ARMSTRONG WORLD INDUSTRIES INC
Form 10-K
March 30, 2007
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2006

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ______ to ______

ARMSTRONG WORLD INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

Title of each class

Common Stock ($0.01 par value)

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

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 x

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

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

Table of Contents

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

Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer x

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

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

The Common Stock of Armstrong World Industries, Inc. was not publicly traded as of the end of the second quarter (June 30, 2006). As of March 23, 2007, the number of shares outstanding of registrant s Common Stock was 56,341,091.

Documents Incorporated by Reference

None

TABLE OF CONTENTS

Table of Contents

Uncertainties Affecting Forward-Looking Statements

Our disclosures here and in other public documents and comments contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act. Those statements provide our future expectations or forecasts, and can be identified by our use of words such as anticipate, estimate, expect, project, intend, plan, believe, outlook, etc. in discussions of future operating or financial performanc 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.

Table of Contents

PART I

ITEM 1. BUSINESS

Introduction

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

Armstrong Holdings, Inc. (AHI) is a Pennsylvania corporation and, as of September 30, 2006, was the publicly held parent holding company of AWI. Armstrong Holdings, Inc. s only operation was its indirect ownership, through Armstrong Worldwide, Inc. (AWWD, a Delaware corporation), of all of the capital stock of AWI. Upon AWI s POR becoming effective on October 2, 2006, all then-current shares of AWI were cancelled, and AHI was not entitled to any distribution under the POR in respect of its former equity interest in AWI. AHI, AWWD and AWI have a settlement (the Settlement) of claims pending court approval in AWI s Chapter 11 case. See Note 1 to the Consolidated Financial Statements for additional information about AWI s Chapter 11 case and the Settlement.

In connection with its emergence from bankruptcy on October 2, 2006 (the Effective Date), AWI adopted fresh-start reporting in accordance with AICPA Statement of Position 90-7, Financial Reporting by Entities in Reorganization under the Bankruptcy Code (SOP 90-7). Adopting fresh-start reporting has resulted in material adjustments to the historical carrying amount of reorganized Armstrong s assets and liabilities. See Note 3 to the consolidated financial statements for more information. As a result, our post-emergence financial statements are not comparable with our pre-emergence financial statements. Despite the lack of comparability, we have combined the results of the Predecessor Company (which represent the first nine months of 2006) with the results of the Successor Company (which represent the last three months of 2006) in certain sections of this report to provide a total year view of operating results. Combining pre-emergence and post-emergence results is not in accordance with U.S. generally accepted accounting principles (GAAP).

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).

General

We are a leading global producer of flooring products and ceiling systems for use primarily in the construction and renovation of commercial, institutional and residential buildings. Through our United States (U.S.) operations and U.S. and international subsidiaries, we design, manufacture and sell flooring products (primarily resilient and wood flooring) and ceiling systems (primarily mineral fiber, fiberglass and metal) around the world. We also design, manufacture and sell kitchen and bathroom cabinets in the U.S.

Our business strategy focuses on 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). Through October 1, 2006, AWI operated its business and managed its properties as a debtor-in-possession subject to the provisions of the Bankruptcy Code. On October 2, 2006, when all conditions precedent were met, AWI s court-approved Plan of Reorganization became effective, and AWI emerged from Chapter 11. AWI s two wholly-owned subsidiaries that commenced Chapter 11 proceedings at the same time as AWI remain in Chapter 11. See Note 1 of the Consolidated Financial Statements for information on the Chapter 11 Case and Note 32 of the Consolidated Financial Statements for information on asbestos litigation.

Reportable Segments

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

Wood Flooring produces and sources wood flooring products for use in new residential construction and renovation, with some commercial applications in stores, restaurants and high-end offices. The product offering includes solid wood (predominantly pre-finished), 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®, Armstrong , HomerWood®, Capella® and T. Morton .

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

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

Unallocated Corporate - includes assets and expenses that have not been allocated to the business units. Unallocated Corporate assets are primarily deferred tax assets, cash, the Armstrong brand name and the U.S. prepaid pension cost. Expenses for our corporate departments and certain benefit plans are allocated to the reportable segments based on known metrics, such as time reporting, headcount 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.

Table of Contents

The following chart illustrates the breakdown of our consolidated net sales for the year ended December 31, 2006 by segment:

2006 Consolidated Net Sales by Segment

(in millions)

See Note 4 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. Nearly one-half of our total consolidated net sales are for North American residential use. Our Resilient Flooring, Wood Flooring, Building Products and Cabinets segments sell products for use in the home. Homeowners have a multitude of finishing solution options for every room in their house. For flooring, they can choose from our vinyl and wood products, for which we are North America s largest provider, or from our laminate and ceramic products. We compete directly with other domestic and international suppliers of these products. Our flooring products also compete with carpet, which we do not offer. Our ceiling products compete against mineral fiber and fiberglass products from other manufacturers, as well as drywall 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

Table of Contents

inventory levels and product focus at national home centers, which are our largest customers, can also significantly impact our revenue. Sales of our ceiling products for residential use appear to follow the trend of existing home sales, with a several month lag period between change in existing home sales and our related operating results.

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

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

The following table provides an estimate of our segments 2006 net sales, by major markets.

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

Geographic Areas

We sell our products in more than 80 countries. Approximately 76% of our 2006 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, 2006 by region, based on where the sale was made:

2006 Consolidated Net Sales by Geography

(in millions)

See Note 4 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 reputation, capabilities, service and brand recognition to develop long-standing relationships with our customers. We principally sell products through building materials distributors, who re-sell our products to retailers, builders, contractors, installers and others. In the commercial sector, we also sell to several contractors and to subcontractors alliances. In the North American retail channel, which sells to end-users in the residential and light commercial segments, we have important relationships with national home centers such as The Home Depot, Inc. and Lowe s Companies, Inc. In the North American residential sector, we have important relationships with major homebuilders and buying groups.

Table of Contents

The following charts illustrate the estimated breakdown of our 2006 consolidated net sales geographically by distribution channel:

Net sales (in millions) to specific customers in excess of 10% of our consolidated net sales for 2006, 2005 and 2004 were:

Customer	2006	2005	2004
The Home Depot, Inc.	$ 364.1	$ 384.1	$ 393.4

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

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

Flooring segments Amtico International, Inc., Anderson Hardwood Floors, Inc., Balta Industries, N.V., Beaulieu International Group, N.V., Columbia Forest Products, Inc., Congoleum Corporation, Faus, Inc., Forbo Holding AG, Gerflor Group, Interface, Inc., Krono Holding AG, Mannington Mills, Inc., Mohawk Industries, Inc., Pergo AB, Shaw Industries, Inc., Tarkett AG and Wilsonart International.

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

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

Table of Contents

Raw Materials

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

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

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

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

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

Sourced Products

Some of the products that we sell are sourced from third parties. The primary sourced products include laminate, wood flooring, vinyl 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. We purchase some of our sourced products from suppliers that are located outside of the U.S, primarily from Asia and Europe. Sales of sourced products represented approximately 10% to 15% of our total consolidated revenue in 2006, 2005 and 2004.

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

Hedging

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

Patent and Intellectual Property Rights

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

Table of Contents

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®, Hartco®, Robbins®, T. Morton , Timberland®, Capella®, HomerWood® 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, 2006, we had approximately 14,500 full-time and part-time employees worldwide, with approximately 9,900 employees located in the United States. Approximately 9,700 of the 14,500 are production and maintenance employees, of whom approximately 7,100 are located in the U.S. Approximately 69% of the production and maintenance employees in the U.S. are represented by labor unions. This percentage includes all production and maintenance employees at our plants and warehouses where labor unions exist. Outside the U.S., most of our production employees are covered by either industry-sponsored and/or state-sponsored collective bargaining mechanisms. Of our 14,500 employees, approximately 1,000 are associated with the principal operating companies of our Textiles and Sports Flooring segment, which was classified as a discontinued operation during the fourth quarter of 2006 (see Note 7 to the Consolidated Financial Statements for more information).

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 $48.8 million in 2006, $48.0 million in 2005 and $46.5 million in 2004 on R&D activities worldwide.

Environmental Matters

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

We are actively involved in proceedings under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), and similar state Superfund laws at 6 off-site locations. We have also been investigating and/or remediating environmental contamination allegedly resulting from past industrial activity at 4 domestic and 5 international current or former plant sites. Certain of AWI s environmental liabilities were discharged through its Chapter 11 Case while others were not. Those environmental obligations that AWI has with respect to property that it owns or operates or for which a non-debtor subsidiary is liable were unaffected by the Chapter 11 Case. Therefore, AWI and its subsidiaries will be required to continue meeting their ongoing environmental compliance obligations at such properties.

Liabilities of $6.3 million and $27.3 million at December 31, 2006 and December 31, 2005, respectively were for potential environmental liabilities that we consider probable and for which a reasonable estimate of the probable liability could be made.

Information Filed With the Bankruptcy Court

Under applicable bankruptcy law, AWI was required to file periodically with the Bankruptcy Court various documents, including certain financial information on an unconsolidated basis, while it was operating under Chapter 11. This information included statements, schedules, and monthly operating reports in forms prescribed by Federal Bankruptcy Law. We caution that, while such materials accurately provided then-current information required under Federal Bankruptcy Law, they were nonetheless unconsolidated, unaudited, and were 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 were 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.

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.

Table of Contents

ITEM 1A. RISK FACTORS

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

We try to reduce both the likelihood that these risks will affect our businesses and 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, up to and including a materially adverse effect. See related discussions in this document and our other SEC filings for more details and subsequent disclosures.

Claims, Litigation and Regulatory Actions

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

Construction activity variability and the size of the market opportunity

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

Raw materials and sourced product issues

The cost and availability of raw materials, packaging materials 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 in recent years and availability has sometimes been tight. We source some of these materials from a limited number of suppliers, which increases the risk of unavailability. Limited availability could cause us to reformulate products or to limit our production. The impact of increased costs is greatest where our ability to pass along increased costs through price increases on our products is limited, whether due to competitive pressures or other factors.

Consumer preference and competition

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

Table of Contents

International trade and operations

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

Challenges in executing operational restructuring actions

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

Labor contracts

Most of our manufacturing employees are represented by unions and are covered by collective bargaining or similar agreements that must be periodically renegotiated. Although we anticipate that we will reach new contracts as 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 hurt production, revenues, profits and customer relations.

Dependence on key customers

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

Table of Contents

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 43 manufacturing plants in 12 countries as of December 31, 2006. Three of our plants are leased and the remaining 40 are owned. We have 26 plants located throughout the United States. In addition, Armstrong has an interest through its two joint ventures in eight additional plants in five countries.

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

As of December 31, 2006, we also operated three plants in Belgium and The Netherlands in our now discontinued textiles and sports flooring business. See Note 7 to the Consolidated Financial Statements for further information regarding the sale of that operation.

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

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

Table of Contents

ITEM 3. LEGAL PROCEEDINGS

See Note 32 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 2006.

Table of Contents

PART II

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

Following AWI s emergence from Chapter 11, AWI s new common shares began trading on the New York Stock Exchange on October 10 under the ticker symbol AWI . As of March 23, 2007, there were approximately 156 holders of record of AWI s Common Stock.

2006	**First**	**Second**	**Third**	**Fourth**	**Total Year**
Price range of common stock high	n/a	n/a	n/a	$ 42.50	$ 42.50
Price range of common stock low	n/a	n/a	n/a	$ 30.00	$ 30.00
2005					
Price range of common stock high	n/a	n/a	n/a	n/a	n/a
Price range of common stock low	n/a	n/a	n/a	n/a	n/a

There were no dividends declared or paid during 2006 or 2005.

No Company securities were repurchased by the Company during 2006 or 2005.

