

ARMSTRONG WORLD INDUSTRIES INC
Form 11-K
March 28, 2006

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 11-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended September 30, 2005

OR

TRANSITION REPORT PURSUANT TO SECTION 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission file numbers 1-2116 and 000-50408

RETIREMENT SAVINGS PLAN FOR HOURLY-PAID EMPLOYEES

OF ARMSTRONG WORLD INDUSTRIES, INC.

(Full title of the Plan)

ARMSTRONG WORLD INDUSTRIES, INC.

ARMSTRONG HOLDINGS, INC.

2500 Columbia Avenue Lancaster, Pennsylvania 17604

(Name of issuer of the securities held pursuant to the Plan

and the address of its principal executive office)

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the members of the committee constituting the administrator which administers the plan have duly caused this annual report to be signed by the undersigned hereunto duly authorized.

RETIREMENT SAVINGS PLAN FOR HOURLY-PAID
EMPLOYEES OF ARMSTRONG WORLD INDUSTRIES, INC.

March 28, 2006

By: /s/ R. Scott Webster
R. Scott Webster, Secretary of the Retirement Committee

Item 1

Report of Independent Registered Public Accounting Firm

The Retirement Committee

Armstrong World Industries, Inc.:

We have audited the accompanying statements of net assets available for benefits of the Retirement Savings Plan for Hourly-Paid Employees of Armstrong World Industries, Inc. (the Plan) as of September 30, 2005 and 2004 and the related statements of changes in net assets available for benefits for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements 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.

As discussed in Note 1 to the financial statements, on December 6, 2000, Armstrong World Industries, Inc., the Plan's sponsor, 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 its asbestos liability.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Retirement Savings Plan for Hourly-Paid Employees of Armstrong World Industries, Inc. as of September 30, 2005 and 2004 and the changes in net assets available for benefits for the years then ended, in conformity with U.S. generally accepted accounting principles.

/s/ KPMG LLP

March 2, 2006
Philadelphia, Pennsylvania

Item 2

RETIREMENT SAVINGS PLAN FOR HOURLY-PAID EMPLOYEES

OF ARMSTRONG WORLD INDUSTRIES, INC.

Statements of Net Assets Available for Benefits

September 30, 2005 and 2004

| | September 30, | |
|---|----------------------|-------------------|
| | 2005 | 2004 |
| <i>Assets:</i> | | |
| Investments in master trust (see Note 2): | | |
| Cash equivalents | | \$ 4,170,060 |
| Shares of registered investment companies | \$ 33,212,011 | 33,437,805 |
| Interest in common/collective trusts | 47,988,469 | 45,060,865 |
| Armstrong Holdings, Inc. Common Stock | 1,227,505 | 1,015,544 |
| Participant loans | 2,453,555 | 2,430,544 |
| Total investments in Master Trust | 84,881,540 | 86,114,818 |
| Net assets available for benefits | \$ 84,881,540 | \$ 86,114,818 |

See accompanying notes to the financial statements.

Item 3**RETIREMENT SAVINGS PLAN FOR HOURLY-PAID EMPLOYEES****OF ARMSTRONG WORLD INDUSTRIES, INC.****Statements of Changes in Net Assets Available for Benefits****Years Ended September 30, 2005 and 2004**

| | Year Ended September 30, | |
|---|---------------------------------|----------------------|
| | 2005 | 2004 |
| Additions to net assets attributed to: | | |
| Employee contributions | \$ 5,307,539 | \$ 5,014,400 |
| Employer contributions | 397,204 | 392,327 |
| Dividends | 2,588,803 | 2,458,561 |
| Interest on loans | 107,622 | 108,390 |
| Net transfers from other employee benefit plans | 25,592 | |
| Net appreciation in fair value of investments | 3,830,963 | 2,608,544 |
| Total additions | 12,257,723 | 10,582,222 |
| Reduction in net assets attributed to: | | |
| Benefits paid to participants | 13,438,541 | 7,756,718 |
| Deemed distributions of participant loans | 41,453 | 35,429 |
| Fees | 11,007 | 41,244 |
| Net transfers to other employee benefit plans | | 328,453 |
| Total reductions | 13,491,001 | 8,161,844 |
| Net increase (decrease) | (1,233,278) | 2,420,378 |
| Net assets available for benefits: | | |
| Beginning of year | 86,114,818 | 83,694,440 |
| End of year | \$ 84,881,540 | \$ 86,114,818 |

See accompanying notes to the financial statements.

