

ARMSTRONG WORLD INDUSTRIES INC

Form 10-Q

October 30, 2008

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q**

(Mark One)

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

**For the quarterly period ended September 30, 2008**

**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

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 (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange 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

Number of shares of Armstrong World Industries, Inc.'s common stock outstanding as of October 23, 2008  
57,029,095

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**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, outlook, etc. in discussions of future operating or financial performance or 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 (such as those discussed in the Risk Factors section below) because they relate to events and depend on circumstances that may or may not occur in the future. We undertake no obligation beyond what is required under applicable securities law to update any forward-looking statement.

**Risk Factors**

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 and is not a complete list of all risks and uncertainties that might affect our future results. 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.

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**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. When the economy is weak and access to credit is limited, customers, distributors and suppliers are at heightened risk of defaulting on their obligations. 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 the Pacific Rim 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.

**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Financial Statements**

Armstrong World Industries, Inc., and Subsidiaries

Condensed Consolidated Statements of Earnings

(amounts in millions, except per share data)

Unaudited

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Net sales	\$ 929.6	\$ 913.3	\$ 2,684.6	\$ 2,697.3
Cost of goods sold	717.9	684.1	2,061.8	2,033.1
Gross profit	211.7	229.2	622.8	664.2
Selling, general and administrative expenses	145.9	155.8	452.7	453.5
Restructuring charges, net		0.1	0.8	0.2
Equity earnings from joint ventures	(16.4)	(12.6)	(48.1)	(35.1)
Operating income	82.2	85.9	217.4	245.6
Interest expense	7.5	13.8	23.7	44.6
Other non-operating expense	0.8	0.2	1.2	1.0
Other non-operating (income)	(2.1)	(4.4)	(8.5)	(12.4)
Chapter 11 reorganization costs, net		0.2		0.3
Earnings from continuing operations before income taxes	76.0	76.1	201.0	212.1
Income tax expense	36.9	27.7	94.4	80.3
Earnings from continuing operations	39.1	48.4	106.6	131.8
(Loss) from discontinued operations, net of income tax of \$0.0, \$0.0, \$0.4 and \$0.3	(0.2)	(0.3)	(0.1)	(6.1)
Net earnings	\$ 38.9	\$ 48.1	\$ 106.5	\$ 125.7
Earnings per share of common stock, continuing operations:				
Basic	\$ 0.69	\$ 0.86	\$ 1.89	\$ 2.36
Diluted	\$ 0.69	\$ 0.85	\$ 1.88	\$ 2.33
(Loss) per share of common stock, discontinued operations:				
Basic	\$	\$ (0.01)	\$	\$ (0.11)

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Diluted	\$		\$	(0.01)	\$		\$	(0.11)
Net earnings per share of common stock:								
Basic	\$	0.69	\$	0.86	\$	1.89	\$	2.25
Diluted	\$	0.69	\$	0.85	\$	1.88	\$	2.22
Average number of common shares outstanding:								
Basic		56.4		56.2		56.4		55.9
Diluted		56.7		56.8		56.6		56.5

See accompanying notes to Condensed Consolidated Financial Statements beginning on page 9.

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

	Unaudited September 30, 2008	December 31, 2007
Assets		
Current assets:		
Cash and cash equivalents	\$ 315.0	\$ 514.3
Accounts and notes receivable, net	355.3	300.7
Inventories, net	554.7	543.5
Deferred income taxes	43.5	43.5
Income tax receivable	25.3	25.3
Other current assets	65.5	63.2
<b>Total current assets</b>	<b>1,359.3</b>	<b>1,490.5</b>
Property, plant and equipment, less accumulated depreciation and amortization of \$257.2 and \$158.9, respectively	957.6	1,012.8
Prepaid pension costs	758.1	708.0
Investment in affiliates	239.2	232.6
Intangible assets, net	675.4	686.5
Deferred income taxes	357.9	424.5
Other noncurrent assets	85.4	84.5
<b>Total assets</b>	<b>\$ 4,432.9</b>	<b>\$ 4,639.4</b>
Liabilities and Shareholders Equity		
Current liabilities:		
Short-term debt	\$ 4.7	\$ 3.9
Current installments of long-term debt	40.4	24.7
Accounts payable and accrued expenses	390.9	428.2
Income tax payable	8.0	0.5
Deferred income taxes	29.5	29.5
<b>Total current liabilities</b>	<b>473.5</b>	<b>486.8</b>
Long-term debt, less current installments	462.8	485.8
Postretirement and postemployment benefit liabilities	313.4	318.6
Pension benefit liabilities	201.4	205.5
Other long-term liabilities	66.3	67.8
Income taxes payable	162.5	159.4
Deferred income taxes	470.0	471.4
Minority interest in subsidiaries	6.9	6.9
<b>Total noncurrent liabilities</b>	<b>1,683.3</b>	<b>1,715.4</b>



Shareholders' equity:

Common stock, \$0.01 par value per share, authorized 200 million shares; issued 57,058,198 shares and 56,828,754 shares, respectively	0.6	0.6
Capital in excess of par value	2,022.0	2,112.6
Retained earnings	92.2	147.5
Accumulated other comprehensive income	161.3	176.5
Total shareholders' equity	2,276.1	2,437.2
Total liabilities and shareholders' equity	\$ 4,432.9	\$ 4,639.4

See accompanying notes to Condensed Consolidated Financial Statements beginning on page 9.

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

	Nine Months Ended September 30, 2008		Nine Months Ended September 30, 2007		
Common stock:					
Balance at beginning of year and September 30	\$	0.6	\$	0.6	
Capital in excess of par value:					
Balance at beginning of year	\$	2,112.6	\$	2,099.8	
Share-based employee compensation		4.8		9.4	
Dividends in excess of retained earnings		(95.4)			
Balance at September 30	\$	2,022.0	\$	2,109.2	
Retained earnings:					
Balance at beginning of year	\$	147.5	\$	2.2	
Net earnings for period		106.5	\$	125.7	
Dividends		(161.8)	\$	125.7	
Balance at September 30	\$	92.2	\$	127.9	
Accumulated other comprehensive income:					
Balance at beginning of year	\$	176.5	\$	62.1	
Foreign currency translation adjustments		(14.5)		27.9	
Derivative gain (loss), net		1.3		(6.2)	
Pension and postretirement adjustments		(2.0)		0.5	
Total other comprehensive (loss) income		(15.2)	(15.2)	22.2	
Balance at September 30	\$	161.3	\$	84.3	
Comprehensive income		\$	91.3	\$	147.9
Total shareholders' equity	\$	2,276.1	\$	2,322.0	

See accompanying notes to Condensed Consolidated Financial Statements beginning on page 9.

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

	Nine Months Ended September 30	
	2008	2007
Cash flows from operating activities:		
Net earnings	\$ 106.5	\$ 125.7
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	113.4	100.9
Deferred income taxes	66.7	66.3
Share-based compensation	4.8	9.4
Equity earnings from affiliates, net	(48.1)	(35.1)
Distributions from equity affiliates	41.5	104.0
Cash effect of hedging activities	0.6	(1.7)
Changes in operating assets and liabilities:		
Receivables	(59.8)	(26.6)
Inventories	(17.6)	(2.6)
Other current assets	(1.1)	(12.2)
Other noncurrent assets	(50.5)	(45.2)
Accounts payable and accrued expenses	(26.4)	11.4
Income taxes payable/receivable, net	9.9	30.7
Other long-term liabilities	(12.1)	(17.0)
Cash distributed under the POR	(2.9)	(14.4)
Other, net	3.3	4.1
Net cash provided by operating activities	128.2	297.7
Cash flow from investing activities:		
Purchases of property, plant and equipment and computer software	(55.3)	(60.3)
Acquisitions	(0.8)	(5.2)
Divestitures		53.4
Proceeds from the sale of assets	0.4	2.4
Net cash (used for) investing activities	(55.7)	(9.7)
Cash flows from financing activities:		
Increase in short-term debt, net	0.8	1.3
Issuance of long-term debt	5.4	
Payments of long-term debt	(13.3)	(304.7)
Financing costs	(2.6)	
Dividend to minority interest		(1.2)
Special dividend paid	(256.4)	
Net cash (used for) financing activities	(266.1)	(304.6)

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Effect of exchange rate changes on cash and cash equivalents	(5.7)	14.9
Net (decrease) in cash and cash equivalents	(199.3)	(1.7)
Cash and cash equivalents at beginning of year	514.3	263.8
Cash and cash equivalents at end of period	\$ 315.0	\$ 262.1

See accompanying notes to Condensed Consolidated Financial Statements beginning on page 9.

