000 and $2,869,000, respectively.

(Continued)

Future minimum payments by year and in the aggregate for operating leases having noncancelable lease terms in excess of one year are as follows (in thousands):

Year:	
2008	$ 2,933
2009	2,711
2010	2,637
2011	2,550
2012	2,597
Thereafter	4,905
Total	$18,333

(12) Accumulated Other Comprehensive Income

The balances for accumulated other comprehensive income are as follows:

	2007	2006
	(In thousands)	
Foreign currency items	$ 8,588	4,963
Pension plan	(2,156)	(2,408)
Total accumulated other comprehensive income	$ 6,432	2,555

(13) Related Parties

Armstrong provides certain selling, promotional, and administrative processing services to the Company for which it receives reimbursement. Armstrong purchases grid products from the Company, which are then resold along with Armstrong inventory to the customer.

	2007	2006	2005
	(In thousands)		
Services provided by Armstrong	$14,961	13,706	13,027
Sales to Armstrong	87,660	75,854	67,860

No amounts were owed to Armstrong as of December 31, 2007 or 2006. Armstrong owed the Company $5,846,000 and $4,742,000 for purchases of product for the same periods, respectively, which are included in accounts receivable.

Worthington provides certain administrative processing services and insurance-related coverages to the Company for which it receives reimbursement.

	2007	2006	2005
	(In thousands)		
Services provided by Worthington	$ 715	1,079	555
Raw material purchased from Worthington	2,076	3,646	5,039

(Continued)

The Company owed $438,000 and $636,000 to Worthington as of December 31, 2007 and 2006, respectively, which are included in accounts payable.

(14) Legal Proceedings

The Company is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Company's consolidated financial position, results of operations, or liquidity.