

ARMSTRONG WORLD INDUSTRIES INC

Form 10-K

February 28, 2011

**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, 2010**

**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 (\$30.18 per share) on the New York Stock Exchange (trading symbol AWI) on June 30, 2010 was approximately \$612 million. As of February 22, 2011, the number of shares outstanding of registrant's Common Stock was 58,097,649.

**Documents Incorporated by Reference**

Certain sections of Armstrong World Industries, Inc.'s definitive Proxy Statement for use in connection with its 2011 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>	10
<u>Item 1B. Unresolved Staff Comments</u>	14
<u>Item 2. Properties</u>	15
<u>Item 3. Legal Proceedings</u>	15
<u>PART II</u>	
<u>Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	16
<u>Item 6. Selected Financial Data</u>	18
<u>Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	19
<u>Item 7A. Quantitative and Qualitative Disclosures about Market Risk</u>	36
<u>Item 8. Financial Statements and Supplementary Data</u>	38
<u>Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	96
<u>Item 9A. Controls and Procedures</u>	96
<u>PART III</u>	
<u>Item 10. Directors, Executive Officers and Corporate Governance</u>	97
<u>Item 11. Executive Compensation</u>	97
<u>Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	97
<u>Item 13. Certain Relationships and Related Transactions, and Director Independence</u>	97
<u>Item 14. Principal Accountant Fees and Services</u>	97
<u>PART IV</u>	

Item 15. Exhibits and Financial Statement Schedules

98

Signatures

103

Exhibit 10.4

Exhibit 10.23

Exhibit 10.25

Exhibit 10.37

Exhibit 11

Exhibit 14

Exhibit 21

Exhibit 23.1

Exhibit 23.2

Exhibit 24

Exhibit 31.1

Exhibit 31.2

Exhibit 32.1

Exhibit 32.2

Exhibit 99.1

**Table of Contents**

**Uncertainties Affecting Forward-Looking Statements**

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

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.

The Armstrong World Industries, Inc. Asbestos Personal Injury Settlement Trust ( *Asbestos PI Trust* ) and Armor TPG Holdings LLC ( *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.

**Reportable Segments**

We operate five business segments Resilient Flooring, Wood Flooring, Building Products, Cabinets, and Unallocated Corporate. 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**

We are well positioned in the industry segments and markets in which we operate often holding a leadership or significant market share position. The major markets in which we compete are:

*North American Residential.* Our Resilient Flooring, Wood Flooring, Building Products and Cabinets segments sell products for use in the home. Homeowners can choose from our vinyl and wood flooring products, for which we are North America's largest provider, or from our laminate and ceramic flooring 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.

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

**Table of Contents**

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.* 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 two-thirds 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 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.* 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' 2010 net sales, by major markets.

(Estimated percentages of individual segment's sales)	North American Residential		North American Commercial		Outside of North America		Total
	New	Renovation	New	Renovation	New	Renovation	
Resilient Flooring	5%	30%	5%	30%	10%	20%	100%
Wood Flooring	35%	65%					100%
Building Products		10%	15%	40%	20%	15%	100%
Cabinets	50%	45%	5%				100%

**Geographic Areas**

We sell our products in more than 80 countries. The breakdown of our consolidated net sales for the year ended December 31, 2010 based on the geographic region in which the sale was made was:

Americas	71%
Europe	20%
Pacific Rim	9%

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.



**Table of Contents**

**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.

Approximately two-thirds of our consolidated net sales are to distributors. Sales to large home centers account for approximately 15% of our sales in the Americas. The remainder of our sales are to contractors and retailers.

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

**Competition**

We face 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 and ceramic 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., Pfliederer 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 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, fiberglass, 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

## **Table of Contents**

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. 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 2010, 2009, and 2008.

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

### **Patent and Intellectual Property Rights**

Patent protection is important to our business. Our competitive position has been enhanced by U.S. and foreign patents on products and processes developed or perfected within AWI 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®, Axom®, Bruce®, Calibra®, Caruth®, Cirrus®, Coronet®, Cortega®, CushionStep®, Designer Solaria®, DLW®, Dune®, Excel®, Fine Fissured®, Fundamentals®, Grand Illusions®, Luxe Plank®, Medintec®, Medintone®, Mesa®, Metalworks®, Natural Creations®, Natural Inspirations®, Nature's Gallery®, Optima®, Park Avenue®, Sahara®, Scala®, Second Look®, Solarian®, SoundSoak®, StrataMax®, Timberland®, ToughGuard®, Town&Country®, Ultima®, Waverly®, and Woodworks® 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.