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

**NOTE 1. BUSINESS AND BASIS OF PRESENTATION**

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.

The accounting policies used in preparing the Condensed Consolidated Financial Statements in this Form 10-Q are the same as those used in preparing the Consolidated Financial Statements for the year ended December 31, 2007. These statements should therefore be read in conjunction with the Consolidated Financial Statements and notes that are included in the Form 10-K for the fiscal year ended December 31, 2007. In the opinion of management, all adjustments of a normal recurring nature have been included to provide a fair statement of the results for the reporting periods presented. Quarterly results are not necessarily indicative of annual earnings, primarily due to the different level of sales in each quarter of the year and the possibility of changes in general economic conditions.

These Condensed Consolidated 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, pension assets and liabilities, stock compensation, warranty, workers compensation, general liability, income taxes and environmental claims. 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.

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 2007 Condensed Consolidated Statements of Cash Flows was reclassified from cash flows from investing activities to cash flows from operating activities. The amount reclassified was \$104.0 million in the nine months ended September 30, 2007. In addition, certain amounts in the Condensed Consolidated Statements of Earnings were reclassified from selling, general and administrative expenses to cost of goods sold. The amount reclassified was \$0.6 million in the three months ended September 30, 2007 and \$1.7 million in the nine months ended September 30, 2007. We also reclassified \$10.5 million in the December 31, 2007 Condensed Consolidated Balance Sheet from Accounts payable and accrued expenses to Accounts and notes, receivable, net. This reclassification also resulted in a reclassification of \$0.1 million in the 2007 Condensed Consolidated Statement of Cash Flows from changes in accounts payable and accrued expenses to changes in receivables.

In September 2006, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements ( FAS 157 ), 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 adopted the required provisions of FAS 157 on January 1, 2008. There was no material impact from adopting FAS 157.

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. We adopted EITF 06-10 on January 1, 2008. There was no material impact from adopting EITF 06-10.

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

Operating results for the third quarter and first nine months of 2008 and the corresponding periods of 2007 included in this report are unaudited. However, these Condensed Consolidated Financial Statements have been reviewed by an independent registered public accounting firm in accordance with standards of the Public Company Accounting Oversight Board (United States) for a limited review of interim financial information.

**NOTE 2. CHAPTER 11 REORGANIZATION**

On December 6, 2000, AWI filed a voluntary petition for relief (the Filing ) under Chapter 11 of the U.S. Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware 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 ).

On October 2, 2006 (the Effective Date ), AWI s plan of reorganization ( POR ) became effective, and AWI emerged from Chapter 11. 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 below).

**Resolution of Disputed Claims**

All claims in AWI s Chapter 11 case that remained open as of the end of 2007 have been resolved and closed. In February 2008 AWI made a final distribution to general unsecured creditors of AWI under the POR. Distributions were not made for creditors who did not provide required information to AWI. These remaining claimants had until October 24, 2008 to provide the needed information. Some distributions remained unclaimed and, accordingly, AWI will recognize a pre-tax gain of approximately \$0.9 million in the fourth quarter of 2008. The Bankruptcy Court closed the estate on September 2, 2008.

**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 in 2007. 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. An initial distribution to unsecured creditors was made in the first quarter of 2008. The Bankruptcy Court closed both estates on August 26, 2008, and a final distribution was made in these cases on September 22, 2008. Nitram and Desseaux will be dissolved.

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Armstrong World Industries, Inc., and Subsidiaries  
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(dollar amounts in millions)

**Reversal of POR-Related Contingent Liability**

The POR stipulated that any money received from insurance companies post-emergence for certain environmental matters was owed to the unsecured creditors if the money was received prior to the final distribution being made to the general unsecured creditors. At emergence, we had a \$2.1 million receivable for expected insurance recoveries. We also recorded a \$2.1 million liability to reflect the POR's requirement to pay any received money to the creditors. Since emergence, we have not received any environmental-related money from the insurance companies. With the final distribution made in the first quarter of 2008, we no longer owe any recoveries to the creditors. Accordingly, the \$2.1 million liability was reversed in the first quarter of 2008 as a reduction of selling, general and administrative expense. See Note 18 for further discussion of the \$2.1 million receivable.

**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.

**NOTE 3. SEGMENT RESULTS**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Net sales to external customers				
Resilient Flooring	\$ 336.9	\$ 327.9	\$ 973.5	\$ 941.4
Wood Flooring	171.0	191.9	500.1	602.8
Building Products	374.1	334.8	1,070.4	970.8
Cabinets	47.6	58.7	140.6	182.3
Total net sales to external customers	\$ 929.6	\$ 913.3	\$ 2,684.6	\$ 2,697.3

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Segment operating income (loss)				
Resilient Flooring	\$ 1.2	\$ 15.6	\$ 8.6	\$ 47.3
Wood Flooring	8.5	16.9	23.4	47.0
Building Products	75.0	62.3	200.9	174.8
Cabinets	(1.1)	1.5	(3.9)	6.8
Unallocated Corporate (expense)	(1.4)	(10.4)	(11.6)	(30.3)
Total consolidated operating income	\$ 82.2	\$ 85.9	\$ 217.4	\$ 245.6

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Total consolidated operating income	\$ 82.2	\$ 85.9	\$ 217.4	\$ 245.6
Interest expense	7.5	13.8	23.7	44.6
Other non-operating expense	0.8	0.2	1.2	1.0

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Other non-operating income	(2.1)	(4.4)	(8.5)	(12.4)
Chapter 11 reorganization costs, net		0.2		0.3
Earnings from continuing operations before income taxes	\$ 76.0	\$ 76.1	\$ 201.0	\$ 212.1



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

	September 30, 2008	December 31, 2007
Segment assets		
Resilient Flooring	\$ 725.7	\$ 734.8
Wood Flooring	522.3	509.7
Building Products	1,133.3	1,129.2
Cabinets	77.8	82.5
Total segment assets	2,459.1	2,456.2
Assets not assigned to segments	1,973.8	2,183.2
Total consolidated assets	\$ 4,432.9	\$ 4,639.4

**NOTE 4. ACQUISITIONS**

On February 18, 2008 we acquired the assets of Bowmans Australia Pty Ltd. to complement our Australian Building Products business for total consideration of \$0.8 million. The allocation of the purchase price to the fair value of tangible and identifiable intangible assets acquired has been completed.

**NOTE 5. DISCONTINUED OPERATIONS**

In March 2008, we recorded a gain of \$1.0 million (\$0.6 million net of income tax) arising from the settlement of a legal dispute relating to our former Insulation Products segment. The segment was sold in 2000. In accordance with Financial Accounting Standards Board Statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets ( FAS 144 ), this gain was 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 \$7.4 million and, as such, have recorded a receivable related to the estimated amount of these adjustments that is classified in the September 30, 2008 Condensed Consolidated Balance Sheet as part of Other current assets. The matter has been referred to an independent expert for a final and binding determination. We expect a conclusion to this matter by the first quarter of 2009.

The segment results in Note 3 exclude the amounts related to discontinued operations. The Condensed Consolidated Statements of Cash Flows do not separately report the cash flows of the discontinued operations, as these cash flows were not material to any cash flow category.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Net sales	\$	\$	\$	\$ 59.8
Pre-tax (loss) from discontinued operations				\$ (1.4)
(Loss) on expected disposal of discontinued operations	\$ (0.2)	\$ (0.3)	\$ (0.7)	(4.4)
Income tax (expense)				(0.3)
Net (loss) from discontinued operations	\$ (0.2)	\$ (0.3)	\$ (0.7)	\$ (6.1)

There were no net assets of the Tapijtfabriek H. Desseaux business held at either September 30, 2008 or December 31, 2007.

**NOTE 6. ACCOUNTS AND NOTES RECEIVABLE**

	September 30, 2008	December 31, 2007
Customer receivables	\$ 403.1	\$ 331.8
Customer notes	6.4	7.6
Miscellaneous receivables	8.0	14.6
Less allowance for discounts and losses	(62.2)	(53.3)
Net accounts and notes receivable	\$ 355.3	\$ 300.7

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.

**NOTE 7. INVENTORIES**

	September 30, 2008	December 31, 2007
Finished goods	\$ 368.5	\$ 355.7
Goods in process	43.9	39.7
Raw materials and supplies	162.0	160.7
Less LIFO and other reserves	(19.7)	(12.6)
Total inventories, net	\$ 554.7	\$ 543.5



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**NOTE 8. NATURAL GAS HEDGES**

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. The fair value of these instruments at September 30, 2008 was a \$5.4 million liability compared to a \$1.5 million liability at December 31, 2007, due to the recent decline in the price of natural gas.