RETIREMENT SAVINGS PLAN FOR HOURLY-PAID EMPLOYEES

OF ARMSTRONG WORLD INDUSTRIES, INC.

Notes to Financial Statements

September 30, 2005 and 2004

(1) Plan Description

The Retirement Savings Plan for Hourly-Paid Employees of Armstrong World Industries, Inc. (the Plan) is a defined contribution plan established for the purpose of providing eligible hourly-paid employees a means for long-term savings intended for the accumulation of retirement income. On December 6, 2000, Armstrong World Industries, Inc. (Armstrong) filed a voluntary petition for relief under Chapter 11 of the U.S. Bankruptcy Code in Wilmington, DE in order to use the court-supervised reorganization process to achieve a resolution of its asbestos liability. Management does not anticipate that Armstrong s bankruptcy filing will have an adverse impact on the operations of the Plan. See Note 9 for further discussion of Chapter 11 events.

Separate balances are maintained for contributions made by or on behalf of a participant. The balances in each fund reflect the participants contributions together with dividends, interest, other income, and realized and unrealized gains and losses allocated thereon.

Each participant may have up to seven accounts that make up the participant s total balance:

Sheltered account Participants can contribute from 1% to 40% of pre-tax compensation as deferred compensation, as permitted under Section 401(k) of the Internal Revenue Code.

Standard account Participants may contribute from 1% to 10% of after-tax compensation.

Rollover account Participants may invest any untaxed amounts rolled over from another tax-qualified, employer-sponsored plan, qualified annuity contracts, tax-deferred annuity plans, governmental deferred compensation plans, and individual retirement arrangements.

Age 50 catch-up account Participants who are age 50 or older may make catch-up contributions, subject to the annual limits on catch-up contributions specified in the Internal Revenue Code.

Company match account For certain participants who are employed by Armstrong Wood Products, Inc., Armstrong contributes an amount equal to 50% of the first 6% of each participant s sheltered account contributions. This account also holds any amount contributed by Armstrong before cash matching contributions were discontinued in 1989 and 1990, depending upon the participant s work location (formerly referred to as the Old Match account).

AWP profit sharing account This account holds discretionary and non-discretionary profit sharing money contributed by Armstrong for certain employees.

Tax-deductible account (MIRA) This account holds any contributions made to the Plan before January 1, 1987. No new contributions can be made to this account.

RETIREMENT SAVINGS PLAN FOR HOURLY-PAID EMPLOYEES

OF ARMSTRONG WORLD INDUSTRIES, INC.

Notes to Financial Statements, (Continued)

Participants have an immediate 100% vested interest with respect to their contributions. Participants hired prior to and actively employed on January 1, 2003 are fully vested with regard to any Armstrong contributions. Participants hired on or after January 1, 2003 are fully vested in any Armstrong contributions after three years of service. Participants who were former participants in the Armstrong Wood Products Non-Union Hourly Employees 401(k) Plan, the Hartco Flooring Co. Bargaining Employees Retirement Savings Plan, the Hartco Flooring Co. Retirement Savings Plan and the Robbins Hardwood Flooring, Inc. Employees Retirement Savings Plan but were not actively employed on January 1, 2003 will become vested based upon the requirements of those predecessor plans (maximum vesting period of five years).

Amounts forfeited by participants are first used to pay administrative expenses and then to reduce future Armstrong contributions under the Plan.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis.

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make 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. Actual results could differ from estimates recorded.

