

ARMSTRONG WORLD INDUSTRIES INC

Form 10-K

February 26, 2010

**Table of Contents**

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

(Mark One)

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

**For the fiscal year ended December 31, 2009**

**OR**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**ARMSTRONG WORLD INDUSTRIES, INC.**

(Exact name of registrant as specified in its charter)

Pennsylvania

1-2116

23-0366390

(State or other jurisdiction of incorporation or organization)

Commission file number

(I.R.S. Employer Identification No.)

P. O. Box 3001, Lancaster, Pennsylvania

17604

(Address of principal executive offices)

(Zip Code)

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

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

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

Title of each class

Common Stock (\$0.01 par value)

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

Yes  No

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

Yes  No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter time period that the registrant was required to submit and post such files). Yes  No

**Table of Contents**

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

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

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

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

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

The aggregate market value of the Common Stock of Armstrong World Industries, Inc. held by non-affiliates based on the closing price (\$16.49 per share) on the New York Stock Exchange (trading symbol AWI) on June 30, 2009 was approximately \$324 million. As of February 18, 2010, the number of shares outstanding of registrant's Common Stock was 57,446,003.

**Documents Incorporated by Reference**

Certain sections of Armstrong World Industries, Inc.'s definitive Proxy Statement for use in connection with its 2010 annual meeting of stockholders, to be filed subsequently, are incorporated by reference into Part III of this Form 10-K Report where indicated.

TABLE OF CONTENTS

SECTION	PAGES
<u>Uncertainties Affecting Forward-Looking Statements</u>	4
<u>PART I</u>	
<u>Item 1. Business</u>	5
<u>Item 1A. Risk Factors</u>	14
<u>Item 1B. Unresolved Staff Comments</u>	16
<u>Item 2. Properties</u>	17
<u>Item 3. Legal Proceedings</u>	17
<u>Item 4. Submission of Matters to a Vote of Security Holders</u>	17
<u>Item 4A. Executive Officers of the Company</u>	18
<u>PART II</u>	
<u>Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	19
<u>Item 6. Selected Financial Data</u>	20
<u>Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	21
<u>Item 7A. Quantitative and Qualitative Disclosures about Market Risk</u>	46
<u>Item 8. Financial Statements and Supplementary Data</u>	48
<u>Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	104
<u>Item 9A. Controls and Procedures</u>	104
<u>Item 9B. Other Information</u>	104
<u>PART III</u>	
<u>Item 10. Directors, Executive Officers and Corporate Governance</u>	105
<u>Item 11. Executive Compensation</u>	105
<u>Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	105

<u>Item 13. Certain Relationships and Related Transactions, and Director Independence</u>	105
<u>Item 14. Principal Accountant Fees and Services</u>	105
<u>PART IV</u>	
<u>Item 15. Exhibits and Financial Statement Schedules</u>	106
<u>Signatures</u>	110
<u>Exhibit 10.7</u>	
<u>Exhibit 10.8</u>	
<u>Exhibit 10.15</u>	
<u>Exhibit 10.28</u>	
<u>Exhibit 10.32</u>	
<u>Exhibit 11</u>	
<u>Exhibit 21</u>	
<u>Exhibit 23.1</u>	
<u>Exhibit 23.2</u>	
<u>Exhibit 24</u>	
<u>Exhibit 31.1</u>	
<u>Exhibit 31.2</u>	
<u>Exhibit 32.1</u>	
<u>Exhibit 32.2</u>	
<u>Exhibit 99.1</u>	

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

Any of our forward-looking statements may turn out to be wrong. Actual results may differ materially from our expected results. 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 beyond what is required under applicable securities law.

Risks and uncertainties that affect our business, operations and financial condition 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 discussion in the Risk Factors section within 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**

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

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

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

In December 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 our asbestos liability. In October 2006, AWI s plan of reorganization ( POR ) became effective, and AWI emerged from Chapter 11. See Note 1 to the Consolidated Financial Statements for additional information about AWI s Chapter 11 case.