**NOTE 9. EQUITY INVESTMENTS**

Investment in affiliates of \$239.2 million at September 30, 2008 reflected the equity interest in our 50% investment in our WAVE joint venture. 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. 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. See Note 11 Equity Investments in our 2007 Form 10-K for more information. Condensed income statement data for WAVE is summarized below:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2008	2007	2008	2007
Net sales	\$ 116.3	\$ 98.4	\$ 340.4	\$ 288.9
Gross profit	45.4	36.1	132.9	103.0
Net earnings	36.0	29.0	106.1	81.5

**NOTE 10. INTANGIBLE ASSETS**

The following table details amounts related to our intangible assets as of September 30, 2008 and December 31, 2007.

	Estimated Useful Life	September 30, 2008		December 31, 2007	
		Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortizing intangible assets					
Customer relationships	20 years	\$ 173.3	\$ (17.0)	\$ 173.3	\$ (10.5)
Developed technology	15 years	81.7	(10.7)	81.7	(6.6)
Other	Various	11.9	(1.3)	12.4	(1.1)
Total		\$ 266.9	\$ (29.0)	\$ 267.4	\$ (18.2)
Non-amortizing intangible assets					
Trademarks and brand names	Indefinite	437.5		437.3	
Total intangible assets		\$ 704.4		\$ 704.7	

Aggregate Amortization Expense		
For the nine months ended September 30, 2008	\$	10.8
For the nine months ended September 30, 2007	\$	10.9

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**NOTE 11. ACCOUNTS PAYABLE AND ACCRUED EXPENSES**

	September 30, 2008	December 31, 2007
Payables, trade and other	\$ 225.6	\$ 231.2
Employment costs	109.9	130.7
Other	55.4	66.3
Total accounts payable and accrued expenses	\$ 390.9	\$ 428.2

The decrease in accounts payable and accrued expenses is primarily due to the payment of employee incentives that were earned in 2007.

**NOTE 12. SEVERANCES AND RELATED COSTS**

In the first quarter of 2008, we recorded \$6.1 million of severance and related expenses to reflect the termination costs for certain corporate employees. We also recorded a reduction of our stock compensation expense of \$1.5 million in the first quarter of 2008 related to stock grants that will be forfeited by these employees. These costs were recorded as selling, general and administrative expenses.

During the third quarter of 2008, we recorded \$7.5 million of severance charges primarily related to organizational and manufacturing changes for our European resilient flooring business. The organizational changes are due to the decision to consolidate and outsource several selling, general and administrative (SG&A) functions. The manufacturing changes related to the decision to cease production of automotive carpeting and other specialized textile flooring products. These charges were recorded as part of cost of goods sold (\$1.7 million) and SG&A expense (\$5.8 million). None of the severance payments had been made as of September 30, 2008.

**NOTE 13. RESTRUCTURING AND OTHER ACTIONS**

Net restructuring charges are summarized in the following table:

Action Title	Three Months Ended		Nine Months Ended		Segment
	September 30, 2008	2007	September 30, 2008	2007	
U.K. lease			\$ 0.8		Unallocated
Hoogezand				\$ 0.2	Corporate
Other initiatives		\$ 0.1			Building Products
					Various
Total		\$ 0.1	\$ 0.8	\$ 0.2	

**U.K. lease:** The reserve related to a noncancelable operating lease in the U.K. was increased in the first quarter of 2008 as a result of a change in building tax rates. This lease extends through 2017.

**Hoogezand:** These charges are related to the first quarter 2004 decision to close the manufacturing facility. The plant closure was 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. In the fourth quarter of 2007, we sold this facility.



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The following tables summarize activity in the restructuring accruals for the first nine months of 2008 and 2007.

	Severance and Related Costs				Leases	
	Lancaster Plant	Nashville	Hoogezand	Other Initiatives	U.K. Lease	Total
December 31, 2007	\$	\$	\$ 0.1	\$	\$ 4.5	\$ 4.6
Cash payments					(0.4)	(0.4)
Net charges					0.8	0.8
Other					(0.4)	(0.4)
September 30, 2008	\$	\$	\$ 0.1	\$	\$ 4.5	\$ 4.6

	Severance and Related Costs				Leases	
	Lancaster Plant	Nashville	Hoogezand	Other Initiatives	U.K. Lease	Total
December 31, 2006	\$ 0.4	\$ 1.4	\$ 0.2	\$ 0.1	\$ 4.9	\$ 7.0
Cash payments	(0.4)	(1.3)	(0.3)	(0.1)	(0.1)	(2.2)
Net charges			0.2			0.2
Other					0.1	0.1
September 30, 2007	\$	\$ 0.1	\$ 0.1	\$	\$ 4.9	\$ 5.1

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

**NOTE 14. INCOME TAX EXPENSE**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Earnings from continuing operations before income taxes	\$ 76.0	\$ 76.1	\$ 201.0	\$ 212.1
Income tax expense	36.9	27.7	94.4	80.3
Effective tax rate	48.6%	36.4%	47.0%	37.9%

The effective tax rate for the third quarter of 2008 was higher than the comparable period of 2007 due to higher unbenefitted foreign losses, state income tax legislative changes and higher interest on uncertain tax positions. The effective tax rate for the first nine months of 2008 was higher than the first nine months of 2007 due to higher unbenefitted foreign losses, higher interest on uncertain tax positions and state income tax legislative changes. Partially offsetting these items was the tax benefit in 2008 for costs incurred in 2007 for the review of strategic alternatives (see Note 2 for more information on the review of strategic alternatives).

Except as noted below, we do not expect to record any material changes during 2008 to unrecognized tax benefits that were claimed on tax returns covering tax years ending on or before December 31, 2007. During the first nine months of 2008, we recognized \$4.4 million of interest expense on unrecognized federal income tax benefits. During the remainder of 2008, we expect to recognize an additional \$1.5 million of interest expense on unrecognized federal income tax benefits.





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**NOTE 15. PENSIONS**

Following are the components of net periodic benefit costs (credits):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
U.S. defined-benefit plans				
Pension Benefits				
Service cost of benefits earned during the period	\$ 4.3	\$ 4.3	\$ 13.0	\$ 12.7
Interest cost on projected benefit obligation	24.5	24.1	73.4	72.3
Expected return on plan assets	(43.9)	(42.4)	(131.5)	(127.1)
Amortization of prior service cost	0.1		0.3	
Net periodic pension (credit)	\$ (15.0)	\$ (14.0)	\$ (44.8)	\$ (42.1)
Retiree Health and Life Insurance Benefits				
Service cost of benefits earned during the period	\$ 0.4	\$ 0.5	\$ 1.3	\$ 1.4
Interest cost on projected benefit obligation	4.7	4.8	14.2	14.3
Amortization of net actuarial gain	(0.3)	(0.3)	(1.1)	(0.7)
Net periodic postretirement benefit cost	\$ 4.8	\$ 5.0	\$ 14.4	\$ 15.0
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Non-U.S. defined-benefit plans				
Pension Benefits				
Service cost of benefits earned during the period	\$ 1.7	\$ 1.8	\$ 5.2	\$ 5.1
Interest cost on projected benefit obligation	5.2	4.8	15.7	14.2
Expected return on plan assets	(4.1)	(3.9)	(12.5)	(11.4)
Amortization of net actuarial gain	(0.1)		(0.4)	
Net periodic pension cost	\$ 2.7	\$ 2.7	\$ 8.0	\$ 7.9

We previously disclosed in our financial statements for the year ended December 31, 2007 that we expected to contribute \$30.2 million to our U.S. retiree health and life insurance plans in 2008. As of September 30, 2008, \$17.9 million of contributions have been made. We presently estimate that we will need to contribute an additional \$6.5 million to fund our U.S. retiree health and life insurance plans in 2008 for a total of \$24.4 million.

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**NOTE 16. 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 the first nine months of 2008 and 2007:

	2008	2007
Balance at January 1	\$ 17.6	\$ 21.2
Reductions for payments	(17.0)	(17.4)
Current year warranty accruals	17.9	16.5
Preexisting warranty accrual changes	(0.5)	(0.8)
Effects of foreign exchange translation	(0.1)	0.3
 Balance at September 30	 \$ 17.9	 \$ 19.8

The warranty reserve is recorded as a reduction of sales and accounts receivable.