(b) Investments in Master Trust

The money market and managed income portfolios are stated at cost, which approximates fair value. The value of the participant loans represents the unpaid principal of employee loans. The value of all other investments is based on quoted market price.

Securities transactions are recognized on the settlement date (the date on which payment for a buy or sell order is made or received), since adjustment to a trade-date basis would not be material. Dividend income is recorded on the ex-dividend date.

Deemed distributions occur when active participants default on their loans. Their loans are in default due to failure to make the required repayments or their loans mature and have not been repaid in full.

(c) Expenses

All legal, accounting and administrative expenses associated with Plan operations are paid by Armstrong.

(3) Investments in Master Trust

Assets are held in a Master Trust administered by Fidelity Management Trust Co., as Trustee, and are segregated into twenty-four investment options.

The following is a brief description of the investment funds to which Plan participants may elect to allocate their contributions. Participants should refer to fund prospectuses for more complete information regarding the investment funds.

1. Spartan US Equity Index Fund - This fund is principally a portfolio of common stocks constructed and maintained with the objective of providing investment results which approximate the overall performance of the common stocks included in the Standard & Poor's Composite Index of 500 stocks.

RETIREMENT SAVINGS PLAN FOR HOURLY-PAID EMPLOYEES

OF ARMSTRONG WORLD INDUSTRIES, INC.

Notes to Financial Statements, (Continued)

2. Fidelity Low-Priced Stock Fund - This fund seeks capital appreciation through investments primarily in U.S. and foreign low-priced stocks that may be undervalued, overlooked or out of favor. This fund was closed to new investors on July 30, 2004.
3. Fidelity Retirement Money Market Portfolio - This fund invests in short-term (less than one year maturity) fixed income instruments such as U.S. Treasury Bills, bank certificates of deposit, and high-grade commercial paper. Effective February 28, 2005, the fund was no longer offered as an investment option. The remaining balance was transferred to the Fidelity Managed Income Portfolio II, Class 3 fund on March 1, 2005.
4. Fidelity Managed Income Portfolio II, Class 3 - This fund is a commingled pool of the Fidelity Group Trust for 401(k) plans which is comprised of high-quality fixed income investment contracts.
5. MSIF Global Value Equity Portfolio - This fund invests in a diversified selection of stocks throughout the world. It seeks to increase the value of the investment over the long term through growth of capital.
6. Fidelity Magellan Fund - This fund invests in common stocks of companies having substantial growth prospects as determined by independent investment managers.
7. Armstrong Holdings, Inc. Common Stock - Amounts invested in this fund, along with dividend earnings thereon, are invested in Armstrong Holdings, Inc. common stock. Common stock shares held by the fund at September 30, 2005 and 2004 were 555,432 and 705,239, respectively. On May 1, 2000, Armstrong Holdings, Inc. acquired the stock of Armstrong World Industries, Inc. An indirect holding in Armstrong World Industries, Inc. makes up substantially all of the assets of Armstrong Holdings, Inc. As of December 19, 2000, the Plan was amended to eliminate this investment option effective with contributions made on or after December 27, 2000 and transfers processed on or after January 1, 2001.
8. Fidelity Overseas Fund - This fund invests in securities of issuers whose principal business activities are outside the U.S. Investments may include common stock and securities convertible into common stock, as well as debt instruments.
9. Fidelity OTC Portfolio - This fund invests in securities traded in the over-the-counter securities market with the objective of maximizing capital appreciation. Over-the-counter securities include common and preferred stocks, securities convertible into common stock, warrants, and debt instruments.
10. Davis New York Venture Fund - This fund invests primarily in stocks of large U.S. companies with a market capitalization of at least \$10 billion, with prospects for long-term sustainable growth.
11. Fidelity Diversified International Fund - This fund invests primarily in common stocks of foreign companies. Foreign investments, especially those in emerging markets, involve greater risk and may offer greater potential returns than U.S. investments.

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12. Goldman Sachs Mid-Cap Value Fund - This fund invests at least 80% of its net assets in a diversified portfolio of equity investments in mid-cap issuers with public stock market capitalizations within the range of the market capitalization of companies constituting the Russell Midcap® Value Index at the time of investment.