In August 2009, Armor TPG Holdings LLC ( TPG ) and the Armstrong World Industries, Inc. Asbestos Personal Injury Settlement Trust ( Asbestos PI Trust ) entered into an agreement whereby TPG purchased 7,000,000 shares of the Company s common stock from the Asbestos PI Trust, and acquired an economic interest in an additional 1,039,777 shares from the Asbestos PI Trust. The Asbestos PI Trust and TPG together hold more than 60% of AWI s outstanding shares and have entered into a shareholders agreement pursuant to which the Asbestos PI Trust and TPG have agreed to vote their shares together on certain matters.

**Table of Contents**

**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 and linoleum flooring. 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 worldwide to wholesalers, large home centers, retailers, contractors and to the manufactured homes industry.

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

*Building Products* produces suspended mineral fiber, soft fiber and metal ceiling systems for use in commercial, institutional, and residential settings. In addition, our Building Products segment sources complementary ceiling products. Our products, which are sold worldwide, 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 in North America primarily to wholesalers and retailers (including large home centers). Suspension system (grid) products manufactured by Worthington Armstrong Venture ( 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 Armstrong® brand name. All of Cabinets sales are in the U.S.

*Unallocated Corporate* includes assets, liabilities, income and expenses that have not been allocated to the business units. Balance sheet items classified as Unallocated Corporate are primarily income tax related accounts, cash and cash equivalents, the Armstrong brand name, the U.S. prepaid pension cost/liability and long-term debt. Expenses for our corporate departments and certain benefit plans are allocated to the reportable segments based on known metrics, such as specific activity, time reporting, headcount, square-footage or net sales. The remaining items, which cannot be attributed 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 of \$2.8 billion for the year ended December 31, 2009 by segment:

**2009 Consolidated Net Sales by Segment**

(in millions)

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

**Markets**

The major markets in which we compete are:

*North American Residential.* Approximately 40% of our total consolidated net sales are for North American residential use. Our Resilient Flooring, Wood Flooring, Building Products and Cabinets segments sell products for use in the home. Homeowners have a multitude of finishing solution options for every room in their house. For flooring, they can choose from our vinyl and wood products, for which we are North America's largest provider, or from our laminate and ceramic products. We compete directly with other domestic and international suppliers of these products. Our flooring products also compete with carpet, which we do not offer. Our ceiling products compete against mineral fiber and fiberglass products from other manufacturers, as well as drywall. In the kitchen and bath areas, we compete with thousands of other cabinet manufacturers that include large diversified corporations as well as small local craftsmen.

**Table of Contents**

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

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

*Outside of North America.* The geographies outside of North America account for about 30% of our total consolidated net sales. Most of our revenues generated outside of North America are in Europe and are commercial in nature. For the countries in which we have significant revenue, we monitor various national statistics (such as GDP) as well as known new projects. Revenues come primarily from new construction and renovation work.

The following table provides an estimate of our segments' 2009 net sales, by major markets.

(Estimated percentages of individual segments sales)	North American Residential	North American Commercial	Outside of North America	Total
Resilient Flooring	35%	30%	35%	100%
Wood Flooring	95%	5%		100%
Building Products	10%	50%	40%	100%
Cabinets	90%	10%		100%

**Table of Contents**

**Geographic Areas**

We sell our products in more than 80 countries. Approximately 70% of our 2009 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 of \$2.8 billion for the year ended December 31, 2009 by region, based on where the sale was made:

**2009 Consolidated Net Sales by Geography**  
(in millions)

See Note 3 to the Consolidated Financial Statements and Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations of this Form 10-K for additional financial information 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 home builders and buying groups.

**Table of Contents**

The following charts illustrate the estimated breakdown of our 2009 consolidated net sales geographically by distribution channel:

**2009 Americas Sales by Customer Type**

**2009 Non-Americas Sales by Customer Type**

No customer accounted for 10% or more of our total consolidated net sales during any of the last three years.