**NOTE 17. SUPPLEMENTAL CASH FLOW INFORMATION**

	Nine Months Ended September 30,	
	2008	2007
Interest paid	\$ 18.3	\$ 39.4
Income taxes paid (refunded), net	\$ 18.1	\$ (16.4)

**NOTE 18. LITIGATION AND RELATED MATTERS****ENVIRONMENTAL MATTERS****Environmental Expenditures**

Our manufacturing and research facilities are affected by various federal, state and local environmental requirements. 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.

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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. Environmental obligations with respect to AWI's subsidiaries and to property that it currently owns or operates have not been discharged.

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 governmental 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 U.S. Environmental Protection Agency ( 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 remedial measures at its St. Helens, Oregon facility. Other PRPs 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



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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. AWI has denied liability for Scappoose Bay, but has cooperated with the DEQ regarding its owned property. During the second quarter of 2007, AWI received a written request from the DEQ to perform investigations in Scappoose Bay adjacent to the St. Helens, Oregon facility. 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 would provide a portion of the funding for the investigation. Any such contributory funding by AWI would be without prejudice to AWI's position that AWI denies any liability for contamination of Scappoose Bay. We are not currently able to estimate with reasonable certainty any amounts we may incur with respect to Scappoose Bay, although it is possible that such amounts may be material.

During the first quarter of 2008, we received a Notice and Finding of Violation from the U.S. EPA, Region 6 and also a Notice of Enforcement from the Texas Commission on Environmental Quality, relating to air emissions from our Center, Texas hardwood flooring manufacturing facility. Both matters have been resolved with total settlement amounts under \$0.1 million. However, documents signed by the Texas Commission on Environmental Quality have not yet been received.

*Summary of Financial Position*

Liabilities of \$6.6 million and \$7.0 million at September 30, 2008 and December 31, 2007, 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. Since at least 2005, we have been negotiating claims for insurance coverage with one of our primary insurers. Such recoveries, where probable, have been recorded as an asset in the Condensed 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 at September 30, 2008 and December 31, 2007.

Negotiations with the insurance company were concluded during October 2008, and a tentative settlement agreement for certain known sites has been reached, subject to EPA approval. Under the settlement agreement, during the fourth quarter of 2008 or the first quarter of 2009 we expect to receive \$11.4 million from the insurance company, partially offset by a \$1.4 million payment by us to the insurance company for retrospective rating premiums and a \$0.9 million payment to the EPA, pursuant to the Global Settlement with the EPA. We expect the agreement to be finalized by the parties as well as the EPA and the DOJ following a 30-day public comment period that likely will take place during the fourth quarter of 2008 or the first quarter of 2009. This transaction will be recorded in our financial statements when the agreement is finalized.

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.



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**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 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 19. SPECIAL CASH DIVIDEND AND STOCK OPTION ADJUSTMENTS**

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 maintain minimum domestic 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.

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 resulted in an aggregate cash payment to our shareholders of \$256.4 million. The dividend was recorded as a reduction of retained earnings to the extent that retained earnings were available at the dividend declaration date. Dividends in excess of retained earnings were recorded as a reduction of capital in excess of par value.

Under the terms of the 2006 Long Term Incentive Plan ( the Plan ), the Management Development and Compensation Committee ( the Committee ) of our Board of Directors is required to make equitable adjustments to stock option grants if there is a change in our capital structure. The special cash dividend qualified as a change to our capital structure under the terms of the Plan. We used the Black-Scholes option pricing model to determine the fair value of the awards before and after the special cash dividend, using consistent assumptions for the risk free rate of return, expected term, expected volatility and expected dividend yield. The stock prices used in the before and after calculations were \$35.10 (the closing price on March 6, 2008, the day before the ex-dividend date) and \$29.37 (the closing price on March 7, 2008, the ex-dividend date), respectively. For all option grants, the fair value of the award before and after the dividend remained the same. Therefore, in accordance with Statement of Financial Accounting Standards No. 123R,

Share-Based Payment , there was no incremental cost recognized in our financial statements due to these award modifications. The following changes were made to the options outstanding as a result of this change:

	Original Grant Terms		Adjusted Grant Terms	
	Number of Shares	Exercise Price	Number of Shares	Exercise Price
Options granted in 2006	1,460,700	\$ 38.42	1,535,781	\$ 29.37
Options granted in 2007	64,100	52.38	64,100	39.88
Options granted in 2008	110,370	34.00	131,904	28.45

**NOTE 20. 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.



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**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Shareholders

Armstrong World Industries, Inc.:

We have reviewed the accompanying condensed consolidated balance sheet of Armstrong World Industries, Inc. and subsidiaries ( the Company ) as of September 30, 2008, the related condensed consolidated statements of earnings for the three-month and nine-month periods ended September 30, 2008 and 2007, and the related condensed consolidated statements of cash flows and shareholders equity for the nine-month periods ended September 30, 2008 and 2007.

These condensed consolidated financial statements are the responsibility of the Company s management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole.

Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with standards of the Public Company Accounting Oversight Board (United States), the financial position of Armstrong World Industries, Inc. and subsidiaries as of December 31, 2007, and the results of their operations, cash flows, and shareholders equity for the year then ended (not presented herein); and in our report dated February 28, 2008, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2007, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ KPMG LLP

Philadelphia, Pennsylvania

October 29, 2008

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**Item 2. 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.

This discussion should be read in conjunction with the financial statements and the accompanying notes included elsewhere in this Form 10-Q. 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-Q.

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.

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 ).

**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 September 30, 2008 we operated 40 manufacturing plants in 10 countries, including 25 plants located throughout the United States. 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.

Our business strategy focuses on 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 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.

On December 6, 2000, AWI filed a voluntary petition for relief under Chapter 11 of the U.S. 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 its asbestos liability. Also filing under Chapter 11 were two of AWI's wholly-owned subsidiaries, Nitram Liquidators, Inc. and Desseaux Corporation of North America, Inc. On October 2, 2006, when all conditions precedent were met, AWI's court-approved Plan of Reorganization became effective, and AWI emerged from Chapter 11.

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See Note 2 to the Condensed Consolidated Financial Statements for information on the Chapter 11 Case.

**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 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®.

We also report an Unallocated Corporate segment, which includes assets and expenses that have not been allocated to the business units.

See Note 3 to the Condensed Consolidated Financial Statements for additional financial information on our reportable segments.

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**Financial highlights for the third quarter and first nine months:**

			Change is Favorable/ (Unfavorable)	
			As Reported	Excluding Effects of Foreign Exchange Rates
	2008	2007		
<b>Three months ended September 30</b>				
Total Consolidated Net Sales	\$ 929.6	\$ 913.3	1.8%	(0.7)%
Operating Income	\$ 82.2	\$ 85.9	(4.3)%	(4.8)%
Net increase (decrease) in cash and cash equivalents	\$ 74.8	\$ (84.4)	Favorable	Favorable
<b>Nine months ended September 30</b>				
Total Consolidated Net Sales	\$ 2,684.6	\$ 2,697.3	(0.5)%	(3.5)%
Operating Income	\$ 217.4	\$ 245.6	(11.5)%	(12.6)%
Net (decrease) in cash and cash equivalents	\$ (199.3)	\$ (1.7)	Unfavorable	Unfavorable

Excluding the translation effect of changes in foreign exchange rates, third quarter sales declined slightly and operating income decreased compared to the prior year. Sales growth in commercial products and in international businesses, improved manufacturing performance and lower selling, general and administrative ( SG&A ) expenses were offset by lower sales of residential products, input cost inflation and expenses related to cost reduction initiatives.

**Resilient Flooring** sales grew modestly as price and product mix improvements across geographies and volume growth in the Pacific Rim markets offset volume declines in the Americas. Despite the improvement in sales, operating income declined primarily due to expenses related to cost reduction initiatives, inflation and lower U.S. volume.

**Wood Flooring** sales continued to decline in weak new residential housing and renovation markets. Operating income declined significantly as the impact from lower sales more than offset reduced SG&A expenses.

**Building Products** delivered strong sales and earnings growth despite declining volume in U.S. commercial markets. Sales and earnings grew due to higher international sales, improved price realization and product mix in the Americas and increased income from WAVE.

**Cabinets** had significant declines in sales and operating income due to lower unit volume. Similar to Wood Flooring, the declines reflect a significant exposure to residential housing activity.

In the first nine months of 2008, cash balances were reduced due to a special cash dividend to shareholders and increased investment in working capital partially offset by cash earnings and distributions from WAVE. In the first nine months of 2007, cash balances declined minimally. This was due to voluntary debt repayments which were largely offset by proceeds from a divestiture, a federal tax refund and special distributions from WAVE.