RETIREMENT SAVINGS PLAN FOR HOURLY-PAID EMPLOYEES

OF ARMSTRONG WORLD INDUSTRIES, INC.

Notes to Financial Statements, (Continued)

13. MSIF Trust Mid Cap Value Portfolio - This fund seeks to invest in undervalued common stocks of mid-sized companies with a strong potential for increase in share price. It seeks to provide above-average long-term returns.
14. MSIF Trust Value Portfolio - This fund seeks to provide above average long-term returns by investing mostly in common stocks of large companies that are considered undervalued.
15. Fidelity Equity Income Fund - This fund has a primary objective of seeking reasonable income levels by investing at least 80% of total assets in income producing equity securities, which tends to lead to investments in large cap value stocks. The fund may also invest in other types of equity securities and debt securities, including lower-quality debt securities.
16. Fidelity Intermediate Bond Fund - This fund has a primary objective of seeking high current income by investing in U.S. dollar-dominated investment grade debt securities with maturities between three to ten years. The Lehman Brothers Intermediate Government/Corporate Bond Index is used as a guide in structuring the fund and selecting the investments.
17. Fidelity Freedom 2010 Fund - This fund seeks high total return by investing in a combination of Fidelity equity, fixed-income, and money market funds using a moderate asset allocation strategy designed for investors expecting to retire around the year 2010.
18. Fidelity Freedom 2020 Fund - This fund seeks high total return by investing in a combination of Fidelity equity, fixed-income, and money market funds using a moderate asset allocation strategy designed for investors expecting to retire around the year 2020.
19. Fidelity Freedom 2030 Fund - This fund seeks high total return by investing in a combination of Fidelity equity, fixed-income, and money market funds using a moderate asset allocation strategy designed for investors expecting to retire around the year 2030.
20. Fidelity Freedom 2040 Fund - This fund seeks high total return by investing in a combination of Fidelity equity, fixed-income, and money market funds using a moderate asset allocation strategy designed for investors expecting to retire around the year 2040.
21. Fidelity Freedom Income Fund - This fund seeks high current income and, as a secondary objective, capital appreciation. The fund invests in a combination of Fidelity equity, fixed-income, and money market funds using a moderate allocation strategy designed for investors already in retirement.
22. Rainier Small/Mid-Cap Equity Portfolio - This fund primarily invests in small and mid-sized equity securities, ranging from approximately \$100 million to \$12 billion in market capitalization.
23. Neuberger Berman Fasciano Investment - This fund seeks a high total return by investing in small cap companies with market capitalization of less than \$1.5 billion that have the potential for increased earnings, using both the value and growth oriented investment approach.

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24. Fidelity Capital Appreciation Fund - This fund seeks a high total return by investing primarily in common stocks. The fund may invest in securities of domestic and foreign issuers. At any given time, the fund may contain growth stocks or value stocks, or a combination of both types.

RETIREMENT SAVINGS PLAN FOR HOURLY-PAID EMPLOYEES

OF ARMSTRONG WORLD INDUSTRIES, INC.

Notes to Financial Statements, (Continued)

Participant loans represent the unpaid principal balances of loans to Plan participants in accordance with established loan provision guidelines. At September 30, 2005 and September 30, 2004, the interest rates ranged between 4.00% and 10.50%.

Effective March 1, 2005, the Fidelity Magellan Fund, Fidelity Overseas Fund, and MSIF Trust Mid-Cap Value Portfolio were no longer offered with respect to contributions made or transfers requested on or after March 1, 2005. Employees who were previously contributing to one or more of these funds were notified and advised to make new investment elections. Any remaining contribution elections on February 28, 2005 to invest in these funds were transferred to the corresponding fund listed below on March 1, 2005, and any balances remaining in these funds as of February 28, 2006 were transferred to the corresponding fund listed below on February 28, 2006.