**Product Array and Impact on Performance**

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

**Table of Contents**

**Competition**

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

**Flooring segments** Amtico International, Inc., Beaulieu International Group, N.V., Boa-Franc, Inc., Congoleum Corporation, Faus, Inc., Forbo Holding AG, Gerflor Group, Interface, Inc., IVC Group, Krono Holding AG, Mannington Mills, Inc., Metroflor Corporation, Mullican Flooring, L.P., Mohawk Industries, Inc., Pflieger AG, Shaw Industries, Inc., Somerset Hardwood Flooring, Tarkett AG and Wilsonart International.  
**Building Products** CertainTeed, Chicago Metallic Corporation, Georgia-Pacific Corporation, Knauf AMF GmbH & Co. KG, Lafarge SA, Odenwald Faserplattenwerk GmbH, Rockfon A/S, Saint-Gobain and USG Corporation.  
**Cabinets** American Woodmark Corporation, Fortune Brands, Inc. and Masco Corporation.

**Raw Materials**

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

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

**Table of Contents**

**Sourced Products**

Some of the products that we sell are sourced from third parties. Our primary sourced products include various flooring products (laminated, wood, vinyl sheet and tile and ceramic), specialized ceiling products, and installation-related products and accessories for some of our manufactured products. We purchase some of our sourced products from suppliers that are located outside of the U.S., primarily from Asia and Europe. Sales of sourced products represented approximately 10% to 15% of our total consolidated revenue in 2009, 2008, and 2007. 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 derivative financial instruments to hedge the following exposures: sourced product purchases denominated in foreign currency, cross-currency intercompany loans, interest rate risk, and energy. We use derivative financial instruments as risk management tools, not for speculative trading purposes. See Item 7A Quantitative and Qualitative Disclosures About Market Risk and Note 19 to the Consolidated Financial Statements of this Form 10-K for more information.

**Patent and Intellectual Property Rights**

Patent protection is important to our business in the U.S. and other markets. Our competitive position has been enhanced by U.S. and foreign patents on products and processes developed or perfected within Armstrong or obtained through acquisitions and licenses. In addition, we benefit from our trade secrets for certain products and processes. Patent protection extends for varying periods according to the date of patent filing or grant and the legal term of a patent in the various countries where patent protection is obtained. The actual protection afforded by a patent, which can vary from country to country, depends upon the type of patent, the scope of its coverage, and the availability of legal remedies. Although we consider that, in the aggregate, our patents, licenses and trade secrets constitute a valuable asset of material importance to our business, we do not regard any of our businesses as being materially dependent upon any single patent or trade secret, or any group of related patents or trade secrets.

Certain of our trademarks, including without limitation, Armstrong®, Allwood®, Alterna®, Arborcrest®, Artefacts®, Axiom®, Bruce®, Calibra®, Capella®, Caruth®, Capz®, Ceramaguard®, Cirrus®, Corlon®, Coronet®, Cortega®, CushionStep®, Designer Solaria®, DLW®, Dune®, Excel®, Fine Fissured®, Fundamental®, Grand Illusions®, Hartco®, HomerWood®, Infusions®, Luxe Plank®, Medintech®, Medintone®, Mesa®, Metalworks®, Natural Creations®, Natural Inspirations®, Nature's Gallery®, Optima®, Park Avenue®, Robbin®, Rhinofloor®, Sahara®, Scala®, Second Look®, Solarian®, SoundScapes®, SoundSoak®, StrataMax®, Techzone®, Timberland®, T. Morton®, ToughGuard®, Town&Country®, Ultima®, Waverly®, and Woodwork® 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, 2009, we had approximately 10,800 full-time and part-time employees worldwide, with approximately 7,300 employees located in the United States. Approximately 6,900 of the 10,800 are production and maintenance employees, of whom approximately 4,900 are located in the U.S. Approximately 64% 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.

