ARMSTRONG WORLD INDUSTRIES INC

FORM 10-K
(Annual Report)

Filed 02/24/06 for the Period Ending 12/31/05

Address	2500 COLUMBIA AVE LANCASTER, PA 17603
Telephone	7173970611
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SIC Code	3089 - Plastics Products, Not Elsewhere Classified
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Sector	Capital Goods
Fiscal Year	12/31

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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2005

OR

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

For the transition period from ___________to ___________

ARMSTRONG HOLDINGS, INC.
(Exact name of registrant as specified in its charter)

Pennsylvania	**000-50408**	**23-3033414**
(State or other jurisdiction of incorporation or organization)	**(Commission file number)**	**(I.R.S. Employer Identification No.)**

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

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

Securities registered pursuant to Section 12(b) of the Act: None

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

Title of each class

Common Stock ($1 par value) Preferred Stock Purchase Rights

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes ☐ No ☒

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

Yes ☒ No ☐

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

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

Yes ☒ No ☐

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

Yes ☐ No ☒

The aggregate market value of the Common Stock of Armstrong Holdings, Inc. held by non-affiliates based on the closing price ($2.42 per share) on the over-the-counter (OTC) Bulletin Board (trading symbol ACKHQ) on June 30, 2005, was approximately $98.1 million. As of February 10, 2006, the number of shares outstanding of registrant's Common Stock was 40,664,461.

ARMSTRONG WORLD INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

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

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

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

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes ☐ No ☒

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

Yes ☒ No ☐

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

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

Yes ☐ No ☒

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

Yes ☐ No ☒

Documents Incorporated by Reference

None

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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," "believe," "outlook," etc. in discussions of future operating or financial performance or the outcome of contingencies such as liabilities or legal proceedings.

Any of our forward-looking statements may turn out to be wrong. Actual future results may differ materially. Forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. We undertake no obligation to update any forward-looking statement.

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

PART I

ITEM 1. BUSINESS

General

Armstrong World Industries, Inc. ("AWI") is a Pennsylvania corporation incorporated in 1891. Armstrong Holdings, Inc. is a Pennsylvania corporation and the publicly held parent holding company of AWI. Armstrong Holdings, Inc.'s only significant asset and operation is its indirect ownership, through Armstrong Worldwide, Inc. (a Delaware Corporation), of all of the capital stock of AWI. We include separate financial statements for Armstrong Holdings, Inc. and its subsidiaries and AWI and its subsidiaries in this report because both companies have public securities that are registered under the Securities Exchange Act of 1934 (the "Securities Exchange Act"). The differences between the financial statements of Armstrong Holdings, Inc. and its subsidiaries and AWI and its subsidiaries are primarily due to transactions that occurred in 2000 related to the formation of Armstrong Holdings, Inc. and to employee compensation-related stock activity. In 2005, we reversed a $1.6 million contingent liability of Armstrong Holdings, Inc. that was originally established when Armstrong Holdings, Inc. was formed, because the liability is no longer probable. Due to the lack of material differences in the operations, when we refer in this document to Armstrong Holdings, Inc. and its subsidiaries as "AHI," "Armstrong," "we" and "us," we are also effectively referring to AWI and its subsidiaries. We use the term "AWI" when we are referring solely to Armstrong World Industries, Inc.

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

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 (resilient, wood, carpeting and sports flooring) and ceiling systems (primarily mineral fiber, fiberglass and metal), around the world. We also design, manufacture and sell kitchen and bathroom cabinets in the U.S.

Our business strategy focuses on 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.

Chapter 11 Proceeding

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. The Chapter 11 cases are being jointly administered under case number 00-4471 (the "Chapter 11 Case"). AWI is operating its business and managing its properties as a debtor-in-possession subject to the provisions of the Bankruptcy Code. See Note 1 of the Consolidated Financial Statements for information on the Chapter 11 Case and Note 30 of the Consolidated Financial Statements for information on asbestos litigation.

Reportable Segments

Resilient Flooring — produces a broad range of floor coverings for homes and commercial and institutional buildings. Resilient Flooring products include vinyl sheet, vinyl tile, linoleum flooring and luxury vinyl tile. 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 solid wood (predominantly pre-finished), engineered wood floors in various wood species (with oak being the primary species of choice) and related accessories. Virtually all of our Wood Flooring's sales are in North America. Our Wood Flooring products are generally sold to independent wholesale flooring distributors and large home centers under the brand names Bruce ®, Hartco ®, Robbins ®, Timberland™ and Armstrong™.

Textiles and Sports Flooring ("TSF") — produces carpeting and sports flooring products that are sold mainly in Europe. Carpeting products consist principally of carpet tiles and broadloom used in commercial applications and in the leisure and travel industry. Sports flooring products include artificial turf and other sports surfaces. Our TSF products are sold primarily through retailers, contractors, distributors and other industrial businesses.

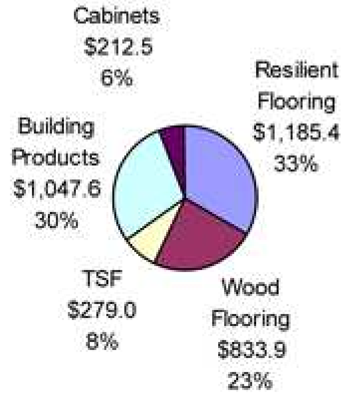
Building Products — produces suspended mineral fiber, soft fiber and metal ceiling systems for use in commercial, institutional and residential settings. In addition, our Building Products segment sources and sells wood ceiling systems. The products are available in numerous colors, performance characteristics 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 through wholesalers and retailers (including large home centers). Suspension system (grid) products manufactured by WAVE are sold by both Armstrong and our WAVE joint venture.

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

Unallocated Corporate— includes assets and expenses that have not been allocated to the business units. Unallocated Corporate assets are primarily deferred tax assets, cash and the U.S. prepaid pension cost. Expenses included in Unallocated Corporate are corporate departments' expenses that have not been allocated to other reportable segments, and the U.S. pension credit. Expenses for our corporate departments (including computer services, human resources, legal, finance and other) are allocated to the reportable segments when the departments provide specific work to the reportable segment and the expense allocation can be based on known metrics, such as time reporting, headcount or square-footage. The remaining expenses, which cannot be attributable to the reportable segments without a high degree of generalization, are reported in Unallocated Corporate.

The following chart illustrates the breakdown of our consolidated net sales for the year ended December 31, 2005 by segment:

2005 Consolidated Net Sales by Segment
(in $ millions)



See Note 3 of the Consolidated Financial Statements and Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations of this Form 10-K for additional financial information on our reportable segments.

Markets

The major markets in which we compete are:

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

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

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

Non-North American markets. The non-North American markets account for a little more than one-fourth of our total consolidated net sales. The vast majority of our revenues generated outside of North America is in Europe and is commercial in nature. For the countries in which we have significant revenue, we monitor various national statistics (such as GDP) as well as known new projects. Revenues come primarily from new construction and renovation work.

The following table provides an estimate of our segments' 2005 net sales, by major markets.

(Estimated percentages of individual segment's sales)	**North American Residential**	**North American Commercial**	**Non-North American**	**Total**
Resilient Flooring	45%	30%	25%	100%
Wood Flooring	95%	5%	—	100%
Textiles & Sports Flooring	—	5%	95%	100%
Building Products	10%	50%	40%	100%
Cabinets	100%	—	—	100%

Geographic Areas

We sell our products in more than 80 countries. Approximately 72% of our 2005 revenue was derived from sales in the Americas, the vast majority of which came in the United States and Canada. The following chart illustrates the breakdown of our consolidated net sales for the year ended December 31, 2005 by region, based on where the sale was made:

2005 Consolidated Net Sales by Geography
(in $ millions)

See Note 3 of the Consolidated Financial Statements and Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations of this Form 10-K for financial information by geographic areas.

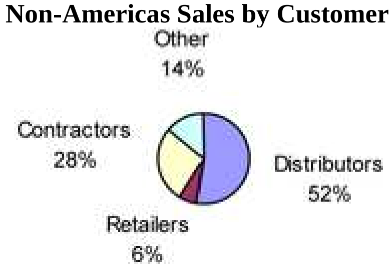
Customers

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

The following charts illustrate the estimated breakdown of our 2005 consolidated net sales geographically by distribution channel:

2005 Americas Sale by Customer Type

2005 Non-Americas Sales by Customer Type



Net sales to specific customers in excess of 10% of our consolidated net sales for 2005, 2004 and 2003 were:

Customer	2005	2004	2003
The Home Depot, Inc.	$384.1	$393.4	$400.0
Lowe's Companies, Inc.	(1)	(1)	318.7

(1) Net sales to Lowe's Companies, Inc. were less than 10% of consolidated net sales for these years.

Net sales to these customers were recorded in our Resilient Flooring, Wood Flooring and Building Products segments. No other customers accounted for 10% or more of our total consolidated net sales.

Competition

There is strong competition in all of the reportable segments in which we do business. Principal methods of competition include product performance, product styling, service and price. Competition in the U.S. markets comes from both domestic manufacturers and international producers. Additionally, some of our products compete with alternative products, such as our resilient, laminate and wood flooring products competing with carpet products, and our ceiling products competing with drywall. There has been excess industry capacity in many geographic markets, which tends to increase price competition. The following companies are our primary competitors:

Flooring segments – Congoleum Corporation, Forbo Holding AG, Gerflor Group, Interface, Inc., Mannington Mills, Inc., Mohawk Industries, Inc., Pergo AB, Shaw Industries, Inc., Tarkett AG and Wilsonart International.

Building Products – Celotex Limited, Chicago Metallic Corporation, Knauf AMF GmbH & Co. KG, Odenwald Faserplattenwerk GmbH, Rockfon A/S and USG Corporation.

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

Raw Materials

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

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

We also purchase significant amounts of packaging materials for all products and use substantial amounts of energy, such as electricity and natural gas, and water in our manufacturing operations.

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

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

Sourced Products

Some of the products that we sell are sourced from third parties. The primary sourced products include laminate, wood flooring, vinyl tile and ceramic products, specialized ceiling products, and installation-related products and accessories for some of our manufactured products. For certain sourced products, the majority of our purchases come from one supplier. Sales of sourced products represented between 10% to 15% of our total consolidated revenue in 2005, 2004 and 2003.

We purchase some of our sourced products from suppliers that are located outside of the U.S, primarily from Asia and Europe. The costs for these products are exposed to changes in foreign currency exchange rates, which can adversely affect our reported results from one period to the next. Our largest foreign currency exposure for sourced products is to the Euro.

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

Hedging

We use financial instruments to hedge the following exposures: raw material and sourced product purchases, cross-currency intercompany loans, and natural gas. We use derivative financial instruments as risk management tools and not for speculative trading purposes. See Item 7A. Quantitative and Qualitative Disclosures About Market Risk of this Form 10-K for more information.

Patent and Intellectual Property Rights

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

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

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

Employees

As of December 31, 2005, we had approximately 14,900 full-time and part-time employees worldwide, with approximately 10,500 employees located in the United States. Approximately 9,900 of the 14,900 are production and maintenance employees, of whom approximately 7,500 are located in the U.S. Approximately 72% of the production and maintenance employees in the U.S. are represented by labor unions. This percentage includes all production and maintenance employees at our plants and warehouses where labor unions exist, regardless of whether or not the employees actually pay union dues. Outside the U.S., most of our production employees are covered by either industry-sponsored and/or state-sponsored collective bargaining mechanisms.

Research & Development

Research and development ("R&D") activities are important and necessary in helping us improve our products' competitiveness. Principal R&D functions include the development and improvement of products and manufacturing processes. We spent $48.5 million in 2005, $47.0 million in 2004 and $46.1 million in 2003 on R&D activities worldwide.

Environmental Matters

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

We are involved in proceedings under the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"), and similar state "Superfund" laws at 28 sites. We have also been remediating environmental contamination resulting from past industrial activity at certain of our former plant sites. Certain of AWI's environmental liabilities are subject to discharge through its Chapter 11 Case while others are not. Those environmental obligations that AWI has with respect to property that it owns or operates or for which a non-debtor subsidiary is liable are likely to be unaffected by the Chapter 11 Case. Therefore, AWI and its subsidiaries will be required to continue meeting their ongoing environmental compliance obligations at such properties.

See Note 30 of the Consolidated Financial Statements for a full description of our environmental matters.

Information Filed With the Bankruptcy Court

Under applicable bankruptcy law, AWI is required to file periodically with the Bankruptcy Court various documents, including certain financial information on an unconsolidated basis. This information includes statements, schedules, and monthly operating reports in forms prescribed by Federal Bankruptcy Law. We caution that such materials are prepared according to requirements under Federal Bankruptcy Law. While they accurately provide then-current information required under Federal Bankruptcy Law, they are nonetheless unconsolidated, unaudited, and are prepared in a format different from that used in our consolidated financial statements filed under the securities laws. Accordingly, we believe the substance and format do not allow meaningful comparison with our regular publicly disclosed consolidated financial statements. The materials filed with the Bankruptcy Court are not prepared for the purpose of providing a basis for an investment decision relating to the stock of AHI or the debt securities of AWI, or for comparison with other financial information filed with the SEC.

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

See Note 1 of the Consolidated Financial Statements for discussion of certain items filed with the Bankruptcy Court, and www. *armstrongplan.com* for documents related to AWI's Plan of Reorganization.

ITEM 1A. RISK FACTORS

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

We try to reduce both the likelihood that these risks will affect our businesses and the damage they could have if they do occur. 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. See related discussions in this document and our other SEC filings for more details and subsequent disclosures.

Asbestos and Chapter 11

Asbestos personal injury claims are our biggest risk. Our balance sheet currently reflects an implied asbestos liability for AWI that results in negative equity for us. The size of our asbestos liability has not been finally determined in our Chapter 11 reorganization case. It could end up being substantially larger or smaller than the amount currently shown on our balance sheet. Even if that liability should be substantially reduced (for example by federal legislation), we may still have negative equity. Consequently an investment in Armstrong’s stock during our Chapter 11 Case is highly uncertain and speculative. See the discussions of our Chapter 11 Case and of proposed asbestos legislation in this document and in past SEC filings for details.

Claims, Litigation and Regulatory Actions

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

Construction activity variability and the size of our market opportunity

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

Raw materials and sourced product issues

The cost and availability of raw materials, packaging materials and energy 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 these items has been volatile and availability has sometimes been tight. We source some of these materials from a limited number of suppliers, which increases the risk of unavailability. The impact of increased costs is greatest where our ability to pass along increased costs is limited, whether due to competitive pressures or other factors.

Consumer preference and competition

Our customers consider our products' pricing, styling and performance, and our customer service when deciding whether to purchase our products. Shifting consumer preference, e.g. from residential vinyl products to other hard-surface flooring, styling preferences or inability to offer new competitive performance features could hurt our sales. These risks are inherent in our highly competitive markets. For certain products, there is excess industry capacity in several geographic markets, which tends to increase competition based on price as well as on other factors. And competition from overseas competitors who have a lower cost structure is a particular threat in some areas, such as our U.S. flooring businesses.

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. In addition, our international business is subject to variable tax rates, credit risks in emerging markets, political risks, 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 monitor how effectively and profitably our businesses service our customers. To stay competitive, we look for ways to make our operations more efficient and effective. We reduce, move or expand our plants and operations as needed, and we currently have several of these actions in various stages of completion. Each action generally involves substantial planning and capital investment. We can err in planning and executing our actions, which could create risks to 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 believe that we will reach new contracts as older 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 have a material adverse effect on our operations.

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. Together these customers account for approximately 20% of our consolidated total sales. We do not have long-term contracts with these customers. The loss of sales to one of these major customers, or changes in our business relationship with them, could have a material adverse impact on our results.

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ITEM 2. PROPERTIES

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

We produce and market Armstrong products and services throughout the world, operating 41 manufacturing plants in 12 countries as of December 31, 2005. Three of our plants are leased and the remaining 38 are owned. We have 24 plants located throughout the United States. In addition, Armstrong has an interest through its WAVE joint venture in seven additional plants in five countries.

Business Segment	Number of Plants	Location of Principal Facilities
Resilient Flooring	13	US (California, Illinois, Mississippi, Oklahoma, Pennsylvania), Australia, Canada, Germany, Sweden and the U.K.
Wood Flooring	9	US (Arkansas, Kentucky, Missouri, Tennessee, Texas, West Virginia)
Textiles and Sports Flooring	3	Belgium, Germany and The Netherlands
Building Products	14	US (Alabama, Florida, Georgia, Oregon, Pennsylvania), China, France, Germany and the U.K.
Cabinets	2	US (Nebraska and Pennsylvania)

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

For information on consolidation of production and related plant closures in 2005, see Note 13 of the Consolidated Financial Statements and "Cost Reduction Initiatives" in Item 7. Management Discussion and Analysis of Financial Condition and Results of Operations of this Form 10-K.

Production capacity and the extent of utilization of our facilities are difficult to quantify with certainty. In any one facility, maximum capacity and utilization vary periodically depending upon demand for the product that is being manufactured. We believe our facilities are adequate and suitable to support the business. Additional incremental investments in plant facilities are made as appropriate to balance capacity with anticipated demand, improve quality and service, and reduce costs.

ITEM 3. LEGAL PROCEEDINGS

See Note 30 of the Consolidated Financial Statements, which is incorporated herein by reference, for a full description of our legal proceedings.

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

No matters were submitted to a vote of stockholders during the fourth quarter of 2005.

PART II

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

As a result of filing the POR on November 4, 2002, the New York Stock Exchange stopped trading on the Exchange of the common stock of AHI (traded under the ticker symbol "ACK"). Since November 14, 2002, Armstrong Holding's common stock trades on the over-the-counter (OTC) Bulletin Board under the ticker symbol (ACKHQ). As of February 10, 2006, there were approximately 6,714 holders of record of Armstrong Holding's Common Stock.

	First	Second	Third	Fourth	Total Year
2005					
Price range of common stock—high	$2.82	$4.40	$3.10	$2.34	$ 4.40
Price range of common stock—low	$1.65	$1.50	$1.99	$1.49	$ 1.49
2004					
Price range of common stock—high	$1.39	$1.55	$2.30	$3.51	$ 3.51
Price range of common stock—low	$0.95	$0.76	$1.16	$1.20	$ 0.76

There were no dividends declared or paid during 2005 or 2004. The DIP Facility stipulates that AWI will not declare or pay any dividends either directly or indirectly and bankruptcy law bars dividends by companies in Chapter 11.

No company securities were repurchased by the company during 2005.

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ITEM 6. SELECTED FINANCIAL DATA

The following data is presented for continuing operations.

(Dollars in millions except for per-share data)	For Year 2005	2004	2003	2002	2001
Income statement data					
Net sales	$ 3,558.4	$ 3,497.3	$ 3,259.0	$ 3,172.3	$3,138.7
Cost of goods sold	2,821.1	2,811.0	2,597.4	2,404.5	2,364.7
Selling, general and administrative expenses	652.7	635.0	612.1	630.8	596.6
Charge for asbestos liability, net	—	—	81.0	2,500.0	22.0
Goodwill impairment	—	108.4	—	—	—
Restructuring charges, net	23.2	18.3	8.6	1.9	9.0
Goodwill amortization	—	—	—	—	22.8
Equity (earnings) from joint venture	(39.3)	(31.6)	(20.8)	(19.7)	(16.2)
Operating income (loss)	100.7	(43.8)	(19.3)	(2,345.2)	139.8
Interest expense	8.5	8.4	9.0	11.3	12.7
Other non-operating expense	1.5	3.1	5.7	3.6	10.3
Other non-operating (income)	(12.0)	(6.4)	(5.0)	(7.5)	(13.3)
Chapter 11 reorganization (income) costs, net	(1.2)	6.9	9.4	23.5	12.5
Income tax expense (benefit)	2.2	24.6	(1.6)	(827.8)	43.2
Earnings (loss) from continuing operations before cumulative change in accounting principle	101.7	(80.4)	(36.8)	(1,548.3)	74.4
Per common share – basic (a)	$ 2.51	$ (1.99)	$ (0.91)	$ (38.23)	$ 1.84
Per common share – diluted (a)	$ 2.50	$ (1.99)	$ (0.91)	$ (38.23)	$ 1.82
Cumulative effect of a change in accounting principle, net of tax of $2.2	—	—	—	(593.8)	—
Earnings (loss) from continuing operations	101.7	(80.4)	(36.8)	(2,142.1)	74.4
Per common share – basic (a)	$ 2.51	$ (1.99)	$ (0.91)	$ (52.89)	$ 1.84
Per common share – diluted (a)	$ 2.50	$ (1.99)	$ (0.91)	$ (52.89)	$ 1.82
Earnings (loss) from discontinued operations	10.4	(0.4)	(2.5)	(0.7)	18.4
Net earnings (loss)	$ 112.1	$ (80.8)	$ (39.3)	$(2,142.8)	$ 92.8
Per common share – basic (a)	$ 2.77	$ (2.00)	$ (0.97)	$ (52.91)	$ 2.29
Per common share – diluted (a)	$ 2.75	$ (2.00)	$ (0.97)	$ (52.91)	$ 2.27
Dividends declared per share of common stock	—	—	—	—	—

	For Year 2005	2004	2003	2002	2001
Average number of common shares outstanding (in millions)	40.5	40.5	40.5	40.5	40.5
Average number of employees	14,900	15,400	15,800	16,700	16,800
Balance sheet data (December 31)					
Working capital	$ 1,137.9	$ 994.1	$ 943.3	$ 859.3	$ 748.0
Total assets	4,606.0	4,609.4	4,647.8	4,504.8	4,038.1
Liabilities subject to compromise	4,864.7	4,866.2	4,858.5	4,861.1	2,357.6
Net long-term debt (b)	21.5	29.2	39.4	39.9	50.3
Shareholders' equity (deficit)	(1,305.3)	(1,411.7)	(1,330.2)	(1,346.7)	760.4

Notes :

(a) See definition of basic and diluted earnings per share in Note 2 of the Consolidated Financial Statements.

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

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

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

Separate financial statements for AHI and AWI and its subsidiaries are included in this document because both have outstanding public securities. The difference between the financial statements of Armstrong Holdings, Inc. and its subsidiaries and AWI and its subsidiaries is primarily due to the formation of Armstrong Holdings, Inc. and to employee compensation-related stock activity. The following discussion and analysis pertains to both AHI and AWI and its subsidiaries. The AHI 2005 income statement (but not the AWI income statement) includes the reversal of a $1.6 million contingent liability which was established when AHI was created. This is the only significant difference in the financial statements.

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

References to performance excluding the translation effect of changes in foreign exchange rates are non-GAAP measures. 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 the current year's foreign exchange rates to the equivalent period's foreign currency amounts as reported in the prior year. Additionally, we reference operating income prior to goodwill impairment. We believe that this non-GAAP reference provides a clearer picture of our operating performance. Furthermore, management evaluates the performance of the businesses excluding these items.

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 (resilient, wood, carpeting and sports flooring) and ceiling systems (primarily mineral fiber, fiberglass and metal) around the world. We also design, manufacture and sell kitchen and bathroom cabinets in the U.S. We own and operate 41 manufacturing plants in 12 countries, including 24 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.

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

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. The Chapter 11 cases are being jointly administered under case number 00-4471 (the "Chapter 11 Case"). AWI is operating its business and managing its properties as a debtor-in-possession subject to the provisions of the Bankruptcy Code. See Note 1 of the Consolidated Financial Statements for information on the Chapter 11 Case and Note 30 of the Consolidated Financial Statements for information on asbestos litigation.

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(dollar amounts in millions)

Our consolidated net sales for 2005 were $3.6 billion, approximately 2% greater than consolidated net sales in 2004. Excluding the translation effect of foreign exchange rates, net sales in 2005 increased by approximately 1% from net sales in 2004. Operating income was $100.7 million in 2005, as compared to operating income prior to non-cash goodwill impairment charges of $64.6 million in 2004. (For a reconciliation of non-GAAP measures, see "Results of Operations, 2005 Compared to 2004".) 2004 operating income also included a $44.8 million fixed asset impairment charge for our European resilient flooring business. Cash and cash equivalents increased by $86.3 million in 2005, which was higher than the cash increase in 2004. In 2005:

- Building Products generated record results in a strengthening commercial market. Improved pricing offset significant price increases in raw materials, energy and freight.
- Wood Flooring's operating performance improved on increased sales, reduced lumber costs and manufacturing efficiencies related to cost reduction initiatives. These benefits were partially offset by lower prices and by fixed asset impairment charges.
- Cabinet's results deteriorated due to manufacturing inefficiencies related to plant consolidation, and to investments in process improvement initiatives.
- Textiles and Sports Flooring generated a smaller operating loss, primarily due to sales volume increases, improved mix and reduced overhead expenses.
- Resilient Flooring incurred a smaller operating loss, primarily due to significantly lower impairment charges. Operating results were hurt by substantial increases in the costs of petroleum-based raw materials and by significant volume declines in vinyl and laminate flooring. These were only partially offset by improved prices and benefits from cost reduction initiatives.

Factors Affecting Revenues

For an estimate of our segments' 2005 net sales by major markets, see "Markets" in Item 1. Business of this Form 10-K.

Markets. We compete in building material markets around the world. The majority of our sales opportunity is in the North American and European markets. During 2005, these markets experienced the following:

- In the North American residential market, housing construction remained strong, with approximately 2.07 million housing units started in 2005 compared to approximately 1.95 million in 2004. Housing starts in the fourth quarter of 2005 rose approximately 5% from starts in the fourth quarter of 2004, but were essentially unchanged compared to the third quarter of 2005. Sales of existing homes were also strong in 2005, with approximately 7.1 million homes sold in 2005 compared to approximately 6.8 million in 2004.

  U.S. retail sales of building materials, garden equipment and supply stores (an indicator of home renovation activity) increased approximately 10% in 2005 over sales levels in 2004. This was partially due to strong sales of existing homes during the periods, after allowing for the usual lag for renovation-related expenditures.

  For several years, vinyl flooring products, measured as a percent of the total residential flooring market, has been declining, while laminate, ceramic and hardwood flooring products have increased. This trend of changing consumer preferences for flooring also continued in 2005. For 2006, we estimate the residential replacement markets will remain flat and that it is likely that new construction demand will decline from record 2005 levels. A key consideration in changes in market segments is that margins for products sold into new construction tend to be lower than those sold into the renovation segment. Further, we expect the category of vinyl products to continue to decline in units sold, while laminate, ceramic and hardwood flooring should continue to increase.

- The North American commercial market strengthened overall in 2005, with renovation increasing in the office and education segments, and construction completions in the office, healthcare, retail and education segments increasing by approximately 2%, 10%, 9% and 9%, respectively. Industry statistics indicate that commercial starts could marginally improve in 2006, with improvements anticipated in office, education and health care, while the retail segment will decline slightly. Indications are for a further decline in office vacancy rates, which could also positively impact the renovation segment of this market.

  Strong global demand for steel contributed to increased raw material costs for our WAVE joint venture, which were offset by price increases. However, an extended steel shortage could cause U.S. construction starts to be delayed or postponed, which could reduce our commercial sales.
- In Europe, we experienced soft market conditions in the Western European countries. In 2006, we anticipate nominal growth in the Western European markets, but expect strong growth in Eastern European markets, where lower margin and lower cost products constitute a growing portion of our sales.
- In the Pacific Rim, we experienced slower demand in China, but continued strong demand in other regions, particularly India. We expect incremental growth in 2006.

Quality and Customer Service. Our quality and customer service are critical components of our total value proposition. In 2005, we experienced the following:

- Hurricane Katrina significantly damaged our Building Products location in Mobile, Alabama. Production was suspended at Mobile for approximately two weeks. Lead times for customer orders were extended for a short period of time and other Building Products plants were utilized to service the market. In general, these actions resulted in minimal customer service issues in our U.S. markets.
- Order fulfillment for the Cabinets business deteriorated when, following the closure of the Morristown plant, the remaining two plants were unable to produce to demand. The majority of these issues were resolved in the fourth quarter of 2005.

Pricing Initiatives . During 2005 and 2004, we modified 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 2005 compared to 2004.

The most significant of these pricing actions were:

- In Resilient Flooring, we increased prices for selected U.S. products several times in 2004 and announced price increases effective in the fourth quarter of 2005. We also made price concessions for certain products and geographical regions to respond to competitive conditions.
- In Wood Flooring, price changes were implemented to reflect raw material cost changes and in response to competitive conditions. For example, in 2004, selling prices were increased on solid wood products in response to increased lumber costs. In 2005, we decreased prices on solid wood products in response to declining lumber prices and competitive conditions.
- In Building Products, we implemented several price increases during 2004 and 2005 and announced price increases effective in the fourth quarter of 2005 in reaction to inflationary cost pressures.

- In Cabinets, we increased prices effective in June 2004 and in the first quarter of 2005.

We estimate that the various pricing actions provided a net increase to our total consolidated net sales in 2005 compared to 2004 of approximately $38 million.

Impact From Major Customers’ Decisions. Lowe’s Companies, Inc. (“Lowe’s”), one of our largest customers, increased its purchasing of laminate flooring products from other suppliers in the second quarter of 2004. Further, Lowe’s advised us in 2004 that they would reduce the number of laminate flooring products they purchase from us starting in the first quarter of 2005. Our total laminate flooring sales declined approximately 20% in 2005, compared to 2004, primarily as a result of these actions. We currently estimate that the Lowe’s decision will incrementally reduce 2006 sales by approximately $30 million.

Certain national retailers dedicated less of their selling space to vinyl flooring products as customer demand for these products declined. This action contributed to the sales volume decline experienced in our Resilient Flooring Americas business.

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 selling, general and administrative (“SG&A”) expenses .

Our largest individual raw material expenditures are for lumber and veneers, PVC resins, backings for various flooring products and plasticizers. Fluctuations in the prices of these raw materials are generally beyond our control and have a direct impact on our financial results. In 2005, we experienced the following:

- PVC is a widely used, oil-based raw material. We experience cost pressures on PVC when energy prices increase and when industrial demand for the material increases. In January 2005, a U.S. supplier ceased producing PVC resins. While we have been able to address our PVC needs from other suppliers, the reduced manufacturing capacity led to upward pricing pressure. During 2005, this pressure increased as hurricanes that affected the Gulf Coast of the U.S., and an October fire at a manufacturing facility of one of our PVC resin suppliers, reduced PVC production. Cost to acquire PVC resin and plasticizers prices increased by approximately $40 million in 2005 compared to 2004. In 2006, we expect further year-on-year increases.
- Prices for hardwood lumber decreased in 2005. Our cost for acquiring lumber in 2005 was approximately $56 million lower than in 2004. The reduction in our lumber cost was partially due to reduced purchases of more expensive pre-dried lumber due to improved efficiencies in our lumber yards. In 2006 we expect lumber prices to increase slightly from 2005 levels.

We incurred approximately $14 million of additional costs for natural gas in 2005 compared to 2004 due to price increases. In 2006, we expect further year-on-year increases due to pricing pressures.

In our normal course of business, we transfer certain products between locations to take advantage of our production capabilities and to better service our customers’ needs. During 2005, we incurred approximately $17 million of additional freight costs, due to rising fuel costs and additional logistics measures taken to maintain customer service levels.

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Cost Reduction Initiatives. During 2004, we implemented several manufacturing and organizational changes to improve our cost structure and enhance our competitive position. We did not initiate any additional manufacturing or organizational changes in 2005 but did incur costs in 2005 related to previously announced cost reduction initiatives and for changes to the U.S. defined benefit pension plan. The major 2004 initiatives were:

- We ceased production of certain products at our Resilient Flooring manufacturing plant in Lancaster, Pennsylvania, transferring production to other Resilient Flooring plants.
- We announced that we would cease production at our Building Products plant in The Netherlands. Acceptance of the closure proposal was received from the local works council in the fourth quarter of 2004. The plant ceased production in the first quarter of 2005, and production was transferred to another Building Products location.
- We ceased production at our Cabinets manufacturing plant in Morristown, Tennessee, transferring production to other Cabinets plants.
- We restructured the sales force and management structure in our North America flooring organization.
- We announced that we would cease production at our Wood Flooring manufacturing plant in Searcy, Arkansas. Production ended in the first quarter of 2005, and was transferred to other Wood Flooring plants. We recorded an impairment charge related to this closure.

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

	Cost of Goods Sold	Restructuring Charges	Total Expenses
Resilient Flooring	$ 12.7	$ 16.2	$ 28.9
Wood Flooring	13.9	0.1	14.0
Textiles & Sports Flooring	—	0.2	0.2
Building Products	1.6	6.3	7.9
Cabinets	1.2	0.4	1.6
Corporate Unallocated	—	—	—
Total Consolidated	$ 29.4	$ 23.2	$ 52.6

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

During 2004, we recorded the following amounts related to both the above mentioned cost reduction initiatives, and to the following:

- We recorded an additional asset impairment charge on one of our Wood Flooring plants that was closed in 2003.

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We incurred the following expenses in 2004 due to implementing these cost reduction initiatives:

	Cost of Goods Sold	Restructuring Charges	Total Expenses
Resilient Flooring	$ 28.1	$ 4.1	$ 32.2
Wood Flooring	0.8	2.0	2.8
Textiles & Sports Flooring	0.1	0.4	0.5
Building Products	2.5	10.9	13.4
Cabinets	1.9	0.4	2.3
Corporate Unallocated	—	0.5	0.5
Total Consolidated	$ 33.4	$ 18.3	$ 51.7

Cost of goods sold includes $18.9 million of fixed asset impairments, $13.2 million of accelerated depreciation and $1.3 million of other related costs.

We recorded gains within SG&A in 2004 of $2.9 million in Wood Flooring and TSF related to sales of buildings that had previously been reserved as part of cost reduction initiatives.

See Note 13 of the Consolidated Financial Statements for more information on restructuring charges.

We expect to incur additional expenses of approximately $32 million in 2006 to implement the 2004 cost reduction initiatives. In addition, we expect to realize a gain of approximately $15 million in the first half of 2006 from the sale of a warehouse which became available as a result of one of these initiatives. Once completely implemented, we believe that the annual cost savings from our 2004 initiatives will be approximately $58 million, when compared to the 2004 cost baseline. These projected savings will not be fully realized until 2007. We will continue to evaluate additional cost reduction actions in 2006.

Employee Benefits . We recorded a pre-tax charge of $16.9 million in the fourth quarter of 2005 in cost of goods sold ($11.4 million) and SG&A ($5.5 million), related to changes made to the U.S. defined benefit pension plan. The changes are considered a curtailment under SFAS No. 88 "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits". The changes are expected to reduce Armstrong's retirement-related expenses by approximately $13 million in 2006 and $15 million in 2007, based on pension assumptions for 2006.

Non-cash Impairment Charges. 2004 included a $108.4 million charge for goodwill impairment and a $44.8 million charge for fixed asset impairment, both related to the European resilient flooring business.

Factors Affecting Cash Flow

Historically, excluding the cash demands for asbestos-related claims in 2000 and prior years, we typically generate positive cash flow from our operating activities. The amount of cash generated in any one period is dependent on a number of factors, including the amount of operating profit generated and the amount of working capital (such as inventory, receivables and payables) required to operate our businesses. We typically invest in property, plant & equipment ("PP&E") and computer software.

During 2005, our cash and cash equivalents balance increased by $86.3 million, which was $54.7 million more than during 2004. The increase, compared to 2004, was primarily due to proceeds received from the sale of some notes receivable for $38.3 million and the proceeds from the sale of an equity affiliate for $20.6 million.

Employees

As of December 31, 2005, we had approximately 14,900 full-time and part-time employees worldwide. This compares to approximately 15,500 employees as of December 31, 2004. The decline largely reflects headcount reductions associated with cost reduction initiatives in Resilient Flooring.

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During 2005, we negotiated six collective bargaining agreements, with no locations experiencing a work stoppage. Throughout 2006, collective bargaining agreements covering certain employees at six plants will expire. As of the date of this filing, no employees are working under an expired contract.

Late in September 2004, our Hoogezand, The Netherlands plant (see "Cost Reduction Initiatives" and Note 13 of the Consolidated Financial Statements) experienced a 14 day work stoppage unrelated to a collective bargaining agreement, which delayed shipments of certain products. This work stoppage did not have a material impact on operations.

CRITICAL ACCOUNTING ESTIMATES

Many accounting entries require us to make estimates. These entries include asbestos-related liability and insurance assets, allowances for bad debts, inventory obsolescence and lower of cost or market charges, warranty, workers compensation, pension obligations, asset impairments, restructuring reserves, tax valuation allowances, general liability and environmental claims. When preparing an entry that requires an estimate to be made, we determine what factors are most likely to affect the estimate. We gather information relevant to these factors from inside and outside the company. This information is evaluated and an estimate is made.

The following are the critical accounting estimates that management believes could have a significant impact to the financial statements if the estimates and judgments used by management turn out to be incorrect. Management has discussed the application of these critical accounting estimates with our Audit Committee.

Asbestos-related Estimates – We record contingent liabilities, including asbestos-related liabilities, when a loss is probable and the amount of loss can be reasonably estimated. Prior to its Chapter 11 Filing, AWI estimated its probable asbestos-related personal injury liability based upon a variety of factors including historical settlement amounts, the incidence of past claims, the mix of the injuries and occupations of the plaintiffs, the number of cases pending against it and the status and results of broad-based settlement discussions. As of September 30, 2000, AWI had recorded a liability of $758.8 million for its asbestos-related personal injury liability that it determined was probable and estimable through 2006. Due to the increased uncertainty created as a result of the Filing, the only change made to the previously recorded liability through the third quarter of 2002 was to record October and November 2000 payments of $68.2 million against the accrual. The asbestos-related personal injury liability balance recorded at December 31, 2001 was $690.6 million, which was recorded in liabilities subject to compromise.

AWI filed an initial POR and disclosure statement with respect to the POR during the fourth quarter of 2002. In March 2003, AWI filed an amended POR and disclosure statement. Based upon the foregoing, the discussions AWI had with the different creditors' committees and the hearings held before the Bankruptcy Court, management believed that it was reasonably likely that the asbestos-related personal injury liability would be satisfied substantially in the manner set forth in the POR. As a result, AWI concluded that it could reasonably estimate its probable liability for current and future asbestos-related personal injury claims. Accordingly, in the fourth quarter of 2002, AWI recorded a $2.5 billion charge to increase the liability in accordance with AICPA Statement of Position 90-7, "Financial Reporting by Entities in Reorganization under the Bankruptcy Code" ("SOP 90-7"). The recorded asbestos-related liability for personal injury claims of approximately $3.2 billion at December 31, 2005 and 2004, which was treated as a liability subject to compromise, represents the estimated amount of liability that is implied based upon the negotiated resolution reflected in the POR, the total consideration expected to be paid to the Asbestos PI Trust pursuant to the POR and a recovery value percentage for the allowed claims of the Asbestos PI Trust that is equal to the estimated recovery value percentage for the allowed non-asbestos unsecured claims. See "Asbestos-Related Litigation" in Note 30 of the Consolidated Financial Statements for further discussion on the Asbestos PI Trust and the treatment of asbestos-related claims under the POR.

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In February of 2005, the U.S. District Court denied confirmation of the POR in its current form. On December 29, 2005, the U.S. Court of Appeals affirmed the District Court's decision to deny confirmation of the POR. AWI filed a modified POR with the Court on February 21, 2006. AWI is also monitoring a proposed asbestos claims litigation reform bill in Congress. AWI is unable to predict when and if the modified POR will be confirmed and, if confirmed, when the POR will be implemented. See "Recent Developments and Next Steps in the Chapter 11 Process" in Note 1 of the Consolidated Financial Statements. Therefore, the timing and terms of resolution of the Chapter 11 Case remain uncertain. As long as this uncertainty exists, future changes to the recorded asbestos-related personal injury liability are possible and could be material to AWI's financial position and the results of its operations. Management will continue to review the recorded liability in light of future developments in the Chapter 11 Case and make changes to the recorded liability if and when it is appropriate.

Additionally, AWI has a recorded asset of $98.6 million as of December 31, 2005 representing estimated insurance recoveries related to its asbestos liability. Approximately $79 million of the recorded asset is determined from agreed coverage in place. During the second quarter of 2003, AWI reduced its previously recorded insurance asset for asbestos-related personal injury claims by $73 million reflecting management's assessment of probable insurance recoveries in light of an unfavorable ruling in an alternative dispute resolution procedure. See "Asbestos-Related Litigation" in Note 30 of the Consolidated Financial Statements for further discussion.

The total amount of the estimated insurance recoveries asset recorded reflects the belief in the availability of insurance in this amount, based upon prior success in insurance recoveries, settlement agreements that provide such coverage, the nonproducts recoveries by other companies and the opinion of outside counsel. In our opinion, such insurance is either available through settlement or probable of recovery through negotiation or litigation. Although AWI revised its recorded asbestos liability by $2.5 billion in the fourth quarter of 2002, no increase has been recorded in the estimated insurance recovery asset. While we believe that the process of pursuing disputed insurance coverage may result in additional settlement amounts beyond those recorded, there has been no increase in the recorded amounts due to the uncertainties remaining in the process. The estimate of probable recoveries may be revised depending on the developments in the matters discussed above as well as events that occur in AWI's Chapter 11 Case.

U.S. Pension Credit and Postretirement Benefit Costs – We maintain pension and postretirement plans throughout the world, with the most significant plans located in the U.S. The U.S. defined benefit pension plans were closed to new salaried and salaried production employees on January 1, 2005. On January 13, 2006 we announced that benefits will be frozen for certain non-production salaried employees effective February 28, 2006. Our defined benefit pension and postretirement benefit costs are developed from actuarial valuations. These valuations are calculated using a number of assumptions, which are determined in accordance with generally accepted accounting principles ("GAAP"). Each assumption represents management's best estimate of the future. The assumptions that have the most significant impact on reported results are the discount rate, the estimated long-term return on plan assets and the estimated inflation in health care costs. These assumptions are updated annually at the beginning of the year and applied in the valuations recorded for that year.

The discount rate is used to determine retirement plan liabilities and to determine the interest cost component of net periodic pension and postretirement cost. Our actuary provides the expected modified duration of the liabilities. Management determines the appropriate discount rate by referencing the yield on investment grade fixed-income securities of a similar duration (14 years) to that of the expected liabilities, as well as the yield for Moody's AA-rated long-term corporate bonds. As of December 31, 2005, we assumed a discount rate of 5.50% compared with a discount rate of 5.75% as of December 31, 2004 for the U.S. plans. This decrease is consistent with the decline in U.S. corporate bond yields during the year. The effects of the decreased discount rate, which increases our liabilities, will be amortized against earnings as described below. An additional one-quarter percentage point decrease in the discount rate to 5.25% would increase 2006 operating income by $0.2 million, while a one-quarter percentage point increase in the discount rate to 5.75% would reduce 2006 operating income by $0.1

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million. A reduction in the discount rate would increase the present value of benefits earned in the current year as expected. However, this increase would be more than offset by the resulting decrease in the interest cost component of the pension expense calculation.

We have two U.S. defined benefit pension plans, a qualified funded plan and a nonqualified unfunded plan. For the funded plan, the expected long-term return on plan assets represents a long-term view of the future estimated investment return on plan assets. This estimate is determined based on the target allocation of plan assets among asset classes and input from investment professionals on the expected performance of the equity and bond markets over 10 to 20 years. Over the last 10 years, the annualized return was approximately 9.1% compared to an average expected return of 8.7%. The expected long-term return on plan assets used in determining our 2005 U.S. pension credit was 8.0%. The actual return on plan assets achieved for 2005 was 9.3%. In accordance with GAAP, this excess will be amortized into earnings as described below. We do not expect to be required to make cash contributions to the qualified funded plan during 2006. We have assumed a return on plan assets during 2006 of 8.0%. A one-quarter percentage point increase or decrease in this assumption would increase or decrease 2006 operating income by approximately $5.0 million. Contributions to the unfunded plan were $3.4 million in 2005 and are made on a monthly basis to fund benefit payments. We estimate the contributions to be approximately $3.5 million in 2006. See Note 16 of the Consolidated Financial Statements for more details.

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

	Assumptions			Actual		
	Post 65	**Pre 65**	**Overall**	**Post 65**	**Pre 65**	**Overall**
2004	11%	9%	10%	6%	11%	7%
2005	10	8	9	(3)	(2)	(3)
2006	9	7	8			

In accordance with GAAP, the difference between the actual and expected health care costs is amortized into earnings as described below. The overall percentage of health care cost increases are estimated to decrease by 1 percentage point per year until 2008, after which it is constant at 6%. A one percentage point increase in the assumed health care cost trend rate would reduce 2006 operating income by $1.5 million, while a one percentage point decrease in the assumed health care cost trend rate would increase 2006 operating income by $1.8 million. See Note 16 of the Consolidated Financial Statements for more details.

Actual results that differ from our estimates are captured as actuarial gains/losses and are amortized into future earnings over the expected remaining service period of plan participants, which is approximately 11 years depending on the participants in the plan, in accordance with GAAP. Changes in assumptions could have significant effects on earnings in future years.

We recorded U.S. pension credits of $20.3 million, $14.3 million and $11.6 million in 2005, 2004 and 2003, respectively, reflecting the net overfunded status of our U.S. pension plans and the amortization into earnings of the difference between our actual results and the estimates used in the valuation process. During 2005, we also recorded a curtailment charge of $16.9 million related to the freezing of benefits for certain non-production salaried employees. We recorded U.S. postretirement benefit costs of $29.8 million, $30.3 million and $36.8 million in 2005, 2004 and 2003, respectively.

Impairments of Tangible and Intangible Assets – We periodically review significant tangible and intangible assets, including goodwill, for impairment under the guidelines of the Financial Accounting Standards Board ("FASB") Statement Nos. 142 – "Goodwill and Other Intangible Assets" ("FAS 142") and 144 – "Accounting for the Impairment or Disposal of Long-Lived Assets" ("FAS 144"). In accordance with these

Statements, we review our businesses for indicators of impairment such as operating losses and/or negative cash flows. If an indication of impairment exists, we estimate the fair value and compare it to the carrying value of the asset. If the fair value is less than the carrying value of the asset, we record an impairment charge equal to the difference between the fair value and carrying value of the asset. The cash flow estimates are based on management's analysis of information available at the time of the estimate. Actual cash flows in the future that turn out to be lower than the estimate could lead to significant future impairments.

In 2005, we recorded fixed asset impairment charges of $17.6 million and accelerated depreciation of $7.1 million, in cost of goods sold. The majority of the impairment charges related to fixed assets in our Wood Flooring and Resilient Flooring business segments. The fixed asset impairment charges were triggered by an evaluation of current production capacity and future production levels for certain product lines. See Note 8 of the Consolidated Financial Statements for further information.

In 2004, we recorded goodwill impairment charges for our European resilient flooring reporting unit of $108.4 million. See Note 10 of the Consolidated Financial Statements for further information.

In 2004, we also recorded fixed asset impairment charges of $64.7 million and accelerated depreciation of $13.7 million, in cost of goods sold. The majority of these charges were recorded in our European resilient flooring business, triggered by actual operating losses and negative cash flows, and due to the announcement of the partial closure of the Resilient Flooring manufacturing plant in Lancaster PA. See "Cost Reduction Initiatives" for further discussion. See Note 8 of the Consolidated Financial Statements for further discussion on the European resilient flooring fixed asset impairment.

In 2003, we recorded fixed asset impairment charges of $10.5 million and accelerated depreciation of $30.1 million, in cost of goods sold and fixed asset impairment charges of $2.8 million in SG&A expense. The majority of these charges were recorded as part of the closure of the Wood Flooring manufacturing plants in Port Gibson, MS and Warren, AK.

Sales-related Accruals – We provide direct customer and end-user warranties for our products. These warranties cover manufacturing defects that would prevent the product from performing in line with its intended and marketed use. Generally, the terms of these warranties range up to 25 years and provide for the repair or replacement of the defective product. We collect and analyze warranty claims data with a focus on the historical amount of claims, the products involved, the amount of time between the warranty claims and the products' respective sales and the amount of current sales.

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

The amount of actual experience related to these accruals could differ significantly from the estimated amounts during the year. If this occurs, we adjust our accruals accordingly. We maintained sales-related accruals of $73.0 million and $78.8 million as of December 31, 2005 and 2004, respectively. We record the costs of these accruals as a reduction of gross sales.

NEW ACCOUNTING PRONOUNCEMENTS

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment," which requires all share-based payment transactions to be recognized in the financial statements using a fair-value method of accounting. This Statement replaces FASB Statement No. 123 and supersedes APB Opinion No. 25. The Statement also requires the recognition of compensation expense for the fair value of any unvested stock option awards outstanding at the date of

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adoption. Based on an April 2005 ruling by the SEC, the standard is effective as of the beginning of the first annual reporting period that begins after June 15, 2005. Adoption of this standard on January 1, 2006 for our existing stock options will not have a material impact on our consolidated results of operations or financial condition because all of our outstanding stock options are fully vested.

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 in the Consolidated Financial Statements for a reconciliation of operating income to consolidated income before income taxes, extraordinary items, discontinued operations, and cumulative effect of changes in accounting principles.

2005 COMPARED TO 2004

CONSOLIDATED RESULTS

			Change is Favorable	
	2005	2004	As Reported	Excluding Effects of Foreign Exchange Rates (1)
Net Sales:				
Americas	$2,565.7	$2,543.0	0.9%	0.6%
Europe	874.0	841.0	3.9%	2.4%
Pacific Rim	118.7	113.3	4.8%	2.4%
Total Consolidated Net Sales	$3,558.4	$3,497.3	1.7%	1.1%
Operating Income (Loss)	$ 100.7	$ (43.8)	Favorable	Favorable
Goodwill Impairment	—	108.4		
Operating Income, Prior to Goodwill Impairment	$ 100.7	$ 64.6	55.9%	30.1%

(1) Excludes favorable foreign exchange rate effect in translation of $22.2 million on net sales and $12.8 million on operating income, and $9.2 million on operating income prior to goodwill impairment.

Net sales in the Americas increased $22.7 million, on volume growth in the Wood Flooring business and both price and volume growth in the Building Products segment. Declines in Resilient Flooring volumes and lower Wood Flooring pricing partially offset this growth. (See "Overview – Factors Affecting Revenue").

Excluding the translation effect of changes in foreign exchange rates, net sales in the European markets grew by $20.6 million, with volume growth in resilient and sports products, and price realization in building products. Excluding the translation effect of changes in foreign exchange rates, net sales in the Pacific Rim increased $2.8 million on strength in the Australian and Indian markets.

Cost of goods sold in 2005 was 79.3% of net sales, compared to 80.4% in 2004. The decrease was primarily due to sales price increases of $38 million, benefits from cost reduction initiatives and approximately $47 million of lower fixed asset impairments, which more than offset $56 million in raw material, energy and freight inflation, and approximately $11 million of the U.S. pension plan curtailment charge.

SG&A expenses in 2005 were $652.7 million, or 18.3% of net sales compared to $635.0 million or 18.1% of net sales in 2004. The $17.7 million increase supported higher sales and included approximately $9 million of increase selling and advertising expense, about $8 million in increased incentive compensation costs and approximately $6 million of the U.S. pension plan curtailment charge. Benefits from cost reduction initiatives partially offset these increases. In addition, Armstrong Holdings, Inc. SG&A expenses in 2005 benefited from a $1.6 million reversal of a contingent liability which was established when Armstrong Holdings, Inc. was created but is no longer required.

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In the second quarter of 2004, we recorded a $60.0 million non-cash goodwill impairment loss related to our European resilient flooring reporting unit based on a preliminary impairment assessment. During the fourth quarter of 2004, we recorded an additional $48.4 million non-cash goodwill impairment loss based on the results of our annual impairment test. The goodwill impairment charges arose from the European resilient flooring reporting unit's fair value being lower than its carrying value. The fair value was negatively affected by lower operating profits and expected future cash flows. See Note 10 to the Consolidated Financial Statements for further details.

We recorded net restructuring charges of $23.2 million in 2005, compared to $18.3 million in 2004. See Note 13 of the Consolidated Financial Statements for a description of the restructuring actions. Once completely implemented, we believe that the annual cost savings from our 2004 initiatives will be approximately $58 million. These projected savings will not be fully realized until 2007.

Equity earnings from our WAVE joint venture were $39.3 million in 2005, as compared to $31.6 million in 2004. The growth in earnings was due to price realization ahead of steel price increases, and savings from cost initiatives.

We recorded operating income of $100.7 million in 2005, compared to an operating loss of $43.8 million in 2004. Operating income in 2004 prior to non-cash goodwill impairment was $64.6 million.

Interest expense was $8.5 million in 2005, compared to $8.4 million in 2004. In accordance with SOP 90-7, we did not record contractual interest expense on prepetition debt after the Chapter 11 filing date. This unrecorded interest expense was $82.8 million in 2005 and $86.9 million in 2004. Unrecorded interest expense reflects the amount of interest expense we would have incurred under the original maturities of prepetition debt.

Other non-operating income of $12.0 million in the 2005 compared to $6.4 million in the prior year. The 2005 results included a $3.4 million gain on the sale of our equity investment in Interface Solutions, Inc.

Net Chapter 11 reorganization income in 2005 was $1.2 million, $8.1 million better than the $6.9 million in cost recorded in 2004. The change was primarily due to increased interest income resulting from higher cash balances, increased interest rates, and a reversal of an accrual for professional fees for certain advisors.

During 2005, income tax expense of $2.2 million compared to income tax expense of $24.6 million in 2004. The adjusted effective tax rate for 2005 was 61% after excluding $61.2 million of tax benefits recorded in the year related to a subsidiary capital restructuring. The adjusted effective tax rate for 2004 was 51.3% after adjusting for the non-cash goodwill impairments and European resilient flooring fixed asset impairments of $108.4 million and $44.8 million respectively, in addition to the exclusion of $24.3 million in reported tax audit benefits. The higher 2005 tax rate was primarily due to higher overall tax losses in Europe for which the company does not expect to receive a tax benefit.

Net earnings from continuing operations of $101.7 million were recorded for 2005, compared to a net loss of $80.8 million for 2004.

Discontinued Operations:

In 2000, Armstrong completed its sales of all entities, assets and certain liabilities comprising its Insulation Products segment. During the fourth quarter of 2005, AHI recorded a net gain of $10.4 million due to the early settlement of the remaining notes receivable and the settlement of other disputed items.

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REPORTABLE SEGMENT RESULTS

Resilient Flooring

	2005	2004	Change is Favorable/(Unfavorable) As Reported	Change is Favorable/(Unfavorable) Excluding Effects of Foreign Exchange Rates (1)
Net Sales:				
Americas	$ 882.8	$ 924.6	(4.5)%	(5.0)%
Europe	249.7	238.5	4.7%	3.2%
Pacific Rim	52.9	52.0	1.7%	(0.9)%
Total Segment Net Sales	$1,185.4	$1,215.1	(2.4)%	(3.2)%
Operating (Loss)	$ (25.8)	$ (150.2)	Favorable	Favorable

(1) Excludes favorable foreign exchange rate effect in translation of $9.0 million on net sales and $11.1 million on operating income.

Net sales in the Americas decreased primarily due to a 20% decline in laminate flooring sales, largely as a result of the previously discussed decision by a major customer to increase purchases of non-Armstrong laminate flooring products. Sales of our vinyl products to the residential market declined about 6%, as consumer preference in the market continued to shift away from vinyl products. Sales of our vinyl products into the commercial market increased approximately 1% on increased price realization and new product introductions.

Excluding the translation effect of changes in foreign exchange rates, net sales in Europe increased by 3.2% due to higher volume, partially offset by price concessions and negative product mix. Excluding the translation effect of changes in foreign exchange rates, net sales in the Pacific Rim decreased slightly, as growth in India was balanced by modest weakness in Australia.

2005 Resilient Flooring operating income reflects the negative impact of volume declines in laminate flooring and residential vinyl flooring, increased cost to acquire petroleum-based raw materials and environmental-related charges of $4.4 million. (See “Overview – Factors Affecting Operating Costs”). Partially offsetting these negative effects were modest price realization, significant gains in operating efficiencies related to both cost reduction initiatives and improved plant productivity, a $5.2 million gain from the settlement of a breach of contract dispute and $3.5 million of proceeds received from a business interruption claim. Operating income in 2004 was hurt by a $108.4 million non-cash goodwill impairment charge and a $44.8 million non-cash fixed asset impairment charge related to our European resilient flooring business.

Wood Flooring

	2005	2004	Change is Favorable
Total Segment Net Sales (1)	$833.9	$832.1	0.2%
Operating Income	$ 60.9	$ 51.4	18.5%

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

Net sales in 2005 were flat. Total unit volume increased 2%, on growth in engineered floors of 10%. Total year growth was constrained by volume weakness in the beginning of the year due to competitive pricing actions. Net sales were also negatively impacted by price declines which were made in response to declining lumber prices and to competitive pressures (see “Overview – Factors Affecting Revenues”).

Operating income increased by $9.5 million, despite fixed asset impairment charges of $15.4 million in 2005. Operating results benefited from declines in lumber pricing and manufacturing efficiencies related to cost reduction initiatives and improvements in productivity at some plant locations.

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Textiles and Sports Flooring ("TSF")

			Change is Favorable	
	2005	2004	As Reported	Excluding Effects of Foreign Exchange Rates (2)
Total Segment Net Sales (1)	$279.0	$265.4	5.1%	3.5%
Operating (Loss)	$ (4.4)	$ (7.1)	38.0%	35.3%

(1) Most of TSF products are sold in Europe.

(2) Excludes favorable foreign exchange rate effect in translation of $4.2 million on net sales and $0.3 million on operating income.

Excluding the translation effect of changes in foreign exchange rates, net sales increased by 3.5%, due to strong volume and favorable mix in carpet tile and sports flooring. This growth was tempered by lower sales in the highly competitive broadloom carpet market.

The smaller 2005 operating loss was primarily due to increased sales volume, improved product mix, manufacturing efficiencies and reduced overhead expenses. A negative impact from raw materials and freight partially offset these factors.

Building Products

			Change is Favorable	
	2005	2004	As Reported	Excluding Effects of Foreign Exchange Rates (1)
Net Sales:				
Americas	$ 636.5	$575.7	10.6%	10.0%
Europe	345.3	334.7	3.2%	1.7%
Pacific Rim	65.8	61.3	7.3%	5.3%
Total Segment Net Sales	$1,047.6	$971.7	7.8%	6.8%
Operating Income	$ 148.5	$127.0	16.9%	15.7%

(1) Excludes favorable foreign exchange rate effect in translation of $8.8 million on net sales and $1.4 million on operating income.

Excluding the translation effect of changes in foreign exchange rates, record net sales in the Americas increased 10% on the strength of volume growth and price realization. Sales to the U.S. Commercial markets grew 10%, including approximately 3% unit volume growth, due to favorable market conditions. (See "Overview – Factors Affecting Revenues".) Net sales also benefited from volume and price increases in the Residential markets.

Excluding the translation effect of changes in foreign exchange rates, net sales in Europe grew approximately 2%. Unit volume of mineral fiber products, which constitute the majority of our European sales, increased by approximately 1%. Within the Western European market, growth in the U.K., France and Italy did not offset double-digit declines in the remaining countries related to lower commercial market activity. Conversely, sales in the emerging markets of Eastern Europe (primarily Russia) increased about 5% due to construction growth. Products to the emerging markets tend to have lower margins than products sold into Western Europe. Excluding the translation effect of changes in foreign exchange rates, net sales of metal ceilings declined 9% on weakness in core markets.

Excluding the translation effect of changes in foreign exchange rates, net sales in the Pacific Rim increased about 5%, with strength in the Indian and Australian markets offsetting weak Chinese markets.

(dollar amounts in millions)

Excluding the translation effect of changes in foreign exchange rates, Building Products operating income grew nearly 16%. Volume growth and increased equity earnings in WAVE drove operating income improvement despite higher selling expenses (related to volume). Price realization essentially offset inflationary pressure from raw materials, energy and freight.

Cabinets

	2005	2004	Change is (Unfavorable)
Total Segment Net Sales [1]	$212.5	$213.0	(0.2)%
Operating Income (Loss)	$ (9.7)	$ 1.4	Unfavorable

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

Net sales in 2005 were basically flat versus 2004. Price increases and mix improvement related to new product introductions were offset by volume declines related to poor customer service. Customer lead- times and fill rates deteriorated due to unplanned manufacturing inefficiencies related to plant consolidation.

Operating losses in 2005 were caused by sales volume declines, manufacturing inefficiencies in the remaining plants resulting from the transfer of production from Morristown and higher SG&A expenses related to investment in process improvement initiatives, partially offset by improved product mix and higher selling prices.

Unallocated Corporate

Unallocated corporate expense of $68.8 million in 2005 increased from $66.3 million in 2004. This increase was primarily due to the $16.9 million curtailment charge in the fourth quarter of 2005 related to changes to our U.S. pension plan, and to higher compensation program costs (retention bonuses, incentive compensation, executive transition and severance). These increases were partially offset by lower environmental charges, the reversal of a contingent liability and an increased U.S. pension credit.

FINANCIAL CONDITION AND LIQUIDITY

Cash Flow

As shown on the Consolidated Statements of Cash Flows, our cash and cash equivalents balance increased by $86.3 million in 2005, compared to a $31.6 million increase in 2004.

Operating activities in 2005 provided $146.7 million of net cash, or $3.9 million more than the $142.8 million provided in 2004. The increase was primarily due to changes in inventories, partially offset by changes in accounts payable and accrued expenses and cash taxes paid. In 2005 we decreased inventories by $1.5 million compared with an increase of $61.7 million in 2004 which was primarily driven by our efforts to improve customer service in Wood Flooring during 2004. Also, in 2005 accounts payable and accrued expenses increased by $8.5 million compared with an increase of $61.1 million in 2004. The large increase in 2004 was primarily driven by higher accruals for employee incentives and increased trade payables related primarily to increased capital expenditures. Cash taxes paid were lower in 2005 by $34.4 million primarily due to a restructuring of subsidiary capital that resulted in a tax benefit on debt impairment of $29.6 million.

Net cash used for investing activities was $48.5 million in 2005, compared to $111.7 million in 2004. The decrease was primarily due to $38.3 million in proceeds received from the sale of some notes receivable, the proceeds from the sale of an equity affiliate for $20.6 million and an increase in distributions received from WAVE of $13.0 million.

Net cash totaling $3.9 million was used for our financing activities in 2005, compared to $7.0 million in 2004. The year-to-year change was due to lower payments of long-term debt in 2005 and increased short-term borrowing for 2005 working capital needs for certain subsidiaries that are not participating in our Chapter 11 Case.

(dollar amounts in millions)

Balance Sheet and Liquidity

Changes in significant balance sheet accounts and groups of accounts from December 31, 2004 to December 31, 2005 are as follows:

	December 31, 2005	December 31, 2004	Increase (Decrease)
Cash and cash equivalents	$ 602.2	$ 515.9	$ 86.3
Current assets, excluding cash and cash equivalents	959.1	966.3	(7.2)
Current assets	$ 1,561.3	$ 1,482.2	$ 79.1

The increase in cash and cash equivalents was described above (see "Cash Flow"). The decrease in current assets, excluding cash and cash equivalents, was primarily due to the negative translation effects of changes in foreign exchange rates partially offset by an increase in the income tax receivable of $11.2 million and an increase of $10.0 million of the fair market value of hedges related to natural gas and foreign currency exposure of inter-company loans.

	December 31, 2005	December 31, 2004	(Decrease)
Property, plant and equipment, less accumulated depreciation and amortization ("PP&E")	$ 1,145.3	$ 1,208.8	$ (63.5)

The decrease was primarily due to accelerated depreciation and impairments of $24.7 million (see "Impairments of Tangible and Intangible Assets") and the negative translation effects of changes in foreign exchange rates.

DIP Facility

AWI has a $75 million debtor-in-possession credit facility that currently is limited to issuances of letters of credit. This facility is scheduled to mature on December 8, 2006. Obligations to reimburse drawings under the letters of credit constitute a super-priority administrative expense claim in the Chapter 11 Case. There were no outstanding borrowings under the DIP Credit Facility as of December 31, 2005, or December 31, 2004 but, as of these dates, AWI had $43.3 million, and $40.6 million, respectively, in letters of credit outstanding that were issued pursuant to the DIP Credit Facility. As of December 31, 2005, the DIP Facility had $31.7 million that remained available for issuance of letters of credit. The DIP Credit Facility also contains several covenants including, among other things, limits on asset sales and capital expenditures and a required ratio of debt to cash flow. We are in compliance with all of the DIP Facility covenants. The covenants have not impaired our operating ability. In connection with implementation of a plan of reorganization, we expect to replace this facility with a new facility that would provide reorganized Armstrong with greater borrowing capacity and which will have debt covenants yet to be negotiated. In the event a plan of reorganization has not been implemented prior to December 8, 2006, we will pursue another extension of the DIP Facility.

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Liquidity

Our liquidity needs for operations vary throughout the year. We retain lines of credit to facilitate our seasonal needs, if required. For certain international operations that are not participating in our Chapter 11 Case, we had lines of credit of $45.2 million at December 31, 2005, of which $19.8 million was used and $25.4 million was available. 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 operations. Additionally, we have letter of credit issuance capabilities under the DIP Facility (described above). We believe that cash on hand and generated from operations, together with lines of credit and the DIP Facility, will be adequate to address our foreseeable liquidity needs in the normal course of business operations and for scheduled non-filer debt obligations. Cash and liquidity needs will change significantly at the time of emergence, the timing of which remains uncertain (see "Note 1 – Proceedings Under Chapter 11").

2004 COMPARED TO 2003
CONSOLIDATED RESULTS

			Change is Favorable/(Unfavorable)	
	2004	2003	As Reported	Excluding Effects of Foreign Exchange Rates (1)
Net Sales:				
Americas	$2,543.0	$2,390.8	6.4%	6.1%
Europe	841.0	778.8	8.0%	(1.6)%
Pacific Rim	113.3	89.4	26.7%	19.9%
Total Consolidated Net Sales	$3,497.3	$3,259.0	7.3%	4.5%
Operating (Loss)	$ (43.8)	$ (19.3)	Unfavorable	Unfavorable
Goodwill Impairment	108.4	—		
Charge for Asbestos Liability, Net	—	81.0		
Operating Income, Prior to Goodwill Impairment and Charge for Asbestos Liability, Net	$ 64.6	$ 61.7	4.7%	1.1%

(1) Excludes favorable foreign exchange rate effect in translation of $87.9 million on net sales and $2.2 million on operating income.

Net sales in the Americas increased by approximately $152 million, primarily as a result of sales volume and price increases of wood flooring and ceiling products. Sales for resilient flooring products in the Americas declined primarily due to lower sales to the U.S. residential market (see "Overview – Factors Affecting Revenue").

Excluding the translation effect of changes in foreign exchange rates, net sales in the European markets declined by 1.6%, primarily as a result of the weak economic conditions in our primary selling markets and volume declines for carpet and sports flooring products. Excluding the translation effect of changes in foreign exchange rates, net sales in the Pacific Rim increased by approximately $19 million, primarily as a result of stronger sales in China and Australia.

Cost of goods sold in 2004 was 80.4% of net sales, compared to 79.7% in 2003. The 0.7 percentage point increase was primarily due to the European resilient flooring fixed asset impairment of $44.8 million (see Note 8 of the Consolidated Financial Statements) and higher raw material and energy costs of approximately $72 million (see significant items in "Overview – Factors Affecting Operating Costs"), offset by the effects of sales price increases of approximately $62 million and the benefit in 2004 from 2003 cost reduction initiatives.

SG&A expenses in 2004 were $635.0 million, or 18.1% of net sales compared to $612.1 million or 18.8% of net sales in 2003. Excluding the translation effect of changes in foreign exchange rates, SG&A

expenses in 2004 increased by approximately $1.9 million, primarily due to approximately $21 million of higher incentive compensation costs, approximately $9 million for increased selling and advertising expense and a $5.0 million contribution to the Armstrong Foundation (a community giving program funded by Armstrong), partially offset by the $3.1 million favorable impact of the Medicare Act, lower medical claim accruals, lower severance expenses and the benefit in 2004 from 2003 cost reduction initiatives.

There were no asbestos-related charges in 2004. During 2003, we reduced our previously recorded insurance asset for asbestos-related personal injury claims by $73 million, reflecting management's current assessment of probable insurance recoveries based upon an unfavorable ruling in an alternative dispute resolution procedure. We also recorded an $8 million non-cash charge to reflect an agreement to settle claims from the Center for Claims Resolution and a surety bond insurance company. All amounts were reflected as a charge to asbestos liability, net. See "Asbestos-Related Litigation" in Note 30 of the Consolidated Financial Statements for additional information.

In the second quarter of 2004, we recorded a $60.0 million non-cash goodwill impairment loss related to our European resilient flooring reporting unit based on a preliminary impairment assessment. During the fourth quarter of 2004, we recorded an additional $48.4 million non-cash goodwill impairment loss based on the results of our annual impairment test. The goodwill impairment charges arose from the European resilient flooring reporting unit's fair value being lower than its carrying value. The fair value was negatively affected by lower operating profits and expected future cash flows determined in recent forecasting analyses. See Note 10 to the Consolidated Financial Statements for further details.

We recorded restructuring charges, net, of $18.3 million in 2004, compared to $8.6 million in 2003. See Note 13 of the Consolidated Financial Statements for a description of the restructuring actions.

Equity earnings from affiliates, from our WAVE joint venture, were $31.6 million in 2004, as compared to $20.8 million in 2003. The improvement in earnings resulted from improved market conditions, the ability to provide product during the global steel shortage and realized price increases ahead of recognized increased steel cost.

We recorded an operating loss of $43.8 million in 2004, compared to an operating loss of $19.3 million in 2003. Operating income prior to non-cash goodwill impairment and asbestos-related charges was $64.6 million and $61.7 million, respectively.

Interest expense was $8.4 million in 2004, compared to $9.0 million in 2003. The decrease in interest expense is due to lower fees on the renewed DIP Facility and lower average outstanding debt amounts at our non-Chapter 11 subsidiaries. In accordance with SOP 90-7, we did not record contractual interest expense on prepetition debt after the Chapter 11 filing date. This unrecorded interest expense was $86.9 million in 2004 and $95.1 million in 2003. Unrecorded interest expense reflects the amount of interest expense we would have incurred under the original maturities of prepetition debt.

Chapter 11 reorganization costs, net in 2004 were $6.9 million, which was $2.5 million less than the $9.4 million amount recorded in 2003. The decrease was primarily due to lower professional fees resulting from less activity in the Chapter 11 process in 2004.

During 2004, income tax expense of $24.6 million compared to an income tax benefit of $1.6 million in 2003. The adjusted effective tax rate for 2004 was 25.3% based on adjusted pre-tax income from continuing operations of $97.4 million, which excluded the non-cash goodwill impairments of $108.4 million, which were nontaxable events, and European resilient flooring fixed asset impairments of $44.8 million, which required a full valuation allowance on the related deferred tax asset. Excluding the $81.0 million of asbestos-related charges, the adjusted effective tax rate for 2003 was 62.7%, based on adjusted pre-tax income from continuing operations of $42.6 million. The lower 2004 tax rate was primarily due to the overall favorable settlement of tax audits in the U.S. and in Germany that combined to reduce tax expense by approximately $19.4 million. In addition, the unfavorable impact in 2003 of

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

relatively higher nondeductible Chapter 11 reorganization costs (prior to the tax audits in the U.S.) on a relatively lower base of taxable income resulted in a higher effective tax rate for that year.

A net loss of $80.8 million was recorded for 2004, compared to a net loss of $39.3 million for 2003.

REPORTABLE SEGMENT RESULTS

Resilient Flooring

			Change is Favorable/(Unfavorable)	
	2004	2003	As Reported	Excluding Effects of Foreign Exchange Rates (1)
Net Sales:				
Americas	$ 924.6	$ 935.0	(1.1)%	(1.5)%
Europe	238.5	205.2	16.2%	5.7%
Pacific Rim	52.0	41.3	25.9%	17.1%
Total Segment Net Sales	$1,215.1	$1,181.5	2.8%	0.5%
Operating (Loss) Income	$ (150.2)	$ 56.2	Unfavorable	Unfavorable

(1) Excludes favorable foreign exchange rate effect in translation of $27.6 million on net sales and $0.8 million on operating income.

Net sales in the Americas decreased primarily due to an approximate 6% decline in laminate flooring sales, primarily as a result of a major customer's decision to increase purchases of non-Armstrong laminate flooring products in the second quarter of 2004. Sales of our vinyl products to the residential market decreased approximately 3%, primarily from the residential floor covering market shift away from vinyl products. Sales of our vinyl products to the commercial market increased by approximately 3%, primarily due to price increases on certain vinyl sheet and tile products, and new product introductions.

Excluding the translation effect of changes in foreign exchange rates, net sales in Europe increased by 5.7% due to higher volume, which was partially offset by price concessions due to competitive pressure. Excluding the translation effect of changes in foreign exchange rates, net sales in the Pacific Rim increased by approximately $8 million, primarily from strong sales in Australia and China.

Operating income in 2004 was negatively impacted by a $108.4 million non-cash goodwill impairment charge and a $44.8 million non-cash fixed asset impairment charge related to our European resilient flooring business. Operating results were also adversely impacted by lower laminate sales volume, increased costs to purchase PVC, wage and salary inflation increases and charges for the cost reduction initiatives (see "Overview – Factors Affecting Operating Costs"). Partially offsetting the negative effects of these items were operating income gains from manufacturing efficiencies.

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

Wood Flooring

	2004	2003	Change is Favorable
Total Segment Net Sales (1)	$832.1	$738.6	12.7%
Operating Income (Loss)	$ 51.4	$ (4.0)	Favorable

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

Net sales in 2004 increased by $93.5 million. Units sold of pre-finished solid and engineered floors each increased by approximately 9%, primarily from the strong U.S. new home construction market. Net sales were also positively impacted by the price increases implemented on wood flooring products.

Operating results increased by $55.4 million, due to higher selling prices and sales volume, lower expenses for implementing the cost reduction initiatives (see "Overview – Factors Affecting Operating Costs") and lower manufacturing overhead resulting from those initiatives. Partially offsetting these were higher costs for lumber and increased production expenses in certain plants.

Textiles and Sports Flooring ("TSF")

			Change is Favorable/(Unfavorable)	
	2004	2003	As Reported	Excluding Effects of Foreign Exchange Rates (2)
Total Segment Net Sales (1)	$265.4	$271.9	(2.4)%	(10.8)%
Operating (Loss)	$ (7.1)	$ (11.0)	Favorable	Favorable

(1) Primarily all of TSF products are sold in Europe.

(2) Excludes favorable/(unfavorable) foreign exchange rate effect in translation of $25.8 million on net sales and $(1.3) million on operating income.

Excluding the translation effect of changes in foreign exchange rates, net sales decreased by 10.8%, primarily from volume declines in carpet flooring products due to weak economic conditions in our primary selling markets and loss of market share, caused by the lack of new product development. Net sales were also adversely affected by price concessions for Sports Flooring products that were required to meet competitive pressures.

The operating loss in 2004 was less than the loss in 2003, primarily due to the expense in 2003 of cost reduction initiatives and the benefit in 2004 of those cost reduction initiatives (see "Overview – Factors Affecting Operating Costs"). Partially offsetting these factors were the negative impact of lower sales volume and prices.

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

Building Products

	2004	2003	Change is Favorable: As Reported	Change is Favorable: Excluding Effects of Foreign Exchange Rates (1)
Net Sales:				
Americas	$575.7	$515.6	11.7%	11.0%
Europe	334.7	298.5	12.1%	2.1%
Pacific Rim	61.3	48.1	27.4%	22.4%
Total Segment Net Sales	$971.7	$862.2	12.7%	8.4%
Operating Income	$127.0	$ 95.2	33.4%	28.7%

(1) Excludes favorable foreign exchange rate effect in translation of $34.4 million on net sales and $3.5 million on operating income.

Excluding the translation effect of changes in foreign exchange rates, net sales in the Americas increased approximately $57 million. Unit volume to the U.S. Commercial markets increased by approximately 7%, primarily due to favorable market conditions. Complementing the impact from the higher volume were price increases started in July 2003 on most commercial products. Net sales also benefited from volume and price increases with the major national retailers in the U.S. Residential markets.

Excluding the translation effect of changes in foreign exchange rates, net sales in Europe increased by 2.1% from 2003. The volume of mineral fiber products, which constitute the majority of our European sales, increased by approximately 2%. The volume of mineral fiber product sold to Western European countries declined by approximately 1%, primarily due to lower commercial market activity in the Euro Zone, while volume sold to the emerging markets of Eastern Europe (primarily Russia) increased by approximately 7% due to construction growth in these markets. Products sold to the emerging markets tend to have lower margin than products sold in Western Europe. Excluding the translation effect of changes in foreign exchange rates, net sales of metal ceilings declined by approximately 1%, primarily from some loss of market share in Asia.

Excluding the translation effect of changes in foreign exchange rates, net sales in the Pacific Rim increased approximately $11 million due to strong activity in the Chinese, Indian and Australian markets.

Excluding the translation effect of changes in foreign exchange rates, operating income increased 28.7%, as higher sales volume and prices, lower production expenses and increased equity earnings in WAVE were only partially offset by inflation in the cost of raw materials and energy, and higher selling expenses.

Cabinets

	2004	2003	Change is Favorable
Total Segment Net Sales (1)	$213.0	$204.8	4.0%
Operating Income (Loss)	$ 1.4	$ (11.1)	Favorable

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

Net sales in 2004 increased approximately $8 million from 2003, primarily due to selling price increases and sales of higher priced products, both enabled by improved customer service.

Operating results improved by $12.5 million in 2004 from 2003, due to increased sales, manufacturing efficiencies and reduced SG&A expenses, partially offset by expenses for cost reduction initiatives.

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

Unallocated Corporate

Unallocated corporate expense of $66.3 million in 2004 decreased from $144.6 million in 2003. This decrease was primarily due to non-cash asbestos-related charges of $81.0 million in 2003. The remaining $2.7 million increase resulted primarily from increases of $9.4 million in employee incentive compensation, a $5.0 million contribution to the Armstrong Foundation (a community giving program funded by Armstrong) and $4.2 million to increase certain environmental liabilities at non-operating locations. These increases were partially offset by a $6.3 million write off of a note receivable in 2003 from a previous divestiture, $4.5 million in lower medical claims, a $2.9 million higher U.S. pension plan credit, and reduced expenses in corporate staff departments.

FINANCIAL CONDITION AND LIQUIDITY

As shown on the Consolidated Statements of Cash Flows, our cash and cash equivalents balance increased by $31.6 million in 2004, compared to a $104.3 million increase in 2003.