We review trademarks annually for potential impairment. See the Critical Accounting Estimates section of Item 7. Management's Discussion and Analysis of Financial Condition and Liquidity for further information.

**Table of Contents**

**Employees**

As of December 31, 2010, we had approximately 9,800 full-time and part-time employees worldwide. Approximately 59% 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.

**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 \$32.9 million in 2010, \$38.0 million in 2009 and \$38.8 million in 2008 on R&D activities worldwide.

**Sustainability and Environmental Matters**

The adoption of environmentally responsible building codes and standards such as the Leadership in Energy and Environmental Design, or LEED, rating system established by the U.S. Green Building Council, has the potential to increase demand for products, systems and services that contribute to building sustainable spaces. Many of our products meet the requirements for the award of LEED credits, and we are continuing to develop new products, systems and services to address market demand for products that enable construction of buildings that require fewer natural resources to build, operate and maintain. Our competitors also have developed and introduced to the market more environmentally responsible products.

We expect that there will be increased demand over time for products, systems and services that meet regulatory and customer sustainability standards and preferences and decreased demand for products that produce significant greenhouse gas emissions. We also believe that our ability to continue to provide these products, systems and services to our customers will be necessary to maintain our competitive position in the marketplace.

We are committed to complying with all environmental laws and regulations that are applicable to our operations. Regulatory activities of particular importance to our operations include proceedings under the Comprehensive Environmental Response, Compensation and Liability Act ( CERCLA ), and similar state Superfund laws. Significant activities include investigating and/or remediating environmental contamination allegedly resulting from past industrial activity at several current or former plant sites. In a few cases, we are one of several potentially responsible parties ( PRPs ) which have potential liability for the required investigation and remediation of each site. In those cases, we have agreed to jointly fund that required investigation and remediation, while preserving our defenses to the liability. We may also have rights of contribution or reimbursement from other parties or coverage under applicable insurance policies. 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 have not experienced a material adverse effect upon our capital expenditures or competitive position as a result of environmental control legislation and regulations. Liabilities of \$8.3 million and \$6.3 million at December 31, 2010 and December 31, 2009, respectively, were recorded for environmental liabilities that we consider probable and for which a reasonable estimate of the probable liability could be made. See Note 31 to the Consolidated Financial Statements and Item 1A, Risk Factors, for information regarding the possible effects that compliance with environmental laws and regulations and climate change may have on our businesses and operating results.

**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 AWI. 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 risks or some other risks we have not identified could have serious consequences for us, and could cause a material adverse effect on our business. See related discussions in this document and our other SEC filings and our other public documents for more details and subsequent disclosures.

**Our November 23, 2010 refinancing, which was part of a leveraged recapitalization plan, resulted in a substantial amount of indebtedness which may adversely affect our cash flow and our ability to operate our business, comply with debt covenants, make payments on our indebtedness and declare dividends on our capital stock. The refinancing is described in more detail in the financial condition and liquidity section of management's discussion and analysis ( MD&A ).**

This indebtedness, combined with our other financial obligations and contractual commitments, could:

- make it more difficult for us to satisfy our obligations with respect to our indebtedness, and any failure to comply with the obligations of any of our debt instruments, including restrictive covenants and borrowing conditions, could result in an event of default under the agreements governing such indebtedness;
- make us more vulnerable to adverse changes in general economic, industry and competitive conditions and adverse changes in government regulation;
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- place us at a competitive disadvantage compared to our competitors that are less leveraged and therefore more able to take advantage of opportunities that our leverage prevents us from exploiting;
- limit our ability to borrow additional amounts for working capital, capital expenditures, acquisitions, debt service requirements, execution of our business strategy or other purposes;
- restrict our ability to pay dividends on our capital stock; and
- adversely affect our credit ratings.

Any of the above listed factors could materially adversely affect our business, financial condition and results of operations.

To the extent that the indebtedness bears interest at floating rates, our sensitivity to interest rate fluctuations will increase.