Current Fund

Fidelity Magellan Fund

Fidelity Overseas Fund

MSIF Trust Mid-Cap Value Portfolio

New Fund

Davis New York Venture Fund

Fidelity Diversified International Fund

Goldman Sachs Mid-Cap Value Fund

The following table presents the estimated fair values of the investments of the Master Trust at September 30, 2005 and 2004 (see also Note 8):

| Investment | September 30, 2005 | September 30, 2004 |
|---|---------------------------|---------------------------|
| * Spartan US Equity Index Fund | \$ 5,816,742 | \$ 6,385,489 |
| * Fidelity Magellan Fund | 10,195,444 | 12,234,876 |
| Davis New York Venture Fund | 998,427 | |
| * Fidelity Low-Priced Stock Fund | 1,777,271 | 1,878,359 |
| * Fidelity Retirement Money Market Portfolio | | 4,170,060 |
| * Fidelity Managed Income Portfolio II, Class 3 | 47,988,469 | 45,060,865 |
| MSIF Global Value Equity Portfolio | 282,661 | 199,993 |
| Armstrong Holdings, Inc. Common Stock | 1,227,505 | 1,015,544 |
| * Fidelity Overseas Fund | 511,846 | 531,575 |
| * Fidelity Diversified International Fund | 195,446 | |
| * Fidelity OTC Portfolio | 3,099,689 | 2,889,870 |
| Rainier Small/Mid-Cap Fund | 92,336 | |
| NB Fasciano Investment Fund | 8,593 | |
| * Fidelity Capital Appreciation | 30,611 | |
| MSIF Trust Mid Cap Value Portfolio | 1,391,088 | 1,354,191 |
| Goldman Sachs Mid-Cap Value Fund | 285,100 | |
| MSIF Trust Value Portfolio | 448,050 | 309,790 |
| * Fidelity Equity Income Fund | 2,162,138 | 1,820,932 |
| * Fidelity Intermediate Bond Fund | 2,517,855 | 2,748,420 |
| * Fidelity Freedom 2010 Fund | 1,887,393 | 1,760,591 |
| * Fidelity Freedom 2020 Fund | 1,265,076 | 1,093,460 |
| * Fidelity Freedom 2030 Fund | 31,745 | 16,617 |
| * Fidelity Freedom 2040 Fund | 28,591 | 50,812 |
| * Fidelity Freedom Income Fund | 185,909 | 162,830 |
| Participant Loans | 2,453,555 | 2,430,544 |
| Total investment in Master Trust | \$ 84,881,540 | \$ 86,114,818 |

* Parties-in-Interest

Plan Sponsor

RETIREMENT SAVINGS PLAN FOR HOURLY-PAID EMPLOYEES

OF ARMSTRONG WORLD INDUSTRIES, INC.

Notes to Financial Statements, (Continued)

The amounts of net appreciation (depreciation) in fair value of investments of the Master Trust for the years ended September 30, 2005 and 2004 are presented below (see also Note 8):

| Investment | 2005 | 2004 |
|---|--------------|--------------|
| Spartan US Equity Index Fund | \$ 606,841 | \$ 732,496 |
| Fidelity Magellan Fund | 1,037,655 | 1,053,405 |
| Davis New York Venture Fund | 42,426 | |
| Fidelity Low-Priced Stock Fund | 277,126 | 133,010 |
| MSIF Global Value Equity Portfolio | 26,965 | 27,249 |
| Armstrong Holdings, Inc. Common Stock | 565,683 | (78,904) |
| Fidelity Overseas Fund | 114,757 | 63,154 |
| Fidelity Diversified International Fund | 14,787 | |
| Fidelity OTC Portfolio | 490,430 | 114,434 |
| Fidelity Asset Manager Fund | | 72,509 |
| Fidelity Asset Manager: Income Fund | | 3,058 |
| Fidelity Asset Manager: Growth Fund | | 55,377 |
| Rainier Small /Mid-Cap Fund | 6,995 | |
| NB Fasciano Investment Fund | 296 | |
| Fidelity Capital Appreciation | 1,220 | |
| MSIF Trust Mid Cap Value Portfolio | 275,841 | 181,359 |
| Goldman Sachs Mid-Cap Value Fund | 17,019 | |
| MSIF Trust Value Portfolio | 35,742 | 47,672 |
| Fidelity Equity Income Fund | 127,218 | 190,771 |
| Fidelity Intermediate Bond Fund | (58,455) | (47,396) |
| Fidelity Freedom 2010 Fund | 118,040 | 25,044 |
| Fidelity Freedom 2020 Fund | 120,897 | 14,096 |
| Fidelity Freedom 2030 Fund | 2,642 | 19,902 |
| Fidelity Freedom 2040 Fund | 2,800 | 739 |
| Fidelity Freedom Income Fund | 4,038 | 569 |
| Net appreciation in fair value of investments | \$ 3,830,963 | \$ 2,608,544 |