Operating activities in 2004 provided $142.8 million of net cash, or $23.0 million less than the $165.8 million provided in 2003. The decline in cash provided was primarily due to changes in inventories, receivables, and accounts payable and accrued expenses. In 2004, we increased inventories by $61.7 million, compared to decreasing $6.6 million in 2003, primarily as part of our efforts to improve customer service in Wood Flooring. Receivables increased $9.5 million in 2004, compared to decreasing $40.6 million in 2003, primarily as a result of increased sales. Offsetting these two uses of cash was an increase in accounts payable and accrued expenses of $61.1 million in 2004, primarily due to increased accruals for employee incentives and increased trade payables related primarily to increased capital expenditures and inventory.

Net cash used for investing activities was $111.7 million in 2004, compared to $57.2 million in 2003. In 2004, we increased our capital expenditures by $55.9 million primarily to upgrade our manufacturing operations and improve production efficiencies. During the third quarter of 2004, WAVE successfully extended the term of their existing bank debt and we received a $10 million distribution in the fourth quarter of 2004, while in 2003 we received $16 million in distributions.

Net cash totaling $7.0 million was used for our financing activities in 2004, compared to $14.1 million in 2003. The year-to-year change was due to certain subsidiaries that are not participating in our Chapter 11 Case increasing their short-term borrowing for working capital needs in 2004.

DISCONTINUED OPERATIONS

On May 31, 2000, Armstrong completed its sale of all entities, assets and certain liabilities comprising its Insulation Products segment. During 2003, AHI recorded a net loss of $2.4 million for the impairment of some notes receivable and the settlement of certain tax contingencies related to this divestiture. During the fourth quarter of 2005, AHI recorded a net gain of $10.4 million due to the early settlement of the remaining notes receivable and the settlement of other disputed items.

On December 29, 1995, Armstrong sold a furniture subsidiary, Thomasville Furniture Industries. During 2004 and 2003, AHI recorded net losses of $0.4 million and $0.1 million, respectively, for the environmental and tax indemnifications related to this divestiture.

In accordance with FAS 144, these adjustments were classified as discontinued operations since the original divestitures were reported as discontinued operations.

OFF-BALANCE SHEET ARRANGEMENTS

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

(dollar amounts in millions)

CONTRACTUAL OBLIGATIONS

As part of our normal operations, we enter into numerous contractual obligations that require specific payments during the term of the various agreements. The following table includes amounts ongoing under contractual obligations existing as of December 31, 2005. Only known payments that are dependent solely on the passage of time are included. Obligations under contracts that contain minimum payment amounts are shown at the minimum payment amount. Contracts that have variable payment structures without minimum payments are excluded. Purchase orders that are entered into in the normal course of business are also excluded because they are generally cancelable and not legally binding. Amounts are presented below based upon the currently scheduled payment terms. Actual future payments may differ from the amounts presented below due to changes in payment terms or events leading to payments in addition to the minimum contractual amounts.

	2006	2007	2008	2009	2010	Thereafter	Total
Long-Term Debt (1)	$ 5.4	$ 1.7	$ 1.3	$ 11.1	$ 1.2	$ 6.2	$ 26.9
Capital Lease Obligations (2)	1.0	0.7	0.3	—	—	0.1	2.1
Operating Lease Obligations (2)	14.6	12.1	8.4	4.9	2.5	7.9	50.4
Unconditional Purchase Obligations (3)	11.9	2.9	1.9	0.9	0.7	0.1	18.4
Other Long-Term Obligations (4)	2.4	0.2	0.1	0.1	—	—	2.8
Total Contractual Obligations	$ 35.3	$ 17.6	$ 12.0	$ 17.0	$ 4.4	$ 14.3	$ 100.6

(1) Payments for long-term debt obligations exclude debt subject to compromise.

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

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

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

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

As of December 31, 2005, we maintained an agreement with the lending institution of one of our distributors. Under this agreement, if the distributor were to default on its borrowings and the lender foreclosed on the assets, the bank could return a large part of any of our products still at the distributor (subject to certain quality and roll size minimums) for a refund of original cost. This agreement will expire in September 2006. At December 31, 2005, the amount of inventory held at the distributor was approximately $4.2 million. Historically, no claim has been made under any of these types of agreements and we do not anticipate any such claims in the future. As such, no liability has been recorded for this agreement.

We are party to supply agreements, some of which require the purchase of inventory remaining at the supplier upon termination of the agreement. The last such agreement will expire on June 30, 2009. Had these agreements terminated at December 31, 2005, Armstrong would have been obligated to purchase approximately $11.9 million of inventory. Historically, due to production planning, we have not had to purchase material amounts of product at the end of similar contracts. Accordingly, no liability has been recorded for these guarantees.

As part of our executive compensation plan, certain current and former executives participate in a split-dollar insurance program where we are responsible for remitting the premiums. Since 1998, the program was closed to new participants. As of December 31, 2005, we carried a cash surrender value asset of $7.2 million related to this program. Should we discontinue making premium payments, the insured executives have the right to the entire policy cash surrender value. In light of the Sarbanes-Oxley Act, we believe it is inappropriate to make the premium payments for two of the executives participating in this plan. As a result, beginning in 2003, we have required these two individuals to make the premium payments to continue the policy.

(dollar amounts in millions)

We utilize lines or credit and other commercial commitments in order to ensure that adequate funds are available to meet operating requirements. Letters of credit are issued to third party suppliers, insurance and financial institutions and typically can only be drawn upon in the event of our failure to pay our obligations to the beneficiary. This table summarizes the commitments we have available for use. Letters of credit are currently arranged through AWI's DIP Facility with JP Morgan Chase. Certain letters of credit arranged with Wachovia Bank, N.A. prior to the Filing remain outstanding.

	Total Amounts Committed	Less Than 1 Year	1 – 3 Years	4 – 5 Years	Over 5 Years
Other Commercial Commitments					
Letters of Credit	$ 71.4	$ 70.5	$ 0.9	—	—

In addition, we have lines of credit for certain international operations totaling $45.2 million, of which $19.8 million was used at December 31, 2005 and $25.4 million was available to ensure funds are available to meet operating requirements.

In disposing of assets prior to the Filing, AWI and some subsidiaries had entered into contracts that included various indemnity provisions, covering such matters as taxes, environmental liabilities and asbestos and other litigation. Some of these contracts had exposure limits, but many did not. Due to the nature of the indemnities, it is not possible to estimate the potential maximum exposure under these contracts. As a debtor-in-possession, for those contracts that are still executory where AWI was the sole guarantor, AWI anticipates rejecting those contracts. Parties that timely file claims with respect to such contracts will have such claims addressed in AWI's Chapter 11 Case. AWI cannot estimate the value of any potential claims that will ultimately be allowed by the Bankruptcy Court. See Item 1 - Business regarding Proceedings under Chapter 11.

Subsidiaries that are not part of the Chapter 11 Filing also entered into certain contracts that included various indemnity provisions similar to those described above. Since these subsidiaries are not part of the Chapter 11 Filing, these contracts continue to be in effect. Some of these contracts had exposure limits, but many did not. Due to the nature of the indemnities, there is no way to estimate the potential maximum exposure under all these contracts. For contracts under which an indemnity claim has been received, a liability of $0.8 million has been recorded as of December 31, 2005.

In September 1999, we sold our Textiles Products operations. As part of the divestiture agreement, we transferred certain liabilities and assets to the purchaser to cover pension payments earned by the work force as of the sale date. We also reimburse the purchaser for such pension payments that are not covered by the pension assets. In addition, we agreed to reimburse the purchaser for the tax impact of our reimbursement of the pension payments. This agreement has no termination date. As of December 31, 2005, we maintained a $3.6 million net liability for this guarantee. As of December 31, 2005, the net present value of the maximum payments is approximately $5.4 million, excluding any amounts to be paid for tax reimbursement.

See Notes 4 and 22 to the Consolidated Financial Statements for a discussion of the ESOP loan guarantee.

RELATED PARTIES

See Note 29 of the Consolidated Financial Statements for a discussion of our relationships with WAVE and Interface Solutions, Inc. (“ISI”).

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

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ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk

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

Interest Rate Sensitivity

Due to AWI’s Chapter 11 Filing, all affected debt has been classified as liabilities subject to compromise. All such debt will be addressed in the Chapter 11 Case. While operating as a debtor-in-possession, AWI does not expect to pay any principal, interest or other payments on this debt unless approved by the Bankruptcy Court. However, we also have debt of entities that were not a part of the Chapter 11 Filing, which are being paid on schedule. The table below provides information about our long-term debt obligations as of December 31, 2005 and 2004, including payment requirements and related weighted-average interest rates by scheduled maturity dates. Weighted-average variable rates are based on implied forward rates in the yield curve at the reporting date. The information is presented in U.S. dollar equivalents, which is our reporting currency. The amounts below reflect only debt of entities that are not a part of the Chapter 11 Filing.

	2006	2007	2008	2009	2010	After 2011	Total
Scheduled maturity date							
As of December 31, 2005							
Long-term debt:							
Fixed rate	$ 4.4	$ 0.7	$ 0.2	—	—	$ 0.1	$ 5.4
Avg. interest rate	6.22%	7.55%	7.63%	7.63%	7.63%	7.63%	6.47%
Variable rate	$ 1.0	$ 1.0	$ 1.1	$ 11.1	$ 1.2	$ 6.1	$ 21.5
Avg. interest rate	5.61%	3.73%	3.76%	3.85%	3.80%	4.11%	3.99%

	2005	2006	2007	2008	2009	After 2010	Total
Scheduled maturity date							
As of December 31, 2004							
Long-term debt:							
Fixed rate	$ 7.9	$ 6.2	$ 1.6	$ 1.2	$ 1.0	$ 7.6	$ 25.5
Avg. interest rate	6.34%	6.25%	7.07%	6.89%	6.70%	6.71%	6.51%
Variable rate	$ 0.3	$ 0.3	$ 0.3	$ 0.3	$ 10.2	$ 0.5	$ 11.9
Avg. interest rate	1.75%	1.75%	1.75%	1.75%	2.11%	1.75%	2.06%

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Exchange Rate Sensitivity

We manufacture and sell our products in a number of countries throughout the world and, as a result, are exposed to movements in foreign currency exchange rates. To a large extent, our global manufacturing and sales provide a natural hedge of foreign currency exchange rate movement, as foreign currency expenses generally offset foreign currency revenues. At December 31, 2005, Armstrong's major foreign currency exposures are to the Euro, the Canadian dollar and the British pound.

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

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

The table below details our outstanding currency instruments as of December 31, 2005 and 2004. All the instruments outstanding as of December 31, 2005 have scheduled maturity dates on or before March 31, 2007.

	Maturing in:		
	2006	**2007**	**Total**
On balance sheet FX related derivatives			
As of December 31, 2005			
Notional amounts (millions)	$ 482.5	$ 3.2	$ 485.7
Assets at fair value (millions)	$ 1.5	—	$ 1.5

	Maturing in:		
	2005	**2006**	**Total**
As of December 31, 2004			
Notional amounts (millions)	$ 378.1	$ 8.7	$ 386.8
Assets at fair value (millions)	($13.9)	—	($13.9)

Commodity Price Sensitivity

We purchase natural gas for use in the manufacture of ceiling tiles and other products, as well as to heat many of our facilities. As a result, we are exposed to movements in the price of natural gas. We have a policy of reducing short term cost volatility through derivative instruments, including swap contracts, purchased call options, and zero-cash collars. The table below provides information about Armstrong's natural gas contracts as of December 31, 2005 and 2004 that are sensitive to changes in commodity prices. Notional amounts and price ranges are in millions of Btu's (MMBtu).

	Maturing in:		
	2006	2007	Total
On balance sheet commodity related derivatives			
As of December 31, 2005			
Contract amounts (MMBtu)	4,950,000	1,800,000	6,750,000
Contract price range ($/MMBtu)	$5.54 - $11.80	$9.56 - $11.85	$5.54 - $11.85
Assets at fair value (millions)	$15.0	$3.7	$18.7

	Maturing in:		
	2005	2006	Total
As of December 31, 2004			
Contract amounts (MMBtu)	5,230,000	1,630,000	6,860,000
Contract price range ($/MMBtu)	$4.46 - $6.72	$6.37 - $8.10	$4.46 - $8.10
Assets at fair value (millions)	$4.3	$1.0	$5.3

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ARMSTRONG WORLD INDUSTRIES, INC. AND SUBSIDIARIES

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QUARTERLY FINANCIAL INFORMATION
ARMSTRONG HOLDINGS, INC. (unaudited)

(millions except for per share data)	First	Second	Third	Fourth	Total year
2005					
Net sales	$840.7	$919.0	$937.0	$ 861.7	$3,558.4
Gross profit	178.2	200.8	216.2	142.1	737.3
Net earnings (loss) from continuing operations	(3.0)	17.7	46.1	40.9	101.7
Per share of common stock:					
Basic	$ (0.07)	$ 0.44	$ 1.14	$ 1.01	$ 2.51
Diluted	$ (0.07)	$ 0.43	$ 1.13	$ 1.00	$ 2.50
Net earnings (loss)	(3.0)	17.7	46.1	51.3	112.1
Per share of common stock:					
Basic	$ (0.07)	$ 0.44	$ 1.14	$ 1.26	$ 2.77
Diluted	$ (0.07)	$ 0.43	$ 1.13	$ 1.26	$ 2.75
Price range of common stock—high	$ 2.82	$ 4.40	$ 3.10	$ 2.34	$ 4.40
Price range of common stock—low	$ 1.65	$ 1.50	$ 1.99	$ 1.49	$ 1.49
2004					
Net sales	$845.0	$903.5	$893.5	$ 855.3	$3,497.3
Gross profit	184.6	216.4	194.2	91.1	686.3
Net earnings (loss) from continuing operations	20.0	(14.5)	23.2	(109.1)	(80.4)
Per share of common stock:					
Basic	$ 0.49	$ (0.36)	$ 0.57	$ (2.69)	$ (1.99)
Diluted	$ 0.49	$ (0.36)	$ 0.57	$ (2.69)	$ (1.99)
Net earnings (loss)	19.6	(14.5)	23.2	(109.1)	(80.8)
Per share of common stock:					
Basic	$ 0.48	$ (0.36)	$ 0.57	$ (2.69)	$ (2.00)
Diluted	$ 0.48	$ (0.36)	$ 0.57	$ (2.69)	$ (2.00)
Price range of common stock—high	$ 1.39	$ 1.55	$ 2.30	$ 3.51	$ 3.51
Price range of common stock—low	$ 0.95	$ 0.76	$ 1.16	$ 1.20	$ 0.76

There were no dividends paid in 2005 or 2004. The DIP Facility stipulates that AWI will not declare or pay any dividends either directly or indirectly and bankruptcy law bars dividends by companies in Chapter 11.

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

Fourth Quarter 2005 Compared With Fourth Quarter 2004

Net sales of $861.7 million in the fourth quarter of 2005 increased from net sales of $855.3 million in the fourth quarter of 2004, an increase of 0.7%. Excluding the unfavorable effects of foreign exchange rates of $10.3 million, net sales increased 2.0% on the strength of volume growth and improved product mix in Building Products. Resilient Flooring net sales decreased 2.5%, excluding the unfavorable effects of foreign exchange rates, primarily due to declining selling prices. Wood Flooring net sales decreased by 1.1% due to price declines related to decreasing lumber costs. Textiles and Sports Flooring increased 5.5%, excluding the unfavorable effects of foreign exchange rates of $3.9 million, due to strength in sports flooring and carpet tiles. Building Products net sales increased by 9.4%, excluding the unfavorable effects of foreign exchange rates of $3.8 million, due to increased selling prices and volume growth. Cabinets decreased by 0.6% with improved price and mix nearly offsetting volume declines. Net sales increased 1.7% in the Americas. Excluding the unfavorable effects of foreign exchange rates of $11.9 million, Europe net sales increased 3.4%, and Pacific Rim sales increased by 2.6%.

For the fourth quarter of 2005, the cost of goods sold was 83.5% of sales, compared to 89.3% in 2004. The 5.8 percentage point decrease was primarily due to approximately $47 million lower fixed asset impairment charges, improved volume and mix and operating efficiencies resulting from cost reduction initiatives. These more than offset approximately $13 million in increased raw material, energy and freight expenses, and approximately $11 million of U.S. pension plan curtailment charges.

SG&A expenses for the fourth quarter of 2005 were $157.1 million as compared to $172.4 million for the fourth quarter of 2004. The decrease is primarily due to lower selling and advertising expenses and favorable impacts of cost reduction initiatives, which more than offset the $6 million portion of the U.S. pension plan curtailment charge. The fourth quarter of 2004 included a $5 million contribution to the Armstrong Foundation (a community giving program funded by Armstrong). In addition, Armstrong Holdings, Inc. SG&A expenses in 2005 benefited from a $1.6 million reversal of a contingent liability established when Armstrong Holdings, Inc. was created.

A goodwill impairment charge of $48.4 million was recorded in the fourth quarter of 2004 related to our European resilient flooring business. See Note 10 of the Consolidated Financial Statements.

Restructuring charges, net, were $6.2 million in the fourth quarter of 2005, primarily related to the transfer of commercial flooring production from Lancaster to other facilities around the world, and $13.3 million in the fourth quarter of 2004, primarily related to the announced closing of our Hoogezand facility and North American SG&A initiatives. See Note 13 of the Consolidated Financial Statements.

An operating loss from continuing operations of $10.1 million in the fourth quarter of 2005 compared to an operating loss of $134.8 million in the fourth quarter of 2004. 2004 included a goodwill impairment charge of $48.4 million and a $44.8 million fixed asset impairment charge, while 2005 includes $17.6 million of fixed asset impairment charges. Aside from these items, the change is primarily due to benefits from ongoing cost initiatives, and lower charges related to cost reduction initiatives.

Chapter 11 reorganization costs, net were income of $5.7 million in the fourth quarter of 2005 and expense of $0.3 million in the fourth quarter of 2004. The change is primarily due to a reversal of an accrual for professional fees for certain advisors.

The tax benefit from continuing operations for the fourth quarter of 2005 was $45.3 million compared to a tax benefit of $26.5 million for the same period of 2004. The year over year comparative tax rates are not meaningful due to the relative size of the loss from operating income reported in 2004 of $134.8 million versus the $4.4 million reported for 2005. During the fourth quarter of 2005, the Company recorded $61.2 million of tax benefits related to a subsidiary capital restructuring, while the comparative period of 2004 reflected non-deductible goodwill and asset impairments of $93.2 million which increased the reported tax rate.

Net income from continuing operations was $40.9 million in the fourth quarter of 2005 compared to a net loss of $109.1 million in the fourth quarter of 2004.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

With the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on our evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2005.

Our management's assessment of the effectiveness of our internal control over financial reporting for Armstrong Holdings, Inc. as of December 31, 2005 has been audited by KPMG LLP, an independent registered public accounting firm, as stated in its report which is included herein.

/s/ Michael D. Lockhart
Michael D. Lockhart
Chairman, President & Chief Executive Officer

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

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

Report of Independent Registered Public Accounting Firm

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

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that Armstrong Holdings, Inc. and subsidiaries ("the Company") maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, management's assessment that Armstrong Holdings, Inc. and subsidiaries maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also, in our opinion, Armstrong Holdings, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the accompanying consolidated financial statements of the Company as listed in the accompanying index on page 48, and our report dated February 23, 2006 expressed an unqualified opinion on those consolidated financial statements. Our report dated February 23, 2006 contains an explanatory paragraph that states that three of the Company's domestic subsidiaries, including Armstrong World Industries, Inc., the Company's major operating subsidiary, filed separate voluntary petitions for relief under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court on December 6, 2000, and that the filing under Chapter 11 and the increased uncertainty regarding the Company's potential asbestos liability raise substantial doubt about the Company's ability to continue as a going concern.

/s/ KPMG LLP

Philadelphia, Pennsylvania
February 23, 2006

Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated financial statements of Armstrong Holdings, Inc. and subsidiaries ("the Company") as listed in the accompanying index on page 48. In connection with our audits of the consolidated financial statements, we also have audited the financial statement schedule as listed in the accompanying index on page 48. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Armstrong Holdings, Inc. and subsidiaries as of December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

The accompanying consolidated financial statements and financial statement schedule have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 of the consolidated financial statements, three of the Company's domestic subsidiaries, including Armstrong World Industries, Inc., the Company's major operating subsidiary, filed separate voluntary petitions for relief under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court on December 6, 2000. Armstrong World Industries, Inc. has also defaulted on certain debt obligations. Although these operating subsidiaries are currently operating their businesses as debtors-in-possession under the jurisdiction of the Bankruptcy Court, the continuation of their businesses as going concerns is contingent upon, among other things, the ability to formulate a plan of reorganization which will gain approval of the creditors and confirmation by the Bankruptcy Court. The filing under Chapter 11 and the resulting increased uncertainty regarding the Company's potential asbestos liabilities, as discussed in Note 30 of the consolidated financial statements, raise substantial doubt about the Company's ability to continue as a going concern. The accompanying consolidated financial statements and financial statement schedule do not include any adjustments that might result from the outcome of these uncertainties.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 23, 2006 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

/s/ KPMG LLP

Philadelphia, Pennsylvania
February 23, 2006

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

	Years Ended December 31,		
	2005	2004	2003
Net sales	$3,558.4	$3,497.3	$3,259.0
Cost of goods sold	2,821.1	2,811.0	2,597.4
Gross profit	737.3	686.3	661.6
Selling, general and administrative expenses	652.7	635.0	612.1
Charge for asbestos liability, net	—	—	81.0
Goodwill impairment	—	108.4	—
Restructuring charges, net	23.2	18.3	8.6
Equity (earnings) from joint venture	(39.3)	(31.6)	(20.8)
Operating income (loss)	100.7	(43.8)	(19.3)
Interest expense (unrecorded contractual interest of $82.8, $86.9 and $95.1, respectively)	8.5	8.4	9.0
Other non-operating expense	1.5	3.1	5.7
Other non-operating (income)	(12.0)	(6.4)	(5.0)
Chapter 11 reorganization (income) costs, net	(1.2)	6.9	9.4
Earnings (loss) from continuing operations before income taxes	103.9	(55.8)	(38.4)
Income tax expense (benefit)	2.2	24.6	(1.6)
Earnings (loss) from continuing operations	101.7	(80.4)	(36.8)
Gain (loss) from discontinued operations, net of tax of $0.0, $0.2 and $0.1	10.4	(0.4)	(2.5)
Net earnings (loss)	$ 112.1	$ (80.8)	$ (39.3)
Earnings (loss) per share of common stock, continuing operations:			
Basic	$ 2.51	$ (1.99)	$ (0.91)
Diluted	$ 2.50	$ (1.99)	$ (0.91)
Gain (loss) per share of common stock, discontinued operations:			
Basic	$ 0.26	$ (0.01)	$ (0.06)
Diluted	$ 0.26	$ (0.01)	$ (0.06)
Net earnings (loss) per share of common stock:			
Basic	$ 2.77	$ (2.00)	$ (0.97)
Diluted	$ 2.75	$ (2.00)	$ (0.97)
Average number of common shares outstanding:			
Basic	40.5	40.5	40.5
Diluted	40.7	40.5	40.5

See accompanying notes to consolidated financial statements beginning on page 58.

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

	December 31, 2005	December 31, 2004
Assets		
Current assets:		
Cash and cash equivalents	$ 602.2	$ 515.9
Accounts and notes receivable, net	328.8	336.1
Inventories, net	514.5	535.1
Deferred income taxes	15.4	15.6
Income tax receivable	18.2	7.0
Other current assets	82.2	72.5
Total current assets	1,561.3	1,482.2
Property, plant and equipment, less accumulated depreciation and amortization of $1,562.0 and $1,540.7, respectively	1,145.3	1,208.8
Insurance receivable for asbestos-related liabilities, noncurrent	88.8	88.8
Prepaid pension costs	476.9	480.9
Investment in affiliates	67.4	72.5
Goodwill	134.2	136.0
Other intangibles, net	68.1	76.0
Deferred income taxes, noncurrent	967.4	941.6
Other noncurrent assets	96.6	122.6
Total assets	$ 4,606.0	$ 4,609.4
Liabilities and Shareholders' Equity		
Current liabilities:		
Short-term debt	$ 14.6	$ 11.1
Current installments of long-term debt	5.4	8.2
Accounts payable and accrued expenses	392.5	447.4
Income tax payable	10.1	20.3
Deferred income taxes	0.8	1.1
Total current liabilities	423.4	488.1
Liabilities subject to compromise	4,864.7	4,866.2
Long-term debt, less current installments	21.5	29.2
Postretirement and postemployment benefit liabilities	258.9	262.6
Pension benefit liabilities	223.7	258.9
Other long-term liabilities	90.0	87.6
Deferred income taxes, noncurrent	21.2	19.2
Minority interest in subsidiaries	7.9	9.3
Total noncurrent liabilities	5,487.9	5,533.0
Shareholders' equity (deficit):		
Common stock, $1 par value per share Authorized 200 million shares; issued 51,878,910 shares	51.9	51.9
Capital in excess of par value	167.7	167.7
Reduction for ESOP loan guarantee	(142.2)	(142.2)
Accumulated deficit	(906.5)	(1,018.6)
Accumulated other comprehensive income	37.1	42.8
Less common stock in treasury, at cost 2005 – 11,214,449 shares and 2004 – 11,210,018 shares	(513.3)	(513.3)
Total shareholders' (deficit)	(1,305.3)	(1,411.7)
Total liabilities and shareholders' equity	$ 4,606.0	$ 4,609.4

See accompanying notes to consolidated financial statements beginning on page 58.

Armstrong Holdings, Inc., and Subsidiaries
Consolidated Statements of Shareholders' Equity
(amounts in millions, except per share amounts)

	2005		2004		2003	
Common stock, $1 par value:						
Balance at beginning and end of year	$ 51.9		$ 51.9		$ 51.9	
Capital in excess of par value:						
Balance at beginning of year	$ 167.7		$ 167.9		$ 167.6	
Stock issuances and other	—		(0.2)		0.3	
Balance at end of year	$ 167.7		$ 167.7		$ 167.9	
Reduction for ESOP loan guarantee:						
Balance at beginning and end of year	$ (142.2)		$ (142.2)		$ (142.2)	
Retained earnings (accumulated deficit):						
Balance at beginning of year	$(1,018.6)		$ (937.8)		$ (898.5)	
Net earnings (loss) for year	112.1	$112.1	(80.8)	$(80.8)	(39.3)	$(39.3)
Balance at end of year	$ (906.5)		$(1,018.6)		$ (937.8)	
Accumulated other comprehensive income (loss):						
Balance at beginning of year	$ 42.8		$ 43.3		$ (12.2)	
Foreign currency translation adjustments	(14.1)		22.4		56.8	
Derivative gain (loss), net	1.2		0.3		(0.3)	
Minimum pension liability adjustments	7.2		(23.2)		(1.0)	
Total other comprehensive income (loss)	(5.7)	(5.7)	(0.5)	(0.5)	55.5	55.5
Balance at end of year	$ 37.1		$ 42.8		$ 43.3	
Comprehensive income (loss)		$106.4		$(81.3)		$ 16.2
Less treasury stock at cost:						
Balance at beginning and end of year	$ (513.3)		$ (513.3)		$ (513.3)	
Total shareholders' (deficit)	$(1,305.3)		$(1,411.7)		$(1,330.2)	

See accompanying notes to consolidated financial statements beginning on page 58.

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

	Year Ended December 31,		
	2005	2004	2003
Cash flows from operating activities:			
Net earnings (loss)	$ 112.1	$ (80.8)	$ (39.3)
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:			
Depreciation and amortization	141.0	151.0	163.1
Goodwill impairment	—	108.4	—
Fixed asset impairments	17.6	64.7	10.5
Deferred income taxes	(24.0)	(22.4)	(51.5)
Gain on sale of notes	(10.4)	—	—
Equity (earnings) from affiliates, net	(39.0)	(33.5)	(20.7)
Gain on sale of investment in affiliates	(3.4)	—	—
Chapter 11 reorganization (income) costs, net	(1.2)	6.9	9.4
Chapter 11 reorganization costs payments	(12.7)	(15.9)	(25.8)
Restructuring charges, net of reversals	23.2	18.3	8.6
Restructuring payments	(24.0)	(4.1)	(8.7)
Asbestos-related insurance recoveries	—	4.5	31.0
Payments for asbestos-related claims	—	—	(9.0)
Charge for asbestos liability, net	—	—	81.0
Cash effect of hedging activities	21.9	1.1	(27.0)
Increase (decrease) in cash from change in:			
Receivables	(8.7)	(9.5)	40.6
Inventories	1.5	(61.7)	6.6
Other current assets	(3.7)	11.8	(4.6)
Other noncurrent assets	(16.8)	(34.8)	(18.6)
Accounts payable and accrued expenses	8.5	61.1	(15.6)
Income taxes payable	(16.7)	(29.8)	21.9
Other long-term liabilities	(20.1)	3.5	4.0
Other, net	1.6	4.0	9.9
Net cash provided by operating activities	146.7	142.8	165.8
Cash flows from investing activities:			
Purchases of property, plant and equipment and computer software	(135.5)	(134.0)	(78.1)
Proceeds from sale of notes	38.3	—	—
Distributions from equity affiliates	23.0	10.0	16.0
Proceeds from sale of investment in affiliates	20.6	—	—
Proceeds from the sale of assets	5.1	12.3	4.9
Net cash (used for) investing activities	(48.5)	(111.7)	(57.2)
Cash flows from financing activities:			
Increase/(decrease) in short-term debt, net	5.1	4.0	(5.3)
Payments of long-term debt	(7.6)	(9.8)	(8.2)
Other, net	(1.4)	(1.2)	(0.6)
Net cash (used for) financing activities	(3.9)	(7.0)	(14.1)
Effect of exchange rate changes on cash and cash equivalents	(8.0)	7.5	9.8
Net increase in cash and cash equivalents	$ 86.3	$ 31.6	$104.3
Cash and cash equivalents at beginning of year	$ 515.9	$ 484.3	$380.0
Cash and cash equivalents at end of year	$ 602.2	$ 515.9	$484.3

See accompanying notes to consolidated financial statements beginning on page 58.

Armstrong Holdings, Inc., and Subsidiaries
Notes to Consolidated Financial Statements
(dollar amounts in millions, except share data)

NOTE 1. BUSINESS AND CHAPTER 11 REORGANIZATION

Armstrong World Industries, Inc. ("AWI") is a Pennsylvania corporation incorporated in 1891. Armstrong Holdings, Inc. is a Pennsylvania corporation and the publicly held parent holding company of AWI. Armstrong Holdings, Inc.'s only significant asset and operation is its indirect ownership, through Armstrong Worldwide, Inc. (a Delaware Corporation), of all of the capital stock of AWI. We include separate financial statements for Armstrong Holdings, Inc. and its subsidiaries and AWI and its subsidiaries in this report because both companies have public securities that are registered under the Securities Exchange Act of 1934 (the "Securities Exchange Act"). The differences between the financial statements of Armstrong Holdings, Inc. and its subsidiaries and AWI and its subsidiaries are primarily due to transactions that occurred in 2000 related to the formation of Armstrong Holdings, Inc. and to employee compensation-related stock activity. In 2005, we reversed a $1.6 million contingent liability of Armstrong Holdings, Inc. that was originally accrued when Armstrong Holdings, Inc. was formed, because the liability is no longer probable. Due to the lack of material differences in the operations, when we refer in this document to Armstrong Holdings, Inc. and its subsidiaries as "AHI," "Armstrong," "we" and "us," we are also effectively referring to AWI and its subsidiaries. We use the term "AWI" when we are referring solely to Armstrong World Industries, Inc.

(Note: Particular documents referred to in this section are available at www.armstrongplan.com)

Proceedings under Chapter 11

On December 6, 2000, AWI, the major operating subsidiary of AHI, filed a voluntary petition for relief (the "Filing") under Chapter 11 of the U.S. Bankruptcy Code (the "Bankruptcy Code") in the United States Bankruptcy Court for the District of Delaware (the "Bankruptcy Court") in order to use the court-supervised reorganization process to achieve a resolution of AWI's asbestos-related liability. Also filing under Chapter 11 were two of AWI's wholly-owned subsidiaries, Nitram Liquidators, Inc. ("Nitram") and Desseaux Corporation of North America, Inc. ("Desseaux"). The Chapter 11 cases are being jointly administered under case number 00-4471 (the "Chapter 11 Case"). Shortly after its commencement, the Chapter 11 Case was assigned to Judge Randall J. Newsome. His appointment as a visiting judge in the District of Delaware ended on December 31, 2003. On January 6, 2004, the Chapter 11 Case was reassigned to Judge Judith K. Fitzgerald.

AHI and all of AWI's other direct and indirect subsidiaries, including Armstrong Wood Products Inc. (formerly Triangle Pacific Corp.), WAVE (AWI's ceiling grid systems joint venture with Worthington Industries, Inc.), Armstrong Canada, and Armstrong DLW AG, were not a part of the Filing and accordingly, except for any asbestos-related liability that also relates, directly or indirectly, to the pre-Filing activities of AWI, the liabilities, including asbestos-related liability if any, of such companies will not be resolved in AWI's Chapter 11 Case. See below under "The Asbestos Personal Injury Trust" and Note 30 under "Asbestos-Related Litigation".

AWI is operating its business and managing its properties as a debtor-in-possession subject to the provisions of the Bankruptcy Code. Pursuant to the provisions of the Bankruptcy Code, AWI is not permitted to pay any claims or obligations which arose prior to the Filing date (prepetition claims) unless specifically authorized by the Bankruptcy Court. Similarly, claimants may not enforce any claims against AWI that arose prior to the date of the Filing unless specifically authorized by the Bankruptcy Court. In addition, as a debtor-in-possession, AWI has the right, subject to the Bankruptcy Court's approval, to assume or reject any executory contracts and unexpired leases in existence at the date of the Filing. Some of these have been specifically assumed and others have been specifically rejected already in the course of the Chapter 11 Case. In the plan of reorganization which it has proposed, as described below, AWI has indicated the other executory contracts and unexpired leases that it intends to assume or reject upon consummation of the plan; any not specifically assumed under the plan will be rejected upon consummation of the plan. Parties having claims as a result of the rejection of a contract may file claims with the Bankruptcy Court, which will be dealt with as part of the Chapter 11 Case.

Three creditors' committees, one representing asbestos personal injury claimants (the "Asbestos Personal Injury Claimants' Committee"), one representing asbestos property damage claimants (the

"Asbestos Property Damage Committee"), and the other representing other unsecured creditors (the "Unsecured Creditors' Committee"), were appointed in the Chapter 11 Case. In addition, an individual was appointed to represent the interests of future asbestos personal injury claimants (the "Future Claimants' Representative"). In accordance with the provisions of the Bankruptcy Code, these parties have the right to be heard on matters that come before the Bankruptcy Court in the Chapter 11 Case. Upon resolution of all asbestos property damage claims, the Asbestos Property Damage Committee was disbanded.

Plan of Reorganization and Disclosure Statement

On November 4, 2002, AWI filed a Plan of Reorganization with the Bankruptcy Court. Subsequently, AWI filed several amendments to the plan, along with various exhibits. The Fourth Amended Plan of Reorganization, with certain exhibits, was filed on May 23, 2003 and, as so amended and as modified by modifications filed with the Bankruptcy Court on October 17, 2003, November 10, 2003 and December 3, 2004, is referred to in this report as the "POR". The POR provides for AWI to continue to conduct its existing lines of business with a reorganized capital structure under which, among other things, its existing shares of stock will be cancelled and new common shares and notes will be issued to its unsecured creditors and to a trust, as further discussed below, to be established under the POR for the benefit of AWI's current and future asbestos-related personal injury claimants, in full satisfaction of their claims against AWI. References in this report to "reorganized Armstrong" are to AWI as it would be reorganized under the POR, and its subsidiaries collectively. The POR excludes AWI's Nitram and Desseaux subsidiaries, neither of which is material to Armstrong and which are pursuing separate resolutions of their Chapter 11 cases that are expected to result in the winding up of their affairs.

In connection with the vote of creditors on the POR, AWI was required to prepare a disclosure statement concerning its business and the POR, including certain projected financial information assuming an Effective Date of the POR as July 1, 2003, intended to demonstrate to the Bankruptcy Court the feasibility of the POR and AWI's ability to continue operations upon its emergence from Chapter 11. On May 30, 2003, the Bankruptcy Court approved the disclosure statement for distribution to parties in interest in the Chapter 11 Case. The projected financial information included in the disclosure statement was updated in certain respects by information submitted to the Bankruptcy Court in connection with the Bankruptcy Court's November 2003 hearing on confirmation of the POR. The projected financial information was prepared for the limited purposes of consideration by the Bankruptcy Court, creditors and other parties in interest in the Chapter 11 Case of matters pertinent to the case. As indicated in the disclosure statement, the projected financial information and various estimates of value therein provided should not be regarded as representations or warranties by AWI, AHI or any other person. There is no assurance that any such projection or valuation will be realized. The projected financial information and estimates of value were prepared by AWI and its financial advisors and have not been audited or reviewed by independent accountants. The projections will not be updated on an ongoing basis. At the time they were prepared in 2003, the projections reflected numerous assumptions concerning reorganized Armstrong's anticipated future performance and with respect to prevailing and anticipated market and economic conditions, which were and remain beyond our control and which may not materialize. Projections are inherently subject to significant and numerous uncertainties and to a wide variety of significant business, economic and competitive risks and the assumptions underlying the projections may be wrong in a material respect. Actual results may vary significantly from those contemplated by the projections.

During 2003, the POR was submitted for a vote by AWI's creditors for its approval. It was approved by each creditor class that was entitled to vote on the POR except the class of unsecured creditors. On November 17 and 18, 2003, the Bankruptcy Court held a hearing on confirmation of the Plan and on December 19, 2003, issued proposed findings of fact and conclusions of law and a proposed order confirming the POR, notwithstanding the rejection of the POR by the class of unsecured creditors. On December 29, 2003, the Unsecured Creditors' Committee filed an objection to the Bankruptcy Court's proposed findings of fact and conclusions of law and the proposed order of confirmation of the POR.

In order for a plan of reorganization to be confirmed, the U.S. District Court must also issue findings of fact and conclusions of law in support of confirmation of the plan of reorganization, enter or affirm an order confirming the plan of reorganization and issue the "524(g) injunction" (see "Asbestos Personal Injury Trust" below) if it is part of the plan of reorganization. Following procedural delays concerning the status of the prior U.S. District Court judge on AWI's Chapter 11 Case, the AWI case was assigned to U.S. District Court Judge Eduardo C. Robreno in June 2004. A hearing was held before Judge Robreno on December 15, 2004 to consider the objections to confirmation of the POR. On February 23, 2005, Judge Robreno ruled that the POR could not be confirmed. In the court's decision, the Judge found that, because the class of unsecured creditors voted to reject the POR, the distribution of warrants to existing equity holders under the POR violated the absolute priority rule.

AWI filed a Notice of Appeal to the United States Court of Appeals for the Third Circuit on March 4, 2005.

Recent Developments and Next Steps in the Chapter 11 Process

On December 29, 2005, the U.S. Court of Appeals affirmed the District Court's decision to deny confirmation of the POR.

At a status conference before Judge Robreno on February 3, 2006, AWI and the court-authorized representatives of AWI's creditors and claimants advised the Court that they had agreed on a proposed schedule for a confirmation hearing on a modified POR which would eliminate the provisions regarding distribution of warrants to existing AHI equity holders. Under the modified POR, existing AHI equity holders would receive no distribution and their equity interests would be cancelled. Following the conference, Judge Robreno signed an order that established such a schedule for a U.S. District Court confirmation hearing on the modified POR. The schedule calls for the confirmation hearing to commence on May 23, 2006. At that hearing, the Court will hear testimony and review other evidence relating to the Unsecured Creditors Committee's objection that the modified POR unfairly discriminates against the unsecured creditors, based on the size of the present and future asbestos liability implied by the modified POR. AWI filed the modified POR with the Court on February 21, 2006. AWI is also monitoring a proposed asbestos claims litigation reform bill in Congress (see the discussion under "Potential Legislation" in Note 30). AWI is unable to predict whether the modified POR will be confirmed or when AWI would emerge from Chapter 11.

A description of the basic components of the POR, which remain unchanged in the modified POR, follows.

Asbestos Personal Injury Trust

A principal feature of the POR is the creation of a trust (the "Asbestos PI Trust"), pursuant to section 524(g) of the Bankruptcy Code, for the purpose of addressing AWI's personal injury (including wrongful death) asbestos-related liability. All present and future asbestos-related personal injury claims against AWI, including contribution claims of co-defendants, arising directly or indirectly out of AWI's pre-Filing use of or other activities involving asbestos will be channeled to the Asbestos PI Trust.

In accordance with the "524(g) injunction" to be issued if the POR goes into effect various entities would be protected from such present and future AWI asbestos-related personal injury claims. These entities include, among others, reorganized AWI, AHI, AWI's subsidiaries and other affiliates (as defined in the POR), and their respective officers and directors. Upon emergence from Chapter 11, AWI would not have any responsibility for these claims (including claims against AWI based solely on its ownership of a subsidiary or other affiliate), nor would it participate in their resolution.

However, although AWI's domestic and foreign subsidiaries and other affiliates would be protected parties, asbestos-related personal injury claims against them would be channeled to the Asbestos PI Trust only to the extent such claims directly or indirectly relate to the pre-Filing manufacturing, installation, distribution or other activities of AWI, or AWI's ownership of the subsidiaries or affiliates (as distinguished from independent activities of the subsidiaries or affiliates). See Note 30 under "Asbestos-Related Litigation."

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

There also is uncertainty as to proceedings, if any, brought in certain foreign jurisdictions with respect to the effect of the 524(g) injunction in precluding the assertion in such jurisdictions of asbestos-related personal injury claims, proceedings related thereto or the enforcement of judgments rendered in such proceedings.

Management believes neither AWI nor its subsidiaries or other affiliates is subject to asbestos-related personal injury claims, that would not be channeled to the Asbestos PI Trust under the POR, which would be material in amount to reorganized Armstrong.

Consideration to Be Distributed under the POR

The Asbestos PI Trust and the holders of allowed unsecured claims would share in the following consideration to be distributed under the POR:

- AWI's "Available Cash," which is defined in the POR as:
  - Cash available on the effective date of the POR after reserving up to $100 million (as determined by AWI) to fund ongoing operations and making provisions for certain required payments under the POR,
  - Any cash drawn, at AWI's sole discretion, under a credit facility to be established as provided by the POR for the purpose of funding distributions under the POR, and
  - Certain insurance proceeds related to environmental matters

However, proceeds received under any private offering of debt securities and/or secured term loan borrowings made, as permitted by the POR, in connection with consummation of the POR, and certain other amounts authorized or directed by the Court, would be excluded from the determination of Available Cash.

- Plan Notes of AWI as further described below or net cash proceeds from any private offerings of debt securities issued in lieu thereof, and
- Substantially all of the new common stock of AWI.

The total amount of Plan Notes would be the greater of (i) $1.125 billion less Available Cash and (ii) $775 million. However, AWI would use reasonable efforts to issue one or more private offerings of debt securities on, or as soon as practicable after, the Effective Date. These offerings are expected to yield net proceeds at least equal to the amount of the Plan Notes prescribed by the Plan. If the private offerings are successful, the Plan Notes would not be issued. If the offerings yield proceeds less than the amount of the Plan Notes prescribed by the Plan, Plan Notes equal to the difference will be issued. If only the Plan Notes are issued, reorganized Armstrong expects to issue an aggregate amount of $775 million of Plan Notes. These Plan Notes would consist of (i) a tranche of notes with a seven-year maturity and a fixed interest rate, (ii) a tranche of notes with a ten-year maturity and a fixed interest rate and (iii) a tranche of floating rate notes with a maturity of not less than five years, but no more than ten years, structured in a manner similar to, and as liquid as, marketable bank debt which satisfy the requirements of the POR and are on terms and conditions that are satisfactory to AWI, the Asbestos Personal Injury Claimants' Committee, and the Future Claimants' Representative. To the extent Plan Notes of more than one type are issued, a pro rata share of each tranche would be issued to the Asbestos PI Trust and the holders of unsecured claims.

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The POR provides that unsecured creditors, other than convenience creditors described below, would receive their pro rata share of:

- 34.43% of the new common stock of reorganized Armstrong,
- 34.43% of the first $1.05 billion of all the cash and Plan Notes to be distributed under the POR to unsecured creditors (other than convenience creditors) and the Asbestos PI Trust, in the form of:
  - Up to $300 million of Available Cash and
  - The balance in principal amount of Plan Notes or in net cash proceeds from any private offerings of debt securities made in lieu of issuing Plan Notes.
- 60% of the next $50 million of Available Cash but, if such Available Cash is less than $50 million, then 60% of the balance in Plan Notes or in net cash proceeds from any private offerings of debt securities made in lieu of issuing Plan Notes, and
- 34.43% of the remaining amount of any Available Cash and any Plan Notes up to the maximum amount of Plan Notes provided to be issued under the POR, or net cash proceeds from any private offerings of debt securities made in lieu of issuing such Plan Notes.

The remaining amount of new common stock of reorganized Armstrong, Available Cash and Plan Notes or net cash proceeds from any private offerings of debt securities made in lieu of issuing Plan Notes would be distributed to the Asbestos PI Trust.

Under the POR, unsecured creditors whose claims (other than claims on debt securities) are less than $10 thousand or who elect to reduce their claims to $10 thousand would be treated as "convenience creditors" and would receive payment of 75% of their allowed claim amount in cash (which payments would reduce the amount of Available Cash).

Under the POR, the existing equity interests in AWI (including all of its outstanding shares of common stock) would be cancelled and the holders of such interests will receive no distribution of any consideration. As discussed above, the POR was modified on February 21, 2006 to delete the provisions for the distribution of warrants to existing equity holders.

Valuation of Consideration to be Distributed under the POR

Based upon many assumptions (see Disclosure Statement discussion above), to calculate the value of consideration to be distributed, AWI used $2.7 billion as the value of reorganized Armstrong. This is the mid-point of the range of estimated values of $2.4 billion and $3.0 billion that was estimated by AWI and its financial advisors during the third quarter of 2003. AWI's estimated value of the consideration to be distributed under the POR to the Asbestos PI Trust and holders of allowed unsecured claims is:

- New common stock at $30 a share, which is the approximate mid-point of the range of estimated values of $24.66 and $35.30 per share, assuming a distribution of 56.4 million shares of new common stock to holders of unsecured claims and the Asbestos PI Trust;
- Plan Notes in the aggregate principal amount of $775 million, that are worth their face value; and
- Available Cash of approximately $350 million that AWI expects to have.

The total value of the consideration to be distributed to the Asbestos PI Trust, other than rights under asbestos non-product liability insurance policies, has been estimated to be approximately $1.8 billion, and the total value of consideration to be distributed to holders of allowed unsecured claims (other than convenience claims) has been estimated to be approximately $0.9 billion. Based upon the estimated value of the POR consideration, and upon AWI's estimate that unsecured claims allowed by the Bankruptcy Court (other than convenience claims) would total approximately $1.65 billion, AWI estimated that holders of allowed unsecured claims (other than convenience claims) would receive a recovery having a value equal to approximately 59.5% of their allowed claims.

AHI Dissolution

Upon implementation of the POR, all current stock of AWI would be cancelled and AHI would no longer have any ownership interest in reorganized AWI. Since the POR as modified on February 21, 2006 no longer provides for warrants of reorganized AWI to go to AHI, it is expected that AHI will then have no material assets to be distributed to AHI shareholders, and will dissolve. The POR provides that AWI would pay the costs incurred in connection with administering AHI's dissolution.

Common Stock and Debt Securities

As a result of AWI filing the Plan of Reorganization on November 4, 2002, the New York Stock Exchange stopped trading on the Exchange of the common stock of AHI (traded under the ticker symbol "ACK") and two debt securities of AWI (traded under the ticker symbols "AKK" and "ACK 08"). AHI's common stock resumed trading in the over-the-counter (OTC) Bulletin Board under the ticker symbol "ACKHQ" and one of AWI's debt securities resumed trading under the ticker symbol "AKKWQ".

Bar Date for Filing Claims

The Bankruptcy Court established August 31, 2001 as the bar date for all claims against AWI except for asbestos-related personal injury claims and certain other specified claims. A bar date is the date by which claims against AWI must be filed if the claimants wish to participate in any distribution in the Chapter 11 Case. A bar date for asbestos-related personal injury claims (other than claims for contribution, indemnification, or subrogation) was rendered unnecessary under the terms of the POR, which defers the filings of such claims until the Asbestos PI Trust is established to administer such claims.

Approximately 4,900 proofs of claim (including late-filed claims) totaling approximately $6.4 billion, alleging a right to payment from AWI, were filed with the Bankruptcy Court in response to the August 31, 2001 bar date. The disposition of these claims under the POR is discussed below. AWI continues the process of investigating and resolving these claims. The Bankruptcy Court will ultimately determine the claims and related liability amounts that will be allowed as part of the Chapter 11 process if the parties cannot agree.

In its ongoing review of the filed claims, AWI to date has objected to approximately 2,200 claims totaling $2.7 billion. The Bankruptcy Court disallowed these claims with prejudice.

During the first six months of 2003, AWI settled all of the approximately 460 remaining property damage claims that alleged damages of $800 million, for approximately $9 million. Payments to claimants were made during the third quarter of 2003 and were funded by insurance.

Approximately 1,100 proofs of claim totaling approximately $1.3 billion are pending with the Bankruptcy Court that are associated with asbestos-related personal injury litigation, including direct personal injury claims, claims by co-defendants for contribution and indemnification, and claims relating to AWI's participation in the Center for Claims Resolution. As stated above, the bar date of August 31, 2001 did not apply to asbestos-related personal injury claims other than claims for contribution, indemnification, or subrogation. The POR contemplates that all AWI asbestos-related personal injury claims, including claims for contribution, indemnification, or subrogation, will be addressed in the future pursuant to the procedures relating to the Asbestos PI Trust developed in connection with the POR. See further discussion regarding AWI's liability for asbestos-related matters in Note 30.

Approximately 1,100 claims totaling approximately $1.6 billion alleging a right to payment for financing, environmental, trade debt and other claims remain. For these categories of claims, AWI has previously recorded approximately $1.6 billion in liabilities.

AWI has recorded liability amounts for claims that can be reasonably estimated and which it does not contest or believes are probable of being allowed by the Bankruptcy Court. The final value of all the claims that will ultimately be allowed by the Bankruptcy Court is not known at this time. However, it is likely the value of the claims ultimately allowed by the Bankruptcy Court will be different than amounts presently recorded by AWI. This difference could be material to AWI's financial position and the results of its operations. Management will continue to review the recorded liability in light of future developments in the Chapter 11 Case and make changes to the recorded liability if and when it is appropriate.

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Financing

AWI has a $75.0 million debtor-in-possession (“DIP”) credit facility that is limited to issuances of letters of credit. This facility is scheduled to mature on December 8, 2006. As of December 31, 2005, AWI had approximately $43.3 million in letters of credit, which were issued pursuant to the DIP Facility. As of December 31, 2005, AWI had $309.7 million of cash and cash equivalents, excluding cash held by its non-debtor subsidiaries. AWI believes that cash on hand and generated from operations and dividends from its subsidiaries, together with subsidiary lines of credit and the DIP Facility, will be adequate to address its foreseeable liquidity needs. Obligations under the DIP Facility, including reimbursement of draws under the letters of credit, if any, constitute superpriority administrative expense claims in the Chapter 11 Case.

Accounting Impact

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

Pursuant to SOP 90-7, AWI is required to segregate pre-Filing liabilities that are subject to compromise and report them separately on the balance sheet. See Note 4 for detail of the liabilities subject to compromise at December 31, 2005 and December 31,2004. Liabilities that may be affected by a plan of reorganization are recorded at the expected amount of the allowed claims, even if they may be settled for lesser amounts. Substantially all of AWI’s pre-Filing debt, now in default, is recorded at face value and is classified within liabilities subject to compromise. Obligations of AWI subsidiaries not covered by the Filing remain classified on the consolidated balance sheet based upon maturity date. AWI’s estimated liability for asbestos-related personal injury claims is also recorded in liabilities subject to compromise. See Note 30 for further discussion of AWI’s asbestos liability.

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

SOP 90-7 also requires separate reporting of all revenues, expenses, realized gains and losses, and provision for losses related to the Filing as Chapter 11 reorganization (income) costs, net. Accordingly, AWI recorded the following Chapter 11 reorganization activities during 2005, 2004 and 2003:

	2005	2004	2003
Professional fees	$ 10.4	$11.5	$ 25.2
Interest income, post-Filing	(11.8)	(4.8)	(3.4)
Adjustments to pre-Filing liabilities	0.1	—	(12.9)
Other expense directly related to bankruptcy, net	0.1	0.2	0.5
Total Chapter 11 reorganization (income) costs, net	$ (1.2)	$ 6.9	$ 9.4

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

Interest income is earned from short-term investments subsequent to the Filing.

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

If and when the POR is confirmed and made effective, reorganized AWI's condensed consolidated financial statements will change materially in amounts and classifications through the implementation of the fresh start accounting rules of SOP 90-7.

Conclusion

AWI is unable to predict whether the modified POR will be confirmed or when AWI would emerge from Chapter 11. Therefore, the timing and terms of a resolution of the Chapter 11 Case remain uncertain.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Use of Estimates . These financial statements are prepared in accordance with U.S. generally accepted accounting principles and include management estimates and judgments, where appropriate. Management utilizes estimates to record many items including asbestos-related liabilities and insurance assets, allowances for bad debts, inventory obsolescence and lower of cost or market charges, warranty, workers compensation, general liability 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.

Reclassifications . Certain amounts in the prior years' consolidated financial statements and notes thereto have been reclassified to conform to the 2005 presentation.

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

Sales Incentives . Sales incentives are reflected as a reduction of net sales for all periods presented.

Shipping and Handling Costs . Shipping and handling costs are reflected in cost of goods sold for all periods presented.

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

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

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Taxes . The provision for income taxes has been determined using the asset and liability approach of accounting for income taxes. Deferred tax assets and liabilities are recognized using enacted tax rates for expected future tax consequences of events recognized in the financial statements or tax returns. The provision for income taxes represents income taxes paid or payable for the current year plus the change in deferred taxes during the year. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized.

Earnings (loss) per Common Share . Basic earnings (loss) per share are computed by dividing the earnings (loss) by the weighted average number of shares of common stock outstanding during the year. Diluted earnings (loss) per common share reflect the potential dilution of securities that could share in the earnings (loss). The diluted earnings (loss) per share computations for 2004 and 2003 use the basic number of shares due to the loss from continuing operations.

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

Concentration of Credit . We principally sell products to customers in the building products industries, in various geographic regions. Net sales to specific customers in excess of 10% of our consolidated net sales for 2005, 2004 and 2003 were:

Customer	2005	2004	2003
The Home Depot, Inc.	$384.1	$393.4	$400.0
Lowe’s Companies, Inc.	(1)	(1)	318.7

(1) Net sales to Lowe’s Companies, Inc. were less than 10% of consolidated net sales for these years.

Net sales to these customers were recorded in our Resilient Flooring, Wood Flooring and Building Products segments. No other customers accounted for 10% or more of our total consolidated net sales.

There are no significant concentrations of credit risk other than with these two home center customers who represented approximately 24% of our trade receivables as of December 31, 2005 and 2004. We monitor the creditworthiness of our customers and generally do not require collateral.

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

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

Inventories . Inventories are valued at the lower of cost or market. Inventories also include certain resilient flooring samples used in ongoing sales and marketing activities. Cash flows from the sale of inventory and the related cash receipts are classified as operating cash flows on the consolidated statements of cash flows.

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Property and Depreciation . Property, plant and equipment values are stated at acquisition cost less accumulated depreciation and amortization. Depreciation charges for financial reporting purposes are determined on a straight-line basis at rates calculated to provide for the retirement of assets at the end of their useful lives. Machinery and equipment includes manufacturing equipment (depreciated over 3 to 20 years), computer equipment (3 to 5 years) and office furniture and equipment (5 to 10 years). Within manufacturing equipment, assets that are subject to quick obsolescence or wear out quickly, such as tooling and engraving equipment, are depreciated over shorter periods (3 to 7 years). Heavy production equipment, such as conveyors and production presses, are depreciated over longer periods (15 to 20 years). Buildings are depreciated over 20 to 40 years, depending on factors such as type of construction and use.

Impairment losses are recorded when indicators of impairment are present, such as operating losses and/or negative cash flows. Impairments of assets related to our manufacturing operations are recorded in cost of goods sold. For purposes of calculating any impairment, we estimate the fair value and compare it to the carrying value of the asset. If the fair value is less than the carrying value of the asset, we record an impairment equal to the difference between the fair value and carrying value of the asset. When assets are disposed of or retired, their costs and related depreciation are removed from the financial statements and any resulting gains or losses normally are reflected in SG&A expenses.

Costs of the construction of certain property include capitalized interest which is amortized over the estimated useful life of the related asset. There was no capitalized interest recorded in 2005, 2004 and 2003 due to the Chapter 11 Filing.

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

Goodwill and Other Intangibles . Goodwill and intangible assets with indefinite useful lives are tested for impairment annually in the fourth quarter. Intangible assets with determinable useful lives are amortized over their respective estimated useful lives to their estimated residual values and reviewed for impairment whenever events or circumstances indicate that its carrying amount may not be recoverable. See Note 10 for disclosure on goodwill and other intangibles.

Contingent Liabilities . In the context of the Chapter 11 Case, contingent pre-petition liabilities, including claims that became known after the Filing, are recorded on the basis of the expected amount of the allowed claim in accordance with SOP 90-7, even if they may be settled for lesser amounts.

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

Financial Instruments and Derivatives . From time to time, we use derivatives and other financial instruments to diversify or offset the effect of currency, interest rate and commodity price variability. See Note 18 for further discussion.

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Stock-based Employee Compensation . At December 31, 2005, we had three stock-based employee compensation plans, which are described more fully in Note 23. No equity compensation has been granted since AWI filed for Chapter 11 in December 2000, other than commitments entered into prior to the Chapter 11 filing. However, some previously granted restricted stock and options vested after that date. All outstanding options are vested as of December 31, 2005. We account for these plans under the intrinsic value recognition and measurement principles of APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations. The following table illustrates the effect on net income and earnings per share if we had applied the fair value recognition provisions of FASB Statement No. 123, "Accounting for Stock-based Compensation," ("FAS 123") to stock-based employee compensation.

	2005	2004	2003
Net earnings (loss), as reported	$112.1	$(80.8)	$(39.3)
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	—	—	0.1
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	—	—	(0.2)
Pro forma net earnings (loss)	$112.1	$(80.8)	$(39.4)
Net earnings (loss) per share:			
Basic – as reported	$ 2.77	$(2.00)	$(0.97)
Basic – pro forma	$ 2.77	$(2.00)	$(0.97)
Diluted – as reported	$ 2.75	$(2.00)	$(0.97)
Diluted – pro forma	$ 2.75	$(2.00)	$(0.97)

Recently Adopted Accounting Standards

In November 2004, the FASB issued Statement of Financial Accounting Standard No. 151, "Inventory Costs". The new Statement amends Accounting Research Bulletin No. 43, Chapter 4, "Inventory Pricing", to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material. This Statement requires that those items be recognized as current-period charges and requires that allocation of fixed production overheads to the cost of conversion be based on the normal capacity of the production facilities. This statement is effective for fiscal years beginning after June 15, 2005. We elected to adopt this standard as of January 1, 2005, as permitted. Adoption of this standard did not have a material impact on our consolidated results of operations or financial condition.

In December 2004, the FASB issued FASB Staff Position ("FSP") FAS No. 109-1 "Application of FASB Statement No. 109, Accounting for Income Taxes, to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004". This FSP, which became effective upon issuance, provides that the tax deduction for income with respect to qualified domestic production activities, as part of the American Jobs Creation Act of 2004 that was enacted on October 22, 2004, be treated as a special deduction as described in FAS No. 109. As a result, this deduction has no effect on our deferred tax assets and liabilities existing at the date of enactment. Instead, the impact of this deduction, which is effective January 1, 2005, will be reported in the period in which the deduction is claimed on our income tax returns.

In December 2004, the FASB issued FSP FAS No. 109-2 "Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004". This FSP, which became effective upon issuance, allows an enterprise additional time beyond the financial reporting period of enactment of the American Jobs Creation Act of 2004 to evaluate the effect of this act on its plan for reinvestment or repatriation of foreign earnings for purposes of applying FAS No. 109. See Note 14, Income Taxes, for more information on the impact of adopting this FSP.

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In March 2005, the FASB issued Interpretation No. 47, “Accounting for Conditional Asset Retirement Obligations,” which provides additional guidance on conditional asset retirement obligations under FAS 143, “Accounting for Asset Retirement Obligations.” This standard is effective for fiscal years ending after December 15, 2005. Adoption of this standard had no material impact on our consolidated results of operations or financial condition. We have numerous locations that contain asbestos, which meet the definition of an asset retirement obligation. Under current regulations, we are not currently required to remove the asbestos due to its present condition. At some undetermined time in the future, though, we will be required to remove the asbestos. A liability has not been recognized at December 31, 2005 because the fair value cannot be reasonably estimated and we are unable to reasonably determine a settlement date or range of settlement dates for asbestos removal. We will continue to review our locations with asbestos to determine when a liability should be recorded.

Recently Issued Accounting Standards

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 123 (revised 2004), “Share-Based Payment,” which requires all share-based payment transactions to be recognized in the financial statements using a fair-value method of accounting. This Statement replaces FASB Statement No. 123 and supersedes APB Opinion No. 25. The Statement also requires the recognition of compensation expense for the fair value of any unvested stock option awards outstanding at the date of adoption. Based on an April 2005 ruling by the SEC, the standard is effective as of the beginning of the first annual reporting period that begins after June 15, 2005. Adoption of this standard on January 1, 2006 for our existing stock options will not have a material impact on our consolidated results of operations or financial condition because all of our outstanding stock options are fully vested.

NOTE 3. NATURE OF OPERATIONS

Reportable Segments

Resilient Flooring — produces a broad range of floor coverings for homes and commercial and institutional buildings. Resilient Flooring products include vinyl sheet, vinyl tile, linoleum flooring and luxury vinyl tile. 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 solid wood (predominantly pre-finished), engineered wood floors in various wood species (with oak being the primary species of choice) and related accessories. Virtually all of our Wood Flooring’s sales are in North America. Our Wood Flooring products are generally sold to independent wholesale flooring distributors and large home centers under the brand names Bruce ®, Hartco ®, Robbins ®, Timberland™ and Armstrong™.

Textiles and Sports Flooring (“TSF”) — produces carpeting and sports flooring products that are sold mainly in Europe. Carpeting products consist principally of carpet tiles and broadloom used in commercial applications and in the leisure and travel industry. Sports flooring products include artificial turf and other sports surfaces. Our TSF products are sold primarily through retailers, contractors, distributors and other industrial businesses.

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 and sells wood ceiling systems. The 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 through wholesalers and retailers (including large home centers). Suspension system (grid) products manufactured by WAVE are sold by both Armstrong and our WAVE joint venture.

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

Unallocated Corporate — includes assets and expenses that have not been allocated to the business units. Unallocated Corporate assets are primarily deferred tax assets, cash and the U.S. prepaid pension cost. Expenses included in Unallocated Corporate are corporate departments' expenses that have not been allocated to other reportable segments, and the U.S. pension credit. Expenses for our corporate departments (including computer services, human resources, legal, finance and other) are allocated to the reportable segments when the departments provide specific work to the reportable segment and the expense allocation can be based on known metrics, such as time reporting, headcount or square-footage. The remaining expenses, which cannot be attributable to the reportable segments without a high degree of generalization, are reported in Unallocated Corporate.

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For the year ended 2005	Resilient Flooring	Wood Flooring	Textiles & Sports Flooring	Building Products	Cabinets	Unallocated Corporate	Total
Net sales to external customers	$1,185.4	$833.9	$ 279.0	$1,047.6	$ 212.5	—	$3,558.4
Equity (earnings) from joint venture	—	—	—	(39.3)	—	—	(39.3)
Segment operating income (loss) [1]	(25.8)	60.9	(4.4)	148.5	(9.7)	$ (68.8)	100.7
Restructuring charges, net of reversals	16.2	0.1	0.2	6.3	0.4	—	23.2
Segment assets	675.9	646.4	196.6	613.2	99.1	2,374.8	4,606.0
Depreciation and amortization	54.8	19.0	5.4	33.9	2.4	25.5	141.0
Fixed asset impairment loss	1.8	15.3	—	0.5	—	—	17.6
Investment in affiliates	—	—	—	67.4	—	—	67.4
Capital additions	42.8	28.8	4.6	42.6	4.5	12.2	135.5

For the year ended 2004	Resilient Flooring	Wood Flooring	Textiles & Sports Flooring	Building Products	Cabinets	Unallocated Corporate	Total
Net sales to external customers	$1,215.1	$832.1	$ 265.4	$ 971.7	$ 213.0	—	$3,497.3
Equity (earnings) from joint venture	—	—	—	(31.6)	—	—	(31.6)
Segment operating income (loss) [1]	(150.2)	51.4	(7.1)	127.0	1.4	$ (66.3)	(43.8)
Restructuring charges, net of reversals	4.5	1.6	0.4	10.9	0.4	0.5	18.3
Segment assets	737.9	663.6	218.1	596.3	102.2	2,291.3	4,609.4
Depreciation and amortization	62.6	18.1	5.6	35.2	3.8	25.7	151.0
Fixed asset impairment loss	63.1	0.8	—	0.4	0.4	—	64.7
Goodwill impairment	108.4	—	—	—	—	—	108.4
Investment in affiliates	0.6	—	—	51.0	—	20.9	72.5
Capital additions	33.8	33.7	3.9	44.5	1.4	16.7	134.0

For the year ended 2003	Resilient Flooring	Wood Flooring	Textiles & Sports Flooring	Building Products	Cabinets	Unallocated Corporate	Total
Net sales to external customers	$1,181.5	$738.6	$ 271.9	$ 862.2	$ 204.8	—	$3,259.0
Equity (earnings) from joint venture	—	—	—	(20.8)	—	—	(20.8)
Segment operating income (loss) [1]	56.2	(4.0)	(11.0)	95.2	(11.1)	$ (144.6)	(19.3)
Restructuring charges, net of reversals	1.2	0.8	7.4	—	—	(0.8)	8.6
Segment assets	915.3	576.6	207.1	551.5	102.3	2,295.0	4,647.8
Depreciation and amortization	60.6	39.4	5.2	30.2	1.6	26.1	163.1
Fixed asset impairment loss	1.1	3.4	—	3.8	1.6	0.6	10.5
Investment in affiliates	0.6	—	—	29.5	—	18.8	48.9
Capital additions	26.5	17.3	3.4	22.3	1.6	7.0	78.1

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

	2005	2004	2003
Segment operating income (loss)	$100.7	$(43.8)	$(19.3)
Interest expense	8.5	8.4	9.0
Other non-operating expense	1.5	3.1	5.7
Other non-operating (income)	(12.0)	(6.4)	(5.0)
Chapter 11 reorganization costs, net	(1.2)	6.9	9.4
Income (loss) before taxes and discontinued operations	$103.9	$(55.8)	$(38.4)

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

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

Geographic Areas	2005	2004	2003
Net trade sales			
Americas:			
United States	$2,351.1	$2,338.9	$2,210.9
Canada	192.2	177.6	162.2
Other Americas	31.2	31.8	24.8
Total Americas	$2,574.5	$2,548.3	$2,397.9
Europe:			
Germany	$ 184.9	$ 181.2	$ 178.2
United Kingdom	160.1	148.0	125.5
Other Europe	492.0	478.1	439.3
Total Europe	$ 837.0	$ 807.3	$ 743.0
Total Pacific Rim	$ 146.9	$ 141.7	$ 118.1
Total net trade sales	$3,558.4	$3,497.3	$3,259.0

Long-lived assets (property, plant and equipment), net at December 31	2005	2004
Americas:		
United States	$ 805.4	$ 823.6
Canada	13.7	14.8
Total Americas	$ 819.1	$ 838.4
Europe:		
Germany	$ 169.6	$ 191.3
Other Europe	129.7	150.8
Total Europe	$ 299.3	$ 342.1
Total Pacific Rim	$ 26.9	$ 28.3
Total long-lived assets, net	$1,145.3	$1,208.8

The reduction in European long-lived assets is primarily related to the negative translation effects of changes in foreign exchange rates.

NOTE 4. LIABILITIES SUBJECT TO COMPROMISE

As a result of AWI's Chapter 11 Filing (see Note 1), pursuant to SOP 90-7, AWI is required to segregate prepetition liabilities that are subject to compromise and report them separately on the balance sheet. Liabilities that may be affected by a plan of reorganization are recorded at the amount of the expected allowed claims, even if they may be settled for lesser amounts. Substantially all of AWI's prepetition debt, now in default, is recorded at face value and is classified within liabilities subject to compromise. Obligations of our subsidiaries that are not covered by the Filing remain classified on the consolidated balance sheet based upon maturity date. AWI's asbestos liability is also recorded in liabilities subject to compromise. See Note 1 for further discussion on how the Chapter 11 process may address AWI's liabilities subject to compromise and Note 30 for further discussion of AWI's asbestos liability.

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Liabilities subject to compromise at December 31, 2005 and December 31, 2004 are as follows:

	2005	2004
Debt (at face value)	$1,388.6	$1,388.6
Asbestos-related liability	3,190.6	3,190.6
Prepetition trade payables	58.1	58.9
Prepetition other payables and accrued interest	69.7	70.4
ESOP loan guarantee	157.7	157.7
Total liabilities subject to compromise	$4,864.7	$4,866.2

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

See Note 15 for detail of debt subject to compromise.

NOTE 5. DISCONTINUED OPERATIONS

On May 31, 2000, Armstrong completed its sale of all entities, assets and certain liabilities comprising its Insulation Products segment. During 2003 AHI recorded a net loss of $2.4 million for the impairment of some notes receivable and the settlement of certain tax contingencies related to this divestiture. During the fourth quarter of 2005, AHI recorded a net gain of $10.4 million due to the early settlement of the remaining notes receivable and the settlement of other disputed items.

On December 29, 1995, Armstrong sold a furniture subsidiary, Thomasville Furniture Industries. During 2004 and 2003, AHI recorded net losses of $0.4 million and $0.1 million, respectively, for the environmental and tax indemnifications related to this divestiture.

In accordance with FAS 144, these adjustments were classified as discontinued operations since the original divestitures were reported as discontinued operations.

NOTE 6. ACCOUNTS AND NOTES RECEIVABLE

	2005	2004
Customer receivables	$355.8	$372.0
Customer notes	6.3	7.9
Miscellaneous receivables	17.3	14.7
Less allowance for discounts and losses	(50.6)	(58.5)
Net accounts and notes receivable	$328.8	$336.1

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

Following are the components of our inventories:

	2005	2004
Finished goods	$339.1	$362.9
Goods in process	44.6	45.9
Raw materials and supplies	194.4	216.2
Less LIFO and other reserves	(63.6)	(89.9)
Total inventories, net	$514.5	$535.1

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Approximately 44% and 40% of our total inventory in 2005 and 2004, respectively, was valued on a LIFO (last-in, first-out) basis. Inventory values were lower than would have been reported on a total FIFO (first-in, first-out) basis by $52.2 million at the end of 2005 and $74.1 million at year-end 2004.

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

	2005	2004
International locations	$156.4	$173.0
U.S. Wood Flooring and Cabinets	111.6	125.4
U.S. sourced products	19.3	23.2
Total	$287.3	$321.6

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

Several of the Wood Flooring and Cabinets entities were acquired by Triangle Pacific Corporation ("TPC") prior to our acquisition of TPC in 1998. TPC had elected to retain the historical inventory valuation policies of the acquired companies and, on the basis of consistency and due to the excessive cost involved, we elected not to amend these policies.

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

NOTE 8. PROPERTY, PLANT AND EQUIPMENT

	2005	2004
Land	$ 69.4	$ 77.0
Buildings	652.0	657.4
Machinery and equipment	1,904.4	1,937.3
Construction in progress	81.5	77.8
Less accumulated depreciation and amortization	(1,562.0)	(1,540.7)
Net property, plant and equipment	$ 1,145.3	$ 1,208.8

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

In the fourth quarter of 2004, we recorded a $44.8 million fixed asset impairment charge in Resilient Flooring for our European resilient flooring business. This impairment charge reduced land by approximately $29 million and buildings by approximately $16 million and was reported in cost of goods sold. The fixed asset impairment charge was triggered by actual operating losses and negative cash flows incurred in the European resilient flooring business. The expectation was that the operating losses and negative cash flows would continue in the near future. The fixed asset fair values were determined by an independent appraisal firm.

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NOTE 9. EQUITY INVESTMENTS

Investments in affiliates of $67.4 million at December 31, 2005, reflected the equity interest in our 50% investment in our WAVE joint venture. The balance decreased $5.1 million from December 31, 2004, primarily due to the August 2005 sale of our equity interest in Interface Solutions, Inc. partially offset by our equity interest in WAVE's net undistributed earnings.

Affiliate	Income Statement Classification	2005	2004	2003
WAVE	Equity earnings from joint venture	$39.3	$31.6	$20.8
ISI	Other non-operating income	4.1	1.9	0.3
ISI/Other	Other non-operating expense	(1.0)	—	(0.4)

See Exhibit 99.1 for WAVE's consolidated financial statements. Condensed financial data for WAVE, which we account for under the equity method of accounting, is summarized below:

	2005	2004
Current assets	$125.5	$145.1
Non-current assets	30.4	33.8
Current liabilities	19.1	71.4
Other non-current liabilities	5.8	5.1

	2005	2004	2003
Net sales	$307.7	$278.6	$213.8
Gross profit	99.1	86.3	61.7
Net earnings	78.6	63.2	41.7

See discussion in Note 29 for additional information on these related parties.

NOTE 10. GOODWILL AND INTANGIBLE ASSETS

Goodwill

As of January 1, 2005, we had goodwill of $136.0 million. Goodwill is required to be tested for impairment at least annually. We perform our annual assessment in the fourth quarter.

In the fourth quarter of 2005, we completed our annual assessment of goodwill as required by FAS 142 and determined there was no impairment. The following table represents the changes in goodwill for 2005:

Goodwill by segment	January 1, 2005	Adjustments, net (1)	Impairments	December 31, 2005
Wood Flooring	$ 108.2	—	—	$ 108.2
Building Products	15.2	$ (1.8)	—	13.4
Cabinets	12.6	—	—	12.6
Total consolidated goodwill	$ 136.0	$ (1.8)	$ —	$ 134.2

(1) Consists of the effects of foreign exchange.

During the second quarter of 2004, we concluded that an indication of impairment existed for our European resilient flooring goodwill, which was based on an assessment of financial projections incorporated in our annual strategic plan process. Continuing price declines and volume shortfalls related to our European resilient flooring products were causing significant operating losses, and we revised our projections accordingly. We calculated a preliminary estimate of the European resilient flooring reporting unit's fair value using discounted cash flows. Based on this preliminary fair value calculation, we recorded a non-cash goodwill impairment loss of $60.0 million in the second quarter of 2004. In the fourth quarter of 2004, we completed our annual assessment of goodwill as required by FAS 142 and

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determined that based upon a revised strategic plan, our European resilient flooring goodwill was fully impaired. Therefore, we recorded an additional $48.4 million impairment charge. The goodwill impairment charges arose from the European resilient flooring reporting unit's fair value being lower than its carrying value. The fair value was negatively affected by lower operating profits and expected future cash flows determined in recent forecasting analyses. We calculated the reporting unit's fair value using discounted cash flows. No other goodwill impairment was identified in our annual assessment.

The following table represents the changes in goodwill during 2004.

Goodwill by segment	January 1, 2004	Adjustments, net (1)	Impairments	December 31, 2004
Resilient Flooring	$ 107.1	$ 1.3	$ (108.4)	—
Wood Flooring	110.4	(2.2)	—	$ 108.2
Building Products	14.0	1.2	—	15.2
Cabinets	12.6	—	—	12.6
Total consolidated goodwill	$ 244.1	$ 0.3	$ (108.4)	$ 136.0

(1) Primarily consists of the effects of resolution of pre-acquisition tax contingencies and foreign exchange.

Intangible Assets

The following table details amounts related to our intangible assets as of December 31, 2005 and 2004.

	December 31, 2005		December 31, 2004	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortizing intangible assets				
Computer software	$ 102.1	$ 66.7	$ 109.8	$ 66.4
Land use rights and other	4.5	1.1	4.4	1.0
Total	$ 106.6	$ 67.8	$ 114.2	$ 67.4
Non-amortizing intangible assets				
Trademarks and brand names	29.3		29.2	
Total intangible assets	$ 135.9		$ 143.4	
Aggregate Amortization Expense				
For the year ended December 31	$ 16.7		$ 15.4	

Amortization charges for computer software are determined on a straight-line basis at rates calculated to provide for the retirement of assets at the end of their useful lives, generally 3 to 7 years.

The annual amortization expense expected for the years 2006 through 2010 is as follows:

2006	$13.8
2007	9.0
2008	6.5
2009	3.6
2010	1.3

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NOTE 11. OTHER NON-CURRENT ASSETS

	2005	2004
Cash surrender value of company owned life insurance policies	$65.1	$ 66.8
Long term notes receivable	3.5	31.8
Other	28.0	24.0
Total other non-current assets	$96.6	$122.6

The reduction in long term notes receivable from 2004 to 2005 was primarily due to the early settlement of some notes receivable related to a previous divestiture.

NOTE 12. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	2005	2004
Payables, trade and other	$256.2	$259.8
Employment costs	59.9	65.7
Restructuring severance expenses	2.8	18.0
Other	73.6	103.9
Total accounts payable and accrued expenses	$392.5	$447.4

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

NOTE 13. RESTRUCTURING AND OTHER ACTIONS

Net restructuring charges of $23.2 million and $18.3 million were recorded in 2005 and 2004, respectively. The following table summarizes these charges:

	Net Charge/ (Reversal)		(unaudited)	
Action Title	2005	2004	Number of Employees Impacted	Segment
Lancaster Plant	$16.3	$ 1.0	450	Resilient Flooring
Hoogezand	6.3	10.9	130	Building Products
North America SG&A	(0.1)	5.3	250	Resilient Flooring, Wood Flooring,Corporate
Morristown	0.4	0.4	100	Cabinet Products
Oss	0.2	0.7	70	Textiles & Sports Flooring
Searcy	0.1	0.8	230	Wood Flooring
European Consolidation	—	(0.8)		Resilient Flooring, Textiles & Sports Flooring
Total	$23.2	$18.3		

Lancaster Plant : The charges related to the fourth quarter 2004 decision to cease commercial flooring production at Lancaster in 2006. Commercial flooring production requirements will be serviced by other facilities around the world. Of the $16.3 million charge in 2005, $14.1 million is a non-cash charge related to termination benefits to be paid through the U.S. pension plan. In 2004, $0.6 million of the $1.0 million charge related to these non-cash benefits. The other $2.2 million in 2005 and $0.4 million in 2004 is comprised of severance and related costs. We have incurred project-to-date restructuring charges of $17.3 million related primarily to severance and pension related costs. We expect to incur approximately $13 million of restructuring charges in 2006, in addition to $0.3 million of accelerated depreciation and

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$11.6 million of other related costs, both in cost of goods sold, and approximately $6 million in SG&A. Further, we expect to realize a gain of approximately $15 million in 2006 from the sale of a warehouse which became available as a result of this initiative. We recorded $6.4 million and $10.3 million of accelerated depreciation in 2005 and 2004, respectively. We also recorded $6.3 million of other related costs in 2005 and $17.7 million of fixed asset impairments in 2004, both in cost of goods sold.