Table of Contents

ITEM 6. SELECTED FINANCIAL DATA

(Dollars in millions except for per-share data)	Successor Company Three Months Ended December 31, 2006	Nine Months Ended September 30, 2006[1]	Predecessor Company Year 2005	Year 2004	Year 2003	Year 2002
Income statement data						
Net sales	$ 817.3	$ 2,608.6	$ 3,326.6	$ 3,279.1	$ 3,069.0	$ 2,998.2
Cost of goods sold	660.4	2,028.7	2,651.8	2,654.4	2,461.4	2,282.8
Selling, general and administrative expenses	144.0	417.0	590.0	567.7	552.4	574.5
Charge for asbestos liability, net					81.0	2,500.0
Goodwill impairment				108.4		
Restructuring charges, net	1.7	10.0	23.0	17.9	2.3	2.2
Equity (earnings) from joint venture	(5.3)	(41.4)	(39.3)	(31.6)	(20.8)	(19.7)
Operating income (loss)	16.5	194.3	101.1	(37.7)	(7.3)	(2,341.6)
Interest expense	13.4	5.2	7.7	7.9	8.9	10.3
Other non-operating expense	0.3	1.0	1.5	3.1	5.7	3.6
Other non-operating (income)	(4.3)	(7.2)	(11.8)	(6.4)	(4.6)	(7.3)
Chapter 11 reorganization (income) costs, net		(1,955.5)	(1.2)	6.9	9.4	23.5
Income tax expense (benefit)	3.8	726.6	(1.2)	21.4		(825.9)
Earnings (loss) from continuing operations before cumulative change in accounting principle	3.3	1,424.2	106.1	(70.6)	(26.7)	(1,545.8)
Per common share basic (a)	$ 0.06	n/a	n/a	n/a	n/a	n/a
Per common share diluted (a)	$ 0.06	n/a	n/a	n/a	n/a	n/a
Cumulative effect of a change in accounting principle, net of tax of $2.2						(593.8)
Earnings (loss) from continuing operations	3.3	1,424.2	106.1	(70.6)	(26.7)	(2,139.6)
Per common share basic (a)	$ 0.06	n/a	n/a	n/a	n/a	n/a
Per common share diluted (a)	$ 0.06	n/a	n/a	n/a	n/a	n/a
Earnings (loss) from discontinued operations	(1.1)	(68.4)	5.0	(9.1)	(12.6)	(3.2)
Net earnings (loss)	$ 2.2	$ 1,355.8	$ 111.1	$ (79.7)	$ (39.3)	$ (2,142.8)
Per common share basic (a)	$ 0.04	n/a	n/a	n/a	n/a	n/a
Per common share diluted (a)	$ 0.04	n/a	n/a	n/a	n/a	n/a
Dividends declared per share of common stock	n/a	n/a	n/a	n/a	n/a	n/a
Average number of common shares outstanding (in millions)	55.0	n/a	n/a	n/a	n/a	n/a
Average number of employees	14,500	14,700	14,900	15,400	15,800	16,700
Balance sheet data (end of period)						
Working capital	$ 854.8		$ 1,128.0	$ 985.8	$ 933.3	$ 849.7
Total assets	4,170.7		4,606.0	4,609.4	4,647.8	4,504.8
Liabilities subject to compromise	1.3		4,869.4	4,870.9	4,863.2	4,865.8
Net long-term debt (b)	801.5		21.5	29.2	39.4	39.9
Shareholders equity (deficit)	2,164.7		(1,319.9)	(1,425.3)	(1,345.0)	(1,361.0)

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

Notes:

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

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

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

Table of Contents

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

Armstrong World Industries, Inc. (AWI) is a Pennsylvania corporation incorporated in 1891. Armstrong Holdings, Inc. (AHI) is a Pennsylvania corporation and, as of September 30, 2006, was the publicly held parent holding company of AWI. Armstrong Holdings, Inc. s only operation was its indirect ownership, through Armstrong Worldwide, Inc. (a Delaware corporation), of all of the capital stock of AWI. Upon AWI s Plan of Reorganization (the POR) becoming effective on October 2, 2006, all then-current shares of AWI were cancelled and AHI no longer has any ownership interest in AWI. When we refer to we , our and us in this report, we are referring to AWI and its subsidiaries. References in this report to reorganized Armstrong are to AWI as it was reorganized under the POR on October 2, 2006, and its subsidiaries collectively. We use the term AWI when we are referring solely to Armstrong World Industries, Inc.

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

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

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

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

OVERVIEW

We are a leading global producer of flooring products and ceiling systems for use primarily in the construction and renovation of residential, commercial and institutional buildings. Through our United

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

(dollar amounts in millions)

States (U.S.) operations and U.S. and international subsidiaries, we design, manufacture and sell flooring products (primarily resilient and wood) and ceiling systems (primarily mineral fiber, fiberglass and metal) around the world. We also design, manufacture and sell kitchen and bathroom cabinets in the U.S. As of December 31, 2006 we operated 43 manufacturing plants (including three plants related to discontinued operations) in 12 countries, including 26 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 also have an interest in a plant from our 50% interest in Kunshan Holdings Limited.

We report our financial results through the following segments: Resilient Flooring, Wood 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). Through October 1, 2006, AWI operated its business and managed its properties as a debtor-in-possession subject to the provisions of the Bankruptcy Code. On October 2, 2006, AWI s court-approved Plan of Reorganization became effective, and AWI emerged from Chapter 11. AWI s two wholly-owned subsidiaries that commenced Chapter 11 proceedings at the same time as AWI remain in Chapter 11. See Note 1 of the Consolidated Financial Statements for information on the Chapter 11 Case and Note 32 of the Consolidated Financial Statements for information on asbestos litigation.

Our consolidated net sales for 2006 were $3.4 billion, approximately 3% greater than consolidated net sales in 2005. Operating income was $210.8 million in 2006, as compared to $101.1 million in 2005. Cash and cash equivalents decreased by $338.4 million in 2006, primarily due to distributions related to our emergence from bankruptcy. In 2006:

- **Building Products** generated record sales and operating income, mainly due to continued strength in the U.S. commercial construction markets.
- **Wood Flooring s** operating performance reflected growth through the first two-thirds of the year, and significant weakness in the final third due to declines in the U.S. housing markets. The cumulative effect for the entire year was lower operating profit on slightly higher revenue.
- **Cabinets** delivered a significantly improved operating performance on higher price realization, manufacturing efficiencies and better product mix.
- **Resilient Flooring** also had improved operating performance, and was profitable despite declining revenue.
- **Corporate Unallocated** expense improved by $39 million, primarily due to an increase in the U.S. pension credit.

Factors Affecting Revenues

For an estimate of our segments 2006 net sales by major markets, see Markets in Item 1. Business, of this Form 10-K.

Markets. We compete in building material markets around the world. The majority of our sales are in North America and Europe. During 2006, these markets experienced the following:

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

(dollar amounts in millions)

- In the North American residential market, housing starts declined nearly 11% from a record seasonally adjusted annual rate of 2.30 million units in 2005. With Canadian housing starts increasing by 1.3% to 228 thousand units in 2006, the United States accounted for the entirety of the decline, falling 12.3% to 1.82 million units started. Due to the lag between start and completion, housing completions in the United States increased by 3.0% in 2006 with approximately 1.99 million units completed. Sales of existing homes declined sharply in the second half of 2006 and registered an 8.0% decrease for the entire year over 2005, from 7.06 million homes sold to 6.50 million in 2006.

U.S. retail sales through building materials, garden equipment and supply stores (an indicator of home renovation activity) increased 9.0% in 2006 over sales levels in 2005, according to figures from the U.S. Census Bureau. This growth has been partially due to the strong sales of existing homes in the first half on 2006, after allowing for the usual lag for renovation-related expenditures. Continued strength in employment conditions and consumer confidence has also sustained solid retail sales.

Within specific market segments, vinyl flooring products continued to lose share to laminate flooring, ceramic tile and wood flooring.

- The North American commercial market strengthened in 2006 with construction completions in the office, healthcare, retail and education segments increasing by approximately 14%, 14%, 10% and 7%, respectively, in nominal dollar terms.

- Markets in Western European countries generally remained soft with pockets of modest growth, while Eastern European markets continued to grow.

- Growth continued across most Pacific Rim markets.

All of our primary markets are cyclical, and the 2007 outlook for each is uncertain to varying degrees.

Quality and Customer Service. Our quality and customer service are critical components of our total value proposition. In 2006, we experienced no significant quality or customer service issues.

Pricing Initiatives. During 2006 and 2005, we modified prices in response to changes in costs for raw materials and energy to market conditions and the competitive environment. The net impact of these pricing initiatives improved sales in 2006 compared to 2005.

The most significant of these pricing actions were:

- Resilient Flooring implemented select price increases for commercial products during the year in response to inflationary cost pressures.

- In Wood Flooring, there were no significant pricing actions in 2006.

- Building Products implemented select price increases during the year in response to inflationary cost pressures.

- In Cabinets, we implemented a January 2006 price increase.

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

We estimate that the various pricing actions provided a net increase to our total consolidated net sales in 2006 compared to 2005 of approximately $55 million.

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

(dollar amounts in millions)

Impact From Major Customers Decisions. Lowe s Companies, Inc. (Lowe s), one of our largest customers, 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. Due to this decision, laminate flooring sales to Lowe s were reduced by approximately $20 million in 2006 compared to 2005. That impact was largely offset by double-digit volume growth in other channels.

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 2006, 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. Our cost to acquire PVC resin and plasticizers prices increased by approximately $11 million in 2006 compared to 2005. In 2007, we expect these costs to decline modestly.

We incurred approximately $17 million of additional costs for natural gas in 2006 compared to 2005 due to price increases. In 2007, we expect further increases, but at a lower pace than experienced in 2006.

Cost Reduction Initiatives. During 2004, we implemented several significant 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.

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

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

(dollar amounts in millions)

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

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

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

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

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

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

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

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	$ 4.5	$ 32.6
Wood Flooring	0.8	1.6	2.4
Building Products	2.5	10.9	13.4
Cabinets	1.9	0.4	2.3
Corporate Unallocated		0.5	0.5
Total Consolidated	$ 33.3	$ 17.9	$ 51.2

Cost of goods sold includes $18.9 million of fixed asset impairments, $13.2 million of accelerated depreciation and $1.2 million of other related costs.

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

(dollar amounts in millions)

We recorded a gain of $1.1 million in Wood Flooring SG&A in 2004 related to the sale of a building that had previously been reserved as part of a cost reduction initiative.

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

On-going Cost Reduction. We expect to incur additional expenses of approximately $0.4 million in 2007 to implement these cost reduction initiatives. In addition to significant cost reduction programs we have an ongoing focus on continuously improving our cost structure.

As a result of these cost reduction initiatives and our on-going improvement efforts, we have realized significant reductions in our manufacturing conversion costs.

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 (FAS 88).

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.

See also Results of Operations for further discussion of fresh-start and other significant items affecting operating costs.

Factors Affecting Cash Flows

Historically, excluding the cash demands for asbestos-related claims in 2000 and prior years and the effects of settlement accounting, we typically generate cash in 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 2006, our cash and cash equivalents decreased by $386.4 million for the first nine months and increased $48.0 million during the final 3 months of 2006, for a net decrease of $338.4 million for the twelve months of 2006. This compared to an increase of $86.3 million for 2005. The year on year net reduction of $424.7 million was primarily due to payments of $1.1 billion to the Asbestos PI Trust and other creditors upon emergence, and payments for acquisitions of $60.5 million, partially offset by the proceeds of new debt of $800.0 million.

Deferred Taxes

Our consolidated balance sheet as of December 31, 2006, includes total deferred tax assets of $1,082.4 million (see Note 16 to the Consolidated Financial Statements). Included in these amounts is a deferred tax asset of $552.7 million and $45.5 million, respectively, relating to the U.S. federal and state income tax benefits expected to be realized in future periods with respect to various federal and state net operating losses arising in 2006 and prior years as a result of the amounts paid to the Asbestos PI Trust in 2006. We have concluded, based on the weight of available evidence, that all but $19.8 million of these tax benefits are more likely than not to be realized in the future. This amount represents a decrease of $29.2 million from the valuation allowance previously recorded with respect to these tax benefits as of December 31, 2005.

In arriving at this conclusion, we considered the profit before tax generated for the years 1996 through 2005, as well as future reversals of existing taxable temporary differences and projections of future profit before tax. The federal income tax deduction resulting from the amounts paid to the Asbestos PI Trust created a net operating loss in 2006. Under the Internal Revenue Code, a net operating loss resulting from the payment of asbestos claims, including payments to the Trust, can be carried back and offset against our federal taxable income in either the two or the ten preceding years, generating a refund of taxes paid in those years. The Company is still evaluating the alternative elections, but has

25

assumed a two-year carryback for purposes of calculating the tax provision. In addition, the Company may apply the loss as a carryforward adjustment to reduce future taxes. If certain specified changes in our ownership should occur, there could be an annual limitation on the amount of the carryforwards that can be utilized; however, we cannot anticipate this change for purposes of our valuation allowances assessment. As a result, it is more likely than not that we will realize the federal deferred tax asset value relating to these carryforwards.

In contrast to the results under the Internal Revenue Code, most U.S. states do not allow the carryback of a net operating loss in any significant amount. As a result, most of the state tax benefits resulting from the amounts paid to the Asbestos PI Trust will be realized through a reduction of future state income tax liabilities by offsetting the net operating losses resulting from our payments to the Trust against future state taxable income. Based on projections of future taxable income (consistent with historical results and anticipated future trends) in the U.S. states in which we conduct business operations and the loss carryforward periods allowed by current state laws (generally 5 to 20 years), we have concluded that all but $19.8 million of the $45.5 million of state income tax benefits relating to our state net operating loss carryforwards is more likely than not to be realized.

Employees

As of December 31, 2006, we had approximately 14,500 full-time and part-time employees worldwide. This compares to approximately 14,900 employees as of December 31, 2005. The decline reflects headcount reductions in both production and staff positions as part of ongoing cost reduction efforts. Of our 14,500 employees, approximately 1,000 are associated with the principal operating companies of our Textiles and Sports Flooring segment, which was classified as a discontinued operation during the fourth quarter of 2006 (see Note 7 to the Consolidated Financial Statements for more information).

During 2006, we negotiated six collective bargaining agreements, with no locations experiencing a work stoppage. Throughout 2007, collective bargaining agreements covering certain employees at three plants will expire. As of the date of this filing, no employees are working under an expired contract.

CRITICAL ACCOUNTING ESTIMATES

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

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

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

Under fresh-start reporting, a reorganization value is determined and allocated to our net assets based on their relative fair values in a manner similar to the accounting provisions applied to business combinations under Statement of Financial Accounting Standards No. 141, *Business Combinations*. Adjustments necessary to state our balance sheet accounts at fair value were made based on the work of management, financial consultants and independent appraisals. The estimates and assumptions used to derive the reorganization value and allocation of value to assets are inherently subject to significant

26

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

(dollar amounts in millions)

business, economic and competitive uncertainties and contingencies, many of which are beyond our control. Modification to these assumptions could have significantly changed the reorganization value, and hence the resultant fair values of our assets and liabilities.

Accordingly, the adoption of fresh-start reporting has had a material effect on our consolidated financial statements and is based on assumptions that employ a high degree of judgment. See Notes 1 and 3 to the Consolidated Financial Statements for further information relative to our reorganization and the assumptions used to value reorganized Armstrong.