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**Factors Affecting Revenues**

*Markets.* We compete in building material markets around the world. The majority of our sales are in North America and Europe. During the third quarter of 2008, these markets experienced the following:

According to the U.S. Census Bureau, in the third quarter of 2008, housing starts in the U.S. residential market declined 32.2% compared to the third quarter of 2007 to 0.88 million units, at seasonally adjusted and annualized rates (SAAR). Housing completions in the U.S. decreased by 27.9% year over year in the third quarter of 2008 with approximately 1.06 million units completed (SAAR). The National Association of Realtors indicated that sales of existing homes increased 2.5% to 5.04 million units in the third quarter from a level of 4.91 million in the second quarter. However, it was still a 14.2% decline from the third quarter of 2007.

According to the U.S. Census Bureau, U.S. retail sales through building materials, garden equipment and supply stores (an indicator of home renovation activity) decreased 0.8% in the third quarter of 2008 compared to the second quarter of 2008, and declined 1.9% compared to the third quarter of 2007.

According to the U.S. Census Bureau, in nominal dollar terms the rate of growth in the North American commercial market slowed in the third quarter of 2008. Construction completions in the office, healthcare, retail and education segments increased 4.4% in the third quarter, down from 8.2% in the second quarter of 2008 and down from 16.1% a year ago. Increasing inflation in construction materials would further depress these comparisons in real terms.

Western European market growth slowed, with some markets declining. Eastern European markets continued to grow.

Growth continued across most Pacific Rim markets.

*Quality and Customer Service Issues.* Our quality and customer service are critical components of our total value proposition. In the first nine months of 2008, 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 the first nine months of 2008 compared to the first nine months of 2007. The most significant pricing actions were:

Resilient Flooring implemented price increases on selected products in March, July and October 2008.

Wood Flooring had no significant pricing actions to-date in 2008.

Building Products announced price increases across geographies in each of the first three quarters of 2008 due to continuing significant inflation.

Cabinets implemented a February 2008 price increase.

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

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We estimate pricing actions increased our total consolidated net sales in the third quarter of 2008 by approximately \$24 million and in the first nine months of 2008 by approximately \$62 million, when compared to the same periods of 2007.

*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. Changes in the relative quantity of products purchased at the different price points can impact year-to-year comparisons of net sales and operating income. We estimate mix changes increased our total consolidated net sales in the third quarter of 2008 by approximately \$8 million and in the first nine months of 2008 by approximately \$33 million, when compared to the same periods of 2007.

**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 the first nine months of 2008 the net adverse impact of these factors on earnings was approximately \$69 million larger than in the same period of 2007.

*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 in our 2007 Form 10-K 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. Fresh-start reporting impacted the first nine months of 2008 and all periods in 2007, with the fourth quarter of 2007 and the first nine months of 2008's impacts being different from the first three quarters of 2007 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 in our 2007 Form 10-K for more information). Please see Results of Operations below for the dollar impact of fresh-start reporting by operating expense type for each period.

*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 incurred costs in conjunction with this conclusion of \$1.2 million in 2008.

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*Cost Reduction Initiatives.* During the third quarter of 2008, we recorded \$8.3 million of charges (severance of \$7.5 million and accelerated depreciation of \$0.8 million) primarily related to organizational and manufacturing changes for our European resilient flooring business. The organizational changes are due to the decision to consolidate and outsource several SG&A functions. The manufacturing changes related to the decision to cease production of automotive carpeting and other specialized textile flooring products. These charges were recorded as part of cost of goods sold (\$2.5 million) and SG&A expense (\$5.8 million).

We expect to incur approximately \$3 million of additional charges for severance and accelerated depreciation in the fourth quarter of 2008 and approximately \$5 million in 2009 for these initiatives.

**Factors Affecting Cash Flow**

Typically, we generate cash in our operating activities. The amount of cash generated in a period is dependent on a number of factors, including the amount of operating profit generated, changes in 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 the first nine months of 2008, our cash and cash equivalents decreased by \$199.3 million. This was primarily due to a special cash dividend to shareholders and increased investment in working capital partially offset by cash earnings and distributions from WAVE. Cash and cash equivalents decreased \$1.7 million for the first nine months of 2007. This was due to voluntary debt repayments which were largely offset by proceeds from a divestiture, a federal tax refund and special distributions from WAVE. See Financial Condition and Liquidity for further discussion.

**Employee Relations**

As of September 30, 2008, we had approximately 12,300 full-time and part-time employees worldwide, compared to approximately 12,900 employees as of December 31, 2007. The decline reflects headcount reductions, primarily in the wood flooring segment.

On December 31, 2007 the labor contract covering approximately 140 production employees at our Montreal resilient flooring plant expired. A new contract was negotiated for that location in the second quarter of 2008.

During October 2008, collective bargaining agreements covering certain employees at five domestic plants expired. Employees at these five plants are represented by the same international union. We negotiated new contracts in October 2008 with all five plants. As of the date of this filing, no employees are working under expired contracts.



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(dollar amounts in millions)**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 3 to the Condensed Consolidated Financial Statements for a reconciliation of operating income to consolidated earnings from continuing operations before income taxes.

**2008 COMPARED TO 2007****CONSOLIDATED RESULTS**

	2008	2007	As Reported	Change is Favorable/ (Unfavorable) Excluding Effects of Foreign Exchange Rates <sup>(1)</sup>
<b>Three months ended September 30</b>				
Net Sales:				
Americas	\$ 649.7	\$ 668.4	(2.8)%	(3.0)%
Europe	228.6	203.8	12.2%	2.9%
Pacific Rim	51.3	41.1	24.8%	18.2%
Total Consolidated Net Sales	\$ 929.6	\$ 913.3	1.8%	(0.7)%
Operating Income	\$ 82.2	\$ 85.9	(4.3)%	(4.8)%
<b>Nine months ended September 30</b>				
Net Sales:				
Americas	\$ 1,884.4	\$ 2,004.5	(6.0)%	(6.6)%
Europe	660.4	578.3	14.2%	3.3%
Pacific Rim	139.8	114.5	22.1%	13.3%
Total Consolidated Net Sales	\$ 2,684.6	\$ 2,697.3	(0.5)%	(3.5)%
Operating Income	\$ 217.4	\$ 245.6	(11.5)%	(12.6)%

(1) Excludes favorable foreign exchange effect in translation on net sales of \$22.7 million for three months and \$84.2 million for nine months. Excludes favorable

foreign  
exchange effect  
in translation on  
operating  
income of  
\$0.4 million for  
three months  
and \$3.0 million  
for nine months.

Consolidated net sales, excluding the translation effect of changes in foreign exchange rates, declined nearly 1% in the third quarter and 3.5% for the first nine months. For both periods, volume declines more than offset modest improvements in price realization (as described previously in Pricing Initiatives ) and an improved mix of higher value products.

Net sales in the Americas decreased 2.8% in the third quarter and 6.0% in the first nine months as volume declines in the Flooring segments and Cabinets offset sales growth in the Building Products segment.

Excluding the translation effect of changes in foreign exchange rates, net sales in the European markets grew by \$6 million for the quarter and \$20 million the first nine months. Building Products had improved price realization in both periods and volume growth in the first nine months, while Resilient Flooring had modest price realization and improved product mix in both periods.

Excluding the translation effect of changes in foreign exchange rates, net sales in the Pacific Rim increased \$8 million for the quarter and \$16 million for the first nine months on volume growth in both periods.

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2008 and 2007 operating expenses were impacted by several significant items. The significant items, which impacted cost of goods sold ( COGS ), SG&A and restructuring charges, include:

Item	Where Reported	Increase / (Reduction) in Expenses			
		Three Months Ended September 30		Nine Months Ended September 30	
		2008	2007	2008	2007
<b>Fresh-Start:</b>					
Impact on hedging-related activity	COGS		\$ (1.2)		\$ (4.6)
Change in depreciation and amortization	COGS	\$ 2.0		\$ 5.9	
Change in depreciation and amortization	SG&A	0.3		1.1	
<b>Other Significant Items:</b>					
Cost reduction initiatives expenses <sup>(1)</sup>	COGS	2.5		2.5	
Cost reduction initiatives expenses <sup>(1)</sup>	SG&A	5.8		10.4	
Chapter 11 related post-emergence expenses (income), net	SG&A		1.1	(1.3)	6.8
Review of strategic alternatives	SG&A		2.7	1.2	4.9
Cost reduction initiatives expenses	Restructuring		0.1	0.8	0.2

<sup>(1)</sup> Represents costs primarily for organizational and manufacturing changes for our European flooring business and costs for corporate severances partially offset by related reductions in stock compensation expense

Cost of goods sold in the third quarter of 2008 was 77.2% of net sales, compared to 74.9% in the same period of 2007. Cost of goods sold in the first nine months of 2008 was 76.8% of net sales, compared to 75.4% in the same period of 2007. For both 2008 periods, the increase was the result of lower volumes (in the Americas) and higher raw material inflation (in the Building Products and Resilient Flooring businesses). These factors more than offset higher selling prices and better manufacturing performance across most segments and geographies. In addition, cost of goods sold in 2008 and 2007 were impacted by the items detailed in the above table.