(4) Benefits

Under terms of the Plan, a participant (or a beneficiary) is eligible for benefits upon retirement, termination of employment, or death before retirement. Disbursement of the total amount credited to a participant's account is payable (i) in a lump sum or (ii) in the case of retirement, partial disbursements are allowed.

In addition, an active employee may elect to withdraw all or any part of his account attributable to after-tax contributions. Before reaching age 59 1/2, an active employee may withdraw his pre-tax contributions from the Sheltered Account, provided he can demonstrate financial hardship. Such employees shall be ineligible to make contributions for a 6 month period. An active employee may elect to withdraw all or any portion of his account balance in the Tax-Deductible (MIRA) and Rollover Accounts.

Under the rules of the Plan, the participant may borrow up to the lesser of 50% of his vested balance or \$50,000. The money borrowed must come from the Sheltered, Age 50 catch-up, Company match, AWP profit sharing, Rollover, or Standard Accounts. The amount of the loan is transferred to a Loan Reserve pledged as security for the loan and is evidenced by a promissory note payable to the Plan. Interest rates are determined periodically by the Retirement Committee in accordance with prevailing interest rates. The loans are reflected in the Loan Portfolio

investment fund. Loan repayments are made by payroll deductions or in a manner agreed to by the employee and the Plan Administrator.

RETIREMENT SAVINGS PLAN FOR HOURLY-PAID EMPLOYEES

OF ARMSTRONG WORLD INDUSTRIES, INC.

Notes to Financial Statements, (Continued)

(5) Obligation for Benefits

All the funds of the Plan are held by investing institutions appointed by Armstrong under a trust agreement or investment contract. Benefits under the Plan are payable only out of these funds. Armstrong has no legal obligation to make any direct payment of benefits accrued under the Plan. Neither Armstrong nor any investing institution guarantees the funds of the Plan against any loss or depreciation or guarantees the payment of any benefit hereunder. Although Armstrong has not expressed any intent to terminate the Plan, it may do so at any time. In case of termination or partial termination, the total amount in each employee's account will be distributed as the Plan Administrator directs.

(6) Eligibility

Most hourly employees of Armstrong or any participating affiliated company which adopts this plan are eligible to participate. This includes hourly employees in a collective bargaining unit where the collective bargaining agent for that unit agrees to coverage under the Plan. Eligible participants who leave Armstrong and are later reemployed can resume participation in the Plan on the date of rehire.

(7) Federal Income Taxes

The Internal Revenue Service issued its latest determination letter on November 25, 2003, which stated that the Plan and its underlying trust qualify under the applicable provisions of the Internal Revenue Code and, therefore, are exempt from federal income taxes. The Plan has been amended since receiving the determination letter. In the opinion of the Plan administrator and the Plan's qualified tax adviser, the Plan is currently designed and being operated in compliance with the applicable requirements of the Internal Revenue Code. Therefore, they believe that the Plan is qualified and the related trust is tax-exempt.