U.S. Pension Credit and Postretirement Benefit Costs We maintain pension and postretirement plans throughout the world, with the most significant plans located in the U.S. The U.S. defined benefit pension plans were closed to new salaried and salaried production employees on January 1, 2005. We also froze benefits for certain non-production salaried employees effective February 28, 2006. Our defined benefit pension and postretirement benefit costs are developed from actuarial valuations. These valuations are calculated using a number of assumptions, 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 generally updated annually at the beginning of the year and applied in the valuations recorded for that year. However, we also updated each of these assumptions and adopted Statement of Financial Accounting Standards No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, as part of adopting fresh-start reporting in accordance with SOP 90-7.

The discount rate is used to determine retirement plan liabilities and to determine the interest cost component of net periodic pension and postretirement cost. Our actuary provides the expected modified duration of the liabilities. Management utilizes the yield for Moody s AA-rated long-term corporate bonds as the primary basis for determining the discount rate. As of December 31, 2006, we assumed a discount rate of 5.75% compared with a discount rate of 5.50% as of December 31, 2005 for the U.S. plans. This increase is consistent with the increase in U.S. corporate bond yields during the year. The effects of the increased discount rate will be amortized against earnings as described below. A one-quarter percentage point decrease in the discount rate to 5.50% would increase 2007 operating income by $1.2 million, as the resulting decrease in the interest cost component of the pension expense calculation would more than offset the increased service cost component. A one-quarter percentage point increase in the discount rate to 6.00% would reduce 2007 operating income by $0.9 million.

We have two U.S. defined benefit pension plans, a qualified funded plan and a nonqualified unfunded plan. For the funded plan, the expected long-term return on plan assets represents a long-term view of the future estimated investment return on plan assets. This estimate is determined based on the target allocation of plan assets among asset classes and input from investment professionals on the expected performance of the equity and bond markets over 10 to 20 years. Over the last 10 years, the annualized return was approximately 9.3% compared to an average expected return of 8.6%. The expected long-term return on plan assets used in determining our 2006 U.S. pension credit was 8.0%. The actual return on plan assets achieved for 2006 was 12.8%. 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 2007. We have assumed a return on plan assets during 2007 of 8.0%. A one-quarter percentage point increase or decrease in this assumption would increase or decrease 2007 operating income by approximately $5.3 million. Contributions to the unfunded plan were $3.2 million in 2006 and were made on a monthly basis to fund benefit payments. We estimate the contributions to be approximately $3.5 million in 2007. See Note 18 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:

Table of Contents

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

(dollar amounts in millions)

	Assumptions			Actual		
	Post 65	Pre 65	Overall	Post 65	Pre 65	Overall
2005	10.0%	8.0%	9.0%	(3)%	(2)%	(3)%
2006, nine months ended September 30	9.0	7.0	8.0			
2006, three months ended December 31	12.0	11.5	11.8			
2006, full year				9	(1)	6
2007	12.0	11.5	11.8			

In accordance with GAAP, the difference between the actual and expected health care costs is amortized into earnings as described below. As of December 31, 2006, the percentage of health care cost increases are estimated to decrease by 1 percentage point per year until 2014, after which it is constant at 5%. A one percentage point increase in the assumed health care cost trend rate would reduce 2007 operating income by $0.7 million, while a one percentage point decrease in the assumed health care cost trend rate would increase 2007 operating income by $0.8 million. See Note 18 of the Consolidated Financial Statements for more details.

Actual results that differ from our various pension and postretirement plan estimates are captured as actuarial gains/losses and are amortized into future earnings over the expected remaining service period of plan participants, which is approximately 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.

Impairments of Long-Lived 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 connection with our adoption of fresh-start reporting upon emerging from Chapter 11, all long-lived tangible and intangible assets were adjusted to fair value. If subsequent testing (either as a result of required annual testing or as a result of a triggering event) indicates that new fair values are less than the values derived from fresh-start reporting, those amounts would be adjusted downward and our future statements of income would be impacted.

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

Sales-related Accruals We provide direct customer and end-user warranties for our products. These warranties cover manufacturing defects that would prevent the product from performing in line with its intended and marketed use. 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.

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

(dollar amounts in millions)

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 $79.3 million and $73.0 million as of December 31, 2006 and 2005, respectively. We record the costs of these accruals as a reduction to gross sales.

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

In accordance with the requirements for fresh-start reporting pursuant to SOP 90-7, the Company has adopted FASB Interpretation No. 48 (FIN48), Accounting for Uncertainty in Income Taxes, effective as of October 2, 2006. The transition adjustments, although not material in the aggregate, were shown as an adjustment to the opening fresh-start balance sheet as of October 2, 2006.

Deferred tax assets and liabilities are recognized by applying enacted tax rates to temporary differences that exist as of the balance sheet date. These deferred tax assets and liabilities assume that benefits are recorded at the highest amount that is more likely than not of being sustained through the tax audit cycle.

As further described in Note 16, our consolidated balance sheet as of December 31, 2006 includes a total deferred tax asset of $1,082.4 million. Included in these amounts is a deferred tax asset of $552.7 million and $45.5 million, respectively, relating to the tax benefits expected to be realized in future periods with respect to various federal and state net operating losses arising primarily as a result of the amounts paid to the Asbestos PI Trust in 2006. We have estimated that all but $19.8 million of these tax benefits are more likely than not to be realized in the future.

We record valuation allowances to reduce our deferred tax assets if it is more likely than not that some portion or all of the deferred tax assets will not be realized. As of December 31, 2006, we have recorded valuation allowances totaling $190.3 million for various state and foreign net operating loss and tax credit carryforwards. While we have considered future taxable income in assessing the need for the valuation allowances based on our best available projections, if these estimates and assumptions change in the future or actual results differ from our projections, we may be required to adjust our valuation allowances accordingly.

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

We establish reserves for certain tax positions that management believes are supportable, but are potentially subject to successful challenge by the applicable taxing authority. We review these tax uncertainties in light of the changing facts and circumstances and adjust them when significant changes warrant it. We have a number of audits in process in various jurisdictions.

If our actual results differ from any of the estimates and assumptions used, an adjustment affecting income tax expense would be necessary in the period that such determination is made, unless the change is related to a pre-emergence asset or liability that is required to be reflected as an adjustment to the fresh-start reporting opening balance sheet, pursuant to SOP 90-7. Such adjustment could be material to our financial statements.

ACCOUNTING PRONOUNCEMENTS EFFECTIVE IN FUTURE PERIODS

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

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159 (FAS 159), The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115, which permits companies to measure financial instruments and certain other assets and liabilities at fair value on an instrument by instrument basis. FAS 159 is effective for fiscal years beginning after November 15, 2007. We are currently evaluating the effects of this pronouncement on our financial statements.

Table of Contents

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

(dollar amounts in millions)

RESULTS OF OPERATIONS

Unless otherwise indicated, net sales in these results of operations are reported based upon the location where the sale was made. Certain prior year amounts have been reclassified to conform to the current year presentation. Please refer to Note 4 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.

2006 COMPARED TO 2005

CONSOLIDATED RESULTS

	Successor	Predecessor	Combined	Predecessor	Change is Favorable/ (Unfavorable)	
	Three Months Ended December 31, 2006	Nine Months Ended September 30, 2006	Year 2006	Year 2005	As Reported	Excluding Effects of Foreign Exchange Rates[1]
Net Sales:						
Americas	$ 606.9	$ 2,011.3	$ 2,618.2	$ 2,562.4	2.2%	1.8%
Europe	172.2	499.4	671.6	643.7	4.3%	4.8%
Pacific Rim	38.2	97.9	136.1	120.5	12.9%	13.6%
Total Consolidated Net Sales	$ 817.3	$ 2,608.6	$ 3,425.9	$ 3,326.6	3.0%	2.8%
Cost of goods sold	660.4	2,028.7	2,689.1	2,651.8		
SG&A	144.0	417.0	561.0	590.0		
Restructuring charges, net	1.7	10.0	11.7	23.0		
Equity earnings	(5.3)	(41.4)	(46.7)	(39.3)		
Operating Income	$ 16.5	$ 194.3	$ 210.8	$ 101.1	Favorable	99.7%
Interest Expense	13.4	5.2	18.6	7.7		
Other non-operating expense	0.3	1.0	1.3	1.5		
Other non-operating (income)	(4.3)	(7.2)	(11.5)	(11.8)		
Chapter 11 reorganization (income), net		(1,955.5)	(1,955.5)	(1.2)		
Income tax expense (benefit)	3.8	726.6	730.4	(1.2)		
(Gain) loss from discontinued operations	1.1	68.4	69.5	(5.0)		
Net earnings	$ 2.2	$ 1,355.8	$ 1,358.0	$ 111.1		

(1) Excludes favorable foreign exchange rate effect in translation of $7.8 million on net sales and $2.0 million on operating income
Consolidated net revenue grew 3%, with positive contributions from both price and mix offsetting a modest volume decline.

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

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

Table of Contents

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

(dollar amounts in millions)

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

Operating expenses in 2006 were impacted by the effects of adopting fresh-start reporting, as a result of AWI emerging from Chapter 11 on October 2, 2006 (net sales were not impacted by fresh-start reporting). In addition, both 2006 and 2005 operating expenses were impacted by several other significant items. The fresh-start and other significant items, which impacted cost of goods sold (COGS), selling, general and administrative expenses (SG&A), restructuring charges and Equity Earnings, include:

Increase / (Reduction) in Expenses, reported in $ millions

Item	Where Reported	2006	2005
Fresh-Start[1]:			
Change in depreciation and amortization	COGS	$ (1.3)	
Change in costs for benefit plans	COGS	(4.6)	
Impact on hedging-related activity	COGS	(1.0)	
Inventory-related costs	COGS	29.6	
Change in depreciation and amortization	SG&A	2.8	
Change in costs for benefit plans	SG&A	(2.3)	
Inventory-related costs (WAVE)	Equity Earnings	3.7	
Expenses from WAVE step-up	Equity Earnings	1.7	
Other Significant Items:			
Business interruption claim[2]	COGS	(4.7)	(3.5)
Settlement of breach of contract dispute	COGS		(6.4)
Cost reduction initiatives expenses[3]	COGS	11.0	29.4
Product warranty accrual[4]	COGS	3.3	
Pension curtailment charge[3]	COGS		11.4
Fixed asset impairments	COGS		2.7
Contribution to Armstrong Foundation[5]	SG&A	5.0	
Liability settlement related to a divested business[6]	SG&A	2.8	
Patent infringement settlement[7]	SG&A	(8.6)	
Cost reduction initiatives expenses[3]	SG&A	7.4	
Gain on sale of properties[8]	SG&A	(17.0)	
Pension curtailment charge[3]	SG&A		5.5
Chapter 11 related post-emergence expenses[9]	SG&A	4.6	
Environmental charges	SG&A		3.1
Fixed asset impairments	SG&A		0.5
Cost reduction initiatives expenses[3]	Restructuring	11.7	23.0

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

(8) During the year, we recorded a gain from the sale of two buildings.
(9) AWI incurred expenses during the fourth quarter for Chapter 11 related post-emergence activities.

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

(dollar amounts in millions)

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

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

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

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

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

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

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

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

Table of Contents

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

(dollar amounts in millions)

REPORTABLE SEGMENT RESULTS

Resilient Flooring

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

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

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

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

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

Increase / (Reduction) in Expenses, reported in $ millions

Item	2006	2005
Fresh-Start [1]		
Change in depreciation and amortization	$ (0.8)	
Change in costs for benefit plans	(0.8)	
Impact on hedging-related activity	(0.2)	
Inventory-related costs	7.2	
Other Significant Items:		
Business interruption claim [2]	(4.7)	$ (3.5)
Settlement of breach of contract dispute		(5.2)
Cost reduction initiative expenses [3]	27.4	28.9
Fixed asset impairments		1.8
Gain on sale of properties [4]	(17.0)	

Environmental charges	3.1

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

Table of Contents

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

(dollar amounts in millions)

Wood Flooring

	Successor Three Months Ended December 31, 2006	Predecessor Nine Months Ended September 30, 2006	Combined Year 2006	Predecessor Year 2005	Change is Favorable/ (Unfavorable)
Total Segment Net Sales [1]	$ 192.6	$ 645.0	$ 837.6	$ 833.9	0.4%
Operating Income	$ (0.2)	$ 46.2	$ 46.0	$ 60.9	(24.5)%

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

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

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

Increase / (Reduction) in Expenses, reported in $ millions

Item	**2006**	**2005**
Fresh-Start: [1]		
Change in depreciation and amortization	$ (3.4)	
Inventory-related costs	12.4	
Other Significant Items:		
Breach of contract settlement		(1.2)
Cost reduction initiatives expenses [2]	2.1	14.0
Product warranty accrual [3]	3.3	
Fixed Asset Impairments		1.4

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

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

(dollar amounts in millions)

Building Products

	Successor Three Months Ended December 31, 2006	Predecessor Nine Months Ended September 30, 2006	Combined Year 2006	Predecessor Year 2005	Change is Favorable/ (Unfavorable) As Reported	Excluding Effects of Foreign Exchange Rates(1)
Net Sales:						
Americas	$ 170.8	$ 529.3	$ 700.1	$ 633.2	10.6%	9.9%
Europe	98.0	276.2	374.2	346.8	7.9%	8.3%
Pacific Rim	20.9	54.3	75.2	67.6	11.2%	11.7%
Total Segment Net Sales	$ 289.7	$ 859.8	$ 1,149.5	$ 1,047.6	9.7%	9.5%
Operating Income	$ 24.9	$ 152.9	$ 177.8	$ 148.5	19.8%	19.7%

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

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

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

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

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

Increase / (Reduction) in Expenses, reported in $ millions

Item	2006	2005
Fresh-Start: (1)		
Change in depreciation and amortization	$ 5.2	
Change in costs for benefit plans	(1.3)	
Impact on hedging-related activity	(0.8)	
Inventory-related costs	9.2	
Inventory-related costs (WAVE)	3.7	
Expenses from WAVE step-up	1.7	
Other Significant Items:		
Cost reduction initiatives expenses (2)	0.7	7.9

(1) See Note 3 for more information on fresh-start reporting.