**Table of Contents**

During the first quarter of 2010, we announced the shutdown of finished goods production at two Wood Flooring plants and the restarting of certain operations at a previously idled Wood Flooring plant. We expect a net reduction in our employee headcount as a result of these actions of approximately 200 employees by the end of the second quarter of 2010.

**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 \$38.0 million in 2009, \$38.8 million in 2008 and \$44.0 million in 2007 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 three off-site locations. We have also been investigating and/or remediating environmental contamination allegedly resulting from past industrial activity at four domestic and five international current or former plant sites. Certain of AWI's environmental liabilities were discharged through its Chapter 11 case while others were not. Those environmental obligations that AWI has with respect to property that it owns or operates or for which a non-debtor subsidiary is liable were unaffected by the Chapter 11 case. Therefore, AWI and its subsidiaries retain ongoing environmental compliance obligations at such properties. Liabilities of \$6.3 million and \$6.5 million at December 31, 2009 and December 31, 2008, respectively, were for environmental liabilities that we consider probable and for which a reasonable estimate of the probable liability could be made. See Note 30 to the Consolidated Financial Statements of this Form 10-K for more information.

**Table of Contents**

**ITEM 1A. RISK FACTORS**

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

We try to reduce both the likelihood that these risks will affect our businesses and their potential impact. However, 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.

**Our business is dependent on construction activity. Downturns in construction activity and global economic conditions, such as weak consumer confidence and weak credit markets, adversely affect our business and our profitability.**

Our businesses have greater sales opportunities when construction activity is strong and, conversely, have fewer opportunities when such activity declines. Construction activity tends to increase when economies are strong, interest rates are favorable, government spending is strong, and consumers are confident. When the economy is weak and access to credit is limited, customers, distributors and suppliers are at heightened risk of defaulting on their obligations. Since most of our sales are in the U.S., its economy is the most important for our business, but conditions in Europe, Canada and Asia also are significant. A prolonged economic downturn would exacerbate the adverse effect on our business, profitability, and the carrying value of assets.

**We require a significant amount of liquidity to fund our operations.**

Our liquidity needs vary throughout the year. There are no significant debt maturities until 2011 and 2013 under our existing senior credit facility. We believe that cash on hand and generated from operations will be adequate to address our foreseeable liquidity needs. If future operating performance declines significantly, we cannot assure that our business will generate sufficient cash flow from operations to fund our needs or to remain in compliance with our debt covenants.

**Our markets are highly competitive. Competition can reduce demand for our products or cause us to lower prices. Failure to compete effectively by meeting consumer preferences and/or maintaining market share would adversely affect our results.**

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

**If the availability of raw materials and energy decreases, or the costs increase, and we are unable to pass along increased costs, our operating results could be adversely affected.**

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



**Table of Contents**

**Reduction in sales to key customers could have a material adverse effect on our revenues and profits.**

Some of our businesses are dependent on a few key customers such as The Home Depot, Inc. and Lowe's Companies, Inc. 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.

**Changes in the political, regulatory and business environments of our international markets, including changes in trade regulations and currency exchange fluctuations, could have an adverse effect on our business.**

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. Our international operations are also subject to variable tax rates, credit risks in emerging markets, political risks, uncertain legal systems, potential 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.

**Capital investments and restructuring actions may not achieve expected savings in our operating costs.**

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 disputes or work stoppages could hurt production and reduce sales and profits.**

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

**Adverse judgments in regulatory actions, product claims and other litigation could be costly. Insurance coverage may not be available or adequate in all circumstances.**

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 claim to 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, PCBs, 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. We are subject to regulatory requirements regarding protection of the environment. Current and future environmental laws and regulations, including those proposed concerning climate change, could increase our cost of compliance, cost of energy, or otherwise materially adversely affect our business, results of operations and financial condition.