Hoogezand : These charges are related to the first quarter 2004 decision to close the manufacturing facility and are comprised of severance and related costs. Closure of the plant was completed in the first quarter of 2005. The production was transferred to another Building Products location in Münster, Germany and resulted in a net reduction of approximately 72 positions. We have incurred project-to-date restructuring charges of $17.2 million, and expect to incur an additional $0.6 million of restructuring charges and $0.2 million of accelerated depreciation in 2006. Additionally, we recorded $0.5 million and $1.4 million of accelerated depreciation in cost of goods sold in 2005 and 2004, respectively. We also recorded $0.7 million and $1.1 million of other related costs in cost of goods sold in 2005 and 2004, respectively. In 2005, we recorded fixed asset impairments of $0.4 million, also in cost of goods sold.

North America SG&A : The net reversal of $0.1 million in 2005 (Resilient Flooring) and net charge of $5.3 million in 2004 ($4.0 million in Resilient Flooring, $0.8 million in Wood Flooring, and $0.5 million in Corporate) were recorded for severance and related costs due to a restructuring of the sales force and management structure in North America in response to changing market conditions. This initiative was announced in the fourth quarter of 2004 and was completed in the second quarter of 2005. We incurred project-to-date restructuring charges of $5.2 million and do not expect to incur any additional charges.

Morristown : The charges related to the fourth quarter 2004 decision to close a plant in Tennessee in the first quarter of 2005. Manufacturing was consolidated at two existing plants in the United States. We have incurred project-to-date restructuring charges of $0.4 million for severance related charges and $0.4 million of related shutdown costs and do not expect to incur additional costs. Additionally, we recorded $0.2 million and $1.5 million of accelerated depreciation in 2005 and 2004, respectively, in cost of goods sold. We also recorded $1.0 million of other related costs in 2005 and $0.4 million of fixed asset impairments in 2004, both in cost of goods sold.

Searcy : The charge related to the fourth quarter 2004 decision to cease production at a solid hardwood flooring location in Arkansas in the first quarter of 2005 and was comprised of severance benefits and related costs. We continue to manufacture solid wood flooring at other plants across the United States. We incurred $0.9 million of restructuring charges for the project-to-date and do not expect to incur any additional charges. Additionally, in the fourth quarter of 2005, we recorded an asset impairment charge of $13.9 million related to property, plant and equipment at this site. See Note 8 for further discussion.

Oss : The charges were recorded to reflect shutdown costs related to a plant closure in The Netherlands. The related severance charges were recorded during the third quarter of 2003 when the plant closure was announced. We will continue to manufacture carpet at other plants across Europe. We incurred project-to-date restructuring charges of $4.9 million and do not expect to incur any additional costs in the future.

European consolidation : The net reversal in 2004 comprised certain severance accruals that were no longer necessary in the remaining accruals from the 2003 and 2002 charges in the Textiles and Sports Flooring ($0.3 million) and Resilient Flooring ($0.5 million) segments.

In 2003, we recorded net restructuring charges of $8.6 million, primarily related to the European consolidation and Oss plant closure.

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The following table summarizes activity in the reorganization and restructuring accruals for 2005 and 2004. The amount of net charges in the table does not agree to the income statement due to non-cash charges for enhanced retirement benefits that did not affect the restructuring accrual accounts.

	Beginning Balance	Cash Payments	Net Charges	Other	Ending Balance
2005	$ 24.8	$ (24.0)	$ 9.1	$(1.1)	$ 8.8
2004	10.0	(4.1)	17.7	1.2	24.8

The amount in “other” for 2005 and 2004 is related to the effects of foreign currency translation.

Of the 2005 and 2004 ending balances, $1.3 million is reported in liabilities subject to compromise.

Substantially all of the remaining balance of the restructuring accrual as of December 31, 2005 relates to a noncancelable operating lease, which extends through 2017, and severance for terminated employees with extended payouts, the majority of which will be paid in 2006.

NOTE 14. INCOME TAXES

The tax effects of principal temporary differences between the carrying amounts of assets and liabilities and their tax bases are summarized in the table below. Management believes it is more likely than not that results of future operations will generate sufficient taxable income to realize deferred tax assets including, specifically, the asbestos-related liability differences which will be realized subsequent to emergence from Chapter 11 as a U.S. net operating loss that may be carried forward for 20 years.

We have provided valuation allowances for certain state and foreign net operating loss carryforwards and other basis adjustments of $268.7 million. We have $513.6 million of state net operating loss carryforwards with expirations between 2006 and 2025, and $327.2 million of foreign net operating loss carryforwards, which are available for carryforward indefinitely. The net increase in valuation allowance from 2004 is primarily attributable to an increase for capital losses and certain non-U.S. operating losses generated in 2005, including additional needs to cover deferred tax liabilities with indefinite lives, offset by $4.6 million of losses utilized for state tax purposes.

Deferred income tax assets (liabilities)	2005	2004
Postretirement and post employment benefits	$ 108.9	$ 116.0
Chapter 11 reorganization costs and restructuring costs	40.9	21.5
Asbestos-related liabilities	1,262.7	1,352.7
Pension assets	33.9	38.6
Net operating losses	134.3	139.0
Capital losses	10.6	—
Other	87.2	36.2
Total deferred tax assets	1,678.5	1,704.0
Valuation allowance	(268.7)	(265.5)
Net deferred tax assets	1,409.8	1,438.5
Accumulated depreciation	(190.9)	(199.1)
Pension credit	(184.7)	(182.6)
Insurance for asbestos-related liabilities	(39.0)	(38.3)
Tax on unremitted earnings	(1.9)	(28.8)
Other	(32.5)	(52.8)
Total deferred income tax liabilities	(449.0)	(501.6)
Net deferred income tax assets	$ 960.8	$ 936.9

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Deferred income taxes have been classified in the Consolidated Balance Sheet as:	2005	2004
Deferred income tax asset – current	$ 15.4	$ 15.6
Deferred income tax asset – non-current	967.4	941.6
Deferred income tax liability – current	(0.8)	(1.1)
Deferred income tax liability – non-current	(21.2)	(19.2)
Net deferred income tax assets	$960.8	$936.9

Details of taxes	2005	2004	2003
Earnings (loss) from continuing operations before income taxes:			
Domestic	$120.7	$ 79.1	$(53.7)
Foreign	(53.2)	(130.8)	20.0
Eliminations	36.4	(4.1)	(4.7)
Total	$103.9	$ (55.8)	$(38.4)
Income tax provision (benefit):			
Current:			
Federal	$ 1.6	$ 33.1	$ 25.2
Foreign	20.4	14.5	20.8
State	4.2	(0.9)	3.9
Total current	26.2	46.7	49.9
Deferred:			
Federal	(34.8)	(15.6)	(41.5)
Foreign	9.0	(6.2)	(9.3)
State	1.8	(0.3)	(0.7)
Total deferred	(24.0)	(22.1)	(51.5)
Total income taxes (benefit)	$ 2.2	$ 24.6	$ (1.6)

At December 31, 2005, unremitted earnings of subsidiaries outside the U.S. were $106.5 million. We expect to repatriate $7.3 million for which $1.9 million of U.S. taxes were provided in 2005. No U.S. taxes have been provided on the remaining unremitted earnings as our intention is to invest these earnings permanently. If such earnings were to be remitted, approximately $8.2 million in net taxes would be payable including $3.6 million of non-U.S. withholding taxes.

Reconciliation to U.S. statutory tax rate	2005	2004	2003
Continuing operations tax (benefit) at statutory rate	$ 36.4	$(19.5)	$(13.4)
State income taxes, net of federal benefit	3.4	(2.8)	0.4
Foreign losses and change in valuation allowance	25.2	18.4	7.8
Tax on foreign and foreign-source income	0.2	(3.4)	(5.8)
HIA Dividend tax cost	(0.4)	—	—
Goodwill impairment	—	37.9	—
Bankruptcy reorganization expense	2.5	(5.1)	9.0
Benefit for subsidiary debt impairment	(29.6)	—	—
Capital Loss Utilization	(3.7)	—	—
Permanent book/tax differences	(6.1)	(2.7)	0.4
Net tax on unremitted earnings	(25.7)	1.8	—
Tax expense (benefit) at effective rate	$ 2.2	$ 24.6	$ (1.6)

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Other taxes	2005	2004	2003
Payroll taxes	$83.5	$81.5	$78.0
Property, franchise and capital stock taxes	16.3	17.8	15.8

During the fourth quarter of 2005, the company completed a restructuring of a subsidiary that resulted in a tax benefit on intercompany debt impairment of $29.6 million in addition to a capital loss tax benefit of $3.7 million. The restructuring also caused the elimination of previously unremitted taxable earnings on which we had recorded a deferred tax liability of $27.0 million.

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

The 2005, 2004 and 2003 tax provisions reflect the reversal of certain federal, state and foreign tax accruals no longer required due to the completion of tax audits and expiration of statutes of limitation partially offset by certain nondeductible expenses.

NOTE 15. DEBT

(See Note 4 regarding treatment of prepetition debt.)

($ millions)	2005	Average year-end interest rate	2004	Average year-end interest rate
Borrowings under lines of credit	$ 450.0	7.18%	$ 450.0	7.18%
DIP Facility	—	—	—	—
Commercial paper	50.0	6.75%	50.0	6.75%
Foreign banks	14.6	4.12%	11.1	3.68%
Bank loans due 2004-2015	15.4	6.10%	24.7	6.04%
9.00% medium-term notes due 2001	7.5	9.00%	7.5	9.00%
6.35% senior notes due 2003	200.0	6.35%	200.0	6.35%
6.50% senior notes due 2005	150.0	6.50%	150.0	6.50%
9.75% debentures due 2008	125.0	9.75%	125.0	9.75%
7.45% senior notes due 2029	200.0	7.45%	200.0	7.45%
7.45% senior quarterly interest bonds due 2038	180.0	7.45%	180.0	7.45%
Industrial development bonds	21.0	4.95%	21.0	4.13%
Capital lease obligations	1.5	7.63%	2.7	7.63%
Other	15.1	8.62%	15.1	8.61%
Subtotal	1,430.1	7.23%	1,437.1	7.21%
Less debt subject to compromise	1,388.6	7.29%	1,388.6	7.29%
Less current portion and short-term debt	20.0	4.70%	19.3	4.74%
Total long-term debt, less current portion	$ 21.5	5.17%	$ 29.2	4.80%

Approximately $29.9 million of the $41.5 million of total debt not subject to compromise outstanding as of December 31, 2005 was secured with buildings and other assets. Approximately $35.7 million of the $48.5 million of total debt not subject to compromise outstanding as of December 31, 2004 was secured with buildings and other assets.

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Scheduled payments of long-term debt, excluding debt subject to compromise (millions):

2006	$ 5.4
2007	1.7
2008	1.3
2009	11.1
2010	1.2

Debt from the table above included in liabilities subject to compromise consisted of the following at December 31, 2005 and 2004.

($ millions)	2005	2004
Borrowings under lines of credit	$ 450.0	$ 450.0
Commercial paper	50.0	50.0
9.00% medium-term notes due 2001	7.5	7.5
6.35% senior notes due 2003	200.0	200.0
6.50% senior notes due 2005	150.0	150.0
9.75% debentures due 2008	125.0	125.0
7.45% senior notes due 2029	200.0	200.0
7.45% senior quarterly interest bonds due 2038	180.0	180.0
Industrial development bonds	11.0	11.0
Other	15.1	15.1
Total debt subject to compromise	$1,388.6	$1,388.6

In accordance with SOP 90-7, we did not record contractual interest expense on prepetition debt after the Chapter 11 filing date. This unrecorded interest expense was $82.8 million, $86.9 million and $95.1 million for 2005, 2004 and 2003, respectively. Unrecorded interest expense reflects the amount of interest expense we would have incurred under the original maturities of prepetition debt.

On October 21, 2005, the Court announced it had approved AWI's motion to extend the maturity date from December 8, 2005, to December 8, 2006, on its $75 million DIP Credit Facility that is limited to issuances of letters of credit. Obligations under the DIP Facility to reimburse drawings under the letters of credit constitute a super-priority administrative expense claim in the Chapter 11 Case. As of December 31, 2005 and 2004, AWI had approximately $43.3 million and $40.6 million, respectively, in letters of credit that were issued under the DIP Facility.

In addition, AHI's foreign subsidiaries have approximately $25.4 million of unused short-term lines of credit available from banks. The credit lines are subject to immaterial annual commitment fees.

NOTE 16. PENSION AND OTHER BENEFIT PROGRAMS

We have defined benefit pension plans and postretirement medical and insurance benefit plans covering eligible employees worldwide. We also have defined-contribution pension plans for eligible employees. Benefits from defined benefit pension plans, which cover substantially all employees worldwide, are based primarily on an employee's compensation and years of service. We fund our pension plans when appropriate. The U.S. defined benefit pension plans were closed to new salaried and salaried production employees on January 1, 2005. On January 13, 2006 we announced that benefits will be frozen for certain non-production salaried employees effective February 28, 2006. We fund postretirement benefits on a pay-as-you-go basis, with the retiree paying a portion of the cost for health care benefits by means of deductibles and contributions.

Medicare Act

On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 ("The Act") became law in the United States. The Act provides employers sponsoring prescription drug programs for Medicare-eligible participants with a range of options for coordinating with the new

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government-sponsored program. These options include supplementing the government program on a secondary payor basis or accepting a direct subsidy from the government to support a portion of the cost of the employer's program.

Pursuant to guidance issued in the second quarter of 2004 by the FASB, we elected to begin recording the effect of the Act in the second quarter of 2004, retroactive to January 1, 2004. The Act affects both operating income and balance sheet liabilities over time. The 2005 total year benefit of $9.2 million was recorded in cost of goods sold ($5.6 million) and SG&A ($3.6 million). The 2004 total year benefit of $7.0 million was recorded in cost of goods sold ($3.9 million) and SG&A ($3.1 million). The reduction in the accumulated postretirement benefit obligation related to the Medicare benefit was $52.4 million, reflected in the 2004 actuarial (gain)/loss in the table below.

UNITED STATES PLANS

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

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

	Pension Benefits		Retiree Health and Life Insurance Benefits	
U.S. defined-benefit plans	**2005**	**2004**	**2005**	**2004**
Change in benefit obligation:				
Benefit obligation as of January 1	$1,637.4	$1,570.8	$ 396.7	$ 436.6
Service cost	24.7	23.2	2.9	3.4
Interest cost	96.0	91.3	20.6	22.3
Plan participants' contributions	—	—	6.1	5.7
Plan amendments	(10.5)	0.9	(4.9)	—
Effect of curtailments	(8.3)	—	—	—
Effect of special termination benefits	14.1	0.6	—	—
Actuarial (gain)/loss	128.3	50.9	(9.7)	(37.0)
Benefits paid	(105.8)	(100.3)	(33.2)	(34.3)
Benefit obligation as of December 31	$1,775.9	$1,637.4	$ 378.5	$ 396.7
Change in plan assets:				
Fair value of plan assets as of January 1	$2,010.4	$1,882.9	—	—
Actual return on plan assets – gain	181.2	224.5	—	—
Employer contribution	3.4	3.3	$ 27.1	$ 28.6
Plan participants' contributions	—	—	6.1	5.7
Benefits paid	(105.8)	(100.3)	(33.2)	(34.3)
Fair value of plan assets as of December 31	$2,089.2	$2,010.4	$ 0.0	$ 0.0
Funded status of the plans	$ 313.3	$ 373.0	$ (378.5)	$ (396.7)
Unrecognized net actuarial (gain)/loss	21.9	(46.4)	171.5	193.2
Unrecognized prior service cost (benefit)	101.7	117.7	(39.3)	(40.7)
Net asset/(liability) recognized	$ 436.9	$ 444.3	$ (246.3)	$ (244.2)

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U.S. defined-benefit plans	Pension Benefits 2005	Pension Benefits 2004	Retiree Health and Life Insurance Benefits 2005	Retiree Health and Life Insurance Benefits 2004
Weighted-average assumptions used to determine benefit obligations at December 31:				
Discount rate	5.50%	5.75%	5.50%	5.75%
Rate of compensation increase	4.00%	4.00%	4.00%	4.00%
Weighted-average assumptions used to determine net periodic benefit cost for years ended December 31:				
Discount rate	5.75%	6.00%	5.75%	6.00%
Expected return on plan assets	8.00%	8.00%	n/a	n/a
Rate of compensation increase	4.00%	4.00%	4.00%	4.00%

Investment Policies

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

Each asset class utilized by the RIP has a defined asset allocation target and allowable range. The table below shows the asset allocation target and the December 31, 2005 and 2004 position for each asset class:

Asset Class	Target Weight at December 31, 2005	Position at December 31, 2005	Position at December 31, 2004
Domestic equity	41%	37%	40%
International equity	22%	26%	25%
High yield bonds	5%	6%	6%
Long duration bonds	25%	27%	24%
Real estate	7%	2%	1%
Other fixed income	0%	2%	4%

Basis of Rate-of-Return Assumption

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

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Amounts recognized in the consolidated balance sheets consist of :

	Pension Benefits		Retiree Health and Life Insurance Benefits	
	2005	2004	2005	2004
Prepaid pension costs	$460.0	$465.1		
Pension benefit liabilities	(44.3)	(41.2)	$(246.3)	$(244.2)
Intangible asset	0.3	0.5	—	—
Other comprehensive income	20.9	19.9	—	—
Net asset/(liability) recognized	$436.9	$444.3	$(246.3)	$(244.2)

The accumulated benefit obligation for the U.S. defined benefit pension plans was $1,734.5 million and $1,551.0 million at December 31, 2005 and 2004, respectively.

	Pension Benefits	
U.S. pension plans with benefit obligations in excess of assets	2005	2004
Projected benefit obligation, December 31	$47.7	$46.1
Accrued benefit obligation, December 31	44.3	41.2
Fair value of plan assets, December 31	—	—

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

The components of pension credit are as follows:

	Pension Benefits		
U.S. defined-benefit plans	2005	2004	2003
Service cost of benefits earned during the year	$ 24.7	$ 23.2	$ 21.8
Interest cost on projected benefit obligation	96.0	91.3	91.8
Expected return on plan assets	(158.5)	(147.7)	(144.5)
Amortization of prior service cost	16.0	17.4	17.9
Amortization of net actuarial loss	1.5	1.5	1.4
Net periodic pension credit	$ (20.3)	$ (14.3)	$ (11.6)

As a result of our January 13, 2006 announcement that certain non-production salaried employees will have their plan benefits frozen as of February 28, 2006, we recorded a curtailment charge of $16.9 million in the fourth quarter of 2005 in cost of goods sold ($11.4 million) and SG&A ($5.5 million). This charge is not reflected in the table above.

In addition, we recorded separate charges of $14.1 million in 2005 and $0.6 million in 2004 within restructuring expense for special termination benefits related to the closure of certain operations at a manufacturing plant in Lancaster. See Note 13 for further information.

The components of postretirement benefits cost are as follows:

	Retiree Health and Life Insurance Benefits		
U.S. defined-benefit plans	2005	2004	2003
Service cost of benefits earned during the year	$ 2.9	$ 3.4	$ 3.4
Interest cost on accumulated postretirement benefit obligation	20.6	22.3	26.2
Amortization of prior service benefit	(5.6)	(5.1)	(5.1)
Amortization of net actuarial loss	11.9	9.7	12.3

Net periodic postretirement benefit cost	$29.8	$30.3	$36.8

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For measurement purposes, an average rate of 8% annual increase in the per capita cost of covered health care benefits was assumed for 2006, decreasing 1% per year to an ultimate rate of 6%. Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	One percentage point	
U.S. retiree health and life insurance benefit plans	**Increase**	**Decrease**
Effect on total of service and interest cost components	$ 0.7	$ (0.8)
Effect on postretirement benefit obligation	12.0	(14.6)

We expect to contribute $3.5 million to our U.S. defined benefit pension plans and $24.7 million to our U.S. postretirement benefit plans in 2006.

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

	Pension Benefits	Retiree Health and Life Insurance Benefits
2006	$ 95.7	$ 24.7
2007	94.6	25.3
2008	93.3	25.8
2009	93.2	26.1
2010	92.9	26.5
2011-2015	476.5	129.5

NON-U.S. PLANS

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

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We use a December 31 measurement date for most of our non-U.S. defined benefit plans.

Non-U.S. defined-benefit plans	Pension Benefits 2005	Pension Benefits 2004
Change in benefit obligation:		
Benefit obligation as of January 1	$ 488.0	$ 403.8
Service cost	10.0	9.3
Interest cost	21.7	21.2
Plan participants' contributions	3.5	3.6
Plan amendments	1.4	0.2
Foreign currency translation adjustment	(52.7)	37.1
Actuarial loss	25.1	33.1
Benefits paid	(22.3)	(20.3)
Benefit obligation as of December 31	$ 474.7	$ 488.0
Change in plan assets:		
Fair value of plan assets as of January 1	$ 248.2	$ 200.4
Actual return on plan assets - gain	35.4	17.7
Employer contributions	26.6	28.3
Plan participants' contributions	3.5	3.6
Foreign currency translation adjustment	(25.3)	18.5
Benefits paid	(22.3)	(20.3)
Fair value of plan assets as of December 31	$ 266.1	$ 248.2
Funded status of the plans	$(208.6)	$(239.8)
Unrecognized net actuarial loss	84.3	89.3
Unrecognized transition asset	(0.1)	(0.3)
Unrecognized prior service cost (benefit)	0.6	(0.7)
Net liability recognized	$(123.8)	$(151.5)

The funded status of non-U.S. defined-benefit plans was determined using the following assumptions:

	Pension Benefits 2005	Pension Benefits 2004
Non-U.S. defined-benefit plans		
Weighted-average assumptions used to determine benefit obligations at December 31:		
Discount rate	4.3%	4.8%
Rate of compensation increase	2.9%	3.2%
Weighted-average assumptions used to determine net periodic benefit cost for years ended December 31:		
Discount rate	4.8%	5.4%
Expected return on plan assets	5.7%	6.4%
Rate of compensation increase	3.2%	3.4%

Investment Policies

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

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Each of the plans has a targeted asset allocation for each asset class. The table below shows, for each asset class, the weighted average of the several plans' asset allocation targets and positions at December 31, 2005 and 2004:

Asset Class	Target Weight at December 31, 2005	Position at December 31, 2005	Position at December 31, 2004
Equities	46%	51%	49%
Long duration bonds	18%	17%	17%
Other fixed income	31%	30%	34%
Real estate	5%	2%	0%

Basis of Rate-of-Return Assumption

Long-term asset class return forecasts were obtained from investment professionals. The forecasts were averaged to come up with consensus passive return forecasts for each asset class. These forecast asset class returns were weighted by the plans' target asset class weights, yielding a long-term return forecast of 5.7% per annum.

Amounts recognized in the consolidated balance sheets consist of :

	Pension Benefits 2005	Pension Benefits 2004
Prepaid pension cost	$ 16.9	$ 15.8
Pension benefit liabilities	(179.4)	(217.7)
Intangible asset	2.7	3.4
Other comprehensive income	36.0	47.0
Net liability recognized	$(123.8)	$(151.5)

The accumulated benefit obligation for the non-U.S. defined benefit pension plans was $434.5 million and $449.0 million at December 31, 2005 and 2004, respectively.

Non-U.S. pension plans with benefit obligations in excess of assets	Pension Benefits 2005	Pension Benefits 2004
Projected benefit obligation, December 31	$474.7	$402.0
Accrued benefit obligation, December 31	434.5	370.3
Fair value of plan assets, December 31	266.1	161.8

The components of pension cost are as follows:

Non-U.S. defined-benefit plans	2005	2004	2003
Service cost of benefits earned during the year	$ 10.0	$ 9.3	$ 8.2
Interest cost on projected benefit obligation	21.7	21.2	19.4
Expected return on plan assets	(15.7)	(14.8)	(12.8)
Amortization of transition obligation (asset)	(0.1)	0.2	0.3
Amortization of prior service cost	0.3	0.2	0.6
Amortization of net actuarial loss	1.9	0.5	0.5
Net periodic pension cost	$ 18.1	$ 16.6	$ 16.2

In addition, we recorded a separate charge in 2003 of $0.3 million within restructuring expense for a curtailment loss related to the closure of certain operations at a manufacturing plant in Oss, the Netherlands. See Note 13 for further information.

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Costs for other non-U.S. defined contribution benefit plans and multiemployer pension plans were $11.7 million in 2005, $11.0 million in 2004, and $11.3 million in 2003.

We expect to contribute $23.9 million to our non-U.S. defined benefit pension plans in 2006.

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

	Pension Benefits
2006	$ 19.3
2007	19.8
2008	21.4
2009	22.3
2010	22.9
2011-2015	133.5

NOTE 17. FINANCIAL INSTRUMENTS

We do not hold or issue financial instruments for trading purposes. The estimated fair values of our financial instruments as of December 31, 2005 and 2004 are as follows:

	2005		2004	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Assets/(Liabilities):				
Debt subject to compromise	$(1,388.6)	$ (976.7)	$(1,388.6)	$ (982.8)
Long-term debt, including current portion	(26.9)	(26.9)	(37.4)	(37.4)
Foreign currency contract obligations	1.5	1.5	(13.9)	(13.9)
Natural gas contracts	18.7	18.7	5.3	5.3

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

We utilize lines of credit and other commercial commitments in order to ensure that adequate funds are available to meet operating requirements. On December 31, 2005, our foreign subsidiaries that are not participating in our Chapter 11 Case had available lines of credit totaling $45.2 million, of which $19.8 million was used, leaving $25.4 million of unused lines of credit for borrowing on December 31, 2005.

On December 31, 2005, we had outstanding letters of credit totaling $71.4 million, of which $43.3 million was issued under the DIP Facility. Letters of credit are currently arranged through AWI's DIP Facility with JP Morgan Chase. Certain letters of credit arranged with Wachovia Bank, N.A. prior to the Filing remain outstanding. The DIP Facility had $31.7 million that remained available for issuance of letters of credit as of December 31, 2005. Letters of credit are issued to third party suppliers, insurance and financial institutions and typically can only be drawn upon in the event of AHI'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.

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NOTE 18. DERIVATIVE FINANCIAL INSTRUMENTS

We are exposed to market risk from changes in foreign currency exchange rates, interest rates and commodity prices that could impact our results of operations and financial condition. We use swap, forward and option contracts to hedge currency and commodity exposures. We regularly monitor developments in the capital markets and only enter into currency and swap transactions with established counter-parties having investment grade ratings. Exposure to individual counterparties is controlled, and thus we consider the risk of counterparty default to be negligible. Swap, forward and option contracts are entered into for periods consistent with underlying exposure and do not constitute positions independent of those exposures. At inception, we formally designate and document our derivatives as a hedge of a forecasted transaction or "cash flow" hedge. We use derivative financial instruments as risk management tools and not for speculative trading purposes. In addition, derivative financial instruments are entered into with a diversified group of major financial institutions and energy companies in order to manage Armstrong's exposure to nonperformance on such instruments.

Interest Rate Risk - Due to AWI's Chapter 11 Filing, all affected debt was classified as liabilities subject to compromise and there were no open interest rate derivatives as of December 31, 2005 and 2004.

Currency Rate Risk - We manufacture and sell our products in a number of countries throughout the world and, as a result, are exposed to movements in foreign currency exchange rates. To a large extent, our global manufacturing and sales provide a natural hedge of foreign currency exchange rate movement, as foreign currency expenses generally offset foreign currency revenues. We manage our cash flow exposures on a residual basis and use derivatives to hedge our unmatched foreign currency cash inflows and outflows. At December 31, 2005, our major foreign currency exposures are to the Euro, the Canadian dollar, and the British pound.

We use foreign currency forward exchange contracts to reduce our exposure to the risk that the eventual net cash inflows and outflows, resulting from the sale of product to foreign customers and purchases from foreign suppliers, will be adversely affected by changes in exchange rates. These derivative instruments are used for forecasted transactions and are classified as cash flow hedges. Cash flow hedges are executed quarterly for up to 15 months forward and allow us to further reduce our overall exposure to exchange rate movements, since the gains and losses on these contracts offset losses and gains on the transactions being hedged. The effective portion of gains and losses on these instruments are deferred in other comprehensive income until the underlying transaction is recognized in earnings. The net fair value of these instruments at December 31, 2005 was a liability of $2.8 million, most of which is expected to be charged to earnings in the next twelve months. The impact is reported in either net sales or cost of goods sold to match the underlying transaction being hedged. The net impact of these hedges was a loss of $1.1 million during 2005. There were no circumstances where hedge treatment was discontinued during 2005. The impact of the ineffective portion of these hedges was not material during 2005.

We also use foreign currency forward exchange contracts to hedge exposures created by cross-currency inter-company loans. The underlying inter-company loans are classified as short-term and translation adjustments related to these loans are recorded in other non-operating income. The offsetting gains and losses on the related derivative contracts are also recorded in other non-operating income. These transactions are executed on a six-month rolling basis and are offset or increased as repayment or additional inter-company loans are extended. The fair value of these instruments at December 31, 2005 was an asset of $4.2 million, all of which is expected to be taken to earnings in the next twelve months. During 2005, the net impact of these transactions was a gain of $3.0 million, recorded in other non-operating income, which was comprised of a gain of approximately $36.5 million from the foreign currency forward exchange contracts substantially offset by the 2005 translation adjustment of approximately $33.5 million for the underlying inter-company loans.

Commodity Price Risk - We purchase natural gas for use in the manufacture of ceiling tiles and other products and to heat many of our facilities. As a result, we are exposed to movements in the price of natural gas. We have a policy of reducing short term cost volatility by purchasing natural gas forward contracts, purchased call options, and zero-cash collars. 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 December 31, 2005 was an $18.7 million asset, of which $10.1 million is expected to be taken to earnings in the next twelve months. The impact of hedges that matured during 2005, recorded in cost of goods sold, was $14.4 million of income. The impact of the ineffective portion of these hedges was not material during 2005.

NOTE 19. GUARANTEES

As of December 31, 2005, we maintained an agreement with the lending institution of one of our distributors. Under this agreement, if the distributor were to default on its borrowings and the lender foreclosed on the assets, the bank could return a large part of any of our products still at the distributor (subject to certain quality and roll size minimums) for a refund of original cost. This agreement will expire in September 2006. At December 31, 2005, the amount of inventory held at the distributor was approximately $4.2 million. Historically, no claim has been made under any of these types of agreements and we do not anticipate any such claim in the future. As such, no liability has been recorded for this agreement.

In disposing of assets prior to the Filing, AWI and some subsidiaries had entered into contracts that included various indemnity provisions, covering such matters as taxes, environmental liabilities and asbestos and other litigation. Some of these contracts had exposure limits, but many did not. Due to the nature of the indemnities, it is not possible to estimate the potential maximum exposure under these contracts. As a debtor-in-possession, for those contracts that are still executory where AWI was the sole guarantor, AWI anticipates rejecting those contracts. Parties that timely file claims with respect to such contracts will have such claims addressed in AWI's Chapter 11 Case. AWI cannot estimate the value of any potential claims that will ultimately be allowed by the Bankruptcy Court. See Item 1 - Business regarding Proceedings under Chapter 11.

Subsidiaries that are not part of the Chapter 11 Filing also entered into certain contracts that included various indemnity provisions similar to those described above. Since these subsidiaries are not part of the Chapter 11 Filing, these contracts continue to be in effect. Some of these contracts had exposure limits, but many did not. Due to the nature of the indemnities, it is not possible to estimate the potential maximum exposure under all these contracts. For contracts under which an indemnity claim has been received, a liability of $0.8 million has been recorded as of December 31, 2005. See Note 30 of the Consolidated Financial Statements for additional information.

In September 1999, we sold our Textiles Products operations. As part of the divestiture agreement, we transferred certain liabilities and assets to the purchaser to cover pension payments earned by the work force as of the sale date. We also reimburse the purchaser for such pension payments that are not covered by the pension assets. In addition, we agreed to reimburse the purchaser for the tax impact of our reimbursement of the pension payments. This agreement has no termination date. As of December 31, 2005, we maintained a $3.6 million net liability for this guarantee. As of December 31, 2005, the net present value of the maximum payments is approximately $5 million, excluding any amounts paid for tax reimbursement.

See Notes 4 and 22 for a discussion of the ESOP loan guarantee.

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NOTE 20. 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. Generally, the terms of these warranties range up to 25 years and 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 2005 and 2004:

	2005	2004
Balance at beginning of year	$ 22.6	$ 25.5
Reductions for payments	(34.3)	(39.0)
Current year warranty accruals	34.6	37.3
Preexisting warranty accrual changes	(0.7)	(1.8)
Effects of foreign exchange translation	(1.1)	0.6
Balance at end of year	$ 21.1	$ 22.6

NOTE 21. OTHER LONG-TERM LIABILITIES

	2005	2004
Long-term deferred compensation arrangements	$39.4	$40.6
U.S. workers' compensation	18.3	16.9
Environmental liabilities not subject to compromise	7.9	9.4
Other	24.4	20.7
Total other long-term liabilities	$90.0	$87.6

NOTE 22. SAVINGS AND INVESTMENT PLAN (SIP)

In 1989, we established an Employee Stock Ownership Plan ("ESOP") that borrowed $270 million from banks and insurance companies, repayable over 15 years and guaranteed by AWI. The ESOP used the proceeds to purchase 5,654,450 shares of a new series of convertible preferred stock issued by Armstrong. In 1996, the ESOP was merged with the Retirement Savings Plan for salaried employees (a defined-contribution pension plan) to form the Retirement Savings and Stock Ownership Plan. On July 31, 1996, the trustee of the ESOP converted the preferred stock held by the trust into approximately 5.1 million shares of common stock at a one-for-one ratio. Effective March 1, 2005, the name of the plan was changed to the Savings and Investment Plan (SIP).

The number of shares released for allocation to participant accounts has been based on the proportion of principal and interest paid to the total amount of debt service remaining to be paid over the life of the borrowings. Through December 31, 2005, the SIP allocated 1,969,000 shares to participants that remain outstanding, participants retired 2,455,000 shares, AHI contributed an additional 437,000 shares from its treasury and the trustee purchased 243,000 shares on the open market to allocate to employees. During 2005 and 2004, the SIP sold 1,462,000 and 450,000 unallocated shares on the open market, respectively. The proceeds from the sale remain in the SIP and are expected to be allocated to participants no later than when the SIP debt is addressed in AWI's Chapter 11 proceedings. As of December 31, 2005, there were no shares in the SIP that had yet to be allocated to participants.

The SIP is a qualified defined contribution plan that also includes a 401(k) elective deferral component. A substantial portion of U.S. employees are eligible and participate. The SIP currently covers parent company nonunion employees, some parent company union employees, Wood Flooring salaried

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employees, and Cabinets salaried employees. We recorded costs for the SIP of $6.5 million in 2005, $5.8 million in 2004 and $5.6 million in 2003, which related to company cash matching contributions.

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

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

NOTE 23. STOCK-BASED COMPENSATION PLANS

Awards under the 1993 Long-Term Stock Incentive Plan ("1993 Plan") were made in the form of stock options, stock appreciation rights in conjunction with stock options, performance restricted shares and restricted stock awards. No additional awards may be issued under the 1993 Plan.

During 1999, we adopted the 1999 Long-Term Incentive Plan ("1999 Plan") which replaced the 1993 Plan. Pre-1999 grants made under predecessor plans will be governed under the provisions of those plans. The 1999 Plan provides for the granting of incentive stock options, nonqualified stock options, stock appreciation rights, performance-restricted shares and restricted stock awards. The 1999 Plan also incorporates stock awards and cash incentive awards. No more than 3,250,000 shares of common stock may be issued under the 1999 Plan, and no more than 300,000 of the shares may be awarded in the form of performance restricted shares, restricted stock awards or stock awards. The 1999 Plan does not allow awards to be granted after April 25, 2009.

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

All three of the plans discussed above will most likely be terminated upon AWI emerging from Chapter 11. No equity based compensation has been granted since AWI filed for relief under Chapter 11 in December 2000, other than commitments entered into prior to the Chapter 11 filing.

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

Changes in option shares outstanding (thousands except for share price)	**2005**	**2004**	**2003**
Option shares at beginning of year	2,264.0	2,376.9	2,508.8
Options granted	—	—	—
Option shares exercised	—	—	—
Options cancelled	(276.7)	(112.9)	(131.9)
Option shares at end of year	1,987.3	2,264.0	2,376.9
Option shares exercisable at end of year	1,987.3	2,264.0	2,343.6
Shares available for grant	4,815.4	4,538.7	4,425.8
Weighted average price per share:			
Options outstanding	$ 27.97	$ 29.75	$ 30.62
Options exercisable	$ 27.97	$ 29.75	$ 31.01

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The table below summarizes information about stock options outstanding at December 31, 2005.

(thousands except for life and share price)

	Options outstanding and exercisable		
Range of exercise prices	Number outstanding and exercisable at 12/31/05	Weighted-average remaining contractual life	Weighted-average exercise price
$1.19 - $3.60	200.0	5.1	$ 2.39
$3.61 - $16.40	100.0	4.6	16.38
$16.41 - $19.50	1,200.4	4.2	19.44
$19.51 - $60.00	307.7	1.4	55.34
$60.01 - $83.06	179.2	1.9	73.14
	1,987.3		

Restricted stock awards were used for the purposes of recruitment, special recognition and retention of key employees. No award of restricted stock shares was granted in 2005, 2004 or 2003. At the end of 2005, there were 114,419 restricted shares of common stock outstanding with 715 accumulated dividend equivalent shares.

FAS 123 permits entities to continue to apply the provisions of APB Opinion No. 25 and provide pro forma net earnings and pro forma earnings per share disclosures. Had compensation costs for these plans been determined consistent with FAS 123, our net earnings and earnings per share would have been changed to the following pro forma amounts.

	2005	2004	2003
Net earnings (loss):			
As reported	$112.1	$(80.8)	$(39.3)
Pro forma	$112.1	$(80.8)	$(39.4)
Basic earnings (loss) per share:			
As reported	$ 2.77	$(2.00)	$(0.97)
Pro forma	$ 2.77	$(2.00)	$(0.97)
Diluted earnings (loss) per share:			
As reported	$ 2.75	$(2.00)	$(0.97)
Pro forma	$ 2.75	$(2.00)	$(0.97)

The fair value of grants was estimated on the date of grant using the Black-Scholes option pricing model. There were no stock options granted in 2005, 2004 or 2003.

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NOTE 24. EMPLOYEE COMPENSATION

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

Employee compensation cost	2005	2004	2003
Wages and salaries	$ 800.2	$778.5	$718.9
Payroll taxes	83.5	81.5	78.0
Pension expense (credits), net	26.4	13.3	15.9
Insurance and other benefit costs	92.8	96.0	112.2
Stock-based compensation	(0.1)	—	0.2
Total	$1,002.8	$969.3	$925.2

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

NOTE 25. LEASES

We rent certain real estate and equipment. Several leases include options for renewal or purchase, and contain clauses for payment of real estate taxes and insurance. In most cases, management expects that in the normal course of business, leases will be renewed or replaced by other leases. As part of the Chapter 11 Case, AWI must decide whether to assume, assume and assign, or reject prepetition unexpired leases and other prepetition executory contracts. AWI has been granted an extension through and including the date on which an order confirming the Plan is entered by the U.S. District Court for the District of Delaware to make these decisions with respect to prepetition unexpired leases of real property. With respect to prepetition executory contracts and unexpired leases not related to real estate, AWI has until confirmation of a reorganization plan to make these decisions unless such time is shortened by the Bankruptcy Court. The accompanying financial statements do not reflect any adjustment related to assumption or rejection of such agreements.

Rental expense was $24.9 million in 2005, $22.4 million in 2004 and $21.3 million in 2003. Future minimum payments at December 31, 2005, by year and in the aggregate, having noncancelable lease terms in excess of one year were as follows:

Scheduled minimum lease payments	Capital Leases	Operating Leases
2006	$ 1.0	$ 14.6
2007	0.7	12.1
2008	0.3	8.4
2009	—	4.9
2010	—	2.5
Thereafter	0.1	7.9
Total	$ 2.1	$ 50.4

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

	2005	2004
Land	$ 3.8	$ 3.8
Building	4.1	4.1
Machinery	25.2	26.7
Less accumulated amortization	(14.9)	(14.6)
Net assets	$ 18.2	$ 20.0

NOTE 26. SHAREHOLDERS' EQUITY

Treasury share changes for 2005, 2004 and 2003 are as follows:

Years ended December 31 (in thousands)	2005	2004	2003
Common shares			
Balance at beginning of year	11,210.0	11,210.0	11,201.3
Stock purchases and other	4.4	—	8.7
Balance at end of year	11,214.4	11,210.0	11,210.0

Stock purchases and other represent shares received under stock-based compensation plan forfeitures and share tax withholding transactions.

The balance of each component of accumulated other comprehensive income as of December 31, 2005 and 2004 is presented in the table below.

	2005	2004
Foreign currency translation adjustments	$ 70.2	$ 84.3
Derivative gain, net	4.8	3.6
Minimum pension liability adjustments	(37.9)	(45.1)
Accumulated other comprehensive income	$ 37.1	$ 42.8

The related tax effects allocated to each component of other comprehensive income for 2005 are presented in the table below.

	Pre-tax Amount	Tax Expense (Benefit)	After tax Amount
Foreign currency translation adjustments	$(13.8)	$ (0.3)	$ (14.1)
Derivative gain, net	1.8	(0.6)	1.2
Minimum pension liability adjustments	10.0	(2.8)	7.2
Total other comprehensive income	$ (2.0)	$ (3.7)	$ (5.7)

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NOTE 27. SUPPLEMENTAL FINANCIAL INFORMATION

	2005	2004	2003
Selected operating expenses			
Maintenance and repair costs	$115.4	$118.9	$107.8
Research and development costs	48.5	47.0	46.1
Advertising costs	33.3	31.8	32.7
Other non-operating expense			
Foreign currency translation loss, net of hedging activity	—	$ 1.3	$ 3.8
Equity loss in ISI	$ 0.9	—	—
Other	0.6	1.8	1.9
Total	$ 1.5	$ 3.1	$ 5.7
Other non-operating income			
Interest income	$ 4.7	$ 4.0	$ 3.5
Foreign currency translation gain, net of hedging activity	2.8	—	—
Equity earnings in ISI	0.7	1.9	0.3
Gain on sale of ISI	3.4	—	—
Interest on asbestos receivable payment	—	—	1.1
Other	0.4	0.5	0.1
Total	$ 12.0	$ 6.4	$ 5.0

NOTE 28. SUPPLEMENTAL CASH FLOW INFORMATION

	2005	2004	2003
Interest paid	$ 2.5	$ 2.8	$ 3.1
Income taxes paid, net of refunds	$42.9	77.3	27.5

NOTE 29. RELATED PARTIES

We sold 65% of our ownership in our gasket products subsidiary, (now known as Interface Solutions, Inc. or “ISI”) on June 30, 1999. We still retained a 35% ownership of this business as of December 31, 2004. As part of the 1999 divestiture, we had agreed to continue to purchase a portion of the felt products used in the manufacturing of resilient flooring from ISI for an initial term of eight years. We were required to purchase at least 75% of our felt requirements from ISI. Our purchases of felt products from ISI for the pre-divested part of 2005, 2004 and 2003 were $16.4 million, $27.5 million and $26.9 million, respectively. The amounts due to ISI for these purchases were $1.7 million and $1.6 million at the end of 2004 and 2003. Additionally, we had received nominal monthly payments from ISI for some logistics and administrative services. The amounts outstanding from ISI at the end of 2004 and 2003 for the logistics and administrative services we had provided to them were less than $0.1 million. On August 8, 2005 we sold our remaining 35% equity interest in ISI and ISI is no longer considered a related party. See Note 9 for additional information.

We purchase grid products from WAVE, our 50%-owned joint venture with Worthington Industries. The total amount of these purchases was approximately $68 million, $60 million and $51 million for the years ended December 31, 2005, 2004 and 2003, respectively. We also provide certain selling, promotional and administrative processing services to WAVE for which we receive reimbursement. Those services amounted to $13.0 million, $11.8 million and $9.8 million for the years ended December 31, 2005, 2004 and 2003, respectively. The net amounts due from us to WAVE for all of our relationships were $4.4 million and $4.0 million at the end of 2005 and 2004. See Note 9 for additional information.

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NOTE 30. LITIGATION AND RELATED MATTERS ASBESTOS-RELATED LITIGATION

(Note: Particular documents referred to in this section are available at www.armstrongplan.com)

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

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

Asbestos-Related Personal Injury Claims

Prior to the Filing, AWI was a member of the Center for Claims Resolution (the "CCR"), which handled the defense and settlement of asbestos-related personal injury claims on behalf of its members. The CCR pursued broad-based settlements of asbestos-related personal injury claims under the Strategic Settlement Program ("SSP") and had reached agreements with law firms that covered approximately 130,000 claims that named AWI as a defendant.

Due to the Filing, holders of asbestos-related personal injury claims are stayed from continuing to prosecute pending litigation and from commencing new lawsuits against AWI. In addition, AWI ceased making payments to the CCR with respect to asbestos-related personal injury claims, including payments pursuant to the outstanding SSP agreements. A creditors' committee representing the interests of asbestos-related personal injury claimants and an individual representing the interests of future claimants have been appointed in the Chapter 11 Case. AWI's present and future asbestos-related liability will be addressed in its Chapter 11 Case. See Note 1 regarding AWI's Chapter 11 proceeding.

During 2003, AWI and the other parties in its Chapter 11 Case reached agreement on a plan of reorganization that addresses how all of AWI's pre-Filing liabilities are to be settled. Several amendments to the plan of reorganization were filed, culminating in the Fourth Amended Plan of Reorganization filed with the Bankruptcy Court on May 23, 2003, which was modified by modifications filed with the Bankruptcy Court on October 17, 2003, November 10, 2003, and December 3, 2004, and is referred to in this report as the "POR".

Before a plan of reorganization may be implemented by AWI, it must be confirmed by order of both the Bankruptcy Court and the U.S. District Court. In addition, consummation of a plan of reorganization may be subject to the satisfaction after confirmation of certain conditions, as provided by the plan of reorganization. On November 17 and 18, 2003, the Bankruptcy Court held a hearing on confirmation of the POR and on December 19, 2003, issued proposed findings of fact and conclusions of law and a proposed order confirming the POR, notwithstanding the rejection of the POR by the class of unsecured creditors. On December 29, 2003, the Unsecured Creditors' Committee filed an objection to the Bankruptcy Court's proposed findings of fact and conclusions of law and the proposed order of confirmation of the POR. On February 23, 2005, the U.S. District Court Judge Eduardo C. Robreno ruled that the POR, in its current form, could not be confirmed. In the court's decision, the Judge found that, because the class of unsecured creditors voted to reject the POR, the distribution of warrants to existing equity holders under the POR violated the absolute priority rule. AWI filed a Notice of Appeal to the U.S. Court of Appeals for the Third Circuit on March 4, 2005. On December 29, 2005, the U.S. Court of Appeals affirmed the District Court's decision to deny confirmation of the POR.

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At a status conference before Judge Robreno on February 3, 2006, AWI and the court-authorized representatives of AWI's creditors and claimants advised the Court that they had agreed on a proposed schedule for a confirmation hearing on a modified POR which would eliminate the provisions regarding distribution of warrants to existing AHI equity holders. Under the modified POR, existing AHI equity holders would receive no distribution and their equity interests would be cancelled. Following the conference, Judge Robreno signed an order that established such a schedule for a U.S. District Court confirmation hearing on the modified POR. The schedule calls for the confirmation hearing to commence on May 23, 2006. At that hearing, the Court will hear testimony and review other evidence relating to the Unsecured Creditors Committee's objection that the modified POR unfairly discriminates against the unsecured creditors, based on the size of the present and future asbestos liability implied by the modified POR. AWI filed the modified POR with the Court on February 21, 2006. AWI is also monitoring a proposed asbestos claims litigation reform bill in Congress. See Note 1 for further discussion of AWI's Chapter 11 process. AWI is unable to predict whether the modified POR will be confirmed or when AWI would emerge from Chapter 11.

A description of the basic components of the POR, which remain unchanged in the modifed POR, follows.

Basic Components of the POR

A principal feature of the POR is the creation of a trust (the "Asbestos PI Trust"), pursuant to section 524(g) of the Bankruptcy Code, for the purpose of addressing AWI's personal injury (including wrongful death) asbestos-related liability. All present and future asbestos-related personal injury claims against AWI, including contribution claims of co-defendants, arising directly or indirectly out of AWI's pre-Filing use of or other activities involving asbestos would be channeled to the Asbestos PI Trust.

In accordance with the 524(g) injunction if the POR goes into effect, various entities would be protected from such present and future asbestos-related personal injury claims. These entities include, among others, reorganized AWI, AHI, AWI's subsidiaries and other affiliates (as defined in the POR), and their respective officers and directors. Upon emergence from Chapter 11, AWI would not have any responsibility for these claims (including claims against AWI based solely on its ownership of a subsidiary or other affiliate), nor would it participate in their resolution.

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

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

There also is uncertainty as to proceedings, if any, brought in certain foreign jurisdictions with respect to the effect of the 524(g) injunction in precluding the assertion in such jurisdictions of asbestos-related personal injury claims, proceedings related thereto or the enforcement of judgments rendered in such proceedings.

Management believes that neither AWI nor any of its subsidiaries or other affiliates is subject to any asbestos-related personal injury claims that would not be channeled to the Asbestos PI Trust and that are of a magnitude that, individually or collectively, would be material to reorganized Armstrong.

Potential Legislation

On April 19, 2005 asbestos personal injury claims reform legislation was introduced, as the FAIR Act of 2005 (S.852), to the United States Senate. On May 26, 2005 the bill was reported out of committee. There is uncertainty as to whether this bill or any asbestos reform proposal will become law, and what impact there might be on AWI's Chapter 11 Case.

If legislation as currently proposed is enacted into law prior to AWI implementing a confirmed plan of reorganization, AWI's asbestos liability would likely be materially reduced from the $3.2 billion amount currently recorded, but its size would depend on AWI's payment obligations under the law and the present value of those obligations. In such event, AWI would seek to develop a new plan of reorganization based on a re-evaluation of the then value of AWI's assets and ongoing businesses, the amount of allowed unsecured claims against AWI (including any post-petition interest that may be allowed on such claims, as to which no amount is currently recorded in AWI's liabilities subject to compromise), the amount AWI would be required to pay under the enacted legislation, and other factors. Under the absolute priority rule applicable in Chapter 11, AWI's shareholder would not be entitled to any recovery until the allowed claims of all of its creditors have been satisfied. We do not know enough today to predict the likely terms of a reorganization plan that may be feasible under such circumstances, or if such reorganization would result in existing AHI shareholders receiving or retaining any equity value in AWI upon AWI's emergence from Chapter 11.

Asbestos-Related Liability

Based upon events through early March 2003, specifically the parties' agreement on the basic terms of the POR's treatment of AWI's asbestos-related liabilities, management concluded that it could reasonably estimate its probable liability for AWI's current and future asbestos-related personal injury claims. Accordingly, in the fourth quarter of 2002, AWI recorded a $2.5 billion charge to increase the balance sheet liability. The recorded asbestos-related liability for personal injury claims of approximately $3.2 billion at December 31, 2005 and December 31, 2004, which was treated as subject to compromise, represents the estimated amount of liability that is implied based upon the negotiated resolution reflected in the POR, the total consideration expected to be paid to the Asbestos PI Trust pursuant to the POR and an assumption for this purpose that the recovery value percentage for the allowed claims of the Asbestos PI Trust is equal to the estimated recovery value percentage for the allowed non-asbestos unsecured claims.

AWI is unable to predict whether the modified POR will be confirmed, or when AWI would emerge from Chapter 11. Therefore, the timing and terms of resolution of the Chapter 11 Case remain uncertain. As long as this uncertainty exists, future changes to the recorded asbestos-related liability are possible and could be material to AWI's financial position and the results of its operations. Management will continue to review the recorded liability in light of future developments in the Chapter 11 Case and with respect to any legislation, and will make changes to the recorded liability if and when it is appropriate.

Insurance Recovery Proceedings

A substantial portion of AWI's primary and remaining excess insurance asset is nonproducts (general liability) insurance for personal injury claims. AWI has entered into settlements with a number of the carriers resolving its coverage issues. However, an alternative dispute resolution ("ADR") procedure was commenced against certain carriers to determine the percentage of resolved and unresolved claims that are nonproducts claims, to establish the entitlement to such coverage and to determine whether and how much reinstatement of prematurely exhausted products hazard insurance is warranted. The nonproducts coverage potentially available is substantial and includes defense costs in addition to limits.

During 1999, AWI received preliminary decisions in the initial phases of the trial proceeding of the ADR, which were generally favorable to AWI on a number of issues related to insurance coverage. However, during the first quarter of 2001, a new trial judge was selected for the ADR. The new trial judge conducted hearings in 2001 and determined not to rehear matters decided by the previous judge. In the first quarter of 2002, the trial judge concluded the ADR trial proceeding with findings in favor of AWI on substantially all key issues. Liberty Mutual, the only insurer that is still a party to the ADR, appealed that final judgment. Appellate argument was held on March 11, 2003. On July 30, 2003, the appellate arbitrators ruled that AWI's claims against certain Liberty Mutual policies were barred by the statute of limitations. The ruling did not address the merits of any of the other issues Liberty Mutual raised in its appeal. Based on that unfavorable ruling, AWI concluded that insurance assets of $73 million were no longer probable of recovery. AWI was also ordered to reimburse Liberty Mutual for certain costs and administration fees that Liberty Mutual incurred during the ADR. The $1.6 million claimed for these costs and fees is in dispute. Based upon an AWI request, the appellate panel held a rehearing on November 21, 2003. In January 2004, the appellate panel upheld its initial ruling. On February 4, 2004, AWI filed a motion in the U.S. District Court for the Eastern District of Pennsylvania to vacate the rulings of the appellate panel.

In July 2002, AWI filed a lawsuit against Liberty Mutual in the U.S. District Court for the Eastern District of Pennsylvania seeking, among other things, a declaratory judgment with respect to certain policy issues not subject to binding ADR. The U.S. District Court has not yet set a schedule to hear this matter.

On June 13, 2003, the New Hampshire Insurance Department placed The Home Insurance Company ("Home") under an order of liquidation. Less than $10 million of AWI's recorded insurance asset is based on policies with Home, which management believes is probable of recovery. AWI filed a proof of claim against Home during June 2004. It is uncertain when AWI will receive proceeds from Home under these insurance policies.

Insurance Asset

An insurance asset in respect of asbestos claims in the amount of $98.6 million was recorded as of December 31, 2005 and December 31, 2004. The total amount recorded reflects AWI's belief that insurance proceeds will be recovered in this amount, based upon AWI's success in insurance recoveries, settlement agreements that provide such coverage, the nonproducts recoveries by other companies and the opinion of outside counsel. Such insurance, in our opinion, is either available through settlement or probable of recovery through negotiation or litigation. Depending on further progress of the ADR, activities such as settlement discussions with insurance carriers party to the ADR and those not party to the ADR, the final determination of coverage shared with ACandS (the former AWI insulation contracting subsidiary that was sold in August 1969 and which filed for relief under Chapter 11 of the Bankruptcy Code in September 2002) and the financial condition of the insurers, AWI may revise its estimate of probable insurance recoveries. Approximately $79 million of the $98.6 million asset is determined from agreed coverage in place. Of the $98.6 million, $9.8 million has been recorded as a current asset as of December 31, 2005 reflecting management's estimate of the minimum insurance payments to be received in the next 12 months.

Many uncertainties remain in the insurance recovery process; therefore, AWI did not increase the estimated insurance recovery asset in 2005.

Cash Flow Impact

As a result of the Chapter 11 Filing, AWI has not made any payments for asbestos-related personal injury claims since the fourth quarter of 2000. Additionally, AWI did not receive any asbestos-related insurance recoveries during 2005 but received $4.5 million during 2004. During the pendency of the Chapter 11 Case, AWI does not expect to make any further cash payments for asbestos-related claims, but AWI expects to continue to receive insurance proceeds under the terms of various settlement agreements. Management estimates that the timing of future cash recoveries of the recorded asset may extend beyond 10 years.

Conclusion

Many uncertainties continue to exist about the matters impacting AWI's asbestos-related liability and insurance asset. These uncertainties include when and if a plan of reorganization will be confirmed by the Bankruptcy Court and the U.S. District Court, the impact of any potential legislation, and the financial condition of AWI's insurance carriers.

Additionally, if a plan of reorganization is confirmed, AWI is unable to predict when it will be implemented. Therefore, the timing and terms of resolution of the Chapter 11 Case remain uncertain. As long as this uncertainty exists, future changes to the recorded liability and insurance asset are possible and could be material to AWI's financial position and the results of its operations. Management will continue to review the recorded liability and insurance asset in light of future developments in the Chapter 11 Case and with respect to any legislation, and will make changes to the recorded amounts if and when it is appropriate.

ENVIRONMENTAL MATTERS

Environmental Expenditures

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

As a result of continuous changes in regulatory requirements, we cannot predict with certainty future expenditures associated with compliance with environmental requirements. The United States Environmental Protection Agency ("EPA") has promulgated a new regulation pursuant to the Clean Air Act that may impact our domestic manufacturing operations. That regulation, The National Emission Standards for Hazardous Air Pollutants for Industrial, Commercial, and Institutional Boilers and Process Heaters Act, became effective in November, 2004, and requires compliance by September 13, 2007. While we are finalizing our review of this regulation, adoption of this regulation is not expected to have a material impact on our consolidated results of operations or financial condition.

Environmental Remediation

Summary

We are involved in proceedings under the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"), and similar state "Superfund" laws at 28 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 and which, in some cases, have agreed to jointly fund that required investigation and remediation. With regard to some sites, however, we dispute the liability, the proposed remedy or the proposed cost allocation among the PRPs. We may have rights of contribution or reimbursement from other parties or coverage under applicable insurance policies.

We have also been remediating environmental contamination resulting from past industrial activity at certain of our former plant sites. 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 also identified as 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 the parties, whether liability is being disputed, the terms of any existing agreements and experience with similar matters. Additionally, the Chapter 11 Case also may affect the ultimate amount of such contributions.

Effects of Chapter 11

Certain of AWI's environmental liabilities are subject to discharge through its Chapter 11 Case while others are not. AWI's payments and remediation work on such sites for which AWI is a PRP is under review in light of the Chapter 11 Filing. The bar date for claims from the EPA expired during the third quarter of 2003. AWI received an unliquidated proof of claim from the EPA. Those environmental obligations that AWI has with respect to property that it owns or operates are likely to be unaffected by the Chapter 11 Case. Therefore, AWI will be required to continue meeting its on-going environmental compliance obligations at the properties that AWI owns or operates. AWI will also be required to address the effects of any contamination at those sites, even if the contamination predated Chapter 11 Filing. In addition, AWI may be obligated to remedy the off-site impact of activities that occurred on the properties it owns and operates.

Monetary claims 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) may be discharged in AWI's Chapter 11 Case. Accordingly, 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 would be subject to discharge, provided the claimant received proper notice of the bankruptcy and bar date. The same would be true for monetary claims by private parties, such as other PRPs with respect to sites with multiple PRPs. Under the POR, the Superfund sites at which AWI is alleged to be a PRP are being treated as unsecured liabilities subject to compromise. Other Superfund sites relate to entities that are not part of AWI's Chapter 11 Case and therefore will not be discharged.

In addition to the right to sue for reimbursement of the money it spends, 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 do not survive Chapter 11, there does not appear to be controlling judicial precedent that these injunctive rights are dischargeable. Thus, according to some cases, while a governmental agency's right to require AWI to reimburse it for the costs of cleaning up a site may be dischargeable, the same government agency's right to compel us to spend our money cleaning up the same site may not be dischargeable even though the financial impact to AWI would be the same in both instances.

Specific Events

AWI has been working to resolve as many of its environmental liabilities through its Chapter 11 Case as possible. AWI has entered into a global environmental settlement with the Department of Justice ("DOJ") and the EPA with respect to CERCLA liability at 37 sites. Pursuant to the proposed Settlement Agreement, the federal government would covenant not to sue AWI for either monetary or injunctive relief under CERCLA at 19 of these sites, in exchange for an allowed claim amount in the bankruptcy with respect to known claims concerning sites that AWI does not own or operate. Under the settlement, AWI also has contribution protection under CERCLA with respect to private party claims at the sites at which the government receives an allowed claim. Additionally, AWI has the benefit of discharge both at the 19 sites for which the government receives an allowed claim and at an additional 18 sites identified in the Settlement Agreement. At an additional site, AWI will continue to participate in the cleanup under a previously approved Consent Decree. The EPA Settlement Approval Order was entered by the Bankruptcy Court in October 2005. In accordance with this global settlement becoming effective, the EPA proof of claim has been amended to assert a claim in the amount of $8.7 million. This amount includes the $7.8 million that AWI and EPA agreed upon with respect to the Peterson Puritan site. In connection with the global settlement, AWI filed a motion with the Bankruptcy Court on January 11, 2006, objecting to claims asserted by certain PRPs and requesting the Court enter an order disallowing such claims. On February 21, 2006 the Court issued its order disallowing such claims.

AWI is subject to a unilateral order by the Oregon Department of Environmental Quality ("DEQ") to conduct a remedial investigation and feasibility study and any necessary remedial design and action at its

St. Helens, Oregon facility, as well as the adjacent Scappoose Bay. AWI has denied liability for Scappoose Bay, but has cooperated with the DEQ regarding its owned property. Other potentially responsible parties who are not yet subject to orders by the DEQ include former site owners Owens Corning ("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 site. OC has entered into a settlement with the DEQ. Pursuant to the settlement, 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. AWI has reached an agreement with the DEQ as to how these funds will be made available for the investigation and remediation of the site. AWI has recorded an environmental liability with respect to the investigation and feasibility study at its St. Helen's facility, but not for Scappoose Bay because AWI continues to dispute responsibility for contamination of Scappoose Bay.

A foreign subsidiary of AWI sold a manufacturing facility in 1990, which was prior to AWI's acquisition of the subsidiary. Under the terms of the sales agreement, an environmental indemnification was provided to the buyer of the facility. During the third quarter of 2005, the facility owner discovered additional areas of soil contamination that require additional remediation. Accordingly, a $3.1 million charge was recorded within SG&A expense to increase our probable liability. As additional sampling efforts and meetings with local government authorities continue, further increases to our recorded liability are possible.

Summary of Financial Position

Liabilities of $27.3 million and $28.0 million at December 31, 2005 and December 31, 2004, 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 additional information as it becomes available. Due to the Chapter 11 Filing, $19.4 million of the December 31, 2005 and $18.6 million of the December 31, 2004 environmental liabilities are classified as prepetition liabilities subject to compromise. As a general rule, the Chapter 11 process does not preserve company assets for such prepetition liabilities.

The estimated liabilities above do not take into account any claims for recoveries from insurance or third parties. Such recoveries, where probable, have been recorded as an asset in the consolidated financial statements and are either available through settlement or anticipated to be recovered through negotiation or litigation. The amount of the recorded asset for estimated recoveries was $2.3 million at December 31, 2005 and $2.4 million at December 31, 2004.

Actual costs to be incurred at identified sites may vary from our estimates. Based on our current knowledge of the identified sites, we believe that any sum we may have to pay in connection with environmental matters in excess of the amounts noted above would not have a material adverse effect on our financial condition, or liquidity, although the recording of future costs may be material to earnings in such future period.

PATENT INFRINGEMENT CLAIMS

We are a defendant in two lawsuits claiming patent infringement related to some of our laminate flooring products. The plaintiffs have claimed unspecified monetary damages. We are being defended and indemnified by our supplier for costs and potential damages related to the litigation.

BREACH OF CONTRACT CLAIM

Since 2003, we had been pursuing a breach of contract claim against a former laminate flooring supplier. An arbitration hearing was held in March 2005. In July 2005 the tribunal communicated that it intended to rule in Armstrong's favor. A hearing to address an award amount had been scheduled in September

2005. Prior to this scheduled hearing, the parties reached a settlement in which the supplier agreed to pay $6.75 million to Armstrong to resolve all existing and potential claims between the parties. The Bankruptcy Court approved the settlement in October 2005. Accordingly, we recorded a net gain in the third quarter of 2005 of $6.4 million in our Resilient Flooring ($5.2 million) and Wood Flooring ($1.2 million) segments.

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 expect that any sum that may have to be paid in connection with these matters will have a materially adverse effect on our consolidated financial position or liquidity, however it could be material to the results of operations in the particular period in which a matter is resolved.

NOTE 31. EARNINGS PER SHARE

In 2004 and 2003, the diluted loss per share is calculated using basic common shares outstanding since using diluted common shares would be anti-dilutive. The difference between the average number of basic and diluted common shares outstanding is due to contingently issuable shares. Earnings per share components may not add due to rounding.

NOTE 32. PREFERRED STOCK PURCHASE RIGHTS PLAN

AHI has a shareholder rights plan under a Rights Agreement dated as of March 14, 2000 and in connection therewith distributed one right for each share of its common stock outstanding. In general, the rights become exercisable at $300 per right for a fractional share of a new series of Class A preferred stock 10 days after a person or group, other than certain affiliates of AHI, either acquires beneficial ownership of shares representing 20% or more of the voting power of AHI or announces a tender or exchange offer that could result in such person or group beneficially owning shares representing 28% or more of the voting power of AHI. Currently, one right is attached to each share of common stock and trades automatically with the share of common stock. When exercisable, the rights may trade separately from the common stock. If thereafter any person or group becomes the beneficial owner of 28% or more of the voting power of AHI, or if AHI is the surviving company in a merger with a person or group that owns 20% or more of the voting power of AHI, then each owner of a right (other than such 20% shareholder) would be entitled to purchase shares of company common stock having a value equal to twice the exercise price of the right. Should AHI be acquired in a merger or other business combination, or sell 50% or more of its assets or earnings power, each right would entitle the holder to purchase, at the exercise price, common shares of the acquirer having a value of twice the exercise price of the right. The rights have no voting power nor do they entitle a holder to receive dividends. At AHI's option, the rights are redeemable prior to becoming exercisable at five cents per right. Pursuant to action by the AHI Board of Directors on February 20, 2006, the rights are scheduled to expire on the earlier of March 21, 2008 or the date a plan of reorganization in AWI's Chapter 11 Case becomes effective. Previously, the rights were scheduled to expire on March 21, 2006. The rights can be extended or shortened (by redemption) by the AHI Board of Directors.

Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated financial statements of Armstrong World Industries, Inc. and subsidiaries ("the Company") as listed in the accompanying index on page 48. In connection with our audits of the consolidated financial statements, we also have audited the financial statement schedule as listed in the accompanying index on page 48. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Armstrong World Industries, Inc. and subsidiaries as of December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

The accompanying consolidated financial statements and financial statement schedule have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 of the consolidated financial statements, the Company and two of its domestic subsidiaries filed separate voluntary petitions for relief under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court on December 6, 2000. The Company has also defaulted on certain debt obligations. Although the Company and these operating subsidiaries are currently operating their businesses as debtors-in-possession under the jurisdiction of the Bankruptcy Court, the continuation of their businesses as going concerns is contingent upon, among other things, the ability to formulate a plan of reorganization which will gain approval of the creditors and confirmation by the Bankruptcy Court. The filing under Chapter 11 and the resulting increased uncertainty regarding the Company's potential asbestos liabilities, as discussed in Note 30 of the consolidated financial statements, raise substantial doubt about the Company's ability to continue as a going concern. The accompanying consolidated financial statements and financial statement schedule do not include any adjustments that might result from the outcome of these uncertainties.

/s/ KPMG LLP

Philadelphia, Pennsylvania
February 23, 2006

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

	Years Ended December 31,		
	2005	2004	2003
Net sales	$3,558.4	$3,497.3	$3,259.0
Cost of goods sold	2,821.1	2,811.0	2,597.4
Gross profit	737.3	686.3	661.6
Selling, general and administrative expenses	654.3	633.4	612.1
Charge for asbestos liability, net	—	—	81.0
Goodwill impairment	—	108.4	—
Restructuring charges, net	23.2	18.3	8.6
Equity (earnings) from joint venture	(39.3)	(31.6)	(20.8)
Operating income (loss)	99.1	(42.2)	(19.3)
Interest expense (unrecorded contractual interest of $82.8, $86.9 and $95.1, respectively)	8.4	8.4	9.0
Other non-operating expense	1.5	3.1	5.7
Other non-operating (income)	(11.9)	(6.4)	(5.0)
Chapter 11 reorganization (income) costs, net	(1.2)	6.9	9.4
Earnings (loss) from continuing operations before income taxes	102.3	(54.2)	(38.4)
Income tax expense (benefit)	1.6	25.1	(1.6)
Earnings (loss) from continuing operations	100.7	(79.3)	(36.8)
Gain (loss) from discontinued operations, net of tax of $0.0, $0.2 and $0.1	10.4	(0.4)	(2.5)
Net earnings (loss)	$ 111.1	$ (79.7)	$ (39.3)

See accompanying notes to consolidated financial statements beginning on page 111.

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

	December 31, 2005	December 31, 2004
Assets		
Current assets:		
Cash and cash equivalents	$ 602.2	$ 515.9
Accounts and notes receivable, net	328.8	336.1
Inventories, net	514.5	535.1
Deferred income taxes	15.4	15.6
Income tax receivable	18.2	7.0
Other current assets	82.2	72.5
Total current assets	1,561.3	1,482.2
Property, plant and equipment, less accumulated depreciation and amortization of $1,562.0 and $1,540.7, respectively	1,145.3	1,208.8
Insurance receivable for asbestos-related liabilities, noncurrent	88.8	88.8
Prepaid pension costs	476.9	480.9
Investment in affiliates	67.4	72.5
Goodwill	134.2	136.0
Other intangibles, net	68.1	76.0
Deferred income taxes, noncurrent	967.4	941.6
Other noncurrent assets	96.6	122.6
Total assets	$ 4,606.0	$ 4,609.4
Liabilities and Shareholder's Equity		
Current liabilities:		
Short-term debt	$ 14.6	$ 11.1
Current installments of long-term debt	5.4	8.2
Accounts payable and accrued expenses	392.5	447.4
Short term amounts due to affiliates	10.0	13.3
Income tax payable	10.0	15.3
Deferred income taxes	0.8	1.1
Total current liabilities	433.3	496.4
Liabilities subject to compromise	4,869.4	4,870.9
Long-term debt, less current installments	21.5	29.2
Postretirement and postemployment benefit liabilities	258.9	262.6
Pension benefit liabilities	223.7	258.9
Other long-term liabilities	90.0	87.6
Deferred income taxes, noncurrent	21.2	19.8
Minority interest in subsidiaries	7.9	9.3
Total noncurrent liabilities	5,492.6	5,538.3
Shareholder's equity (deficit):		
Common stock, $1 par value per share Authorized 200 million shares; issued 51,878,910 shares	51.9	51.9
Capital in excess of par value	172.6	172.6
Reduction for ESOP loan guarantee	(142.2)	(142.2)
Accumulated deficit	(910.8)	(1,021.9)
Accumulated other comprehensive income	37.1	42.8
Less common stock in treasury, at cost 2005 and 2004 – 11,393,170 shares	(528.5)	(528.5)
Total shareholder's (deficit)	(1,319.9)	(1,425.3)
Total liabilities and shareholder's equity	$ 4,606.0	$ 4,609.4

See accompanying notes to consolidated financial statements beginning on page 111.

Armstrong World Industries, Inc., and Subsidiaries
Consolidated Statements of Shareholder's Equity
(amounts in millions, except per share amounts)

	2005		2004		2003	
Common stock, $1 par value:						
Balance at beginning and end of year	$ 51.9		$ 51.9		$ 51.9	
Capital in excess of par value:						
Balance at beginning of year	$ 172.6		$ 172.7		$ 172.9	
Stock issuances and other	—		(0.1)		(0.2)	
Balance at end of year	$ 172.6		$ 172.6		$ 172.7	
Reduction for ESOP loan guarantee:						
Balance at beginning and end of year	$ (142.2)		$ (142.2)		$ (142.2)	
Retained earnings (accumulated deficit):						
Balance at beginning of year	$(1,021.9)		$ (942.2)		$ (902.9)	
Net earnings (loss) for year	111.1	$111.1	(79.7)	$(79.7)	(39.3)	$(39.3)
Balance at end of year	$ (910.8)		$(1,021.9)		$ (942.2)	
Accumulated other comprehensive income (loss):						
Balance at beginning of year	$ 42.8		$ 43.3		$ (12.2)	
Foreign currency translation adjustments	(14.1)		22.4		56.8	
Derivative gain (loss), net	1.2		0.3		(0.3)	
Minimum pension liability adjustments	7.2		(23.2)		(1.0)	
Total other comprehensive income (loss)	(5.7)	(5.7)	(0.5)	(0.5)	55.5	55.5
Balance at end of year	$ 37.1		$ 42.8		$ 43.3	
Comprehensive income (loss)		$105.4		$(80.2)		$ 16.2
Less treasury stock at cost:						
Balance at beginning and end of year	$ (528.5)		$ (528.5)		$ (528.5)	
Total shareholder's (deficit)	$(1,319.9)		$(1,425.3)		$(1,345.0)	

See accompanying notes to consolidated financial statements beginning on page 111.

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

	Year Ended December 31,		
	2005	2004	2003
Cash flows from operating activities:			
Net earnings (loss)	$ 111.1	$ (79.7)	$ (39.3)
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:			
Depreciation and amortization	141.0	151.0	163.1
Goodwill impairment	—	108.4	—
Fixed asset impairments	17.6	64.7	10.5
Deferred income taxes	(24.6)	(21.9)	(51.5)
Gain on sale of notes	(10.4)	—	—
Equity (earnings) from affiliates, net	(39.0)	(33.5)	(20.7)
Gain on sale of investment in affiliates	(3.4)	—	—
Chapter 11 reorganization (income) costs, net	(1.2)	6.9	9.4
Chapter 11 reorganization costs payments	(12.7)	(15.9)	(25.8)
Restructuring charges, net of reversals	23.2	18.3	8.6
Restructuring payments	(24.0)	(4.1)	(8.7)
Asbestos-related insurance recoveries	—	4.5	31.0
Payments for asbestos-related claims	—	—	(9.0)
Charge for asbestos liability, net	—	—	81.0
Cash effect of hedging activities	21.9	1.1	(27.0)
Increase (decrease) in cash from change in:			
Receivables	(8.7)	(9.5)	40.6
Inventories	1.5	(61.7)	6.6
Other current assets	(3.7)	11.8	(4.6)
Other noncurrent assets	(16.8)	(34.8)	(18.6)
Accounts payable and accrued expenses	8.5	61.1	(15.6)
Income taxes payable	(16.7)	(31.4)	21.9
Other long-term liabilities	(20.1)	3.5	4.0
Other, net	3.2	4.0	9.9
Net cash provided by operating activities	146.7	142.8	165.8
Cash flows from investing activities:			
Purchases of property, plant and equipment and computer software	(135.5)	(134.0)	(78.1)
Proceeds from sale of notes	38.3		
Distributions from equity affiliates	23.0	10.0	16.0
Proceeds from sale of investment in affiliates	20.6		
Proceeds from the sale of assets	5.1	12.3	4.9
Net cash (used for) investing activities	(48.5)	(111.7)	(57.2)
Cash flows from financing activities:			
Increase/(decrease) in short-term debt, net	5.1	4.0	(5.3)
Payments of long-term debt	(7.6)	(9.8)	(8.2)
Other, net	(1.4)	(1.2)	(0.6)
Net cash (used for) financing activities	(3.9)	(7.0)	(14.1)
Effect of exchange rate changes on cash and cash equivalents	(8.0)	7.5	9.8
Net increase in cash and cash equivalents	$ 86.3	$ 31.6	$104.3
Cash and cash equivalents at beginning of year	$ 515.9	$ 484.3	$380.0
Cash and cash equivalents at end of year	$ 602.2	$ 515.9	$484.3

See accompanying notes to consolidated financial statements beginning on page 111.

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

NOTE 1. BUSINESS AND CHAPTER 11 REORGANIZATION

Armstrong World Industries, Inc. ("AWI") is a Pennsylvania corporation incorporated in 1891. Armstrong Holdings, Inc. is a Pennsylvania corporation and the publicly held parent holding company of AWI. Armstrong Holdings, Inc.'s only significant asset and operation is its indirect ownership, through Armstrong Worldwide, Inc. (a Delaware Corporation), of all of the capital stock of AWI. We include separate financial statements for Armstrong Holdings, Inc. and its subsidiaries and AWI and its subsidiaries in this report because both companies have public securities that are registered under the Securities Exchange Act of 1934 (the "Securities Exchange Act"). The differences between the financial statements of Armstrong Holdings, Inc. and its subsidiaries and AWI and its subsidiaries are primarily due to transactions that occurred in 2000 related to the formation of Armstrong Holdings, Inc. and to employee compensation-related stock activity. In 2005, we reversed a $1.6 million contingent liability of Armstrong Holdings, Inc. that was originally accrued when Armstrong Holdings, Inc. was formed, because the liability is no longer probable. Due to the lack of material differences in the operations, when we refer in this document to Armstrong Holdings, Inc. and its subsidiaries as "AHI," "Armstrong," "we" and "us," we are also effectively referring to AWI and its subsidiaries. We use the term "AWI" when we are referring solely to Armstrong World Industries, Inc.

(Note: Particular documents referred to in this section are available at www.armstrongplan.com)

Proceedings under Chapter 11

On December 6, 2000, AWI, the major operating subsidiary of AHI, filed a voluntary petition for relief (the "Filing") under Chapter 11 of the U.S. Bankruptcy Code (the "Bankruptcy Code") in the United States Bankruptcy Court for the District of Delaware (the "Bankruptcy Court") in order to use the court-supervised reorganization process to achieve a resolution of AWI's asbestos-related liability. Also filing under Chapter 11 were two of AWI's wholly-owned subsidiaries, Nitram Liquidators, Inc. ("Nitram") and Desseaux Corporation of North America, Inc. ("Desseaux"). The Chapter 11 cases are being jointly administered under case number 00-4471 (the "Chapter 11 Case"). Shortly after its commencement, the Chapter 11 Case was assigned to Judge Randall J. Newsome. His appointment as a visiting judge in the District of Delaware ended on December 31, 2003. On January 6, 2004, the Chapter 11 Case was reassigned to Judge Judith K. Fitzgerald.