(2) See Factors Affecting Operating Costs for a discussion on the cost reduction expenses.

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

(dollar amounts in millions)

Cabinets

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

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

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

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

Increase / (Reduction) in Expenses, reported in $ millions

Item	2006	2005
Fresh-Start: [1]		
Change in depreciation and amortization	$ 0.1	
Inventory-related costs	0.8	
Other Significant Items:		
Cost reduction initiatives expenses [2]		1.6

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

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

(dollar amounts in millions)

Unallocated Corporate

Unallocated corporate expense of $30.7 million in 2006 decreased from $70.2 million in 2005. This decrease included a $20 million increased U.S. pension credit related to plan changes and favorable asset performance. In addition, both 2006 and 2005 operating profit were impacted by the items that were previously described, and are detailed in the following table.

Increase / (Reduction) in Expenses, reported in $ millions

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

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

FINANCIAL CONDITION AND LIQUIDITY

Cash Flow

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

Operating activities in 2006 used $676.0 million of net cash ($70.1 million provided in the three months ended December 31, 2006 and $746.1 million used in the nine months ended September 30, 2006), which was an $822.7 million change from the $146.7 million provided in 2005. The change was primarily due to the settlement of liabilities subject to compromise (excluding prepetition debt) of $832.7 million ($28.6 million in the three months ended December 31, 2006 and $804.1 million in the nine months ended September 30, 2006).

Net cash used for investing activities was $129.0 million in 2006 ($15.3 million used in the three months ended December 31, 2006 and $113.7 million used in the nine months ended September 30, 2006), compared to $48.5 million in 2005. The increase was primarily due to $60.5 million spent on acquisitions partially offset by an increase in distributions received from WAVE of $20.0 million and increased proceeds from the sale of assets of $34.0 million. 2005 also benefited from $58.9 million from the sale of notes and the sale of an investment in an affiliate.

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

(dollar amounts in millions)

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

Balance Sheet and Liquidity

Changes in significant balance sheet accounts and groups of accounts from December 31, 2005 to December 31, 2006 are as follows:

	Successor Company	**Predecessor Company**	
	December 31, 2006	**December 31, 2005**	**Increase (Decrease)**
Cash and cash equivalents	$ 252.5	$ 602.2	($ 349.7)
Current assets, excluding cash and cash equivalents	1,118.9	959.1	159.8
Current assets	$ 1,371.4	$ 1,561.3	($ 189.9)

The decrease in cash and cash equivalents was described above (see Cash Flow). The increase in current assets, excluding cash and cash equivalents, is primarily due to the fair valuing of inventory as part of fresh-start reporting. See Note 3 to the Consolidated Financial Statements for further information.

	Successor Company	**Predecessor Company**	
	December 31, 2006	**December 31, 2005**	**(Decrease)**
Property, plant and equipment, less accumulated depreciation and amortization (PP&E)	$ 966.2	$ 1,180.7	$ (214.5)

The decrease was primarily due to the fair valuing of tangible assets as part of fresh-start reporting. See Note 3 to the Consolidated Financial Statements for further information.

Liquidity

Our liquidity needs for operations vary throughout the year. We retain lines of credit to facilitate our seasonal needs, if required. On October 2, 2006, Armstrong executed a $1.1 billion senior credit facility arranged by Banc of America Securities LLC, J.P. Morgan Securities, Inc., and Barclays Capital. This facility is made up of a $300 million revolving credit facility (with a $150 million sublimit for letters of credit), a $300 million Term Loan A, and a $500 million Term Loan B. There were no outstanding borrowings under the revolving credit facility, but $40.2 million in letters of credit were outstanding, as of December 31, 2006 and, as a result, availability under the revolving credit facility was $259.8 million.

Our foreign subsidiaries had available lines of credit totaling $52.4 million, of which $8.0 million was used as of December 31, 2006, leaving $44.4 million of unused lines of credit available for foreign borrowings. However, these lines of credit are uncommitted, and poor operating results or credit concerns at the related foreign subsidiaries could result in the lines being withdrawn by the lenders. We have been able to maintain and, as needed, replace credit facilities to support our operations. We believe that cash on hand and generated from operations, together with lines of credit and the $300 million revolving credit facility, will be adequate to address our foreseeable liquidity needs in the normal course of business operations and for scheduled payments of non-filer debt obligations.

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

(dollar amounts in millions)

2005 COMPARED TO 2004

CONSOLIDATED RESULTS

	Predecessor 2005	Predecessor 2004	Change is Favorable As Reported	Change is Favorable Excluding Effects of Foreign Exchange Rates[1]
Net Sales:				
Americas	$ 2,562.4	$ 2,540.5	0.9%	0.6%
Europe	643.7	624.0	3.2%	1.4%
Pacific Rim	120.5	114.6	5.1%	2.8%
Total Consolidated Net Sales	$ 3,326.6	$ 3,279.1	1.4%	0.8%
Operating Income (Loss)	$ 101.1	$ (37.7)	Favorable	Favorable
Goodwill Impairment		108.4		
Operating Income, Prior to Goodwill Impairment	$ 101.1	$ 70.7	43.0%	29.0%

(1) Excludes favorable foreign exchange rate effect in translation of $20.6 million on net sales and $13.1 million on operating income, and $7.5 million on operating income prior to goodwill impairment.

Net sales in the Americas increased $21.9 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 $8.8 million, with volume growth in resilient and price realization in building products. Excluding the translation effect of changes in foreign exchange rates, net sales in the Pacific Rim increased $3.3 million on strength in the Australian and Indian markets.

Cost of goods sold in 2005 was 79.7% of net sales, compared to 80.9% in 2004. The decrease was primarily due to sales price increases of nearly $40 million, benefits from cost reduction initiatives and approximately $47 million of lower fixed asset impairments, which more than offset approximately $50 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 $590.0 million, or 17.7% of net sales compared to $567.7 million or 17.3% of net sales in 2004. The $22.3 million increase supported higher sales and included approximately $9 million of increased 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 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 12 to the Consolidated Financial Statements for further details.

We recorded net restructuring charges of $23.0 million in 2005, compared to $17.9 million in 2004. See Note 15 of the Consolidated Financial Statements for a description of the restructuring actions.

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.

Table of Contents

We recorded operating income of $101.1 million in 2005, compared to an operating loss of $37.7 million in 2004. Operating income in 2004 prior to non-cash goodwill impairment was $70.7 million.

Interest expense was $7.7 million in 2005, compared to $7.9 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 $11.8 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 benefit of $1.2 million compared to income tax expense of $21.4 million in 2004. The adjusted effective tax rate for 2005 was 57.2% 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 46.7% 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 $106.1 million were recorded for 2005, compared to a net loss of $70.6 million for 2004.

REPORTABLE SEGMENT RESULTS

Resilient Flooring

	Predecessor 2005	Predecessor 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	296.9	285.7	3.9%	1.8%
Pacific Rim	52.9	52.0	1.7%	(0.8)%
Total Segment Net Sales	$ 1,232.6	$ 1,262.3	(2.4)%	(3.3)%
Operating (Loss)	$ (28.4)	$ (152.8)	Favorable	Favorable

(1) Excludes favorable foreign exchange rate effect in translation of $11.8 million on net sales and $12.0 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 1.8% due to higher volume, partially offset by price concessions and negative product mix. Excluding the

Table of Contents

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

	Predecessor 2005	Predecessor 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.

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.

Building Products

	Predecessor	Predecessor	Change is Favorable	
	2005	2004	As Reported	Excluding Effects of Foreign Exchange Rates[1]
Net Sales:				
Americas	$ 633.2	$ 573.2	10.5%	9.9%
Europe	346.8	335.9	3.2%	1.9%
Pacific Rim	67.6	62.6	8.0%	5.8%
Total Segment Net Sales	$ 1,047.6	$ 971.7	7.8%	6.9%
Operating Income	$ 148.5	$ 127.0	16.9%	15.9%

[1] Excludes favorable foreign exchange rate effect in translation of $8.7 million on net sales and $1.2 million on operating income.

Excluding the translation effect of changes in foreign exchange rates, 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. 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, grew 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 sold 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 6%, with strength in the Indian and Australian markets offsetting weak Chinese markets.

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

	Predecessor 2005	Predecessor 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 $70.2 million in 2005 increased from $64.7 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.

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

(dollar amounts in millions)

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.

OFF-BALANCE SHEET ARRANGEMENTS

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

CONTRACTUAL OBLIGATIONS

As part of our normal operations, we enter into numerous contractual obligations that require specific payments during the term of the various agreements. The following table includes amounts ongoing under contractual obligations existing as of December 31, 2006. 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.

	2007	2008	2009	2010	2011	Thereafter	Total
Long-Term Debt	$ 10.9	$ 20.7	$ 34.0	$ 35.2	$ 237.7	$ 473.9	$ 812.4
Capital Lease Obligations [1]	0.6	0.4				0.1	1.1
Operating Lease Obligations [1]	14.9	12.0	8.8	4.7	2.3	7.2	49.9
Unconditional Purchase Obligations [2]	17.1	11.2	6.0	4.0		0.1	38.4
Other Long-Term Obligations [3]	1.6						1.6
Total Contractual Obligations	$ 45.1	$ 44.3	$ 48.8	$ 43.9	$ 240.0	$ 481.3	$ 903.4

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

(2) 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.

(3) 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.

For the past several years, we have maintained an agreement with the lending institution of one of our flooring distributors. Under this agreement, if the distributor was to default on its obligations and the lender foreclosed on the assets, the bank could return a large portion of our products still at the distributor (subject to certain quality, current product line and roll size minimum criteria) for a refund of original cost. In October 2006, the lending institution of the distributor notified us that the distributor had defaulted on its

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

(dollar amounts in millions)

obligations. As a result of the distributor s default, we refunded the bank $1.1 million and returned the related products to our inventory.

We are party to supply agreements, some of which require the purchase of inventory remaining at the supplier upon termination of the agreement. The last such agreement will expire on July 31, 2009. Had these agreements terminated at December 31, 2006, Armstrong would have been obligated to purchase approximately $12.3 million of inventory. Historically, due to production planning, we have not had to purchase material amounts of product at the end of similar contracts. Accordingly, no liability has been recorded for most of these guarantees. As of December 31, 2006, we were required to purchase approximately $0.3 million of inventory held by one of our suppliers and a liability was recorded for this inventory.

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, 2006, we carried a cash surrender value asset of $7.8 million related to this program. Should we discontinue making premium payments, the insured executives have the right to the entire policy cash surrender value. In light of the Sarbanes-Oxley Act, we believe it is inappropriate to make the premium payments for three of the executives participating in this plan. As a result, we have required these three individuals to make the premium payments to continue the policy.

We utilize lines of credit and other commercial commitments in order to ensure that adequate funds are available to meet operating requirements. Letters of credit are issued to third party suppliers, insurance and financial institutions and typically can only be drawn upon in the event of our failure to pay our obligations to the beneficiary. This table summarizes the commitments we have available for use as of December 31, 2006. Letters of credit are currently arranged through our revolving credit facility. Certain letters of credit arranged with another bank prior to our Chapter 11 filing remain outstanding.

Other Commercial Commitments	**Total Amounts Committed**	**Less Than 1 Year**	**1 3 Years**	**4 5 Years**	**Over 5 Years**
Letters of Credit	$ 66.8	$ 66.8			

In addition, we have lines of credit for certain international operations totaling $52.4 million, of which $8.0 million was used at December 31, 2006 and $44.4 million was available to ensure funds are available to meet operating requirements.

In disposing of assets, AWI and some subsidiaries have entered into contracts that included various indemnity provisions, covering such matters as taxes, environmental liabilities and asbestos and other litigation. Some of these contracts have exposure limits, but many do not. Due to the nature of the indemnities, it is not possible to estimate the potential maximum exposure under these contracts. For contracts under which an indemnity claim has been received, a liability of $4.0 million has been recorded as of December 31, 2006. See Note 21 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 reimbursed the purchaser for such pension payments that were 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 had no termination date. In the third quarter of 2006, we settled this liability and terminated the agreement.

Table of Contents

RELATED PARTIES

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

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

Relationships and Related Transactions, and Director Independence.

Table of Contents

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk

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

Interest Rate Sensitivity

Armstrong is subject to interest rate variability on its Term Loan A, Term Loan B, revolving credit facility and other borrowings. There were no borrowings under the revolving credit facility as of December 31, 2006. A hypothetical increase of one-quarter percentage point in interest rates from December 31, 2006 levels would increase 2007 interest expense by approximately $2 million. We may execute interest rate swaps at some future date to mitigate our risk to interest rate variability.

Due to AWI s Chapter 11 Filing in December 2000, all affected debt was classified as liabilities subject to compromise until October 2, 2006 when AWI emerged from bankruptcy. While operating as a debtor-in-possession, AWI did not pay any principal, interest or other payments on this debt unless approved by the Bankruptcy Court. However, we also had debt in entities that were not a part of the Chapter 11 filing, which was paid on schedule.