SG&A expenses in the third quarter of 2008 were \$145.9 million (15.7% of net sales), and in the first nine months of 2008 were \$452.7 million (16.9% of net sales), compared to \$155.8 million (17.1% of net sales) and \$453.5 million (16.8% of net sales) for the corresponding 2007 periods. Both periods had lower incentive compensation expenses in unallocated corporate expense. For the third quarter, spending declined across segments and geographies. For the nine month period, decreases in North American flooring businesses and Cabinets offset an increase related to product introduction expense and increases to the sales force in European Resilient Flooring. Building Products expenses were flat for the same period. In addition, 2008 and 2007 SG&A expenses were impacted by the items detailed in the above table.

Equity earnings, primarily from our WAVE joint venture, were \$16.4 million in the third quarter of 2008 compared to \$12.6 million in the third quarter of 2007, and \$48.1 million in the first nine months of 2008 compared to \$35.1 million in the first nine months of 2007. See Note 9 for further information.

We recorded operating income of \$82.2 million in the third quarter of 2008, compared to operating income of \$85.9 million in the third quarter of 2007. We recorded operating income of \$217.4 million in the first nine months of 2008, compared to operating income of \$245.6 million in the first nine months of 2007.

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Interest expense was \$7.5 million in the third quarter of 2008, compared to \$13.8 million in the third quarter of 2007. Interest expense was \$23.7 million in the first nine months of 2008, compared to \$44.6 million in the first nine months of 2007. The reduction for both periods was primarily due to lower debt balances.

Income tax expense was \$36.9 million and \$27.7 million for the third quarter of 2008 and 2007, respectively. The effective tax rate for the third quarter of 2008 was 48.6% as compared to a rate of 36.4% for 2007. The effective tax rate for 2008 was higher than 2007 due to higher unbenefitted foreign losses, state income tax legislative changes and higher interest on uncertain tax positions. Income tax expense was \$94.4 million and \$80.3 million for the first nine months of 2008 and 2007, respectively. The effective tax rate for the first nine months of 2008 was 47.0% versus 37.9% for 2007. The effective tax rate for 2008 was higher than 2007 due to higher unbenefitted foreign losses, higher interest on uncertain tax positions and state income tax legislative changes. Partially offsetting these items was the tax benefit in 2008 for costs incurred in 2007 for the review of strategic alternatives.

Net earnings of \$38.9 million for the third quarter of 2008 compared to net earnings of \$48.1 million in the third quarter of 2007. Net earnings of \$106.5 million for the first nine months of 2008 compared to net earnings of \$125.7 million in the first nine months of 2007.

**REPORTABLE SEGMENT RESULTS****Resilient Flooring**

	2008	2007	As Reported	Change is Favorable/ (Unfavorable) Excluding Effects of Foreign Exchange Rates <sup>(1)</sup>
<b>Three months ended September 30</b>				
Net Sales:				
Americas	\$ 214.5	\$ 220.7	(2.8)%	(3.2)%
Europe	99.5	89.3	11.4%	0.3%
Pacific Rim	22.9	17.9	27.9%	20.7%
Total Consolidated Net Sales	\$ 336.9	\$ 327.9	2.7%	(0.9)%
Operating Income	\$ 1.2	\$ 15.6	(92.3)%	(91.7)%
<b>Nine months ended September 30</b>				
Net Sales:				
Americas	\$ 630.5	\$ 640.8	(1.6)%	(2.5)%
Europe	283.2	249.8	13.4%	1.2%
Pacific Rim	59.8	50.8	17.7%	8.8%
Total Consolidated Net Sales	\$ 973.5	\$ 941.4	3.4%	(0.8)%
Operating Income	\$ 8.6	\$ 47.3	(81.8)%	(82.8)%

(1) Excludes favorable foreign

exchange effect  
in translation on  
net sales of  
\$12.0 million  
for three months  
and  
\$40.1 million  
for nine months.  
Excludes  
unfavorable  
foreign  
exchange effect  
in translation on  
operating  
income of  
\$0.1 million for  
three months  
and favorable  
foreign  
exchange effect  
in translation on  
operating  
income of \$0.8  
million for nine  
months.

Net sales in the Americas declined \$6.2 million for the third quarter and \$10.3 million during the first nine months. For both periods, volume declines, particularly in residential products, offset price realization and product mix improvement.

Excluding the translation effect of changes in foreign exchange rates, net sales in the European markets grew \$0.3 million for the quarter and \$3.2 million for the first nine months due to improved price and product mix offsetting lower volume for both periods.

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Excluding the translation effect of changes in foreign exchange rates, net sales in the Pacific Rim grew \$3.8 million for the quarter and \$4.7 million during the first nine months primarily due to higher volume and improved product mix.

Operating income for both periods decreased significantly due to global raw material inflation and lower volume in the Americas. In addition, both 2008 and 2007 operating profit were impacted by previously described items as detailed in the following table.

Item	Increase / (Reduction) in Expenses			
	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
<b>Fresh-Start:</b>				
Impact on hedging-related activity		\$ (0.3)		\$ (1.1)
Change in depreciation and amortization	\$ 0.8		\$ 2.5	
<b>Other Significant Items:</b>				
Cost reduction initiatives expenses <sup>(1)</sup>	8.3		8.3	

<sup>(1)</sup> Represents costs primarily for organizational and manufacturing changes for our European flooring business and costs for corporate severances partially offset by related reductions in stock compensation expense

**Wood Flooring**

	2008	2007	Change is (Unfavorable)
<b>Three months ended September 30</b>			
Total Segment Net Sales <sup>(1)</sup>	\$ 171.0	\$ 191.9	(10.9)%
Operating Income	\$ 8.5	\$ 16.9	(49.7)%
<b>Nine months ended September 30</b>			
Total Segment Net Sales <sup>(1)</sup>	\$ 500.1	\$ 602.8	(17.0)%

Operating Income	\$	23.4	\$	47.0	(50.2)%
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(1) Virtually all Wood Flooring products are sold in the Americas, primarily in the U.S.

Net sales decreased by \$20.9 million for the third quarter and \$102.7 million for the first nine months due to lower volume driven by continued declines in residential housing markets.

Operating income declined by \$8.4 million for the third quarter and \$23.6 million for the first nine months, primarily due to lower sales. Reduced manufacturing and SG&A costs partially offset the decline in sales. In addition, 2008 operating profit was impacted by previously described items as detailed in the following table.

Item	Increase / (Reduction) in Expenses				
	Three Months Ended September 30		Nine Months Ended September 30		
	2008	2007	2008	2007	
<b>Fresh-Start:</b>					
Change in depreciation and amortization	\$	0.3	\$	0.7	\$



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(dollar amounts in millions)**Building Products**

	2008	2007	As Reported	Change is Favorable Excluding Effects of Foreign Exchange Rates <sup>(1)</sup>
<b>Three months ended September 30</b>				
Net Sales:				
Americas	\$ 216.6	\$ 197.1	9.9%	9.6%
Europe	129.1	114.5	12.8%	5.0%
Pacific Rim	28.4	23.2	22.4%	16.3%
Total Consolidated Net Sales	\$ 374.1	\$ 334.8	11.7%	8.5%
Operating Income	\$ 75.0	\$ 62.3	20.4%	19.6%
<b>Nine months ended September 30</b>				
Net Sales:				
Americas	\$ 613.2	\$ 578.6	6.0%	5.1%
Europe	377.2	328.5	14.8%	4.9%
Pacific Rim	80.0	63.7	25.6%	16.9%
Total Consolidated Net Sales	\$ 1,070.4	\$ 970.8	10.3%	5.8%
Operating Income	\$ 200.9	\$ 174.8	14.9%	13.4%

(1) Excludes favorable foreign exchange effect in translation on net sales of \$10.6 million for three months and \$42.0 million for nine months. Excludes favorable foreign exchange effect in translation on operating income of \$0.4 million for three months

and \$2.5 million  
for nine months.