AHI and all of AWI's other direct and indirect subsidiaries, including Armstrong Wood Products Inc. (formerly Triangle Pacific Corp.), WAVE (AWI's ceiling grid systems joint venture with Worthington Industries, Inc.), Armstrong Canada, and Armstrong DLW AG, were not a part of the Filing and accordingly, except for any asbestos-related liability that also relates, directly or indirectly, to the pre-Filing activities of AWI, the liabilities, including asbestos-related liability if any, of such companies will not be resolved in AWI's Chapter 11 Case. See below under "The Asbestos Personal Injury Trust" and Note 30 under "Asbestos-Related Litigation".

AWI is operating its business and managing its properties as a debtor-in-possession subject to the provisions of the Bankruptcy Code. Pursuant to the provisions of the Bankruptcy Code, AWI is not permitted to pay any claims or obligations which arose prior to the Filing date (prepetition claims) unless specifically authorized by the Bankruptcy Court. Similarly, claimants may not enforce any claims against AWI that arose prior to the date of the Filing unless specifically authorized by the Bankruptcy Court. In addition, as a debtor-in-possession, AWI has the right, subject to the Bankruptcy Court's approval, to assume or reject any executory contracts and unexpired leases in existence at the date of the Filing. Some of these have been specifically assumed and others have been specifically rejected already in the course of the Chapter 11 Case. In the plan of reorganization which it has proposed, as described below, AWI has indicated the other executory contracts and unexpired leases that it intends to assume or reject upon consummation of the plan; any not specifically assumed under the plan will be rejected upon consummation of the plan. Parties having claims as a result of the rejection of a contract may file claims with the Bankruptcy Court, which will be dealt with as part of the Chapter 11 Case.

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

Three creditors' committees, one representing asbestos personal injury claimants (the "Asbestos Personal Injury Claimants' Committee"), one representing asbestos property damage claimants (the "Asbestos Property Damage Committee"), and the other representing other unsecured creditors (the "Unsecured Creditors' Committee"), were appointed in the Chapter 11 Case. In addition, an individual was appointed to represent the interests of future asbestos personal injury claimants (the "Future Claimants' Representative"). In accordance with the provisions of the Bankruptcy Code, these parties have the right to be heard on matters that come before the Bankruptcy Court in the Chapter 11 Case. Upon resolution of all asbestos property damage claims, the Asbestos Property Damage Committee was disbanded.

Plan of Reorganization and Disclosure Statement

On November 4, 2002, AWI filed a Plan of Reorganization with the Bankruptcy Court. Subsequently, AWI filed several amendments to the plan, along with various exhibits. The Fourth Amended Plan of Reorganization, with certain exhibits, was filed on May 23, 2003 and, as so amended and as modified by modifications filed with the Bankruptcy Court on October 17, 2003, November 10, 2003 and December 3, 2004, is referred to in this report as the "POR". The POR provides for AWI to continue to conduct its existing lines of business with a reorganized capital structure under which, among other things, its existing shares of stock will be cancelled and new common shares and notes will be issued to its unsecured creditors and to a trust, as further discussed below, to be established under the POR for the benefit of AWI's current and future asbestos-related personal injury claimants, in full satisfaction of their claims against AWI. References in this report to "reorganized Armstrong" are to AWI as it would be reorganized under the POR, and its subsidiaries collectively. The POR excludes AWI's Nitram and Desseaux subsidiaries, neither of which is material to Armstrong and which are pursuing separate resolutions of their Chapter 11 cases that are expected to result in the winding up of their affairs.

In connection with the vote of creditors on the POR, AWI was required to prepare a disclosure statement concerning its business and the POR, including certain projected financial information assuming an Effective Date of the POR as July 1, 2003, intended to demonstrate to the Bankruptcy Court the feasibility of the POR and AWI's ability to continue operations upon its emergence from Chapter 11. On May 30, 2003, the Bankruptcy Court approved the disclosure statement for distribution to parties in interest in the Chapter 11 Case. The projected financial information included in the disclosure statement was updated in certain respects by information submitted to the Bankruptcy Court in connection with the Bankruptcy Court's November 2003 hearing on confirmation of the POR. The projected financial information was prepared for the limited purposes of consideration by the Bankruptcy Court, creditors and other parties in interest in the Chapter 11 Case of matters pertinent to the case. As indicated in the disclosure statement, the projected financial information and various estimates of value therein provided should not be regarded as representations or warranties by AWI, AHI or any other person. There is no assurance that any such projection or valuation will be realized. The projected financial information and estimates of value were prepared by AWI and its financial advisors and have not been audited or reviewed by independent accountants. The projections will not be updated on an ongoing basis. At the time they were prepared in 2003, the projections reflected numerous assumptions concerning reorganized Armstrong's anticipated future performance and with respect to prevailing and anticipated market and economic conditions, which were and remain beyond our control and which may not materialize. Projections are inherently subject to significant and numerous uncertainties and to a wide variety of significant business, economic and competitive risks and the assumptions underlying the projections may be wrong in a material respect. Actual results may vary significantly from those contemplated by the projections.

During 2003, the POR was submitted for a vote by AWI's creditors for its approval. It was approved by each creditor class that was entitled to vote on the POR except the class of unsecured creditors. On November 17 and 18, 2003, the Bankruptcy Court held a hearing on confirmation of the Plan and on December 19, 2003, issued proposed findings of fact and conclusions of law and a proposed order confirming the POR, notwithstanding the rejection of the POR by the class of unsecured creditors. On December 29, 2003, the Unsecured Creditors' Committee filed an objection to the Bankruptcy Court's proposed findings of fact and conclusions of law and the proposed order of confirmation of the POR.

Armstrong World Industries, Inc., and Subsidiaries
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In order for a plan of reorganization to be confirmed, the U.S. District Court must also issue findings of fact and conclusions of law in support of confirmation of the plan of reorganization, enter or affirm an order confirming the plan of reorganization and issue the "524(g) injunction" (see "Asbestos Personal Injury Trust" below) if it is part of the plan of reorganization. Following procedural delays concerning the status of the prior U.S. District Court judge on AWI's Chapter 11 Case, the AWI case was assigned to U.S. District Court Judge Eduardo C. Robreno in June 2004. A hearing was held before Judge Robreno on December 15, 2004 to consider the objections to confirmation of the POR. On February 23, 2005, Judge Robreno ruled that the POR could not be confirmed. In the court's decision, the Judge found that, because the class of unsecured creditors voted to reject the POR, the distribution of warrants to existing equity holders under the POR violated the absolute priority rule.

AWI filed a Notice of Appeal to the United States Court of Appeals for the Third Circuit on March 4, 2005.

Recent Developments and Next Steps in the Chapter 11 Process

On December 29, 2005, the U.S. Court of Appeals affirmed the District Court's decision to deny confirmation of the POR.

At a status conference before Judge Robreno on February 3, 2006, AWI and the court-authorized representatives of AWI's creditors and claimants advised the Court that they had agreed on a proposed schedule for a confirmation hearing on a modified POR which would eliminate the provisions regarding distribution of warrants to existing AHI equity holders. Under the modified POR, existing AHI equity holders would receive no distribution and their equity interests would be cancelled. Following the conference, Judge Robreno signed an order that established such a schedule for a U.S. District Court confirmation hearing on the modified POR. The schedule calls for the confirmation hearing to commence on May 23, 2006. At that hearing, the Court will hear testimony and review other evidence relating to the Unsecured Creditors Committee's objection that the modified POR unfairly discriminates against the unsecured creditors, based on the size of the present and future asbestos liability implied by the modified POR. AWI filed the modified POR with the Court on February 21, 2006. AWI is also monitoring a proposed asbestos claims litigation reform bill in Congress (see the discussion under "Potential Legislation" in Note 30). AWI is unable to predict whether the modified POR will be confirmed or when AWI would emerge from Chapter 11.

A description of the basic components of the POR, which remain unchanged in the modified POR, follows.

Asbestos Personal Injury Trust

A principal feature of the POR is the creation of a trust (the "Asbestos PI Trust"), pursuant to section 524(g) of the Bankruptcy Code, for the purpose of addressing AWI's personal injury (including wrongful death) asbestos-related liability. All present and future asbestos-related personal injury claims against AWI, including contribution claims of co-defendants, arising directly or indirectly out of AWI's pre-Filing use of or other activities involving asbestos will be channeled to the Asbestos PI Trust.

In accordance with the "524(g) injunction" to be issued if the POR goes into effect various entities would be protected from such present and future AWI asbestos-related personal injury claims. These entities include, among others, reorganized AWI, AHI, AWI's subsidiaries and other affiliates (as defined in the POR), and their respective officers and directors. Upon emergence from Chapter 11, AWI would not have any responsibility for these claims (including claims against AWI based solely on its ownership of a subsidiary or other affiliate), nor would it participate in their resolution.

However, although AWI's domestic and foreign subsidiaries and other affiliates would be protected parties, asbestos-related personal injury claims against them would be channeled to the Asbestos PI Trust only to the extent such claims directly or indirectly relate to the pre-Filing manufacturing, installation, distribution or other activities of AWI, or AWI's ownership of the subsidiaries or affiliates (as distinguished from independent activities of the subsidiaries or affiliates). See Note 30 under “Asbestos-Related Litigation.”

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

There also is uncertainty as to proceedings, if any, brought in certain foreign jurisdictions with respect to the effect of the 524(g) injunction in precluding the assertion in such jurisdictions of asbestos-related personal injury claims, proceedings related thereto or the enforcement of judgments rendered in such proceedings.

Management believes neither AWI nor its subsidiaries or other affiliates is subject to asbestos-related personal injury claims, that would not be channeled to the Asbestos PI Trust under the POR, which would be material in amount to reorganized Armstrong.

Consideration to Be Distributed under the POR

The Asbestos PI Trust and the holders of allowed unsecured claims would share in the following consideration to be distributed under the POR:

- AWI’s “Available Cash,” which is defined in the POR as:
  - Cash available on the effective date of the POR after reserving up to $100 million (as determined by AWI) to fund ongoing operations and making provisions for certain required payments under the POR,
  - Any cash drawn, at AWI’s sole discretion, under a credit facility to be established as provided by the POR for the purpose of funding distributions under the POR, and
  - Certain insurance proceeds related to environmental matters

  However, proceeds received under any private offering of debt securities and/or secured term loan borrowings made, as permitted by the POR, in connection with consummation of the POR, and certain other amounts authorized or directed by the Court, would be excluded from the determination of Available Cash.
- Plan Notes of AWI as further described below or net cash proceeds from any private offerings of debt securities issued in lieu thereof, and
- Substantially all of the new common stock of AWI.

The total amount of Plan Notes would be the greater of (i) $1.125 billion less Available Cash and (ii) $775 million. However, AWI would use reasonable efforts to issue one or more private offerings of debt securities on, or as soon as practicable after, the Effective Date. These offerings are expected to yield net proceeds at least equal to the amount of the Plan Notes prescribed by the Plan. If the private offerings are successful, the Plan Notes would not be issued. If the offerings yield proceeds less than the amount of the Plan Notes prescribed by the Plan, Plan Notes equal to the difference will be issued. If only the Plan Notes are issued, reorganized Armstrong expects to issue an aggregate amount of $775 million of Plan Notes. These Plan Notes would consist of (i) a tranche of notes with a seven-year maturity and a fixed interest rate, (ii) a tranche of notes with a ten-year maturity and a fixed interest rate and (iii) a tranche of floating rate notes with a maturity of not less than five years, but no more than ten years, structured in a manner similar to, and as liquid as, marketable bank debt which satisfy the requirements of the POR and are on terms and conditions that are satisfactory to AWI, the Asbestos Personal Injury Claimants’ Committee, and the Future Claimants’ Representative. To the extent Plan Notes of more than one type are issued, a pro rata share of each tranche would be issued to the Asbestos PI Trust and the holders of unsecured claims.

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The POR provides that unsecured creditors, other than convenience creditors described below, would receive their pro rata share of:

- 34.43% of the new common stock of reorganized Armstrong,
- 34.43% of the first $1.05 billion of all the cash and Plan Notes to be distributed under the POR to unsecured creditors (other than convenience creditors) and the Asbestos PI Trust, in the form of:
  - Up to $300 million of Available Cash and
  - The balance in principal amount of Plan Notes or in net cash proceeds from any private offerings of debt securities made in lieu of issuing Plan Notes.
- 60% of the next $50 million of Available Cash but, if such Available Cash is less than $50 million, then 60% of the balance in Plan Notes or in net cash proceeds from any private offerings of debt securities made in lieu of issuing Plan Notes, and
- 34.43% of the remaining amount of any Available Cash and any Plan Notes up to the maximum amount of Plan Notes provided to be issued under the POR, or net cash proceeds from any private offerings of debt securities made in lieu of issuing such Plan Notes.

The remaining amount of new common stock of reorganized Armstrong, Available Cash and Plan Notes or net cash proceeds from any private offerings of debt securities made in lieu of issuing Plan Notes would be distributed to the Asbestos PI Trust.

Under the POR, unsecured creditors whose claims (other than claims on debt securities) are less than $10 thousand or who elect to reduce their claims to $10 thousand would be treated as “convenience creditors” and would receive payment of 75% of their allowed claim amount in cash (which payments would reduce the amount of Available Cash).

Under the POR, the existing equity interests in AWI (including all of its outstanding shares of common stock) would be cancelled and the holders of such interests will receive no distribution of any consideration. As discussed above, the POR was modified on February 21, 2006 to delete the provisions for the distribution of warrants to existing equity holders.

Valuation of Consideration to be Distributed under the POR

Based upon many assumptions (see Disclosure Statement discussion above), to calculate the value of consideration to be distributed, AWI used $2.7 billion as the value of reorganized Armstrong. This is the mid-point of the range of estimated values of $2.4 billion and $3.0 billion that was estimated by AWI and its financial advisors during the third quarter of 2003. AWI’s estimated value of the consideration to be distributed under the POR to the Asbestos PI Trust and holders of allowed unsecured claims is:

- New common stock at $30 a share, which is the approximate mid-point of the range of estimated values of $24.66 and $35.30 per share, assuming a distribution of 56.4 million shares of new common stock to holders of unsecured claims and the Asbestos PI Trust;
- Plan Notes in the aggregate principal amount of $775 million, that are worth their face value; and
- Available Cash of approximately $350 million that AWI expects to have.

The total value of the consideration to be distributed to the Asbestos PI Trust, other than rights under asbestos non-product liability insurance policies, has been estimated to be approximately $1.8 billion, and the total value of consideration to be distributed to holders of allowed unsecured claims (other than convenience claims) has been estimated to be approximately $0.9 billion. Based upon the estimated value of the POR consideration, and upon AWI’s estimate that unsecured claims allowed by the Bankruptcy Court (other than convenience claims) would total approximately $1.65 billion, AWI estimated that holders of allowed unsecured claims (other than convenience claims) would receive a recovery having a value equal to approximately 59.5% of their allowed claims.

AHI Dissolution

Upon implementation of the POR, all current stock of AWI would be cancelled and AHI would no longer have any ownership interest in reorganized AWI. Since the POR as modified on February 21, 2006 no longer provides for warrants of reorganized AWI to go to AHI, it is expected that AHI will then have no material assets to be distributed to AHI shareholders, and will dissolve. The POR provides that AWI would pay the costs incurred in connection with administering AHI's dissolution.

Common Stock and Debt Securities

As a result of AWI filing the Plan of Reorganization on November 4, 2002, the New York Stock Exchange stopped trading on the Exchange of the common stock of AHI (traded under the ticker symbol "ACK") and two debt securities of AWI (traded under the ticker symbols "AKK" and "ACK 08"). AHI's common stock resumed trading in the over-the-counter (OTC) Bulletin Board under the ticker symbol "ACKHQ" and one of AWI's debt securities resumed trading under the ticker symbol "AKKWQ".

Bar Date for Filing Claims

The Bankruptcy Court established August 31, 2001 as the bar date for all claims against AWI except for asbestos-related personal injury claims and certain other specified claims. A bar date is the date by which claims against AWI must be filed if the claimants wish to participate in any distribution in the Chapter 11 Case. A bar date for asbestos-related personal injury claims (other than claims for contribution, indemnification, or subrogation) was rendered unnecessary under the terms of the POR, which defers the filings of such claims until the Asbestos PI Trust is established to administer such claims.

Approximately 4,900 proofs of claim (including late-filed claims) totaling approximately $6.4 billion, alleging a right to payment from AWI, were filed with the Bankruptcy Court in response to the August 31, 2001 bar date. The disposition of these claims under the POR is discussed below. AWI continues the process of investigating and resolving these claims. The Bankruptcy Court will ultimately determine the claims and related liability amounts that will be allowed as part of the Chapter 11 process if the parties cannot agree.

In its ongoing review of the filed claims, AWI to date has objected to approximately 2,200 claims totaling $2.7 billion. The Bankruptcy Court disallowed these claims with prejudice.

During the first six months of 2003, AWI settled all of the approximately 460 remaining property damage claims that alleged damages of $800 million, for approximately $9 million. Payments to claimants were made during the third quarter of 2003 and were funded by insurance.

Approximately 1,100 proofs of claim totaling approximately $1.3 billion are pending with the Bankruptcy Court that are associated with asbestos-related personal injury litigation, including direct personal injury claims, claims by co-defendants for contribution and indemnification, and claims relating to AWI's participation in the Center for Claims Resolution. As stated above, the bar date of August 31, 2001 did not apply to asbestos-related personal injury claims other than claims for contribution, indemnification, or subrogation. The POR contemplates that all AWI asbestos-related personal injury claims, including claims for contribution, indemnification, or subrogation, will be addressed in the future pursuant to the procedures relating to the Asbestos PI Trust developed in connection with the POR. See further discussion regarding AWI's liability for asbestos-related matters in Note 30.

Approximately 1,100 claims totaling approximately $1.6 billion alleging a right to payment for financing, environmental, trade debt and other claims remain. For these categories of claims, AWI has previously recorded approximately $1.6 billion in liabilities.

AWI has recorded liability amounts for claims that can be reasonably estimated and which it does not contest or believes are probable of being allowed by the Bankruptcy Court. The final value of all the claims that will ultimately be allowed by the Bankruptcy Court is not known at this time. However, it is likely the value of the claims ultimately allowed by the Bankruptcy Court will be different than amounts presently recorded by AWI. This difference could be material to AWI's financial position and the results of its operations. Management will continue to review the recorded liability in light of future developments in the Chapter 11 Case and make changes to the recorded liability if and when it is appropriate.

(dollar amounts in millions)

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Financing

AWI has a $75.0 million debtor-in-possession ("DIP") credit facility that is limited to issuances of letters of credit. This facility is scheduled to mature on December 8, 2006. As of December 31, 2005, AWI had approximately $43.3 million in letters of credit, which were issued pursuant to the DIP Facility. As of December 31, 2005, AWI had $309.7 million of cash and cash equivalents, excluding cash held by its non-debtor subsidiaries. AWI believes that cash on hand and generated from operations and dividends from its subsidiaries, together with subsidiary lines of credit and the DIP Facility, will be adequate to address its foreseeable liquidity needs. Obligations under the DIP Facility, including reimbursement of draws under the letters of credit, if any, constitute superpriority administrative expense claims in the Chapter 11 Case.

Accounting Impact

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

Pursuant to SOP 90-7, AWI is required to segregate pre-Filing liabilities that are subject to compromise and report them separately on the balance sheet. See Note 4 for detail of the liabilities subject to compromise at December 31, 2005 and December 31,2004. Liabilities that may be affected by a plan of reorganization are recorded at the expected amount of the allowed claims, even if they may be settled for lesser amounts. Substantially all of AWI's pre-Filing debt, now in default, is recorded at face value and is classified within liabilities subject to compromise. Obligations of AWI subsidiaries not covered by the Filing remain classified on the consolidated balance sheet based upon maturity date. AWI's estimated liability for asbestos-related personal injury claims is also recorded in liabilities subject to compromise. See Note 30 for further discussion of AWI's asbestos liability.

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

SOP 90-7 also requires separate reporting of all revenues, expenses, realized gains and losses, and provision for losses related to the Filing as Chapter 11 reorganization (income) costs, net. Accordingly, AWI recorded the following Chapter 11 reorganization activities during 2005, 2004 and 2003:

	2005	2004	2003
Professional fees	$ 10.4	$11.5	$ 25.2
Interest income, post-Filing	(11.8)	(4.8)	(3.4)
Adjustments to pre-Filing liabilities	0.1	—	(12.9)
Other expense directly related to bankruptcy, net	0.1	0.2	0.5
Total Chapter 11 reorganization (income) costs, net	$ (1.2)	$ 6.9	$ 9.4

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

Interest income is earned from short-term investments subsequent to the Filing.

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

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(dollar amounts in millions)

If and when the POR is confirmed and made effective, reorganized AWI's condensed consolidated financial statements will change materially in amounts and classifications through the implementation of the fresh start accounting rules of SOP 90-7.

Conclusion

AWI is unable to predict whether the modified POR will be confirmed or when AWI would emerge from Chapter 11. Therefore, the timing and terms of a resolution of the Chapter 11 Case remain uncertain.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Use of Estimates . These financial statements are prepared in accordance with U.S. generally accepted accounting principles and include management estimates and judgments, where appropriate. Management utilizes estimates to record many items including asbestos-related liabilities and insurance assets, allowances for bad debts, inventory obsolescence and lower of cost or market charges, warranty, workers compensation, general liability 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.

Reclassifications . Certain amounts in the prior years' consolidated financial statements and notes thereto have been reclassified to conform to the 2005 presentation.

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

Sales Incentives . Sales incentives are reflected as a reduction of net sales for all periods presented.

Shipping and Handling Costs . Shipping and handling costs are reflected in cost of goods sold for all periods presented.

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

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

Taxes . The provision for income taxes has been determined using the asset and liability approach of accounting for income taxes. Deferred tax assets and liabilities are recognized using enacted tax rates for expected future tax consequences of events recognized in the financial statements or tax returns. The provision for income taxes represents income taxes paid or payable for the current year plus the change in deferred taxes during the year. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized.

(dollar amounts in millions)

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

Concentration of Credit . We principally sell products to customers in the building products industries, in various geographic regions. Net sales to specific customers in excess of 10% of our consolidated net sales for 2005, 2004 and 2003 were:

Customer	2005	2004	2003
The Home Depot, Inc.	$384.1	$393.4	$400.0
Lowe's Companies, Inc.	(1)	(1)	318.7

(1) Net sales to Lowe's Companies, Inc. were less than 10% of consolidated net sales for these years.

Net sales to these customers were recorded in our Resilient Flooring, Wood Flooring and Building Products segments. No other customers accounted for 10% or more of our total consolidated net sales.

There are no significant concentrations of credit risk other than with these two home center customers who represented approximately 24% of our trade receivables as of December 31, 2005 and 2004. We monitor the creditworthiness of our customers and generally do not require collateral.

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

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

Inventories . Inventories are valued at the lower of cost or market. Inventories also include certain resilient flooring samples used in ongoing sales and marketing activities. Cash flows from the sale of inventory and the related cash receipts are classified as operating cash flows on the consolidated statements of cash flows.

Property and Depreciation . Property, plant and equipment values are stated at acquisition cost less accumulated depreciation and amortization. Depreciation charges for financial reporting purposes are determined on a straight-line basis at rates calculated to provide for the retirement of assets at the end of their useful lives. Machinery and equipment includes manufacturing equipment (depreciated over 3 to 20 years), computer equipment (3 to 5 years) and office furniture and equipment (5 to 10 years). Within manufacturing equipment, assets that are subject to quick obsolescence or wear out quickly, such as tooling and engraving equipment, are depreciated over shorter periods (3 to 7 years). Heavy production equipment, such as conveyors and production presses, are depreciated over longer periods (15 to 20 years). Buildings are depreciated over 20 to 40 years, depending on factors such as type of construction and use.

Impairment losses are recorded when indicators of impairment are present, such as operating losses and/or negative cash flows. Impairments of assets related to our manufacturing operations are recorded in cost of goods sold. For purposes of calculating any impairment, we estimate the fair value and compare it to the carrying value of the asset. If the fair value is less than the carrying value of the asset, we record an impairment equal to the difference between the fair value and carrying value of the asset. When assets are disposed of or retired, their costs and related depreciation are removed from the financial statements and any resulting gains or losses normally are reflected in SG&A expenses.

Costs of the construction of certain property include capitalized interest which is amortized over the estimated useful life of the related asset. There was no capitalized interest recorded in 2005, 2004 and 2003 due to the Chapter 11 Filing.

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

Goodwill and Other Intangibles . Goodwill and intangible assets with indefinite useful lives are tested for impairment annually in the fourth quarter. Intangible assets with determinable useful lives are amortized over their respective estimated useful lives to their estimated residual values and reviewed for impairment whenever events or circumstances indicate that its carrying amount may not be recoverable. See Note 10 for disclosure on goodwill and other intangibles.

Contingent Liabilities . In the context of the Chapter 11 Case, contingent pre-petition liabilities, including claims that became known after the Filing, are recorded on the basis of the expected amount of the allowed claim in accordance with SOP 90-7, even if they may be settled for lesser amounts.

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

Financial Instruments and Derivatives . From time to time, we use derivatives and other financial instruments to diversify or offset the effect of currency, interest rate and commodity price variability. See Note 18 for further discussion.

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Stock-based Employee Compensation . At December 31, 2005, we had three stock-based employee compensation plans, which are described more fully in Note 23. No equity compensation has been granted since AWI filed for Chapter 11 in December 2000, other than commitments entered into prior to the Chapter 11 filing. However, some previously granted restricted stock and options vested after that date. All outstanding options are vested as of December 31, 2005. We account for these plans under the intrinsic value recognition and measurement principles of APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations. The following table illustrates the effect on net income if we had applied the fair value recognition provisions of FASB Statement No. 123, "Accounting for Stock-based Compensation," ("FAS 123") to stock-based employee compensation.

	2005	2004	2003
Net earnings (loss), as reported	$111.1	$(79.7)	$(39.3)
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	—	—	0.1
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	—	—	(0.2)
Pro forma net earnings (loss)	$111.1	$(79.7)	$(39.4)

Recently Adopted Accounting Standards

In November 2004, the FASB issued Statement of Financial Accounting Standard No. 151, "Inventory Costs". The new Statement amends Accounting Research Bulletin No. 43, Chapter 4, "Inventory Pricing", to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material. This Statement requires that those items be recognized as current-period charges and requires that allocation of fixed production overheads to the cost of conversion be based on the normal capacity of the production facilities. This statement is effective for fiscal years beginning after June 15, 2005. We elected to adopt this standard as of January 1, 2005, as permitted. Adoption of this standard did not have a material impact on our consolidated results of operations or financial condition.

In December 2004, the FASB issued FASB Staff Position ("FSP") FAS No. 109-1 "Application of FASB Statement No. 109, Accounting for Income Taxes, to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004". This FSP, which became effective upon issuance, provides that the tax deduction for income with respect to qualified domestic production activities, as part of the American Jobs Creation Act of 2004 that was enacted on October 22, 2004, be treated as a special deduction as described in FAS No. 109. As a result, this deduction has no effect on our deferred tax assets and liabilities existing at the date of enactment. Instead, the impact of this deduction, which is effective January 1, 2005, will be reported in the period in which the deduction is claimed on our income tax returns.

In December 2004, the FASB issued FSP FAS No. 109-2 "Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004". This FSP, which became effective upon issuance, allows an enterprise additional time beyond the financial reporting period of enactment of the American Jobs Creation Act of 2004 to evaluate the effect of this act on its plan for reinvestment or repatriation of foreign earnings for purposes of applying FAS No. 109. See Note 14, Income Taxes, for more information on the impact of adopting this FSP.

In March 2005, the FASB issued Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations," which provides additional guidance on conditional asset retirement obligations under FAS 143, "Accounting for Asset Retirement Obligations." This standard is effective for fiscal years ending after December 15, 2005. Adoption of this standard had no material impact on our consolidated results of operations or financial condition. We have numerous locations that contain asbestos, which meet the definition of an asset retirement obligation. Under current regulations, we are not currently required to remove the asbestos due to its present condition. At some undetermined time in the future, though, we

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will be required to remove the asbestos. A liability has not been recognized at December 31, 2005 because the fair value cannot be reasonably estimated and we are unable to reasonably determine a settlement date or range of settlement dates for asbestos removal. We will continue to review our locations with asbestos to determine when a liability should be recorded.

Recently Issued Accounting Standards

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment," which requires all share-based payment transactions to be recognized in the financial statements using a fair-value method of accounting. This Statement replaces FASB Statement No. 123 and supersedes APB Opinion No. 25. The Statement also requires the recognition of compensation expense for the fair value of any unvested stock option awards outstanding at the date of adoption. Based on an April 2005 ruling by the SEC, the standard is effective as of the beginning of the first annual reporting period that begins after June 15, 2005. Adoption of this standard on January 1, 2006 for our existing stock options will not have a material impact on our consolidated results of operations or financial condition because all of our outstanding stock options are fully vested.

NOTE 3. NATURE OF OPERATIONS

Reportable Segments

Resilient Flooring — produces a broad range of floor coverings for homes and commercial and institutional buildings. Resilient Flooring products include vinyl sheet, vinyl tile, linoleum flooring and luxury vinyl tile. 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 solid wood (predominantly pre-finished), engineered wood floors in various wood species (with oak being the primary species of choice) and related accessories. Virtually all of our Wood Flooring's sales are in North America. Our Wood Flooring products are generally sold to independent wholesale flooring distributors and large home centers under the brand names Bruce®, Hartco®, Robbins®, Timberland™ and Armstrong™.

Textiles and Sports Flooring ("TSF") — produces carpeting and sports flooring products that are sold mainly in Europe. Carpeting products consist principally of carpet tiles and broadloom used in commercial applications and in the leisure and travel industry. Sports flooring products include artificial turf and other sports surfaces. Our TSF products are sold primarily through retailers, contractors, distributors and other industrial businesses.

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 and sells wood ceiling systems. The 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 through 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®.

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Unallocated Corporate — includes assets and expenses that have not been allocated to the business units. Unallocated Corporate assets are primarily deferred tax assets, cash and the U.S. prepaid pension cost. Expenses included in Unallocated Corporate are corporate departments' expenses that have not been allocated to other reportable segments, and the U.S. pension credit. Expenses for our corporate departments (including computer services, human resources, legal, finance and other) are allocated to the reportable segments when the departments provide specific work to the reportable segment and the expense allocation can be based on known metrics, such as time reporting, headcount or square-footage. The remaining expenses, which cannot be attributable to the reportable segments without a high degree of generalization, are reported in Unallocated Corporate.

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For the year ended 2005	Resilient Flooring	Wood Flooring	Textiles & Sports Flooring	Building Products	Cabinets	Unallocated Corporate	Total
Net sales to external customers	$1,185.4	$833.9	$ 279.0	$1,047.6	$ 212.5	—	$3,558.4
Equity (earnings) from joint venture	—	—	—	(39.3)	—	—	(39.3)
Segment operating income (loss) [1]	(25.8)	60.9	(4.4)	148.5	(9.7)	$ (70.4)	99.1
Restructuring charges, net of reversals	16.2	0.1	0.2	6.3	0.4	—	23.2
Segment assets	675.9	646.4	196.6	613.2	99.1	2,374.8	4,606.0
Depreciation and amortization	54.8	19.0	5.4	33.9	2.4	25.5	141.0
Fixed asset impairment loss	1.8	15.3	—	0.5	—	—	17.6
Investment in affiliates	—	—	—	67.4	—	—	67.4
Capital additions	42.8	28.8	4.6	42.6	4.5	12.2	135.5

For the year ended 2004	Resilient Flooring	Wood Flooring	Textiles & Sports Flooring	Building Products	Cabinets	Unallocated Corporate	Total
Net sales to external customers	$1,215.1	$832.1	$ 265.4	$ 971.7	$ 213.0	—	$3,497.3
Equity (earnings) from joint venture	—	—	—	(31.6)	—	—	(31.6)
Segment operating income (loss) [1]	(150.2)	51.4	(7.1)	127.0	1.4	$ (64.7)	(42.2)
Restructuring charges, net of reversals	4.5	1.6	0.4	10.9	0.4	0.5	18.3
Segment assets	737.9	663.6	218.1	596.3	102.2	2,291.3	4,609.4
Depreciation and amortization	62.6	18.1	5.6	35.2	3.8	25.7	151.0
Fixed asset impairment loss	63.1	0.8	—	0.4	0.4	—	64.7
Goodwill impairment	108.4	—	—	—	—	—	108.4
Investment in affiliates	0.6	—	—	51.0	—	20.9	72.5
Capital additions	33.8	33.7	3.9	44.5	1.4	16.7	134.0

For the year ended 2003	Resilient Flooring	Wood Flooring	Textiles & Sports Flooring	Building Products	Cabinets	Unallocated Corporate	Total
Net sales to external customers	$1,181.5	$738.6	$ 271.9	$ 862.2	$ 204.8	—	$3,259.0
Equity (earnings) from joint venture	—	—	—	(20.8)	—	—	(20.8)
Segment operating income (loss) [1]	56.2	(4.0)	(11.0)	95.2	(11.1)	$ (144.6)	(19.3)
Restructuring charges, net of reversals	1.2	0.8	7.4	—	—	(0.8)	8.6
Segment assets	915.3	576.6	207.1	551.5	102.3	2,295.0	4,647.8
Depreciation and amortization	60.6	39.4	5.2	30.2	1.6	26.1	163.1
Fixed asset impairment loss	1.1	3.4	—	3.8	1.6	0.6	10.5
Investment in affiliates	0.6	—	—	29.5	—	18.8	48.9
Capital additions	26.5	17.3	3.4	22.3	1.6	7.0	78.1

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

	2005	2004	2003
Segment operating income (loss)	$ 99.1	$(42.2)	$(19.3)
Interest expense	8.4	8.4	9.0
Other non-operating expense	1.5	3.1	5.7
Other non-operating (income)	(11.9)	(6.4)	(5.0)
Chapter 11 reorganization costs, net	(1.2)	6.9	9.4
Income (loss) before taxes and discontinued operations	$102.3	$(54.2)	$(38.4)

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

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

Geographic Areas	2005	2004	2003
Net trade sales			
Americas:			
United States	$2,351.1	$2,338.9	$2,210.9
Canada	192.2	177.6	162.2
Other Americas	31.2	31.8	24.8
Total Americas	$2,574.5	$2,548.3	$2,397.9
Europe:			
Germany	$ 184.9	$ 181.2	$ 178.2
United Kingdom	160.1	148.0	125.5
Other Europe	492.0	478.1	439.3
Total Europe	$ 837.0	$ 807.3	$ 743.0
Total Pacific Rim	$ 146.9	$ 141.7	$ 118.1
Total net trade sales	$3,558.4	$3,497.3	$3,259.0

Long-lived assets (property, plant and equipment), net at December 31	2005	2004
Americas:		
United States	$ 805.4	$ 823.6
Canada	13.7	14.8
Total Americas	$ 819.1	$ 838.4
Europe:		
Germany	$ 169.6	$ 191.3
Other Europe	129.7	150.8
Total Europe	$ 299.3	$ 342.1
Total Pacific Rim	$ 26.9	$ 28.3
Total long-lived assets, net	$1,145.3	$1,208.8

The reduction in European long-lived assets is primarily related to the negative translation effects of changes in foreign exchange rates.

NOTE 4. LIABILITIES SUBJECT TO COMPROMISE

As a result of AWI’s Chapter 11 Filing (see Note 1), pursuant to SOP 90-7, AWI is required to segregate prepetition liabilities that are subject to compromise and report them separately on the balance sheet. Liabilities that may be affected by a plan of reorganization are recorded at the amount of the expected allowed claims, even if they may be settled for lesser amounts. Substantially all of AWI’s prepetition debt, now in default, is recorded at face value and is classified within liabilities subject to compromise. Obligations of our subsidiaries that are not covered by the Filing remain classified on the consolidated balance sheet based upon maturity date. AWI’s asbestos liability is also recorded in liabilities subject to compromise. See Note 1 for further discussion on how the Chapter 11 process may address AWI’s liabilities subject to compromise and Note 30 for further discussion of AWI’s asbestos liability.

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Liabilities subject to compromise at December 31, 2005 and December 31, 2004 are as follows:

	2005	2004
Debt (at face value)	$1,388.6	$1,388.6
Asbestos-related liability	3,190.6	3,190.6
Prepetition trade payables	58.1	58.9
Prepetition other payables and accrued interest	69.7	70.4
Amounts due to affiliates	4.7	4.7
ESOP loan guarantee	157.7	157.7
Total liabilities subject to compromise	$4,869.4	$4,870.9

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

See Note 15 for detail of debt subject to compromise.

NOTE 5. DISCONTINUED OPERATIONS

On May 31, 2000, Armstrong completed its sale of all entities, assets and certain liabilities comprising its Insulation Products segment. During 2003 AHI recorded a net loss of $2.4 million for the impairment of some notes receivable and the settlement of certain tax contingencies related to this divestiture. During the fourth quarter of 2005, AHI recorded a net gain of $10.4 million due to the early settlement of the remaining notes receivable and the settlement of other disputed items.

On December 29, 1995, Armstrong sold a furniture subsidiary, Thomasville Furniture Industries. During 2004 and 2003, AHI recorded net losses of $0.4 million and $0.1 million, respectively, for the environmental and tax indemnifications related to this divestiture.

In accordance with FAS 144, these adjustments were classified as discontinued operations since the original divestitures were reported as discontinued operations.

NOTE 6. ACCOUNTS AND NOTES RECEIVABLE

	2005	2004
Customer receivables	$355.8	$372.0
Customer notes	6.3	7.9
Miscellaneous receivables	17.3	14.7
Less allowance for discounts and losses	(50.6)	(58.5)
Net accounts and notes receivable	$328.8	$336.1

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.

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NOTE 7. INVENTORIES

Following are the components of our inventories:

	2005	2004
Finished goods	$339.1	$362.9
Goods in process	44.6	45.9
Raw materials and supplies	194.4	216.2
Less LIFO and other reserves	(63.6)	(89.9)
Total inventories, net	$514.5	$535.1

Approximately 44% and 40% of our total inventory in 2005 and 2004, respectively, was valued on a LIFO (last-in, first-out) basis. Inventory values were lower than would have been reported on a total FIFO (first-in, first-out) basis by $52.2 million at the end of 2005 and $74.1 million at year-end 2004.

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

	2005	2004
International locations	$156.4	$173.0
U.S. Wood Flooring and Cabinets	111.6	125.4
U.S. sourced products	19.3	23.2
Total	$287.3	$321.6

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

Several of the Wood Flooring and Cabinets entities were acquired by Triangle Pacific Corporation (“TPC”) prior to our acquisition of TPC in 1998. TPC had elected to retain the historical inventory valuation policies of the acquired companies and, on the basis of consistency and due to the excessive cost involved, we elected not to amend these policies.

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

NOTE 8. PROPERTY, PLANT AND EQUIPMENT

	2005	2004
Land	$ 69.4	$ 77.0
Buildings	652.0	657.4
Machinery and equipment	1,904.4	1,937.3
Construction in progress	81.5	77.8
Less accumulated depreciation and amortization	(1,562.0)	(1,540.7)
Net property, plant and equipment	$ 1,145.3	$ 1,208.8

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

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In the fourth quarter of 2004, we recorded a $44.8 million fixed asset impairment charge in Resilient Flooring for our European resilient flooring business. This impairment charge reduced land by approximately $29 million and buildings by approximately $16 million and was reported in cost of goods sold. The fixed asset impairment charge was triggered by actual operating losses and negative cash flows incurred in the European resilient flooring business. The expectation was that the operating losses and negative cash flows would continue in the near future. The fixed asset fair values were determined by an independent appraisal firm.

NOTE 9. EQUITY INVESTMENTS

Investments in affiliates of $67.4 million at December 31, 2005, reflected the equity interest in our 50% investment in our WAVE joint venture. The balance decreased $5.1 million from December 31, 2004, primarily due to the August 2005 sale of our equity interest in Interface Solutions, Inc. partially offset by our equity interest in WAVE's net undistributed earnings.

Affiliate	Income Statement Classification	2005	2004	2003
WAVE	Equity earnings from joint venture	$39.3	$31.6	$20.8
ISI	Other non-operating income	4.1	1.9	0.3
ISI/Other	Other non-operating expense	(1.0)	—	(0.4)

See Exhibit 99.1 for WAVE's consolidated financial statements. Condensed financial data for WAVE, which we account for under the equity method of accounting, is summarized below:

	2005	2004
Current assets	$125.5	$145.1
Non-current assets	30.4	33.8
Current liabilities	19.1	71.4
Other non-current liabilities	5.8	5.1

	2005	2004	2003
Net sales	$307.7	$278.6	$213.8
Gross profit	99.1	86.3	61.7
Net earnings	78.6	63.2	41.7

See discussion in Note 29 for additional information on these related parties.

NOTE 10. GOODWILL AND INTANGIBLE ASSETS

Goodwill

As of January 1, 2005, we had goodwill of $136.0 million. Goodwill is required to be tested for impairment at least annually. We perform our annual assessment in the fourth quarter.

In the fourth quarter of 2005, we completed our annual assessment of goodwill as required by FAS 142 and determined there was no impairment. The following table represents the changes in goodwill for 2005:

Goodwill by segment	January 1, 2005	Adjustments, net [1]	Impairments	December 31, 2005
Wood Flooring	$ 108.2	—	—	$ 108.2
Building Products	15.2	$ (1.8)	—	13.4
Cabinets	12.6	—	—	12.6
Total consolidated goodwill	$ 136.0	$ (1.8)	$ —	$ 134.2

(1) Consists of the effects of foreign exchange.

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During the second quarter of 2004, we concluded that an indication of impairment existed for our European resilient flooring goodwill, which was based on an assessment of financial projections incorporated in our annual strategic plan process. Continuing price declines and volume shortfalls related to our European resilient flooring products were causing significant operating losses, and we revised our projections accordingly. We calculated a preliminary estimate of the European resilient flooring reporting unit's fair value using discounted cash flows. Based on this preliminary fair value calculation, we recorded a non-cash goodwill impairment loss of $60.0 million in the second quarter of 2004. In the fourth quarter of 2004, we completed our annual assessment of goodwill as required by FAS 142 and determined that based upon a revised strategic plan, our European resilient flooring goodwill was fully impaired. Therefore, we recorded an additional $48.4 million impairment charge. The goodwill impairment charges arose from the European resilient flooring reporting unit's fair value being lower than its carrying value. The fair value was negatively affected by lower operating profits and expected future cash flows determined in recent forecasting analyses. We calculated the reporting unit's fair value using discounted cash flows. No other goodwill impairment was identified in our annual assessment.

The following table represents the changes in goodwill during 2004.

Goodwill by segment	January 1, 2004	Adjustments, net [(1)]	Impairments	December 31, 2004
Resilient Flooring	$ 107.1	$ 1.3	$ (108.4)	—
Wood Flooring	110.4	(2.2)	—	$ 108.2
Building Products	14.0	1.2	—	15.2
Cabinets	12.6	—	—	12.6
Total consolidated goodwill	$ 244.1	$ 0.3	$ (108.4)	$ 136.0

(1) Primarily consists of the effects of resolution of pre-acquisition tax contingencies and foreign exchange.

Intangible Assets

The following table details amounts related to our intangible assets as of December 31, 2005 and 2004.

	December 31, 2005		December 31, 2004	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortizing intangible assets				
Computer software	$ 102.1	$ 66.7	$ 109.8	$ 66.4
Land use rights and other	4.5	1.1	4.4	1.0
Total	$ 106.6	$ 67.8	$ 114.2	$ 67.4
Non-amortizing intangible assets				
Trademarks and brand names	29.3		29.2	
Total intangible assets	$ 135.9		$ 143.4	
Aggregate Amortization Expense				
For the year ended December 31	$ 16.7		$ 15.4	

Amortization charges for computer software are determined on a straight-line basis at rates calculated to provide for the retirement of assets at the end of their useful lives, generally 3 to 7 years.

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The annual amortization expense expected for the years 2006 through 2010 is as follows:

2006	$13.8
2007	9.0
2008	6.5
2009	3.6
2010	1.3

NOTE 11. OTHER NON-CURRENT ASSETS

	2005	2004
Cash surrender value of company owned life insurance policies	$65.1	$ 66.8
Long term notes receivable	3.5	31.8
Other	28.0	24.0
Total other non-current assets	$96.6	$122.6

The reduction in long term notes receivable from 2004 to 2005 was primarily due to the early settlement of some notes receivable related to a previous divestiture.

NOTE 12. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	2005	2004
Payables, trade and other	$256.2	$259.8
Employment costs	59.9	65.7
Restructuring severance expenses	2.8	18.0
Other	73.6	103.9
Total accounts payable and accrued expenses	$392.5	$447.4

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

NOTE 13. RESTRUCTURING AND OTHER ACTIONS

Net restructuring charges of $23.2 million and $18.3 million were recorded in 2005 and 2004, respectively. The following table summarizes these charges:

	Net Charge/ (Reversal)		(unaudited) Number of Employees Impacted	
Action Title	2005	2004		Segment
Lancaster Plant	$16.3	$ 1.0	450	Resilient Flooring
Hoogezand	6.3	10.9	130	Building Products
North America SG&A	(0.1)	5.3	250	Resilient Flooring, Wood Flooring, Corporate
Morristown	0.4	0.4	100	Cabinet Products
Oss	0.2	0.7	70	Textiles & Sports Flooring
Searcy	0.1	0.8	230	Wood Flooring
European Consolidation	—	(0.8)		Resilient Flooring, Textiles & Sports Flooring
Total	$23.2	$18.3		

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Lancaster Plant : The charges related to the fourth quarter 2004 decision to cease commercial flooring production at Lancaster in 2006. Commercial flooring production requirements will be serviced by other facilities around the world. Of the $16.3 million charge in 2005, $14.1 million is a non-cash charge related to termination benefits to be paid through the U.S. pension plan. In 2004, $0.6 million of the $1.0 million charge related to these non-cash benefits. The other $2.2 million in 2005 and $0.4 million in 2004 is comprised of severance and related costs. We have incurred project-to-date restructuring charges of $17.3 million related primarily to severance and pension related costs. We expect to incur approximately $13 million of restructuring charges in 2006, in addition to $0.3 million of accelerated depreciation and $11.6 million of other related costs, both in cost of goods sold, and approximately $6 million in SG&A. Further, we expect to realize a gain of approximately $15 million in 2006 from the sale of a warehouse which became available as a result of this initiative. We recorded $6.4 million and $10.3 million of accelerated depreciation in 2005 and 2004, respectively. We also recorded $6.3 million of other related costs in 2005 and $17.7 million of fixed asset impairments in 2004, both in cost of goods sold.

Hoogezand : These charges are related to the first quarter 2004 decision to close the manufacturing facility and are comprised of severance and related costs. Closure of the plant was completed in the first quarter of 2005. The production was transferred to another Building Products location in Münster, Germany and resulted in a net reduction of approximately 72 positions. We have incurred project-to-date restructuring charges of $17.2 million, and expect to incur an additional $0.6 million of restructuring charges and $0.2 million of accelerated depreciation in 2006. Additionally, we recorded $0.5 million and $1.4 million of accelerated depreciation in cost of goods sold in 2005 and 2004, respectively. We also recorded $0.7 million and $1.1 million of other related costs in cost of goods sold in 2005 and 2004, respectively. In 2005, we recorded fixed asset impairments of $0.4 million, also in cost of goods sold.

North America SG&A : The net reversal of $0.1 million in 2005 (Resilient Flooring) and net charge of $5.3 million in 2004 ($4.0 million in Resilient Flooring, $0.8 million in Wood Flooring, and $0.5 million in Corporate) were recorded for severance and related costs due to a restructuring of the sales force and management structure in North America in response to changing market conditions. This initiative was announced in the fourth quarter of 2004 and was completed in the second quarter of 2005. We incurred project-to-date restructuring charges of $5.2 million and do not expect to incur any additional charges.

Morristown : The charges related to the fourth quarter 2004 decision to close a plant in Tennessee in the first quarter of 2005. Manufacturing was consolidated at two existing plants in the United States. We have incurred project-to-date restructuring charges of $0.4 million for severance related charges and $0.4 million of related shutdown costs and do not expect to incur additional costs. Additionally, we recorded $0.2 million and $1.5 million of accelerated depreciation in 2005 and 2004, respectively, in cost of goods sold. We also recorded $1.0 million of other related costs in 2005 and $0.4 million of fixed asset impairments in 2004, both in cost of goods sold.

Searcy : The charge related to the fourth quarter 2004 decision to cease production at a solid hardwood flooring location in Arkansas in the first quarter of 2005 and was comprised of severance benefits and related costs. We continue to manufacture solid wood flooring at other plants across the United States. We incurred $0.9 million of restructuring charges for the project-to-date and do not expect to incur any additional charges. Additionally, in the fourth quarter of 2005, we recorded an asset impairment charge of $13.9 million related to property, plant and equipment at this site. See Note 8 for further discussion.

Oss : The charges were recorded to reflect shutdown costs related to a plant closure in The Netherlands. The related severance charges were recorded during the third quarter of 2003 when the plant closure was announced. We will continue to manufacture carpet at other plants across Europe. We incurred project-to-date restructuring charges of $4.9 million and do not expect to incur any additional costs in the future.

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European consolidation : The net reversal in 2004 comprised certain severance accruals that were no longer necessary in the remaining accruals from the 2003 and 2002 charges in the Textiles and Sports Flooring ($0.3 million) and Resilient Flooring ($0.5 million) segments.

In 2003, we recorded net restructuring charges of $8.6 million, primarily related to the European consolidation and Oss plant closure.

The following table summarizes activity in the reorganization and restructuring accruals for 2005 and 2004. The amount of net charges in the table does not agree to the income statement due to non-cash charges for enhanced retirement benefits that did not affect the restructuring accrual accounts.

	Beginning Balance	Cash Payments	Net Charges	Other	Ending Balance
2005	$ 24.8	$ (24.0)	$ 9.1	$(1.1)	$ 8.8
2004	10.0	(4.1)	17.7	1.2	24.8

The amount in “other” for 2005 and 2004 is related to the effects of foreign currency translation.

Of the 2005 and 2004 ending balances, $1.3 million is reported in liabilities subject to compromise.

Substantially all of the remaining balance of the restructuring accrual as of December 31, 2005 relates to a noncancelable operating lease, which extends through 2017, and severance for terminated employees with extended payouts, the majority of which will be paid in 2006.

NOTE 14. INCOME TAXES

The tax effects of principal temporary differences between the carrying amounts of assets and liabilities and their tax bases are summarized in the table below. Management believes it is more likely than not that results of future operations will generate sufficient taxable income to realize deferred tax assets including, specifically, the asbestos-related liability differences which will be realized subsequent to emergence from Chapter 11 as a U.S. net operating loss that may be carried forward for 20 years.

We have provided valuation allowances for certain state and foreign net operating loss carryforwards and other basis adjustments of $268.7 million. We have $513.6 million of state net operating loss carryforwards with expirations between 2006 and 2025, and $327.2 million of foreign net operating loss carryforwards, which are available for carryforward indefinitely. The net increase in valuation allowance from 2004 is primarily attributable to an increase for capital losses and certain non-U.S. operating losses generated in 2005, including additional needs to cover deferred tax liabilities with indefinite lives, offset by $4.6 million of losses utilized for state tax purposes.

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Deferred income tax assets (liabilities)	2005	2004
Postretirement and postemployment benefits	$ 108.9	$ 116.0
Chapter 11 reorganization costs and restructuring costs	40.9	21.5
Asbestos-related liabilities	1,262.7	1,352.7
Pension assets	33.9	38.6
Net operating losses	134.3	139.0
Capital losses	10.6	—
Other	87.2	36.2
Total deferred tax assets	1,678.5	1,704.0
Valuation allowance	(268.7)	(265.5)
Net deferred tax assets	1,409.8	1,438.5
Accumulated depreciation	(190.9)	(199.1)
Pension credit	(184.7)	(182.6)
Insurance for asbestos-related liabilities	(39.0)	(38.3)
Tax on unremitted earnings	(1.9)	(28.8)
Other	(32.5)	(53.4)
Total deferred income tax liabilities	(449.0)	(502.2)
Net deferred income tax assets	$ 960.8	$ 936.3
Deferred income taxes have been classified in the Consolidated Balance Sheet as:		
Deferred income tax asset – current	$ 15.4	$ 15.6
Deferred income tax asset – non-current	967.4	941.6
Deferred income tax liability – current	(0.8)	(1.1)
Deferred income tax liability – non-current	(21.2)	(19.8)
Net deferred income tax assets	$ 960.8	$ 936.3

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Details of taxes	2005	2004	2003
Earnings (loss) from continuing operations before income taxes:			
Domestic	$119.1	$ 80.7	$(53.7)
Foreign	(53.2)	(130.8)	20.0
Eliminations	36.4	(4.1)	(4.7)
Total	$102.3	$ (54.2)	$(38.4)
Income tax provision (benefit):			
Current:			
Federal	$ 1.6	$ 33.1	$ 25.2
Foreign	20.4	14.5	20.8
State	4.2	(0.9)	3.9
Total current	26.2	46.7	49.9
Deferred:			
Federal	(35.4)	(15.1)	(41.5)
Foreign	9.0	(6.2)	(9.3)
State	1.8	(0.3)	(0.7)
Total deferred	(24.6)	(21.6)	(51.5)
Total income taxes (benefit)	$ 1.6	$ 25.1	$ (1.6)

At December 31, 2005, unremitted earnings of subsidiaries outside the U.S. were $106.5 million. We expect to repatriate $7.3 million for which $1.9 million of U.S. taxes were provided in 2005. No U.S. taxes have been provided on the remaining unremitted earnings as our intention is to invest these earnings permanently. If such earnings were to be remitted, approximately $8.2 million in net taxes would be payable including $3.6 million of non-U.S. withholding taxes.

Reconciliation to U.S. statutory tax rate	2005	2004	2003
Continuing operations tax (benefit) at statutory rate	$ 35.8	$(19.0)	$(13.4)
State income taxes, net of federal benefit	3.4	(2.8)	0.4
Foreign losses and change in valuation allowance	25.2	18.4	7.8
Tax on foreign and foreign-source income	0.2	(3.4)	(5.8)
HIA Dividend tax cost	(0.4)	—	—
Goodwill impairment	—	37.9	—
Bankruptcy reorganization expense	2.5	(5.1)	9.0
Benefit for subsidiary debt impairment	(29.6)	—	—
Capital Loss Utilization	(3.7)	—	—
Permanent book/tax differences	(6.1)	(2.7)	0.4
Net tax on unremitted earnings	(25.7)	1.8	—
Tax expense (benefit) at effective rate	$ 1.6	$ 25.1	$ (1.6)

Other taxes	2005	2004	2003
Payroll taxes	$ 83.5	$ 81.5	$ 78.0
Property, franchise and capital stock taxes	16.3	17.8	15.8

During the fourth quarter of 2005, the company completed a restructuring of a subsidiary that resulted in a tax benefit on intercompany debt impairment of $29.6 million in addition to a capital loss tax benefit of $3.7 million. The restructuring also caused the elimination of previously unremitted taxable earnings on which we had recorded a deferred tax liability of $27.0 million.

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

The 2005, 2004 and 2003 tax provisions reflect the reversal of certain federal, state and foreign tax accruals no longer required due to the completion of tax audits and expiration of statutes of limitation partially offset by certain nondeductible expenses.

NOTE 15. DEBT

(See Note 4 regarding treatment of prepetition debt.)

($ millions)	2005	Average year-end interest rate	2004	Average year-end interest rate
Borrowings under lines of credit	$ 450.0	7.18%	$ 450.0	7.18%
DIP Facility	—	—	—	—
Commercial paper	50.0	6.75%	50.0	6.75%
Foreign banks	14.6	4.12%	11.1	3.68%
Bank loans due 2004-2015	15.4	6.10%	24.7	6.04%
9.00% medium-term notes due 2001	7.5	9.00%	7.5	9.00%
6.35% senior notes due 2003	200.0	6.35%	200.0	6.35%
6.50% senior notes due 2005	150.0	6.50%	150.0	6.50%
9.75% debentures due 2008	125.0	9.75%	125.0	9.75%
7.45% senior notes due 2029	200.0	7.45%	200.0	7.45%
7.45% senior quarterly interest bonds due 2038	180.0	7.45%	180.0	7.45%
Industrial development bonds	21.0	4.95%	21.0	4.13%
Capital lease obligations	1.5	7.63%	2.7	7.63%
Other	15.1	8.62%	15.1	8.61%
Subtotal	1,430.1	7.23%	1,437.1	7.21%
Less debt subject to compromise	1,388.6	7.29%	1,388.6	7.29%
Less current portion and short-term debt	20.0	4.70%	19.3	4.74%
Total long-term debt, less current portion	$ 21.5	5.17%	$ 29.2	4.80%

Approximately $29.9 million of the $41.5 million of total debt not subject to compromise outstanding as of December 31, 2005 was secured with buildings and other assets. Approximately $35.7 million of the $48.5 million of total debt not subject to compromise outstanding as of December 31, 2004 was secured with buildings and other assets.

Scheduled payments of long-term debt, excluding debt subject to compromise (millions):

2006	$ 5.4
2007	1.7
2008	1.3
2009	11.1
2010	1.2

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Debt from the table above included in liabilities subject to compromise consisted of the following at December 31, 2005 and 2004.

($ millions)	2005	2004
Borrowings under lines of credit	$ 450.0	$ 450.0
Commercial paper	50.0	50.0
9.00% medium-term notes due 2001	7.5	7.5
6.35% senior notes due 2003	200.0	200.0
6.50% senior notes due 2005	150.0	150.0
9.75% debentures due 2008	125.0	125.0
7.45% senior notes due 2029	200.0	200.0
7.45% senior quarterly interest bonds due 2038	180.0	180.0
Industrial development bonds	11.0	11.0
Other	15.1	15.1
Total debt subject to compromise	$1,388.6	$1,388.6

In accordance with SOP 90-7, we did not record contractual interest expense on prepetition debt after the Chapter 11 filing date. This unrecorded interest expense was $82.8 million, $86.9 million and $95.1 million for 2005, 2004 and 2003, respectively. Unrecorded interest expense reflects the amount of interest expense we would have incurred under the original maturities of prepetition debt.

On October 21, 2005, the Court announced it had approved AWI's motion to extend the maturity date from December 8, 2005, to December 8, 2006, on its $75 million DIP Credit Facility that is limited to issuances of letters of credit. Obligations under the DIP Facility to reimburse drawings under the letters of credit constitute a super-priority administrative expense claim in the Chapter 11 Case. As of December 31, 2005 and 2004, AWI had approximately $43.3 million and $40.6 million, respectively, in letters of credit that were issued under the DIP Facility.

In addition, AHI's foreign subsidiaries have approximately $25.4 million of unused short-term lines of credit available from banks. The credit lines are subject to immaterial annual commitment fees.

NOTE 16. PENSION AND OTHER BENEFIT PROGRAMS

We have defined benefit pension plans and postretirement medical and insurance benefit plans covering eligible employees worldwide. We also have defined-contribution pension plans for eligible employees. Benefits from defined benefit pension plans, which cover substantially all employees worldwide, are based primarily on an employee's compensation and years of service. We fund our pension plans when appropriate. The U.S. defined benefit pension plans were closed to new salaried and salaried production employees on January 1, 2005. On January 13, 2006 we announced that benefits will be frozen for certain non-production salaried employees effective February 28, 2006. We fund postretirement benefits on a pay-as-you-go basis, with the retiree paying a portion of the cost for health care benefits by means of deductibles and contributions.

Medicare Act

On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 ("The Act") became law in the United States. The Act provides employers sponsoring prescription drug programs for Medicare-eligible participants with a range of options for coordinating with the new government-sponsored program. These options include supplementing the government program on a secondary payor basis or accepting a direct subsidy from the government to support a portion of the cost of the employer's program.

Pursuant to guidance issued in the second quarter of 2004 by the FASB, we elected to begin recording the effect of the Act in the second quarter of 2004, retroactive to January 1, 2004. The Act affects both operating income and balance sheet liabilities over time. The 2005 total year benefit of $9.2 million was

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recorded in cost of goods sold ($5.6 million) and SG&A ($3.6 million). The 2004 total year benefit of $7.0 million was recorded in cost of goods sold ($3.9 million) and SG&A ($3.1 million). The reduction in the accumulated postretirement benefit obligation related to the Medicare benefit was $52.4 million, reflected in the 2004 actuarial (gain)/loss in the table below.

UNITED STATES PLANS

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

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

	Pension Benefits		Retiree Health and Life Insurance Benefits	
U.S. defined-benefit plans	**2005**	**2004**	**2005**	**2004**
Change in benefit obligation:				
Benefit obligation as of January 1	$1,637.4	$1,570.8	$ 396.7	$ 436.6
Service cost	24.7	23.2	2.9	3.4
Interest cost	96.0	91.3	20.6	22.3
Plan participants’ contributions	—	—	6.1	5.7
Plan amendments	(10.5)	0.9	(4.9)	—
Effect of curtailments	(8.3)	—	—	—
Effect of special termination benefits	14.1	0.6	—	—
Actuarial (gain)/loss	128.3	50.9	(9.7)	(37.0)
Benefits paid	(105.8)	(100.3)	(33.2)	(34.3)
Benefit obligation as of December 31	$1,775.9	$1,637.4	$ 378.5	$ 396.7
Change in plan assets:				
Fair value of plan assets as of January 1	$2,010.4	$1,882.9	—	—
Actual return on plan assets – gain	181.2	224.5	—	—
Employer contribution	3.4	3.3	$ 27.1	$ 28.6
Plan participants’ contributions	—	—	6.1	5.7
Benefits paid	(105.8)	(100.3)	(33.2)	(34.3)
Fair value of plan assets as of December 31	$2,089.2	$2,010.4	$ 0.0	$ 0.0
Funded status of the plans	$ 313.3	$ 373.0	$(378.5)	$(396.7)
Unrecognized net actuarial (gain)/loss	21.9	(46.4)	171.5	193.2
Unrecognized prior service cost (benefit)	101.7	117.7	(39.3)	(40.7)
Net asset/(liability) recognized	$ 436.9	$ 444.3	$(246.3)	$(244.2)

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U.S. defined-benefit plans	Pension Benefits 2005	Pension Benefits 2004	Retiree Health and Life Insurance Benefits 2005	Retiree Health and Life Insurance Benefits 2004
Weighted-average assumptions used to determine benefit obligations at December 31:				
Discount rate	5.50%	5.75%	5.50%	5.75%
Rate of compensation increase	4.00%	4.00%	4.00%	4.00%
Weighted-average assumptions used to determine net periodic benefit cost for years ended December 31:				
Discount rate	5.75%	6.00%	5.75%	6.00%
Expected return on plan assets	8.00%	8.00%	n/a	n/a
Rate of compensation increase	4.00%	4.00%	4.00%	4.00%

Investment Policies

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

Each asset class utilized by the RIP has a defined asset allocation target and allowable range. The table below shows the asset allocation target and the December 31, 2005 and 2004 position for each asset class:

Asset Class	Target Weight at December 31, 2005	Position at December 31, 2005	Position at December 31, 2004
Domestic equity	41%	37%	40%
International equity	22%	26%	25%
High yield bonds	5%	6%	6%
Long duration bonds	25%	27%	24%
Real estate	7%	2%	1%
Other fixed income	0%	2%	4%

Basis of Rate-of-Return Assumption

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

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Amounts recognized in the consolidated balance sheets consist of :

	Pension Benefits		Retiree Health and Life Insurance Benefits	
	2005	2004	2005	2004
Prepaid pension costs	$460.0	$465.1		
Pension benefit liabilities	(44.3)	(41.2)	$(246.3)	$(244.2)
Intangible asset	0.3	0.5	—	—
Other comprehensive income	20.9	19.9	—	—
Net asset/(liability) recognized	$436.9	$444.3	$(246.3)	$(244.2)

The accumulated benefit obligation for the U.S. defined benefit pension plans was $1,734.5 million and $1,551.0 million at December 31, 2005 and 2004, respectively.

	Pension Benefits	
U.S. pension plans with benefit obligations in excess of assets	2005	2004
Projected benefit obligation, December 31	$ 47.7	$ 46.1
Accrued benefit obligation, December 31	44.3	41.2
Fair value of plan assets, December 31	—	—

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

The components of pension credit are as follows:

	Pension Benefits		
U.S. defined-benefit plans	2005	2004	2003
Service cost of benefits earned during the year	$ 24.7	$ 23.2	$ 21.8
Interest cost on projected benefit obligation	96.0	91.3	91.8
Expected return on plan assets	(158.5)	(147.7)	(144.5)
Amortization of prior service cost	16.0	17.4	17.9
Amortization of net actuarial loss	1.5	1.5	1.4
Net periodic pension credit	$ (20.3)	$ (14.3)	$ (11.6)

As a result of our January 13, 2006 announcement that certain non-production salaried employees will have their plan benefits frozen as of February 28, 2006, we recorded a curtailment charge of $16.9 million in the fourth quarter of 2005 in cost of goods sold ($11.4 million) and SG&A ($5.5 million). This charge is not reflected in the table above.

In addition, we recorded separate charges of $14.1 million in 2005 and $0.6 million in 2004 within restructuring expense for special termination benefits related to the closure of certain operations at a manufacturing plant in Lancaster. See Note 13 for further information.

The components of postretirement benefits cost are as follows:

	Retiree Health and Life Insurance Benefits		
U.S. defined-benefit plans	2005	2004	2003
Service cost of benefits earned during the year	$ 2.9	$ 3.4	$ 3.4
Interest cost on accumulated postretirement benefit obligation	20.6	22.3	26.2
Amortization of prior service benefit	(5.6)	(5.1)	(5.1)
Amortization of net actuarial loss	11.9	9.7	12.3

Net periodic postretirement benefit cost	$29.8	$30.3	$36.8

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For measurement purposes, an average rate of 8% annual increase in the per capita cost of covered health care benefits was assumed for 2006, decreasing 1% per year to an ultimate rate of 6%. Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	One percentage point	
U.S. retiree health and life insurance benefit plans	**Increase**	**Decrease**
Effect on total of service and interest cost components	$ 0.7	$ (0.8)
Effect on postretirement benefit obligation	12.0	(14.6)

We expect to contribute $3.5 million to our U.S. defined benefit pension plans and $24.7 million to our U.S. postretirement benefit plans in 2006.

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

	Pension Benefits	Retiree Health and Life Insurance Benefits
2006	$ 95.7	$ 24.7
2007	94.6	25.3
2008	93.3	25.8
2009	93.2	26.1
2010	92.9	26.5
2011-2015	476.5	129.5

NON-U.S. PLANS

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

We use a December 31 measurement date for most of our non-U.S. defined benefit plans.

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Non-U.S. defined-benefit plans	Pension Benefits 2005	Pension Benefits 2004
Change in benefit obligation:		
Benefit obligation as of January 1	$ 488.0	$ 403.8
Service cost	10.0	9.3
Interest cost	21.7	21.2
Plan participants' contributions	3.5	3.6
Plan amendments	1.4	0.2
Foreign currency translation adjustment	(52.7)	37.1
Actuarial loss	25.1	33.1
Benefits paid	(22.3)	(20.3)
Benefit obligation as of December 31	$ 474.7	$ 488.0
Change in plan assets:		
Fair value of plan assets as of January 1	$ 248.2	$ 200.4
Actual return on plan assets - gain	35.4	17.7
Employer contributions	26.6	28.3
Plan participants' contributions	3.5	3.6
Foreign currency translation adjustment	(25.3)	18.5
Benefits paid	(22.3)	(20.3)
Fair value of plan assets as of December 31	$ 266.1	$ 248.2
Funded status of the plans	$(208.6)	$(239.8)
Unrecognized net actuarial loss	84.3	89.3
Unrecognized transition asset	(0.1)	(0.3)
Unrecognized prior service cost (benefit)	0.6	(0.7)
Net liability recognized	$(123.8)	$(151.5)

The funded status of non-U.S. defined-benefit plans was determined using the following assumptions:

Non-U.S. defined-benefit plans	Pension Benefits 2005	Pension Benefits 2004
Weighted-average assumptions used to determine benefit obligations at December 31:		
Discount rate	4.3%	4.8%
Rate of compensation increase	2.9%	3.2%
Weighted-average assumptions used to determine net periodic benefit cost for years ended December 31:		
Discount rate	4.8%	5.4%
Expected return on plan assets	5.7%	6.4%
Rate of compensation increase	3.2%	3.4%

Investment Policies

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

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Each of the plans has a targeted asset allocation for each asset class. The table below shows, for each asset class, the weighted average of the several plans' asset allocation targets and positions at December 31, 2005 and 2004:

Asset Class	Target Weight at December 31, 2005	Position at December 31, 2005	Position at December 31, 2004
Equities	46%	51%	49%
Long duration bonds	18%	17%	17%
Other fixed income	31%	30%	34%
Real estate	5%	2%	0%

Basis of Rate-of-Return Assumption

Long-term asset class return forecasts were obtained from investment professionals. The forecasts were averaged to come up with consensus passive return forecasts for each asset class. These forecast asset class returns were weighted by the plans' target asset class weights, yielding a long-term return forecast of 5.7% per annum.

Amounts recognized in the consolidated balance sheets consist of:

	Pension Benefits 2005	Pension Benefits 2004
Prepaid pension cost	$ 16.9	$ 15.8
Pension benefit liabilities	(179.4)	(217.7)
Intangible asset	2.7	3.4
Other comprehensive income	36.0	47.0
Net liability recognized	$(123.8)	$(151.5)

The accumulated benefit obligation for the non-U.S. defined benefit pension plans was $434.5 million and $449.0 million at December 31, 2005 and 2004, respectively.

Non-U.S. pension plans with benefit obligations in excess of assets	Pension Benefits 2005	Pension Benefits 2004
Projected benefit obligation, December 31	$474.7	$402.0
Accrued benefit obligation, December 31	434.5	370.3
Fair value of plan assets, December 31	266.1	161.8

The components of pension cost are as follows:

Non-U.S. defined-benefit plans	2005	2004	2003
Service cost of benefits earned during the year	$ 10.0	$ 9.3	$ 8.2
Interest cost on projected benefit obligation	21.7	21.2	19.4
Expected return on plan assets	(15.7)	(14.8)	(12.8)
Amortization of transition obligation (asset)	(0.1)	0.2	0.3
Amortization of prior service cost	0.3	0.2	0.6
Amortization of net actuarial loss	1.9	0.5	0.5
Net periodic pension cost	$ 18.1	$ 16.6	$ 16.2

In addition, we recorded a separate charge in 2003 of $0.3 million within restructuring expense for a curtailment loss related to the closure of certain operations at a manufacturing plant in Oss, the Netherlands. See Note 13 for further information.

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Costs for other non-U.S. defined contribution benefit plans and multiemployer pension plans were $11.7 million in 2005, $11.0 million in 2004, and $11.3 million in 2003.

We expect to contribute $23.9 million to our non-U.S. defined benefit pension plans in 2006.

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

	Pension Benefits
2006	$ 19.3
2007	19.8
2008	21.4
2009	22.3
2010	22.9
2011-2015	133.5

NOTE 17. FINANCIAL INSTRUMENTS

We do not hold or issue financial instruments for trading purposes. The estimated fair values of our financial instruments as of December 31, 2005 and 2004 are as follows:

	2005		2004	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Assets/(Liabilities):				
Debt subject to compromise	$(1,388.6)	$ (976.7)	$(1,388.6)	$ (982.8)
Long-term debt, including current portion	(26.9)	(26.9)	(37.4)	(37.4)
Foreign currency contract obligations	1.5	1.5	(13.9)	(13.9)
Natural gas contracts	18.7	18.7	5.3	5.3

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

We utilize lines of credit and other commercial commitments in order to ensure that adequate funds are available to meet operating requirements. On December 31, 2005, our foreign subsidiaries that are not participating in our Chapter 11 Case had available lines of credit totaling $45.2 million, of which $19.8 million was used, leaving $25.4 million of unused lines of credit for borrowing on December 31, 2005.

On December 31, 2005, we had outstanding letters of credit totaling $71.4 million, of which $43.3 million was issued under the DIP Facility. Letters of credit are currently arranged through AWI’s DIP Facility with JP Morgan Chase. Certain letters of credit arranged with Wachovia Bank, N.A. prior to the Filing remain outstanding. The DIP Facility had $31.7 million that remained available for issuance of letters of credit as of December 31, 2005. Letters of credit are issued to third party suppliers, insurance and financial institutions and typically can only be drawn upon in the event of AHI’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.

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NOTE 18. DERIVATIVE FINANCIAL INSTRUMENTS

We are exposed to market risk from changes in foreign currency exchange rates, interest rates and commodity prices that could impact our results of operations and financial condition. We use swap, forward and option contracts to hedge currency and commodity exposures. We regularly monitor developments in the capital markets and only enter into currency and swap transactions with established counter-parties having investment grade ratings. Exposure to individual counterparties is controlled, and thus we consider the risk of counterparty default to be negligible. Swap, forward and option contracts are entered into for periods consistent with underlying exposure and do not constitute positions independent of those exposures. At inception, we formally designate and document our derivatives as a hedge of a forecasted transaction or "cash flow" hedge. We use derivative financial instruments as risk management tools and not for speculative trading purposes. In addition, derivative financial instruments are entered into with a diversified group of major financial institutions and energy companies in order to manage Armstrong's exposure to nonperformance on such instruments.

Interest Rate Risk - Due to AWI's Chapter 11 Filing, all affected debt was classified as liabilities subject to compromise and there were no open interest rate derivatives as of December 31, 2005 and 2004.

Currency Rate Risk - We manufacture and sell our products in a number of countries throughout the world and, as a result, are exposed to movements in foreign currency exchange rates. To a large extent, our global manufacturing and sales provide a natural hedge of foreign currency exchange rate movement, as foreign currency expenses generally offset foreign currency revenues. We manage our cash flow exposures on a residual basis and use derivatives to hedge our unmatched foreign currency cash inflows and outflows. At December 31, 2005, our major foreign currency exposures are to the Euro, the Canadian dollar, and the British pound.

We use foreign currency forward exchange contracts to reduce our exposure to the risk that the eventual net cash inflows and outflows, resulting from the sale of product to foreign customers and purchases from foreign suppliers, will be adversely affected by changes in exchange rates. These derivative instruments are used for forecasted transactions and are classified as cash flow hedges. Cash flow hedges are executed quarterly for up to 15 months forward and allow us to further reduce our overall exposure to exchange rate movements, since the gains and losses on these contracts offset losses and gains on the transactions being hedged. The effective portion of gains and losses on these instruments are deferred in other comprehensive income until the underlying transaction is recognized in earnings. The net fair value of these instruments at December 31, 2005 was a liability of $2.8 million, most of which is expected to be charged to earnings in the next twelve months. The impact is reported in either net sales or cost of goods sold to match the underlying transaction being hedged. The net impact of these hedges was a loss of $1.1 million during 2005. There were no circumstances where hedge treatment was discontinued during 2005. The impact of the ineffective portion of these hedges was not material during 2005.

We also use foreign currency forward exchange contracts to hedge exposures created by cross-currency inter-company loans. The underlying inter-company loans are classified as short-term and translation adjustments related to these loans are recorded in other non-operating income. The offsetting gains and losses on the related derivative contracts are also recorded in other non-operating income. These transactions are executed on a six-month rolling basis and are offset or increased as repayment or additional inter-company loans are extended. The fair value of these instruments at December 31, 2005 was an asset of $4.2 million, all of which is expected to be taken to earnings in the next twelve months. During 2005, the net impact of these transactions was a gain of $3.0 million, recorded in other non-operating income, which was comprised of a gain of approximately $36.5 million from the foreign currency forward exchange contracts substantially offset by the 2005 translation adjustment of approximately $33.5 million for the underlying inter-company loans.

Commodity Price Risk - We purchase natural gas for use in the manufacture of ceiling tiles and other products and to heat many of our facilities. As a result, we are exposed to movements in the price of natural gas. We have a policy of reducing short term cost volatility by purchasing natural gas forward contracts, purchased call options, and zero-cash collars. 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 December 31, 2005 was an $18.7 million asset, of which $10.1 million is expected to be taken to earnings in the next twelve months. The impact of hedges that matured during 2005, recorded in cost of goods sold, was $14.4 million of income. The impact of the ineffective portion of these hedges was not material during 2005.

NOTE 19. GUARANTEES

As of December 31, 2005, we maintained an agreement with the lending institution of one of our distributors. Under this agreement, if the distributor were to default on its borrowings and the lender foreclosed on the assets, the bank could return a large part of any of our products still at the distributor (subject to certain quality and roll size minimums) for a refund of original cost. This agreement will expire in September 2006. At December 31, 2005, the amount of inventory held at the distributor was approximately $4.2 million. Historically, no claim has been made under any of these types of agreements and we do not anticipate any such claim in the future. As such, no liability has been recorded for this agreement.

In disposing of assets prior to the Filing, AWI and some subsidiaries had entered into contracts that included various indemnity provisions, covering such matters as taxes, environmental liabilities and asbestos and other litigation. Some of these contracts had exposure limits, but many did not. Due to the nature of the indemnities, it is not possible to estimate the potential maximum exposure under these contracts. As a debtor-in-possession, for those contracts that are still executory where AWI was the sole guarantor, AWI anticipates rejecting those contracts. Parties that timely file claims with respect to such contracts will have such claims addressed in AWI’s Chapter 11 Case. AWI cannot estimate the value of any potential claims that will ultimately be allowed by the Bankruptcy Court. See Item 1 - Business regarding Proceedings under Chapter 11.

Subsidiaries that are not part of the Chapter 11 Filing also entered into certain contracts that included various indemnity provisions similar to those described above. Since these subsidiaries are not part of the Chapter 11 Filing, these contracts continue to be in effect. Some of these contracts had exposure limits, but many did not. Due to the nature of the indemnities, it is not possible to estimate the potential maximum exposure under all these contracts. For contracts under which an indemnity claim has been received, a liability of $0.8 million has been recorded as of December 31, 2005. See Note 30 of the Consolidated Financial Statements for additional information.

In September 1999, we sold our Textiles Products operations. As part of the divestiture agreement, we transferred certain liabilities and assets to the purchaser to cover pension payments earned by the work force as of the sale date. We also reimburse the purchaser for such pension payments that are not covered by the pension assets. In addition, we agreed to reimburse the purchaser for the tax impact of our reimbursement of the pension payments. This agreement has no termination date. As of December 31, 2005, we maintained a $3.6 million net liability for this guarantee. As of December 31, 2005, the net present value of the maximum payments is approximately $5 million, excluding any amounts paid for tax reimbursement.

See Notes 4 and 22 for a discussion of the ESOP loan guarantee.