The table below provides information about our long-term debt obligations as of December 31, 2006, and December 31, 2005, including payment requirements and related weighted-average interest rates by scheduled maturity dates. The information is presented in U.S. dollar equivalents, which is our reporting currency. The December 31, 2005 amounts below reflect only debt of entities that were not a part of the Chapter 11 Filing.

Successor Company

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

Predecessor Company

Scheduled maturity date						**After**	
($ millions)	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**Total**
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 %	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%

Table of Contents

Exchange Rate Sensitivity

We manufacture and sell our products in a number of countries throughout the world and, as a result, are exposed to movements in foreign currency exchange rates. To a large extent, our global manufacturing and sales provide a natural hedge of foreign currency exchange rate movement. We have used foreign currency forward exchange contracts to reduce our remaining exposure. At December 31, 2006, Armstrong s major foreign currency exposures are to the Euro, the Canadian dollar and the British pound. A 10% strengthening of all currencies against the U.S. dollar compared to December 31, 2006 levels would decrease our 2007 earnings before income taxes by approximately $5 million.

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

The table below details our outstanding currency instruments as of December 31, 2006 and 2005. All the instruments outstanding as of December 31, 2006 have scheduled maturity dates on or before December 31, 2007.

On balance sheet foreign exchange related derivatives	**Maturing in: 2007**	**2008**	**Total**
Successor Company			
As of December 31, 2006			
Notional amounts (millions)	$ 381.5	$ 0.0	$ 381.5
Liabilities at fair value (millions)	$ (2.0)		$ (2.0)

	Maturing in: 2006	**2007**	**Total**
Predecessor Company			
As of December 31, 2005			
Notional amounts (millions)	$ 482.5	$ 3.2	$ 485.7
Assets at fair value (millions)	$ 1.5		$ 1.5

48

Table of Contents

Commodity Price Sensitivity

We purchase natural gas for use in the manufacture of ceiling tiles and other products, as well as to heat many of our facilities. As a result, we are exposed to movements in the price of natural gas. We have a policy of reducing natural gas cost volatility through derivative instruments, including forward swap contracts, purchased call options, and zero-cost collars. A 10% increase in natural gas prices compared to December 31, 2006 prices would increase our expenses by approximately $5 million. The table below provides information about Armstrong s natural gas contracts as of December 31, 2006 and 2005 that are sensitive to changes in commodity prices. Notional amounts and price ranges are in millions of Btu s (MMBtu).

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

		Maturing in:	
	2006	**2007**	**Total**
Predecessor Company 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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
SUPPLEMENTARY DATA

Quarterly Financial Information for the Years Ended December 31, 2006 and 2005 (Unaudited)

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

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

Table of Contents

QUARTERLY FINANCIAL INFORMATION

ARMSTRONG WORLD INDUSTRIES, INC. (unaudited)

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

	Predecessor Company			
	First	Second	Third	Fourth
2005 Net sales	$ 788.1	$ 861.4	$ 871.6	$ 805.5
Gross profit	164.3	184.5	198.8	127.2
Net earnings from continuing operations	1.1	17.6	43.8	43.6
Per share of common stock:				
Basic	n/a	n/a	n/a	n/a
Diluted	n/a	n/a	n/a	n/a
Net earnings (loss)	(3.2)	17.3	46.1	50.9
Per share of common stock:				
Basic	n/a	n/a	n/a	n/a
Diluted	n/a	n/a	n/a	n/a
Price range of common stock high	n/a	n/a	n/a	n/a
Price range of common stock low	n/a	n/a	n/a	n/a

(1) Reflects the effects of the Plan of Reorganization and fresh-start reporting. See Note 3 to the Consolidated Financial Statements.
There were no dividends paid in 2006 or 2005. The DIP Facility stipulated that AWI could 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.

Fourth Quarter 2006 Compared With Fourth Quarter 2005

Net sales of $817.3 million in the fourth quarter of 2006 increased from net sales of $805.5 million in the fourth quarter of 2005, an increase of 1.5%. Excluding the favorable effects of foreign exchange rates of $13.1 million, net sales were flat as price realization and better product mix offset volume declines. Resilient Flooring net sales decreased 3.5%, excluding the favorable effects of foreign exchange rates,

Table of Contents

primarily due to declining volumes. Wood Flooring net sales decreased by 7.8% due to weakness in the U.S residential markets. Building Products net sales increased by 7.4%, excluding the favorable effects of foreign exchange rates of $7.0 million, due to increased selling prices and improved product mix. Cabinets increased by 11.7% on improved price and volume. Net sales decreased 3.4% in the Americas. Excluding the favorable effects of foreign exchange rates of $11.1 million, Europe net sales increased 11.2% and Pacific Rim sales increased by 15.9%.

Operating expenses in the fourth quarter of 2006 were impacted by the effects of adopting fresh-start reporting, as a result of AWI emerging from Chapter 11 on October 2, 2006 (net sales were not impacted by fresh-start reporting). In addition, both 2006 and 2005 operating expenses were impacted by several other significant items. The fresh-start and other significant items, which impacted cost of goods sold (COGS), selling, general and administrative expenses (SG&A), restructuring charges and equity earnings, include:

Increase / (Reduction) in Expenses, reported in $ millions

Item	Where Reported	2006	2005
Fresh-Start[1]:			
Change in depreciation and amortization	COGS	$ (1.3)	
Change in costs for benefit plans	COGS	(4.6)	
Impact on hedging-related activity	COGS	(1.0)	
Inventory-related costs	COGS	29.6	
Change in depreciation and amortization	SG&A	2.8	
Change in costs for benefit plans	SG&A	(2.3)	
Inventory-related costs (WAVE)	Equity Earnings	3.7	
Expenses from WAVE step-up	Equity Earnings	1.7	
Other Significant Items:			
Business interruption claim[2]	COGS	(4.7)	$ (1.1)
Cost reduction initiatives expenses[3]	COGS	0.5	19.2
Pension curtailment charge[3]	COGS		11.4
Fixed asset impairments	COGS		2.7
Pension curtailment charge[3]	SG&A		5.5
Chapter 11 related post-emergence expenses[4]	SG&A	4.6	
Fixed asset impairments	SG&A		0.5
Cost reduction initiatives expenses[3]	Restructuring	1.7	6.0

(1) See Note 3 for more information on fresh-start reporting.
(2) In the fourth quarter, we received the final payment for a business interruption claim, totaling $4.7 million. We received $1.1 million in the fourth quarter of 2005 for the same claim.
(3) See Factors Affecting Operating Costs and Note 15 for a discussion on the cost reduction expenses and pension curtailment charges.
(4) AWI incurred $4.6 million in expenses during the fourth quarter for Chapter 11 related post-emergence activities.

For the fourth quarter of 2006, the cost of goods sold was 80.8% of net sales, compared to 84.2% in 2005. The 3.4 percentage point improvement was the result of benefits from higher selling prices, primarily in Building Products, better manufacturing performance, mainly in the Resilient and Wood Flooring businesses, and improvement from sales mix. Cost of goods sold in 2006 also benefited from a larger U.S. pension plan credit. These factors more than offset raw material inflation across all businesses. In addition, cost of goods sold in 2006 and 2005 were impacted by the items as detailed in the above table.

SG&A expenses for the fourth quarter of 2006 were $144.0 million as compared to $142.2 million for the fourth quarter of 2005. Resilient Flooring reduced spending, while Building Products and Wood Flooring grew at less than the rate of growth in revenue. In addition, both 2006 and 2005 SG&A expenses were impacted by the items as detailed in the above table.

An operating income from continuing operations of $16.5 million in the fourth quarter of 2006 compared to an operating loss of $10.1 million in the fourth quarter of 2005.

The fourth quarter of 2005 had $5.7 million of Chapter 11 reorganization income due to the reversal of an accrual for professional fees for certain advisors.

The tax expense from continuing operations for the fourth quarter of 2006 was $3.8 million compared to a tax benefit of $45.3 million for the same period of 2005. The quarter to quarter comparative tax rates are not meaningful due to the loss from continuing operations reported in 2005 of $4.4 million versus the $7.1 million of income reported in 2006. The 2006 fourth quarter tax rate was negatively impacted by nondeductible bankruptcy fees and foreign losses with valuation allowances partially offset by favorable benefits from lower foreign tax rates, foreign exchange and foreign tax refunds, of which $1.5 million is related to a recent change in German tax law which allows for a recovery of previously frozen imputation tax credits. The comparative period of 2005 reflected $61.2 million of tax benefits related to a subsidiary capital restructuring.

Table of Contents

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders,

Armstrong World Industries, Inc.:

We have audited the accompanying consolidated financial statements of Armstrong World Industries, Inc. and subsidiaries (the Company) as listed in the accompanying index on page 50. 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 50. 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, 2006 for the Successor Company and December 31, 2005 for the Predecessor Company, and the results of their operations and their cash flows for the three months ended December 31, 2006 for the Successor Company, and for the nine months ended September 30, 2006, and the years ended December 31, 2005 and December 31, 2004 for the Predecessor Company, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Notes 1 and 3 to the consolidated financial statements, on August 18, 2006, the Bankruptcy Court confirmed the Company s Plan of Reorganization (the Plan), related to its Chapter 11 bankruptcy proceeding. The Plan became effective on October 2, 2006 and Armstrong World Industries, Inc. emerged from the Chapter 11 bankruptcy proceeding. In connection with its emergence from the Chapter 11 bankruptcy proceeding, Armstrong World Industries, Inc. adopted fresh-start reporting pursuant to Statement of Position 90-7, Financial Reporting by Entities in Reorganization Under the Bankruptcy Code as of October 2, 2006. As a result, the financial statements of the Successor Company are presented on a different basis than those of the Predecessor Company and, therefore, are not comparable in all respects. As described in Note 3 to the consolidated financial statements, the Company has reflected the effects of the Plan and fresh-start reporting in the Predecessor Company for the nine month period ended September 30, 2006. As discussed in Notes 16 and 18 to the consolidated financial statements, upon adoption of fresh-start reporting, the Company changed its method of accounting for income tax contingencies as described by FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 and its method of accounting for defined benefit and other postretirement plans as described by Statement of Financial Accounting Standards No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R).

/s/ KPMG LLP

Philadelphia, Pennsylvania

March 30, 2007

Table of Contents

Armstrong World Industries, Inc., and Subsidiaries

Consolidated Statements of Earnings

(amounts in millions, except per share data)

	Successor Company	Predecessor Company		
	Three Months Ended December 31, 2006	Nine Months Ended September 30, 2006[1]	Year Ended December 31, 2005	Year Ended December 31, 2004
Net sales	$ 817.3	$ 2,608.6	$ 3,326.6	$ 3,279.1
Cost of goods sold	660.4	2,028.7	2,651.8	2,654.4
Gross profit	156.9	579.9	674.8	624.7
Selling, general and administrative expenses	144.0	417.0	590.0	567.7
Goodwill impairment				108.4
Restructuring charges, net	1.7	10.0	23.0	17.9
Equity earnings from joint venture	(5.3)	(41.4)	(39.3)	(31.6)
Operating income (loss)	16.5	194.3	101.1	(37.7)
Interest expense (unrecorded contractual interest of $0.0, $57.6, $82.8 and $86.9, respectively)	13.4	5.2	7.7	7.9
Other non-operating expense	0.3	1.0	1.5	3.1
Other non-operating (income)	(4.3)	(7.2)	(11.8)	(6.4)
Chapter 11 reorganization (income) costs, net		(1,955.5)	(1.2)	6.9
Earnings (loss) from continuing operations before income taxes	7.1	2,150.8	104.9	(49.2)
Income tax expense (benefit)	3.8	69.6	(1.2)	21.4
Income tax expense on settlement and fresh-start adjustments		657.0		
Earnings (loss) from continuing operations	3.3	1,424.2	106.1	(70.6)
Gain (loss) from discontinued operations, net of tax of $0.9, $(8.7), $2.8 and $3.5	(1.1)	(68.4)	5.0	(9.1)
Net earnings (loss)	$ 2.2	$ 1,355.8	$ 111.1	$ (79.7)
Earnings per share of common stock, continuing operations:				
Basic	$ 0.06	n/a	n/a	n/a
Diluted	$ 0.06	n/a	n/a	n/a
Loss per share of common stock, discontinued operations:				
Basic	$ (0.02)	n/a	n/a	n/a
Diluted	$ (0.02)	n/a	n/a	n/a
Net earnings per share of common stock:				
Basic	$ 0.04	n/a	n/a	n/a
Diluted	$ 0.04	n/a	n/a	n/a

Average number of common shares outstanding:				
Basic	55.0	n/a	n/a	n/a
Diluted	55.3	n/a	n/a	n/a

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

See accompanying notes to consolidated financial statements beginning on page 59.