(8) Master Trust Agreement

The Plan established a Master Trust Agreement with Fidelity Management Trust Company whereby the Plan assets are commingled and invested with the assets of the Savings and Investment Plan of Armstrong World Industries, Inc. and the Bonus Replacement Retirement Plan of Armstrong World Industries, Inc. Separate accounting for each plan under the Master Trust Agreement is maintained. The Plan has an undivided interest in the assets of this trust, and ownership is represented by proportionate dollar interest. The following summarizes the financial information of the Master Trust at September 30, 2005 and 2004:

| | September 30, 2005 | | September 30, 2004 | |
|---|--------------------|----------------|--------------------|----------------|
| | Cost | Fair Value | Cost | Fair Value |
| Cash equivalents | | | \$ 16,393,451 | \$ 16,393,451 |
| Armstrong Holdings, Inc. Common Stock | \$ 16,174,886 | \$ 2,837,286 | 19,508,337 | 2,229,586 |
| Investment in registered investment companies | 206,947,164 | 245,373,550 | 203,074,009 | 224,294,408 |
| Investment in common/collective trusts | 191,435,074 | 191,435,074 | 176,765,160 | 176,765,160 |
| Participant loans | 7,406,606 | 7,406,606 | 6,833,600 | 6,833,600 |
| Total investments in Master Trust | \$ 421,963,730 | \$ 447,052,516 | \$ 422,574,557 | \$ 426,516,205 |
| Plan's interest in Master Trust | \$ 86,475,997 | \$ 84,881,540 | \$ 91,660,437 | \$ 86,114,818 |
| Plan's percentage in Master Trust | 20.5% | 19.0% | 21.7% | 20.2% |

RETIREMENT SAVINGS PLAN FOR HOURLY-PAID EMPLOYEES

OF ARMSTRONG WORLD INDUSTRIES, INC.

Notes to Financial Statements, (Continued)

During 2005 and 2004, the Master Trust's investments (including investments bought, sold, and held during the year) appreciated in value as follows:

| | 2005 | 2004 |
|--|---------------|---------------|
| Net appreciation in Master Trust | \$ 25,695,225 | \$ 19,328,569 |
| Allocated net appreciation in Master Trust | \$ 3,830,963 | \$ 2,608,544 |

During 2005 and 2004, interest and dividends in the Master Trust were as follows:

| | 2005 | 2004 |
|--|---------------|---------------|
| Interest and dividends in Master Trust | \$ 12,476,679 | \$ 11,091,955 |
| Allocated interest and dividends from investment in Master Trust | \$ 2,696,425 | \$ 2,566,951 |

All of the above information was certified as complete and accurate by Fidelity Management Trust Company at September 30, 2005 and 2004 and for the years then ended.

(9) Chapter 11 Reorganization of Armstrong
Plan of Reorganization and Disclosure Statement

On November 4, 2002, Armstrong filed a Plan of Reorganization with the United States Bankruptcy Court for the District of Delaware (the Bankruptcy Court). Subsequently, Armstrong filed several amendments to the plan, along with various exhibits. The Fourth Amended Plan of Reorganization, with certain exhibits, was filed on May 23, 2003 and, as so amended and as modified by modifications filed with the Bankruptcy Court on October 17, 2003, November 10, 2003 and December 3, 2004, it is referred to in this report as the POR.

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

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

an objection to the Bankruptcy Court's proposed findings of fact and conclusions of law and the proposed order of confirmation of the POR.

RETIREMENT SAVINGS PLAN FOR HOURLY-PAID EMPLOYEES

OF ARMSTRONG WORLD INDUSTRIES, INC.

Notes to Financial Statements, (Continued)

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

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

Recent Developments and Next Steps in the Chapter 11 Process

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

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

AHI Dissolution

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

Common Stock

As a result of Armstrong filing the POR on November 4, 2002, the New York Stock Exchange stopped trading on the Exchange of the common stock of Armstrong Holdings, Inc. (traded under the ticker symbol ACK). Armstrong Holdings, Inc.'s common stock resumed trading in the over-the-counter (OTC) Bulletin Board under the ticker symbol ACKHQ.

Conclusion

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