NOTE 20. 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. Generally, the terms of these warranties range up to 25 years and provide for the repair or

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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 2005 and 2004:

	2005	2004
Balance at beginning of year	$ 22.6	$ 25.5
Reductions for payments	(34.3)	(39.0)
Current year warranty accruals	34.6	37.3
Preexisting warranty accrual changes	(0.7)	(1.8)
Effects of foreign exchange translation	(1.1)	0.6
Balance at end of year	$ 21.1	$ 22.6

NOTE 21. OTHER LONG-TERM LIABILITIES

	2005	2004
Long-term deferred compensation arrangements	$39.4	$40.6
U.S. workers' compensation	18.3	16.9
Environmental liabilities not subject to compromise	7.9	9.4
Other	24.4	20.7
Total other long-term liabilities	$90.0	$87.6

NOTE 22. SAVINGS AND INVESTMENT PLAN (SIP)

In 1989, we established an Employee Stock Ownership Plan ("ESOP") that borrowed $270 million from banks and insurance companies, repayable over 15 years and guaranteed by AWI. The ESOP used the proceeds to purchase 5,654,450 shares of a new series of convertible preferred stock issued by Armstrong. In 1996, the ESOP was merged with the Retirement Savings Plan for salaried employees (a defined-contribution pension plan) to form the Retirement Savings and Stock Ownership Plan. On July 31, 1996, the trustee of the ESOP converted the preferred stock held by the trust into approximately 5.1 million shares of common stock at a one-for-one ratio. Effective March 1, 2005, the name of the plan was changed to the Savings and Investment Plan (SIP).

The number of shares released for allocation to participant accounts has been based on the proportion of principal and interest paid to the total amount of debt service remaining to be paid over the life of the borrowings. Through December 31, 2005, the SIP allocated 1,969,000 shares to participants that remain outstanding, participants retired 2,455,000 shares, AHI contributed an additional 437,000 shares from its treasury and the trustee purchased 243,000 shares on the open market to allocate to employees. During 2005 and 2004, the SIP sold 1,462,000 and 450,000 unallocated shares on the open market, respectively. The proceeds from the sale remain in the SIP and are expected to be allocated to participants no later than when the SIP debt is addressed in AWI's Chapter 11 proceedings. As of December 31, 2005, there were no shares in the SIP that had yet to be allocated to participants.

The SIP is a qualified defined contribution plan that also includes a 401(k) elective deferral component. A substantial portion of U.S. employees are eligible and participate. The SIP currently covers parent company nonunion employees, some parent company union employees, Wood Flooring salaried employees, and Cabinets salaried employees. We recorded costs for the SIP of $6.5 million in 2005, $5.8 million in 2004 and $5.6 million in 2003, which related to company cash matching contributions.

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

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

NOTE 23. STOCK-BASED COMPENSATION PLANS

Awards under the 1993 Long-Term Stock Incentive Plan ("1993 Plan") were made in the form of stock options, stock appreciation rights in conjunction with stock options, performance restricted shares and restricted stock awards. No additional awards may be issued under the 1993 Plan.

During 1999, we adopted the 1999 Long-Term Incentive Plan ("1999 Plan") which replaced the 1993 Plan. Pre-1999 grants made under predecessor plans will be governed under the provisions of those plans. The 1999 Plan provides for the granting of incentive stock options, nonqualified stock options, stock appreciation rights, performance-restricted shares and restricted stock awards. The 1999 Plan also incorporates stock awards and cash incentive awards. No more than 3,250,000 shares of common stock may be issued under the 1999 Plan, and no more than 300,000 of the shares may be awarded in the form of performance restricted shares, restricted stock awards or stock awards. The 1999 Plan does not allow awards to be granted after April 25, 2009.

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

All three of the plans discussed above will most likely be terminated upon AWI emerging from Chapter 11. No equity based compensation has been granted since AWI filed for relief under Chapter 11 in December 2000, other than commitments entered into prior to the Chapter 11 filing.

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

Changes in option shares outstanding

(thousands except for share price)	2005	2004	2003
Option shares at beginning of year	2,264.0	2,376.9	2,508.8
Options granted	—	—	—
Option shares exercised	—	—	—
Options cancelled	(276.7)	(112.9)	(131.9)
Option shares at end of year	1,987.3	2,264.0	2,376.9
Option shares exercisable at end of year	1,987.3	2,264.0	2,343.6
Shares available for grant	4,815.4	4,538.7	4,425.8
Weighted average price per share:			
Options outstanding	$ 27.97	$ 29.75	$ 30.62
Options exercisable	$ 27.97	$ 29.75	$ 31.01

The table below summarizes information about stock options outstanding at December 31, 2005. (thousands except for life and share price)

	Options outstanding and exercisable		
Range of exercise prices	Number outstanding and exercisable at 12/31/05	Weighted-average remaining contractual life	Weighted-average exercise price
$1.19 - $3.60	200.0	5.1	$ 2.39
$3.61 - $16.40	100.0	4.6	16.38
$16.41 - $19.50	1,200.4	4.2	19.44
$19.51 - $60.00	307.7	1.4	55.34
$60.01 - $83.06	179.2	1.9	73.14
	1,987.3		

Restricted stock awards were used for the purposes of recruitment, special recognition and retention of key employees. No award of restricted stock shares was granted in 2005, 2004 or 2003. At the end of 2005, there were 114,419 restricted shares of common stock outstanding with 715 accumulated dividend equivalent shares.

FAS 123 permits entities to continue to apply the provisions of APB Opinion No. 25 and provide pro forma net earnings disclosures. Had compensation costs for these plans been determined consistent with FAS 123, our net earnings would have been changed to the following pro forma amounts.

	2005	2004	2003
Net earnings (loss):			
As reported	$111.1	$(79.7)	$(39.3)
Pro forma	$111.1	$(79.7)	$(39.4)

The fair value of grants was estimated on the date of grant using the Black-Scholes option pricing model. There were no stock options granted in 2005, 2004 or 2003.

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NOTE 24. EMPLOYEE COMPENSATION

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

Employee compensation cost	2005	2004	2003
Wages and salaries	$ 800.2	$778.5	$718.9
Payroll taxes	83.5	81.5	78.0
Pension expense (credits), net	26.4	13.3	15.9
Insurance and other benefit costs	92.8	96.0	112.2
Stock-based compensation	(0.1)	—	0.2
Total	$1,002.8	$969.3	$925.2

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

NOTE 25. LEASES

We rent certain real estate and equipment. Several leases include options for renewal or purchase, and contain clauses for payment of real estate taxes and insurance. In most cases, management expects that in the normal course of business, leases will be renewed or replaced by other leases. As part of the Chapter 11 Case, AWI must decide whether to assume, assume and assign, or reject prepetition unexpired leases and other prepetition executory contracts. AWI has been granted an extension through and including the date on which an order confirming the Plan is entered by the U.S. District Court for the District of Delaware to make these decisions with respect to prepetition unexpired leases of real property. With respect to prepetition executory contracts and unexpired leases not related to real estate, AWI has until confirmation of a reorganization plan to make these decisions unless such time is shortened by the Bankruptcy Court. The accompanying financial statements do not reflect any adjustment related to assumption or rejection of such agreements.

Rental expense was $24.9 million in 2005, $22.4 million in 2004 and $21.3 million in 2003. Future minimum payments at December 31, 2005, by year and in the aggregate, having noncancelable lease terms in excess of one year were as follows:

Scheduled minimum lease payments	Capital Leases	Operating Leases
2006	$ 1.0	$ 14.6
2007	0.7	12.1
2008	0.3	8.4
2009	—	4.9
2010	—	2.5
Thereafter	0.1	7.9
Total	$ 2.1	$ 50.4

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

	2005	2004
Land	$ 3.8	$ 3.8
Building	4.1	4.1
Machinery	25.2	26.7
Less accumulated amortization	(14.9)	(14.6)
Net assets	$ 18.2	$ 20.0

NOTE 26. SHAREHOLDERS' EQUITY

Treasury shares were unchanged at 11,393,170 for 2005, 2004, and 2003.

The balance of each component of accumulated other comprehensive income as of December 31, 2005 and 2004 is presented in the table below.

	2005	2004
Foreign currency translation adjustments	$ 70.2	$ 84.3
Derivative gain, net	4.8	3.6
Minimum pension liability adjustments	(37.9)	(45.1)
Accumulated other comprehensive income	$ 37.1	$ 42.8

The related tax effects allocated to each component of other comprehensive income for 2005 are presented in the table below.

	Pre-tax Amount	Tax Expense (Benefit)	After tax Amount
Foreign currency translation adjustments	$(13.8)	$ (0.3)	$ (14.1)
Derivative gain, net	1.8	(0.6)	1.2
Minimum pension liability adjustments	10.0	(2.8)	7.2
Total other comprehensive income	$ (2.0)	$ (3.7)	$ (5.7)

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NOTE 27. SUPPLEMENTAL FINANCIAL INFORMATION

	2005	2004	2003
Selected operating expenses			
Maintenance and repair costs	$115.4	$118.9	$107.8
Research and development costs	48.5	47.0	46.1
Advertising costs	33.3	31.8	32.7
Other non-operating expense			
Foreign currency translation loss, net of hedging activity	—	$ 1.3	$ 3.8
Equity loss in ISI	$ 0.9	—	—
Other	0.6	1.8	1.9
Total	$ 1.5	$ 3.1	$ 5.7
Other non-operating income			
Interest income	$ 4.6	$ 4.0	$ 3.5
Foreign currency translation gain, net of hedging activity	2.8	—	—
Equity earnings in ISI	0.7	1.9	0.3
Gain on sale of ISI	3.4	—	—
Interest on asbestos receivable payment	—	—	1.1
Other	0.4	0.5	0.1
Total	$ 11.9	$ 6.4	$ 5.0

NOTE 28. SUPPLEMENTAL CASH FLOW INFORMATION

	2005	2004	2003
Interest paid	$ 2.5	$ 2.8	$ 3.1
Income taxes paid, net of refunds	$42.9	77.3	27.5

NOTE 29. RELATED PARTIES

We sold 65% of our ownership in our gasket products subsidiary, (now known as Interface Solutions, Inc. or "ISI") on June 30, 1999. We still retained a 35% ownership of this business as of December 31, 2004. As part of the 1999 divestiture, we had agreed to continue to purchase a portion of the felt products used in the manufacturing of resilient flooring from ISI for an initial term of eight years. We were required to purchase at least 75% of our felt requirements from ISI. Our purchases of felt products from ISI for the pre-divested part of 2005, 2004 and 2003 were $16.4 million, $27.5 million and $26.9 million, respectively. The amounts due to ISI for these purchases were $1.7 million and $1.6 million at the end of 2004 and 2003. Additionally, we had received nominal monthly payments from ISI for some logistics and administrative services. The amounts outstanding from ISI at the end of 2004 and 2003 for the logistics and administrative services we had provided to them were less than $0.1 million. On August 8, 2005 we sold our remaining 35% equity interest in ISI and ISI is no longer considered a related party. See Note 9 for additional information.

We purchase grid products from WAVE, our 50%-owned joint venture with Worthington Industries. The total amount of these purchases was approximately $68 million, $60 million and $51 million for the years ended December 31, 2005, 2004 and 2003, respectively. We also provide certain selling, promotional and administrative processing services to WAVE for which we receive reimbursement. Those services amounted to $13.0 million, $11.8 million and $9.8 million for the years ended December 31, 2005, 2004 and 2003, respectively. The net amounts due from us to WAVE for all of our relationships were $4.4 million and $4.0 million at the end of 2005 and 2004. See Note 9 for additional information.

NOTE 30. LITIGATION AND RELATED MATTERS ASBESTOS-RELATED LITIGATION

(Note: Particular documents referred to in this section are available at www.armstrongplan.com)

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

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

Asbestos-Related Personal Injury Claims

Prior to the Filing, AWI was a member of the Center for Claims Resolution (the "CCR"), which handled the defense and settlement of asbestos-related personal injury claims on behalf of its members. The CCR pursued broad-based settlements of asbestos-related personal injury claims under the Strategic Settlement Program ("SSP") and had reached agreements with law firms that covered approximately 130,000 claims that named AWI as a defendant.

Due to the Filing, holders of asbestos-related personal injury claims are stayed from continuing to prosecute pending litigation and from commencing new lawsuits against AWI. In addition, AWI ceased making payments to the CCR with respect to asbestos-related personal injury claims, including payments pursuant to the outstanding SSP agreements. A creditors' committee representing the interests of asbestos-related personal injury claimants and an individual representing the interests of future claimants have been appointed in the Chapter 11 Case. AWI's present and future asbestos-related liability will be addressed in its Chapter 11 Case. See Note 1 regarding AWI's Chapter 11 proceeding.

During 2003, AWI and the other parties in its Chapter 11 Case reached agreement on a plan of reorganization that addresses how all of AWI's pre-Filing liabilities are to be settled. Several amendments to the plan of reorganization were filed, culminating in the Fourth Amended Plan of Reorganization filed with the Bankruptcy Court on May 23, 2003, which was modified by modifications filed with the Bankruptcy Court on October 17, 2003, November 10, 2003, and December 3, 2004, and is referred to in this report as the "POR".

Before a plan of reorganization may be implemented by AWI, it must be confirmed by order of both the Bankruptcy Court and the U.S. District Court. In addition, consummation of a plan of reorganization may be subject to the satisfaction after confirmation of certain conditions, as provided by the plan of reorganization. On November 17 and 18, 2003, the Bankruptcy Court held a hearing on confirmation of the POR and on December 19, 2003, issued proposed findings of fact and conclusions of law and a proposed order confirming the POR, notwithstanding the rejection of the POR by the class of unsecured creditors. On December 29, 2003, the Unsecured Creditors' Committee filed an objection to the Bankruptcy Court's proposed findings of fact and conclusions of law and the proposed order of confirmation of the POR. On February 23, 2005, the U.S. District Court Judge Eduardo C. Robreno ruled that the POR, in its current form, could not be confirmed. In the court's decision, the Judge found that, because the class of unsecured creditors voted to reject the POR, the distribution of warrants to existing equity holders under the POR violated the absolute priority rule. AWI filed a Notice of Appeal to the U.S. Court of Appeals for the Third Circuit on March 4, 2005. On December 29, 2005, the U.S. Court of Appeals affirmed the District Court's decision to deny confirmation of the POR.

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At a status conference before Judge Robreno on February 3, 2006, AWI and the court-authorized representatives of AWI's creditors and claimants advised the Court that they had agreed on a proposed schedule for a confirmation hearing on a modified POR which would eliminate the provisions regarding distribution of warrants to existing AHI equity holders. Under the modified POR, existing AHI equity holders would receive no distribution and their equity interests would be cancelled. Following the conference, Judge Robreno signed an order that established such a schedule for a U.S. District Court confirmation hearing on the modified POR. The schedule calls for the confirmation hearing to commence on May 23, 2006. At that hearing, the Court will hear testimony and review other evidence relating to the Unsecured Creditors Committee's objection that the modified POR unfairly discriminates against the unsecured creditors, based on the size of the present and future asbestos liability implied by the modified POR. AWI filed the modified POR with the Court on February 21, 2006. AWI is also monitoring a proposed asbestos claims litigation reform bill in Congress. See Note 1 for further discussion of AWI's Chapter 11 process. AWI is unable to predict whether the modified POR will be confirmed or when AWI would emerge from Chapter 11.

A description of the basic components of the POR, which remain unchanged in the modified POR, follows.

Basic Components of the POR

A principal feature of the POR is the creation of a trust (the "Asbestos PI Trust"), pursuant to section 524(g) of the Bankruptcy Code, for the purpose of addressing AWI's personal injury (including wrongful death) asbestos-related liability. All present and future asbestos-related personal injury claims against AWI, including contribution claims of co-defendants, arising directly or indirectly out of AWI's pre-Filing use of or other activities involving asbestos would be channeled to the Asbestos PI Trust.

In accordance with the 524(g) injunction if the POR goes into effect, various entities would be protected from such present and future asbestos-related personal injury claims. These entities include, among others, reorganized AWI, AHI, AWI's subsidiaries and other affiliates (as defined in the POR), and their respective officers and directors. Upon emergence from Chapter 11, AWI would not have any responsibility for these claims (including claims against AWI based solely on its ownership of a subsidiary or other affiliate), nor would it participate in their resolution.

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

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

There also is uncertainty as to proceedings, if any, brought in certain foreign jurisdictions with respect to the effect of the 524(g) injunction in precluding the assertion in such jurisdictions of asbestos-related personal injury claims, proceedings related thereto or the enforcement of judgments rendered in such proceedings.

Management believes that neither AWI nor any of its subsidiaries or other affiliates is subject to any asbestos-related personal injury claims that would not be channeled to the Asbestos PI Trust and that are of a magnitude that, individually or collectively, would be material to reorganized Armstrong.

Potential Legislation

On April 19, 2005 asbestos personal injury claims reform legislation was introduced, as the FAIR Act of 2005 (S.852), to the United States Senate. On May 26, 2005 the bill was reported out of committee. There is uncertainty as to whether this bill or any asbestos reform proposal will become law, and what impact there might be on AWI's Chapter 11 Case.

If legislation as currently proposed is enacted into law prior to AWI implementing a confirmed plan of reorganization, AWI's asbestos liability would likely be materially reduced from the $3.2 billion amount currently recorded, but its size would depend on AWI's payment obligations under the law and the present value of those obligations. In such event, AWI would seek to develop a new plan of reorganization based on a re-evaluation of the then value of AWI's assets and ongoing businesses, the amount of allowed unsecured claims against AWI (including any post-petition interest that may be allowed on such claims, as to which no amount is currently recorded in AWI's liabilities subject to compromise), the amount AWI would be required to pay under the enacted legislation, and other factors. Under the absolute priority rule applicable in Chapter 11, AWI's shareholder would not be entitled to any recovery until the allowed claims of all of its creditors have been satisfied. We do not know enough today to predict the likely terms of a reorganization plan that may be feasible under such circumstances, or if such reorganization would result in existing AHI shareholders receiving or retaining any equity value in AWI upon AWI's emergence from Chapter 11.

Asbestos-Related Liability

Based upon events through early March 2003, specifically the parties' agreement on the basic terms of the POR's treatment of AWI's asbestos-related liabilities, management concluded that it could reasonably estimate its probable liability for AWI's current and future asbestos-related personal injury claims. Accordingly, in the fourth quarter of 2002, AWI recorded a $2.5 billion charge to increase the balance sheet liability. The recorded asbestos-related liability for personal injury claims of approximately $3.2 billion at December 31, 2005 and December 31, 2004, which was treated as subject to compromise, represents the estimated amount of liability that is implied based upon the negotiated resolution reflected in the POR, the total consideration expected to be paid to the Asbestos PI Trust pursuant to the POR and an assumption for this purpose that the recovery value percentage for the allowed claims of the Asbestos PI Trust is equal to the estimated recovery value percentage for the allowed non-asbestos unsecured claims.

AWI is unable to predict whether the modified POR will be confirmed, or when AWI would emerge from Chapter 11. Therefore, the timing and terms of resolution of the Chapter 11 Case remain uncertain. As long as this uncertainty exists, future changes to the recorded asbestos-related liability are possible and could be material to AWI's financial position and the results of its operations. Management will continue to review the recorded liability in light of future developments in the Chapter 11 Case and with respect to any legislation, and will make changes to the recorded liability if and when it is appropriate.

Insurance Recovery Proceedings

A substantial portion of AWI's primary and remaining excess insurance asset is nonproducts (general liability) insurance for personal injury claims. AWI has entered into settlements with a number of the carriers resolving its coverage issues. However, an alternative dispute resolution ("ADR") procedure was commenced against certain carriers to determine the percentage of resolved and unresolved claims that are nonproducts claims, to establish the entitlement to such coverage and to determine whether and how much reinstatement of prematurely exhausted products hazard insurance is warranted. The nonproducts coverage potentially available is substantial and includes defense costs in addition to limits.

During 1999, AWI received preliminary decisions in the initial phases of the trial proceeding of the ADR, which were generally favorable to AWI on a number of issues related to insurance coverage. However, during the first quarter of 2001, a new trial judge was selected for the ADR. The new trial judge conducted hearings in 2001 and determined not to rehear matters decided by the previous judge. In the first quarter of 2002, the trial judge concluded the ADR trial proceeding with findings in favor of AWI on substantially all key issues. Liberty Mutual, the only insurer that is still a party to the ADR, appealed that final judgment. Appellate argument was held on March 11, 2003. On July 30, 2003, the appellate arbitrators ruled that AWI's claims against certain Liberty Mutual policies were barred by the statute of limitations. The ruling did not address the merits of any of the other issues Liberty Mutual raised in its appeal. Based on that unfavorable ruling, AWI concluded that insurance assets of $73 million were no longer probable of recovery. AWI was also ordered to reimburse Liberty Mutual for certain costs and administration fees that Liberty Mutual incurred during the ADR. The $1.6 million claimed for these costs and fees is in dispute. Based upon an AWI request, the appellate panel held a rehearing on November 21, 2003. In January 2004, the appellate panel upheld its initial ruling. On February 4, 2004, AWI filed a motion in the U.S. District Court for the Eastern District of Pennsylvania to vacate the rulings of the appellate panel.

In July 2002, AWI filed a lawsuit against Liberty Mutual in the U.S. District Court for the Eastern District of Pennsylvania seeking, among other things, a declaratory judgment with respect to certain policy issues not subject to binding ADR. The U.S. District Court has not yet set a schedule to hear this matter.

On June 13, 2003, the New Hampshire Insurance Department placed The Home Insurance Company ("Home") under an order of liquidation. Less than $10 million of AWI's recorded insurance asset is based on policies with Home, which management believes is probable of recovery. AWI filed a proof of claim against Home during June 2004. It is uncertain when AWI will receive proceeds from Home under these insurance policies.

Insurance Asset

An insurance asset in respect of asbestos claims in the amount of $98.6 million was recorded as of December 31, 2005 and December 31, 2004. The total amount recorded reflects AWI's belief that insurance proceeds will be recovered in this amount, based upon AWI's success in insurance recoveries, settlement agreements that provide such coverage, the nonproducts recoveries by other companies and the opinion of outside counsel. Such insurance, in our opinion, is either available through settlement or probable of recovery through negotiation or litigation. Depending on further progress of the ADR, activities such as settlement discussions with insurance carriers party to the ADR and those not party to the ADR, the final determination of coverage shared with ACandS (the former AWI insulation contracting subsidiary that was sold in August 1969 and which filed for relief under Chapter 11 of the Bankruptcy Code in September 2002) and the financial condition of the insurers, AWI may revise its estimate of probable insurance recoveries. Approximately $79 million of the $98.6 million asset is determined from agreed coverage in place. Of the $98.6 million, $9.8 million has been recorded as a current asset as of December 31, 2005 reflecting management's estimate of the minimum insurance payments to be received in the next 12 months.

Many uncertainties remain in the insurance recovery process; therefore, AWI did not increase the estimated insurance recovery asset in 2005.

Cash Flow Impact

As a result of the Chapter 11 Filing, AWI has not made any payments for asbestos-related personal injury claims since the fourth quarter of 2000. Additionally, AWI did not receive any asbestos-related insurance recoveries during 2005 but received $4.5 million during 2004. During the pendency of the Chapter 11 Case, AWI does not expect to make any further cash payments for asbestos-related claims, but AWI expects to continue to receive insurance proceeds under the terms of various settlement agreements. Management estimates that the timing of future cash recoveries of the recorded asset may extend beyond 10 years.

Conclusion

Many uncertainties continue to exist about the matters impacting AWI's asbestos-related liability and insurance asset. These uncertainties include when and if a plan of reorganization will be confirmed by the Bankruptcy Court and the U.S. District Court, the impact of any potential legislation, and the financial condition of AWI's insurance carriers.

Additionally, if a plan of reorganization is confirmed, AWI is unable to predict when it will be implemented. Therefore, the timing and terms of resolution of the Chapter 11 Case remain uncertain. As long as this uncertainty exists, future changes to the recorded liability and insurance asset are possible and could be material to AWI's financial position and the results of its operations. Management will continue to review the recorded liability and insurance asset in light of future developments in the Chapter 11 Case and with respect to any legislation, and will make changes to the recorded amounts if and when it is appropriate.

ENVIRONMENTAL MATTERS

Environmental Expenditures

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

As a result of continuous changes in regulatory requirements, we cannot predict with certainty future expenditures associated with compliance with environmental requirements. The United States Environmental Protection Agency ("EPA") has promulgated a new regulation pursuant to the Clean Air Act that may impact our domestic manufacturing operations. That regulation, The National Emission Standards for Hazardous Air Pollutants for Industrial, Commercial, and Institutional Boilers and Process Heaters Act, became effective in November, 2004, and requires compliance by September 13, 2007. While we are finalizing our review of this regulation, adoption of this regulation is not expected to have a material impact on our consolidated results of operations or financial condition.

Environmental Remediation

Summary

We are involved in proceedings under the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"), and similar state "Superfund" laws at 28 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 and which, in some cases, have agreed to jointly fund that required investigation and remediation. With regard to some sites, however, we dispute the liability, the proposed remedy or the proposed cost allocation among the PRPs. We may have rights of contribution or reimbursement from other parties or coverage under applicable insurance policies.

We have also been remediating environmental contamination resulting from past industrial activity at certain of our former plant sites. 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 also identified as 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 the parties, whether liability is being disputed, the terms of any existing agreements and experience with similar matters. Additionally, the Chapter 11 Case also may affect the ultimate amount of such contributions.

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Effects of Chapter 11

Certain of AWI's environmental liabilities are subject to discharge through its Chapter 11 Case while others are not. AWI's payments and remediation work on such sites for which AWI is a PRP is under review in light of the Chapter 11 Filing. The bar date for claims from the EPA expired during the third quarter of 2003. AWI received an unliquidated proof of claim from the EPA. Those environmental obligations that AWI has with respect to property that it owns or operates are likely to be unaffected by the Chapter 11 Case. Therefore, AWI will be required to continue meeting its on-going environmental compliance obligations at the properties that AWI owns or operates. AWI will also be required to address the effects of any contamination at those sites, even if the contamination predated Chapter 11 Filing. In addition, AWI may be obligated to remedy the off-site impact of activities that occurred on the properties it owns and operates.

Monetary claims 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) may be discharged in AWI's Chapter 11 Case. Accordingly, 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 would be subject to discharge, provided the claimant received proper notice of the bankruptcy and bar date. The same would be true for monetary claims by private parties, such as other PRPs with respect to sites with multiple PRPs. Under the POR, the Superfund sites at which AWI is alleged to be a PRP are being treated as unsecured liabilities subject to compromise. Other Superfund sites relate to entities that are not part of AWI's Chapter 11 Case and therefore will not be discharged.

In addition to the right to sue for reimbursement of the money it spends, 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 do not survive Chapter 11, there does not appear to be controlling judicial precedent that these injunctive rights are dischargeable. Thus, according to some cases, while a governmental agency's right to require AWI to reimburse it for the costs of cleaning up a site may be dischargeable, the same government agency's right to compel us to spend our money cleaning up the same site may not be dischargeable even though the financial impact to AWI would be the same in both instances.

Specific Events

AWI has been working to resolve as many of its environmental liabilities through its Chapter 11 Case as possible. AWI has entered into a global environmental settlement with the Department of Justice ("DOJ") and the EPA with respect to CERCLA liability at 37 sites. Pursuant to the proposed Settlement Agreement, the federal government would covenant not to sue AWI for either monetary or injunctive relief under CERCLA at 19 of these sites, in exchange for an allowed claim amount in the bankruptcy with respect to known claims concerning sites that AWI does not own or operate. Under the settlement, AWI also has contribution protection under CERCLA with respect to private party claims at the sites at which the government receives an allowed claim. Additionally, AWI has the benefit of discharge both at the 19 sites for which the government receives an allowed claim and at an additional 18 sites identified in the Settlement Agreement. At an additional site, AWI will continue to participate in the cleanup under a previously approved Consent Decree. The EPA Settlement Approval Order was entered by the Bankruptcy Court in October 2005. In accordance with this global settlement becoming effective, the EPA proof of claim has been amended to assert a claim in the amount of $8.7 million. This amount includes the $7.8 million that AWI and EPA agreed upon with respect to the Peterson Puritan site. In connection with the global settlement, AWI filed a motion with the Bankruptcy Court on January 11, 2006, objecting to claims asserted by certain PRPs and requesting the Court enter an order disallowing such claims. On February 21, 2006 the Court issued its order disallowing such claims.

AWI is subject to a unilateral order by the Oregon Department of Environmental Quality ("DEQ") to conduct a remedial investigation and feasibility study and any necessary remedial design and action at its

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St. Helens, Oregon facility, as well as the adjacent Scappoose Bay. AWI has denied liability for Scappoose Bay, but has cooperated with the DEQ regarding its owned property. Other potentially responsible parties who are not yet subject to orders by the DEQ include former site owners Owens Corning ("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 site. OC has entered into a settlement with the DEQ. Pursuant to the settlement, 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. AWI has reached an agreement with the DEQ as to how these funds will be made available for the investigation and remediation of the site. AWI has recorded an environmental liability with respect to the investigation and feasibility study at its St. Helen's facility, but not for Scappoose Bay because AWI continues to dispute responsibility for contamination of Scappoose Bay.

A foreign subsidiary of AWI sold a manufacturing facility in 1990, which was prior to AWI's acquisition of the subsidiary. Under the terms of the sales agreement, an environmental indemnification was provided to the buyer of the facility. During the third quarter of 2005, the facility owner discovered additional areas of soil contamination that require additional remediation. Accordingly, a $3.1 million charge was recorded within SG&A expense to increase our probable liability. As additional sampling efforts and meetings with local government authorities continue, further increases to our recorded liability are possible.

Summary of Financial Position

Liabilities of $27.3 million and $28.0 million at December 31, 2005 and December 31, 2004, 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 additional information as it becomes available. Due to the Chapter 11 Filing, $19.4 million of the December 31, 2005 and $18.6 million of the December 31, 2004 environmental liabilities are classified as prepetition liabilities subject to compromise. As a general rule, the Chapter 11 process does not preserve company assets for such prepetition liabilities.

The estimated liabilities above do not take into account any claims for recoveries from insurance or third parties. Such recoveries, where probable, have been recorded as an asset in the consolidated financial statements and are either available through settlement or anticipated to be recovered through negotiation or litigation. The amount of the recorded asset for estimated recoveries was $2.3 million at December 31, 2005 and $2.4 million at December 31, 2004.

Actual costs to be incurred at identified sites may vary from our estimates. Based on our current knowledge of the identified sites, we believe that any sum we may have to pay in connection with environmental matters in excess of the amounts noted above would not have a material adverse effect on our financial condition, or liquidity, although the recording of future costs may be material to earnings in such future period.

PATENT INFRINGEMENT CLAIMS

We are a defendant in two lawsuits claiming patent infringement related to some of our laminate flooring products. The plaintiffs have claimed unspecified monetary damages. We are being defended and indemnified by our supplier for costs and potential damages related to the litigation.

BREACH OF CONTRACT CLAIM

Since 2003, we had been pursuing a breach of contract claim against a former laminate flooring supplier. An arbitration hearing was held in March 2005. In July 2005 the tribunal communicated that it intended to rule in Armstrong's favor. A hearing to address an award amount had been scheduled in September

2005. Prior to this scheduled hearing, the parties reached a settlement in which the supplier agreed to pay $6.75 million to Armstrong to resolve all existing and potential claims between the parties. The Bankruptcy Court approved the settlement in October 2005. Accordingly, we recorded a net gain in the third quarter of 2005 of $6.4 million in our Resilient Flooring ($5.2 million) and Wood Flooring ($1.2 million) segments.

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 expect that any sum that may have to be paid in connection with these matters will have a materially adverse effect on our consolidated financial position or liquidity, however it could be material to the results of operations in the particular period in which a matter is resolved.

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

Not applicable.

ITEM 9A. 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 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 is recorded, processed, summarized and reported, within the time periods specified in the Commission’s rules and forms.

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the fiscal quarter ended December 31, 2005 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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

ITEM 9B. OTHER INFORMATION

Shareholder Rights Plan Extended

On February 20, 2006, the Board of Directors of Armstrong Holdings, Inc. extended the Rights under the March 14, 2000 Rights Agreement (the “Agreement”) which established the Company’s shareholder rights plan (the “Plan”). The extension runs until the earlier of March 21, 2008 or the date a plan of reorganization in Armstrong World Industries, Inc. becomes effective. Further extension of the Plan, or its earlier redemption, is still permitted. The amended Summary of Rights is filed herewith as an exhibit.

2006 Actions on Awards for Future Annual Bonus and Long-Term Incentive Compensation

On February 20, 2006, the Company took annual compensation actions on executive compensation programs. The Company has established and administers our executive compensation programs to attract and retain executive talent necessary for our operations. As a general rule, we also try to structure our compensation programs to maximize the deductibility of the Company’s executive compensation expense for tax purposes. Historically, the principal components of our executive compensation have included base salary, an annual performance-based bonus under our Management Achievement Plan (“MAP”), and a long-term incentive component that has been provided under our 1999 Long-Term Incentive Plan (“LTIP”). Since Armstrong World Industries, Inc. filed for Chapter 11 protection in December 2000, that long-term incentive component has been provided through cash incentive awards instead of stock options, performance restricted shares or restricted stock awards, which have not been allowed under Chapter 11. Other elements of our total executive officer remuneration are disclosed in Item 11 of this Report on Form 10-K.

Traditionally, the Company’s independent Management Development and Compensation Committee of the Board of Directors (the “Committee”) meets in February to establish performance goals for the Company’s operations under the MAP and LTIP, and establish target awards under those plans for executives to be paid in the future based upon achievement of those operating goals. Accordingly, on

February 20, 2006, that Committee set operating performance goals and set target awards under both of those plans.

The following summary of the terms and operation of the MAP and LTIP is qualified in its entirety by reference to the provisions of those plans, which are incorporated by reference as exhibits to this filing.

With respect to our Chief Executive Officer ("CEO"), Mr. Lockhart, his employment agreement dated August 7, 2000 (which has previously been filed with the SEC in the 10-Q for the quarter ended September 30, 2000) addresses his contractual rights with respect to annual bonus and long-term incentive compensation. The Committee administers Mr. Lockhart's awards under MAP and LTIP with a view towards observing those contractual obligations.

If the Company performs above a MAP performance threshold for 2006, participants in the MAP will be eligible to receive a payment in 2007 based upon a percentage of their target bonus. Each executive's target bonus is calculated as a percentage of their annual base salary earnings ranging from 15% (at the base level for participants) to 125% (for the CEO).

Similarly, if the Company performs above a LTIP performance threshold for 2006 and 2007, participants in the LTIP will be eligible to receive a payment in 2008 equal to a percentage of their 2006 LTIP cash incentive award target grant. LTIP award target grants are calculated as a percentage of the executive's current base salary ranging from 12% (at the base level for participants) to 337% (for the CEO).

As a general rule, if the Company's performance equals the operating goals set by the Committee, the authorized payout under each of the MAP and LTIP has been set at 120% of the executive's target bonus and LTIP award target grant. Mr. Lockhart's actual LTIP award payment, however, will be based on payout formulae established by the Committee.

If the Company does not achieve the threshold levels of performance against the MAP and LTIP operating goals that have been established, no payments on the 2006 awards will be made to executive officers. If the threshold MAP and LTIP performance is achieved, but the results are less than the goals, relatively lower authorized payouts are allowed for participants. If the Company should exceed the operating goals, there would be allowed a relative increase in the payments to participants under the MAP and LTIP. However, the Committee has the discretion to reduce actual payments to participants based on individual performance factors. With the exception of Mr. Lockhart's LTIP awards, the Committee has traditionally reduced the authorized MAP and LTIP payments, except in situations where the Committee determined that a participant's contributions merited the full authorized payment.

The table below shows the current base salary level, the 2006 MAP target bonus as a percentage of each executive's 2006 base salary earnings, and the LTIP award target grant amount for each executive officer.

Executive Officer	Current Base Salary	2006 MAP Award % of Actual Base Salary Earnings	2006 LTIP Award
Michael D. Lockhart	$980,000	125%	$3,308,000
Stephen J. Senkowski	550,000	70%	1,182,500
F. Nicholas Grasberger	450,000	60%	810,000
John N. Rigas	382,000	50%	573,000
Frank J. Ready	367,000	50%	458,800
William C. Rodruan	280,400	45%	280,400

The form of the LTIP award letter is filed hereto as an Exhibit. (There is no award letter used for the MAP.) Executives are eligible to receive a merit-based salary increase effective April 1, 2006. Any increase to an executive's base salary earnings will be factored in to their MAP bonus to be paid in 2007.

Mr. Frank Ready was elected an executive officer of Armstrong World Industries, Inc. on February 20, 2006.

Modification to Plan of Reorganization Filed

On February 21, 2006, AWI filed modifications to its Fourth Amended Plan of Reorganization in its Chapter 11 case. The Modified Plan (a copy of which is filed with this report) is substantially similar to AWI's previously filed Fourth Amended Plan of Reorganization except that it eliminates the distribution of warrants to shareholders of AWI's parent company, Armstrong Holdings, Inc. This modification is consistent with the January 2006 decision by the Third Circuit Court of Appeals upholding Judge Robreno's previous ruling that the issuance of the warrants under the Fourth Amended Plan violated the so-called "absolute priority rule" of the Bankruptcy Code.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Code of Ethics

Armstrong has followed a code of ethics for many years. The company began in a small cork-cutting shop in 1860 in Pittsburgh under its Founder, Thomas Armstrong. He was determined that his company act with fairness and in the "balanced best interests (of) customers, stockholders, employees, suppliers, community neighbors, government and the general public."

Thomas Armstrong was among the first American entrepreneurs to discard the old business maxim of *caveat emptor* —"Let the buyer beware"—and replace it by practicing the principle of "Let the buyer have faith," which became an enduring motto for Armstrong.

To memorialize this ethical foundation, in 1960 Armstrong adopted its Operating Principles which incorporate the philosophy of Thomas Armstrong and his successors:

- To respect the dignity and inherent rights of the individual human being in all dealings with people.
- To maintain high moral and ethical standards to reflect honesty, integrity, reliability and forthrightness in all relationships.
- To reflect the tenets of good taste and common courtesy in all attitudes, words and deeds.
- To serve fairly and in proper balance the interests of all groups associated with the business – customers, stockholders, employees, suppliers, community neighbors, government and the public.

In 1992, Armstrong built on these Operating Principles and established its "Code of Business Conduct", which applies to all employees, executives and directors, specifically including our Chief Executive Officer, our Chief Financial Officer and our Controller. That Code was updated in 2000, when the current version was introduced.

In 2002, we adopted an additional "Code of Ethics for Financial Professionals," which applies to all professionals in Armstrong's finance and controller functions worldwide, including our Chief Financial Officer and our Controller.

These Codes are intended to deter wrongdoing and to promote:

- Honest and ethical conduct, including handling of actual or apparent conflicts of interest between personal and professional relationships;
- Full, fair, accurate, timely and understandable public disclosures;
- Compliance with applicable governmental laws, rules and regulations;
- The prompt internal reporting of violations of the Codes; and,
- Accountability for compliance with the Codes.

These two Codes are available on the Armstrong web site at *www.armstrong.com/corporatena/corp_mission.html* . If the substance of either Code is amended in the future, we will note the date and describe the nature of the amendment at that web site. We will also note at that site any express or implicit waiver from a provision of either Code granted to any Armstrong officer. To date, no such waivers have been granted.

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Armstrong Holdings Inc. Board of Directors

The Board of Directors has determined that all outside members of the Board, including all members of the Audit, Management Development and Compensation, and Nominating Governance Committees, are independent in accordance with the rules and regulations of The NASDAQ Stock Market, Inc. Although Armstrong is not currently listed on NASDAQ, the company anticipates listing its stock on that exchange when AWI emerges from Chapter 11, and has been complying with NASDAQ requirements in preparation for such listing.

The Board of Directors has also determined that all outside members of the Board are independent within the meaning of Armstrong's Corporate Governance Principles (see www.armstrong.com/corporate/corp_mission.html). The standards of independence set forth in Armstrong's Corporate Governance Principles incorporate and, in certain areas exceed, the standards under NASDAQ.

The determinations made as to independence under the rules and regulations of NASDAQ and Armstrong's Corporate Governance Principals were based upon the Board's consideration of relationships between directors and the company or management, and of known factors that reasonably could compromise the independent judgment of a director. For example, the Board considered director relationships with vendors and service providers to the company, and considered whether any director had sought to influence any decisions by the company in a manner beneficial to their personal interests.

Based on information disclosed by the directors, the Board was advised that no outside director was disqualified from being considered an independent director under Armstrong's Corporate Governance Principles or any governmental or NASDAQ regulation. Following consideration of these facts, the Board of Directors determined that all outside directors are, in fact, "independent".

The Board, lead by its Nominating & Governance Committee, monitors the independence of outside directors. Each director is charged with a responsibility of candor and disclosure to their Board colleagues relative to potentially compromising relationships, transactions and compensation.

Audit Committee

The Audit Committee of Armstrong Holdings consists of John J. Roberts (Chairman), H. Jesse Arnelle, James E. Marley and M. Edward Sellers. The business experience of these and all other directors is described below under the heading "Director Information". The Board of Directors determined that at least one member of this committee, John J. Roberts, qualifies as an "Audit Committee Financial Expert" as defined in Item 401(h)(2) of Regulation S-K of the Securities Exchange Act. Mr. Roberts is also independent, as that term is used in SEC regulations pertaining to such experts (Item 7(d)(3)(iv) of Schedule 14A under the Securities Exchange Act). Additionally, as noted above, all of the members of the Audit Committee are independent under the listing standards of NASDAQ and within the meaning of the applicable SEC rule pertaining to Audit Committees (Rule 10A-3) under the Securities Exchange Act.

Director Information

The following information is current as of February 24, 2006. The directors named here serve until their successors are elected, or until their earlier retirement or removal.

Directors of Armstrong Holdings, Inc.

H. Jesse Arnelle – Age 72; Director since July 1995; Member – Audit Committee. Mr. Arnelle was Of Counsel with the law firm of Womble Carlyle Sandridge & Rice, PLLC from October 1997 until September 2005 and former senior partner and co-founder of Arnelle, Hastie, McGee, Willis & Greene, a San Francisco-based corporate law firm from which he retired in 1996. He is a graduate of Pennsylvania State University and the Dickinson School of Law. Armstrong has retained Womble Carlyle Sandridge & Rice, PLLC as one of its outside law firms on various legal matters since the 1980's. Mr. Arnelle served as Vice Chairman (1992-1995) and Chairman (1996-1998) of the Board of Trustees of the Pennsylvania State University. He serves on the Boards of FPL Group, Inc., URS Corporation, Textron Corporation and Metropolitan Life Series Fund.

Judith R. Haberkorn – Age 59; Director since July 1998; Lead Director of the Board; Member – Nominating and Governance Committee (Chair) and Management Development and Compensation Committee. Ms. Haberkorn is a graduate of Briarcliff (N.Y.) College and completed the Advanced Management Program at Harvard Business School. From 1998 until her retirement in June 2000, she served as President – Consumer Sales & Service for Bell Atlantic (telecommunications). She previously served as President – Public & Operator Services (1997-1998), also at Bell Atlantic, and Vice President – Material Management (1990-1997) for NYNEX Telesector Resources Group (telecommunications). Ms. Haberkorn is a director of Enesco Corporation and serves on the advisory board of Norfolk Southern. She is Chair Emerita of the Committee of 200 and a member of The International Women's Forum and The Harvard Business School Network of Women Alumnae. She is a Vice President Emerita of the Harvard Business School Alumni Advisory Board and a member of the Visiting Committee.

Michael D. Lockhart – Age 56; Chairman of the Board and Chief Executive Officer of AHI since August 2000. Director since November 2000 and Chairman of the Board and President since March 2001 of Armstrong World Industries, Inc. Mr. Lockhart previously served as Chairman and Chief Executive Officer of General Signal (a diversified manufacturer) headquartered in Stamford, Connecticut from September 1995 until it was acquired in October 1998. He joined General Signal as President and Chief Operating Officer in September 1994. From 1981 until 1994, Mr. Lockhart worked for General Electric in various executive capacities in GE Capital, GE Power Systems, GE Transportation Systems and GE Aircraft Engines. He is a member of the Business Council for the Graduate School of Business at the University of Chicago.

James E. Marley – Age 70; Director since November 1988; Member – Audit Committee, also Director—Armstrong World Industries, Inc. Mr. Marley is a graduate of Pennsylvania State University and earned a master's degree in mechanical engineering from Drexel University. From 1993 until his retirement (August 1998), he served as Chairman of the Board of AMP Incorporated (electrical/electronic connection devices), which he joined in 1963 and where he served as President and Chief Operating Officer (1990-1992) and President (1986-1990). He also serves on the Board of Arvin Meritor, Inc.

Ruth M. Owades – Age 57; Director since April 2002; Member – Nominating and Governance Committee and Management Development and Compensation Committee. Ms. Owades is a graduate of Scripps College in Claremont, California and earned an MBA from Harvard Business School. She was a Fulbright Scholar in Strasbourg, France. Since 2002, she has served as the President of Owades Enterprises, LLC. (marketing enterprise having the rights to four new patented consumer products). She was the founder and CEO (1989-2001) of Calyx & Corolla (first fresh flower catalog and internet company). She was also the founder and CEO of Gardener's Eden (a catalog of gardening tools and accessories). Ms. Owades was a director of Providian Financial Corporation until October 2005 (when the company was acquired by Washington Mutual Corp.) and is currently a director of The J. Jill Group, Inc. and the Center for Women's Business Research. She also served as a member of the Board of Associates of Harvard Business School, the Board of Trustees of Scripps College and the Council on Competitiveness.

John J. Roberts – Age 61; Director since April 2003; Member – Audit Committee (Chairman). Mr. Roberts served as Global Managing Partner for PricewaterhouseCoopers LLP from 1998 until his retirement in June 2002. Mr. Roberts held numerous positions at Coopers & Lybrand LLP from 1967 until its merger with Price Waterhouse LLP in 1998. From 1994 to 1998, Mr. Roberts served as one of three members of the Office of the Chairman of Coopers & Lybrand's United States operations. Prior to that time, Mr. Roberts held other positions at Coopers & Lybrand, including Deputy Vice Chairman, Vice Chairman and Managing Partner. Mr. Roberts is a graduate of Drexel University. He serves on the Boards of Directors and Audit Committees of Safeguard Scientifics, Inc. and the Pennsylvania Real Estate Investment Trust. He also serves on the Board of Directors and Audit Committee of Vonage, Inc., a privately-held company.

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M. Edward Sellers – Age 61; Director since April 2001; Member – Audit Committee. Mr. Sellers is a graduate of Vanderbilt University and received his MBA from Harvard Business School. Mr. Sellers joined Blue Cross Blue Shield of South Carolina and The Companion Group of Companies (a health, life, property and casualty insurance company with related services and functions) in 1987, serving as President and Chief Operating Officer until 1992 when he assumed the role of President and Chief Executive Officer. In 2001, he was named Chairman and Chief Executive Officer. He serves as Chair of the South Carolina Council on Competitiveness. He also serves on the following Boards: Open Networks Technologies, Inc.; National Bank of South Carolina; American Red Cross; ETV (Educational Television) Endowment of South Carolina, Central Carolina Economic Development Alliance and Central Carolina Community Foundation. Mr. Sellers is past Chair of the South Carolina State Chamber of Commerce; Palmetto Business Forum; Columbia College; ETV Endowment Board, and the Palmetto Conservation Foundation.

Jerre L. Stead – Age 63; Director since April 1992; Member – Nominating and Governance Committee and Management Development and Compensation Committee (Chairman). Mr. Stead is a graduate of the University of Iowa and was a participant in the Advanced Management Program, Harvard Business School. He has served as the Chairman of the Board of IHS, Inc. since December 2000. From August 1996 until June 2000 he served as Chairman and Chief Executive Officer of Ingram Micro, Inc. (technology products and services). During 1995, he served as Chairman, President and Chief Executive Officer of Legent Corporation (integrated product and service software solutions) until its sale late in 1995. He was Executive Vice President, American Telephone and Telegraph Company (telecommunications) and Chairman and Chief Executive Officer of AT&T Global Information Solutions (computers and communicating), formerly NCR Corp. (1993-1994). He was President of AT&T Global Business Communications Systems (communications) (1991-1993) and Chairman, President and Chief Executive Officer (1989-1991) and President (1987-1989) of Square D Company (industrial control and electrical distribution products). In addition, he held numerous positions during a 21-year career at Honeywell. He is a Director of Conexant Systems, Inc., Brightpoint Inc., Mobility Electronics, Inc. and Mindspeed, Inc.

Directors of Armstrong World Industries, Inc.

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

James E. Marley – (See description, above.)

John N. Rigas – (See description, below.)

Changes to Nomination Procedures

There have been no changes to the procedures by which shareholders may recommend nominees to the Board of Directors since these procedures were first disclosed in the March 31, 2004 Form 10-Q. These procedures are posted at *www.armstrong.com/corporatena/article9748.html* .

Executive Officer Information

The following information is current as of February 24, 2006. Each executive officer serves a one-year term until reelected or until his earlier death, resignation, retirement or replacement.

Executive Officers of Armstrong Holdings, Inc.

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

Stephen J. Senkowski – Age 54; Executive Vice President, Armstrong Holdings, Inc. and Executive Vice President and President and Chief Executive Officer, Armstrong Building Products, Armstrong World Industries, Inc. since April 2004. Previously, President and Chief Executive Officer, Armstrong Building Products, Armstrong World Industries, Inc. October 2000 – April 2004; Senior Vice President, Americas, Building Products Operations, Armstrong World Industries, Inc. April 2000 – October 2000; President/Chief Executive Officer, WAVE July 1997 – April 2000; Vice President, Innovation Process, Building Products Operations 1994 – July 1997.

F. Nicholas Grasberger III – Age 42; Senior Vice President and Chief Financial Officer since January 2005. Vice President and Chief Financial Officer of Kennametal, Inc. (a manufacturer of cutting tools and wear parts) August 2000 – December 2004. Previously employed at H. J. Heinz (a global U.S. based food company) for eleven years, his last title being Treasurer.

John N. Rigas – Age 57; Senior Vice President, Secretary and General Counsel, Armstrong Holdings, Inc. since November 2000 and Armstrong World Industries, Inc. since May 2001. Previously Deputy General Counsel-Litigation, Armstrong World Industries, Inc. March 1999 – November 2000; worked for Dow Corning Corporation (specialty chemical company) October 1982 – March 1999, his last title being Senior Managing Counsel.

William C. Rodruan – Age 51; Vice President and Controller, Armstrong World Industries, Inc. since July 1999 and Armstrong Holdings, Inc. since May 2000. Previously Director, Corporate Transformation and Shared Services, Armstrong World Industries, Inc. February 1997 – July 1999 and Vice President of Finance, Corporate Retail Accounts, Armstrong World Industries, Inc. July 1994 – February 1997.

Executive Officers of Armstrong World Industries, Inc.

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

Stephen J. Senkowski – (See description, above.)

F. Nicholas Grasberger III – (See description, above.)

John N. Rigas – (See description, above.)

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

Frank J. Ready – Age 44; President and Chief Executive Officer, North American Flooring Operations, Armstrong World Industries, Inc. and Armstrong Holdings, Inc. since June 2004. Previously Senior Vice President, Sales and Marketing, July 2003 – June 2004; Senior Vice President, Operations, December 2002 – July 2003; Senior Vice President, Marketing, June 2000 – December 2002.

Involvement in Certain Legal Proceedings

On December 6, 2000, AWI and two of Armstrong World Industries' wholly-owned subsidiaries, Nitram Liquidators, Inc. and Desseaux Corporation of North America, Inc., filed for reorganization under Chapter 11 of the U.S. Bankruptcy Code. Therefore, individuals who were or are executive officers and directors of AWI have been associated with a corporation that filed a petition under the federal bankruptcy laws within the last five years. With the exception of Ms. Owades and Messrs. Sellers and Roberts, all present directors of AHI were or are directors of AWI.

Section 16(a) Beneficial Ownership Reporting Compliance

Securities and Exchange Commission ("SEC") regulations require Armstrong Holdings, Inc. directors and executive officers, and any persons beneficially owning more than ten percent of its common stock to report to the SEC their ownership of this stock and any changes in that ownership. SEC regulations also require these persons to furnish the company with copies of these reports. SEC rules require the company to report any failure to timely file those reports in the previous fiscal year.

Based solely upon our review of copies of reports furnished to us and written representations from directors and executive officers, we believe that all of these filing requirements were satisfied by Armstrong Holdings' directors and executive officers during 2005 with the exception of one late filing on Form 4 reporting two transactions by Mr. Arnelle relating to the cash out and termination of his deferred compensation account, which included 1,703 stock equivalent units.

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ITEM 11. EXECUTIVE COMPENSATION

Executive Officers' Compensation

The following table shows the compensation received by the Chief Executive Officer and the four other highest paid individuals who served as executive officers during 2005. The data reflects compensation for services rendered to AHI and AWI and its subsidiaries in each of the last three fiscal years, for services in these individual's current position or previous positions during the three year period.

TABLE 1: SUMMARY COMPENSATION TABLE

		ANNUAL COMPENSATION			LONG-TERM COMPENSATION			
					Awards		Payout	
Name and Current Principal Position	Year	Salary ($)	Bonus ($) [2]	Other Annual Compensation ($) [3]	AHI Restricted Stock Awards ($) [4]	AHI Securities Underlying Options/ SARs(#)	LTIP Payouts ($) [5]	All Other Compensation ($) [6]
M. D. Lockhart	2005	965,000	1,186,000					
Chairman of the Board and CEO, AHI and AWI							2,337,000	
	2004	920,000	1,337,000	160,899	—	—		27,516
				166,637	—	—	611,900	27,016
	2003	905,000	—	127,779	—	—	1,359,200	6,276
S. J. Senkowski	2005	544,853	868,400	—	—	—	440,000	27,128
Executive Vice President, AHI; Executive Vice			771,800	—	—	—	—	26,290
President and CEO, Armstrong Building	2004	502,525	535,798	—	—	—	—	25,143
Products, AWI								
	2003	426,250						
F. N. Grasberger, III Senior Vice President, and CFO, AHI & AWI	2005	450,000 [1]	1,020,000	152,359	—	—	—	30,620
J. N. Rigas, Senior Vice	2005	379,000						
President, Secretary and General Counsel,								
AHI & AWI	2004	365,000	528,000	—	—	—	262,500	27,516
			421,400	—	—	—	—	27,016
	2003	345,000	330,000	—	—	—	—	6,276
W. C. Rodruan Vice	2005	278,400						
President and Controller, AHI & AWI								
	2004	269,775	261,400	—	—	—	110,000	27,739
			197,170	—	—	—	—	26,970
	2003	260,625	267,474	—	—	—	—	16,246

1) Mr. Grasberger's employment commenced January 1, 2005.

2) The amounts disclosed for 2005 include payments under the Management Achievement Plan, cash retention payments (where applicable) and a signing bonus for Mr. Grasberger.

3) Except for the income related to Mr. Lockhart and Mr. Grasberger during 2005, the aggregate value does not exceed the lesser of $50,000 or 10% of shown salary and bonus. Mr. Lockhart had income of $122,304 related to the personal use of the company aircraft and was reimbursed for related taxes incurred in the amount of $34,220. Mr. Grasberger had relocation income of $147,798.

4) The number of shares and value of previously-granted restricted stock held by each executive as of January 31, 2006 was: M.D. Lockhart – 100,000 ($278,000), S.J. Senkowski – 668 ($1,857) and W. C. Rodruan – 1,447 ($4,023).

5) The amount disclosed for 2005 is the payout for the Long-Term Cash Incentive Award granted for 2004.

6) The amounts disclosed for 2005 include:

   a) Contribution by Armstrong to each individual's Bonus Replacement Retirement Plan account, deducted from any regular bonus payable: M. D. Lockhart – $20,000; S. J. Senkowski – $20,000; J. N. Rigas – $20,000 and W. C. Rodruan – $20,000.

   b) Contributions by the company under the Savings and Investment Plan that match the employee's contributions: M.D. Lockhart – $7,000; S.J. Senkowski – $6,000; F. N. Grasberger III – $14,000; J. N. Rigas – $7,000 and W. C. Rodruan –

$7,000. Mr. Grasberger was also credited with a matching contribution of $16,500 under the terms of the Armstrong Nonqualified Deferred Compensation Plan described on page 173.

c) Taxable income related to company-paid life insurance benefits: M. D. Lockhart - $516; F.N. Grasberger III - $120; J. N. Rigas - $516.

d) Mr. Senkowski and Mr. Rodruan participate in a split dollar life insurance arrangement where the company previously made premium payments on their behalf which Armstrong will recover from the policy cash value at a later date. For 2005, the imputed interest income on the cumulative amount of the premiums paid by the company was $1,128 for Mr. Senkowski and $739 for Mr. Rodruan.

Management Achievement Plan and Long-Term Incentive Plan

Bonus payments disclosed in the "Summary Compensation Table" included awards made to executive officers in accordance with the Management Achievement Plan for Key Executives ("MAP"). Under the MAP, an executive can earn cash rewards in relation to the attainment of corporate, business unit and individual goals. The corporate and business unit goals are set by the Management Development and Compensation Committee of the Board of Directors. A specific weighting is assigned to each of the corporate and business unit achievement segments where such segments are applicable. Each participant has a targeted annual incentive award which is expressed as a percentage of base salary earnings and varies with the participant's level of responsibility. Incentive amounts earned under the corporate and business unit segments of the MAP are based on performance against predetermined goals. A threshold performance level is established, below which no award is payable.

Payouts were also made to executive officers under the Long-Term Incentive Plan (the "Incentive Plan"). The Incentive Plan provides cash incentive awards to officers and key employees based on the attainment of performance goals established by the Management Development and Compensation Committee of the Board of Directors. Each award is conditioned upon achievement of one or more performance goals covering a performance period of one or more years, as set forth in the award agreement. In making a cash incentive award, a threshold performance level is established, below which no award will be payable.

Change in Control Agreements

A group of senior executives, including M. D. Lockhart, S. J. Senkowski, J. N. Rigas, W. C. Rodruan and F. N. Grasberger III have entered into change in control ("CIC") agreements. These agreements provide severance benefits in the event of a change in control of AHI or AWI. 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 or terminates employment for good reason within three years following a change in control. Good reason to terminate employment exists if there are significant changes in the nature of the individual's employment following the change in control. For example, a reduction in compensation, a change in responsibility, or a relocation of the place of employment would constitute significant changes. For most senior officers, the agreement includes a provision where 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 (2) and (3) shown below. The agreements have an automatic annual renewal feature, meaning the agreements will continue in effect unless either one of Armstrong, AHI or the executive elects not to extend the agreement.

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

Severance benefits under the agreements depend on the position the executive holds, but generally include: (1) a lump severance payment equal to two or three times the sum of the officer's annual base salary and the higher of the officer'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 officer'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; (4) continuation of life, disability, accident and health insurance benefits for three years following termination; (5) full reimbursement for the payment of any applicable excise taxes; and (6) payment of legal fees incurred in connection with a good faith dispute involving the agreement.

The Bankruptcy Court in Armstrong World Industries' Chapter 11 Case approved AWI's assumption of the CIC agreements subject to certain modifications. The modifications limit in certain respects (i) what constitutes a change in control under the CIC agreements; and (ii) with respect to the CIC agreements for the most senior officers, what constitutes "Good Reason" entitling the executive to terminate employment and receive benefits under the agreement. The issuance of the new stock of reorganized AWI according to the provisions of a plan of reorganization would constitute a change in control under the CIC agreements for all executives except for F. N. Grasberger III.

Employment Agreements

Armstrong entered into an employment agreement with Michael D. Lockhart effective August 7, 2000, in which Mr. Lockhart agreed to serve as Chairman of the Board and Chief Executive Officer of AHI at an initial base salary of $800,000 per year and a $5,000,000 one-time signing bonus. This contract was subsequently approved by the Bankruptcy Court in Armstrong World Industries' Chapter 11 Case. The employment agreement was automatically renewed for an additional one-year term on the third anniversary of the date of the agreement and renews for an additional one-year term on each successive anniversary, unless AHI gives notice not to extend the agreement at least 180 days prior to the anniversary date. If the employment agreement with Mr. Lockhart is terminated without "cause," or if Mr. Lockhart terminates his employment for "good reason", Mr. Lockhart is entitled to receive (1) a lump-sum cash payment equal to his base salary, plus the higher of (i) the bonus for which he is eligible in the year of termination at target performance levels, or (ii) the highest bonus award paid during the last three years, multiplied by either the number of years remaining in his employment agreement or by one ("1"), whichever is larger, and (2) continuation of certain benefits for the remainder of the term of his employment agreement. Mr. Lockhart's employment agreement also contains a non-competition provision that bars him from competing with AHI or any subsidiaries or affiliates for a period of two years following his termination. The agreement also provides Mr. Lockhart with the opportunity to participate in all short-term and long-term incentive plans offered by AHI and AWI, including an annual cash incentive opportunity and an annual long-term incentive award under AHI's long-term incentive plan. The agreement further provides that the value of his annual long-term incentive award on the grant date is required to equal 150% of Mr. Lockhart's target annual cash compensation (salary and bonus) for the year, and that he receives two years of service credit for every one year of actual service towards the calculation of his pension benefits under the Retirement Benefit Equity Plan. In addition, in March 2005, the company granted Mr. Lockhart five additional years of service credit under that plan. See the section "Benefits from Retirement Plans" below for a table illustrating actual benefit payments based upon credited years of service and compensation.

AWI hired F. Nicholas Grasberger III effective January 1, 2005 as Senior Vice President and Chief Financial Officer of AHI at an initial base salary of $450,000 per year and a $300,000 one-time signing bonus. His agreement also provides Mr. Grasberger with the opportunity to participate in AWI's annual cash incentive and long-term incentive plans with target incentive awards for 2005 valued at 60% and 180% of annual base salary respectively. As approved by the Bankruptcy Court in AWI's Chapter 11 Case, Mr. Grasberger received a Cash Retention Payment of $450,000 since he was employed through December 31, 2005. During AWI's Chapter 11 reorganization, Mr. Grasberger will qualify for enhanced severance benefits if he meets the eligibility provisions of the AWI Severance Pay Plan which is described below. His severance payment would be two times the sum of annual base salary and target annual bonus. Mr. Grasberger would be eligible to continue health care and life insurance benefits for two years at active employee costs. Following emergence from Chapter 11 reorganization, AWI will provide a minimum severance payment equal to annual base salary, and benefits would continue for one year. At the time of AWI's emergence from Chapter 11 reorganization, it is planned that Mr. Grasberger would receive equity awards consisting of 41,400 shares of restricted stock and 124,200 nonqualified stock options. It is anticipated that both awards would vest in one-third installments at two, three and four years from the grant date.

Severance Pay Plan for Salaried Employees

The Severance Pay Plan for Armstrong World Industries' Salaried Employees was adopted in 1990. This plan is designed to cushion the effects of unemployment for certain salaried employees. The benefits are payable if a covered employee is terminated under certain circumstances. All salaried employees of AHI and AWI, including the officers named in the Summary Compensation Table, are eligible to participate in the plan. A participant will be entitled to severance pay if they are terminated and an exclusion does not apply. The employee is not entitled to severance pay if the reason for the termination is the following: (1) voluntary separation; (2) the employee accepts employment with the successor organization in connection with the sale of a plant, unit, division or subsidiary; (3) the employee rejects the offer of a position in the same geographic area at a base salary of at least 90% of the employee's current salary made by AHI or AWI, their subsidiaries or any successor organization; (4) misconduct; or (5) unsatisfactory performance, unless otherwise approved by the Severance Pay Committee. Severance benefits will be offset by payments made under CIC agreements or individual employment agreements.

Under the plan, the scheduled amount of the payment is based on the employee's grade level, length of service, and base salary level. The amount of the payment ranges from a minimum of two weeks base salary to a maximum of 52 weeks base salary. The Severance Pay Committee retains the right to depart from the severance pay schedule where factors justify an upward or downward adjustment in the level of benefits. In no event may the severance benefit exceed two times the participant's annual compensation.

Enhanced Severance Benefits during AWI's Chapter 11 Reorganization

Under the Retention Program for Key Employees approved by the Bankruptcy Court in AWI's Chapter 11 Case, enhanced severance benefits apply to approximately 120 employees (excluding M. D. Lockhart) during the term of the Chapter 11 reorganization. Cash severance payments ranging from two years of base salary and target annual bonus for the year of termination to nine months of base salary apply depending on the employee's job and evaluation level. Employees will receive continued health care and life insurance benefits for the duration of their severance payment period along with outplacement support. Effective December 5, 2005, the company discontinued extending these enhanced severance benefits to newly hired and newly promoted employees.

Other Benefits

Except as specifically noted, the benefit programs for executives are generally the same as those offered to the company's other salaried employees. Depending on the executive's job evaluation and pay level, Armstrong currently provides the following executive benefits: (1) supplemental benefits on comparable terms to those otherwise available under either the pension or savings plan but for qualified plan limitations, (2) company-paid long-term disability insurance, (3) limited reimbursement (a maximum of $4,500 per year) for personal financial planning expenses, and (4) annual company-paid physical exams. As noted in the Summary Compensation Table, Mr. Lockhart has access to company aircraft for personal use and is reimbursed for taxes accrued as a result of his imputed taxable income stemming from such use.

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TABLE 2: OPTION/SAR GRANTS IN LAST FISCAL YEAR

There were no grant of stock options or any other equity-based awards during 2005 under any of Armstrong’s stock-based compensation plans. No equity compensation awards have been made since AWI’s Chapter 11 Filing in December 2000, other than commitments entered into prior to the Chapter 11 filing.

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

The following table sets forth information regarding the exercise of stock options during 2005 and the unexercised options held as of the end of 2005 by each of the named executives:

Name	AHI Shares Acquired On Exercise (#)	Value Realized (market price at exercise less exercise price) ($)	Securities Underlying Unexercised Options At Fiscal Year-End (#)		Value of Unexercised In-The-Money Options At Fiscal Year-End ($)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
M. D. Lockhart	0	0	300,000	0	$ 36,250	0
S. J. Senkowski	0	0	13,000	0	0	0
F. N. Grasberger III	0	0	0	0	0	0
J. N. Rigas	0	0	17,000	0	0	0
W. C. Rodruan	0	0	13,600	0	0	0

TABLE 4: LONG TERM INCENTIVE PLAN AWARDS IN LAST FISCAL YEAR

The following table sets forth information regarding the long-term incentive plan awards granted during 2005 to each of the named executives:

		Estimated Future Payouts Under Non-Stock Price- Based Plans		
Name	**Performance Period Until Maturation or Payout**	**Threshold ($)**	**Target ($)**	**Maximum [4] ($)**
M. D. Lockhart	1/1/2005 –12/31/2006	N/A	1,240,000 [1]	1,240,000
M. D. Lockhart	1/1/2005 –12/31/2006	N/A	1,860,000 [2]	2,790,000
S. J. Senkowski	1/1/2005 –12/31/2006	341,460	1,138,200 [3]	See footnote 4
F. N. Grasberger III	1/1/2005 –12/31/2006	243,000	810,000 [3]	See footnote 4
J. N. Rigas	1/1/2005 –12/31/2006	166,500	555,000 [3]	See footnote 4
W. C. Rodruan	1/1/2005 –12/31/2006	81,720	272,400 [3]	See footnote 4

1) Under his employment agreement, Mr. Lockhart is entitled to a long-term incentive opportunity at target of $3.1 million in 2005. This was awarded in two components. The first component of Mr. Lockhart's cash incentive award will be earned in direct proportion to the ratio of (1) three times the increase in 2006 earnings before interest, taxes, depreciation and amortization (EBITDA) over 2004 EBITDA to (2) 2004 EBITDA. EBITDA results exclude the impact of bankruptcy-related expense/income, restructuring charges and significant unusual items. No threshold payment level has been established. Cash payments earned will be paid in early 2007.

2) The second component of Mr. Lockhart's cash incentive award will be determined on the basis of a factor related to the EBITDA compound annual growth percentage comparing 2006 to 2004, multiplied by a number equal to 1 plus the ratio of (1) the dollar increase in EBITDA from 2004 to 2006 to (2) 2004 EBITDA. EBITDA results exclude the impact of bankruptcy-related expenses/income, restructuring charges and significant unusual items. No threshold payment level has been established. Cash payments earned will be paid in early 2007.

3) This award will be earned based on cumulative adjusted operating income results for 2005 and 2006 and paid in early 2007. The target and actual results exclude the impact of incentive calculations, interest expense/income, bankruptcy-related expense/income, restructuring charges and significant unusual items.

4) Under the terms of the 1999 Long-Term Incentive Plan, the maximum payment to any one participant pursuant to a Cash Incentive Award with respect to any one year is $3 million.

BENEFITS FROM RETIREMENT PLANS

The following table shows the estimated pension benefits payable to a participant at normal retirement age under Armstrong's Retirement Income Plan and Retirement Benefit Equity Plan. The Retirement Income Plan is a qualified defined benefit pension plan. Salaried employees hired after December 31, 2004 do not participate in this plan but instead receive an enhanced match under the 401(k) savings plan. Under the terms of the Armstrong Nonqualified Deferred Compensation Plan, eligible managers who earned more than $175,000 during 2005 were permitted to elect to defer up to 8% of their base salary and bonus compensation above this amount and receive credit for a company match under this plan of up to 6% of pay. The Retirement Benefit Equity Plan is an unfunded, nonqualified supplemental pension plan. It provides participants with benefits that would otherwise be denied by reason of certain Internal Revenue Code limitations on qualified plan benefits. The amounts shown in Table 5 are based on compensation that is covered under the plans and years of service with AWI and its subsidiaries (plus additional years of credited service awarded).

In January 2006, the company announced that effective March 1, 2006, the Retirement Income Plan and the Retirement Benefit Equity Plan would be amended to stop future benefit accruals for non-production salaried employees whose age plus years of service total less than 60 as of February 28, 2006. These employees are eligible for the 401(k) savings plan with the enhanced match starting March 1, 2006. Employees whose age plus years of service total 60 or higher continue to accrue benefits under the Retirement Income Plan and the Retirement Benefit Equity Plan but are subject to higher benefit reductions for early retirement on or after age 55 but prior to age 65. Messrs. Lockhart, Senkowski, Rigas and Rodruan qualify to continue to accrue future benefits under those plans.

TABLE 5: PENSION PLAN TABLE
ANNUAL RETIREMENT BENEFIT BASED ON CREDITED SERVICE [1]

Remuneration [2]	15 Years	20 Years	25 Years	30 Years	35 Years	40 Years
$ 200,000	$ 43,000	$ 58,000	$ 72,000	$ 86,000	$ 101,000	$ 113,000
$ 400,000	$ 90,000	$ 120,000	$ 150,000	$ 179,000	$ 209,000	$ 233,000
$ 600,000	$ 136,000	$ 182,000	$ 227,000	$ 272,000	$ 318,000	$ 354,000
$ 800,000	$ 183,000	$ 244,000	$ 305,000	$ 365,000	$ 426,000	$ 474,000
$ 1,000,000	$ 229,000	$ 306,000	$ 382,000	$ 458,000	$ 535,000	$ 595,000
$ 1,200,000	$ 276,000	$ 368,000	$ 460,000	$ 551,000	$ 643,000	$ 715,000
$ 1,400,000	$ 322,000	$ 430,000	$ 537,000	$ 644,000	$ 752,000	$ 836,000
$ 1,600,000	$ 369,000	$ 492,000	$ 615,000	$ 737,000	$ 860,000	$ 956,000
$ 1,800,000	$ 415,000	$ 554,000	$ 692,000	$ 830,000	$ 969,000	$ 1,077,000
$ 2,000,000	$ 462,000	$ 616,000	$ 770,000	$ 923,000	$ 1,077,000	$ 1,197,000
$ 2,200,000	$ 508,000	$ 678,000	$ 847,000	$ 1,016,000	$ 1,186,000	$ 1,318,000
$ 2,400,000	$ 555,000	$ 740,000	$ 925,000	$ 1,109,000	$ 1,294,000	$ 1,438,000
$ 2,600,000	$ 601,000	$ 802,000	$ 1,002,000	$ 1,202,000	$ 1,403,000	$ 1,559,000
$ 2,800,000	$ 648,000	$ 864,000	$ 1,080,000	$ 1,295,000	$ 1,511,000	$ 1,679,000

1) Benefits shown assume retirement in 2005. The benefits are computed as a straight life annuity beginning at age 65 and are not subject to deduction for Social Security or other offsets.

2) Calculated as the average annual compensation in the three highest paid years during the 10 years prior to retirement. Annual compensation equals the total of the amounts reported under the columns captioned “Salary” and “Bonus” in the Summary Compensation Table (excluding cash retention and long-term incentive payments) and including Armstrong contributions under the Bonus Replacement Retirement Plan.

The 2005 annual compensation and estimated years of service for plan purposes for each of the executives named in the Summary Compensation Table were as follows:

M. D. Lockhart - $2,322,000 (15.8 years); S. J. Senkowski - $896,653 (32.6 years); J. N. Rigas - $557,900 (23.8 years) and W. C. Rodruan - $397,370 (29.6 years). Mr. Grasberger participates in the 401(k) savings plan with the enhanced match. Under his employment agreement, Mr. Lockhart receives two years of service credit for every one year of actual service toward the calculation of his pension benefits under the Retirement Benefit Equity Plan and five additional years of service credit, which are reflected in the numbers above. Estimated years of service include 17 years credit for prior service awarded to J. N. Rigas upon his employment with Armstrong. The Armstrong retirement benefit for Mr. Rigas will be reduced by the value of any defined benefit pension payable by his previous employer for the respective period of the prior service credit.

Special provisions apply if the Retirement Income Plan is terminated within five years following an Extraordinary Event, as this item is defined in the plan. In that event, plan liabilities will first be satisfied; then, remaining plan assets will be applied to increase retirement income to employees. The amount of the increase is based on the assumption that the employee would have continued employment with Armstrong until retirement. Messrs. Lockhart, Senkowski, Rigas and Rodruan would be entitled to this benefit.

Compensation of Directors

AHI and Armstrong do not separately compensate directors who are employees for services as a director. AHI and Armstrong pay directors who are not employees a retainer of $90,000 per year. Shared directors receive only a single retainer. The Audit Committee chairman receives an annual fee of $20,000 and the chairpersons of the Management Development and Compensation Committee, and the Nominating and Governance Committee each receive an annual fee of $10,000. AHI and Armstrong directors who are not employees are paid $2,500 per day plus reasonable expenses for special assignments including special meetings in connection with Board activity.

Management Development and Compensation Committee and Interlocks and Insider Participation

The Management Development and Compensation Committee members are Jerre L. Stead (Chairman); Judith R. Haberkorn; and Ruth M. Owades. The Management Development and Compensation Committee establishes the overall philosophy and policies governing compensation programs, including those subject to Section 162(m) of the Internal Revenue Code, for AHI and Armstrong management.

None of the members of the Management Development and Compensation Committee is a current or former officer of the company or was a party to any related party transaction (as determined under SEC disclosure requirements) involving the company during the year ended December 31, 2005.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

a) Stock Ownership of Certain Beneficial Owners

AHI indirectly owns all of the capital stock of AWI. The following table [1] sets forth, as of February 14, 2006, each person or entity known to AHI that may be deemed to have beneficial ownership of more than 5% of the outstanding AHI common stock.

Name And Address Of Beneficial Owner	Amount And Nature Of Beneficial Ownership	Percent Of Class Outstanding [2]
Harbinger Capital Partners Master Fund I, Ltd. [3] c/o International Fund Services Third Floor, Bishop Square Redmond's Hill Dublin, Ireland L2	6,426,032	15.8%
Chesapeake Partners Management Co. Inc. [4] 1829 Reisterstown Road, Suite 220 Baltimore, MD 21208	3,500,850	8.6%
Glenview Capital Management, LLC [5] 399 Park Avenue, Floor 39 New York, NY 10022	2,405,662	5.9%

1) In accordance with applicable rules of the Securities and Exchange Commission, this information is based on Schedule 13G information filed in February 2006.

2) In accordance with applicable rules of the Securities and Exchange Commission, this percentage is based upon the total 40,664,461 shares of AHI's common stock that were outstanding on December 31, 2005.

3) Schedule 13G Amendment No. 2, filed on February 14, 2006, was filed on behalf of HMC Investors, L.L.C., Philip Falcone, Raymond J. Harbert and Michael D. Luce holding in the aggregate 3,270,246 shares and Harbinger Capital Partners Master Fund I, Ltd. and Harbinger Capital Partners Offshore Manager, L.L.C. holding in the aggregate 3,155,786 shares.

4) Schedule 13G Amendment No. 1 filed on February 14, 2006 by Chesapeake Partners Management Co. Inc. was filed on behalf of the following "Reporting Persons:" Chesapeake Partners Limited Partnership – 1,811,485 shares and Chesapeake Partners International Ltd. – 1,689,365 shares.

5) Schedule 13G, Amendment No. 2, filed on February 14, 2006, was filed on behalf of the following "Reporting Persons:" Glenview Capital Management, LLC., Glenview Capital GP, LLC and Lawrence M. Robbins.

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b) Security Ownership of Management

The following table shows the amount of AHI stock that each director, each individual named in the Summary Compensation Table and all directors and executive officers owned as a group. The ownership rights in these shares consist of sole voting and investment power, except where otherwise indicated. No named individual beneficially owns 1% or more of the outstanding common shares. Collectively, all of the directors and executive officers as a group beneficially would own 1.2% of the outstanding common shares, assuming all of the options disclosed in the table were to be exercised. This information is as of January 24, 2006.

Name	Stock [1]	Stock Options Exercisable within 60 days	Total Beneficial Ownership	Restricted Stock [2]	Phantom Shares [3]
H. Jesse Arnelle	2,044	—	2,044	—	—
Judith R. Haberkorn	1,084	4,970	6,054	—	—
Michael D. Lockhart	100,124	300,000	400,124	—	—
James E. Marley	3,022	1,410	4,432	—	—
Ruth M. Owades	5,000	—	5,000	—	—
John. J. Roberts	—	—	—	—	—
M. Edward Sellers	—	—	—	—	—
Jerre L. Stead	4,400	3,260	7,660	—	—
F. Nicholas Grasberger III	—	—	—	—	—
William C. Rodruan	4,356	13,600	17,956	1,447	283
John N. Rigas	979	17,000	17,979	—	—
Stephen J. Senkowski	3,235	13,000	16,235	1,995	—
Director and officers as a group (12 persons)	124,244	353,240	477,484	3,442	283

1) Includes the following shares that may be determined to be owned by the employee through the employee stock ownership accounts of AHI's Savings and Investment Plan ("SIP"): M. D. Lockhart – 124; S. J. Senkowski – 2,186; W. C. Rodruan – 2,134; J. N. Rigas – 979 and executive officers as a group — 5423.