Net sales in the Americas increased \$19.5 million for the quarter and \$34.6 million for the first nine months primarily driven by price increases put in place to offset inflationary pressure and an improved product mix. The improved product mix reflects a continued focus on developing and marketing high value products which satisfies 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 \$5.9 million for the quarter and \$16.9 million for the first nine months. The sales improvement was primarily due to volume growth in the emerging markets of Eastern Europe 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 \$3.9 million for the quarter and \$11.3 million for the first nine months on strong volume growth in China, Australia and India.

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Operating income grew by \$12.7 million for the quarter and \$26.1 million for the first nine months. Sales growth and higher income from WAVE more than offset inflation in input costs. In addition, 2008 and 2007 operating profit were impacted by previously described items as detailed in the following table.

<b>Item</b>	<b>Increase / (Reduction) in Expenses</b>			
	<b>Three Months Ended September 30</b>		<b>Nine Months Ended September 30</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
<b>Fresh-Start:</b>				
Impact on hedging-related activity		\$ (0.9)		\$ (3.5)
Change in depreciation and amortization	\$ 1.0		\$ 3.1	
<b>Other Significant Items:</b>				
Cost reduction initiatives expenses				0.2
<b>Cabinets</b>				

	2008	2007	Change is (Unfavorable)
<b>Three months ended September 30</b>			
Total Segment Net Sales <sup>(1)</sup>	\$ 47.6	\$ 58.7	(18.9)%
Operating (Loss) Income	\$ (1.1)	\$ 1.5	Unfavorable
<b>Nine months ended September 30</b>			
Total Segment Net Sales <sup>(1)</sup>	\$ 140.6	\$ 182.3	(22.9)%
Operating (Loss) Income	\$ (3.9)	\$ 6.8	Unfavorable

<sup>(1)</sup> All Cabinets products are sold in the Americas, primarily in the U.S.

Net sales declined \$11.1 million for the quarter and \$41.7 million for the first nine months on significant volume declines related to further deterioration in the U.S. housing market.

The operating income was \$2.6 million worse than the prior year for the quarter and \$10.7 million below the prior year for the first nine months, primarily due to the decline in sales.

**Table of Contents****Management's Discussion and Analysis of Financial Condition and Results of Operations**  
(dollar amounts in millions)**Unallocated Corporate**

Unallocated corporate expense of \$1.4 million in the third quarter of 2008 decreased from \$10.4 million in the prior year. For the first nine months of 2008, expense of \$11.6 million was lower than expense of \$30.3 million in 2007. For both periods the decrease was primarily due to lower incentive compensation expense. In addition, 2008 and 2007 operating profit were impacted by previously described items as detailed in the following table.

Item	Increase / (Reduction) in Expenses			
	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2008	2007	2008	2007
<b>Fresh-Start:</b>				
Change in depreciation and amortization	\$	0.2	\$	0.7
<b>Other Significant Items:</b>				
Cost reduction initiatives expenses <sup>(1)</sup>			5.4	
Chapter 11 related post-emergence (income) expenses, net	\$	1.1	(1.3)	\$ 6.8
Review of strategic alternatives		2.7	1.2	4.9

(1) Represents costs for corporate severances, partially offset by related reductions in stock compensation expense, and restructuring costs

**FINANCIAL CONDITION AND LIQUIDITY****Cash Flow**

As shown on the Condensed Consolidated Statements of Cash Flows, our cash and cash equivalents balance decreased by \$199.3 million in the first nine months of 2008, compared to a \$1.7 million decrease in the first nine months of 2007.

Operating activities in the first nine months of 2008 provided \$128.2 million of cash. This was primarily due to cash earnings and distributions from WAVE of \$41.5 million. These were partially offset by increases in accounts receivable of \$59.8 million due to higher sales in September 2008 compared to sales in December 2007 and the payment of incentive accruals during the first quarter of 2008. Operating activities in the first nine months of 2007 provided \$297.7 million of cash. This was primarily due to cash earnings and special distributions from WAVE of \$104.0 million.

Net cash used for investing activities was \$55.7 million for the first nine months of 2008, compared to \$9.7 million used in 2007. The change was primarily due to proceeds of \$53.4 million received in the first nine months of 2007 from divesting the European Textile and Sports Flooring business.

Net cash used for financing activities was \$266.1 million for the first nine months of 2008, compared to \$304.6 million used during the first nine months of 2007. In the first quarter of 2008 we made a special cash dividend payment of \$256.4 million. During the first nine months of 2007 we made voluntary prepayments of \$300 million of

the \$500 million Term Loan B, which was part of the senior credit facility that was executed on October 2, 2006.

**Table of Contents****Management's Discussion and Analysis of Financial Condition and Results of Operations**  
(dollar amounts in millions)**Balance Sheet and Liquidity**

Changes in significant balance sheet accounts and groups of accounts from December 31, 2007 to September 30, 2008 are as follows:

	September 30, 2008	December 31, 2007	(Decrease)/ Increase
Cash and cash equivalents	\$ 315.0	\$ 514.3	\$ (199.3)
Current assets, excluding cash and cash equivalents	1,044.3	976.2	68.1
Total current assets	\$ 1,359.3	\$ 1,490.5	\$ (131.2)

Cash and cash equivalents decreased by \$199.3 million during the first nine months of 2008 (see Cash Flow ). The increase in current assets, excluding cash and cash equivalents, was due to higher accounts receivable because of greater sales in September 2008 than in December 2007.

	September 30, 2008	December 31, 2007	(Decrease)
Property, plant and equipment, net	\$ 957.6	\$ 1,012.8	\$ (55.2)

The decrease was primarily due to depreciation of \$102.7 million and the effects of foreign currency translation partially offset by capital expenditures of \$55.3 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 with Bank of America, N.A., JPMorgan Chase Bank, N.A. and Barclays Bank PLC. 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 (due in 2011), and a \$500 million Term Loan B (due in 2013). There were no outstanding borrowings under the revolving credit facility, but \$50.6 million in letters of credit were outstanding as of September 30, 2008 and, as a result, availability under the revolving credit facility was \$249.4 million. 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.

As of September 30, 2008, we have \$315.0 million of cash and cash equivalents, \$161.9 million in the U.S. and \$153.1 million in various foreign jurisdictions.

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 maintain minimum domestic 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.

In addition to the minimum domestic liquidity covenant, our credit facility contains two other 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 under our revolving credit facility, provided we maintain minimum domestic liquidity of \$100 million, would not violate these covenants.



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**Management's Discussion and Analysis of Financial Condition and Results of Operations**

(dollar amounts in millions)

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 resulted in an aggregate payment to our shareholders of \$256.4 million.

In the fourth quarter of 2008, our Board of Directors will evaluate the payment of a second special cash dividend. The decision will be based on consideration of our forecasted operating results and the outlook for global economies and credit markets.

Our foreign subsidiaries had available lines of credit totaling \$39.2 million, of which \$8.1 million was used as of September 30, 2008, leaving \$31.1 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.

We believe that cash on hand and generated from operations, together with lines of credit and the availability under the \$300 million revolving credit facility, will be adequate to address our foreseeable liquidity needs in the normal course of business operations and for scheduled payments of debt obligations.



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**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

For information regarding our exposure to certain market risks, see Item 7A, Quantitative and Qualitative Disclosures About Market Risk, in our 2007 Form 10-K filing. There have been no significant changes in our financial instruments or market risk exposures from the amounts and descriptions disclosed therein.

**Item 4. Controls and Procedures**

- (a) **Evaluation of Disclosure Controls and Procedures.** The Securities and Exchange Commission defines the term disclosure controls and procedures to mean a company's controls and other procedures that are designed to ensure that information required to be disclosed in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Based on the evaluation of the effectiveness of our disclosure controls and procedures by our management, with the participation of our chief executive officer and our chief financial officer, as of the end of the period covered by this report, 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 the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms.
- (b) **Changes in Internal Control Over Financial Reporting.** 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 September 30, 2008 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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**PART II OTHER INFORMATION**

**Item 1. Legal Proceedings**

See Note 18 to the Condensed Consolidated Financial Statements for a full description of our legal proceedings.

**Item 1A. Risk Factors**

See page 3 for our Risk Factors discussion. There have been no material changes to the risk factors as previously disclosed in Part I, Item 1A of our 2007 Form 10-K.