**Table of Contents**

**The agreements that govern the indebtedness contain a number of covenants that impose significant operating and financial restrictions, including restrictions on our ability to engage in acts that may be in our best long-term interests.**

The agreements that govern the new indebtedness include covenants that, among other things, restrict our ability to:

- incur additional debt;
- pay dividends on or make other distributions in respect of our or our restricted subsidiaries' capital stock or redeem, repurchase or retire our or our restricted subsidiaries' capital stock or subordinated debt or make certain other restricted payments;
- sell certain assets;
- consolidate, merge, sell or otherwise dispose of all or substantially all of our assets; and
- create liens on certain assets to secure debt.

Under the terms of our senior secured credit facility, we are required to maintain a specified leverage ratio. Our ability to meet such ratio could be affected by events beyond our control, and we cannot assure that we will meet such ratio. A breach of any of the restrictive covenants or leverage ratio would result in a default under the senior secured credit facility. If any such default occurs, the lenders under the senior secured credit facility may be able to elect to declare all outstanding borrowings under such facilities, together with accrued interest and other fees, to be immediately due and payable, or enforce their security interest, any of which would result in an event of default under the notes. The lenders may also have the right in these circumstances to terminate any commitments they have to provide further borrowings.

**In addition to increased indebtedness levels due to the refinancing, we still may be able to incur substantially more debt. This could further exacerbate the risks associated with additional leverage.**

Even though we completed the refinancing and incurred the indebtedness described in these Risk Factors and in the financial condition and liquidity section of MD&A, we still may be able to incur substantial additional indebtedness in the future. Although the agreements governing our indebtedness contain restrictions on the incurrence of additional indebtedness, these restrictions are subject to a number of significant qualifications and exceptions, and any indebtedness incurred in compliance with these restrictions could be substantial. If new debt is added to our existing debt levels, the related risks that we face would be increased.

**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. Commercial and residential construction activity tends to increase when economies are strong, interest rates are favorable, government spending is strong, and consumers are confident. However, the commercial and residential construction cycles do not always move in tandem. 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.

**Table of Contents**

**We require a significant amount of liquidity to fund our operations, and borrowing has increased our vulnerability to negative unforeseen events.**

Our liquidity needs vary throughout the year. There are no significant debt maturities until 2015 and 2017 under our existing credit facility. While our recapitalization increased our indebtedness, we believe cash on hand, revolving credit facility capacity and cash generated from operations will be adequate to address our foreseeable liquidity needs. In connection with the recapitalization described above, Standard & Poor's and Moody's have lowered their credit ratings on AWI to BB- (negative) and B1, respectively; these downgrades may make future borrowings more difficult or more expensive. If our business experiences materially negative unforeseen events, we cannot assure we will generate sufficient cash flow from operations to fund our needs, maintain sufficient liquidity to operate and remain in compliance with our debt covenants.

**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 of these 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 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.

**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. Throughout 2011, collective bargaining agreements covering approximately 1,500 employees at six plants are scheduled to expire. We anticipate that we will reach new contracts as current contracts expire. Failure to reach new contracts could lead to work stoppages, which could hurt production, revenues, profits and customer relations.

**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 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.

**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 adversely affect both our revenues and profits.

**Table of Contents**

**Changes in the political, regulatory and business environments of our international markets, including changes in duty rates, 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, 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.

**Our restructuring actions and LEAN initiatives may not achieve expected savings in our operating costs or improved operating results.**

We look for ways to make our operations more efficient and effective. We reduce, move and expand our plants and operations as needed. Such actions involve substantial planning, often require capital investments and may result in charges for fixed asset impairments or obsolescence and substantial severance costs. We are committed to augmenting margin expansion through further cost elimination. In early 2010 we stated that, through the aggressive application of LEAN practices and projects to our manufacturing activities and to standardize, simplify and eliminate selling, general and administrative ( SG&A ) programs and policies, we are seeking to remove at least \$150 million of manufacturing and SG&A costs by 2013; however, there can be no assurance that we will be able to achieve this level of cost savings. Even if we achieve these targeted savings, there is no assurance that our net operating results in the future will improve by this amount. We can err in planning and executing our actions, which could hurt our customer service and lead to unplanned costs.

**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. These claims 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 to cover these claims. 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 also 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.