Includes the following shares indirectly owned and held in the savings accounts of the SIP accounts of the following individuals: S. J. Senkowski – 38 and W. C. Rodruan – 782 and executive officers as a group – 820.

2) Includes restricted shares, some of which have been deferred and are held in trust. The participants have voting power but not investment power.

3) Includes phantom shares held in a stock subaccount under the Deferred Compensation Plan. The participant has no voting or investment power.

Equity Compensation Plan Information

No equity-based compensation has been granted since AWI filed for relief under Chapter 11 in December 2000, other than commitments entered into prior to the Chapter 11 filing.

The following table provides information as of December 31, 2005 regarding securities that were authorized for issuance under pre-December 2000 grants pursuant to equity compensation plans:

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	1,997,317	$ 27.83	4,815,424
Equity compensation plans not approved by security holders [2]	105,119	—	504,653
Total	2,102,436	$ 26.44	5,320,077

1) Restricted stock included in weighted-average exercise price as $0 because it has no exercise price.

2) The Stock Award Plan was adopted by the AHI Board of Directors effective July 24, 2000. The purpose of the plan was to provide a portion of the compensation for officers, directors and key employees in shares of common stock pursuant to the terms of the plan. The plan is administered by the Management Development and Compensation Committee and provides for the grant of Restricted Stock Awards and Stock Awards which may be subject to certain terms and conditions established by the Committee. The awards were to be used for the purposes of recruitment, recognition and retention of eligible participants.

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ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

There are no relationships or related transactions to disclose.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Professional Audit Fee Services Rendered

The following table presents fees for professional audit services rendered by KPMG LLP for the audit of AHI's annual financial statements for 2005 and 2004, and fees billed for other services rendered by KPMG LLP. For the purposes of this table, audit fees are for services rendered in connection with the audit of AHI's financial statements as of and for the year ended December 31, 2005, for which a portion of the billings occurred or will occur in 2006. All fees in 2005 and 2004 were pre-approved by the Audit Committee.

(amounts in 000's)	2005	2004
Audit Fees	$5,700	$3,950
Audit Related Fees (1)	360	900
Audit and Audit Related Fees	6,060	4,850
Tax Fees (2)	1,234	915
All Other Fees (3)	93	105
Total Fees	$7,387	$5,870

1) Audit Related Fees consisted principally of fees for audits of financial statements of certain employee benefit plans, accounting research assistance on technical topics, international financial reporting standards at some foreign locations and other matters with respect to foreign statutory financial statements.

2) Tax Fees consisted of fees for tax consultation and tax compliance services.

3) All Other Fees consist primarily of fees for Bankruptcy Court fee application preparation.

Audit Committee Pre-approval Policies and Procedures

The Audit Committee of Armstrong Holdings, Inc.'s Board of Directors adopted a policy and procedure that requires their pre-approval of any audit and accounting services provided by the firm that serves as our independent auditor. Per the policy, management cannot engage the independent auditor for any services without the Audit Committee's pre-approval. The Audit Committee delegates to the Committee Chair the authority to pre-approve services not exceeding 5% of the total audit fees for the year for purposes of handling immediate needs, with a report to the full Committee of such approvals at its next meeting. The policy and procedures comply with Section 10A(i) of the Securities Exchange Act.

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)(1)(2) The financial statements and schedule of Armstrong Holdings, Inc. and Armstrong World Industries, Inc. filed as a part of this 2005 Annual Report on Form 10-K are listed in the "Index to Financial Statements and Schedules" on page 48.

(a)(2) The financial statements required to be filed pursuant to Item 15(d) of Form 10-K are:

Worthington Armstrong Venture consolidated financial statements as of December 31, 2005 and 2004 and for the years ended December 31, 2005, 2004 and 2003 (filed herewith as Exhibit 99.1).

(a)(3) The following exhibits are filed as a part of this 2005 Annual Report on Form 10-K.

Exhibit No.	Description
No. 2.1	Certain Exhibits to Armstrong World Industries, Inc.'s Fourth Amended Plan of Reorganization submitted to the U.S. District Court for the District of Delaware are incorporated by reference from the Current Report filed on Form 8-K on September 8, 2003.
No. 2.2	Armstrong World Industries, Inc.'s Disclosure Statement submitted to the U.S. District Court for the District of Delaware is incorporated by reference from the Current Report filed on Form 8-K on May 23, 2003.
No. 2.3	Armstrong World Industries, Inc.'s Fourth Amended Plan of Reorganization submitted to the U.S. District Court for the District of Delaware on May 23, 2003, and as modified by modifications filed with the Bankruptcy Court on October 17, 2003, November 10, 2003, December 3, 2004, and February 21, 2006 is filed herewith.
No. 3.1	Armstrong Holdings, Inc.'s Amended and Restated Articles of Incorporation are incorporated by reference from the Current Report on Form 8-K dated May 9, 2000, wherein it appeared as Exhibit 3.1(i). (SEC File No. 000-50408)
No. 3.2	Armstrong Holdings, Inc.'s Bylaws, effective May 1, 2000 are incorporated by reference from the 2000 Annual Report on Form 10-K wherein they appear as Exhibit 3(b). (SEC File No. 000-50408)
No. 3.3	Armstrong World Industries, Inc.'s Restated Articles of Incorporation, as amended, are incorporated by reference from the 1994 Annual Report on Form 10-K wherein they appear as Exhibit 3(b). (SEC File No. 1-2116)
No. 3.4	Armstrong World Industries, Inc.'s Bylaws as amended November 9, 2000 are incorporated by reference from the 2000 Annual Report on Form 10-K wherein they appear as Exhibit 3(d). (SEC File No. 1-2116)
No. 4.1	Armstrong Holdings, Inc.'s Shareholder Summary of Rights to Purchase Preferred Stock as amended and restated as of February 20, 2006 is filed herewith.
No. 4.2	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. 4.3	Armstrong World Industries, Inc.'s $450,000,000 Credit Agreement (5-year) dated as of October 29, 1998, among Armstrong World Industries, Inc., The Chase Manhattan Bank, as administrative agent, and the banks listed therein, is incorporated by reference from the 1998 Annual Report on Form 10-K, wherein it appeared as Exhibit 4(f). (SEC File No. 1-2116)
No. 4.4	Armstrong World Industries, Inc.'s Indenture, dated as of August 6, 1996, between Armstrong World Industries, Inc. and The Chase Manhattan Bank, formerly known as Chemical Bank, as successor to Mellon Bank, N.A., as Trustee, is incorporated by reference from Armstrong World Industries, Inc.'s registration statement on Form S-3/A dated August 14, 1996, wherein it appeared as Exhibit 4.1. (SEC File No. 1-2116)
No 4.5	Instrument of Resignation, Appointment and Acceptance dated as of December 1, 2000 among Armstrong World Industries, Inc., The Chase Manhattan Bank and Wells Fargo Bank Minnesota, National Association, regarding Armstrong World Industries, Inc.'s Indenture, dated as of August 6, 1996, between Armstrong World Industries, Inc. and The Chase Manhattan Bank, formerly known as Chemical Bank, as successor to Mellon Bank, N.A., as Trustee, is incorporated by reference from the 2000 Annual Report on Form 10-K wherein they appear as Exhibit 4(e). (SEC File No. 1-2116)
No. 4.6	Copy of portions of Armstrong World Industries, Inc.'s Board of Directors' Pricing Committee's resolutions establishing the terms and conditions of $200,000,000 of 6.35% Senior Notes Due 2003 and $150,000,000 of 6 1/2% Senior Notes Due 2005, is incorporated by reference from the 1998 Annual Report on Form 10-K, wherein it appeared as Exhibit 4(h). (SEC File No. 1-2116)
No. 4.7	Copy of portions of Armstrong World Industries, Inc.'s Board of Directors' Pricing Committee's resolutions establishing the terms and conditions of $180,000,000 of 7.45% Senior Quarterly Interest Bonds Due 2038, is incorporated by reference from the 1998 Annual Report on Form 10-K, wherein it appeared as Exhibit 4(i). (SEC File No. 1-2116)
No. 4.8	Note Purchase Agreement dated June 19, 1989 for 8.43% Series A Guaranteed Serial ESOP Notes due 1989 –2001 and 9.00% Series B Guaranteed Serial ESOP Notes due 2000-2004 for the Armstrong World Industries, Inc. Employee Stock Ownership Plan ("Share in Success Plan") Trust, with Armstrong World Industries, Inc. as guarantor is incorporated by reference from Armstrong Holdings, Inc. and Armstrong World Industries, Inc.'s registration statement on Form 10-Q for the quarter ended September 30, 2000, wherein it appeared as Exhibit 4(a). (SEC File No. 1-2116)
No. 4.9	Armstrong World Industries, Inc.'s $300,000,000 Revolving Credit and Guarantee Agreement dated December 6, 2000, between Armstrong World Industries, Inc. and The Chase Manhattan Bank and the banks referenced therein; the First Amendment to this Agreement, dated February 2, 2001; and the Amendment Letter to this Agreement, dated February 28, 2001, are incorporated by reference from the 2000 Annual Report on Form 10-K wherein they appear as Exhibit 4(i). (SEC File No. 1-2116)
No. 4.10	Second, Third, Fourth, Fifth, Sixth and Seventh Amendments to Armstrong World Industries, Inc.'s December 6, 2000 Debtor in Possession Credit Facility dated May 29, 2001; June 4, 2001; October 30, 2002; October 31, 2003; October 14, 2004; and October 27, 2005, respectively, are incorporated by reference from the Quarterly Report on Form 10-Q for the quarter ended September 30, 2005, wherein they appeared as Exhibit 4.10.

No. 4.11	Instrument of Resignation, Appointment and Acceptance dated June 14, 2005, among Armstrong World Industries, Inc., J. P. Morgan Trust Company, National Association, successor-in-interest to Bank One Trust Company, N.A. (J. P. Morgan) and Law Debenture Trust Company of New York ("Law Debenture"), whereby J. P. Morgan resigned as trustee and Law Debenture accepted the appointment as successor trustee under the Indenture dated March 15, 1988 between Armstrong World Industries, Inc. and Morgan Guaranty Trust Company of New York, as supplemented by the supplemental indenture dated as of October 19, 1990 between Armstrong World Industries, Inc. and First National Bank of Chicago, J. P. Morgan Trust Company, National Association successor-in-interest to Bank One Trust Company (relating to Armstrong World Industries, Inc.'s $125 million 9-3/4% Debentures due 2008 and Series A Medium Term Notes which is incorporated by reference from the 1995 Annual Report on Form 10-K wherein it appeared as Exhibit 4(c) (SEC File No. 1-2116)) is incorporated by reference from the Quarterly Report on Form 10-Q for the quarter ended June 30, 2005, wherein it appeared as Exhibit 4.11.
No. 4.12	Senior Indenture dated as of December 23, 1998 between Armstrong World Industries, Inc. and First National Bank of Chicago, as Trustee, is incorporated by reference from Armstrong World Industries, Inc.'s Registration Statement on Form S-3 (File No. 333- 74501) dated March 16, 1999, wherein it appeared as Exhibit 4.3. (SEC File No. 1-2116)
No. 4.13	Global Note representing $200 million of 7.45% Senior Notes due 2029 is incorporated by reference from the Current Report on Form 8-K filed on May 29, 1999, wherein it appeared as Exhibit 4.2. (SEC File No. 1-2116)
	Armstrong Holdings, Inc. and Armstrong World Industries, Inc. agree to furnish to the Commission upon request copies of instruments defining the rights of holders of long-term debt of the registrants and their subsidiaries which are not filed herewith in accordance with applicable rules of the Commission because the total amount of securities authorized thereunder does not exceed 10% of the total assets of the registrants and their subsidiaries on a consolidated basis.
No. 10.1	Armstrong World Industries, Inc.'s Agreement Concerning Asbestos-Related Claims dated June 19, 1985, (the "Wellington Agreement") among Armstrong World Industries, Inc. and other companies is incorporated by reference from the 1997 Annual Report on Form 10-K wherein it appeared as Exhibit 10(i)(a). (SEC File No. 1-2116)
No. 10.2	Producer Agreement concerning Center for Claims Resolution, as amended, among Armstrong World Industries, Inc. and other companies is incorporated by reference from the 1999 Annual Report on Form 10-K wherein it appeared as Exhibit 10(i)(b). (SEC File No. 1-2116)
No. 10.3	Armstrong World Industries, Inc.'s 1993 Long-Term Stock Incentive Plan is incorporated by reference from the 1993 Proxy Statement wherein it appeared as Exhibit A. * (SEC File No. 1-2116)
No. 10.4	Armstrong World Industries, Inc.'s 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. 10.5	Armstrong World Industries, Inc. and Armstrong Holdings, Inc.'s Management Achievement Plan for Key Executives, as amended August 1, 2005, is incorporated by reference from the Current Report on Form 8-K filed on September 30, 2005, wherein it appeared as Exhibit 10.1.*

No. 10.6	Armstrong World Industries, Inc.’s Retirement Benefit Equity Plan (formerly known as the Excess Benefit Plan), as amended January 1, 2000 is incorporated by reference from the 1999 Annual Report on Form 10-K wherein it appeared as Exhibit 10(iii)(e). * (SEC File No. 1-2116)
No. 10.7	Armstrong Holdings, Inc.’s Deferred Compensation Plan, as amended May 1, 2000, is incorporated by reference from the 2000 Annual Report on Form 10-K wherein it appeared as Exhibit 10(iii)(f) * (SEC File No. 000-50408)
No. 10.8	Armstrong World Industries, Inc.’s Severance Pay Plan for Salaried Employees, as amended January 1, 2003 and March 15, 2005 in incorporated by reference from the 2004 Annual Report on Form 10-K wherein it appeared as Exhibit 10.8. *
No. 10.9	Armstrong World Industries, Inc.’s 1999 Long-Term Incentive Plan and Supplement dated August 1, 2005, are incorporated by reference from the Current Report on Form 8-K filed on September 30, 2005, wherein they appeared as Exhibit 10.2 and Exhibit 10.3.*
No. 10.10	Form of Change in Control Agreement between Armstrong World Industries, Inc. and certain of its officers is incorporated by reference from the 2000 Annual Report on Form 10-K wherein it appears as Exhibit 10(iii)(k). A schedule identifying those executives and the material differences among the agreements to which each executive is a party, is filed herewith. * (SEC File No. 1-2116)
No. 10.11	Change in Control Agreement between Armstrong Holdings, Inc. and Michael D. Lockhart, dated August 7, 2000 is incorporated by reference from the Quarterly Report on Form 10-Q for the quarter ended September 30, 2000, wherein it appeared as Exhibit 10(e). * (SEC File No. 000-50408)
No. 10.12	Form of Indemnification Agreement between Armstrong Holdings, Inc., Armstrong World Industries, Inc. and Messrs. Arnelle, Marley, Stead and Ms. Haberkorn, 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. 10.13	Form of Indemnification Agreement between Armstrong Holdings, Inc., Armstrong World Industries Inc. and certain Directors and Officers, together with a schedule identifying those Armstrong World Industries, Inc. Directors and Officers and the material differences among the agreements to which each executive is a party, are incorporated by reference from the 2003 Annual Report on Form 10-K wherein they appeared as Exhibit 10(iii)(n) and Exhibit 10(iii)(q). * (SEC File No. 000-50408) A schedule identifying those Armstrong Holdings, Inc. Directors and Officers and the material differences among the agreements to which each executive is a party is filed herewith.

No. 10.14	Form of Indemnification Agreement between Armstrong Holdings, Inc., Armstrong World Industries Inc. and M. Edward Sellers, dated May 1, 2001 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. 10.15	Form of Indemnification Agreement between Armstrong Holdings, Inc. and Armstrong World Industries, Inc. and Ms. Ruth M. Owades and Mr. John J. Roberts, incorporated by reference from the 2003 Annual Report on Form 10-K wherein it appeared as Exhibit 10(iii)(q). *
No. 10.16	Armstrong World Industries, Inc.'s Bonus Replacement Retirement Plan, dated as of January 1, 1998, as amended, is incorporated by reference from the 1998 Annual Report on Form 10-K wherein it appeared as Exhibit 10(iii)(m). * (SEC File No. 1-2116)
No. 10.17	Employment Agreement between Armstrong Holdings, Inc. and Michael D. Lockhart dated August 7, 2000 is incorporated by reference from the Quarterly Report on Form 10-Q for the quarter ended September 30, 2000 wherein it appeared as Exhibit 10 (a). * (SEC File No. 000-50408)
No. 10.18	Amendment to August 7, 2000 Employment Agreement between Armstrong Holdings, Inc. and Michael D. Lockhart is incorporated by reference from the Quarterly Report on Form 10-Q for the quarter ended March 31, 2001, wherein it appeared as Exhibit 10. * (SEC File No. 000-50408)
No. 10.19	Armstrong Holdings, Inc.'s Stock Award Plan is incorporated by reference from Armstrong Holdings, Inc.'s registration statement on Form S-8 filed August 16, 2000, wherein it appeared as Exhibit 4.1. * (SEC File No. 000-50408)
No. 10.20	Management Services Agreement between Armstrong Holdings, Inc. and Armstrong World Industries, Inc., dated August 7, 2000 is incorporated by reference from the Quarterly Report on Form 10-Q for the quarter ended September 30, 2000 wherein it appeared as Exhibit 10(g). * (SEC File No. 000-50408)
No. 10.21	Form of Amendment of Restricted Stock Award Agreements between Armstrong Holdings, Inc. and the following executive officers: M.D. Lockhart, S.J. Senkowski and W.C. Rodruan dated July 22, 2002 is incorporated by reference from the Quarterly Report on Form 10-Q for the quarter ended June 30, 2002 wherein it appeared as Exhibit 10. *
No. 10.22	Hiring Agreement between Armstrong World Industries, Inc. and F. Nicholas Grasberger III dated January 6, 2005 is incorporated by reference from the Current Report filed on Form 8-K on January 6, 2005, wherein it appeared as Exhibit 10.1. *
No. 10.23	Change in Control Agreement between Armstrong World Industries, Inc. and F. Nicholas Grasberger III dated January 6, 2005 is incorporated by reference from the Current Report filed on Form 8-K on January 6, 2005, wherein it appeared as Exhibit 10.2. *
No. 10.24	Indemnification Agreement between Armstrong World Industries, Inc. and F. Nicholas Grasberger III dated January 6, 2005 is incorporated by reference from the Current Report filed on Form 8-K on January 6, 2005, wherein it appeared as Exhibit 10.3. *

No. 10.25	Form of grant letter regarding executive officer participation in Armstrong World Industries, Inc.'s 2005 retention payment program together with the schedule of participating Executive Officers is incorporated by reference from the Current Report filed on Form 8-K on February 3, 2005, wherein they appeared as Exhibits 10.1 and 10.2. *
No. 10.26	Order of the U.S. District Court Authorizing and Approving Continued Cash Retention Program for Key Employees dated December 9, 2004, is incorporated by reference from the Current Report filed on Form 8-K on February 3, 2005, wherein it appeared as Exhibit 99.1.
No. 10.27	Executive Officer Compensation Arrangements between Armstrong World Industries Inc. and certain executive officers are incorporated by reference from the 2004 Annual Report on Form 10-K wherein they appeared as Exhibit 10.29. *
No. 10.28	Form of Long-Term Incentive Plan 2005 award letter regarding executive participation in the 1999 Long-Term Incentive Plan is incorporated by reference from the 2004 Annual Report on Form 10-K wherein it appeared as Exhibit 10.30. *
No. 10.29	Armstrong World Industries, Inc.'s Nonqualified Deferred Compensation Plan effective January 2005. *
No. 10.30	Summary of Armstrong Nonemployee Director Compensation is incorporated by reference from the 2004 Annual Report on Form 10-K wherein it appeared as Exhibit 10.32. *
No. 10.31	Separation Agreement, General Release and Covenant Not to Sue dated September 26, 2005, between Armstrong World Industries, Inc. and Matthew J. Angello is incorporated by reference from the Quarterly Report on Form 10-Q for the quarter ended September 30, 2005, wherein it appeared as Exhibit 10.33. *
No. 10.32	Agreement of Purchase and Sale between S-J Realty Management, LLC and Armstrong World Industries, Inc. dated December 5, 2005, is incorporated by reference from the Current Report filed on Form 8-K on January 30, 2006, wherein it appeared as Exhibit 10.1.
No. 10.33	Form of grant letter regarding executive officer participation in Armstrong World Industries, Inc.'s 2006 retention payment program is incorporated by reference from the Current Report filed on Form 8-K on January 30, 2006, wherein it appeared as Exhibit 10.1.*
No. 10.34	Order of the U.S. District Court dated January 26, 2006 Authorizing and Approving Continued Cash Retention Program for Key Employees is incorporated by reference from the Current Report filed on Form 8-K on January 30, 2006, wherein it appeared as Exhibit 99.1. *
No. 10.35	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. 10.36	Order of the U.S. District Court dated February 8, 2006, Establishing Schedule with Respect to Hearing on Confirmation of the Fourth Amended Plan of Reorganization of Armstrong World Industries, Inc., as modified, is incorporated by reference from the Current Report filed on Form 8-K on February 11, 2006, wherein it appeared as Exhibit 99.1.

No. 10.37	Form of Long-Term Incentive Plan 2006 award letter regarding executive participation in the 2006 Long-Term Incentive Plan is filed herewith. *
No. 11.1	Computation for basic earnings per share.
No. 11.2	Computation for diluted earnings per share.
No. 15	Awareness Letter from Independent Registered Public Accounting Firm.
No. 21.1	List of Armstrong Holdings, Inc. and Armstrong World Industries, Inc.'s domestic and foreign subsidiaries.
No. 23.1	Consent of Independent Registered Public Accounting Firm.
No. 23.2	Consent of Independent Registered Public Accounting Firm.
No. 23.3	Consent of Independent Registered Public Accounting Firm.
No. 23.4	Consent of Independent Registered Public Accounting Firm.
No. 24.1	Power of Attorney and authorizing resolution.
No. 31.1	Certification of Principal Executive Officer of Armstrong Holdings, Inc. required by Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act.
No. 31.2	Certification of Principal Financial Officer of Armstrong Holdings, Inc. required by Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act.
No. 31.3	Certification of Principal Executive Officer of Armstrong World Industries, Inc. required by Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act.
No. 31.4	Certification of Principal Financial Officer of Armstrong World Industries, Inc. required by Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act.
No. 32.1	Certification of Chief Executive Officer of Armstrong Holdings, Inc. and Armstrong World Industries, Inc. required by Rule 13a-14(b) and 18 U.S.C. Section 1350 (furnished herewith).
No. 32.2	Certification of Chief Financial Officer of Armstrong Holdings, Inc. and Armstrong World Industries, Inc. required by Rule 13a-14(b) and 18 U.S.C. Section 1350 (furnished herewith).
No. 99.1	Worthington Armstrong Venture consolidated financial statements as of December 31, 2005 and 2004 and for the years ended December 31, 2005, 2004 and 2003.

* Management Contract or Compensatory Plan.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ARMSTRONG HOLDINGS, INC.
(Registrant)

By: /s/ Michael D. Lockhart
Chairman, Chief Executive Officer and President

Date: February 24, 2006

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant AHI and in the capacities and on the dates indicated.

Directors and Principal Officers of the registrant AHI:

Name	Title
Michael D. Lockhart	Chairman, Chief Executive Officer and President (Principal Executive Officer)
F. Nicholas Grasberger III	Senior Vice President and Chief Financial Officer (Principal Financial Officer)
William C. Rodruan	Vice President and Controller (Chief Accounting Officer)
H. Jesse Arnelle	Director
Judith R. Haberkorn	Director
James E. Marley	Director
Ruth M. Owades	Director
John J. Roberts	Director
M. Edward Sellers	Director
Jerre L. Stead	Director

By: /s/ Michael D. Lockhart
(Michael D. Lockhart, as attorney-in-fact for AHI directors and on his own behalf)
As of February 24, 2006

By: /s/ F. Nicholas Grasberger III
(F. Nicholas Grasberger III)
As of February 24, 2006

By: /s/ William C. Rodruan
(William C. Rodruan)
As of February 24, 2006

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ARMSTRONG WORLD INDUSTRIES, INC.
(Registrant)

By: /s/ Michael D. Lockhart
Chairman, Chief Executive Officer and President

Date: February 24, 2006

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant Armstrong and in the capacities and on the dates indicated.

Directors and Principal Officers of the registrant AWI:

Name	Title
Michael D. Lockhart	Chairman, Chief Executive Officer and President (Principal Executive Officer)
F. Nicholas Grasberger III	Senior Vice President and Chief Financial Officer (Principal Financial Officer)
William C. Rodruan	Vice President and Controller (Chief Accounting Officer)
James E. Marley	Director
John N. Rigas	Director

By: /s/ Michael D. Lockhart
(Michael D. Lockhart, as attorney-in-fact for James E. Marley and on his own behalf)
As of February 24, 2006

By: /s/ F. Nicholas Grasberger III
(F. Nicholas Grasberger III)
As of February 24, 2006

By: /s/ William C. Rodruan
(William C. Rodruan)
As of February 24, 2006

By: /s/ John N. Rigas
(John N. Rigas)
As of February 24, 2006

SCHEDULE II

Armstrong Holdings, Inc. and Armstrong World Industries, Inc.
Valuation and Qualifying Reserves of Accounts Receivable

For Years Ended December 31

	2005	2004	2003
Provision for Losses			
Balance at beginning of year	$ 13.0	$ 18.9	$ 20.3
Additions charged to earnings	2.7	4.1	6.4
Deductions	(4.9)	(10.0)	(7.8)
Balance at end of year	$ 10.8	$ 13.0	$ 18.9
Provision for Discounts			
Balance at beginning of year	$ 45.5	$ 47.3	$ 41.4
Additions charged to earnings	212.6	217.8	229.6
Deductions	(218.3)	(219.6)	(223.7)
Balance at end of year	$ 39.8	$ 45.5	$ 47.3
Total Provision for Discounts and Losses			
Balance at beginning of year	$ 58.5	$ 66.2	$ 61.7
Additions charged to earnings	215.3	221.9	236.0
Deductions	(223.2)	(229.6)	(231.5)
Balance at end of year	$ 50.6	$ 58.5	$ 66.2

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Exhibit Index

Exhibit No.	
No. 2.3	Armstrong World Industries, Inc.'s Fourth Amended Plan of Reorganization submitted to the U.S. District Court for the District of Delaware on May 23, 2003, and as modified by modifications filed with the Bankruptcy Court on October 17, 2003, November 10, 2003, December 3, 2004 and February 21, 2006.
No. 4.1	Armstrong Holdings, Inc.'s Shareholder Summary Rights to Purchase Preferred Stock as amended and restated as of February 20, 2006.
No. 10.29	Armstrong World Industries, Inc.'s Nonqualified Deferred Compensation Plan effective January 2005.
No. 10.37	Form of Long-Term Incentive Plan 2006 award letter regarding executive participation in the 2006 Long-Term Incentive Plan.
No. 11.1	Computation for basic earnings per share.
No. 11.2	Computation for diluted earnings per share.
No. 21	List of Armstrong Holdings, Inc. and Armstrong World Industries, Inc.'s domestic and foreign subsidiaries.
No. 23.1	Consent of Independent Registered Public Accounting Firm.
No. 23.2	Consent of Independent Registered Public Accounting Firm.
No. 23.3	Consent of Independent Registered Public Accounting Firm.
No. 23.4	Consent of Independent Registered Public Accounting Firm.
No. 24	Power of Attorney and authorizing resolution.
No. 31.1	Certification of Principal Executive Officer of Armstrong Holdings, Inc. required by Rule 13a-14(a) or 15d-14(a) of the Exchange Act.
No. 31.2	Certification of Principal Financial Officer of Armstrong Holdings, Inc. required by Rule 13a-14(a) or 15d-14(a) of the Exchange Act 2002.
No. 31.3	Certification of Principal Executive Officer of Armstrong World Industries, Inc. required by Rule 13a-14(a) or 15d-14(a) of the Exchange Act.
No. 31.4	Certification of Principal Financial Officer of Armstrong World Industries, Inc. required by Rule 13a-14(a) or 15d-14(a) of the Exchange Act.
No. 32.1	Certification of Chief Executive Officer of Armstrong Holdings, Inc. and Armstrong World Industries, Inc. required by Rule 13a-14(b) and 18 U.S.C. Section 1350.
No. 32.2	Certification of Chief Financial Officer of Armstrong Holdings, Inc. and Armstrong World Industries, Inc. required by Rule 13a-14(b) and 18 U.S.C. Section 1350.
No. 99.1	Worthington Armstrong Venture consolidated financial statements as of December 31, 2005 and 2004 and for the years ended December 31, 2005, 2004 and 2003.

UNITED STATES BANKRUPTCY COURT
DISTRICT OF DELAWARE

	x	
In re	:	**Chapter 11 Case No.**
	:	
ARMSTRONG WORLD INDUSTRIES, INC., *et al.*,	:	**00-4471 (JKF)**
	:	
	:	
Debtors.	:	**(Jointly Administered)**
	x	

FOURTH AMENDED PLAN OF REORGANIZATION OF ARMSTRONG WORLD INDUSTRIES, INC., AS MODIFIED

Armstrong World Industries, Inc. hereby proposes the following plan of reorganization:

ARTICLE I

DEFINITIONS

A. Defined Terms. As used herein, the following terms shall have the respective meanings specified below, unless the context otherwise requires:

1.1 *144A Debt Securities* : Debt securities issued by Reorganized AWI in a 144A Offering, having terms and conditions as determined by AWI and the initial purchasers in their sole discretion, subject, however, to the provisions of Section 7.3 of the Plan.

1.2 *144A Offering:* One or more private offerings of 144A Debt Securities, pursuant to Rule 144A and/or Regulation S under the Securities Act of 1933, through initial purchasers to institutional and other investors, completed on or after the Effective Date but prior to the Initial Distribution Date.

1.3 *144A Offering Proceeds:* The amount equal to the sum of (x) the aggregate net cash proceeds of any 144A Offerings, plus (y) the Term Loan B Proceeds, if any.

1.4 *Administrative Bar Date Order* : An order of the Bankruptcy Court setting a deadline for the filing of certain Administrative Expenses.

1.5 *Administrative Expense* : Any Claim constituting a cost or expense of administration in the Chapter 11 Case under section 503 of the Bankruptcy Code, including, without express or implied limitation, any actual and necessary costs and expenses of preserving the estate of AWI, any expenses of professionals under sections 330 and 331 of the Bankruptcy Code, any actual and necessary costs and expenses of operating the businesses of AWI, any indebtedness or obligations incurred or assumed by AWI, as debtor in possession, in connection with the conduct of its business or for the acquisition or lease of property or the rendition of services, any allowed compensation or reimbursement of expenses under section 503(b)(2)-(5) of the Bankruptcy Code, and any fees or charges assessed against the estate of AWI under section 1930, chapter 123, title 28, United States Code.

1.6 *Administrative Expense Creditor* : Any Creditor entitled to payment of an Administrative Expense.

1.7 *Administrative Expense Objection Deadline* : The first Business Day that is thirty (30) days after the Effective Date, as such date may be extended from time to time by order of the Bankruptcy Court.

1.8 *Affiliate* : Any Entity, other than (a) an Entity in which AWI has less than a fifty percent (50%) direct or indirect interest, (b) AWWD, or (c) Holdings, that is an "affiliate" of AWI, as of the date immediately preceding the Effective Date, within the meaning of section 101(2) of the Bankruptcy Code.

1.9 *Affiliate Claims* : All Claims against AWI held by an Affiliate.

1.10 *Agent Bank* : The JPMorgan Chase Bank, or such other Entity acting as agent under the DIP Credit Facility from time to time.

1.11 *Allowed* :

(a) With respect to any Claim (other than an Administrative Expense, Asbestos Property Damage Claim or Asbestos Personal Injury Claim), proof of which was filed within the applicable period of limitation fixed in accordance with Bankruptcy Rule 3003(c)(3) by the Bankruptcy Court, (i) as to which no objection to the allowance thereof has been interposed within the applicable period of limitation fixed by the Plan, the Bankruptcy Code, the Bankruptcy Rules, or a Final Order of the Bankruptcy Court, such Claim to the extent asserted in the proof of such Claim, or (ii) as to which an objection has been interposed, such Claim to the extent that it has been allowed in whole or in part by a Final Order of the Bankruptcy Court or by an agreement with AWI or Reorganized AWI, as the case may be, in accordance with the Claims Settlement Guidelines as in effect at the time of such agreement.

(b) With respect to any Claim (other than an Administrative Expense or Asbestos Personal Injury Claim), as to which no proof of claim was filed within the applicable period of limitation fixed by the Plan, the Bankruptcy Code, the Bankruptcy Rules, or a Final Order of the Bankruptcy Court, such Claim to the extent that it has been listed by AWI in its Schedules as liquidated in amount and not disputed or contingent.

(c) With respect to any Claim that is asserted to constitute an Administrative Expense

(i) that represents an actual or necessary expense of preserving the estate or operating the business of AWI for payment of goods, services, wages, or benefits or for credit extended to AWI, as debtor in possession, any such Claim to the extent that such claim is reflected as a postpetition liability of AWI on AWI's books and records as of the Effective Date;

(ii) in an action against AWI pending as of the Confirmation Date or not required to be filed against AWI pursuant to the Administrative Bar Date Order, any such Claim to the extent (x) it is allowed by a Final Order of a court of competent jurisdiction or by agreement between Reorganized AWI and the holder of such Administrative Expense, and (y) if AWI disputes that such claim is a cost or expense of administration under sections 503(b) and 507(a)(1) of the

Bankruptcy Code, to the extent the Bankruptcy Court determines by a Final Order that it constitutes a cost or expense of administration under sections 503(b) and 507(a)(1) of the Bankruptcy Code;

(iii) timely filed in accordance with the Administrative Bar Date Order, any such Claim to the extent (i) no objection is interposed by the Administrative Expense Objection Deadline or (ii) if an objection is interposed by the Administrative Expense Objection Deadline, is allowed in whole or in part by a Final Order of the Bankruptcy Court and only to the extent that such allowed portion is deemed, pursuant to a Final Order of the Bankruptcy Court, to constitute a cost or expense of administration under sections 503(b) and 507(a)(1) of the Bankruptcy Code; or

(iv) that represents a Claim of a professional person employed under section 327 or 1103 of the Bankruptcy Code that is required to apply to the Bankruptcy Court for the allowance of compensation and reimbursement of expenses pursuant to section 330 of the Bankruptcy Code or an Administrative Expense arising under section 503(b)(2), 503(b)(3), 503(b)(4), 503(b)(5), or 503(b)(6) of the Bankruptcy Code, such Claim to the extent it is allowed by a Final Order of the Bankruptcy Court.

(d) With respect to any Asbestos Personal Injury Claim, such Claim to the extent that it is Allowed in accordance with the procedures established pursuant to the Asbestos PI Trust Agreement and the Asbestos PI Trust Distribution Procedures. Pursuant to the Confirmation Order, an Allowed Claim, with respect to any Asbestos Personal Injury Claim, shall establish the amount of legal liability against the Asbestos PI Trust in the amount of the liquidated value of such Claim, as determined in accordance with the Asbestos PI Trust Distribution Procedures.

(e) With respect to any Asbestos Property Damage Claim, proof of which was filed by the Asbestos PD Bar Date, such Claim to the extent that it is allowed by an order of the Bankruptcy Court.

1.12 *Allowed Amount* : The lesser of (a) the dollar amount of an Allowed Claim or (b) the Estimated Amount of such Claim. Unless otherwise specified herein, in the Asbestos PI Trust Distribution Procedures or by Final Order of the Bankruptcy Court, the Allowed Amount of an Allowed Claim shall not include interest accruing on such Allowed Claim from and after the Commencement Date .

1.13 *Amended and Restated Articles of Incorporation* : The Articles of Incorporation of Reorganized AWI, to be amended and restated in accordance with section 7.1 hereof, in substantially the form of Exhibit 1.13 to the Plan.

1.14 *Amended and Restated By-Laws* : The By-Laws of Reorganized AWI, to be amended and restated in accordance with section 7.4 hereof, in substantially the form of Exhibit 1.14 to the Plan.

1.15 *Articles of Incorporation* : The Articles of Incorporation of AWI, as such Articles of Incorporation may be amended by the Amended and Restated Articles of Incorporation or otherwise.

1.16 *Asbestos PD Bar Date* : March 20, 2002.

1.17 *Asbestos PD Committee* : The Asbestos Property Damage Committee, consisting of Entities appointed as members in the Chapter 11 Case by the United States Trustee for the District of Delaware and their duly appointed successors, if any, as the same may be reconstituted from time to time.

1.18 *Asbestos Personal Injury Claim* **: Any Claim or remedy, liability, or Demand against AWI now existing or hereafter arising, whether or not such Claim, remedy, liability, or Demand is reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed, legal, equitable, secured, or unsecured, whether or not the facts of or legal bases therefor are known or unknown, under any theory of law, equity, admiralty, or otherwise, for death, bodily injury, sickness, disease, medical monitoring or other personal injuries (whether physical, emotional, or otherwise) to the extent caused or allegedly caused, directly or indirectly, by the presence of or exposure (whether prior to or after the Commencement Date) to asbestos or asbestos-containing products or things that was or were installed, engineered, designed, manufactured, fabricated, constructed, sold, supplied, produced, specified, selected, distributed, released, marketed, serviced, maintained, repaired, purchased, owned, occupied, used, removed, replaced or disposed by AWI or an Entity for whose products or operations AWI allegedly has liability or for which AWI is otherwise allegedly liable, including, without express or implied limitation, any Claim, remedy, liability, or Demand for compensatory damages (such as loss of consortium, wrongful death, medical monitoring, survivorship, proximate, consequential, general, and special damages) and punitive damages, and any Claim, remedy, liability or Demand for reimbursement, indemnification, subrogation and contribution (including, without limitation, any Indirect PI Trust Claim), and any claim under any settlement entered into by or on behalf of AWI prior to the Commencement Date relating to an Asbestos Personal Injury Claim. An Asbestos Property Damage Claim or a workers' compensation claim brought directly by a past or present employee of AWI under an applicable workers' compensation statute against AWI shall not constitute an Asbestos Personal Injury Claim.**

1.19 *Asbestos PI Claimants' Committee* : The Official Committee of Asbestos Claimants, consisting of Entities appointed as members in the Chapter 11 Case by the United States Trustee for the District of Delaware and their duly appointed successors, if any, as the same may be reconstituted from time to time.

1.20 *Asbestos PI Insurance Asset* : All rights arising under liability insurance policies issued to AWI with inception dates prior to January 1, 1982 with respect to the liability for Asbestos Personal Injury Claims (with the exception of AWI's claim against Liberty Mutual Insurance Company for costs, expenses and fees incurred in connection with an Alternative Dispute Resolution Proceeding initiated in 1996 under the Agreement Concerning Asbestos Related Claims of June 19, 1985, AWI's claim against Century Indemnity Company for payments due and owing to AWI before February 2003 under a settlement agreement dated February 8, 2000, together with applicable interest to the date of payment, and AWI's rights to insurance relating to workers' compensation claims). The foregoing includes, but is not limited to, rights under insurance policies, rights under settlement agreements made with respect to such insurance policies (with the exception of AWI's claim against Century Indemnity Company for amounts, including, without limitation, interest, due and owing under a settlement agreement dated February 8, 2000), rights against the estates of insolvent insurers that issued such policies or entered into such settlements, and rights against state insurance guaranty associations arising out of any such insurance policies issued by insolvent insurers. The foregoing also includes the right, on behalf of AWI and its subsidiaries as of the Effective Date, to give a full release of the insurance rights of AWI and its subsidiaries as of the Effective Date under any such policy or settlement agreement with the exception of rights to coverage for property damage Claims and rights to coverage for the amount that AWI agreed to pay to plaintiffs in *Maertin et al. v. Armstrong World Industries, Inc. et al.* , No. 95-CV-20849 (JBS) (D.N.J.) in a settlement agreement executed November 22, 2000 and rights to coverage with respect to workers' compensation claims.

1.21 *Asbestos PI Permanent Channeling Injunction* **: An order or orders of the District Court in accordance with, and pursuant to, section 524(g) of the Bankruptcy Code permanently and forever staying, restraining, and enjoining any Entity from taking any of the following actions for the purpose of, directly or indirectly, collecting, recovering, or receiving payment of, on, or with respect to any Asbestos Personal Injury Claims, all of which shall be channeled to the Asbestos PI Trust for resolution as set forth in the Asbestos PI Trust Distribution Procedures (other than actions brought to enforce any right or obligation under the Plan, any Exhibits to the Plan, or any other agreement or instrument between AWI or Reorganized AWI and the Asbestos PI Trust, which actions shall be in conformity and compliance with the provisions hereof), including, but not limited to:**

(a) **commencing, conducting, or continuing in any manner, directly or indirectly, any suit, action, or other proceeding (including, without express or implied limitation, a judicial, arbitral, administrative, or other proceeding) in any forum against or affecting any PI Protected Party or any property or interests in property of any PI Protected Party;**

(b) **enforcing, levying, attaching (including, without express or implied limitation, any prejudgment attachment), collecting, or otherwise recovering by any means or in any manner, whether directly or indirectly, any judgment, award, decree, or other order against any PI Protected Party or any property or interests in property of any PI Protected Party;**

(c) **creating, perfecting, or otherwise enforcing in any manner, directly or indirectly, any Encumbrance against any PI Protected Party or any property or interests in property of any PI Protected Party;**

(d) **setting off, seeking reimbursement of, contribution from, or subrogation against, or otherwise recouping in any manner, directly or indirectly, any amount against any liability owed to any PI Protected Party or any property or interests in property of any PI Protected Party; *provided, however* , that the foregoing shall not preclude the assertion of a setoff or recoupment defense under applicable law by a third party solely in response to, and to the extent of, a claim asserted by a PI Protected Party against such third party that such third party is liable in whole or in part for an Asbestos Personal Injury Claim; and**

(e) **proceeding in any manner in any place with regard to any matter that is subject to resolution pursuant to the Asbestos PI Trust, except in conformity and compliance therewith.**

1.22 *Asbestos PI Trust* : The trust established by AWI in accordance with the Asbestos PI Trust Agreement.

1.23 *Asbestos PI Trust Agreement* : That certain AWI Asbestos Personal Injury Settlement Trust Agreement, executed by AWI and the Asbestos PI Trustees, substantially in the form of Exhibit 1.23 to the Plan.

1.24 *Asbestos PI Trust Distribution Procedures* : The AWI Asbestos Personal Injury Settlement Trust Distribution Procedures to be implemented by the Asbestos PI Trustees pursuant to the terms and conditions of the Plan and the Asbestos PI Trust Agreement to process, liquidate, and pay Asbestos Personal Injury Claims, substantially in the form of Exhibit 1.24 to the Plan.

1.25 *Asbestos PI Trustees* : Collectively, the persons confirmed by the Bankruptcy Court to serve as trustees of the Asbestos PI Trust, pursuant to the terms of the Asbestos PI Trust Agreement, or as subsequently may be appointed pursuant to the terms of the Asbestos PI Trust Agreement.

1.26 *Asbestos Property Damage Claim* : Any Claim or remedy or liability against AWI, whether or not such Claim, remedy, or liability is reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed, legal, equitable, secured, or unsecured, whether or not the facts of or legal bases therefor are known or unknown, under any theory of law, equity, admiralty, or otherwise, for damages for property damage, including but not limited to, the cost of inspecting, maintaining, encapsulating, repairing, decontaminating, removing or disposing of asbestos or asbestos-containing products in buildings, other structures, or other property arising from the installation in, presence in or removal from buildings or other structures of asbestos or asbestos-containing products that was or were installed, manufactured, sold, supplied, produced, distributed, released or marketed by AWI prior to the Commencement Date, or for which AWI is allegedly liable, including, without express or implied limitation, any such Claims, remedies and liabilities for compensatory damages (such as proximate, consequential, general, and special damages) and punitive damages, and any Claim, remedy or liability for reimbursement, indemnification, subrogation and contribution, including, without limitation, any Asbestos Property Damage Contribution Claim. Asbestos Property Damage Claims shall not include Asbestos Personal Injury Claims.

1.27 *Asbestos Property Damage Contribution Claim* : Any Claim or remedy or liability against AWI, whether or not such Claim, remedy or liability is reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed, legal, equitable, secured, or unsecured, whether or not the facts of or legal bases for such Claim, remedy or liability are known or unknown, that is (i) held by (A) any Entity (other than a director or officer entitled to indemnification pursuant to section 8.6 of the Plan) who has been, is, or may be a defendant in an action seeking damages for property damage, including but not limited to, the cost of inspecting, maintaining, encapsulating, repairing, decontaminating, removing or disposing of asbestos or asbestos-containing products in buildings, other structures, or other property, or (B) any assignee or transferee of such Entity, and (ii) on account of alleged liability by AWI for reimbursement, indemnification, subrogation, or contribution of any portion of any damages such Entity has paid or may pay to the plaintiff in such action.

1.28 *Available Cash* : The sum of the following: (a) all cash on hand of AWI and its subsidiaries as of the last day of the month immediately preceding the Effective Date *less* the sum of the following as of such date: (i) One Hundred Million and 00/100 Dollars ($100,000,000.00) or such lesser amount as AWI, in its sole discretion (after consultation with the Asbestos PI Claimants' Committee, Unsecured Creditors' Committee, and the Future Claimants' Representative), determines it requires for working capital purposes, (ii) the Allowed Amount of

Allowed Administrative Expenses, (iii) a reasonable estimate by AWI of additional Administrative Expenses (such as professional fees and expenses) that may become Allowed thereafter (other than Administrative Expenses of the type specified in section 1.11(c)(i) of the Plan) and fees and expenses payable in connection with any exit facility referred to in section 7.16(g) of the Plan, (iv) the Allowed Amount of Allowed Priority Tax Claims, (v) a reasonable estimate by AWI of additional Priority Tax Claims that may become Allowed thereafter, (vi) the Allowed Amount of all Priority Claims, (vii) a reasonable estimate of all Priority Claims that may became Allowed thereafter, (viii) the DIP Credit Facility Claim, (ix) the cash required to make the distributions for Class 3 (Convenience Claims) for those that are Allowed and a reasonable estimate by AWI of additional Convenience Claims that may become Allowed thereafter, (x) any other cash required to be paid or distributed by AWI pursuant to the Plan (other than in respect of "Available Cash"), and (xi) the amount reasonably estimated by AWI to be the cost of curing any defaults under the executory contracts and unexpired leases to be assumed by AWI under the Plan, (b) any amounts drawn, in AWI's sole discretion, under the working capital facility referenced in section 7.16(g) of the Plan for the purpose of funding the Distributions under the Plan, and (c) any proceeds of insurance received and retained by Reorganized AWI from the Effective Date to the Final Distribution Date on account of an Allowed Environmental Claim that is treated as an Allowed Unsecured Claim in accordance with sections 3.2(f) and 3.2 (h) of the Plan; *provided, however* , that the 144A Offering Proceeds, if any, and any amounts received by AWI in connection with a settlement with Dal-Tile, International, Inc., shall be excluded from the determination of, and shall not constitute, Available Cash.

1.29 *AWWD* : Armstrong Worldwide, Inc., a Delaware corporation.

1.30 *AWI* : Armstrong World Industries, Inc., a Pennsylvania corporation.

1.31 *Ballot* : The form or forms distributed to holders of impaired Claims and Equity Interests on which is to be indicated the acceptance or rejection of the Plan.

1.32 *Bankruptcy Code* : The Bankruptcy Reform Act of 1978, as amended, and as codified in title 11 of the United States Code, as applicable to the Chapter 11 Case.

1.33 *Bankruptcy Court* : The United States District Court for the District of Delaware, having jurisdiction over the Chapter 11 Case and, to the extent of any reference made pursuant to section 157 of title 28 of the United States Code, the unit of such District Court constituted pursuant to section 151 of title 28 of the United States Code.

1.34 *Bankruptcy Rules* : The Federal Rules of Bankruptcy Procedure, as amended, as applicable to the Chapter 11 Case, including the Local Rules of the Bankruptcy Court.

1.35 *Board of Directors* : The Board of Directors of AWI or Reorganized AWI, as it may exist from time to time.

1.36 *Business Day* : Any day on which commercial banks are required to be open for business in New York, New York.

1.37 *Chapter 11 Case* : The chapter 11 case of AWI pending in the Bankruptcy Court as *In re Armstrong World Industries, Inc., et al.* , Case No. 00-4471 (JKF) (Jointly Administered).

1.38 *Claim* : (a) A “claim,” as defined in section 101(5) of the Bankruptcy Code, against AWI, as debtor or Debtor in Possession, whether or not asserted, whether or not the facts of or legal bases therefor are known or unknown, and specifically including, without express or implied limitation, any rights under sections 502(g), 502(h), or 502(i) of the Bankruptcy Code, any claim of a derivative nature, any potential or unmatured contract claims, and any other Contingent Claim, and (b) any Environmental Claim, whether or not it constitutes a “claim” under section 101(5) of the Bankruptcy Code, but in either case, not including a Demand.

1.39 *Claims Settlement Guidelines* : The settlement guidelines and authority contained in that certain Order Granting Motion of the Debtors for Order Pursuant to Section 105(a) of the Bankruptcy Code and Bankruptcy Rule 9019(b) Authorizing the Establishment of Procedures to Settle Certain Prepetition Claims Against the Debtors’ Estates dated May 31, 2002, as amended by the amendments set forth in Exhibit 1.39 to the Plan.

1.40 *Claims Trading Injunction* **: An order or orders of the Bankruptcy Court permanently and forever staying, restraining, and enjoining any Entity from, directly or indirectly, purchasing, selling, transferring, assigning, conveying, pledging, or otherwise acquiring or disposing of any Asbestos Personal Injury Claim; *provided* , *however* , that the foregoing shall not apply to (i) the transfer of an Asbestos Personal Injury Claim to the holder of an Indirect PI Trust Claim solely as a result of such holder’s satisfaction of such Asbestos Personal Injury Claim or (ii) the transfer of an Asbestos Personal Injury Claim by will or under the laws of descent and distribution. Any such order or orders also will provide that any action taken in violation thereof will be void *ab initio*** .

1.41 *Class:* Any group of Claims or Equity Interests classified by the Plan pursuant to section 1122(a)(1) of the Bankruptcy Code.

1.42 *COLI Claims* : All amounts due to Pacific Life Insurance Company for loans made by Pacific Life Insurance Company to AWI against (and collateralized by) certain life insurance policies for which AWI is the holder and beneficiary and for which certain of AWI’s employees are insureds.

1.43 *Commencement Date* : December 6, 2000.

1.44 *Confirmation Date* : The date on which the Confirmation Order has been entered by the Clerk of the Bankruptcy Court and the Clerk of the District Court.

1.45 *Confirmation Deadline* : The date that is two hundred seventy (270) days after the filing of the Plan with the Bankruptcy Court or such later date as AWI, the Asbestos PI Claimants’ Committee, the Future Claimants’ Representative, and the Unsecured Creditors’ Committee may agree in writing.

1.46 *Confirmation Order* : The order or orders of the Bankruptcy Court and the District Court confirming the Plan in accordance with the provisions of chapter 11 of the Bankruptcy Code, which will contain, *inter alia* , the Asbestos PI Permanent Channeling Injunction and the Claims Trading Injunction; *provided, however,* that, if the District Court does not enter such an order confirming the Plan, then the term “Confirmation Order” shall include an order of the District Court affirming the Confirmation Order entered by the Bankruptcy Court.

1.47 *Contingent Claim* : Any Claim (other than an Asbestos Personal Injury Claim), the liability for which attaches or is dependent upon the occurrence or happening, or is triggered by, an event, which event has not yet occurred, happened, or been triggered, as of the date on which such Claim is sought to be estimated or an objection to such Claim is filed, whether or not such event is within the actual or presumed contemplation of the holder of such Claim and whether or not a relationship between the holder of such Claim and AWI now or hereafter exists or previously existed.

1.48 *Convenience Claim* : As to each holder of an Unsecured Claim, other than a Debt Security Claim, (a) an Unsecured Claim held by such holder in an Allowed Amount of Ten Thousand and 00/100 Dollars ($10,000.00) or less or (b) an Unsecured Claim of such holder the Allowed Amount of which has been reduced to Ten Thousand and 00/100 Dollars ($10,000.00) by the election of the holder thereof, as provided on the Ballot.

1.49 *Creditor* : Any Entity that holds a Claim against AWI as Debtor or Debtor in Possession.

1.50 *Debtor* : AWI.

1.51 *Debtor in Possession* : AWI in its capacity as a debtor in possession pursuant to sections 1107(a) and 1108 of the Bankruptcy Code.

1.52 *Debt Security Claim* : Any Unsecured Claim represented by a series of notes or debt securities issued pursuant to an indenture, bank credit agreement, or a note purchase agreement prior to the Commencement Date or any guarantee by AWI of any obligations of another Entity under any series of notes or debt securities issued pursuant to an indenture, bank credit agreement, or a note purchase agreement prior to the Commencement Date.

1.53 *Demand* : A demand for payment, present or future, that (i) was not a Claim during the Chapter 11 Case; (ii) arises out of the same or similar conduct or events that gave rise to the Claims addressed by the Asbestos PI Permanent Channeling Injunction; and (iii) pursuant to the Plan, is to be paid by the Asbestos PI Trust.

1.54 *DIP Credit Facility* : Revolving Credit and Guaranty Agreement dated as of December 6, 2000 among Armstrong World Industries, Inc., a Pennsylvania corporation, and its subsidiaries, Nitram Liquidators, Inc., a Delaware corporation, and Desseaux Corporation of North America, a Delaware corporation, the banks party thereto, and the Agent Bank, as amended, modified or supplemented from time to time.

1.55 *DIP Credit Facility Claim* : Collectively, all Claims of the DIP Lenders arising under the DIP Credit Facility.

1.56 *DIP Lenders* : The financial institutions party to the DIP Credit Facility.

1.57 *Disallowed Claim* : A Claim that is disallowed in its entirety by an order of the Bankruptcy Court or such other court of competent jurisdiction or that is disallowed in its entirety pursuant to the Asbestos PI Trust Distribution Procedures, as the case may be.

1.58 *Disbursing Agent* : Any Entity in its capacity as a disbursing agent under section 7.9 hereof.

1.59 *Disputed Claim* : A Claim (other than an Asbestos Personal Injury Claim) that is neither an Allowed Claim nor a Disallowed Claim.

1.60 *Disputed Claim Amount* : The Estimated Amount of a Disputed Claim, or, if no Estimated Amount exists, the amount set forth in the proof of claim relating to such Disputed Claim as the liquidated amount of such Disputed Claim.

1.61 *Disputed Unsecured Claims Reserve* : The trust established pursuant to section 5.4 of the Plan to hold the portion of Plan Notes reserved for Distribution pending the resolution of Disputed Claims in Class 6 of the Plan.

1.62 *Distribution* : The payment or distribution under the Plan of property or interests in property to the holders of Allowed Claims (other than Asbestos Personal Injury Claims and Asbestos Property Damage Claims), the holder of the Equity Interest, and to the Asbestos PI Trust.

1.63 *Distribution Date* : (a) The Initial Distribution Date, (b) the first Business Day after the end of the months of March, June, September, and December, commencing with the first such date to occur more than one hundred eighty (180) days after the Effective Date and until the second anniversary of the Effective Date, (c) after the second anniversary of the Effective Date, the first Business Day after the end of the month of December, and (d) the Final Distribution Date; *provided* , *however* , that (i) a Distribution Date (other than the Initial Distribution Date and the Final Distribution Date) shall not occur if the aggregate amount of Plan Notes and/or 144A Offering Proceeds and Available Cash to be distributed on any Distribution Date is less than One Million and 00/100 Dollars ($1,000,000.00), in which case the amount to be distributed shall be retained and added to the amount to be distributed on the next Distribution Date, and (ii) any Unsecured Claim that becomes Allowed less than twenty (20) Business Days prior to a Distribution Date shall be treated as a Disputed Claim for the purposes of the Distribution occurring on such Distribution Date and shall not receive a Distribution until the Distribution Date immediately succeeding such Distribution Date.

1.64 *District Court* : The United States District Court for the District of Delaware having jurisdiction over the Chapter 11 Case.

1.65 *DTC* : Depository Trust Company.

1.66 *Employee Benefit Claim* : Any Claim of a current or former employee of AWI, a current or former employee of any current or former subsidiary of AWI, or of the Pension Benefit Guaranty Corporation, for benefits payable or arising under any of the plans being assumed pursuant to section 8.7(a) of the Plan; *provided* , *however* , that any Claim for damages or other relief arising from any termination of any plans pursuant to section 8.7(b) of the Plan, any “rejection” of any plans as to any party that objects to any amendment under section 8.7(c) of the Plan, based upon any alleged breach by AWI of its responsibilities or duties under any plan specified in section 8.7(a) of the Plan (other than any obligation to pay the benefits arising thereunder, as modified), or related to the allegations made by the plaintiffs in those certain two class action complaints asserting various federal law claims under ERISA filed in the United States District Court for the Eastern District of Pennsylvania by Dean A. Markley, Michael Resetar, and Lori Shearer shall be deemed an Unsecured Claim.

1.67 *Effective Date* : A Business Day selected by AWI that is within 31 days after the date by which all of the conditions precedent to the effectiveness of the Plan specified in Section 7.16 have been satisfied or waived or, if a stay of the Confirmation Order is in effect, a date selected by AWI that is within 31 days after the date of the expiration, dissolution, or lifting of such stay.

1.68 *Encumbrance* : With respect to any asset, any mortgage, lien, pledge, charge, security interest, assignment, or encumbrance of any kind or nature in respect of such asset (including, without express or implied limitation, any conditional sale or other title retention agreement, any security agreement, and the filing of, or agreement to give, any financing statement under the Uniform Commercial Code or comparable law of any jurisdiction).

1.69 *Entity* : An individual, corporation, partnership, limited liability company, association, joint stock company, joint venture, estate, trust, unincorporated organization, or government or any political subdivision thereof, or other person or entity.

1.70 *Environmental Claim* : Any Claim as to which the treatment thereof is set forth in an agreement by and between AWI and any party asserting a Claim against AWI relating to alleged contamination under the federal or state environmental laws or regulations, pursuant to which agreement all or a portion of such Claim (to the extent and subject to the limitations imposed by such agreement) may be asserted by the holder thereof after the Effective Date, to the extent that such agreement is approved and authorized by a Final Order of the Bankruptcy Court or otherwise in accordance with the Claims Settlement Guidelines.

1.71 *Equity Interest* : Any interest in AWI represented by shares of Existing AWI Common Stock.

1.72 *Estimated Amount* : The estimated dollar value of an Unliquidated Claim, Disputed Claim, or Contingent Claim pursuant to section 502(c) of the Bankruptcy Code.

1.73 *Existing AWI Common Stock* : Common stock, par value of $0.01 per share, of AWI, authorized pursuant to the Articles of Incorporation as in effect immediately prior to the Effective Date.

1.74 *Final Distribution Date* : A date on or after the Initial Distribution Date and after all Disputed Claims (other than Asbestos Personal Injury Claims and Asbestos Property Damage Claims) have become either Allowed Claims or Disallowed Claims that is selected by Reorganized AWI in its discretion but, in any event, is no later than thirty (30) days thereafter, or such later date as the Bankruptcy Court may establish, upon request by Reorganized AWI, for cause shown.

1.75 *Final Order* : An order as to which the time to appeal, petition for *certiorari* , or move for reargument or rehearing has expired and as to which no appeal, petition for *certiorari* , or other proceedings for reargument or rehearing shall then be pending or as to which any right to appeal, petition for *certiorari* , reargue, or rehear shall have been waived in writing in form and substance satisfactory to AWI or Reorganized AWI, as the case may be, and its counsel or, in the event that an appeal, writ of *certiorari* , or reargument or rehearing thereof has been sought, such order shall have been affirmed by the highest court to which such order was appealed, or *certiorari* has been denied or from which reargument or rehearing was sought, and the time to take any further appeal, petition for *certiorari* or move for reargument or rehearing shall have expired.

1.76 *Future Claimants' Representative* : Dean M. Trafelet, the Legal Representative for Future Claimants appointed pursuant to the order dated on or about March 1, 2002.

1.77 *Global Asbestos PD Settlement:* Agreement with respect to the resolution of all outstanding Asbestos Property Damage Claims and related issues relating to Asbestos Property Damage Claims, as such agreement may be approved by the Bankruptcy Court.

1.78 *Holdings* : Armstrong Holdings, Inc., a Pennsylvania corporation.

1.79 *Holdings Plan of Liquidation* : The dissolution of Holdings as approved by its Board of Directors and shareholders as required by Sections 1972, 1973 and 1974 of the Pennsylvania BCL and the liquidation and winding up of the business and affairs of Holdings (and, as part thereof, the dissolution and winding up, or other termination of the corporate existence, of AWWD) in accordance with a plan of liquidation and winding up approved by the Board of Directors and shareholders of Holdings as may be required by Subchapter F or H of Chapter 19 of the Pennsylvania BCL, or such other plan and manner of dissolution, liquidation and winding up of Holdings as is consistent with the terms of the Plan and permitted by law.

1.80 *Indentures:* The indenture agreements between the Indenture Trustees and AWI relating to the Debt Security Claims.

1.81 *Indenture Trustees:* The indenture trustees under Debt Security Claims (other than Debt Securities Claims representing obligations guaranteed by AWI), including Bank One Trust Company, N.A., as indenture trustee for the holders of AWI's 9 $^{3}/_{4}$% Debentures due 2008 and for the holders of the 8 $^{3}/_{4}$%-9% Medium Term Notes, Wells Fargo Minnesota, N.A., as indenture trustee for the holders of AWI's 6.35% Senior Notes due 2003, 6 $^{1}/_{2}$% Senior Notes due 2005, 7.45% Senior Notes due 2029, and the 7.45% Senior Quarterly Interest Bonds due 2038, and Wilmington Trust Company, as successor to Chase Manhattan Trust Company, National Association, as indenture trustee for the holders of the Solid Waste Disposal Revenue Bonds (Armstrong World Industries, Inc. Project) Series 1996.

1.82 *Indenture Trustees' Fees and Expenses:* All the fees and expenses, including the reasonable fees and expenses of their attorneys, incurred by the Indenture Trustees under their respective indentures from the Commencement Date to the Effective Date, up to a maximum of Twenty-Five Thousand and 00/100 Dollars ($25,000.00) for the Indenture Trustee for each series of Debt Security Claims for which it acts as Indenture Trustee.

1.83 *Indirect PI Trust Claim* : Any Claim or remedy, liability, or Demand against AWI now existing or hereafter arising, whether or not such Claim, remedy, liability, or Demand is reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed, legal, equitable, secured, or unsecured, whether or not the facts of or legal bases for such Claim, remedy, liability, or Demand are known or unknown, that is (x) (i) held by (A) any Entity (other than a director or officer entitled to indemnification pursuant to section 8.6 of the Plan) who has been, is, or may be a defendant in an action seeking damages for death, bodily injury, sickness, disease, or other personal injuries (whether physical, emotional, or otherwise) to the extent caused or allegedly caused, directly or indirectly, by exposure to asbestos or asbestos-containing products or (B) any assignee or transferee of such Entity and (ii) on account of alleged liability of AWI for reimbursement, indemnification, subrogation, or contribution of any portion of any damages such Entity has paid or may pay to the plaintiff in such action *or* (y) held by any Entity that is seeking reimbursement, indemnification, subrogation, or contribution from AWI with respect to any surety bond, letter of credit or other financial assurance issued by any Entity on account of, or with respect to, Asbestos Personal Injury Claims.

1.84 *Initial Distribution Date* : A date after the Effective Date that is selected by Reorganized AWI in its discretion but, in any event, is within fifteen (15) days after the Effective Date, or such later date as the Bankruptcy Court may establish upon request by Reorganized AWI, for cause shown; *provided* , *however* , that in no event shall the Initial Distribution Date be more than forty-five (45) days after the Effective Date.

1.85 *Internal Revenue Code* : The Internal Revenue Code of 1986, as amended from time to time, and any applicable rulings, Treasury Regulations, judicial decisions, and notices, announcements, and other releases of the United States Treasury Department or the IRS.

1.86 *IRS* : The United States Internal Revenue Service.

1.87 *Lazard* : Lazard Frères & Co. LLC, or such other investment bank or financial advisor retained by AWI.

1.88 *New Common Stock* : Common stock, par value $0.01 per share, of Reorganized AWI which is to be authorized and issued pursuant to the Plan and subject to dilution for equity to be issued under the New Long-Term Incentive Plan.

1.89 *New Long-Term Incentive Plan* : The Management Incentive Plan, substantially in the form of Exhibit 1.89 to the Plan.

1.90 *Pennsylvania BCL* : Pennsylvania Business Corporation Law of 1988, as amended from time to time and as applicable to the events described in the Plan.

1.91 *PI Protected Party* **: Any of the following parties:**

(a) **AWI;**

(b) **Reorganized AWI;**

(c) **Holdings;**

(d) **AWWD;**

(e) **any Affiliate;**

(f) **Interface Solutions, Inc., a corporation organized under the laws of Pennsylvania, but only to the extent that such Entity is alleged to be directly or indirectly liable for the conduct of, Claims against, or Demands on AWI, Reorganized AWI, or the Asbestos PI Trust on account of Asbestos Personal Injury Claims;**

(g) **any Entity that, pursuant to the Plan or after the Effective Date, becomes a direct or indirect transferee of, or successor to, any assets of AWI, Reorganized AWI, or the Asbestos PI Trust (but only to the extent that liability is asserted to exist by reason of it becoming such a transferee or successor);**

(h) **any Entity that, pursuant to the Plan or after the Effective Date, makes a loan to Reorganized AWI or the Asbestos PI Trust or to a successor to, or transferee of, any assets of AWI, Reorganized AWI or the Asbestos PI Trust (but only to the extent that**

liability is asserted to exist by reason of such Entity becoming such a lender or to the extent any pledge of assets made in connection with such a loan is sought to be upset or impaired); or

(i) **any Entity to the extent he, she, or it is alleged to be directly or indirectly liable for the conduct of, Claims against, or Demands on AWI, Reorganized AWI or the Asbestos PI Trust on account of Asbestos Personal Injury Claims by reason of one or more of the following:**

(i) **such Entity's ownership of a financial interest in AWI, Reorganized AWI, a past or present affiliate of AWI or Reorganized AWI (other than ACandS, Inc. f/k/a Armstrong Contracting and Supply Corp.), or a predecessor in interest of AWI, or Reorganized AWI;**

(ii) **such Entity's involvement in the management of AWI, AWWD, Holdings, an Affiliate, Reorganized AWI, or any predecessor in interest of AWI, or Reorganized AWI;**

(iii) **such Entity's service as an officer, director, or employee of AWI, Reorganized AWI, AWWD, Holdings, an Affiliate, any past or present affiliate of AWI or Reorganized AWI (other than ACandS, Inc. f/k/a Armstrong Contracting and Supply Corp.), any predecessor in interest of AWI or Reorganized AWI, or any Entity that owns or at any time has owned a financial interest in AWI or Reorganized AWI, any past or present affiliate of AWI or Reorganized AWI (other than ACandS, Inc. f/k/a Armstrong Contracting and Supply Corp.), or any predecessor in interest of AWI or Reorganized AWI;**

(iv) **such Entity's provision of insurance to (a) AWI, (b) Reorganized AWI, (c) any past or present affiliate of AWI or Reorganized AWI (other than ACandS, Inc. f/k/a Armstrong Contracting and Supply Corp.), (d) any predecessor in interest of AWI or Reorganized AWI; or (e) any Entity that owns or at any time has owned a financial interest in AWI or Reorganized AWI, any past or present affiliate of AWI or Reorganized AWI (other than ACandS, Inc. f/k/a Armstrong Contracting and Supply Corp.), or any predecessor in interest of AWI or Reorganized AWI, but only to the extent that AWI, Reorganized AWI, or the Asbestos PI Trust enters into a settlement with such Entity that is approved by the Bankruptcy Court and expressly provides that such Entity shall be entitled to the protection of the Asbestos PI Permanent Channeling Injunction as a PI Protected Party; or**

(v) **such Entity's involvement in a transaction changing the corporate structure, or in a loan or other financial transaction affecting the financial condition, of AWI, AWWD, Holdings, an Affiliate, Reorganized AWI, any past or present affiliate of AWI or Reorganized AWI (other than AC and S, Inc. f/k/a Armstrong Contracting and Supply Corp.), any predecessor in interest of AWI or Reorganized AWI, or any Entity that owns or at any time has owned a financial interest in AWI or Reorganized AWI, any past or present affiliate of AWI or Reorganized AWI (other than**

ACandS, Inc. f/k/a Armstrong Contracting and Supply Corp.), or any predecessor in interest of AWI or Reorganized AWI.

1.92 *Plan* : This plan of reorganization, either in its present form or as it may be amended, supplemented, or otherwise modified from time to time, and the exhibits and schedules to the foregoing, as the same may be in effect at the time such reference becomes operative.

1.93 *Plan Note Amount:* An amount equal to the greater of (x) $1.125 billion *less* the amount of Available Cash and (y) $775 million.

1.94 *Plan Note Indentures* : The indentures, substantially in the form of Exhibits 1.94-A and 1.94-B to the Plan, by and between AWI, as the issuer, and a trustee selected by AWI prior to the date of the commencement of the hearing on confirmation of the Plan, pursuant to which the Plan Notes will be issued, each of which will be qualified under the Trust Indenture Act of 1939, as amended.

1.95 *Plan Notes* : Unsecured notes issued pursuant to the Plan Note Indentures (a) in an aggregate principal amount equal to the Plan Note Amount *less* the 144A Offering Proceeds , (b) bearing a fixed or floating interest rate based upon U.S. Treasury Notes or three-month U.S dollar LIBOR, respectively, with like maturities plus a spread determined to be the average corporate spread over such Treasury Notes or LIBOR for outstanding issues of comparable maturity and comparably rated U.S. industrial companies over the 30-day period ending on the last day of the month immediately preceding the Effective Date, (c) with a maturity, as selected by AWI, of not less than five years, but not more than ten years and no principal payments required to be paid prior to the maturity date, (d) callable at par at the option of Reorganized AWI, in whole or in part, at any time during the first six months following the Effective Date, and (e) having such other terms, covenants, and conditions substantially similar to those contained in indentures for issues of comparable maturity of comparably rated U.S. industrial companies and, with respect to any floating rate tranche, structured in a manner similar to, and as liquid as, marketable bank debt; *provided, however* , that if AWI successfully completes a 144A Offering but the 144A Offering Proceeds are less than the Plan Note Amount, AWI will issue additional 144A Debt Securities to the applicable classes of Creditors in lieu of the Plan Notes it would otherwise issue under the Plan Note Indentures (subject to compliance with applicable securities laws) and, in any event, AWI will not issue Plan Notes having terms and conditions that are not substantially the same as those of the 144A Debt Securities without the consent of the Asbestos PI Claimants' Committee, the Future Claimants' Representative, and, if Class 6 votes to accept the Plan, the Unsecured Creditors' Committee. In addition, if AWI is not successful in obtaining a Term Loan B, AWI will not issue any floating interest rate Plan Notes unless such floating rate Plan Notes satisfy the requirements of the Plan and are on terms and conditions that are mutually satisfactory to AWI and the Asbestos PI Claimants' Committee, the Future Claimants' Representative, and, if Class 6 votes to accept the Plan, the Unsecured Creditors' Committee.

1.96 *Priority Claim* : Any Claim to the extent such claim is entitled to priority in right of payment under section 507(a) of the Bankruptcy Code, other than an Administrative Expense, DIP Credit Facility Claim, or Priority Tax Claim.

1.97 *Priority Tax Claim* : A Claim against AWI that is of a kind specified in section 507(a)(8) of the Bankruptcy Code.

1.98 *Pro Rata Share* : Means the ratio (expressed as a percentage) of the amount of an Allowed Claim in a Class to the aggregate amount of all Allowed Claims plus the Disputed Claim Amount of all Disputed Claims in the same Class.

1.99 *Qualified Appraisal* : A "qualified appraisal" within the meaning of Treasury Regulations section 1.468B-3(b)(3).

1.100 *Record Date* : The first Business Day that is five (5) days from and after the Confirmation Date.

1.101 *Reorganized AWI* : AWI, as reorganized as of the Effective Date in accordance with this Plan, or any successors in interest thereto, from and after the Effective Date.

1.102 *Reorganization Consideration* : Collectively, the Available Cash, the Plan Notes and/or the 144A Offering Proceeds, and the New Common Stock.

1.103 *Retention Period* : Five (5) years from and after the Effective Date, or such shorter period as the Bankruptcy Court may set.

1.104 *Schedules* : The schedules of assets and liabilities and the statements of financial affairs filed by AWI with the Bankruptcy Court, as required by section 521 of the Bankruptcy Code and the Official Bankruptcy Forms of the Bankruptcy Rules, as such schedules and statements have been and may be amended by AWI from time to time in accordance with Bankruptcy Rule 1009.

1.105 *SEC:* The United States Securities and Exchange Commission.

1.106 *Secured Claim* : Any Claim against AWI to the extent of the value of any interest in property of the estate of AWI securing such Claim, except for the DIP Credit Facility Claim and the COLI Claims.

1.107 *Stockholder and Registration Rights Agreement* : The Stockholder and Registration Rights Agreement to be entered into by Reorganized AWI and the Asbestos PI Trustees on behalf of the Asbestos PI Trust, pursuant to section 7.6 hereof, in substantially the same form of Exhibit 1.107 to the Plan.

1.108 *Subsidiary Debt Guarantee Claim* : Any Claim against AWI arising from the guaranty by AWI of an obligation of one or more Entities that are subsidiaries of AWI as of the date immediately preceding the Effective Date so long as such obligation has not been accelerated or declared in default prior to the Effective Date (and such acceleration has not been rescinded or such default waived), other than any Claim relating to any obligations of Nitram Liquidators, Inc. or Desseaux Corporation of North America and other than any Claim relating to obligations arising from the sale or disposition of the business, operations, or assets of any Entity.

1.109 *Term Loan B:* A floating rate senior secured term loan credit facility, to be borrowed under the working capital facility referenced in Section 7.16 of the Plan, between Reorganized AWI and the lenders who are party thereto, having terms and conditions as determined by AWI and the lenders in their sole discretion.

1.110 *Term Loan B Proceeds:* The amount of the net cash proceeds received by Reorganized AWI on or as soon as practicable after the Effective Date pursuant to the Term Loan B.

1.111 *Treasury Regulations* : Regulations (including temporary and proposed) promulgated under the Internal Revenue Code by the United States Treasury Department, as amended from time to time.

1.112 *Unliquidated Claim* : Any Claim (other than an Asbestos Personal Injury Claim), the amount of liability for which has not been fixed, whether pursuant to agreement, applicable law, or otherwise, as of the date on which such Claim is sought to be estimated.

1.113 *Unsecured Claim* : Any Claim other than an Administrative Expense, Subsidiary Debt Guarantee Claim, a COLI Claim, a Priority Tax Claim, a Priority Claim, an Asbestos Personal Injury Claim, an Asbestos Property Damage Claim, an Environmental Claim (except to the extent provided in section 3.2(h)(ii) of the Plan), an Affiliate Claim, an Employee Benefit Claim, or a Secured Claim. Unsecured Claims include Debt Security Claims administered by the Indenture Trustees.

1.114 *Unsecured Creditors' Committee* : The Official Unsecured Creditors' Committee, consisting of Entities appointed as members in the Chapter 11 Case by the United States Trustee for the District of Delaware in accordance with section 1102(a) of the Bankruptcy Code and their duly appointed successors, if any, as the same may be reconstituted from time to time.

1.115 *Voting Deadline* : The date set by the Bankruptcy Court by which all completed ballots must be received.

1.116 *Voting Procedures Order* : An order of the Bankruptcy Court approving procedures relating to the solicitation and tabulation of votes with respect to the Plan.

B. Other Terms. Wherever from the context it appears appropriate, each term stated in either the singular or the plural shall include the singular and the plural, and pronouns stated in the masculine, feminine, or neuter gender shall include the masculine, the feminine, and the neuter. The words “herein,” “hereof,” “hereto,” “hereunder,” and others of similar import refer to the Plan as a whole and not to any particular section, subsection, or clause contained in the Plan. An initially capitalized term used herein that is not defined herein shall have the meaning ascribed to such term, if any, in the Bankruptcy Code, unless the context shall otherwise require.

C. Exhibits. All Exhibits to the Plan shall be contained in a separate Exhibit Volume, which shall be filed with the Clerk of the Bankruptcy Court not later than the earlier of (i) thirty (30) days prior to the commencement of the hearing on confirmation of the Plan and (ii) fifteen (15) days prior to the deadline for filing objections to confirmation of the Plan. Such Exhibits may be inspected in the office of the Clerk of the Bankruptcy Court during normal hours of operation of the Bankruptcy Court. Such Exhibits shall also be available for download from the following website: www.armstrongplan.com. Holders of Claims or shareholders of Holdings may also obtain a copy of such Exhibit Volume, once filed, from AWI by a written request sent to the following address:

Armstrong World Industries, Inc.
Post Office Box 3666
Lancaster, Pennsylvania 17604-3666

ARTICLE II

PROVISIONS FOR PAYMENT OF ADMINISTRATIVE EXPENSES AND PRIORITY TAX CLAIMS

2.1 *Payment of Allowed Administrative Expenses* . The Allowed Amount of each Administrative Expense that is Allowed as of the Effective Date shall be paid in full, in cash, on the Effective Date; *provided* , *however* , that Administrative Expenses of the type specified in section 1.11(c)(i) of the Plan shall be assumed and paid by Reorganized AWI in accordance with the terms and conditions of the particular transactions and any agreements relating thereto. Each Administrative Expense of the type specified in section 1.11(c)(ii) or 1.11(c)(iii) of the Plan shall be paid the Allowed Amount of such Administrative Expense in full, in cash, as soon as practicable after such Administrative Expense is Allowed.

2.2 *Compensation and Reimbursement Claims* . The Bankruptcy Court shall fix in the Confirmation Order a date for the filing of, and a date to hear and determine, all applications for final allowances of compensation or reimbursement of expenses under section 330 of the Bankruptcy Code or applications for allowance of Administrative Expenses arising under section 503(b)(2), 503(b)(3), 503(b)(4), 503(b)(5), or 503(b)(6) of the Bankruptcy Code. The Allowed Amount of all Administrative Expenses arising under section 330, 331, 503(b)(2), 503(b)(3), 503(b)(4), 503(b)(5), or 503(b)(6) of the Bankruptcy Code shall be paid in full, in cash, (a) upon the later of (i) the Effective Date and (ii) the date upon which any such Administrative Expense becomes Allowed or (b) at such later date or upon such other terms as may be mutually agreed upon between each such Administrative Expense Creditor and Reorganized AWI.