**Item 5. Other Information**

**Change in Control Agreements**

The Company restated its existing change in control agreements with F. N. Grasberger, D. F. Martin, M. D. Lockhart, D. A. McCunniff, F. J. Ready, W. C. Rodruan, S. J. Senkowski and R. S. Webster. These agreements provide severance benefits in the event of a change in control of the Company. The purpose of the agreements is to foster stability in the management ranks in the face of a possible change in control.

The severance benefits are payable if the executive is involuntarily terminated without cause (as defined in the agreement) or terminates employment for good reason during the term of the agreement and following a change in control. Good reason to terminate employment exists if there are significant changes in the nature of the individual's employment following the change in control, including but not limited to, a reduction in compensation, a substantial, adverse change in responsibility, or a relocation of the place of employment a stated number of miles. Severance benefits under the agreements include but are not limited to: (1) a lump sum severance payment equal to three times (two times for Mr. Martin, Mr. Rodruan and Mr. Webster) the sum of the executive's annual base salary and the higher of the executive's highest annual bonus earned in the three years prior to termination or prior to the change in control; (2) a lump sum payment of the portion of the executive's target incentive awards applicable to the year of termination of employment calculated by multiplying the target award by the fractional number of months completed in the performance award period; (3) three additional years of age and service credit for the purpose of determining pension benefits, the actuarial present value of which are payable as a lump sum (other than for Mr. Grasberger and Mr. McCunniff); (4) continuation of life, disability, accident and health insurance benefits for three years following termination; (5) full reimbursement for the payment of any applicable parachute excise taxes; and (6) payment of legal fees incurred in connection with a good faith dispute involving the agreement.

For the purposes of these agreements, a Change in Control includes the following: (1) acquisition by a person (excluding certain qualified owners) of beneficial ownership of 20% or more of the Company's common stock; (2) change in the composition of the Board of the Company, so that existing Board members and their approved successors do not constitute a majority of the Board; (3) consummation of a merger or consolidation of the Company, unless shareholders of voting securities immediately prior to the merger or consolidation continue to hold 66-2/3% or more of the voting securities of the resulting entity or no person is or becomes the beneficial owner of 20% or more of the Company's common stock other than a person who was a beneficial owner prior to the merger or consolidation; and (4) shareholder approval of a liquidation or dissolution of the Company or sale of substantially all of the Company's assets. Except for Mr. Martin, Mr. Rodruan and Mr. Webster, each agreement includes a provision by

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which the executive may choose to terminate employment during the thirty-day period beginning twelve months following a qualifying change in control and receive severance benefits. The qualifying change in control must meet the definitions in clauses (2) and (3) described above, except that a Change in Control shall not be deemed to occur solely by reason of any transaction effected by the Asbestos Personal Injury Trust established pursuant to the Company's Plan of Reorganization to sell or otherwise dispose of the Company's voting securities.

Except with respect to F. N. Grasberger and D. A. McCunniff, the restated agreements confirm that a Change in Control occurred for purposes of the change in control agreements on October 2, 2006 as a result of the Company's emergence under its Plan of Reorganization that was confirmed by the U.S. Bankruptcy Court for the District of Delaware.

Each restated change in control agreement reflects a term, which ends on October 31, 2009 in the case of M. D. Lockhart, D. F. Martin, F. J. Ready, W. C. Rodruan, S. J. Senkowski and R. S. Webster and on September 30, 2010 in the case of F. N. Grasberger and D. A. McCunniff. Each change in control agreement was also restated to comply with Section 409A of the Internal Revenue Code. Mr. Lockhart's Change in Control Agreement and a form of Change in Control Agreement covering the other executives together with a Schedule of Participating Executives are filed with this Report.

**Amended Employment Agreement**

M. D. Lockhart's Employment Agreement has been amended to comply with Section 409A of the Internal Revenue Code and restated to reflect current terms. Mr. Lockhart's Employment Agreement is filed with this Report.

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**Item 6. Exhibits**

The following exhibits are filed as part of this Quarterly Report on Form 10-Q:

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 incorporated by reference from the 2007 Annual Report on Form 10-K wherein it appeared as Exhibit 10.2.*
No. 10.3	Retirement Benefit Equity Plan, effective January 1, 2005, as amended October 29, 2007, is incorporated by reference from the 2007 Annual Report on Form 10-K wherein it appeared as Exhibit 10.3.*
No. 10.4	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. 10.5	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. 10.6	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. 10.7	

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Bonus Replacement Retirement Plan, effective as of January 1, 1998, as amended January 1, 2007, is incorporated by reference from the 2007 Annual Report on Form 10-K wherein it appeared as Exhibit 10.9.\*

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Exhibit No.	Description
No. 10.8	Employment Agreement with Michael D. Lockhart, as amended, is filed with this Report.*
No. 10.9	Hiring Agreement with F. Nicholas Grasberger III dated January 6, 2005 is incorporated by reference from the Current Report filed on Form 8-K/A on January 6, 2005, wherein it appeared as Exhibit 10.1. *
No. 10.10	Indemnification Agreement with F. Nicholas Grasberger III dated January 6, 2005 is incorporated by reference from the Current Report filed on Form 8-K/A on January 6, 2005, wherein it appeared as Exhibit 10.3. *
No. 10.11	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. 10.12	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. 10.13	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. 10.14	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. 10.15	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. 10.16	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. 10.17	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. 10.18	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.

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Exhibit No.	Description
No. 10.19	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. 10.20	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. 10.21	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. 10.22	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. 10.23	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 Quarterly Report on Form 10-Q for the quarter ended June 30, 2008 wherein it appeared as Exhibit 10.28.
No. 10.24	2006 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. 10.25	2006 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. 10.26	2007 Award under the 2006 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. 10.27	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. 10.28	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. 10.29	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



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Incentive Plan to Michael D. Lockhart is incorporated by reference from the 2007 Annual Report on Form 10-K wherein it appeared as Exhibit 10.34.\*

No. 10.30 Form of Armstrong World Industries, Inc. grant letter used in connection with awards of restricted stock under the 2006 Long-Term Incentive Plan is incorporated by reference from the 2007 Annual Report on Form 10-K wherein it appeared as Exhibit 10.35.\*

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Exhibit No.	Description
No. 10.31	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 incorporated by reference from the 2007 Annual Report on Form 10-K wherein it appeared as Exhibit 10.36.
No. 10.32	Form of Armstrong World Industries, Inc. grant letter used in connection with award of stock options under the 2006 Long-Term Incentive Plan is incorporated by reference from the Quarterly Report on Form 10-Q for the quarter ended March 31, 2008 wherein it appeared as Exhibit 10.37. *
No. 10.33	2008 Directors Stock Unit Plan is incorporated by reference from the Quarterly Report on Form 10-Q for the quarter ended June 30, 2008 wherein it appeared as Exhibit 10.38. *
No. 10.34	Form of 2008 Service Commencement Award to Messrs. Askren and Boscia is filed with this Report. *
No. 10.35	Form of 2008 Award under the 2008 Director Stock Unit is filed with this Report. *
No. 10.36	Schedule of Participating Directors to the 2008 award under the 2008 Directors Stock Unit Plan is filed with this Report. *
No. 10.37	Form of Change in Control Agreement with certain executives is filed with this Report. *
No. 10.38	Schedule of Participating Executives to the Form of Change in Control Agreement is filed with this Report. *
No. 10.39	Change in Control Agreement with Michael D. Lockhart is filed with this Report. *
No. 15	Awareness Letter from Independent Registered Public Accounting Firm.
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).

\*

Management  
Contract or  
Compensatory  
Plan.

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**SIGNATURES**

Pursuant to the requirements 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.

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

By: /s/ Jeffrey D. Nickel  
Jeffrey D. Nickel,  
Senior Vice President,  
General Counsel and Corporate Secretary

By: /s/ Stephen F. McNamara  
Stephen F. McNamara,  
Vice President and Controller  
(Principal Accounting Officer)

Date: October 29, 2008

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**EXHIBIT INDEX**

No. 10.8	Employment Agreement with Michael D. Lockhart, as amended.
No. 10.34	Form of 2008 Service Commencement Award to Messrs. Askren and Boscia.
No. 10.35	Form of 2008 Award under the 2008 Directors Stock Unit Plan.
No. 10.36	Schedule of Participating Directors to the 2008 award under the 2008 Directors Stock Unit Plan.
No. 10.37	Form of Change in Control Agreement with certain executives.
No. 10.38	Schedule of Participating Executives to the Form of Change in Control Agreement.
No. 10.39	Change in Control Agreement with Michael D. Lockhart.
No. 15	Awareness Letter from Independent Registered Public Accounting Firm.
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).