Armstrong World Industries, Inc., and Subsidiaries

Consolidated Balance Sheets

(amounts in millions, except share data)

	Successor Company December 31, 2006	Predecessor Company December 31, 2005
Assets		
Current assets:		
Cash and cash equivalents	$ 252.5	$ 602.2
Accounts and notes receivable, net	321.9	328.8
Inventories, net	521.7	514.5
Assets of discontinued business held for sale	121.6	
Deferred income taxes	6.8	15.4
Income tax receivable	81.4	18.2
Other current assets	65.5	82.2
Total current assets	1,371.4	1,561.3
Property, plant and equipment, less accumulated depreciation and amortization of $28.8 and $1,628.7, respectively	966.2	1,180.7
Insurance receivable for asbestos-related liabilities, noncurrent		88.8
Prepaid pension costs	579.8	476.9
Investment in affiliates	294.6	67.4
Goodwill		134.2
Other intangibles, net	669.9	32.7
Deferred income taxes, noncurrent	201.4	967.4
Other noncurrent assets	87.4	96.6
Total assets	$ 4,170.7	$ 4,606.0
Liabilities and Shareholders Equity		
Current liabilities:		
Short-term debt	$ 3.8	$ 14.6
Current installments of long-term debt	10.9	5.4
Accounts payable and accrued expenses	443.3	392.5
Short term amounts due to affiliates		10.0
Liabilities of discontinued business held for sale	53.3	
Income tax payable	2.9	10.0
Deferred income taxes	2.4	0.8
Total current liabilities	516.6	433.3
Liabilities subject to compromise	1.3	4,869.4
Long-term debt, less current installments	801.5	21.5
Postretirement and postemployment benefit liabilities	373.7	258.9
Pension benefit liabilities	207.8	223.7

Other long-term liabilities	75.7	90.0
Income taxes payable, noncurrent	10.7	
Deferred income taxes, noncurrent	11.2	21.2
Minority interest in subsidiaries	7.5	7.9
Total noncurrent liabilities	1,489.4	5,492.6
Shareholders equity (deficit):		
Common stock, par value per share $0.01 in 2006 and $1 in 2005 Authorized 200 million shares; issued 56,091,218 shares in 2006 and 51,878,910 shares in 2005	0.6	51.9
Capital in excess of par value	2,099.8	172.6
Reduction for ESOP loan guarantee		(142.2)
Retained earnings (accumulated deficit)	2.2	(910.8)
Accumulated other comprehensive income	62.1	37.1
Less common stock in treasury, at cost 2006 0 shares; 2005 11,393,170 shares		(528.5)
Total shareholders equity (deficit)	2,164.7	(1,319.9)
Total liabilities and shareholders equity (deficit)	$ 4,170.7	$ 4,606.0

See accompanying notes to consolidated financial statements beginning on page 59.

Table of Contents

Armstrong World Industries, Inc., and Subsidiaries

Consolidated Statements of Shareholders Equity

(amounts in millions, except per share amounts)

	Successor Company		Predecessor Company					
	Three Months ended December 31, 2006		Nine months ended September 30, 2006[1]		Year 2005		Year 2004	
Common stock:								
Balance at beginning of period	$ 0.6		$ 51.9		$ 51.9		$ 51.9	
Cancellation of Predecessor common stock			(51.9)					
Issuance of Successor common stock			0.6					
Balance at end of period	$ 0.6		$ 0.6		$ 51.9		$ 51.9	
Capital in excess of par value:								
Balance at beginning of period	$ 2,097.6		$ 172.6		$ 172.6		$ 172.7	
Elimination of additional paid in capital due to cancellation of Predecessor common stock			(172.6)					
Paid in capital associated with issuance of Successor common stock			2,097.6					
Share-based employee compensation	2.2							
Other							(0.1)	
Balance at end of period	$ 2,099.8		$ 2,097.6		$ 172.6		$ 172.6	
Reduction for ESOP loan guarantee:								
Balance at beginning of period	$		$ (142.2)		$ (142.2)		$ (142.2)	
Cancellation of Predecessor ESOP loan guarantee			142.2					
Balance at end of period	$		$		$ (142.2)		$ (142.2)	
Retained earnings (accumulated deficit):								
Balance at beginning of period	$		$ (910.8)		$ (1,021.9)		$ (942.2)	
Net earnings (loss) for period	2.2	$ 2.2	1,355.8	$ 1,355.8	111.1	$111.1	(79.7)	$ (79.7)
Elimination of Predecessor retained earnings			(445.0)					
Balance at end of period	$ 2.2		$		$ (910.8)		$ (1,021.9)	
Accumulated other comprehensive income (loss):								
Balance at beginning of period	$		$ 37.1		$ 42.8		$ 43.3	
Foreign currency translation adjustments	2.1		18.5		(14.1)		22.4	
Derivative gain (loss), net	0.7		(9.5)		1.2		0.3	
Pension adjustments	59.3							
Minimum pension liability adjustments			(0.7)		7.2		(23.2)	
Total other comprehensive income (loss)	62.1	62.1	8.3	8.3	(5.7)	(5.7)	(0.5)	(0.5)

Elimination of Predecessor accumulated other comprehensive income		(45.4)		
Balance at end of period	$ 62.1	$	$ 37.1	$ 42.8
Comprehensive income (loss)	$ 64.3	$ 1,364.1	$ 105.4	$ (80.2)
Less treasury stock at cost:				
Balance at beginning of period	$	$ (528.5)	$ (528.5)	$ (528.5)
Elimination of Predecessor treasury stock		528.5		
Balance at end of period	$	$	$ (528.5)	$ (528.5)
Total shareholders equity (deficit)	$ 2,164.7	$ 2,098.2	$ (1,319.9)	$ (1,425.3)

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

See accompanying notes to consolidated financial statements beginning on page 59.

Table of Contents

Armstrong World Industries, Inc., and Subsidiaries

Consolidated Statements of Cash Flows

	Successor Company Three Months ended December 31, 2006	Predecessor Company Nine Months ended September 30, 2006(1)	Predecessor Company Year 2005	Predecessor Company Year 2004
Cash flows from operating activities:				
Net earnings (loss)	$ 2.2	$ 1,355.8	$ 111.1	$ (79.7)
Adjustments to reconcile net earnings (loss) to net cash provided by (used by) operating activities:				
Depreciation and amortization	32.2	101.2	141.0	151.0
Goodwill impairment				108.4
Fixed asset impairments		0.6	17.6	64.7
Deferred income taxes	1.8	726.2	(24.6)	(21.9)
Gain on sale of assets		(17.1)	(0.2)	(2.9)
Gain on sale of notes			(10.4)	
Equity earnings from affiliates, net	(5.3)	(41.4)	(39.0)	(33.5)
Gain on sale of investment in affiliates			(3.4)	
Chapter 11 reorganization (income) costs, net		15.2	(1.2)	6.9
Chapter 11 reorganization costs payments		(13.1)	(12.7)	(15.9)
Post-emergence chapter 11 fees	4.6			
Post-emergence chapter 11 payments	(4.0)			
Restructuring charges, net of reversals	1.7	10.0	23.2	18.3
Restructuring payments	(0.4)	(3.0)	(24.0)	(4.1)
Asbestos-related insurance recoveries		7.0		4.5
Cash effect of hedging activities	(3.1)	(2.8)	21.9	1.1
Gain on discharge of debt and liabilities subject to compromise		(1,510.8)		
Non-cash fresh-start adjustments		(389.5)		
Changes in operating assets and liabilities:				
Receivables	49.6	(66.0)	(8.7)	(9.5)
Inventories	54.8	(12.7)	1.5	(61.7)
Other current assets	(5.1)	2.0	(3.7)	11.8
Other noncurrent assets	(13.9)	(45.3)	(16.8)	(34.8)
Accounts payable and accrued expenses	(11.1)	11.3	8.5	61.1
Income taxes payable	(4.6)	(64.7)	(16.7)	(31.4)
Other long-term liabilities	(1.8)	(10.5)	(20.1)	3.5
Cash distributed under the POR	(28.6)	(804.1)		
Other, net	1.1	5.6	3.4	6.9
Net cash provided by (used by) operating activities	70.1	(746.1)	146.7	142.8
Cash flows from investing activities:				
Purchases of property, plant and equipment and computer software	(40.3)	(98.2)	(135.5)	(134.0)
Purchase of minority interest		(1.5)		
Acquisitions		(60.5)		
Proceeds from sale of notes			38.3	
Distributions from equity affiliates	25.0	18.0	23.0	10.0
Investment in affiliates		(4.3)		
Proceeds from sale of investment in affiliates			20.6	
Loan to affiliate		(6.3)		
Proceeds from the sale of assets		39.1	5.1	12.3

Net cash (used for) investing activities	(15.3)	(113.7)	(48.5)	(111.7)
Cash flows from financing activities:				
Increase/(decrease) in short-term debt, net	2.8	(15.2)	5.1	4.0
Issuance of long-term debt		800.0		
Payments of long-term debt	(0.2)	(15.5)	(7.6)	(9.8)
Payments under the POR		(300.7)		
Dividend to minority interest		(1.1)		
Debt issuance costs	(10.7)			
Other, net		0.5	(1.4)	(1.2)
Net cash provided by (used for) financing activities	(8.1)	468.0	(3.9)	(7.0)
Effect of exchange rate changes on cash and cash equivalents	1.3	5.4	(8.0)	7.5
Net increase (decrease) in cash and cash equivalents	$ 48.0	$ (386.4)	$ 86.3	$ 31.6
Cash and cash equivalents at beginning of period	$ 215.8	$ 602.2	$ 515.9	$ 484.3
Cash and cash equivalents at end of period	$ 263.8	$ 215.8	$ 602.2	$ 515.9
Cash and cash equivalents at end of period from discontinued operations	11.3			
Cash and cash equivalents at end of period from continuing operations	$ 252.5	$ 215.8	$ 602.2	$ 515.9

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

See accompanying notes to consolidated financial statements beginning on page 59.

Armstrong World Industries, Inc., and Subsidiaries

Notes to Consolidated Financial Statements

(dollar amounts in millions)

NOTE 1. BUSINESS AND CHAPTER 11 REORGANIZATION

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

Armstrong Holdings, Inc. (AHI) is a Pennsylvania corporation and, as of September 30, 2006, was the publicly held parent holding company of AWI. AHI s only operation was its indirect ownership, through Armstrong Worldwide, Inc. (AWWD, a Delaware corporation), of all of the capital stock of AWI. Upon AWI s POR becoming effective on October 2, 2006, all then-current shares of AWI were cancelled, and AHI was not entitled to any distribution under the POR in respect of its former equity interest in AWI. AHI, AWWD, and AWI have a settlement of claims pending court approval in AWI s Chapter 11 case. See Matters Concerning AHI for additional information about the settlement.

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

AWI s two wholly-owned subsidiaries that commenced Chapter 11 proceedings at the same time as AWI remain in Chapter 11. The following summarizes the events in its Chapter 11 case that led to AWI s emergence.

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 assigned to Judge Judith K. Fitzgerald.

AHI and all of AWI s other direct and indirect subsidiaries and affiliates, including Armstrong Wood Products Inc. (formerly Triangle Pacific Corp.), WAVE (AWI s ceiling grid systems joint venture with Worthington Industries, Inc.), Armstrong Canada, and Armstrong DLW AG, were not a part of the Filing and accordingly, except for any asbestos-related liability that also relates, directly or indirectly, to the pre-Filing activities of AWI, the liabilities, including asbestos-related liability if any, of such companies were not resolved in AWI s Chapter 11 Case. See below under The Asbestos Personal Injury Trust and Note 32 under Asbestos-Related Litigation .

Through October 1, 2006, AWI operated its business and managed its properties as a debtor-in-possession subject to the provisions of the Bankruptcy Code. Pursuant to the provisions of the Bankruptcy Code, AWI was 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 could not enforce any prepetition claims unless specifically authorized by the Bankruptcy Court. In addition, as a debtor-in-possession, AWI had 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 were specifically assumed and others were specifically rejected already in the course of the Chapter 11 Case. In the plan of reorganization, AWI identified other executory contracts and

Armstrong World Industries, Inc., and Subsidiaries

Notes to Consolidated Financial Statements

(dollar amounts in millions)

unexpired leases that it assumed or rejected effective on the Effective Date; any not specifically assumed under the plan of reorganization were rejected as of that date.

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 had the right to be heard on matters that came before the Bankruptcy Court in the Chapter 11 Case. Upon resolution of all asbestos property damage claims, the Asbestos Property Damage Committee was disbanded. Upon AWI s emergence from Chapter 11 on October 2, 2006, the Asbestos Personal Injury Claimants Committee and the Unsecured Creditors Committee were disbanded. The Future Claimants Representative will continue to serve, but as of October 2, 2006 his expenses will be borne by the Asbestos Personal Injury Trust established under the plan of reorganization as described below.

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 through May 23, 2006, was confirmed by the U.S. District Court for the District of Delaware (the Court) on August 18, 2006. Such plan, as confirmed, is referred to in this report as the POR . Pursuant to the POR, upon emergence from Chapter 11 on October 2, 2006, AWI continued to conduct its existing lines of business with a reorganized capital structure under which, among other things, its existing shares were cancelled and new common shares of reorganized Armstrong and cash were issued to its unsecured creditors and to the Armstrong World Industries, Inc. Asbestos Personal Injury Settlement Trust (the Asbestos PI Trust), which was established under the POR, as described below, for the benefit of AWI s current and future asbestos-related personal injury claimants, in full satisfaction of their claims against AWI. 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 prepared a disclosure statement concerning its business and the POR, including certain projected financial information assuming an effective date of the POR of 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 and was not otherwise updated for use in any submission made in the Chapter 11 Case. This 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. The projected financial information and estimates of value were prepared by AWI and its financial advisors and were not audited or reviewed by independent accountants. 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 have and 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

Armstrong World Industries, Inc., and Subsidiaries

Notes to Consolidated Financial Statements

(dollar amounts in millions)

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.

In order for AWI s POR to be confirmed, the U.S. District Court had to also issue findings of fact and conclusions of law in support of confirmation of the POR, enter or affirm an order confirming the POR and issue an injunction under Section 524(g) of the Bankruptcy Code (see Asbestos Personal Injury Trust below). Following procedural delays concerning the status of the prior U.S. District Court judge presiding over AWI s Chapter 11 Case, the 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 the existing equity holder (AHI), as then provided under the POR, violated the absolute priority rule of the Bankruptcy Code.