2.3 *DIP Credit Facility Claim* . On the Effective Date, the DIP Credit Facility Claim shall be paid in full, in cash. Unless otherwise agreed by the DIP Lenders, to the extent that any letters of credit issued pursuant to the DIP Credit Facility remain outstanding on the Effective Date, AWI will pay to the Agent Bank, for the ratable benefit of the DIP Lenders, cash in an amount equal to the face amount of such letters of credit, which shall be held by the Agent Bank for the repayment of all amounts due in respect of such letters of credit.

2.4 *Priority Tax Claims* . Each holder of an Allowed Priority Tax Claim shall be paid the Allowed Amount of its Allowed Priority Tax Claim either (a) in full, in cash, on the latest of (i) the Effective Date, (ii) the date such Allowed Priority Tax Claim becomes Allowed, and (iii) the date such Allowed Priority Tax Claim is payable under applicable non-bankruptcy law or (b) upon such other terms as may be mutually agreed upon between each holder of a Priority Tax Claim and Reorganized AWI.

ARTICLE III

CLASSIFICATION AND TREATMENT OF CLAIMS AND EQUITY INTERESTS

3.1 *Summary* . Claims and Equity Interests are classified for all purposes, including, without express or implied limitation, voting, confirmation, and distribution pursuant to the Plan, as follows:

CLASS	TREATMENT	STATUS	ENTITLED TO VOTE?
Class 1: Priority Claims	Paid in full, in cash, on the later of the Effective Date or as soon as practicable after such Priority Claim becomes Allowed.	Unimpaired	No
Class 2: Secured Claims	Reinstated – Any defaults related to Secured Claims will be cured.	Unimpaired	No
Class 3: Convenience Claims	Payment of 75% of Allowed Amount of Convenience Claim, in cash, on later of the Effective Date or as soon as practicable after such Convenience Claim becomes Allowed.	Impaired	Yes
Class 4: Asbestos Property Damage Claims	All Asbestos Property Damage Claims will be resolved pursuant to the terms of the Global Asbestos PD Settlement. If the Global Asbestos PD Settlement is not approved by the Bankruptcy Court at least fifteen (15) days before the Voting Deadline, AWI will amend the Plan to provide alternative treatment for Asbestos Property Damage Claims, in which case the Asbestos Property Damage Claims will be treated as impaired and will be entitled to vote on the Plan.	Unimpaired	Yes
Class 5: COLI Claims	Reinstated – Any defaults related to the COLI Claims will be cured.	Unimpaired	No
Class 6: Unsecured Claims other than Convenience Claims	Each holder of an Allowed Unsecured Claim will receive its Pro Rata Share of (i) 34.43% of the New Common Stock, (ii) 34.43% of the first $1.05 billion of (x) up to $300 million of Available Cash and (y) the principal amount of Plan Notes and/or 144A Offering Proceeds, (iii) 60% of the next $50 million of the remaining Available Cash, (iv) 60% of the remaining amount of Plan Notes and/or 144A Offering Proceeds to the extent that Available Cash in (iii) is less than $50 million, and (v) 34.43% of the remaining Available Cash and Plan Notes and/or 144A Offering Proceeds.	Impaired	Yes
Class 7: Asbestos Personal Injury Claims	All Asbestos Personal Injury Claims will be channeled to the Asbestos PI Trust, which will be funded pursuant to section 10.1 of the Plan.	Impaired	Yes

CLASS	TREATMENT	STATUS	ENTITLED TO VOTE?
Class 8: Environmental Claims	Each Environmental Claim will be treated as an Allowed Unsecured Claim to the extent it becomes Allowed prior to any Distribution Date. Other treatment determined as applicable under the relevant settlement agreement.	Impaired	Yes
Class 9: Affiliate Claims	Reinstated	Unimpaired	No
Class 10: Subsidiary Debt Guarantee Claims	Reinstated	Unimpaired	No
Class 11: Employee Benefit Claims	Reinstated	Unimpaired	No
Class 12: Equity Interests	No distribution shall be made under the Plan from AWI's estate in respect of the Equity Interests in AWI.	Impaired	No

3.2 *Classification and Treatment* .

(a) **Class 1. Priority Claims.**

(i) *Classification* : Class 1 consists of all Allowed Priority Claims.

(ii) *Treatment* : Each holder of an Allowed Priority Claim shall be paid the Allowed Amount of its Allowed Priority Claim, in full, in cash, on the later of the Effective Date and as soon as practicable after the date such Priority Claim becomes Allowed.

(iii) *Status* : Class 1 is not impaired. The holders of the Claims in Class 1 are deemed to accept the Plan and, accordingly, are not entitled to vote to accept or reject the Plan.

(b) **Class 2. Secured Claims.**

(i) *Classification* : Class 2 consists of all Allowed Secured Claims. Although placed in one class for purposes of convenience, each Allowed Secured Claim shall be treated as though in a separate class for all purposes under the Plan.

(ii) *Treatment* : At the option of AWI and in accordance with section 1124 of the Bankruptcy Code, each Allowed Secured Claim shall be treated in one of the following ways:

1. The legal, equitable and contractual rights to which such Allowed Secured Claim entitles the holder of such Claim shall be unaltered.

or

2. Notwithstanding any contractual provision or applicable law that entitles the holder of an Allowed Secured Claim to demand or receive payment of such Claim prior to the stated maturity of such Claim from and after the occurrence of a default under the agreements governing or instruments evidencing such Claim, such Claim shall be reinstated, and AWI shall (i) cure all defaults that occurred before or from and after the Commencement Date (other than defaults of a kind specified in section 365(b)(2) of the Bankruptcy Code), (ii) reinstate the maturity of such Claim as such maturity existed prior to the occurrence of such default, (iii) compensate the holder of such Claim for any damages incurred as a consequence of any reasonable reliance by such holder on such contractual provision or such applicable law, and (iv) not otherwise alter the legal, equitable, or contractual rights to which the holder of such Claim is entitled.

(iii) *Status* : Class 2 is not impaired. The holders of the Claims in Class 2 are deemed to accept the Plan and, accordingly, are not entitled to vote to accept or reject the Plan.

(c) **Class 3. Convenience Claims.**

(i) *Classification* : Class 3 consists of all Allowed Convenience Claims.

(ii) *Treatment* : Each holder of an Allowed Convenience Claim shall be paid 75% of the Allowed Amount of its Allowed Convenience Claim, in cash, on the later of the Effective Date and as soon as practicable after such Convenience Claim becomes Allowed.

(iii) *Election* : Any holder of an Unsecured Claim in an amount equal to or less than Ten Thousand and 00/100 Dollars ($10,000.00) and which otherwise constitutes a Convenience Claim automatically shall be treated as a Convenience Claim. Any holder of any other Unsecured Claim that desires treatment of such Claim as a Convenience Claim shall make such election on the Ballot to be provided to holders of Unsecured Claims in Class 6 and return such Ballot to the address specified therein on or before the Voting Deadline. Any election made after the Voting Deadline shall not be binding on AWI unless the Voting Deadline is expressly waived in writing by AWI with respect to any such Claim.

(iv) *Status* : Class 3 is impaired. To the extent and in the manner provided in the Voting Procedures Order, the holders of the Claims in Class 3 are entitled to vote to accept or reject the Plan.

(d) **Class 4. Asbestos Property Damage Claims.**

(i) *Classification* : Class 4 consists of all Allowed Asbestos Property Damage Claims.

(ii) *Treatment* : All pending Asbestos Property Damage Claims will be Allowed and treated in accordance with the terms of the Global Asbestos PD Settlement.

(iii) *Status* : Class 4 is unimpaired. The holders of the Claims in Class 4 are deemed to accept the Plan and, accordingly, are not entitled to vote to accept or reject the Plan.

(e) **Class 5. COLI Claims.**

(i) *Classification* : Class 5 consists of all Allowed COLI Claims.

(ii) *Treatment* : In accordance with section 1124 of the Bankruptcy Code, notwithstanding any contractual provision or applicable law that entitles the holder of an Allowed COLI Claim to demand or receive payment of such Claim prior to the stated maturity of such Claim from and after the occurrence of a default under the agreements governing or instruments evidencing such Claim, such Claim shall be reinstated, and AWI shall (i) cure all defaults that occurred before or from and after the Commencement Date (other than defaults of a kind specified in section 365(b)(2) of the Bankruptcy Code), (ii) reinstate the maturity of such Claim as such maturity existed prior to the occurrence of such default, (iii) compensate the holder of such Claim for any damages incurred as a consequence of any reasonable reliance by such holder on such contractual provision or such applicable law, and (iv) not otherwise alter the legal, equitable, or contractual rights to which the holder of such Claim is entitled.

(iii) *Status* : Class 5 is not impaired. The holders of the Claims in Class 5 are deemed to accept the Plan and, accordingly, are not entitled to vote to accept or reject the Plan.

(f) **Class 6. Unsecured Claims other than Convenience Claims.**

(i) *Classification* : Class 6 consists of Unsecured Claims other than Convenience Claims.

(ii) *Treatment* : Each holder of an Allowed Unsecured Claim in Class 6 will receive on each Distribution Date its Pro Rata Share of the following elements of Reorganization Consideration:

1. 34.43% of the New Common Stock,

2. 34.43% of the first $1.05 billion of (x) up to $300 million of Available Cash and (y) the Plan Notes and/or 144A Offering Proceeds,

3. 60% of the first $50 million of the amount of Available Cash remaining after making provision for the Distribution provided in section

3.2(f)(ii)2 of the Plan and the funding of the Asbestos PI Trust in section 10.1(b)(ii) of the Plan,

4. 60% of the amount of Plan Notes and/or 144A Offering Proceeds equal to the difference (if positive) of $50 million *less* the amount of Available Cash remaining after making provision for the Distribution provided in section 3.2(f)(ii)2 of the Plan and the funding of the Asbestos PI Trust in section 10.1(b)(ii) of the Plan, and

5. 34.43% of the remaining Available Cash and Plan Notes and/or 144A Offering Proceeds after making provision for the Distribution provided in sections 3.2(f)(ii)2, 3.2(f)(ii)3, and 3.2(f)(ii)4 of the Plan and the funding of the Asbestos PI Trust in sections 10.1(b)(ii), 10.1(b)(iii) and 10.1(b)(iv) of the Plan.

In any Distribution made to the holder of an Allowed Unsecured Claim, there shall be deducted from such Distribution the amount of each element of the Reorganization Consideration (computed as provided in this section 3.2(f)(ii)) previously distributed to such holder on account of such Allowed Unsecured Claim in any Distribution made prior thereto.

(iii) *Interest* : Interest shall neither accrue nor be payable from and after the Commencement Date with respect to Allowed Unsecured Claims.

(iv) *Status* : Class 6 is impaired. To the extent and in the manner provided in the Voting Procedures Order, the holders of the Claims in Class 6 are entitled to vote to accept or reject the Plan.

(g) **Class 7. Asbestos Personal Injury Claims.**

(i) *Classification* : Class 7 consists of all Asbestos Personal Injury Claims.

(ii) *Treatment* : All Asbestos Personal Injury Claims shall be determined and paid pursuant to the terms, provisions, and procedures of the Asbestos PI Trust, the Asbestos PI Trust Distribution Procedures, and the Asbestos PI Trust Agreement. The Asbestos PI Trust will be funded in accordance with the provisions of section 10.1 of the Plan. The sole recourse of the holder of an Asbestos Personal Injury Claim shall be the Asbestos PI Trust, and such holder shall have no right whatsoever at any time to assert its Asbestos Personal Injury Claim against any PI Protected Party. **Without limiting the foregoing, on the Effective Date, all Entities shall be permanently and forever stayed, restrained, and enjoined from taking any of the following actions for the purpose of, directly or indirectly, collecting, recovering, or receiving payment of, on, or with respect to any Asbestos Personal Injury Claim (other than actions brought to enforce any right or obligation under the Plan, any Exhibits to the Plan, or any other agreement or instrument between AWI or Reorganized AWI and the Asbestos PI Trust, which actions shall be in conformity and compliance with the provisions hereof):**

1. **commencing, conducting, or continuing in any manner, directly or indirectly, any suit, action, or other proceeding (including, without express or implied limitation, a judicial, arbitral, administrative, or other proceeding) in any forum against or affecting any PI Protected Party or any property or interests in property of any PI Protected Party;**

2. **enforcing, levying, attaching (including, without express or implied limitation, any prejudgment attachment), collecting, or otherwise recovering by any means or in any manner, whether directly or indirectly, any judgment, award, decree, or other order against any PI Protected Party or any property or interests in property of any PI Protected Party;**

3. **creating, perfecting, or otherwise enforcing in any manner, directly or indirectly, any Encumbrance against any PI Protected Party or any property or interests in property of any PI Protected Party;**

4. **setting off, seeking reimbursement of, contribution from, or subrogation against, or otherwise recouping in any manner, directly or indirectly, any amount against any liability owed to any PI Protected Party or any property or interests in property of any PI Protected Party; *provided, however* , that the foregoing shall not preclude the assertion of a setoff or recoupment defense under applicable law by a third party solely in response to, and to the extent of, a claim asserted by a PI Protected Party against such third party that such third party is liable in whole or in part for an Asbestos Personal Injury Claim; and**

5. **proceeding in any manner in any place with regard to any matter that is subject to resolution pursuant to the Asbestos PI Trust Agreement, except in conformity and compliance therewith.**

Nothing contained herein shall constitute or be deemed a waiver of any claim, right, or cause of action that AWI, Reorganized AWI, or the Asbestos PI Trust may have against any Entity in connection with or arising out of an Asbestos Personal Injury Claim, and the injunction shall not apply to the assertion of any such claim, right, or cause of action by AWI, Reorganized AWI, or the Asbestos PI Trust.

(iii) *Status* : Class 7 is impaired. To the extent and in the manner provided in the Voting Procedures Order, the holders of the Claims in Class 7 are entitled to vote to accept or reject the Plan.

(h) **Class 8. Environmental Claims.**

(i) *Classification* : Class 8 consists of all Environmental Claims.

(ii) *Treatment* : Each holder of an Environmental Claim shall be entitled to treatment of its Environmental Claim and receive such consideration as is provided in the settlement agreement applicable to such Environmental Claim. Without limiting the provisions of such settlement agreement, to the extent any portion of an Environmental Claim becomes Allowed prior to any Distribution Date, such Environmental Claim shall be deemed to constitute, and will be treated as, an Allowed Unsecured Claim under Class 6 of the Plan. The sole recourse of the holders of Environmental Claims shall be in accordance with the rights of such holders set forth in such settlement agreement. Nothing contained herein or in any settlement agreement relating to an Environmental Claim shall constitute or be deemed a waiver of any claim, right, or cause of action that AWI or Reorganized AWI may have against any Entity that is not a party to such settlement agreement.

(iii) *Status* : Class 8 is impaired. To the extent and in the manner provided in the Voting Procedures Order, the holders of the Claims in Class 8 are entitled to vote to accept or reject the Plan.

(i) **Class 9. Affiliate Claims.**

(i) *Classification* : Class 9 consists of Affiliate Claims.

(ii) *Treatment* : In accordance with section 1124 of the Bankruptcy Code, the legal, equitable, and contractual rights to which such Allowed Affiliate Claims entitle the holder of any such Claims shall be unaltered.

(iii) *Status* : Class 9 is unimpaired. The holders of the Claims in Class 9 are deemed to accept the Plan and, accordingly, are not entitled to vote to accept or reject the Plan.

(j) **Class 10. Subsidiary Debt Guarantee Claims.**

(i) *Classification* : Class 10 consists of all Subsidiary Debt Guarantee Claims.

(ii) Treatment: In accordance with section 1124 of the Bankruptcy Code, each Subsidiary Debt Guarantee Claim shall be reinstated.

(iii) *Status:* Class 10 is not impaired. The holders of Claims in Class 10 are deemed to accept the Plan and, accordingly, are not entitled to vote to accept or reject the Plan.

(k) **Class 11. Employee Benefit Claims.**

(i) *Classification* : Class 11 consists of all Employee Benefit Claims.

(ii) Treatment: In accordance with section 1124 of the Bankruptcy Code, each Employee Benefit Claim shall be reinstated.

(iii) *Status:* Class 11 is not impaired. The holders of Claims in Class 11 are deemed to accept the Plan and, accordingly, are not entitled to vote to accept or reject the Plan.

(l) **Class 12. Equity Interests** .

(i) *Classification* : Class 12 consists of Equity Interests.

(ii) *Treatment* : No distribution shall be made under the Plan from AWI's estate in respect of the Equity Interests in AWI. On the Effective Date, the certificates that previously evidenced ownership of Existing AWI Common Stock shall be cancelled and shall be null and void, the holder(s) thereof shall no longer have any rights in respect of the Equity Interests in AWI, and such certificates shall not evidence any rights under the Plan.

(iii) *Status* : Class 12 is impaired. The holder of the Equity Interests in Class 12 is deemed to reject the Plan and, accordingly, is not entitled to vote to accept or reject the Plan.

3.3 *In the event of a controversy as to whether any class of Claims or Equity Interests is impaired under the Plan, the Bankruptcy Court shall, after notice and a hearing, determine such controversy prior to the Confirmation Date* .

ARTICLE IV

MODIFICATION, REVOCATION, OR WITHDRAWAL OF THE PLAN

4.1 *Modification of the Plan* . AWI may only, with the written consent of the Future Claimants' Representative, the Asbestos PI Claimants' Committee, and, if Class 6 has not voted to reject the Plan at the time of the requested alteration, amendment, or modification, the Unsecured Creditors' Committee, alter, amend, or modify the Plan under section 1127(a) of the Bankruptcy Code at any time prior to the Confirmation Date so long as the Plan, as modified, meets the requirements of sections 1122 and 1123 of the Bankruptcy Code. After the Confirmation Date and prior to the Effective Date, AWI, with the written consent of the Future Claimants' Representative, the Asbestos PI Claimants' Committee, and, if Class 6 votes to accept the Plan, the Unsecured Creditors' Committee, may only alter, amend, or modify the Plan in accordance with section 1127(b) of the Bankruptcy Code.

4.2 *Revocation or Withdrawal* .

(a) *Right to Revoke* . The Plan may be revoked or withdrawn prior to the Confirmation Date by AWI, with the written consent of the Future Claimants' Representative, the Asbestos PI Claimants' Committee, and, if Class 6 has not voted to reject the Plan at the time of the requested revocation or withdrawal, the Unsecured Creditors' Committee, or, after the Confirmation Deadline, by AWI.

(b) *Effect of Withdrawal or Revocation* . If the Plan is revoked or withdrawn prior to the Confirmation Date, then the Plan shall be deemed null and void. In such event, nothing contained herein shall be deemed to constitute a waiver or release of any claims or defenses or any admission or statement against interest by AWI, the Asbestos PI Claimants' Committee, the Future Claimants' Representative, the Unsecured Creditors' Committee, or any other Entity or to prejudice in any manner the rights of AWI, the Asbestos PI Claimants' Committee, the Future Claimants' Representative, the Unsecured Creditors' Committee, or any Entity in any further proceedings involving AWI.

4.3 *Amendment of Plan Documents* . From and after the Effective Date, the authority to amend, modify, or supplement the Exhibits to the Plan and any documents attached to such Exhibits shall be as provided in such Exhibits and their respective attachments.

ARTICLE V

PROVISIONS FOR TREATMENT OF DISPUTED CLAIMS

5.1 *Objections to Claims; Prosecution of Disputed Claims* . Reorganized AWI shall object to the allowance of Claims filed with the Bankruptcy Court (other than Asbestos Personal Injury Claims and Asbestos Property Damage Claims) with respect to which Reorganized AWI disputes liability in whole or in part. All objections that are filed and prosecuted by Reorganized AWI as provided herein shall be litigated to Final Order by Reorganized AWI or compromised and settled in accordance with the Claims Settlement Guidelines. Unless otherwise provided herein or ordered by the Bankruptcy Court, all objections by Reorganized AWI to Claims shall be served and filed no later than ninety (90) days after the Effective Date.

5.2 *Claims Settlement Guidelines* . The Confirmation Order shall approve the amendment to the Claims Settlement Guidelines, as set forth in Exhibit 1.39 to the Plan.

5.3 *Distributions on Account of Disputed Claims* . Notwithstanding section 3.2 hereof, a Distribution shall only be made by Reorganized AWI to the holder of a Disputed Claim when, and to the extent that, such Disputed Claim becomes Allowed. No interest shall be paid on account of Disputed Claims that later become Allowed except to the extent that payment of interest is required under section 506(b) of the Bankruptcy Code. No Distribution shall be made with respect to all or any portion of any Disputed Claim pending the entire resolution thereof in the manner prescribed by section 5.1 hereof.

5.4 *Disputed Unsecured Claims Reserve* . On the Initial Distribution Date, if the Plan Notes are issued, Reorganized AWI will establish the Disputed Unsecured Claims Reserve, pursuant to which Plan Notes not distributed on the Initial Distribution Date or on any subsequent Distribution will be issued but held in trust by the Disbursing Agent pending the resolution of Disputed Claims. In accordance with and subject to the provisions of sections 3.2(f)(ii), 5.3, and 7.8 of the Plan, any Distribution of Plan Notes with respect to a Disputed Claim that becomes Allowed shall include interest and other accretions with respect to such Plan Notes, net of the portion of expenses (including, without limitation, taxes payable by the Disputed Unsecured Claims Reserve) attributable to such Plan Notes.

5.5 *Tax Treatment of Disputed Unsecured Claims Reserve* .

(a) Subject to definitive guidance from the IRS or a court of competent jurisdiction to the contrary (including the receipt by the Disbursing Agent of a private letter ruling if the Disbursing Agent so requests one, or the receipt of an adverse determination by the IRS upon audit if not contested by the Disbursing Agent), the Disbursing Agent shall (i) treat the Disputed Unsecured Claims Reserve established to hold Plan Notes and any earnings with respect thereto as a discrete trust for federal income tax purposes, consisting of separate and independent shares to be established in respect of each Disputed Claim in Class 6, in accordance with the trust provisions of the Tax Code (sections 641 *et seq* .), and (ii) to the extent permitted by applicable law, report consistently with the foregoing for state and local income tax purposes. All parties (including Reorganized AWI and all holders of Claims in Class 6) shall report, for tax purposes, consistently with such treatment.

(b) The Disbursing Agent may request an expedited determination of taxes under section 505(b) of the Bankruptcy Code for all tax returns filed for, or on behalf of, the Disputed Unsecured Claims Reserve for all taxable periods through the termination of such reserve.

ARTICLE VI

ACCEPTANCE OR REJECTION OF THE PLAN

6.1 *Impaired Classes to Vote* . Each holder of a Claim in an impaired Class of Claims shall be entitled to vote to accept or reject the Plan to the extent and in the manner provided by the Voting Procedures Order.

6.2 *Acceptance by Class of Claims* . Acceptance of the Plan by any impaired Class of Claims shall be determined in accordance with the Voting Procedures Order.

6.3 *Nonconsensual Confirmation* . In the event that any impaired Class of Claims shall fail to accept the Plan in accordance with section 1129(a) of the Bankruptcy Code, AWI reserves the right to (a) request that the Bankruptcy Court confirm the Plan in accordance with section 1129(b) of the Bankruptcy Code with respect to such non-accepting Class, in which case the Plan shall constitute a motion for such relief, or (b) amend the Plan in accordance with section 4.1 hereof.

ARTICLE VII

IMPLEMENTATION OF THE PLAN

7.1 *Creation of Asbestos PI Trust* . Effective as of the later of (i) the date the Asbestos PI Trustees have executed the Asbestos PI Trust Agreement and (ii) the Effective Date, the Asbestos PI Trust shall be created. The Asbestos PI Trust is intended to be a “qualified settlement fund” within the meaning of section 468B of the Internal Revenue Code. The purpose of the Asbestos PI Trust shall be to, among other things, (a) direct the processing, liquidation, and payment of all Asbestos Personal Injury Claims in accordance with the Plan, the Asbestos PI Trust Distribution Procedures, and the Confirmation Order and (b) preserve, hold, manage, and maximize the assets of the Asbestos PI Trust for use in paying and satisfying Asbestos Personal Injury Claims.

7.2 *Appointment of Asbestos PI Trustees* . On the Confirmation Date, effective as of the Effective Date, the Bankruptcy Court shall appoint the individuals selected jointly by the Asbestos PI Claimants’ Committee and the Future Claimants’ Representative (as identified in Exhibit 7.2 to the Plan), which individuals shall be appointed after consultation with AWI, to serve as the Asbestos PI Trustees for the Asbestos PI Trust.

7.3 *144A Offering* . AWI will use reasonable efforts to effect the 144A Offering and obtain a Term Loan B prior to, on or as soon as practicable after the Effective Date such that the 144A Offering Proceeds yield an amount at least equal to the Plan Note Amount, in which case the Plan Notes will not be issued under the Plan. However, if AWI successfully completes a 144A Offering but the 144A Offering Proceeds are less than the Plan Note Amount, AWI will issue additional 144A Debt Securities to the applicable classes of Creditors in lieu of the Plan Notes it would otherwise issue under the Plan Note Indentures (subject to compliance with applicable securities laws) and, in any event, AWI will not issue Plan Notes that have terms and conditions that are not substantially the same as those of the 144A Debt Securities without the consent of the Asbestos PI Claimants' Committee, the Future Claimants' Representative, and, if Class 6 votes to accept the Plan, the Unsecured Creditors' Committee. In addition, if AWI is not successful in obtaining a Term Loan B, AWI will not issue any floating interest rate Plan Notes unless such floating rate Plan Notes satisfy the requirements of the Plan and are on terms and conditions that are mutually satisfactory to AWI and the Asbestos PI Claimants' Committee, the Future Claimants' Representative, and, if Class 6 votes to accept the Plan, the Unsecured Creditors' Committee.

7.4 *Amendment of Articles of Incorporation* . The Articles of Incorporation shall be amended and restated as of the Effective Date in substantially the form of the Amended and Restated Articles of Incorporation, *inter alia* , (a) to prohibit the issuance of nonvoting equity securities as required by section 1123(a)(6) of the Bankruptcy Code, subject to further amendment of such Amended and Restated Articles of Incorporation as permitted by applicable law, and (b) to authorize 215 million (215,000,000) shares of capital stock of which (i) 200 million (200,000,000) shares will be shares of common stock, and (ii) 15 million shares will be preferred stock of Reorganized AWI, with such rights, preferences and privileges as may be determined by the Board of Directors. Pursuant to the Plan, of the 200 million shares of common stock (A) fifty to sixty million (50,000,000-60,000,000) shares shall be New Common Stock issued under the Plan, (B) a portion shall be reserved for issuance under the New Long-Term Incentive Plan, and (C) the remainder shall be reserved for future issuance.

7.5 *Amendment of By-Laws* . The By-Laws of AWI shall be amended and restated as of the Effective Date in substantially the form of the Amended and Restated By-Laws.

7.6 *Stockholder and Registration Rights Agreement* . On the Effective Date, AWI and the Asbestos PI Trust shall enter into the Stockholder and Registration Rights Agreement, which will provide, among other things, for the registration by Reorganized AWI of shares of New Common Stock and Plan Notes owned by the Asbestos PI Trust for public sale in certain circumstances, will provide for rights of others to participate in certain sales of New Common Stock and Plan Notes by the Asbestos PI Trust, and will establish certain requirements for amendment of provisions of the Amended and Restated Articles of Incorporation and the Amended and Restated Bylaws.

7.7 *Distributions under the Plan* . Whenever any Distribution to be made under this Plan shall be due on a day other than a Business Day, such Distribution shall instead be made, without interest, on the immediately succeeding Business Day, but shall be deemed to have been made on the date due.

7.8 *Timing of Distributions under the Plan* . Any Distribution to be made by AWI or Reorganized AWI pursuant to the Plan shall be deemed to have been timely made if made within ten (10) days after the time therefore specified in the Plan. No interest shall accrue or be paid with respect to any Distribution as a consequence of such Distribution not having been made on the Effective Date; *provided* , *however* , that any Plan Notes distributed from the Disputed Unsecured Claims Reserve after the Initial Distribution Date shall include accrued interest and any other accretions thereon (net of the portion of the expenses of the Disputed Unsecured Claims Reserve (including, without limitation, taxes) attributable to such Plan Notes) from and after the Initial Distribution Date in accordance with the terms of the Plan Note Indentures, and New Common Stock issued to holders of Allowed Claims in Classes 6 and 8 after the Effective Date shall include all dividends declared and paid and other distributions made in respect thereto after the Effective Date.

(a) *Distributions with Respect to Unsecured Claims and Environmental Claims.* Distributions with respect to Classes 6 and 8 shall only be made on each Distribution Date; *provided, however*, that, if a Claim in any of Classes 6 or 8 becomes Allowed subsequent to the Initial Distribution Date, AWI may, in its sole discretion, make a Distribution with respect to such Claim prior to a Distribution Date. For purposes of treatment and Distribution under the Plan, except as provided with respect to treatment of Claims in the voting procedures approved by the Voting Procedures Order, all Unsecured Claims held by a Creditor shall be aggregated and treated as a single Claim. At the written request of AWI or the Disbursing Agent, any Creditor holding multiple Unsecured Claims shall provide to AWI or the Disbursing Agent, as the case may be, a single address to which any Distributions shall be sent. At the written request of any Creditor holding multiple Unsecured Claims made to the Disbursing Agent within thirty (30) days prior to a Distribution Date, such Creditor shall receive an itemized statement of the Unsecured Claims for which the Distribution is being made.

(b) *Distribution to the Asbestos PI Trust.* The Distribution to the Asbestos PI Trust shall be made on the later of (a) the date the Asbestos PI Trustees have executed the Asbestos PI Trust Agreement and (b) the Effective Date; *provided* , *however* , that if AWI intends to complete the 144A Offering, then the Distribution of the 144A Offering Proceeds and/or Plan Notes to the Asbestos PI Trust shall occur as soon as practicable after the 144A Offering is completed or Reorganized AWI determines not to complete a 144A Offering, but in no event shall such Distribution occur after the Initial Distribution Date.

7.9 *Disbursing Agent* . All distributions under the Plan shall be made by Reorganized AWI as Disbursing Agent or such other entity designated by Reorganized AWI as a Disbursing Agent. The Disbursing Agent shall not be required to give any bond or surety or other security for the performance of its duties unless otherwise ordered by the Bankruptcy Court, and, in the event that a Disbursing Agent is so otherwise ordered, all costs and expenses of procuring any such bond or surety shall be borne by Reorganized AWI. Distributions on account of Debt Security Claims shall be made to the Indenture Trustee under the applicable Indenture for subsequent distribution to the holders of the Debt Security Claims, and upon such Distribution to the Indenture Trustees, AWI and Reorganized AWI shall have no further obligations with respect thereto.

7.10 *Record Date.* Except as and to the extent otherwise required by customary procedures of the DTC with respect to Debt Security Claims, as of the close of business on the Record Date, the various transfer and claims registers for each of the classes of Claims as maintained by AWI, its respective agents, or the Indenture Trustees shall be deemed closed, and there shall be no further changes in the record holders of any of the Claims. AWI and Reorganized AWI shall have no obligation to recognize any transfer of the Claims occurring after the close of business on the Record Date. AWI, Reorganized AWI, the Disbursing Agent, and the Indenture Trustees shall be entitled to recognize and deal hereunder only with those record holders stated on the transfer ledgers as of the close of business on the Record Date, to the extent applicable.

7.11 *Distributions to Holders of Debt Security Claims Administered by the Indenture Trustees* .

(a) Distributions to holders of Debt Security Claims administered by the Indenture Trustees will be made on each Distribution Date by means of book-entry exchange through the facilities of the DTC in accordance with the customary practices of the DTC, as and to the extent practicable. In connection with such book-entry exchange, each Indenture Trustee will deliver instructions to the DTC directing the DTC to effect distributions on a *pro rata* basis of the elements of Reorganization Consideration as provided under the Plan with respect to the Debt Security Claims upon which such Indenture Trustee acts as trustee.

(b) The Indenture Trustees providing services related to Distributions pursuant to the Plan will receive from Reorganized AWI reasonable compensation for such services and reimbursement of reasonable out-of-pocket expenses incurred in connection with such services in an amount pursuant to the procedures set forth in section 7.19 herein.

7.12 *Manner of Payment under the Plan* . Unless the Entity receiving a payment agrees otherwise, any payment in cash to be made by AWI or Reorganized AWI shall be made, at the election of AWI or Reorganized AWI (as the case may be), by check drawn on a domestic bank or by wire transfer from a domestic bank.

7.13 *Hart-Scott-Rodino Compliance* . Any shares of New Common Stock to be distributed under the Plan to any Entity required to file a Premerger Notification and Report Form under the Hart-Scott-Rodino Antitrust Improvement Act of 1976, as amended, shall not be distributed until the notification and waiting periods applicable under such Act to such Entity shall have expired or been terminated.

7.14 *Fractional Shares or Other Distributions* . Notwithstanding anything to the contrary contained herein, no fractional shares of New Common Stock shall be distributed, no Plan Notes will be issued in an amount less than $1,000, and no cash payments of fractions of cents will be made. Fractional cents shall be rounded to the nearest whole cent (with .5 cent or less to be rounded down). Fractional shares shall be rounded to the nearest whole share (with .5 share or less to be rounded down). Plan Notes in denominations of less than $1,000 shall be rounded to the nearest $1,000 increment (with Plan Notes in denominations of $500 or less to be rounded down). No cash will be paid in lieu of such fractional shares or Plan Notes in increments of less than $1,000.

7.15 *Occurrence of the Confirmation Date* . The following shall constitute conditions to confirmation of the Plan:

(a) The Bankruptcy Court makes the following findings, each of which shall be contained in the Confirmation Order:

(i) With respect to any Asbestos Personal Injury Claim that is Allowed by the Asbestos PI Trust in accordance with the Asbestos PI Trust Agreement and the Asbestos PI Trust Distribution Procedures, such allowance shall establish the amount of legal liability against the Asbestos PI Trust in the amount of the liquidated value of such Claim, as determined in accordance with the Asbestos PI Trust Distribution Procedures.

(ii) The Asbestos PI Permanent Channeling Injunction is to be implemented in connection with the Plan and the Asbestos PI Trust.

(iii) The Plan and its Exhibits are a fair, equitable, and reasonable resolution of the liabilities of AWI for Asbestos Personal Injury Claims.

(iv) The Plan complies with section 524(g) of the Bankruptcy Code.

(v) In light of the benefits provided, or to be provided, to the Asbestos PI Trust on behalf of each PI Protected Party, the Asbestos PI Permanent Channeling Injunction is fair and equitable with respect to the persons that might subsequently assert Asbestos Personal Injury Claims against any PI Protected Party.

(vi) At the time of the order for relief with respect to AWI, AWI had been named as a defendant in personal injury, wrongful death, and property damage actions seeking recovery for damages allegedly caused by the presence of, or exposure to, asbestos or asbestos-containing products.

(vii) The Asbestos PI Trust, as of the Effective Date, will assume the liabilities of AWI with respect to all Asbestos Personal Injury Claims and, upon such assumption, Reorganized AWI shall have no liability for any Asbestos Personal Injury Claim.

(viii) The Asbestos PI Trust is to be funded in whole or in part by securities of Reorganized AWI and by the obligation of Reorganized AWI to make future payments, including dividends.

(ix) The Asbestos PI Trust is to own, or by the exercise of rights granted under the Plan would be entitled to own if specified contingencies occur, a majority of the voting shares of AWI.

(x) AWI is likely to be subject to substantial future Demands for payment arising out of the same or similar conduct or events that gave rise to the Claims that are addressed by the Asbestos PI Permanent Channeling Injunction.

(xi) The actual amounts, numbers, and timing of the future Demands referenced in section 7.15(a)(x) of the Plan cannot be determined.

(xii) Pursuit of the Demands referenced in section 7.15(a)(x) of the Plan outside the procedures prescribed by the Plan is likely to threaten the Plan’s purpose to deal equitably with Claims and future Demands.

(xiii) The terms of the Asbestos PI Permanent Channeling Injunction, including any provisions barring actions against third parties pursuant to section 524(g)(4)(A) of the Bankruptcy Code, are set out in the Plan and in any disclosure statement supporting the Plan.

(xiv) The Plan establishes, in Class 7 (Asbestos Personal Injury Claims), a separate class of the claimants whose Claims are to be addressed by the Asbestos PI Trust.

(xv) The Future Claimants' Representative was appointed as part of the proceedings leading to issuance of the Asbestos PI Permanent Channeling Injunction for the purpose of protecting the rights of persons that might subsequently assert unknown Asbestos Personal Injury Claims and Demands that are addressed in the Asbestos PI Permanent Channeling Injunction and transferred to the Asbestos PI Trust. The Future Claimants' Representative has fulfilled his duties, responsibilities, and obligations as the future representative in accordance with section 524(g) of the Bankruptcy Code.

(xvi) Identifying each PI Protected Party in the Asbestos PI Permanent Channeling Injunction is fair and equitable with respect to persons that might subsequently assert Demands against each such PI Protected Party, in light of the benefits provided, or to be provided, to the Asbestos PI Trust by or on behalf of any such PI Protected Party.

(xvii) Class 7 (Asbestos Personal Injury Claims) has voted, by at least 75 percent (75%) of those voting, in favor of the Plan.

(xviii) Pursuant to court orders or otherwise, the Asbestos PI Trust will operate through mechanisms such as structured, periodic, or supplemental payments, pro rata distributions, matrices, or periodic review of estimates of the numbers and values of Asbestos Personal Injury Claims and Demands, or other comparable mechanisms, that provide reasonable assurance that the Asbestos PI Trust will value, and be in a financial position to pay, Asbestos Personal Injury Claims and Demands that involve similar Claims in substantially the same manner.

(b) Class 7 (Asbestos Personal Injury Claims) has voted, by at least 75 percent (75%) of those voting, in favor of the Plan.

(c) The Confirmation Order shall be, in form and substance, acceptable to the Asbestos PI Claimants' Committee, the Future Claimants' Representative, and, if Class 6 votes to accept the Plan, the Unsecured Creditors' Committee.

The Plan shall not be confirmed and the Confirmation Order shall not be entered until and unless each of the foregoing conditions to confirmation is either satisfied or waived in writing by each of AWI, the Asbestos PI Claimants' Committee, the Future Claimants' Representative, and the Unsecured Creditors' Committee.

7.16 *Occurrence of the Effective Date* . The "effective date of the plan," as used in section 1129 of the Bankruptcy Code, shall not occur, and the Plan shall be of no force and effect, until the Effective Date. The occurrence of the Effective Date is subject to satisfaction of the following conditions precedent:

(a) The Confirmation Order has become a Final Order.

(b) The Bankruptcy Court and/or the District Court, as required, shall have entered the Asbestos PI Permanent Channeling Injunction (which may be included in the Confirmation Order), which shall contain terms satisfactory to AWI, the Asbestos PI Claimants' Committee, the Future Claimants' Representative, and, if Class 6 votes to accept the Plan, the Unsecured Creditors' Committee.

(c) The Confirmation Order, the Claims Trading Injunction and the Asbestos PI Permanent Channeling Injunction shall be in full force and effect.

(d) No proceedings to estimate any Claims shall be pending.

(e) All Asbestos PI Trustees shall have been selected and shall have executed the Asbestos PI Trust Agreement.

(f) A favorable ruling shall have been obtained from the IRS with respect to the qualification of the Asbestos PI Trust as a "qualified settlement fund" within the meaning of Treasury Regulation section 1.468B-1, or AWI shall have received an opinion of counsel with respect to the tax status of the Asbestos PI Trust as a "qualified settlement fund" reasonably satisfactory to AWI, the Asbestos PI Claimants' Committee, the Future Claimants' Representative, and, if Class 6 votes to accept the Plan, the Unsecured Creditors' Committee.

(g) Reorganized AWI shall have entered into and shall have credit availability under a credit facility to provide Reorganized AWI with working capital (including letters of credit) in an amount sufficient to meet the needs of Reorganized AWI, as determined by Reorganized AWI.

(h) Each of the Exhibits shall be in form and substance acceptable to AWI, the Asbestos PI Claimants' Committee, the Future Claimants' Representative, and the Unsecured Creditors' Committee.

Notwithstanding the foregoing, AWI reserves, in its sole discretion, the right, with the written consent of the Asbestos PI Claimants' Committee, the Future Claimants' Representative, and, if Class 6 votes to accept the Plan, the Unsecured Creditors' Committee, to waive the occurrence of any of the foregoing conditions precedent to the Effective Date or to modify any of such conditions precedent. Any such written waiver of a condition precedent set forth in this section may be effected at any time, without notice, without leave or order of the Bankruptcy Court or the District Court, and without any formal action other than proceeding to consummate the Plan. Any actions required to be taken on the Effective Date shall take place and shall be deemed to have occurred simultaneously, and no such action shall be deemed to have occurred prior to the taking of any other such action. If AWI decides that one of the foregoing conditions cannot be satisfied, and the occurrence of such condition is not waived in writing by each of AWI, the Asbestos PI Claimants' Committee, the Future Claimants' Representative, and, if required, the Unsecured Creditors' Committee, then AWI shall file a notice of the failure of the Effective Date with the Bankruptcy Court, at which time the Plan and the Confirmation Order shall be deemed null and void.

7.17 *Cancellation of Existing Debt Securities* .

(a) As of the Effective Date, all notes, agreements, and securities evidencing Unsecured Claims and the rights of the holders thereof thereunder shall be cancelled and deemed null and void and of no further force and effect, and the holders thereof shall have no rights, and such instruments shall evidence no rights, except the right to receive the Distributions provided herein.

(b) Notwithstanding any other provisions in the Plan, each Indenture or other agreement that governs the rights of a holder of a Debt Security Claim that is administered by an Indenture Trustee shall continue in effect solely for the purposes of permitting the applicable

Indenture Trustee thereunder (i) to make distributions to such holder pursuant to the terms of the applicable Indenture; (ii) maintain any rights and liens it may have for any unpaid fees, costs, expenses, and indemnification under such Indenture or other agreement, *provided, however*, such rights and liens are limited to the Distributions, if any, to such holders; and (iii) to be paid by such holders or reimbursed for such prepetition and postpetition fees, costs, expenses, and indemnification (to the extent not paid as an Administrative Expense or otherwise) from the Distributions, if any, to such holders (until payment in full of such fees, costs, expenses or indemnification) on the terms and conditions set forth by the respective Indenture, other agreement, or applicable law.

7.18 *Expiration of the Retention Period* . Upon the expiration of the Retention Period, all monies or other property held for distribution by any trustee under any indenture governing any of the Unsecured Claims shall be returned to Reorganized AWI by such trustee, free and clear of any claim or interest of any nature whatsoever, including, without express or implied limitation, escheat rights of any governmental unit under applicable law.

7.19 *Compensation of the Applicable Indenture Trustees* . Reorganized AWI will pay the Indenture Trustees’ Fees and Expenses to the extent that an Indenture Trustee makes a written request for Indenture Trustees’ Fees and Expenses within thirty (30) days after the Effective Date. Although it will not be necessary for the Indenture Trustees to apply to the Bankruptcy Court for approval of the Indenture Trustees’ Fees and Expenses, any dispute between Reorganized AWI and an Indenture Trustee regarding the reasonableness of any such fees and expenses shall be resolved by the Bankruptcy Court. Each Indenture Trustee shall be compensated by Reorganized AWI for services rendered from and after the Effective Date, including the reasonable compensation, disbursements, and expenses of the agents and legal counsel of such trustee in connection with the performance after the Effective Date of its duties under this section, and shall be indemnified by Reorganized AWI for any loss, liability, or expense incurred by it in connection with the performance of such duties to the same extent and in the same manner as provided in the related indenture.

7.20 *Distribution of Unclaimed Property* . Any Distribution under the Plan that is unclaimed after one hundred eighty (180) days following the date such property is distributed shall be deemed not to have been made and shall be transferred to Reorganized AWI, free and clear of any claims or interests of any Entities, including, without express or implied limitation, any claims or interests of any governmental unit under escheat principles. Nothing contained herein shall affect the discharge of the Claim with respect to which such Distribution was made, and the holder of such Claim shall be forever barred from enforcing such Claim against Reorganized AWI or Reorganized AWI’s assets, estate, properties, or interests in property.

7.21 *Management of Reorganized AWI* . On the Effective Date, the Board of Directors shall consist of at least three individuals who at that time qualify under the prevailing standards of the New York Stock Exchange or the NASDAQ Stock Market (depending upon on which of such markets the common stock of Reorganized AWI will be listed for trading purposes upon the Effective Date) and applicable laws as independent, outside directors, and are eligible to serve on the audit committee of the Board of Directors, as an SEC-reporting public company, and at least three individuals who qualify as outside directors under section 162(m) of the Internal Revenue Code eligible to serve on the committee of the Board of Directors of Reorganized AWI responsible for matters of executive compensation. Each of the members of such Board of Directors shall be identified on Exhibit 7.21 to the Plan and shall serve in accordance with the Amended and Restated Articles of Incorporation, the Amended and Restated By-Laws, and the

Stockholder and Registration Rights Agreement. The officers of AWI immediately prior to the Effective Date shall serve as the officers of Reorganized AWI in accordance with the terms of any employment agreements pursuant to section 8.8 of the Plan and the requirements of applicable nonbankruptcy law.

7.22 *Listing of Reorganized AWI Common Stock* . Reorganized AWI shall use its best efforts to obtain, as of or as soon as practicable after the Effective Date, the listing of its common stock for trading on the New York Stock Exchange or for quotation in the NASDAQ Stock Market and, for so long as there are at least 300 holders of shares of its common stock, to continue the listing of its common stock for trading on either of such markets.

7.23 *Corporate Reorganization Actions* . On or as soon as practicable after the Effective Date, Reorganized AWI shall take such actions as may be or become necessary to effectuate the following, all of which shall be authorized and approved in all respects, in each case without further action being required under applicable law, regulation, order, or rule (including, without limitation, any action by the shareholders or directors of AWI or Reorganized AWI or the Asbestos PI Trust or the Asbestos PI Trustees):

(a) AWI will file the Amended and Restated Articles of Incorporation with the Secretary of State for the Commonwealth of Pennsylvania.

(b) Certain wholly owned, non-operating subsidiaries of AWI will merge with and into AWI on or as soon as practicable after the Effective Date.

(c) The Existing AWI Common Stock will be cancelled.

(d) Subject to section 7.3 hereof, the Plan Note Indentures will become effective and, upon such effectiveness, the Plan Notes will be issued and delivered in accordance with sections 3.2(f) and 11.8 hereof and sections 3.2(g) and 10.1(b) hereof; the New Common Stock will be issued and delivered in accordance with sections 3.2(f) and 11.8 hereof and sections 3.2(g) and 10.1(b) hereof, in each case such issuance and delivery to be subject to the other provisions of ARTICLE VII of the Plan regarding the conditions to and manner of delivery of Plan Notes and New Common Stock.

(e) Reorganized AWI may consummate the 144A Offering.

(f) Reorganized AWI will enter into the working capital facility referenced in section 7.16 of the Plan.

(g) Reorganized AWI will enter into the New Long-Term Incentive Plan.

7.24 *Holdings Transactions* . From and after the Effective Date, other than as provided in the Plan (including, without limitation, provisions of the Plan relating to the indemnification rights of Holdings' officers, directors, and employees and the requirement to provide insurance for the benefit of such persons), Reorganized AWI shall have no ongoing obligations to Holdings or AWWD; *provided* , *however* , that Reorganized AWI shall bear (i) all costs and expenses related to the preparation and submission to a vote of Holdings' shareholders of the Holdings Plan of Liquidation, which shall be undertaken as soon as reasonably practicable, and (ii) all other operating expenses of Holdings and AWWD until the time of such vote (and for a reasonable time thereafter to permit an orderly transition on the administration of Holdings' affairs), and (iii) if the requisite approval of the Holdings Plan of Liquidation is obtained, all costs and expenses of administering the performance and consummation of the Holdings Plan of Liquidation, including any taxes incurred by Holdings in connection therewith.

7.25 *Compliance with QSF Regulations* .

(a) *Tax Status of Asbestos PI Trust.* AWI shall timely seek a private letter ruling from the IRS substantially to the effect that, among other things, the Asbestos PI Trust shall be a “qualified settlement fund” within the meaning of section 468B of the Internal Revenue Code and the Treasury Regulations thereunder.

(b) *Qualified Appraisal* . Within sixty (60) days before or after the funding of the Asbestos PI Trust (but not later than February 14 th of the following calendar year), AWI or Reorganized AWI shall obtain a Qualified Appraisal of the fair market value of the New Common Stock transferred (or to be transferred) to the Asbestos PI Trust.

(c) *Delivery of Statement of Transfers.* Following the funding of the Asbestos PI Trust and the receipt of the Qualified Appraisal (and in no event later than February 15 th of the calendar year following the funding of the Asbestos PI Trust), Reorganized AWI shall provide a “§ 1.468B-3 Statement” to the Asbestos PI Trustees in accordance with Treasury Regulations section 1.468B-3(e).

7.26 *Effectuating Documents and Further Transactions* . Each of the officers of AWI and Reorganized AWI is authorized, in accordance with his or her authority under the resolutions of the Board of Directors, to execute, deliver, file, or record such contracts, instruments, releases, indentures, and other agreements or documents and take such actions as may be necessary or appropriate to effectuate and further evidence the terms and conditions of the Plan and any notes or securities issued pursuant to the Plan.

7.27 *Allocation of Plan Distributions Between Principal and Interest* . To the extent that any Allowed Unsecured Claim or Allowed Convenience Claim entitled to a Distribution under the Plan is comprised of indebtedness and accrued but unpaid interest thereon, such Distribution shall be allocated to the principal amount of the Claim (as determined for federal income tax purposes) first and then, to the extent the consideration exceeds the principal amount of the Claim, to accrued but unpaid interest.

ARTICLE VIII

EXECUTORY CONTRACTS AND UNEXPIRED LEASES

8.1 *Assumption of Executory Contracts and Unexpired Leases* . Any executory contracts or unexpired leases listed on Exhibit 8.1 to the Plan shall be deemed to have been assumed by Reorganized AWI as of the Effective Date, and the Plan shall constitute a motion to assume such executory contracts and unexpired leases. Subject to the occurrence of the Effective Date, entry of the Confirmation Order by the Clerk of the Bankruptcy Court shall constitute approval of such assumptions pursuant to section 365(a) of the Bankruptcy Code and a finding by the Bankruptcy Court that each such assumption is in the best interest of AWI, its estate, and all parties in interest in the Chapter 11 Case. With respect to each such executory contract or unexpired lease assumed by Reorganized AWI, unless otherwise determined by the Bankruptcy Court pursuant to a Final Order or agreed to by the parties thereto prior to the Effective Date, the dollar amount required to cure any defaults of AWI existing as of the Confirmation Date shall be conclusively presumed to be the amount set forth in Exhibit 8.1 with respect to such executory contract or unexpired lease. Subject to the occurrence of the Effective Date, any such cure amount shall be treated as an Allowed Administrative Expense under the Plan, and, upon payment of such Allowed Administrative Expense, all defaults of AWI existing as of the Confirmation Date with respect to such executory contract or unexpired lease shall be deemed cured.

8.2 *Rejection of Executory Contracts and Unexpired Leases* . Any executory contracts or unexpired leases of AWI that either (x) are set forth on Exhibit 8.2 to the Plan or (y)(i) are not listed on Exhibit 8.1 to the Plan, (ii) have not been assumed by AWI with the approval of the Bankruptcy Court, *and* (iii) are not the subject of pending motions to assume at the Confirmation Date shall be deemed to have been rejected by AWI, the Plan shall constitute a motion to reject such executory contracts and unexpired leases, and Reorganized AWI shall have no liability thereunder except as is specifically provided in the Plan. Entry of the Confirmation Order by the Clerk of the Bankruptcy Court shall constitute approval of such rejections pursuant to section 365(a) of the Bankruptcy Code and a finding by the Bankruptcy Court that each such rejected executory contract or unexpired lease is burdensome and that the rejection thereof is in the best interest of AWI, its estate, and all parties in interest in the Chapter 11 Case. Without limiting the foregoing, any agreement entered into prior to the Commencement Date by or on behalf of AWI with respect to the settlement of any Asbestos Personal Injury Claim shall be deemed rejected as of the Effective Date to the extent such settlement agreement is deemed to be an executory contract within the meaning of section 365(a) of the Bankruptcy Code.

8.3 *Claims Arising from Rejection, Termination or Expiration* . Claims created by the rejection of executory contracts or unexpired leases (including, without limitation, the rejection provided in section 8.2 of the Plan) or the expiration or termination of any executory contract or unexpired lease prior to the Confirmation Date, other than Asbestos Personal Injury Claims, must be filed with the Bankruptcy Court and served on AWI no later than thirty (30) days after (i) in the case of an executory contract or unexpired lease that was terminated or expired by its terms prior to the Confirmation Date, the Confirmation Date, (ii) in the case of an executory contract or unexpired lease rejected by AWI, the entry of the order of the Bankruptcy Court authorizing such rejection, or (iii) in the case of an executory contract or unexpired lease that is deemed rejected pursuant to section 8.2 of the Plan, the Confirmation Date. Notwithstanding the foregoing, Exhibit 8.2 to the Plan sets forth AWI's value of the rejection claim for each executory contract or unexpired lease set forth thereon, which claim shall be deemed an Allowed Unsecured Claim if no proof of claim is timely filed and served in accordance with the immediately preceding sentence. Any Claims for which a rejection claim is not set forth on Exhibit 8.2 to the Plan and for which a proof of claim is not filed and served within the time provided herein will be forever barred from assertion and shall not be enforceable against AWI, its estate, assets, properties, or interests in property, or Reorganized AWI or its estate, assets, properties, or interests in property. Unless otherwise ordered by the Bankruptcy Court, all such Claims (other than Asbestos Personal Injury Claims) that are timely filed as provided herein shall be treated as Unsecured Claims under the Plan and shall be subject to the provisions of Article V of the Plan.

8.4 *Previously Scheduled Contracts* . Exhibit 8.4 to the Plan sets forth a list of agreements that were listed on the Schedules as executory contracts (other than agreements that were listed as "Previously Scheduled Contracts" in the *Order Pursuant to Bankruptcy Rules 2002(a)(7) and 3003(c)(3) (I) Fixing a Final Date for Filing Proofs of Claim Relating to Certain Contracts and Leases and (II) Approving the Proposed Forms of Proof of Claim and Notice*, dated September 29, 2005), but which AWI believes should not be considered executory contracts (either because they were not executory contracts as of the Commencement Date or because they have expired or terminated in accordance with their terms prior to the Effective

Date). If any such agreements are determined to be executory contracts, AWI or Reorganized AWI, as the case may be, reserves the right to seek the assumption or rejection of any such contract, and the time within which AWI or Reorganized AWI, as the case may be, may seek to assume or reject any such agreements shall be tolled until twenty (20) Business Days after the date on which an order determining that any such agreement is an executory contract becomes a Final Order. Set forth on Exhibit 8.4 to the Plan is the amount that AWI intends to treat as an Allowed Unsecured Claim for each such agreement. Such amount and the treatment of each such agreement shall be binding unless, on or before ten (10) days after the Confirmation Date, the other party to any such agreement either (i) files a proof of claim (which proof of claim shall be deemed timely filed) or (ii) files a motion seeking to compel assumption or rejection of such agreement.

8.5 *Insurance Policies and Agreements* .

(a) *Assumed Insurance Policies and Agreements* . AWI does not believe that the insurance policies issued to, or insurance agreements entered into by, AWI prior to the Commencement Date constitute executory contracts. To the extent that such insurance policies or agreements are considered to be executory contracts, then, notwithstanding anything contained in sections 8.1 or 8.2 of the Plan to the contrary, the Plan shall constitute a motion to assume such insurance policies and agreements, and, subject to the occurrence of the Effective Date, the entry of the Confirmation Order by the Clerk of the Bankruptcy Court shall constitute approval of such assumption pursuant to section 365(a) of the Bankruptcy Code and a finding by the Bankruptcy Court that each such assumption is in the best interest of AWI, its estate, and all parties in interest in the Chapter 11 Case. Unless otherwise determined by the Bankruptcy Court pursuant to a Final Order or agreed to by the parties thereto prior to the Effective Date, no payments are required to cure any defaults of AWI existing as of the Confirmation Date with respect to each such insurance policy or agreement. In accordance with section 10.1 hereof, the rights under the insurance policies and agreements constituting the Asbestos PI Insurance Asset shall, to the extent necessary, be deemed assigned to the Asbestos PI Trust as of the Effective Date and, pursuant to section 365 of the Bankruptcy Code, AWI shall have no further liability thereunder from and after the Effective Date.

(b) *Reservation of Rights* . Nothing contained in the Plan, including this section 8.5, shall constitute a waiver of any claim, right, or cause of action that AWI, the Asbestos PI Trust, or Reorganized AWI, as the case may be, may hold against the insurer under any policy of insurance or insurance agreement.

8.6 *Indemnification and Reimbursement Obligations* . For purposes of the Plan, the obligations of AWI to indemnify and reimburse persons who are or were directors, officers, or employees of Holdings, AWWD, or AWI on the Commencement Date or at any time thereafter against and for any obligations (including, without limitation, fees and expenses incurred by the board of directors of Holdings, or the members thereof, in connection with the Chapter 11 Case) pursuant to articles of incorporation, codes of regulations, bylaws, applicable state law, or specific agreement, or any combination of the foregoing, shall survive confirmation of the Plan, remain unaffected thereby, and not be discharged in accordance with section 1141 of the Bankruptcy Code, irrespective of whether indemnification or reimbursement is owed in connection with an event occurring before, on, or after the Commencement Date. In furtherance of the foregoing, Reorganized AWI shall maintain insurance for the benefit of such directors, officers, or employees at levels no less favorable than those existing as of the date of entry of the Confirmation Order for a period of no less than four years following the Effective Date.

8.7 *Compensation and Benefit Programs* . (a) Except as set forth below in sections 8.7(b) and 8.7(c) of the Plan, all employment and severance policies, workers' compensation programs, and all compensation and benefit plans, policies and programs of AWI applicable to its present and former employees, officers, and directors, including, without express or implied limitation, all savings plans, retirement plans, health care plans, disability plans, severance benefit plans, incentive plans, and life, accidental death, and dismemberment insurance plans, shall be deemed to be, and shall be treated as though they are, executory contracts that are deemed assumed under the Plan, and AWI's obligations under such plans, policies, and programs shall be deemed assumed pursuant to section 365(a) of the Bankruptcy Code, survive confirmation of the Plan, remain unaffected thereby, and not be discharged in accordance with section 1141 of the Bankruptcy Code. Any defaults existing under any of such plans, policies, and programs shall be cured promptly after they become known by Reorganized AWI.

(b) Notwithstanding section 8.7(a) of the Plan, on the Effective Date (unless an earlier date is specified herein),

(i) the Employment Protection Plan for Salaried Employees will be deemed to have been terminated, cancelled, and of no further force and effect prior to the Effective Date, and the participants thereunder shall have no further rights thereunder;

(ii) the 1993 Long-Term Stock Incentive Plan will be deemed terminated, cancelled, and of no further force and effect, and the participants thereunder shall have no further rights thereunder; *provided* that any and all remaining restrictions on restricted stock awards under the 1993 Long-Term Stock Incentive Plan will lapse on the Effective Date to the extent participants do not elect to waive their right to such awards prior to such date;

(iii) the 1999 Long-Term Incentive Plan will be deemed terminated, cancelled, and of no further force and effect, and the participants thereunder shall have no further rights thereunder; *provided* that any and all remaining restrictions on restricted stock awards under the 1999 Long-Term Incentive Plan will lapse on the Effective Date to the extent participants do not elect to waive their right to such awards prior to such date; and

(iv) the Armstrong Holdings Stock Award Plan will be deemed terminated, cancelled, and of no further force and effect, and the participants thereunder shall have no further rights thereunder; *provided* that any and all remaining restrictions on restricted stock awards under the Armstrong Holdings Stock Award Plan will lapse on the Effective Date to the extent participants do not elect to waive their right to such awards prior to such date.

(c) Notwithstanding section 8.7(a) of the Plan, on the Effective Date (unless an earlier date is specified herein),

(i) the Armstrong Deferred Compensation Plan will be modified so that Reorganized AWI, and not Holdings, will be the sponsor of such plan and to provide that Reorganized AWI has the right, in its sole discretion, not to honor single-sum withdrawal requests, and the Armstrong Deferred Compensation Plan will be assumed, as amended; *provided* , *however* , as to any party that objects to such amendment by the deadline for filing objections to confirmation of the Plan, the Armstrong Deferred Compensation Plan will be deemed rejected, and such party will have an Unsecured Claim for any benefits thereunder in accordance with section 8.3 of the Plan, and, as of any date immediately prior to the Effective Date designated by Holdings, the Armstrong Deferred Compensation Plan will be deemed amended to exclude the occurrence of the Effective Date, the creation of the Asbestos PI Trust, and the issuance of the New Common Stock to the Asbestos PI Trust from triggering a change in control thereunder;

(ii) the Severance Pay Plan for Salaried Employees will be amended as of the Effective Date as follows: If the participant is in a position at a grade level of 15 or higher on Reorganized AWI's organizational management system on the date of termination, the participant will be eligible for severance benefits based on two weeks of pay for each year of service, subject to a minimum of 8 weeks pay and a maximum of 52 weeks pay, and the Severance Pay Plan for Salaried Employees will be assumed, as amended;

(iii) the Retirement Income Plan (Pension) will be amended prior to the Effective Date in the manner described below and, as amended, will be assumed as of the Effective Date:

1. to eliminate the Social Security retirement enhancement that may become payable due to job loss following a Change in Control (as defined in the Retirement Income Plan (Pension)), and

2. to eliminate future accruals of all other retirement enhancements that may become payable due to job loss following a Change in Control to the fullest extent permitted by applicable law; and

(iv) the Retirement Benefit Equity Plan will be amended as of any date prior to the Effective Date designated by AWI in the manner described below and, as amended, will be assumed as of the Effective Date:

1. to exclude in the definition of Change in Control (as defined in the Retirement Benefit Equity Plan) the occurrence of the Effective Date, the creation of the Asbestos PI Trust, and the issuance of the New Common Stock to the Asbestos PI Trust,

2. to eliminate the Extraordinary Event provisions as covered under the Retirement Income Plan,

3. to eliminate any and all retirement enhancements, related to past and future service, that may become payable due to job loss following a Change in Control as covered under the Retirement Income Plan, and

4. to terminate any right or obligation of Reorganized AWI to honor single-sum withdrawal requests;

provided , however, as to any party that objects to such amendments by the deadline for filing objections to confirmation of the Plan, such plan will be deemed rejected, and such party will have an Unsecured Claim for any benefits thereunder in accordance with section 8.3 of the Plan.

(d) On the Effective Date, the assumption, rejection, and amendment of the foregoing plans provided in this section 8.7 shall be deemed to have occurred as of such date or earlier date specified in such section, shall be authorized, and shall be deemed approved in all respects, and shall be in effect from and after the Effective Date or such other date in each case without requiring further action under applicable law, regulation, order, or rule, including, without express or implied limitation, any action by any party or Entity, including any administrative committee of any plan or the stockholders or directors of AWI or Reorganized AWI. On the Effective Date or as soon thereafter as is practicable, Reorganized AWI shall restate the plans amended above as provided in section 8.7(c) and shall communicate such amendments in such manner and as may be required without any further order of the Bankruptcy Court. Each of the officers of AWI and Reorganized AWI is authorized, in accordance with his or her authority under the resolutions of the Board of Directors, to execute, deliver, file, or record such contracts, instruments, releases, indentures, and other agreements or documents and take such actions as may be necessary or appropriate to effectuate and further evidence the terms and conditions of the plan amendments set forth in this section of the Plan.

8.8 *Management Agreements* . On the Effective Date, all employment contracts between AWI and any employee of AWI who was employed by AWI as of the date immediately preceding the Effective Date (including, without limitation, any offer letters issued to any such employees to the extent such offer letters are not superseded by formal employment contracts) shall be deemed assumed by Reorganized AWI. In addition, Reorganized AWI shall enter into new employment contracts with those persons listed on Exhibit 8.8-A substantially in the form of Exhibit 8.8-B to the Plan, which employment contracts shall be deemed authorized without any further approval of the Board of Directors of AWI or Reorganized AWI and automatically shall become effective on the Effective Date.

ARTICLE IX

RETENTION OF JURISDICTION

Pursuant to sections 105(a) and 1142 of the Bankruptcy Code, the Bankruptcy Court shall retain and shall have exclusive jurisdiction over any matter (a) arising under the Bankruptcy Code, (b) arising in or related to the Chapter 11 Case or the Plan, or (c) to perform any of the following actions:

9.1 To interpret, enforce, and administer the terms of the Asbestos PI Trust Agreement (including all annexes and exhibits thereto), and the restrictions on transfer of Asbestos Personal Injury Claims contained in the Confirmation Order.

9.2 To hear and determine any and all motions or applications pending on the Confirmation Date (or thereafter if a contract listed on Exhibit 8.4 of the Plan is thereafter determined to be executory, and AWI is required to assume or reject it) for the assumption and/or assignment or rejection of executory contracts or unexpired leases to which AWI is a party or with respect to which AWI may be liable, and to hear and determine any and all Claims resulting therefrom or from the expiration or termination prior to the Confirmation Date of any executory contract or unexpired lease;

9.3 To determine any and all adversary proceedings, applications, motions, and contested or litigated matters that may be pending on the Effective Date or that, pursuant to the Plan, may be instituted by Reorganized AWI after the Effective Date, including, without express or implied limitation, any claims to avoid any preferences, fraudulent transfers, or other voidable transfers, or otherwise to recover assets for the benefit of AWI's estate;

9.4 To hear and determine any objections to the allowance of Claims arising prior to the Effective Date (other than Asbestos Personal Injury Claims), whether filed, asserted, or made before or after the Effective Date, including, without express or implied limitation, to hear and determine any objections to the classification of any Claim and to allow or disallow any Disputed Claim in whole or in part;

9.5 To issue such orders in aid of execution of the Plan to the extent authorized or contemplated by section 1142 of the Bankruptcy Code;

9.6 To consider any modifications of the Plan, remedy any defect or omission, or reconcile any inconsistency in any order of the Bankruptcy Court, including, without express or implied limitation, the Confirmation Order;

9.7 To hear and determine all applications for allowances of compensation and reimbursement of expenses of professionals under sections 330 and 331 of the Bankruptcy Code and any other fees and expenses authorized to be paid or reimbursed under the Plan;

9.8 To hear and determine all controversies, suits, and disputes that may relate to, impact upon, or arise in connection with the Plan (and all Exhibits to the Plan) or its interpretation, implementation, enforcement, or consummation;

9.9 To the extent that Bankruptcy Court approval is required, to consider and act on the compromise and settlement of any Claim (other than an Asbestos Personal Injury Claim) or cause of action by or against AWI's estate;

9.10 To determine such other matters that may be set forth in the Plan, the Confirmation Order, the Claims Trading Injunction, or the Asbestos PI Permanent Channeling Injunction, or that may arise in connection with the Plan, the Confirmation Order, the Claims Trading Injunction, or the Asbestos PI Permanent Channeling Injunction;

9.11 To hear and determine any proceeding that involves the validity, application, construction, enforceability, or modification of the Claims Trading Injunction or the Asbestos PI Permanent Channeling Injunction or of the application of section 524(g) of the Bankruptcy Code to the Asbestos PI Permanent Channeling Injunction;

9.12 To hear and determine matters concerning state, local, and federal taxes, fines, penalties, or additions to taxes for which AWI, as Debtor or Debtor in Possession, or the Disputed Unsecured Claims Reserve may be liable, directly or indirectly, in accordance with sections 346, 505, and 1146 of the Bankruptcy Code (including any request for expedited determination under section 505(b) of the Bankruptcy Code);

9.13 To enter an order or final decree closing the Chapter 11 Case; and

9.14 To hear and determine all objections to the termination of the Asbestos PI Trust.

To the extent that the Bankruptcy Court is not permitted under applicable law to preside over any of the foregoing matters, the reference to the "Bankruptcy Court" in this ARTICLE IX shall be deemed to be replaced by the "District Court." Notwithstanding anything in this ARTICLE IX to the contrary, (i) the allowance of Asbestos Personal Injury Claims and the forum in which such allowance will be determined will be governed by and in accordance with the Asbestos PI Trust Distribution Procedures and the Asbestos PI Trust Agreement, and (ii) the Bankruptcy Court and/or the District Court shall have concurrent rather than exclusive jurisdiction with respect to (x) disputes relating to rights under insurance policies issued to AWI that are included in the Asbestos PI Insurance Asset, (y) disputes relating to AWI's claim for costs, expenses and fees incurred in connection with an Alternative Dispute Resolution Proceeding initiated in 1996, as referenced in section 1.20 of the Plan, and (z) disputes relating to AWI's rights to insurance with respect to workers' compensation claims.

ARTICLE X

TRANSFERS OF PROPERTY TO AND ASSUMPTION OF CERTAIN LIABILITIES BY THE ASBESTOS PI TRUST

10.1 *Transfer of Certain Property to the Asbestos PI Trust* .

(a) *Transfer of Books and Records* . On the Effective Date or as soon thereafter as is practicable, at the sole cost and expense of the Asbestos PI Trust and in accordance with written instructions provided to Reorganized AWI by the Asbestos PI Trust, Reorganized AWI shall transfer and assign, or cause to be transferred and assigned, to the Asbestos PI Trust the books and records of AWI that pertain directly to Asbestos Personal Injury Claims that have been asserted against AWI. AWI will request that the Bankruptcy Court, in the Confirmation Order, rule that such transfer does not result in the destruction or waiver of any applicable privileges pertaining to such books and records. If the Bankruptcy Court does not so rule, at the option of the Asbestos PI Trust, Reorganized AWI will, at the sole cost and expense of the Asbestos PI Trust, retain the books and records and enter into arrangements to permit the Asbestos PI Trust to have access to such books and records. If the Asbestos PI Trust does not issue written instructions for the transfer or retention of such books and records within one hundred eighty (180) days after the later of the Effective Date and the date by which all the Asbestos PI Trustees have executed the Asbestos PI Trust Agreement, or if the Asbestos PI Trust so requests, Reorganized AWI may (and shall, if the Asbestos PI Trust so requests, but at the sole cost and expense of the Asbestos PI Trust) destroy any such books and records, and the order of the District Court entered during the Chapter 11 Case with respect to the retention of books and records shall be deemed superseded by this section of the Plan.

(b) *Transfer of Plan Consideration* . On the later of the Effective Date and the date by which all the Asbestos PI Trustees have executed the Asbestos PI Trust Agreement, AWI shall transfer to the Asbestos PI Trust the Asbestos PI Insurance Asset and the following assets:

(i) 65.57% of the New Common Stock,

(ii) 65.57% of the first $1.05 billion of (x) up to $300 million of Available Cash and (y) principal amount of each series of Plan Notes and/or 144A Offering Proceeds,

(iii) 40% of the first $50 million of Available Cash remaining after making provision for the Distribution provided in section 3.2(f)(ii)2 of the Plan and the funding of the Asbestos PI Trust in section 10.1(b)(ii) of the Plan,

(iv) 40% of an amount of each series of Plan Notes and/or 144A Offering Proceeds equal to the difference (if positive) of $50 million *less* the amount of Available Cash remaining after making provision for the Distribution provided in section 3.2(f)(ii)2 of the Plan and the funding of the Asbestos PI Trust in section 10.1(b)(ii) of the Plan, and

(v) 65.57% of the remaining Available Cash and each series of Plan Notes and/or 144A Offering Proceeds after making provision for the Distribution provided in sections 3.2(f)(ii)2, 3.2(f)(ii)3, and 3.2(f)(ii)4 of the Plan and the funding of the Asbestos PI Trust in sections 10.1(b)(ii), 10.1(b)(iii), and 10.1(b)(iv) of the Plan.

Notwithstanding the foregoing, if (x) AWI intends to complete a 144A Offering and the 144A Offering has not been completed as of the time for the Distribution to the Asbestos PI Trust specified herein, then the Distribution of the Plan Notes and/or 144A Offering Proceeds to the Asbestos PI Trust shall be made as soon as practicable after the 144A Offering is completed or Reorganized AWI determines not to complete a 144A Offering, but in no event shall such Distribution occur after the Initial Distribution Date, and (y) if the Effective Date occurs on the first Business Day of a month, Distribution to the Asbestos PI Trust of its share of the Available Cash shall be made on a date selected by AWI that is within ten (10) Business Days after the Effective Date, but in no event shall such Distribution occur after the Initial Distribution Date.

10.2 *Assumption of Certain Liabilities by the Asbestos PI Trust* . In consideration for the property transferred to the Asbestos PI Trust pursuant to section 10.1 hereof and in furtherance of the purposes of the Asbestos PI Trust and the Plan, the Asbestos PI Trust shall assume all liability and responsibility for all Asbestos Personal Injury Claims, and Reorganized AWI shall have no further financial or other responsibility or liability therefor. The Asbestos PI Trust shall also assume all liability for premiums, deductibles, retrospective premium adjustments, security or collateral arrangements, or any other charges, costs, fees, or expenses (if any) that become due to any insurer in connection with the Asbestos PI Insurance Asset as a result of Asbestos Personal Injury Claims, asbestos-related personal injury claims against Entities insured under policies included in the Asbestos PI Insurance Asset by reason of vendor’s endorsements, or under the indemnity provisions of settlement agreements that AWI made with various insurers prior to the Commencement Date to the extent that those indemnity provisions relate to Asbestos Personal Injury Claims, and Reorganized AWI shall have no further financial or other responsibility or liability for any of the foregoing.

10.3 *Cooperation with Respect to Insurance Matters* . Reorganized AWI shall cooperate with the Asbestos PI Trust and use commercially reasonable efforts to take or cause to be taken all appropriate actions and to do or cause to be done all things necessary or appropriate to effectuate the transfer of the Asbestos PI Insurance Asset to the Asbestos PI Trust. By way of enumeration and not of limitation, Reorganized AWI shall be obligated (i) to provide the Asbestos PI Trust with copies of insurance policies and settlement agreements included within or relating to the Asbestos PI Insurance Asset; (ii) to provide the Asbestos PI Trust with information necessary or helpful to the Asbestos PI Trust in connection with its efforts to obtain insurance coverage for Asbestos Personal Injury Claims: and (iii) to execute further assignments or allow the Asbestos PI Trust to pursue claims relating to the Asbestos PI Insurance Asset in its name (subject to appropriate disclosure of the fact that the Asbestos PI Trust is doing so and the reasons why it is doing so), including by means of arbitration, alternative dispute resolution proceedings or litigation, to the extent necessary or helpful to the efforts of the Asbestos PI Trust to obtain insurance coverage under the Asbestos PI Insurance Asset for Asbestos Personal Injury Claims. To the extent that the transfer of the Asbestos PI Insurance Asset to the Asbestos PI Trust is determined to be invalid by a court or arbitrator of competent jurisdiction, upon the request of the Asbestos PI Trust, Reorganized AWI shall (i) pursue any rights to the Asbestos PI Insurance Asset for the benefit of, and to the fullest extent required by, the Asbestos PI Trust, and (ii) immediately transfer any amounts recovered under or on account of the Asbestos PI Insurance Asset to the Asbestos PI Trust. The Asbestos PI Trust shall be obligated to compensate Reorganized AWI for costs reasonably incurred in connection with providing assistance to the Asbestos PI Trust or in pursuing recovery for the benefit of the Asbestos PI Trust pursuant to this section 10.3, including, but not limited to, out-of-pocket costs and expenses, consultant fees, and attorneys' fees.

10.4 *Authority of AWI* . Effective on the Confirmation Date, AWI shall be empowered and authorized to take or cause to be taken, prior to the Effective Date, all actions necessary to enable it to implement effectively the provisions of the Plan and the Asbestos PI Trust Agreement.

ARTICLE XI

MISCELLANEOUS PROVISIONS

11.1 *Payment of Statutory Fees* . All fees payable pursuant to section 1930 of title 28 of the United States Code, as determined by the Bankruptcy Court at the hearing on confirmation of the Plan, shall be paid by AWI on or before the Effective Date.

11.2 *Discharge of AWI* . The rights afforded in the Plan and the treatment of all Claims and Equity Interests herein shall be in exchange for and in complete satisfaction, discharge, and release of all Claims and Equity Interests of any nature whatsoever, including any interest accrued thereon from and after the Commencement Date, against AWI, or its estate, assets, properties, or interests in property. Except as otherwise provided herein, on the Effective Date, all Claims against and Equity Interests in AWI shall be satisfied, discharged, and released in full. Reorganized AWI shall not be responsible for any obligations of AWI except those expressly assumed by Reorganized AWI in the Plan. All Entities shall be precluded and forever barred from asserting against AWI, Reorganized AWI, their successors or assigns, or their assets, properties, or interests in property any other or further Claims based upon any act or omission, transaction, or other activity of any kind or nature that occurred prior to the Effective Date, whether or not the facts of or legal bases therefor were known or existed prior to the Effective Date.

11.3 *Rights of Action* . Any rights, claims, or causes of action accruing to AWI pursuant to the Bankruptcy Code or pursuant to any statute or legal theory, including, without express or implied limitation, any avoidance or recovery actions under sections 544, 545, 547, 548, 549, 550, 551, and 553 of the Bankruptcy Code and (except as provided in Articles X and XI hereof) any rights to, claims or causes of action for recovery under any policies of insurance issued to or on behalf of AWI shall remain assets of AWI's estate and, on the Effective Date, shall be transferred to Reorganized AWI. Reorganized AWI shall be deemed the appointed representative to, and may, pursue, litigate, and compromise and settle any such rights, claims, or causes of action, as appropriate, in accordance with what is in the best interests of and for the benefit of Reorganized AWI.

11.4 *Third Party Agreements* . The Distributions to the various classes of Claims hereunder shall not affect the right of any Entity to levy, garnish, attach, or employ any other legal process with respect to such Distributions by reason of any claimed subordination rights or otherwise. All of such rights and any agreements relating thereto shall remain in full force and effect.

11.5 *Dissolution of Committees* . On the Effective Date, the Future Claimants' Representative, the Asbestos PI Claimants' Committee, the Asbestos PD Committee, and the Unsecured Creditors' Committee shall thereupon be released and discharged of and from all further authority, duties, responsibilities, and obligations relating to and arising from and in connection with the Chapter 11 Case, and, except for the limited purpose of presenting final applications for fee and expenses, all such committees shall be deemed dissolved, and the Future Claimants' Representative shall continue to serve through the termination of the Asbestos PI Trust in order to perform the functions required by the Asbestos PI Trust Agreement; *provided* , *however* , (i) if the Effective Date occurs before the Confirmation Order becomes a Final Order, the Asbestos PI Claimants' Committee, the Future Claimants' Representative, and, if Class 6 votes to accept the Plan, the Unsecured Creditors' Committee may continue to exist and to serve for the purposes of pursuing any appeal of the Confirmation Order, and (ii) if any adversary proceeding to which any of the Asbestos PI Claimants' Committee, the Future Claimants' Representative, or, if Class 6 votes to accept the Plan, the Unsecured Creditors' Committee is participating is pending as of the Effective Date, any such committee may continue to exist or the Future Claimants' Representative may continue to serve for the limited purpose of litigating such adversary proceeding. The fees and expenses of the Future Claimants' Representative from and after the Effective Date relating to the role of the Future Claimants' Representative in the Asbestos PI Trust, pursuant to the Asbestos PI Trust Agreement and the Asbestos PI Trust Distribution Procedures (including, without limitation, the fees and expenses of any professionals retained by the Future Claimants' Representative), shall be the sole responsibility of the Asbestos PI Trust.