**Table of Contents**

**Our principal shareholders could significantly influence our business and our affairs.**

The Armstrong World Industries, Inc. Asbestos Personal Injury Settlement Trust ( Asbestos PI Trust ), formed in 2006 as part of AWI s emergence from bankruptcy, and Armor TPG Holdings LLC ( TPG ) together hold more than 60% of the Company s outstanding shares and have entered into a shareholders agreement pursuant to which the Asbestos PI Trust and TPG have agreed to vote their shares together on certain matters. Such a large percentage of ownership could result in below average equity market liquidity and affect matters which require approval by our shareholders.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

**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 36 manufacturing plants in nine countries as of December 31, 2009. Three of our plants are leased and the remaining 33 are owned. We have 22 plants located throughout the United States. In addition, we have an interest through our WAVE joint venture in eight additional plants in six countries.

Business Segment	Number of Plants	Location of Principal Facilities
Resilient Flooring	12	U.S. (California, Illinois, Mississippi, Oklahoma, Pennsylvania), Australia, Germany, Sweden and the U.K.
Wood Flooring	10	U.S. (Arkansas, Kentucky, Missouri, North Carolina, Pennsylvania, Tennessee, Texas, West Virginia)
Building Products	13	U.S. (Florida, Georgia, Oregon, Pennsylvania), China, France, Germany and the U.K.
Cabinets	1	U.S. (Pennsylvania)

During the first quarter of 2010, we announced the shutdown of finished goods production at two Wood Flooring plants and the restarting of certain operations at a previously idled Wood Flooring plant.

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

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

**ITEM 3. LEGAL PROCEEDINGS**

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

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

No matters were submitted to a vote of stockholders during the fourth quarter of 2009.

**Table of Contents**

**ITEM 4A. EXECUTIVE OFFICERS OF THE COMPANY**

**Executive Officer Information**

The following information is current as of February 26, 2010. Each executive officer serves a one-year term until reelected or until his earlier death, resignation, retirement or removal.

**Michael D. Lockhart**

Age 60 Chairman of the Board and President since March 2001; Chairman of the Board, President and Chief Executive Officer since December 2002; Chairman and Chief Executive Officer of the Company's former holding company from August 2000 December 2007. Mr. Lockhart previously served as Chairman and Chief Executive Officer of General Signal, a diversified manufacturer, headquartered in Stamford, Connecticut from September 1995 until it was acquired in October 1998. He joined General Signal as President and Chief Operating Officer in September 1994. From 1981 until 1994, Mr. Lockhart worked for General Electric in various executive capacities in the GE Credit Corporation (now GE Capital), GE Transportation Systems and GE Aircraft Engines. Mr. Lockhart is a member of the Board of Directors of the Norfolk Southern Corporation and a member of the Business Council for the Booth School of Business at the University of Chicago. Pursuant to a separation agreement effective February 28, 2010, between Mr. Lockhart and the Company, Mr. Lockhart will step down as Chief Executive Officer and President of the Company and Chairman and member of the Board of Directors. Terms of the separation agreement are set forth in the Current Report on Form 8-K dated February 10, 2010. James J. O'Connor, currently Lead Director, will serve as non-executive Chairman of the Board after Mr. Lockhart's departure.

**Thomas B. Mangas**

Age 42 Senior Vice President and Chief Financial Officer since February 2010. Previously, Vice President and Chief Financial Officer of Beauty & Grooming Business of the Procter & Gamble Company (P&G). He previously served as General Manager and Chief Financial Officer of the Fabric Care Global Business Unit of P&G from 2005 2008 and Director and Chief Financial Officer of P&G Tüketim Mallari A.S. from 2003 2005.

**Stephen F. McNamara**

Age 43 Vice President and Controller since July 2008. Previously, Director, Internal Audit, November 2005 July 2008; Assistant Controller, October 2001 November 2005; Manager of External Reporting, May 1999 October 2001. Prior to that he was Assistant Controller with Hunt Corporation (a former international art and office supply company).

**Jeffrey D. Nickel**

Age 47 Senior Vice President, Secretary and General Counsel since August 2008. Previously Senior Vice President and General Counsel since July 2008; previously Deputy General Counsel Business and Commercial Law, September 2001 July 2008. Prior to that he worked for Dow Corning Corporation (specialty chemical company), December 1992 September 2001, his last title being senior attorney.