AWI appealed this decision to the United States Court of Appeals for the Third Circuit. On December 29, 2005, that court 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 AWI s existing equity holder. AWI filed the modified POR with the Court on February 21, 2006. Following the conference, Judge Robreno established a schedule for a U.S. District Court confirmation hearing on the modified POR.

The confirmation hearing commenced on May 23, 2006 and concluded with oral arguments on July 11, 2006. At that hearing, the Court heard testimony and received evidence relating to the Unsecured Creditors Committee s objection that the modified POR unfairly discriminated against the unsecured creditors, based on the size of the present and future asbestos liability implied by the modified POR.

On August 15, 2006, the Court issued its opinion overruling the Unsecured Creditors Committee s objection. On August 18, 2006, the Court entered the order confirming AWI s POR, along with its findings of facts and conclusions of law.

A description of the basic components of the POR, as it became effective on October 2, 2006, follows.

Relationship to Armstrong Holdings, Inc. (AHI)

Upon the POR becoming effective on October 2, 2006, all then-current shares of AWI were cancelled, and AHI was not entitled to any distribution on account of its equity interest in AWI. See Matters Concerning AHI in this footnote for a discussion on the pending matters between AHI and AWI.

Asbestos Personal Injury Trust

Upon the POR becoming effective on October 2, 2006, the Asbestos PI Trust was created, pursuant to section 524(g) of the Bankruptcy Code, for the purpose of addressing AWI s personal injury (including wrongful death) asbestos-related liability. As of October 2, 2006, all present and future asbestos-related personal injury claims against AWI, including contribution claims of co-defendants, arising directly or indirectly out of AWI s pre-Filing use of or other activities involving asbestos are channeled to the Asbestos PI Trust.

As part of the POR, an injunction was issued under Section 524(g) protecting various entities from such present and future AWI asbestos-related personal injury claims. These entities include, among others, reorganized Armstrong, AHI, AWI s subsidiaries and other affiliates (as defined in the POR), and their

Armstrong World Industries, Inc., and Subsidiaries

Notes to Consolidated Financial Statements

(dollar amounts in millions)

respective officers and directors. Now that AWI has emerged from Chapter 11, reorganized Armstrong does not have any responsibility for these claims (including claims against reorganized Armstrong based solely on its ownership of a subsidiary or other affiliate), nor will it participate in the resolution of these claims.

However, although AWI s domestic and foreign subsidiaries and other affiliates have certain protection afforded by the 524(g) injunction, asbestos-related personal injury claims against them will be channeled to the Asbestos PI Trust only to the extent such claims directly or indirectly relate to the manufacturing, installation, distribution or other activities of AWI or are based solely on AWI s ownership of the subsidiaries or other affiliates (as distinguished from independent activities of the subsidiaries or affiliates). See Note 32 under Asbestos-Related Litigation.

In addition, workers compensation claims brought against AWI or its subsidiaries or other affiliates will not be channeled to the Asbestos PI Trust and will 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 honored its obligations with respect to such claims during the Chapter 11 Case. Currently, AWI has six pending workers compensation claims, and a 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 will not be channeled to the Asbestos PI Trust under the POR and that are of a magnitude that, individually or collectively, would be material in amount to reorganized Armstrong.

Consideration Distributed under the POR

The Asbestos PI Trust and the holders of allowed unsecured claims, other than convenience creditors described below, became entitled on the Effective Date to share in the following consideration to be distributed to them under the POR:

AWI s Available Cash, which, as defined in the POR, was:

- Cash available as of September 30, 2006 after reserving up to $100 million (as determined by AWI) to fund ongoing operations and making provisions for the payment of allowed claims of convenience creditors and certain other 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, pursuant to the POR, proceeds received from any private offering of debt securities or secured term loan borrowings made, as permitted by, and in connection with consummation of, the POR, and certain other amounts authorized or directed by the Court, were 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 or secured term loan borrowings made in lieu of Plan Notes, and

New common shares of reorganized Armstrong, representing all of the shares issued under, and outstanding after giving effect to, the POR, which were determined to be 56.4 million shares, except that an additional 5,349,000 shares (5% of the shares on a fully diluted basis) were reserved for issuance pursuant to a Long-Term Incentive Plan for key employees.

Armstrong World Industries, Inc., and Subsidiaries

Notes to Consolidated Financial Statements

(dollar amounts in millions)

The POR called for AWI to use reasonable efforts to issue one or more private offerings of debt securities or arrange term loan borrowings on, or as soon as practicable after, the Effective Date, so as to yield net proceeds at least equal to the amount of the Plan Notes prescribed by the Plan, which was the greater of (i) $1.125 billion less Available Cash and (ii) $775 million. Following its emergence, AWI received commitments for, and then entered into and received the proceeds from, $800 million of secured term loan borrowings for use principally in lieu of issuance of the Plan Notes. The borrowings consist of a $300 million term loan with a 5 year maturity and a $500 million term loan with a 7 year maturity. Of the $800 million borrowed, $775 million was distributed to the Asbestos PI Trust and holders of allowed unsecured claims, as described in the following paragraph, and the remaining $25 million is being used by AWI for operational purposes.

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

- 34.43% of the 56.4 million new common shares of reorganized Armstrong,

- 34.43% of the first $1.05 billion of all the Available Cash and net cash proceeds from the secured term loan borrowings in lieu of 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 net cash proceeds from the secured term loan borrowings.

- 60% of the next $50 million of Available Cash but, if such Available Cash is less than $50 million, then 60% of the balance of the net cash proceeds from the secured term loan borrowings made in lieu of issuing the Plan Notes, and

- 34.43% of the remaining amount of any Available Cash, and the remaining net cash proceeds from the secured term loan borrowings made in lieu of issuing the Plan Notes.

Under the POR, the remaining amount of new common shares of reorganized Armstrong, Available Cash and net cash proceeds from the secured term loan borrowings, made in lieu of issuing the Plan Notes, were distributed to the Asbestos PI Trust. Pursuant to the POR, AWI also transferred rights arising under liability insurance policies issued to AWI with respect to asbestos-related personal injury claims to the Asbestos PI Trust. See Note 32 for additional information regarding the asbestos-related personal injury insurance proceedings.

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 were treated as convenience creditors and will receive payment of 75% of their allowed claim amount in cash (which payments reduced the amount of Available Cash). Payments totaling $2.4 million to-date were made to the convenience creditors, commencing on October 2, 2006, with another $0.6 million expected to be paid in future periods.

Valuation of Consideration to be Distributed under the POR

During the third quarter of 2003, AWI and its financial advisors estimated the value of reorganized Armstrong to be between $2.4 billion and $3.0 billion, with the mid-point of this range used in the financial projections that were part of the Disclosure Statement. AWI and its financial advisors determined the reorganization value as of October 2, 2006 to be $2.94 billion. This value is being used as the basis for AWI s fresh-start reporting. See Note 3 for additional information on fresh-start reporting.

Armstrong World Industries, Inc., and Subsidiaries

Notes to Consolidated Financial Statements

(dollar amounts in millions)

Based upon the distribution provisions for the POR described above, the Asbestos PI Trust and holders of allowed unsecured claims became entitled on the Effective Date to receive the following distributions:

	Number of Shares and Cash Distributed To		
(reported in millions)	**Asbestos PI Trust**	**Unsecured Creditors**	**Total**
Shares of reorganized Armstrong	37.0	19.4	56.4
Cash proceeds from borrowings	$ 508.2	$ 266.8	$ 775.0
Available Cash	230.3	140.4	370.7
Total of cash proceeds	$ 738.5	$ 407.2	$ 1,145.7
Book value of insurance receivable	$ 91.5		

Distribution to the Asbestos PI Trust of the above-mentioned new common shares was made on October 2, 2006 and distribution to it of its share of Available Cash and net cash proceeds from the secured term loan borrowings was completed by October 17, 2006. The rights arising under liability insurance policies issued to AWI with respect to asbestos related personal injury claims were transferred to the Asbestos PI Trust on October 2, 2006. The initial distribution to holders of allowed unsecured claims, of their pro rata share of the above-mentioned new common shares, Available Cash and net cash proceeds from the secured term loan borrowings, commenced on October 17, 2006. Substantially all of the total unsecured creditors value was distributed in the fourth quarter 2006, with some of the value reserved from distribution due to a few unsecured claims that remain unresolved. The remaining amount of distribution to the unsecured creditors will be made in future periods, as the disputed claims are resolved, in accordance with the dates and procedures established under the POR.

Matters Concerning AHI

As of September 30, 2006, AHI s only operation was its indirect ownership, through Armstrong Worldwide, Inc. (a Delaware corporation), of all of the capital shares of AWI. Upon the POR becoming effective on October 2, 2006, all then-current shares of AWI were cancelled, and AHI was not entitled to any distribution on account of its equity interest in AWI.

On August 23, 2006, AHI announced that it and Armstrong Worldwide, Inc. have pending claims in AWI s Chapter 11 Case (collectively, the AHI Claim). The AHI Claim relates to intercompany charges and credits between the companies. If and to the extent the AHI Claim or any part of it is allowed in AWI s Chapter 11 Case, AHI would recover on such claim on the same basis as other general unsecured creditors of AWI are entitled to recover under the POR.

A final federal income tax return for AHI and AWI on a consolidated basis is expected to be filed for 2006 by September 2007. AHI and AWI will report substantial tax losses in this final tax return. The use of the tax losses and the extent to which they result in tax refunds will be affected by elections to be made in this final consolidated return by AHI as agent for the Armstrong consolidated group. Some elections would be more beneficial to one company than the other. The Armstrong consolidated group will receive a substantial tax refund of current year, and possibly prior year, tax payments. The amount of the refund of prior year tax payments will depend in part on the elections made in the tax return. How much of the tax refunds will be retained by AHI was negotiated between AHI and reorganized Armstrong (see below).

In order to address the AHI Claim and its tax-related issues with AWI, at a meeting on September 16, 2006, the Board of Directors of AHI appointed a special committee of the Board. The members of the

Armstrong World Industries, Inc., and Subsidiaries

Notes to Consolidated Financial Statements

(dollar amounts in millions)

committee are independent directors of AHI who do not serve as directors of, or otherwise participate in the affairs of, AWI. The committee negotiated with AWI concerning these matters.

On February 26, 2007, AHI and AWI announced that they reached a settlement on all intercompany claim and tax matters. The settlement was submitted to the U.S. Bankruptcy Court for its approval. The settlement calls for AWI to pay AHI $20 million in cash, and gives AHI an allowed claim under AWI s confirmed Plan of Reorganization of $8.5 million. The settlement gives AWI the right to make all relevant tax elections and file all required tax returns on behalf of the Armstrong group of companies for all relevant tax periods during which the two companies were affiliated, and to receive and retain all related tax refunds. The U.S. Bankruptcy Court is scheduled to review the settlement on April 2, 2007.

Common Shares and Debt Securities

AWI s new common shares began trading on the New York Stock Exchange on October 10 under the ticker symbol AWI . AWI s pre-Filing debt securities that were trading in the OTC Bulletin Board under the ticker symbol AKKWQ ceased trading upon AWI s emergence from Chapter 11.

Financing

Through October 1, 2006, AWI had a $75.0 million debtor-in-possession (DIP) credit facility that was limited to issuances of letters of credit. On October 2, 2006, this facility was cancelled, and AWI entered into a secured $300 million revolving credit facility, that is scheduled to mature in 5 years. By October 16, 2006, AWI received commitments for, and the proceeds from, $800 million of secured term loan borrowings. Of the $800 million borrowed, $775 million was distributed to the Asbestos PI Trust and holders of allowed unsecured claims, as described earlier in this note, and the remaining $25 million is being used by AWI for operational purposes. See Note 17 for further information on our debt.

Accounting Impact

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

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 5 for detail of the liabilities subject to compromise at December 31, 2006 and December 31, 2005. Liabilities that may have been affected by a plan of reorganization were recorded at the expected amount of the allowed claims, even if they were settled for lesser amounts. Substantially all of AWI s pre-Filing debt, in default as of the Filing Date, was recorded at face value and was classified within liabilities subject to compromise. Obligations of AWI subsidiaries not covered by the Filing remained classified on the consolidated balance sheet based upon maturity date. AWI s estimated liability for asbestos-related personal injury claims was also recorded in liabilities subject to compromise. See Note 32 for further discussion of AWI s asbestos liability.

Armstrong World Industries, Inc., and Subsidiaries

Notes to Consolidated Financial Statements

(dollar amounts in millions)

SOP 90-7 also requires separate reporting of all revenues, expenses, realized gains and losses, and provision for losses related to the Filing as Chapter 11 reorganization costs, net. Accordingly, AWI recorded the following Chapter 11 reorganization activities during 2006, 2005 and 2004:

	Successor Company	Predecessor Company		
	Three Months Ended December 31, 2006	Nine Months Ended September 30, 2006	Year 2005	Year 2004
Professional fees	$	$ 30.2	$ 10.4	$ 11.5
Interest income, post-Filing		(15.0)	(11.8)	(4.8)
Adjustments to pre-Filing liabilities			0.1	
Gain from discharge of liabilities subject to compromise		(1,510.8)		
Gain from fresh-start reporting		(459.9)		
Other expense directly related to bankruptcy, net			0.1	0.2
Total Chapter 11 reorganization (income) costs, net	$	$ (1,955.5)	$ (1.2)	$ 6.9

Professional fees represent legal and financial advisory fees and expenses that were incurred directly as a result of the Filing. We incurred $4.3 million in fees on October 2, 2006 as a direct result of our emergence from Chapter 11. We are reporting the $4.3 million in the Predecessor Company, as we selected September 30, 2006 as the date to adopt fresh-start reporting (see below and Note 3).