11.6 *Exculpation* . None of Reorganized AWI, any of the members of the Asbestos PI Claimants' Committee, the Future Claimants' Representative, any of the members of the Unsecured Creditors' Committee, any members of the Asbestos PD Committee, AWWD, Holdings, or any of their officers, directors, employees, or agents shall have or incur any liability to any Entity for any act or omission in connection with or arising out of the Chapter 11 Case, including, without limitation, the commencement of the Chapter 11 Case, the negotiation of the Plan, pursuit of confirmation of the Plan, the consummation of the Plan, or the administration of the Plan or the property to be distributed under the Plan, except for gross negligence or willful misconduct, and in all respects shall be entitled to rely upon the advice of counsel with respect to their duties and responsibilities under, or in connection with, the Plan.

11.7 *Title to Assets; Discharge of Liabilities* . Except as otherwise provided in the Plan, on the Effective Date, title to all assets and properties and interests in property dealt with by the Plan shall vest in Reorganized AWI free and clear of all Claims, Equity Interests, Encumbrances, and other interests, and the Confirmation Order shall be a judicial determination of discharge of the liabilities of AWI arising prior to the Effective Date, except as may be otherwise provided in the Plan.

11.8 *Surrender and Cancellation of Instruments* . Except as otherwise provided in section 7.11 of the Plan with respect to Debt Security Claims issued under the Indentures, and in addition to the provisions of section 3.2(f) hereof, each holder of a promissory note or other instrument evidencing an Unsecured Claim shall surrender such promissory note or instrument to Reorganized AWI, and Reorganized AWI shall distribute or cause to be distributed to the holder thereof the appropriate Distribution hereunder. At the option of Reorganized AWI (in its sole and absolute discretion), no Distribution hereunder shall be made to or on behalf of any holder of such Unsecured Claim unless and until such promissory note or instrument is received or the unavailability of such note or instrument is reasonably established to the satisfaction of Reorganized AWI. In accordance with section 1143 of the Bankruptcy Code, any such holder of such a Claim that fails to surrender or cause to be surrendered such promissory note or instrument or to execute and deliver an affidavit of loss and indemnity reasonably satisfactory to Reorganized AWI and, in the event that Reorganized AWI requests, furnish a bond in form and substance (including, without limitation, amount) reasonably satisfactory to Reorganized AWI within the Retention Period shall be deemed to have forfeited all rights, claims, and interests and shall not participate in any Distribution hereunder.

11.9 *Notices* . Any notices, requests, and demands required or permitted to be provided under the Plan, in order to be effective, shall be in writing (including, without express or implied limitation, by facsimile transmission), and, unless otherwise expressly provided herein, shall be deemed to have been duly given or made when actually delivered or, in the case of notice by facsimile transmission, when received and telephonically confirmed, addressed as follows:

If to AWI:	Armstrong World Industries, Inc. Corporate Center Post Office Box 3666 Lancaster, Pennsylvania 17604-3666 Attention: General Counsel *and* Weil, Gotshal & Manges LLP 767 Fifth Avenue New York, New York 10153 Attention: Stephen Karotkin, Esq. Telecopier: (212) 310-8007 Telephone Confirmation: (212) 310-8888
If to the Asbestos PI Claimants' Committee:	Caplin & Drysdale 375 Park Avenue New York, New York 10022 Attention: Elihu Inselbuch, Esq. Telecopier: (212) 644-6755 Telephone Confirmation: (212) 319-7125

If to the Future Claimants' Representative:	Dean M. Trafelet, Esq. 9130 Wild Lane Baileys Harbor, Wisconsin 54292 Telecopier: (920) 839-9438 Telephone Confirmation: (920) 839-1485 *and* Kaye Scholer LLP 425 Park Avenue New York, New York 10022 Telecopier: (212) 836-7157 Telephone Confirmation: (212) 836-8781 Attention: Andrew Kress, Esq.
If to the Unsecured Creditors' Committee:	Paul, Weiss, Rifkind, Wharton & Garrison 1285 Avenue of the Americas New York, New York 10019-6064 Telecopier: (212) 757-3990 Telephone Confirmation: (212) 373-3000 Attention: Andrew N. Rosenberg, Esq.

11.10 *Headings* . The headings used in the Plan are inserted for convenience only and neither constitute a portion of the Plan nor in any manner affect the construction of the provisions of the Plan.

11.11 *Severability* . At the unanimous option of AWI, the Asbestos PI Trust, the Future Claimant's Representative, and the Unsecured Creditors' Committee, each acting in its or his sole discretion, any provision of the Plan, the Claims Trading Injunction, the Confirmation Order, the Asbestos PI Permanent Channeling Injunction, or any of the Exhibits to the Plan that is prohibited, unenforceable, or invalid shall, as to any jurisdiction in which such provision is prohibited, unenforceable, or invalidated, be ineffective to the extent of such prohibition, unenforceability, or invalidation without invalidating the remaining provisions of the Plan, the Claims Trading Injunction, the Confirmation Order, the Asbestos PI Permanent Channeling Injunction, and the Exhibits to the Plan or affecting the validity or enforceability of such provisions in any other jurisdiction.

11.12 *Governing Law* . Unless a rule of law or procedure is supplied by federal law (including the Bankruptcy Code and Bankruptcy Rules) or by Pennsylvania corporate law, the laws of the State of Delaware, without giving effect to the conflicts of laws principles thereof, shall govern the construction of the Plan and any agreements, documents, and instruments executed in connection with the Plan, except as otherwise expressly provided in such instruments, agreements or documents.

11.13 *Compliance with Tax Requirements* . In connection with the Plan, AWI and the Disbursing Agent will comply with all withholding and reporting requirements imposed by federal, state and local taxing authorities, and all distributions hereunder shall be subject to such withholding and reporting requirements.

11.14 *Exemption from Transfer Taxes* . Pursuant to section 1146(c) of the Bankruptcy Code, the issuance, transfer, or exchange of notes or equity securities under the Plan, the creation of any mortgage, deed of trust, or other security interest, the making or assignment of any lease or sublease, or the making or delivery of any deed or other instrument of transfer under, in furtherance of, or in connection with the Plan, including, without express or implied limitation, any liens granted in connection with the exit finance facility referred to in section 7.16(g) hereof, shall not be subject to any sales and use, stamp, real estate transfer, mortgage recording, or other similar tax.

11.15 *Expedited Determination of Postpetition Taxes* . AWI and Reorganized AWI are authorized (but not required) to request an expedited determination of taxes under section 505(b) of the Bankruptcy Code for all tax returns filed for, or on behalf of, AWI for all taxable periods (or portions thereof) from the Commencement Date through (and including) the Effective Date.

Dated: Wilmington, Delaware
February 21, 2006

Respectfully submitted,

ARMSTRONG WORLD INDUSTRIES, INC.

By:______________________________
Name: John N. Rigas
Title: Senior Vice President, Secretary, and General Counsel

WEIL, GOTSHAL & MANGES LLP
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and

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EXHIBIT B to Rights Agreement Dated March 14, 2000

February 20, 2006 Amended and Restated

SUMMARY OF RIGHTS TO PURCHASE PREFERRED STOCK

The Board of Directors of Armstrong Holdings, Inc. (the “Company”) declared a distribution of one Right for each share of Common Stock of the Company distributed to shareholders in connection with the Share Exchange under the Agreement and Plan of Exchange (whereby all Armstrong World Industries, inc. common stock was exchanged for the Company’s Common Stock) and with respect to each share of Common Stock that may be issued by the Company thereafter and prior to the “Distribution Date” (or the earlier redemption or expiration of the Rights) described below. The Rights are effective as of their distribution to shareholders.

Upon the occurrence of certain events described below, each Right would entitle the registered holder to purchase from the Company a unit consisting of one-hundredth of a share (a “unit”) of Series One Class A Preferred Stock, without par value (the “Preferred Stock”), at a purchase price of $300 per unit, subject to adjustment (the “Purchase Price”). The Purchase Price must be paid in cash or, if the Company shall in its sole discretion so consent, shares of Common Stock having a value at the time of exercise equal to the Purchase Price. The description and terms of the Rights are set forth in a Rights Agreement (the “Rights Agreement”) between the Company and the Rights Agent, as it may be amended from time to time.

Unless otherwise delayed by an action of the Board of Directors, the Rights will separate from the Common Stock upon the earlier to occur of (i) 10 days following a public announcement that a person or group of affiliated or associated persons (an “Acquiring Person”) has acquired, or obtained the right to acquire, beneficial ownership of shares of the Company’s capital stock representing 20% or more of the voting power of all outstanding shares of capital stock of the Company (the date of such announcement being referred to as the “Stock Acquisition Date”) or such later date as specified by the majority of the Disinterested Directors, or (ii) 10 business days following the commencement of a tender offer or exchange offer that would result in a person or group beneficially owning outstanding shares of the Company’s capital stock representing 28% or more of the voting power of all outstanding shares of capital stock of the Company, or such later date as specified by the majority of the Disinterested Directors.

The term “Disinterested Directors” means any member of the Board of Directors of the Company who was a member of the Board prior to the time that the Acquiring Person became an Acquiring Person, any person who is subsequently elected to the Board to fill a vacancy created by an increase in the size of the Board if such person is recommended or approved by a majority of the Disinterested Directors, and any successor of a Disinterested Director if such person is recommended or approved by a majority of the Disinterested Directors, but shall not include an Acquiring Person, or an affiliate or associate of an Acquiring Person, or any representative of the foregoing entities.

Until the Distribution Date, (i) the Rights will be evidenced by the Common Stock certificates and will be transferred only with such Common Stock certificates, (ii) new Common

Stock certificates issued will contain a notation incorporating the Rights Agreement by reference, and (iii) the surrender for transfer of any certificates for Common Stock will also constitute the transfer of the Rights associated with the Common Stock represented by such certificate. The Rights will be attached to all Common Stock certificates representing shares then outstanding until the occurrence of a Distribution Date or the earlier redemption or expiration of the Rights. No separate Rights Certificates will be distributed unless and until a Distribution Date occurs . The Rights will expire at the close of business on the earlier to occur of (1) March 21, 2008 and (2) the date a plan of reorganization in the Chapter 11 case of Armstrong World Industries, Inc. becomes effective, unless extended or earlier redeemed by the Board as described below.

As soon as practicable after a Distribution Date (except as otherwise provided above), Rights Certificates will be mailed to holders of record of the Common Stock as of the close of business on a Distribution Date and, thereafter, such separate Rights Certificates alone will represent the Rights.

In the event that, at any time following the Distribution Date, (i) the Company is the surviving corporation in a merger with an Acquiring Person and its Common Stock is not changed or exchanged, or (ii) a Person becomes the beneficial owner of shares of the Company's capital stock representing 28% or more of the voting power of all outstanding shares of capital stock of the Company, each holder of a Right will thereafter have the right to receive, upon exercise, Common Stock (or, in certain circumstances, cash, property or other securities of the Company) having a value equal to two times the exercise price of the Right. The exercise price per Right is $300. Notwithstanding any of the foregoing, following the occurrence of any of the events described in item (i) or (ii) in this paragraph, all Rights that are, or (under certain circumstances specified in the Rights Agreement) were, beneficially owned by any Acquiring Person will be null and void. However, the Rights are not exercisable following the occurrence of either of the events set forth in this paragraph until such time as the Rights are no longer redeemable by the Company as set forth below.

For example, at an exercise price of $300 per Right, each Right not owned by an Acquiring Person (or by certain related parties) following an event set forth in the preceding paragraph would entitle its holder to purchase $600 worth of Common Stock (or other consideration, as noted above) for $300.

In the event that, at any time following the Stock Acquisition Date, (i) the Company is acquired in certain merger or other business combination transactions (other than a merger described in the second preceding paragraph) or (ii) 50% or more of the Company's assets or earning power is sold or transferred, each holder of a Right (except Rights which previously have been voided as set forth above) shall thereafter have the right to receive, upon exercise, common stock of the acquiring company having a value equal to two times the exercise price of the Right.

The right to purchase Common Stock of the Company or common stock of an Acquiring Person at a discount in the circumstances described in the preceding paragraphs would not be exercisable if the Right holder has previously exercised the right to purchase Preferred Stock.

The Purchase Price payable, and the number of Units of Preferred Stock or other securities or property issuable, upon exercise of the Rights are subject to adjustment from time to time to prevent dilution (i) in the event of a stock dividend on, or a subdivision, combination or reclassification of, the Preferred Stock, (ii) if holders of the Preferred Stock are granted certain rights or warrants to subscribe for Preferred Stock or convertible securities at less than the current market price of the Preferred Stock, or (iii) upon the distribution to holders of the Preferred Stock of evidences of indebtedness or assets (excluding regular quarterly cash dividends) or of subscription rights or warrants (other than those referred to above).

With certain exceptions, no adjustment in the Purchase Price will be required until cumulative adjustments amount to at least 1% of the Purchase Price. No fractional Units will be issued and, in lieu thereof, an adjustment in cash will be made based on the market price of the Preferred Stock on the last trading date prior to the date of exercise.

At any time until ten days after the Stock Acquisition Date, the Board of Directors may redeem the Rights in whole, but not in part, at a price of $.05 per Right. The redemption period may be extended by the Company’s Board of Directors at any time prior to the expiration of such period. Under certain circumstances set forth in the Rights Agreement, the decision to redeem shall require the concurrence of a majority of the Disinterested Directors. After the redemption period has expired, the Company’s right of redemption may be reinstated if an Acquiring Person reduces his beneficial ownership to shares of capital stock of the Company representing 10% or less of the voting power of all outstanding shares of capital stock of the Company in a transaction or series of transactions not involving the Company. Immediately upon the action of the Board of Directors ordering redemption of the Rights, with, where required, the concurrence of a majority of the Disinterested Directors, the Rights will terminate and the only right of the holders of Rights will be to receive the $.05 redemption price.

Until a Right is exercised, the holder thereof, as such, will have no rights as a shareholder of the Company arising from the Right itself, including, without limitation, the right to vote or to receive dividends. While the initial declaration and distribution of the Rights will not be taxable to the shareholders or the Company, shareholders may, depending upon the circumstances, recognize taxable income in the event that the Rights become exercisable for Common Stock (or other consideration) of the Company or for common stock of an acquiring company as set forth above.

Under the Rights Plan, the Board has broad amendatory powers. Other than those provisions relating to the principal economic terms of the Rights, any of the provisions of the Rights Agreement may be amended by the Board prior to the Distribution Date. After the Distribution Date, amendments may not adversely affect Right holders’ interests but any amendment suspending the provisions of the Rights Plan by excluding any acquirer from its benefits shall not be deemed to adversely affect Rights’ holders interests. Under certain circumstances, an amendment would require the concurrence of the Disinterested Directors.

The Rights Agreement and its amendment(s) have been filed with the Securities and Exchange Commission. Copies are also available free of charge from the Company. This summary description does not purport to be complete and is qualified in its entirety by reference to the Rights Agreement, as amended, which is incorporated herein by reference.

ARMSTRONG
NONQUALIFIED DEFERRED COMPENSATION PLAN

The Armstrong Nonqualified Deferred Compensation Plan (the “Plan”) was established by the Retirement Committee of Armstrong World Industries, Inc. effective January 1, 2005.

The Plan is a nonqualified deferred compensation plan for a select group of management or highly compensated employees and nonemployee directors. The Plan is intended to meet the requirements of Section 409A of the Internal Revenue Code of 1986, as amended, to achieve deferral of taxation until deferred amounts are distributed in accordance with the terms of the Plan.

1. DEFINITIONS

1.1 “Account” shall mean an account established on the books of the Company for the purpose of recording amounts credited on behalf of a Participant and any income, expenses, gains or losses included thereon.

1.2 “Administrator” shall mean the Retirement Committee of the Company.

1.3 “Beneficiary” means the person or persons, trust or other entity designated in writing by a Participant to receive payments under the Plan upon the death of a Participant.

1.4 “Board” means the Board of Directors of the Company.

1.5 “Bonus” means any discretionary performance-based cash bonuses paid for services with the Company.

1.6 “Change in Control” means the first to occur of any of the following events: (i) a Change in Ownership of the Corporation, (ii) a Change in Effective Control of the Corporation or (iii) a Change in the Ownership of a Substantial Portion of the Assets of the Corporation.

(a) A “Change in Ownership” of the Corporation occurs on the date that any one person, or more than one person acting as a group acquires ownership of stock of the Corporation that, together with stock held by such person or group, constitutes more than 50 percent of the total fair market value or total voting power of the stock of the Corporation.

(b) A “Change in Effective Control” of the Corporation occurs on the date that either:

(i) Any one person, or more than one person acting as a group, acquires (or has acquired during the 12 month period ending on the date of the most recent acquisition by such person or persons) ownership of stock of the Corporation possessing 35 percent or more of the total voting power of the stock of the Corporation; or

(ii) a majority of members of the Corporation’s board of directors is replaced during any 12 month period by directors whose appointment or election is not endorsed by a majority of the members of the Corporation’s board of directors prior to the date of the appointment or election.

(c) A “Change in the Ownership of a Substantial Portion of the Assets of the Corporation” occurs on the date that any one person, or more than one person acting as a group, acquires (or has acquired during the 12 month period ending on the date of the most recent acquisition by such person or persons) assets from the Corporation that have a total gross fair market value equal to or more than 40 percent of the total gross fair market value of all of the assets of the Corporation immediately prior to such acquisition or acquisitions. For this purpose, gross fair market value means the value of the assets being disposed of, determined without regard to any liabilities associated with such assets. There is no Change in Control event under this Section 1.6(c) when there is a transfer to an entity that is controlled by the shareholders of the transferring corporation immediately after the transfer.

The determination of whether a Change in Control event has occurred will be made in accordance with the requirements of Code Section 409A and the guidance issued thereunder. The foregoing definition of Change in Control shall exclude the occurrence of the date(s) on which (i) the Chapter 11 Plan of Reorganization of the Company shall become effective and (ii) the creation by the Company of the Asbestos Personal Injury Trust.

1.7 “Code” means the Internal Revenue Code of 1986, as amended from time to time.

1.8 “Corporation” shall mean Armstrong Holdings, Inc. or any successor by merger, purchase or otherwise.

1.9 “Company” shall mean Armstrong World Industries, Inc. and any other subsidiary corporation controlled by the Corporation that adopts this Plan with the permission of the Administrator.

1.10 “Compensation” shall mean:

(a) for an employee Participant, Compensation shall include:

(i) for purposes of deferral of Compensation under Section 3, a Participant’s annual base salary and any actual bonus payable under the Participant’s employing Company’s annual bonus plan received by the employee for services with such Company and,

(ii) for purposes of determining the Restoration Matching Credits under Section 4.1, in addition to the amounts under Section 1.10(a)(i) above, amounts allocated, if any, to a Participant’s account under the Bonus Replacement Retirement Plan of Armstrong World Industries, Inc.

(b) for a nonemployee director Participant, Compensation shall include payments to the director of regularly scheduled cash compensation.

1.11 “Director Deferrals” means the deferrals elected by the Participant pursuant to Section 3.3.

1.12 “Director Deferral Account” means the Account with is maintained with respect to the Director Deferral credits of the Participant and any hypothetical earnings or losses thereon.

1.13 “Effective Date” means January 1, 2005.

1.14 “Excess Compensation” means the Participant’s Compensation for the Plan Year in excess of 12.5 times the Code Section 402(g) limit in effect for such Plan Year

1.15 “Investment Funds” shall mean the investment alternatives made available by the Administrator from time to time under the Plan.

1.16 “Participant” shall be each nonemployee director and employee who has been selected for participation by the Administrator, who satisfies all conditions of eligibility.

1.17 “Plan” means the Armstrong Nonqualified Deferred Compensation Plan, the Plan set forth herein, as amended from time to time.

1.18 “Plan Year” means a 12-consecutive month period commencing January 1st and ending on the following December 31st.

1.19 “Qualified Plan” means the Savings and Investment Plan of Armstrong World Industries, Inc. and any successor plan thereto.

1.20 “Restoration Bonus Deferrals” means the deferrals elected by the Participant pursuant to Section 3.2.

1.21 “Restoration Deferral Account” means the Account which is maintained with respect to the Restoration Salary Deferrals and Restoration Bonus Deferrals of the Participant and any hypothetical earnings or losses thereon.

1.22 “Restoration Matching Credits” means the credits allocated to the Participant pursuant to Section 4.1.

1.23 “Restoration Matching Account” means the Account which is maintained with respect to the Restoration Matching Credits of the Participant and any hypothetical earnings or losses thereon.

1.24 “Restoration Salary Deferrals” means the deferrals elected by the Participant pursuant to Section 3.1.

1.25 “Retirement Supplement Credits” means the credits allocated to the Participant pursuant to Section 4.2.

1.26 “Retirement Supplement Account” means the Account which is maintained with respect to the Retirement Supplement Credits of the Participant and any hypothetical earnings or losses thereon.

1.27 “Termination” means a Participant’s termination of employment with the Company or termination of board service in the case of a nonemployee director.

1.28 “Unforeseeable Emergency” means a severe financial hardship to the Participant resulting from an illness or accident of the Participant, the Participant’s spouse, or a dependent (as defined in Code Section 152(a)) of the Participant, loss of the Participant’s property due to casualty, or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant.

1.29 “Valuation Date” means any day on which the New York Stock Exchange or any successor to its business is open for trading.

2. ELIGIBILITY AND PARTICIPATION

2.1 Eligibility for Participation: Participation in the Plan is limited to those individuals who have been selected for participation by the Administrator. No individual shall be eligible for selection unless he/she meets one or more of the following criteria:

(a) To be eligible to make Restoration Salary Deferrals or Restoration Bonus Deferrals for a Plan Year:

(i) the individual must be a management employee in a position Grade 15 or higher as of the September 1st prior to the Plan Year or, for the Plan Year in which an individual is first hired by or transferred to a Company, the individual must be hired or transferred to a position that is Grade 15 or higher (individuals previously employed by a participating Company who are promoted to a position Grade 15 or higher must be in the eligible position as of the September 1 prior to the Plan Year to participate for that Plan Year), and

(ii) the individual must earn Compensation for the Plan Year in excess of 12.5 times the Code Section 402(g) limit in effect for such Plan Year.

(b) To be eligible to make Director Deferrals for a Plan Year, the individual must be a nonemployee director of the Corporation as of the December 1st prior to the Plan Year and be authorized to participate in the Plan by the Nominating and Governance Committee of the board of the Corporation.

(c) To be eligible to receive Restoration Matching Credits, the employee Participants must make a Restoration Salary Deferral election or a Restoration Bonus Deferral election for the Plan Year and must not be actively accruing any benefit under the Retirement Income Plan for Employees of Armstrong World Industries, Inc.

(d) To be eligible to receive Retirement Supplement Credits, the individual must be a management employee in a position Grade 15 or higher as of his or her crediting date and have been designated to receive Retirement Supplement Credits by the Administrator.

2.2 Commencement of Participation: Each Participant shall be provided an opportunity to designate irrevocably, prior to each Plan Year (or, in the Participant's first year of eligibility, within 30 days following the date the Participant became eligible), his or her elections pursuant to Article 3. Any such designation must be made in the manner authorized by the Administrator and must be accompanied by, as applicable:

(a) an irrevocable authorization for the Company to make regular deductions to cover the amount of such deferrals elected pursuant to Section 3.1 or Section 3.3;

(b) an irrevocable authorization to defer receipt of a percentage of future Bonus amounts for any year as elected under Section 3.2;

(c) an investment election with respect to each of the Participant's Accounts as provided under Section 5.3;

(d) a designation of Beneficiary; and

(e) a designation as to the form and timing of the distribution of each of the Participant’s Accounts as provided under Sections 6.1 and 6.2.

2.3 Cessation of Participation: A Participant shall cease to be an active Participant on the earliest of:

(a) the date on which the Plan terminates, or

(b) the date on which he or she ceases to be eligible to participate in the Plan under Section 2.1.

A former active Participant will be deemed a Participant for all purposes except with respect to the right to make deferrals, as long as he or she maintains a Participant Account.

3. DEFERRAL OF COMPENSATION

3.1 Restoration Salary Deferrals: Each Participant eligible to make Restoration Salary Deferrals may authorize the Company by which he or she is employed, in the manner described in Section 2.2, to have Restoration Salary Deferrals made on his or her behalf. Such election shall apply to the Participant’s Excess Compensation attributable to services performed in the Plan Year subsequent to the election. Such Restoration Salary Deferrals shall be a stated percentage of the Participant’s Excess Compensation, up to 8 percent as designated by the Participant. A Participant’s annual election to make a Restoration Salary Deferral shall be irrevocable for such calendar year. A Participant must make a new election in each calendar year to make a Restoration Salary Deferral for the subsequent calendar year.

3.2 Restoration Bonus Deferrals: Notwithstanding deferrals made under Section 3.1, by December 31 of each year or such earlier date as the Administrator may determine, each Participant eligible to make Restoration Bonus Deferrals may authorize the Company by which he or she is employed, in the manner described in Section 2.2, to defer a percentage of his or her Bonus that is Excess Compensation that would otherwise be payable for services performed in the twelve-month period beginning on the January 1 immediately following such December 31. Such Restoration Bonus Deferrals shall be a stated percentage of the Participant’s Excess Compensation, up to 8 percent as designated by the Participant. A Participant’s annual election to defer a Bonus that is based on services performed over the 12 month calendar year period may be changed up to June 30 in the year such Bonus is earned, but thereafter shall be irrevocable for such calendar year. A Participant must make a new election in each calendar year to defer a Bonus for the subsequent calendar year.

3.3 Director Deferrals: Each Participant eligible to make Director Deferrals may authorize the Company, in the manner described in Section 2.2, to have Director Deferrals made on his or her behalf. Such election shall apply to the Participant’s Compensation attributable to services performed in the Plan Year subsequent to the election. Such Director Deferrals shall be a stated whole percentage of the Participant’s Compensation, up to 100 percent as designated by the Participant. A Participant must make a new election in each calendar year to make Director Deferrals for the subsequent calendar year.

3.4 First Year of Eligibility: In the case of the first year in which a Participant becomes eligible to participate in the Plan, such Participant’s election with respect to Sections 3.1 or 3.3 may be made with respect to services to be performed subsequent to the election within 30 days following the date the Participant becomes eligible to participate in the Plan.

4. EMPLOYER CONTRIBUTIONS

4.1 Restoration Matching Credits: For each pay period that the employee Participant makes Restoration Salary Deferrals and/or Restoration Bonus Deferrals, the Company shall make Restoration Matching Credits on behalf of each Participant eligible for Restoration Matching Credits in an amount equal to 100% of the first 4% and 50% of the next 4% of the Participant’s Restoration Salary Deferrals and Restoration Bonus Deferrals for such pay period. Such Restoration Matching Credits shall be fully vested at the same time as the Participant’s matching contributions under the Qualified Plan.

4.2 Retirement Supplement Credits: The Company shall make Retirement Supplement Credits to the Retirement Supplement Account in the manner and at such time as determined by the Administrator. Retirement Supplement Credits shall be fully vested at the same time as the Participant’s matching contributions under the Qualified Plan.

5. INVESTMENT OF CONTRIBUTION

5.1 Establishment of Accounts: The Company shall establish Accounts for each Participant, but only to the extent the Participant has amounts to be allocated to such Account:

(a) a Restoration Deferral Account to which shall be credited the Participant’s Restoration Salary Deferrals and Restoration Bonus Deferrals and any deemed earnings and losses credited thereto;

(b) a Director Deferral Account to which shall be credited the Participant’s Director Deferrals and any deemed earnings and losses credited thereto.

(c) a Restoration Matching Account to which shall be credited the Participant’s Restoration Matching Credits and any deemed earnings and losses credited thereto.

(d) a Retirement Supplement Account to which shall be credited the Participant’s Retirement Supplement Credits and any deemed earnings and losses credited thereto.

Each Participant shall receive periodic statements (no less frequently than quarterly) reflecting the balances in his or her Participant Accounts.

5.2 Obligation of the Company: Individual benefits under the Plan are payable as they become due solely from the general assets of the Company. To the extent a Participant, or any person, acquires a right to receive payments under this Plan, such right shall be no greater than the right of any general creditor of the Company. Neither this Plan, nor any action taken pursuant to the terms of this Plan, shall be considered to create a fiduciary relationship between the Company and the Participant, or any other persons, or to require the establishment of a trust in which the assets are beyond the claims of any general creditor of the Company.

5.3 Establishment of Investment Funds: The Administrator will establish multiple deemed Investment Funds which will be maintained for the purpose of determining the investment return to be credited to each Participant’s Accounts. The Administrator may change the number, identity or composition of the Investment Funds from time to time. Each Participant will indicate the Investment Funds based on which amounts allocated in accordance with Articles 3 and 4 are to be adjusted. Each Participant’s Accounts will be increased or decreased by the net amount of investment earnings or losses that it would have achieved had it actually been invested in the deemed investments. The Company is not required to purchase or hold any of the deemed investments. Investment Fund elections must be made in a minimum of 1% increments and in such manner as the Administrator will specify. A Participant may make separate

Investment Fund elections with respect to each Account (as applicable) set forth in Section 5.1. A Participant may change his or her Investment Fund election periodically in the manner provided by the Administrator. Any such change shall become effective as soon as administratively practicable following the date the Administrator receives notice of such change in the form prescribed by the Administrator.

5.4 Crediting Investment Results: No less frequently than as of each Valuation Date, each Participant Account will be increased or decreased to reflect investment results. Each Participant Account will be credited with the investment return of the Investment Funds in which the Participant elected to be deemed to participate. The credited investment return is intended to reflect the actual performance of the Investment Funds net of any applicable investment management fees or administrative expenses determined by the Administrator. Notwithstanding the above, the amount of any payment of Plan benefits pursuant to Article 6 or upon Plan termination shall be determined as of the Valuation Date preceding the date of payment.

6. PAYMENT AND AMOUNT OF BENEFITS

6.1 Form of Distribution:

(a) Each Participant shall elect the form and timing of the distribution with respect to each of his or her Participant Accounts in the manner authorized by the Administrator. The Participant’s election shall indicate the form of distribution of the amounts credited to each of the Participant’s:

(1) Restoration Deferral Account and Restoration Matching Account (a single election with respect to these accounts);

(2) Director Deferral Account; and

(3) Retirement Supplement Account.

(b) If the Participant elects a monthly installment distribution, the amount of each installment shall be determined by multiplying the Participant’s remaining Account balance by a fraction, the numerator of which is one (1) and the denominator of which is the number of months remaining in the installment period.

6.2 Time of Distribution: Each Participant shall elect the timing of the distribution with respect to his or her Participant Account in the manner authorized by the Administrator. A Participant shall make a separate election as to the timing of payment with respect to each Account grouping specified in Section 6.1(a) above. The Participant’s election(s) shall indicate that payment shall be made (in the case of a lump sum election) or shall commence (in the case of an installment election):

(a) as soon as administratively practicable following the Participant’s Termination; provided, however, if the Participant is a key employee (as defined in Code Section 416(i) without regard to paragraph (5) thereof) and the stock of the Company or the Corporation is publicly traded on an established securities market, distributions shall not commence before the date which is 6 months following the date of Termination (or, if earlier, the death of the Participant); or

(b) in a specific month and year, but in no event (1) later than the first of the month following the Participant’s 70th birthday, or (2) earlier than the Participant’s Termination. If a Participant elects his or her distribution to be made or commenced in accordance with this paragraph (b), and such date falls before the Participant’s Termination, the distribution shall be delayed until as soon as practicable following the Participant’s Termination.

6.3 Change in Control Election: Notwithstanding the elections made in accordance with Sections 6.1 and 6.2 above, a Participant may make a separate election that in the event of the Participant's Termination within 12 months following a Change in Control, the Account balance shall be paid in a lump sum. If so elected, such lump sum payment shall be made as soon as administratively practicable following the Participant's Termination; provided, however, if the Participant is a key employee (as defined in Code Section 416(i) without regard to paragraph (5) thereof) and the stock of the Company or the Corporation is publicly traded on an established securities market, distributions shall not commence before the date which is 6 months following the date of Termination (or, if earlier, the death of the Participant).

6.4 Change in Form or Time of Distribution: A Participant may change his or her form and timing election applicable to the distribution of an Account under Sections 6.1, 6.2 and 6.3, provided that such request for change is made (i) at least twelve (12) consecutive months prior to the date on which such distribution would otherwise have been made or commenced and (ii) with respect to elections under Section 6.1 and 6.2, the first payment with respect to such new election is deferred for a period of not less than 5 years beyond the date such distribution would otherwise have been made.

6.5 Distribution after Death: If a Participant dies prior to receiving the entire amounts credited to his or her Participant Accounts, the remaining amounts shall be paid to the Participant's Beneficiary designated by the Participant at the time and in the form as previously elected by the Participant under Section 6.1, 6.2 and 6.3 (*i.e* , there are no special distribution elections for distribution upon death). In the case of an election for amounts to be paid as of Termination, the Participant's death shall be considered a Termination.

6.6 De Minimis Distributions: Notwithstanding the provisions of Sections 6.1, 6.2, 6.3, 6.4 and 6.5, if, as of the Participant's Termination or death and prior to the commencement of installment payments, the value of amounts in all of the Participant's Accounts (determined as of the Valuation Date immediately preceding such date) is less than $10,000, the entire balance in the Participant's Accounts shall be distributed as soon as practicable to the Participant (or if the Participant is deceased, the Participant's Beneficiary) as a lump sum payment.

6.7 Distribution Due to Unforeseeable Emergency: Distributions hereunder may commence if the Administrator determines, based upon uniform, established standards, that the Participant has incurred an Unforeseeable Emergency. The amount distributed under this Section 6.7 shall not exceed the amount necessary to satisfy such emergency plus amounts necessary to pay taxes reasonably anticipated as a result of the distribution, after taking into account the extent to which such hardship is or may be relieved through reimbursement or compensation by insurance or otherwise or by liquidation of the Participant's assets (to the extent the liquidation of such assets would not itself cause severe financial hardship.) Distributions under this Section 6.7 shall be distributed from either the Participant's Restoration Deferral Account or Director Deferral Account, as appropriate, under Section 5.1. Distributions under this Section 6.7 from a Participant's Restoration Deferral Account shall first be debited from the Participant's Restoration Salary Deferrals and then from the Participant's Restoration Bonus Deferrals, and any deemed earnings and losses credited thereto. No distribution under this Section 6.7 shall be made from the Participant's Restoration Matching Account under Section 5.1. Amounts distributed pursuant to this Section 6.7 shall be debited prorata from each Investment Fund maintained for the respective Account at the time of distribution.

6.8 Termination for Willful, Deliberate or Gross Misconduct: In the event that a Participant (i) is discharged for willful, deliberate, or gross misconduct as determined by the Board or a duly constituted committee thereof; or (ii) if following the Participant's Termination and, within a period of three years thereafter, the Participant engages in any business or enters into any employment which the Board or a duly constituted committee thereof determines to be either directly or indirectly competitive with the business of the Company or substantially injurious to the Company's financial interest (the occurrence of an event described in (i) or (ii) shall be referred to as "Injurious Conduct"), all amounts attributable to the Restoration Matching Account and Retirement Supplement Account shall be forfeited. Further, the Board or a duly constituted committee thereof, in its discretion, may require the Participant who has engaged in Injurious Conduct to return any amounts attributable to the Restoration Matching Account and Retirement Supplement Account previously received by the Participant, provided the right to require repayment under this Section 6.8 must be exercised within ninety (90) days after the Board (or committee, as the case may be) first learns of the Injurious Conduct, but in no event later than twenty-four (24) months after the Participant's Termination. A Participant may request the Board or a duly constituted committee thereof, in writing, to determine whether any proposed business or employment activity would constitute Injurious Conduct. Such a request shall fully describe the proposed activity and the Board's (or the committee's, as the case may be) determination shall be limited to the specific activity so described.

7. FINANCING

No Participant shall have any right or interest in any such policy or the proceeds thereof or in any other specific fund or asset the Corporation or the Company as a result of the Plan. The rights of Participants to benefit payments hereunder shall be no greater than those of a general creditor.

8. AMENDMENT OR TERMINATION

8.1 Plan Amendment: The Plan may be amended or otherwise modified by the Administrator, in whole or in part, provided that no amendment or modification shall divest any Participant of any amount previously credited to his or her Participant Accounts under Article 3 and 4 or of the amount and method of crediting earnings to such Participant Accounts under Article 5 of the Plan as of the date of such amendment.

8.2 Termination of the Plan: The Administrator reserves the right to terminate the Plan at any time in whole or in part. In the event of any such termination, the Company shall pay a benefit to the Participant or the Beneficiary of any deceased Participant, in lieu of other benefits hereunder, equal to the value of the Participant's Accounts in the form and at the benefit commencement date elected by the Participant pursuant to Article 6 of the Plan. Earnings shall continue to be allocated under Article 5 of the Plan after the termination of the Plan until the Participant's benefits have been paid in full notwithstanding the termination of the Plan.

9. ADMINISTRATION

9.1 Administration: Responsibility for establishing the requirements for participation and for administration of the Plan shall be vested in the Administrator, which shall have the full and exclusive discretionary authority to interpret the Plan, to determine all benefits and to resolve all questions arising from the administration, interpretation, and application of their provisions, either by general rules or by particular decisions, including determinations as to whether a claimant is eligible for benefits, the amount, form and timing of benefits, and any other matter (including any question of fact) raised by a claimant or identified by the Administrator. The Administrator may delegate administrative tasks as necessary to persons who are not Administrator members. All decisions of the Administrator shall be conclusive and binding upon all affected persons.

9.2 Plan Expenses: The expenses of administering the Plan shall be borne by the Corporation and the Company. No employee shall receive any remuneration for service in such capacity. However, expenses of the Administrator or its members paid or incurred in connection with administering the Plan shall be reimbursed by the Corporation and the Company.

9.3 Liability: The Corporation and the Company shall indemnify and hold harmless the members of the Administrator against any and all claims, loss, damage, expense or liability arising from any action or failure to act with respect to this Plan, except in the case of gross negligence or willful misconduct.

10. CLAIMS PROCEDURE

10.1 Claim: Any person claiming a benefit, requesting an interpretation or ruling under the Plan, or requesting information under the Plan shall present the request in writing to the Administrator which shall respond in writing as soon as practicable.

10.2 Denial of Claim: If the claim or request is denied, the written notice of denial shall state:

(a) The reasons for denial, with specific reference to the Plan provisions on which the denial is based.

(b) A description of any additional material or information required and an explanation of why it is necessary.

(c) An explanation of the Plan's claim review procedure.

10.3 Review of Claim: Any person whose claim or request is denied or who has not received a response within thirty (30) days may request review by notice given in writing to the Administrator. The claim or request shall be reviewed by the Administrator who may, but shall not be required to, grant the claimant a hearing. On review, the claimant may have representation, examine pertinent documents, and submit issues and comments in writing.

10.4 Final Decision: The decision on review shall normally be made within sixty (60) days. If an extension of time is required for a hearing or other special circumstances, the claimant shall be notified and the time limit shall be one hundred twenty (120) days. The decision shall be in writing and shall state the reasons and the relevant Plan provisions. All decisions on review shall be final and bind all parties concerned.

10.5 Attorney's Fees and Expenses: In the event a Participant's claim for benefits under this Plan is denied and the Participant successfully appeals the denial of such claim under the foregoing procedures, the Corporation or the Company shall pay or reimburse the legal fees and expenses directly incurred by the Participant in connection with his appeal subject to a maximum payment or reimbursement of one-third of the balance of the Participant's Accounts. Any such legal fees and expenses shall be paid to, or on behalf of, the Participant no later than thirty (30) days following the Participant's written request for the payment of such legal fees and expenses, provided the Participant supplies the Administrator with evidence of the fees and expenses incurred by the Participant that the Administrator, in its sole discretion, determines is sufficient.

10.6 Interest on Delayed Payments: Further, in the event a Participant's claim for benefits under this Plan is denied and the Participant successfully appeals the denial of such claim under the foregoing procedures, the Corporation or the Company shall pay to the Participant interest on the portion of the Participant's benefits that were not otherwise paid when due because of the initial denial of the claim. For purposes of the preceding sentence, interest shall accrue at an annual rate equal to the prime rate as quoted in the Wall Street Journal as of the date the benefits would otherwise have been paid if the claim had not initially been denied, plus five percent (5%), and shall be adjusted as necessary to reflect any partial payment or payments of the amounts owed to the Participant.

11. MISCELLANEOUS

11.1 Non-Alienation of Benefits: No amount payable under the Plan shall be subject to assignment, transfer, sale, pledge, encumbrance, alienation or charge by a Participant or the Beneficiary of a Participant except as may be required by law.

11.2 Limitation of Rights: Neither the establishment of this Plan, nor any modification thereof, nor the creation of an Account, nor the payment of any benefits shall be construed as giving

(a) any Participant, Beneficiary, or any other person whomsoever, any legal or equitable right against the Company or the Corporation unless such right shall be specifically provided for in the Plan or conferred by affirmative action of the Administrator in accordance with the terms and provisions of the Plan; or

(b) any Participant, or other person whomsoever, the right to be retained in the service of the Company or the Corporation, and all Participants and other employees shall remain subject to termination to the same extent as if the Plan had never been adopted.

11.3 Participant's Rights Unsecured: The right of any Participant or Beneficiary to receive payment under the provisions of the Plan shall be as an unsecured claim against the Company, as the case may be, and no provisions contained in the Plan shall be construed to give any Participant or Beneficiary at any time a security interest in the Participant's Accounts or any asset of the Company or the Corporation. The liabilities of the Company or the Corporation to any Participant or Beneficiary pursuant to the Plan shall be those of a debtor pursuant to such contractual obligations as are created by the Plan. Accounts, if any, which may be set aside by the Company or the Corporation for accounting purposes shall not in any way be held in trust for, or be subject to the claims of, a Participant or Beneficiary.

11.4 Incapacity: In the event that the Administrator shall find that a Participant or other person entitled to benefits hereunder is unable to care for his or her affairs because of illness or accident, the Administrator may direct that any benefit payment due him or her, unless claim shall have been made therefor by a duly appointed legal representative, be paid to the Participant's spouse, child, parent or other blood relative, or to a person with whom he or she resides, and any such payment so made shall be a complete discharge of the liabilities of the Corporation, any employing Company and the Plan therefor.

11.5 Withholding: There shall be deducted from all payments under this Plan the amount of any taxes required to be withheld by any Federal, state or local government. The Participants and their Beneficiaries, distributees, and personal representatives will bear any and all Federal, foreign, state, local or other income or other taxes imposed on amounts paid under this Plan.

11.6 Severability: Should any provision of the Plan or any regulations adopted thereunder be deemed or held to be unlawful or invalid for any reason, such fact shall not adversely affect the other provisions or regulations unless such invalidity shall render impossible or impractical the functioning of the Plan and, in such case, the appropriate parties shall adopt a new provision or regulation to take the place of the one held illegal or invalid.

11.7 Controlling Law: The Plan shall be governed by the laws of the Commonwealth of Pennsylvania except to the extent preempted by ERISA and any other law of the United States.

Exhibit No. 10.37

February XX, 2006

«FullName»
«Title»
«Location»

Dear «FirstName»:

The Management Development and Compensation Committee of the Board of Directors granted you a performance-based 2006 Cash Incentive Award that may be earned over the two-year period extending from January 1, 2006 to December 31, 2007. The Cash Incentive Award represents the long-term incentive plan (LTIP) component of Armstrong's senior management compensation program and is subject to the terms of the 1999 Long-Term Incentive Plan.

The target amount of your 2006 Cash Incentive Award is <<amount>>. You are eligible to earn a cash payment based on Armstrong's <<performance measure>> for 2006 and 2007 measured against a Committee-approved target performance of <<goal>>. The target and actual measures exclude the impact of factors specified by the Committee, namely <<exclusions>>. These cash payments will be in addition to short-term incentive opportunities under the Management Achievement Plan and Sales Incentive Plans (where applicable).

The Committee approved the payout schedule which establishes the expected and maximum payout achievement at varying levels of financial results. You should expect a Cash Incentive Award payout based on the "Expected Payout" column. You will note that the threshold financial performance for a partial payout has been set at <<threshold>> of the financial target. Following the completion of the two-year performance period, your calculated Cash Incentive Award payout will be subject to adjustment (up or down) on the basis of your individual performance. All cash payments earned will be paid in early 2008.

If you terminate employment with the Company (other than due to death or disability) prior to the date of payment, you will <u>not</u> receive a payout under this Cash Incentive Award. Participants who die or go on long-term disability after December 31, 2006 but prior to the payment date will be eligible for a pro-rated payment based on their length of active employment during the two-year performance period to the extent financial results warrant a payment. If death or disability occurs prior to January 1, 2007, no payment will be made.

In the event of a change in control (CIC) of Armstrong World Industries after it emerges from Chapter 11 and prior to the completion of the performance period, all participants eligible to receive an award payment (active employees, disabled employees and beneficiaries of deceased employees) will receive a cash payment equal to the full LTIP award grant amount. This payment will be made at the time of the CIC.

All payments will be subject to normal tax withholding and will not be considered income for benefits purposes such as for pensions, savings plan contributions and life insurance coverage.

The 1999 Long-Term Incentive Plan provisions under Section 8.9, Termination of Employment – Certain Forfeitures, limit your rights with respect to this Cash Incentive Award. The Committee may revoke your rights to receive or retain payments where you have been discharged for misconduct or you have engaged in any business or employment determined to be competitive with or injurious to the Company's interests. You may be required to return any cash payment you received in the 12 months prior to your termination of employment if within 24 months after your termination date, you engage in activities that are injurious to Armstrong. A copy of this Plan document is available upon request.

The value of this Cash Incentive Award will depend on our collective ability to meet and exceed the performance target. You may discuss any questions you have with your manager or the Compensation Department.

Exhibit No. 11.1

ARMSTRONG HOLDINGS, INC. AND SUBSIDIARIES

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

Basic earnings (loss) per share	**2005**	**2004**	**2003**
Net earnings (loss)	$112.1	$(80.8)	$(39.3)
Average number of common shares outstanding	40.5	40.5	40.5
Basic earnings (loss) per share	$ 2.77	$(2.00)	$(0.97)

Exhibit No. 11.2

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

Diluted earnings (loss) per share	**2005**	**2004**	**2003**
Net earnings (loss)	$112.1	$(80.8)	$(39.3)
Average number of common shares outstanding	40.5	40.5	40.5
Average number of common shares issuable under stock options or restricted stock grants	0.2	0.2	0.2
Average number of common and common stock equivalents Outstanding	40.7	40.7	40.7
Diluted earnings (loss) per share	$ 2.75	$(2.00)	$(0.97)

Subsidiaries of Armstrong World Industries, Inc.
As of December 31, 2005

The following is a list of subsidiaries of Armstrong World Industries, Inc. as of the date hereof, omitting certain subsidiaries, which, considered in the aggregate as a single subsidiary, would not constitute a significant subsidiary.

AWI Domestic Subsidiaries	Jurisdiction of Incorporation
Armstrong Cork Finance Corporation	Delaware
Armstrong Hardwood Flooring Company	Tennessee
Armstrong Realty Group, Inc.	Pennsylvania
Armstrong Ventures, Inc.	Delaware
Armstrong Wood Products, Inc.	Delaware
Armstrong World Industries (Delaware) Inc.	Delaware
AWI Licensing Company	Delaware
Charleswater Products, Inc.	Delaware
Worthington Armstrong Venture (50% owned Delaware General Partnership)	

AWI Foreign Subsidiaries	Jurisdiction of Incorporation
Armstrong (U.K.) Investments	United Kingdom
Armstrong Architectural Products S.L.	Spain
Armstrong Building Products B.V.	Netherlands
Armstrong Building Products Company (Shanghai) Ltd. (80% owned affiliate)	PRC
Armstrong Building Products G.m.b.H.	Germany
Armstrong DLW AG *	Germany
Armstrong DLW Licensing GmbH *	Germany
Armstrong Metal Ceilings Limited	United Kingdom
Armstrong Metalldecken AG	Switzerland
Armstrong Metalldecken GmbH	Austria
Armstrong Metalldecken Holdings AG	Switzerland
Armstrong World Industries (Australia) Pty. Ltd.	Australia
Armstrong World Industries AB	Sweden
Armstrong World Industries Canada Ltd.	Canada
Armstrong World Industries Holding G.m.b.H.	Germany
Armstrong World Industries Ltd.	United Kingdom
Desso Dendermonde N.V. *	Belgium
Desso DLW Sports Systems *	Belgium
Desso DLW Textil GmbH *	Germany
Desso Waalwijk B.V. *	Netherlands
Tapijtfabriek H. Desseaux N.V. *	Netherlands

* 97% owned. 100% owned as of January 23, 2006.

Subsidiaries of Armstrong Holdings, Inc.
as of December 31, 2005

Armstrong Holdings, Inc.'s subsidiaries include all of the Armstrong World Industries, Inc. subsidiaries, plus Armstrong World Industries, Inc. (Pennsylvania) and its direct parent company, Armstrong Worldwide, Inc. (Delaware).

Exhibit No. 23.1

Consent of Independent Registered Public Accounting Firm

The Board of Directors
Armstrong Holdings, Inc.:

We consent to the incorporation by reference in Registration Statement No. 333-74501 on Form S-3 and Registration Statements No. 33-91890, 33-18996, 33-18997, 33-65768, 333-79093 and 333-43872 on Form S-8 of Armstrong Holdings, Inc. of our reports dated February 23, 2006, with respect to the consolidated balance sheets of Armstrong Holdings, Inc., and subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of earnings, cash flows and shareholders' equity for each of the years in the three-year period ended December 31, 2005, related financial statement schedule, management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2005 and the effectiveness of internal control over financial reporting as of December 31, 2005, which reports appear in the December 31, 2005 annual report on Form 10-K of Armstrong Holdings, Inc.

Our report dated February 23, 2006, contains an explanatory paragraph that states three of the Company's domestic subsidiaries, including Armstrong World Industries, Inc. filed separate voluntary petitions for relief under Chapter 11 of the United States Bankruptcy Code on December 6, 2000 and Armstrong World Industries, Inc. has also defaulted on certain debt obligations. Our report also states that the filing under Chapter 11 and the resulting increased uncertainty regarding the Company's potential asbestos liabilities raise substantial doubt about the Company's ability to continue as a going concern. The accompanying consolidated financial statements and financial statement schedule do not include any adjustments that might result from the outcome of these uncertainties.

/s/ KPMG LLP

Philadelphia, Pennsylvania
February 23, 2006

Exhibit No. 23.2

Consent of Independent Registered Public Accounting Firm

The Board of Directors
Armstrong World Industries, Inc.:

We consent to the incorporation by reference in Registration Statement No. 333-74501 on Form S-3 and Registration Statements No., 33-91890, 33-18996, 33-18997, 33-65768 and 333-79093 on Form S-8 of Armstrong World Industries, Inc. of our report dated February 23, 2006, with respect to the consolidated balance sheets of Armstrong World Industries, Inc., and subsidiaries as of December 31, 2005 and 2004 and the related consolidated statements of earnings, cash flows and shareholder's equity and the related financial statement schedule for each of the years in the three-year period ended December 31, 2005, which report appears in the December 31, 2005 annual report on Form 10-K of Armstrong World Industries, Inc.

Our report dated February 23, 2006, contains an explanatory paragraph that states the Company and two of its domestic subsidiaries filed separate voluntary petitions for relief under Chapter 11 of the United States Bankruptcy Code on December 6, 2000 and the Company has also defaulted on certain debt obligations. Our report also states that the filing under Chapter 11 and the resulting increased uncertainty regarding the Company's potential asbestos liabilities raise substantial doubt about the Company's ability to continue as a going concern. The accompanying consolidated financial statements and financial statement schedule do not include any adjustments that might result from the outcome of these uncertainties.

/s/ KPMG LLP

Philadelphia, Pennsylvania
February 23, 2006

Exhibit No. 23.3

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in Registration Statement No. 333-74501 on Form S-3 and Registration Statements No. 33-91890, 33-18996, 33-18997, 33-65768, 333-79093 and 333-43872 on Form S-8 of Armstrong Holdings, Inc. of our report dated February 23, 2006, with respect to the consolidated balance sheets of Worthington Armstrong Venture as of December 31, 2005 and 2004 and the related consolidated statements of income, partners' equity, and cash flows for each of the years in the three-year period ended December 31, 2005, which report appears in the December 31, 2005 annual report on Form 10-K of Armstrong Holdings, Inc.

/s/ KPMG LLP

Philadelphia, Pennsylvania
February 23, 2006

Exhibit No. 23.4

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in Registration Statement No. 333-74501 on Form S-3 and Registration Statements No. 33-91890, 33-18996, 33-18997, 33-65768 and 333-79093 on Form S-8 of Armstrong World Industries, Inc. of our report dated February 23, 2006, with respect to the consolidated balance sheets of Worthington Armstrong Venture as of December 31, 2005 and 2004 and the related consolidated statements of income, partners' equity, and cash flows for each of the years in the three-year period ended December 31, 2005, which report appears in the December 31, 2005 annual report on Form 10-K of Armstrong World Industries, Inc.

/s/ KPMG LLP

Philadelphia, Pennsylvania
February 23, 2006

Exhibit No. 24

ARMSTRONG HOLDINGS, INC.
CERTIFICATION REGARDING
POWER OF ATTORNEY

I, Walter T. Gangl, Deputy General Counsel and Assistant Secretary of Armstrong Holdings, Inc., a corporation organized and existing under the laws of the Commonwealth of Pennsylvania, do hereby certify that at a meeting of the Board of Directors of said corporation duly held on the 20th day of February, 2006, at which a quorum was present and acting throughout, the following resolution was adopted and is now in full force and effect.

> RESOLVED that the execution of the Company's 2005 Annual Report on Form 10-K on behalf of the Company and by members of the Board of Directors through respective powers of attorney granting Messrs. Lockhart, Rigas and Gangl the power to sign on their behalf is authorized.

IN WITNESS WHEREOF, I have hereunto set my hand and the seal of said corporation this 20th day of February, 2006.

/s/ Walter T. Gangl
Walter T. Gangl
Deputy General Counsel and
Assistant Secretary

ARMSTRONG HOLDINGS, INC.

POWER OF ATTORNEY

RE: 2005 ANNUAL REPORT ON FORM 10-K

I, Michael D. Lockhart, as a Director of Armstrong Holdings, Inc., do hereby constitute and appoint, JOHN N. RIGAS or, in the case of his absence or inability to act as such, WALTER T. GANGL, my agent, to sign in my name and on my behalf the Company's Annual Report on Form 10-K for the year ended December 31, 2005, and any amendments thereto, to be filed by the Company with the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended, with the same effect as if such signature were made by me personally.

/s/ Michael D. Lockhart
Michael D. Lockhart
Dated: February 20, 2006

All powers of attorney required to be filed are substantially identical in all material respects. Therefore, in accordance with SEC Regulation 229.601(a) Instruction 2, only the foregoing copy is being included except, however, that the manually signed copy filed with the Securities and Exchange Commission includes a complete set of powers of attorney.

All powers of attorney differ only from the form of the foregoing in that they are executed by the following parties in the capacities indicated on or about February 20, 2006.

H. Jesse Arnelle	Director
Judith R. Haberkorn	Director
James E. Marley	Director
Ruth M. Owades	Director
John J. Roberts	Director
M. Edward Sellers	Director
Jerre L. Stead	Director

ARMSTRONG WORLD INDUSTRIES, INC.
CERTIFICATION REGARDING
POWER OF ATTORNEY

I, Walter T. Gangl, Deputy General Counsel and Assistant Secretary of Armstrong World Industries, Inc., a corporation organized and existing under the laws of the Commonwealth of Pennsylvania, do hereby certify that pursuant to a Unanimous written consent of the Board of Directors of said corporation dated the 20 th day of February, 2006, the following resolution was adopted and is now in full force and effect.

> RESOLVED that the execution of the Company’s 2005 Annual Report on Form 10-K on behalf of the Company and by members of the Board of Directors through respective powers of attorney granting Messrs. Lockhart, Rigas and Gangl the power to sign on their behalf is authorized.

IN WITNESS WHEREOF, I have hereunto set my hand and the seal of said corporation this 20 th day of February, 2006.

/s/ Walter T. Gangl
Walter T. Gangl
Deputy General Counsel and
Assistant Secretary

ARMSTRONG WORLD INDUSTRIES, INC.

POWER OF ATTORNEY

RE: 2005 ANNUAL REPORT ON FORM 10-K

I, James E. Marley, as a Director of Armstrong World Industries, Inc., do hereby constitute and appoint, MICHAEL D. LOCKHART or, in the case of his absence or inability to act as such, JOHN N. RIGAS or, in the case of his absence or inability to act as such, WALTER T. GANGL, my agent, to sign in my name and on my behalf the Company's Annual Report on Form 10-K for the year ended December 31, 2005, and any amendments thereto, to be filed by the Company with the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended, with the same effect as if such signature were made by me personally.

/s/ James E. Marley
James E. Marley
Dated: February 20, 2006

Exhibit No. 31.1

I, Michael D. Lockhart, certify that:

1) I have reviewed this report on Form 10-K of Armstrong Holdings, Inc.;

2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4) The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) or 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: February 24, 2006

/s/ Michael D. Lockhart

Michael D. Lockhart
Chairman, Chief Executive Officer and President

Exhibit No. 31.2

I, F. Nicholas Grasberger III, certify that:

1) I have reviewed this report on Form 10-K of Armstrong Holdings, Inc.;

2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4) The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) or 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: February 24, 2006

/s/ F. Nicholas Grasberger III

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

Exhibit No. 31.3

I, Michael D. Lockhart, certify that:

1) I have reviewed this report on Form 10-K of Armstrong World Industries, Inc.;

2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4) The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) or 15d-15(e)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: February 24, 2006

/s/ Michael D. Lockhart

Michael D. Lockhart
Chairman, Chief Executive Officer and President

Exhibit No. 31.4

I, F. Nicholas Grasberger III, certify that:

1) I have reviewed this report on Form 10-K of Armstrong World Industries, Inc.;

2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4) The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) or 15d-15(e)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: February 24, 2006

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

Exhibit No. 32.1

Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.

Armstrong Holdings, Inc. and
Armstrong World Industries, Inc.
(the “Companies”)

Written Statement by Chief Executive Officer
Pursuant to Section 906 of Sarbanes-Oxley Act of 2002

I certify to the best of my knowledge and belief that the Companies’ Form 10-K annual report containing their respective financial statements for the fiscal year ended December 31, 2005 fully complies with the requirements of section 13(a) of the Securities Exchange Act of 1934, and that information contained in that report fairly presents, in all material respects, the financial condition and results of operations of the Companies as of that date.

/s/ Michael D. Lockhart
Michael D. Lockhart
Chief Executive Officer and President
Armstrong Holdings, Inc. and
Armstrong World Industries, Inc.

Dated: February 24, 2006

Exhibit No. 32.2

Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.

Armstrong Holdings, Inc. and
Armstrong World Industries, Inc.
(the “Companies”)

Written Statement by Chief Financial Officer
Pursuant to Section 906 of Sarbanes-Oxley Act of 2002

I certify to the best of my knowledge and belief that the Companies’ Form 10-K annual report containing their respective financial statements for the fiscal year ended December 31, 2005 fully complies with the requirements of section 13(a) of the Securities Exchange Act of 1934, and that information contained in that report fairly presents, in all material respects, the financial condition and results of operations of the Companies as of that date.

/s/ F. Nicholas Grasberger III
F. Nicholas Grasberger III
Senior Vice President and Chief Financial Officer
Armstrong Holdings, Inc. and
Armstrong World Industries, Inc.

Dated: February 24, 2006

Exhibit 99.1

WORTHINGTON ARMSTRONG VENTURE

Consolidated Financial Statements

December 31, 2005, 2004, and 2003

(With Independent Auditors' Report Thereon)

WORTHINGTON ARMSTRONG VENTURE

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Independent Auditors' Report

The Board of Directors
Worthington Armstrong Venture:

We have audited the accompanying consolidated balance sheets of Worthington Armstrong Venture as of December 31, 2005 and 2004, and the related consolidated statements of income, partners' equity, and cash flows for each of the years in the three-year period ended December 31, 2005. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Worthington Armstrong Venture as of December 31, 2005 and 2004, and the results of their operations and their cash flows in the three-year period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles.

/s/ KPMG LLP

February 23, 2006

WORTHINGTON ARMSTRONG VENTURE

Consolidated Balance Sheets

December 31, 2005 and 2004

(In thousands)

	2005	2004
Assets		
Current assets:		
Cash and cash equivalents	$ 63,127	71,636
Accounts receivable, net	31,877	31,907
Inventory, net	29,447	40,771
Other current assets	1,090	739
Total current assets	125,541	145,053
Property, plant, and equipment, net	26,701	30,190
Goodwill and other intangibles, net	1,963	2,181
Other assets	1,674	1,498
Total assets	$155,879	178,922
Liabilities and Partners' Equity		
Current liabilities:		
Current installments of long-term debt	$ —	50,000
Accounts payable	12,746	14,581
Accrued expenses	5,846	5,857
Taxes payable	510	959
Total current liabilities	19,102	71,397
Long-term liabilities:		
Deferred income taxes	496	587
Other long-term liabilities	5,329	4,496
Total long-term liabilities	5,825	5,083
Total liabilities	24,927	76,480
Partners' equity:		
Contributed capital	22,638	22,638
Retained earnings	108,871	76,231
Accumulated other comprehensive income	(557)	3,573
Total partners' equity	130,952	102,442
Total liabilities and partners' equity	$155,879	178,922

See accompanying notes to consolidated financial statements.

WORTHINGTON ARMSTRONG VENTURE

Consolidated Statements of Income

Years ended December 31, 2005, 2004, and 2003

(In thousands)

	2005	2004	2003
Net sales	$ 307,740	278,637	213,819
Cost of sales	(208,628)	(192,304)	(152,087)
Gross margin	99,112	86,333	61,732
Selling, general, and administrative expenses	(18,829)	(20,505)	(17,952)
	80,283	65,828	43,780
Other income, net	123	96	40
Interest (expense), income net	533	(444)	(862)
Income before income tax expense	80,939	65,480	42,958
Income tax expense	(2,299)	(2,329)	(1,217)
Net income	$ 78,640	63,151	41,741

See accompanying notes to consolidated financial statements.

WORTHINGTON ARMSTRONG VENTURE

Consolidated Statements of Partners' Equity

Years ended December 31, 2005, 2004, and 2003

(In thousands)

	Contributed capital					
	Armstrong Ventures Inc.	Worthington Ventures Inc.	Retained earnings	Accumulated other comprehensive income/(loss)	Total partners' equity	Comprehensive income/(loss)
Balance, December 31, 2002	$ 12,925	9,713	23,339	(1,194)	44,783	41,244
Net income	—	—	41,741	—	41,741	41,741
Distributions	—	—	(32,000)	—	(32,000)	—
Additional minimum pension liability	—	—	—	(233)	(233)	(233)
Foreign currency translation adjustments	—	—	—	3,005	3,005	3,005
Balance, December 31, 2003	12,925	9,713	33,080	1,578	57,296	44,513
Net income	—	—	63,151	—	63,151	63,151
Distributions	—	—	(20,000)	—	(20,000)	—
Additional minimum pension liability	—	—	—	(564)	(564)	(564)
Foreign currency translation adjustments	—	—	—	2,559	2,559	2,559
Balance, December 31, 2004	12,925	9,713	76,231	3,573	102,442	65,146
Net income	—	—	78,640	—	78,640	78,640
Distributions	—	—	(46,000)	—	(46,000)	
Additional minimum pension liability	—	—	—	(153)	(153)	(153)
Foreign currency translation adjustments	—	—	—	(3,977)	(3,977)	(3,977)
Balance, December 31, 2005	$ 12,925	9,713	108,871	(557)	130,952	74,510

See accompanying notes to consolidated financial statements.

WORTHINGTON ARMSTRONG VENTURE

Consolidated Statements of Cash Flows

Years ended December 31, 2005, 2004, and 2003

(In thousands)

	2005	2004	2003
Cash flows from operating activities:			
Net income	$ 78,640	63,151	41,741
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	5,087	5,177	5,244
Deferred income taxes	(433)	(171)	314
Change in accounts receivable	(972)	(5,335)	(3,284)
Change in inventory	10,549	(15,317)	5,057
Change in accounts payable and accrued expenses	(570)	5,841	(1,248)
Other	(1,054)	3,811	(3,487)
Net cash provided by operating activities	91,247	57,157	44,337
Cash flows from investing activities:			
Purchases of property, plant, and equipment	(2,993)	(8,663)	(2,167)
Sale of property, plant, and equipment	44	23	30
Net cash used in investing activities	(2,949)	(8,640)	(2,137)
Cash flows from financing activities:			
Reduction of long-term debt	(50,000)	—	—
Distributions paid	(46,000)	(20,000)	(32,000)
Net cash used in financing activities	(96,000)	(20,000)	(32,000)
Effect of exchange rate changes on cash and cash equivalents	(807)	1,061	1,025
Net increase (decrease) in cash and cash equivalents	(8,509)	29,578	11,225
Cash and cash equivalents at beginning of year	71,636	42,058	30,833
Cash and cash equivalents at end of year	$ 63,127	71,636	42,058
Supplemental disclosures:			
Cash and cash equivalents paid for interest	$ 1,067	1,088	1,212
Cash and cash equivalents paid for income taxes	2,295	2,124	1,115

See accompanying notes to consolidated financial statements.

(1) Description of Business

Worthington Armstrong Venture (the Company or WAVE) is a general partnership, formed in June 1992, between Armstrong Ventures, Inc., a subsidiary of Armstrong Holdings, Inc. and Worthington Ventures, Inc., a subsidiary of Worthington Industries, Inc. Its business is to manufacture and market suspension systems for commercial and residential ceiling markets throughout the world. The Company has manufacturing plants located in the United States, France, Spain, the United Kingdom, and the Peoples Republic of China.

(2) Summary of Significant Accounting Policies

(a) Use of Estimates

These financial statements are prepared in accordance with accounting principles generally accepted in the United States of America and include management estimates and judgments, where appropriate. Actual results could differ from those estimates.

(b) Consolidation Policy

The consolidated financial statements include the accounts of the Worthington Armstrong Venture and its subsidiaries. All significant intercompany transactions have been eliminated.

(c) Revenue Recognition

The Company recognizes revenue from the sale of products and the related accounts receivable when title transfers, generally on the date of shipment. Provision is made for estimated applicable discounts and losses. Sales with independent U.S. distributors of certain products to major home center retailers are recorded when the products are shipped from the distributor's locations to these retailers.

(d) Advertising Costs

The Company recognizes advertising expenses as they are incurred. Advertising expense was $812,000, $837,000, and $897,000 for the years ended December 31, 2005, 2004, and 2003, respectively.

(e) Research and Development Expenditures

The Company recognizes research and development expense as expenditures are incurred. Total research and development expense was $1,683,000, $1,459,000, and $1,080,000 for the years ended December 31, 2005, 2004, and 2003, respectively.

(f) Taxes

The Company is a joint venture partnership in the United States, and accordingly, all U.S. federal and state income taxes are the responsibility of the two joint venture partners. Deferred income taxes and liabilities are recognized for foreign subsidiaries for taxes estimated to be payable in future years based upon differences between financial reporting and tax bases of assets and liabilities. Deferred tax assets and liabilities are determined using enacted rates expected to apply to taxable income in the years the temporary differences are expected to be recovered or settled.

(Continued)

(g) Inventories

Inventories are valued at the lower of cost or market. Cost is determined on the first-in, first-out (FIFO) method.

(h) Long-Lived Assets

Property, plant, and equipment are stated at acquisition cost, with accumulated depreciation and amortization deducted to arrive at net book value. Depreciation charges are determined generally on the straight-line basis over the useful lives as follows: buildings, 40 years; machinery and equipment, 5 to 12 years, and leasehold improvements over the shorter of 10 years or the life of the lease. Impairment losses are recorded when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount.

(i) Goodwill and Other Intangibles

Goodwill is tested for impairment at least annually. Intangible assets with determinable useful lives are amortized over their respective estimated useful lives to their residual values and reviewed for impairment. The impairment tests performed in 2005, 2004, and 2003 did not result in an impairment of the Company's goodwill.

(j) Foreign Currency Translation and Transactions

For subsidiaries with functional currencies other than the U.S. dollar, income statement items are translated into dollars at average exchange rates throughout the year and balance sheet items are translated at year-end exchange rates. Gains or losses on foreign currency transactions are recognized in "other income, net" in the income statement.

(k) Cash and Cash Equivalents

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

(3) Accounts Receivable

The Company sells its products to select, preapproved customers whose businesses are directly affected by changes in economic and market conditions. The Company considers these factors and the financial condition of each customer when establishing its allowance for losses from doubtful accounts. The allowance for doubtful accounts was $685,000 and $685,000 at December 31, 2005 and 2004, respectively.

(Continued)

(4) Inventory

	2005	2004
	(In thousands)	
Finished goods	$13,085	16,669
Goods in process	127	144
Raw materials	13,207	20,567
Supplies	3,028	3,391
Total Inventories	$29,447	40,771

(5) Property, Plant, and Equipment

	2005	2004
	(In thousands)	
Land	$ 1,273	1,356
Buildings	12,843	13,202
Machinery and equipment	59,103	59,217
Construction in process	945	1,058
	74,164	74,833
Accumulated depreciation	(47,463)	(44,643)
Total property, plant, and equipment, net	$ 26,701	30,190

Depreciation expense was $5,017,000, $5,115,000, and $5,127,000 in 2005, 2004, and 2003, respectively.

(6) Goodwill and Other Intangibles

Goodwill increased or (decreased) by $(257,000), $167,000, and $322,000 during 2005, 2004, and 2003, respectively, due to foreign currency translation.

The following table details amounts related to intangible assets as of December 31, 2005 and 2004:

	2005	2004
	(In thousands)	
Computer software and other	$1,040	982
Accumulated amortization	(940)	(921)
Intangible assets, net	$ 100	61

Computer software is amortized on a straight-line basis using useful lives of three to seven years. Amortization expense was $70,000, $62,000, and $93,000 in 2005, 2004, and 2003, respectively.

The expected annual amortization expense for intangible assets is: $50,000 in 2006, $32,000 in 2007, $12,000 in 2008, $3,000 in 2009, and $3,000 in 2010.

(7) Financial Instruments

The Company does not hold or issue financial instruments for trading purposes. The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable, and accrued expenses approximate their fair value due to the short-term maturity of these instruments. The carrying value of debt approximates fair value as the debt carries a variable interest rate.

(8) Debt

There was no outstanding debt at December 31, 2005. Outstanding debt at December 31, 2004 amounted to $50 million. In September of 2005, the Company paid off its $50 million Term Loan and established a $50 million Revolving Line of Credit with PNC Bank. The length of the credit agreement is five years ending in September 2010. The Company has pledged a security interest in its assets as collateral for the credit line. The credit agreement contains restrictive financial covenants regarding interest coverage, leverage ratios and dividend restrictions. The Company was in compliance with the covenants in place as of December 31, 2005 and 2004. As of December 31, 2005 there were no advances against the credit line, or liabilities recorded on the Company’s books.

(9) Pension Benefit Programs

The Company has a defined benefit pension plan for eligible hourly employees in its former manufacturing plant located in Malvern, Pennsylvania. This plan was curtailed in January 2004 due to the consolidation of the Company’s East coast operations, which eliminated the expected future years of service for participants in the plan (note 14). The curtailment event resulted in additional expense of the remaining unrecognized prior service cost of $937,000. The Company also contributes to the Worthington defined-contribution pension plan for all other eligible U.S. employees. Cost for this plan was $658,000, $630,000, and $387,000 for 2005, 2004, and 2003, respectively. The Company also contributes to government-related pension programs in a number of foreign countries. The cost for these plans amounted to $155,000, $154,000, and $82,000 for 2005, 2004, and 2003, respectively.

(Continued)

The following table summarizes the balance sheet amounts, as well as the benefit obligations, assets, funded status, and rate assumptions associated with the Company's defined benefit plan. The defined benefit pension plan uses a December 31 measurement date.

	2005	2004
	(In thousands)	
Benefit obligation at December 31	$ 8,762	8,896
Fair value of plan assets as of December 31	7,637	7,902
Funded status	(1,125)	(994)
Unrecognized prior service cost	—	—
Unrecognized net loss	2,448	2,295
Prepaid benefit cost	1,323	1,301
Accrued benefit liability, after recognition of additional minimum liability	(2,448)	(2,295)
Intangible asset	—	—
Accumulated other comprehensive income	2,448	2,295
Net amount recognized	$ 1,323	1,301
Benefit cost (benefit)	$ (22)	417
Curtailment cost	—	937
Employer contribution	—	—
Benefits paid	360	345

	2005	2004
Weighted average assumptions for year ended December 31:		
Discount rate	5.75%	6.00%
Rate of compensation increase	N/A	N/A
Expected long-term rate of return on plan assets	8.00%	8.00%
Weighted average assumptions as of December 31:		
Discount rate	5.50%	5.75%
Rate of compensation increase	N/A	N/A

The Company made no contributions to the U.S. defined benefit pension plan in 2005 and does not expect to contribute to the plan in 2006.

Investment Policies

The primary investment objective of the defined benefit pension plan is to achieve long-term growth of capital in excess of 8% annually, exclusive of contributions or withdrawals. These two objectives are to be achieved through a balanced portfolio comprised of equities, fixed income, and cash investments.

(Continued)

Each asset class utilized by the defined benefit pension plan has a targeted percentage. The table below shows the asset allocation target and the December 31, 2005 and 2004 position:

	Target weight	Position at December 31 2005	Position at December 31 2004
Equity securities	65%	71%	71%
Fixed income securities	35%	26%	26%
Cash and equivalents	0%	3%	3%

Basis of Rate-of-Return Assumption

For 2005, the Company assumed a long-term rate of return of plan assets of 8%. In developing the 8% expected long-term rate of return assumption, the Company considered its historical compounded return and reviewed asset class return expectations and long-term inflation assumptions.

Future Benefit Payments

The benefits expected to be paid in each of the next five years and in the aggregate for the five years thereafter are shown in the table below.

Expected future payments for period ending December 31:	
2006	$ 360
2007	390
2008	412
2009	442
2010	482
2011-2015	2,635

(10) Income Taxes

The Company is a joint venture partnership in the United States, and accordingly, all U.S. federal and state income taxes are the responsibility of the two joint venture partners. Therefore, no income tax provision has been recorded on U.S. income. There are no significant differences between the statutory income tax rates in foreign countries where the Company operates and the income tax provision recorded in the income statements. No deferred taxes, including withholding taxes, have been provided on the unremitted earnings of foreign subsidiaries as our intention is to invest these earnings permanently.

Deferred tax balances recorded on the balance sheets relate primarily to depreciation and accrued expenses. In 2005, the provision for income tax expense (benefit) was $2,299,000 comprising $2,338,000 current and ($39,000) deferred. In 2004, the provision for income tax expense (benefit) was $2,329,000 comprising $2,437,000 current and ($108,000) deferred. In 2003, the provision for income tax expense (benefit) was $1,217,000 comprising $1,531,000 current and ($314,000) deferred.

(Continued)

(11) Leases

The Company rents certain real estate and equipment. Several leases include options for renewal or purchase and contain clauses for payment of real estate taxes and insurance. In most cases, management expects that in the normal course of business, leases will be renewed or replaced by other leases. Rent expense during 2005, 2004, and 2003 amounted to $2,869,000, $2,756,000, and $2,110,000, respectively. Future minimum payments by year and in the aggregate for operating leases having noncancelable lease terms in excess of one year are as follows (in thousands):

Year:	
2006	$ 2,372
2007	2,365
2008	2,348
2009	1,969
2010	1,972
Thereafter	7,335
Total	$18,360

(12) Related Parties

Armstrong provides certain selling, promotional, and administrative processing services to the Company for which it receives reimbursement. In 2005, 2004, and 2003, the Company paid $13,027,000, $11,765,000, and $9,820,000 for these services, respectively. The Company also leased certain land and buildings from Armstrong and, accordingly, paid rent of $0, $356,000, and $385,000 in 2005, 2004, and 2003, respectively. No amounts were owed to Armstrong as of December 31, 2005, 2004, or 2003. Armstrong purchases grid products from the Company, which are then resold along with Armstrong inventory to the customer. The total amount of sales to Armstrong was approximately $67,860,000, $59,952,000, and $50,975,000 for the years ended December 31, 2005, 2004, and 2003, respectively.

Worthington also provides certain administrative processing services to the Company and received $7,000, $18,000, and $17,000 as reimbursement in 2005, 2004, and 2003, respectively. The Company purchased $5,039,000, $11,102,000, and $6,904,000 of raw materials from Worthington and related companies in 2005, 2004, and 2003, respectively. The Company paid Worthington $548,000, $1,145,000, and $850,000 for worker’s compensation, automobile and general liability insurance coverage in 2005, 2004, and 2003, respectively. The Company owed $590,000, $2,022,000, and $607,000 to Worthington as of December 31, 2005, 2004, and 2003, respectively.

On December 6, 2000, Armstrong filed a voluntary petition for relief under Chapter 11 of the U.S. Bankruptcy Code in the U.S. Bankruptcy Court in order to use the court-supervised reorganization process to achieve a resolution of its asbestos liability. The Company was not part of this filing. Management does not expect this event to have an adverse effect on the Company’s financial condition, liquidity, or results of operations.

(Continued)

(13) Legal Proceedings

The Company is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Company’s consolidated financial position, results of operations, or liquidity.

(14) Plant Consolidation

The Company consolidated its East coast manufacturing operations from facilities located in Malvern, Pennsylvania, and Sparrow’s Point, Maryland, into one facility located in Aberdeen, Maryland. The consolidation began in May 2004 and was completed by December 2004. In connection with this, approximately 127 employees were provided severance benefits.

The total expense recorded as a result of the consolidation was $4.3 million. These costs included severance, employee and equipment relocation, Pension curtailment, and other miscellaneous expense. All costs have been expensed in 2004 in the cost of goods sold line of the income statement. There was no consolidation expense in 2005 and all related liabilities have been paid or settled as of December 31, 2005.