**Frank J. Ready**

Age 48 Executive Vice President and Chief Executive Officer, Flooring Products North America and Floor Asia since January 2010. Previously Executive Vice President and Chief Executive Officer North American Flooring Products from April 2008 January 2010. Previously, President and Chief Executive Officer, North American Flooring Operations, June 2004 April 2008. Previously Senior Vice President, Sales and Marketing, July 2003 June 2004; Senior Vice President, Operations, December 2002 July 2003; Senior Vice President, Marketing, June 2000 December 2002.

**Table of Contents****PART II****ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

AWI's common shares trade on the New York Stock Exchange under the ticker symbol AWI. As of February 18, 2010, there were approximately 500 holders of record of AWI's Common Stock.

	First	Second	Third	Fourth	Total Year
2009					
Price range of common stock high	\$ 23.74	\$ 21.80	\$ 35.50	\$ 45.45	\$ 45.45
Price range of common stock low	\$ 9.42	\$ 10.55	\$ 15.05	\$ 33.14	\$ 9.42
2008					
Price range of common stock high	\$ 40.98	\$ 39.44	\$ 40.19	\$ 28.94	\$ 40.98
Price range of common stock low	\$ 26.25	\$ 28.92	\$ 27.10	\$ 13.79	\$ 13.79

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

On February 25, 2008, our Board of Directors declared a special cash dividend of \$4.50 per common share, payable on March 31, 2008, to shareholders of record on March 11, 2008. This special cash dividend resulted in an aggregate cash payment to our shareholders of \$256.4 million. There were no dividends declared during 2009.

**Issuer Purchases of Equity Securities**

Period	Total Number of Shares Purchased	Average Price Paid per Share <sup>1</sup>	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs <sup>2</sup>	Maximum Number of Shares that may yet be Purchased under the Plans or Programs
October 2009				
November 2009	1,531	\$ 44.13		
December 2009				
Total	1,531		N/A	N/A

<sup>1</sup> Shares reacquired through the withholding of shares to pay employee tax obligations upon the vesting of restricted shares previously granted under

the 2006 Long  
Term Incentive  
Plan.

- <sup>2</sup> The Company  
does not have a  
share buy-back  
program.

**Table of Contents****ITEM 6. SELECTED FINANCIAL DATA**

	Successor Company			Predecessor Company		
	Year	Year	Year	Three Months Ended December 31, 2006	Nine Months Ended September 30, 2006 <sup>(1)</sup>	Year 2005
(Dollars in millions except for per-share data)	2009	2008	2007	2006	2006 <sup>(1)</sup>	2005
<b>Income statement data</b>						
Net sales	\$ 2,780.0	\$ 3,393.0	\$ 3,549.7	\$ 817.3	\$ 2,608.6	\$ 3,326.6
Cost of goods sold	2,159.0	2,632.0	2,687.5	660.9	2,030.2	2,654.0
Selling, general and administrative expenses	552.4	579.9	611.3	143.5	415.5	587.8
Intangible asset impairment	18.0	25.4				
Restructuring charges, net		0.8	0.2	1.7	10.0	23.0
Equity (earnings) from joint ventures	(40.0)	(56.0)	(46.0)	(5.3)	(41.4)	(39.3)
Operating income	90.6	210.9	296.7	16.5	194.3	101.1
Interest expense	17.7	30.8	55.0	13.4	5.2	7.7
Other non-operating expense	0.9	1.3	1.4	0.3	1.0	1.5
Other non-operating (income)	(3.2)	(10.6)	(18.2)	(4.3)	(7.2)	(11.8)
Chapter 11 reorganization (income), net			(0.7)		(1,955.5)	(1.2)
Income tax (benefit) expense	(2.5)	109.0	106.4	3.8	726.6	(1.2)
Earnings from continuing operations	77.7	80.4	152.8			