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

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

AWI incurred $4.6 million of expenses during the fourth quarter of 2006 for Chapter 11 related post-emergence activities. Pursuant to SOP 90-7, these expenses were reported as selling, general and administrative (SG&A) expenses.

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.

Armstrong World Industries, Inc., and Subsidiaries

Notes to Consolidated Financial Statements

(dollar amounts in millions)

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 asset values, 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 Statements of Earnings and related notes thereto have been recast to conform to the 2006 presentation, including the reclassification of our textiles and sports flooring business to discontinued operations. We also reclassified computer software from intangible assets to property, plant and equipment in the prior years Consolidated Balance Sheets.

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, promotional programs and warranties. We defer recognizing revenue if special sales agreements, established at the time of sale, warrant this treatment.

Sales Incentives. Sales incentives are reflected as a reduction of net sales 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 to reflect the expected future tax consequences of events recognized in the financial statements. Deferred tax assets and liabilities are recognized by applying enacted tax rates to temporary differences that exist as of the balance sheet date which result from differences in the timing of reported taxable income between tax and financial reporting. These deferred tax assets and liabilities assume that benefits are recorded at the highest amount that is more likely than not to be sustained through the tax audit cycle.

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

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

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

Armstrong World Industries, Inc., and Subsidiaries

Notes to Consolidated Financial Statements

(dollar amounts in millions)

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 2006, 2005 and 2004 were:

Customer	Successor Company	Predecessor Company		
	Three months ended December 31, 2006	Nine months ended September 30, 2006	Year 2005	Year 2004
The Home Depot, Inc.	$ 78.8	$ 285.3	$ 384.1	$ 393.4

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

There are no significant concentrations of credit risk other than with The Home Depot, Inc. and Lowe s Companies, Inc. who together represented approximately 22% and 24% of our trade receivables as of December 31, 2006 and 2005, respectively. We monitor the creditworthiness of our customers and generally do not require collateral.

Receivables. We sell the vast majority of our products to select, pre-approved customers using customary trade terms that allow for payment in the future. Customer trade receivables, customer notes receivable and miscellaneous receivables (which include supply related rebates and claims to be received, unpaid insurance claims from litigation and other), net of allowances for doubtful accounts, rebates, promotional programs and warranties are reported in accounts and notes receivable, net. Notes receivable from divesting certain businesses are included in other current assets and other non-current assets based upon the payment terms. Insurance receivables for asbestos-related liabilities were 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 samples used in ongoing sales and marketing activities. Cash flows from the sale of inventory and the related cash receipts are classified as operating cash flows on the consolidated statements of cash flows. See Note 9 for further information on our accounting for inventories.

Property and Depreciation. For the Predecessor Company, property, plant and equipment values are stated at acquisition cost less accumulated depreciation and amortization. For the Successor Company, property, plant and equipment were set equal to fair value as of our emergence date and are currently stated at that value less accumulated depreciation and amortization. Property, plant and equipment acquired after our emergence date is stated at acquisition cost less accumulated depreciation and amortization.

Depreciation charges for financial reporting purposes are determined on a straight-line basis at rates calculated to provide for the 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

Armstrong World Industries, Inc., and Subsidiaries

Notes to Consolidated Financial Statements

(dollar amounts in millions)

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 cost of goods sold or 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 the nine months ended September 30, 2006, the year 2005 or the year 2004 due to the Chapter 11 Filing. There was also no capitalized interest in the three months ended December 31, 2006.

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

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

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

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

Stock-based Employee Compensation. On January 1, 2006, we adopted FASB Statement No. 123 (revised 2004), Share-Based Payment (FAS 123R). Prior to January 1, 2006, we used the intrinsic value method for stock-based employee compensation. There would have been no effect on net income if we had applied the fair value recognition provisions of FAS 123R to share-based employee compensation in 2005 and 2004. See Note 25 for additional information on FAS 123R.

Recently Adopted Accounting Standards

In connection with AWI s emergence from Chapter 11 on October 2, 2006, reorganized Armstrong adopted fresh-start reporting in accordance with AICPA Statement of Position 90-7, Financial Reporting by Entities in Reorganization Under the Bankruptcy Code (SOP 90-7). As a result of the application of fresh-start reporting, changes in accounting principles that will be required in reorganized Armstrong s financial statements within the twelve months following our emergence date were required to be adopted at the time fresh-start reporting was adopted.

Armstrong World Industries, Inc., and Subsidiaries

Notes to Consolidated Financial Statements

(dollar amounts in millions)

In July 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes, which clarifies the accounting for uncertain tax positions and adds new required annual disclosures. FIN 48 is effective for fiscal years beginning after December 15, 2006. However, due to the requirements of fresh-start reporting, we were required to adopt FIN 48 effective October 2, 2006. See Note 16 for information regarding the adoption of FIN 48.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158 (FAS 158), Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, which establishes recognition and disclosure provisions for sponsors of defined benefit pension and other postretirement benefit plans. FAS 158 is effective for fiscal years ending after December 15, 2006. Due to the requirements of fresh-start reporting, we were required to adopt FAS 158 effective October 2, 2006. As part of fresh-start reporting, we recognized all unrecognized gains, losses, and prior service cost existing at October 2, 2006. The equity adjustment for FAS 158 in our December 31, 2006 balance sheet therefore represented only gains and losses incurred in the fourth quarter of 2006.

Recently Issued Accounting Standards

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

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159 (FAS 159), The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115, which permits companies to measure financial instruments and certain other assets and liabilities at fair value on an instrument by instrument basis. FAS 159 is effective for fiscal years beginning after November 15, 2007. We are currently evaluating the effects of this pronouncement on our financial statements.

NOTE 3. PLAN OF REORGANIZATION AND FRESH-START REPORTING

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

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

Armstrong World Industries, Inc., and Subsidiaries

Notes to Consolidated Financial Statements

(dollar amounts in millions)

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

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

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

Fresh-start reporting required us to allocate the reorganization value to our assets and liabilities based upon their estimated fair values in accordance with procedures specified by SFAS 141, Business Combinations. Adjustments necessary to state our balance sheet accounts at fair value were made based on the work of management and an independent appraisal firm. The newly assigned fair values to our assets and liabilities fully reflect the emerged entity s reorganization value. No goodwill was assigned at emergence.

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

Table of Contents

Armstrong World Industries, Inc., and Subsidiaries

Notes to Consolidated Financial Statements

(dollar amounts in millions)

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

Common stock successor		0.6	(E)			0.6
Capital in excess of par	172.6	1,480.1	(E)	444.9	(K)	2,097.6
Reduction for ESOP loan guarantee	(142.2)	142.2	(E)			
Accumulated deficit	(803.4)	1,019.8	(C)	(216.4)	(K)	
Accumulated other compr. income	45.4			(45.4)	(K)	
Treasury stock-predecessor	(528.5)	528.5	(E)			
Total shareholders equity (deficit)	(1,204.2)	3,119.3		183.1	(F)	2,098.2
Total liabilities and shareholders equity (deficit)	$ 4,720.8	$ (420.1)		$ (140.8)		$ 4,159.9

Table of Contents

Armstrong World Industries, Inc., and Subsidiaries

Notes to Consolidated Financial Statements

(dollar amounts in millions)

Notes to Reorganization and Fresh-Start Activity

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

Cash balance of Predecessor as of September 30, 2006		$ 520.6
Proceeds from Successor borrowing	$ 800.0	
Cash distributed to unsecured creditors	(362.0)	
Cash distributed to asbestos trust	(738.5)	
Cash distributed for convenience, cure and other	(4.3)	
Net change in cash	(304.8)	(304.8)
Cash balance of Successor prior to fresh-start adjustments		$ 215.8
Distributions to be made to unsecured creditors and asbestos trust		$ 1,145.7
Distributions expected to be made for convenience, cure and other		5.5
Total expected distributions		1,151.2
Distributions made to date		(1,104.8)
Distributions reserved and pending		$ 46.4

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

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

Liabilities subject to compromise that were discharged:	
Debt (at face value)	$ 1,388.6
Asbestos related liability	3,190.6
Prepetition trade payables	57.1
Prepetition other payables and accrued interest	68.1
Amounts due to affiliates	4.7
ESOP loan guarantee	157.7
Total liabilities subject to compromise	4,866.8
Effect of new shares, new debt and other settlement items:	

Liabilities subject to compromise not discharged and reclassified to liabilities	(19.2)
Insurance receivable transferred to asbestos trust	(91.5)
Fair value of new equity issued	(2,098.2)
Proceeds of Successor debt to be paid to creditors	(775.0)
Available cash to be paid to creditors	(370.7)
Amounts due to affiliates settled in bankruptcy	10.1
Recognition of convenience, environmental and other claim liability	(5.5)
Other	(6.0)
Gross gain on settlement	1,510.8
Less: Professional fees payable	(4.3)
Less: Tax effect on settlement	(486.7)
Net gain on settlement	$ 1,019.8

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

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

Table of Contents

Armstrong World Industries, Inc., and Subsidiaries

Notes to Consolidated Financial Statements

(dollar amounts in millions)

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

Inventory	$ 88.8
Property, plant and equipment	(172.3)
Prepaid pension costs	(22.8)
Investment in affiliates	219.2
Goodwill	(143.1)
Other intangibles	619.3
Postretirement and pension obligations	(146.2)
Other	17.0
Gain on fresh-start adjustments before tax	459.9
Less: Discontinued operation fair value adjustment	(70.4)
Less: Elimination of other comprehensive income	(45.4)
Less: Tax effect on fresh-start	(161.0)
Change in equity	$ 183.1

(See Note 7 for a summary of amounts reclassified to Assets and Liabilities of Discontinued Business Held for Sale)

(G) To eliminate Predecessor goodwill.

(H) To reflect tax effect on POR settlement items.

(I) To adjust deferred income taxes to reflect differences in the book versus tax basis of revalued assets and liabilities.

(J) To reclassify discontinued business as Assets of discontinued business held for sale and Liabilities of discontinued business held for sale.

(K) To reset accumulated other comprehensive income and accumulated deficit to zero and adjust capital in excess of par to reorganization value.

NOTE 4. NATURE OF OPERATIONS

Reportable Segments

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

Wood Flooring produces and sources wood flooring products for use in new residential construction and renovation, with some commercial applications in stores, restaurants and high-end offices. The product offering includes solid wood (predominantly pre-finished), 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®, Armstrong , HomerWood®, Capella® and T. Morton .

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

Armstrong World Industries, Inc., and Subsidiaries

Notes to Consolidated Financial Statements

(dollar amounts in millions)

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, the Armstrong brand name and the U.S. prepaid pension cost. Expenses for our corporate departments and certain benefit plans are allocated to the reportable segments based on known metrics, such as time reporting, headcount 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.

Armstrong World Industries, Inc., and Subsidiaries

Notes to Consolidated Financial Statements

(dollar amounts in millions)

Successor Company For the three months ended December 31, 2006	Resilient Flooring	Wood Flooring	Building Products	Cabinets	Unallocated Corporate	Total
Net sales to external customers	$ 278.5	$ 192.6	$ 289.7	$ 56.5		$ 817.3
Equity (earnings) from joint venture		0.2	(5.5)			(5.3)
Segment operating income (loss)[1]	(1.2)	(0.2)	24.9	0.2	(7.2)	16.5
Restructuring charges, net of reversals	0.3	1.4				1.7
Segment assets	690.1	498.9	1,159.8	81.8	1,740.1	4,170.7
Depreciation and amortization	10.5	2.3	13.9	0.7	4.8	32.2
Fixed asset impairment loss						
Investment in affiliates		4.0	290.6			294.6
Capital additions	10.3	10.2	12.1	1.5	4.1	38.2

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

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

Predecessor Company For the year ended 2004	Resilient Flooring	Wood Flooring	Building Products	Cabinets	Unallocated Corporate	Total
Net sales to external customers	$ 1,262.3	$ 832.1	$ 971.7	$ 213.0		$ 3,279.1
Equity (earnings) from joint venture			(31.6)			(31.6)
Segment operating income (loss) [1]	(152.8)	51.4	127.0	1.4	(64.7)	(37.7)
Restructuring charges, net of reversals	4.5	1.6	10.9	0.4	0.5	17.9
Segment assets	787.8	663.6	596.3	102.2	2,291.3	4,441.2
Depreciation and amortization	63.9	18.1	35.2	3.8	25.7	146.7
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	34.3	33.7	44.5	1.4	16.7	130.6

(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

Table of Contents

Armstrong World Industries, Inc., and Subsidiaries

Notes to Consolidated Financial Statements

(dollar amounts in millions)

following reconciles our total consolidated operating income (loss) to income before taxes, extraordinary items, discontinued operations, and the cumulative effect of changes in accounting principles. These items are only measured and managed on a consolidated basis:

	Successor Company	Predecessor Company		
	Three months ended December 31, 2006	Nine months ended September 30, 2006(1)	2005	2004
Segment operating income (loss)	$ 16.5	$ 194.3	$ 101.1	$ (37.7)
Interest expense	13.4	5.2	7.7	7.9
Other non-operating expense	0.3	1.0	1.5	3.1
Other non-operating (income)	(4.3)	(7.2)	(11.8)	(6.4)
Chapter 11 reorganization costs, net		(1,955.5)	(1.2)	6.9
Income (loss) before taxes and discontinued operations	$ 7.1	$ 2,150.8	$ 104.9	$ (49.2)

(1) Reflects the effects of the Plan of Reorganization and fresh-start reporting. See Note 3 to the Consolidated Financial Statements.
Accounting policies of the segments are the same as those described in the summary of significant accounting policies.

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

	Successor Company	Predecessor Company
Geographic Areas		
Net trade sales		