We produce and market Armstrong products and services throughout the world, operating 34 manufacturing plants in eight countries as of December 31, 2010. Three of our plants are leased and the remaining 31 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	11	U.S. (California, Illinois, Mississippi, Oklahoma, Pennsylvania), Australia and Germany
Wood Flooring	10	U.S. (Arkansas, Kentucky, Missouri, North Carolina, Pennsylvania, Tennessee, and West Virginia) and China
Building Products	12	U.S. (Florida, Georgia, Oregon, Pennsylvania), China, France, Germany and the U.K.
Cabinets	1	U.S. (Pennsylvania)

During the first quarter of 2011, we announced the idling of a Wood Flooring manufacturing plant in North Carolina effective April 30, 2011.

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 31 to the Consolidated Financial Statements, which is incorporated herein by reference, for a description of our significant legal proceedings.

**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 22, 2011, there were approximately 58,097,649 holders of record of AWI's Common Stock.

		First	Second	Third	Fourth	Total Year
2010						
Price range of common stock	high	\$ 40.93	\$ 45.05	\$ 43.05	\$ 54.58	\$ 54.58
Price range of common stock	low	\$ 33.42	\$ 29.44	\$ 28.01	\$ 39.55	\$ 28.01
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

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 November 23, 2010, our Board of Directors declared a special cash dividend of \$13.74 per common share, payable on December 10, 2010, to shareholders of record on December 3, 2010. This special cash dividend resulted in an aggregate cash payment to our shareholders of approximately \$800 million. There were no dividends declared during 2009.

Dividends are paid as and when declared by our Board of Directors and in accordance with restrictions set forth in covenants contained in our debt agreements. In general, our debt agreements allow us to make restricted payments, which include dividends and stock repurchases, subject to certain dollar limitations and other restrictions and provided that we are in compliance with the financial and other covenants of our debt agreements and meet certain liquidity requirements after giving effect to the restricted payment. For further discussion of the debt agreements, see the financial condition and liquidity section of the Management's Discussion and Analysis of financial condition and operating results and Item 1A Risk Factors in this Form 10-K, and the debt agreements filed with our Current Report on Form 8-K dated November 24, 2010.

**Issuer Purchases of Equity Securities**

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs <sup>1</sup>	Maximum Number of Shares that may yet be Purchased under the Plans or Programs
October 1-31, 2010				
November 1-30, 2010				
December 1-31, 2010				
Total			N/A	N/A

<sup>1</sup> The Company does not have a share buy-back program.



**Table of Contents****EQUITY COMPENSATION PLAN INFORMATION**

This table provides information on Armstrong's equity compensation plans. The figures in column (a) represent stock options to purchase Armstrong Common Shares, performance restricted shares, restricted stock and restricted stock units, all granted under the Company's 2006 Long-Term Incentive Plan. The figures in columns (b) and (c) relate to the same Plan. The figure in Column (b) relates only to 1,978,371 stock options, since no payment is required under the grants of the other awards. The Common Shares in column (c) have been adjusted to reflect the Common Shares tendered from share tax withholding. All figures are as of December 31, 2010 as specified by SEC regulations.

	(a) Number of securities to be issued upon exercise of outstanding options, warrants, and rights	(b) Weighted-average exercise price of outstanding options, warrants, and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	1,978,371	\$ 24.02	2,001,535
Equity compensation plans not approved by security holders	0	Not Applicable	0
Totals	1,978,371	\$ 24.02	2,001,535

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

	Successor Company				Predecessor Company	
	Year	Year	Year	Year	Three Months Ended	
(Dollars in millions except for per-share data)	2010	2009	2008	2007	December 31, 2006	
					September 30, 2006 <sup>(1)</sup>	
<b>Income statement data</b>						
Net sales	\$ 2,766.4	\$ 2,780.0	\$ 3,393.0	\$ 3,549.7	\$ 817.3	\$ 2,608.6
Operating income	81.1	90.6	210.9	296.7	16.5	194.3
Earnings from continuing operations	11.0	77.7	80.4	152.8	3.3	1,424.2
Per common share basic (a)	\$ 0.19	\$ 1.36	\$ 1.41	\$ 2.69	\$ 0.06	n/a
Per common share diluted (a)	\$ 0.19	\$ 1.36	\$ 1.41	\$ 2.69	\$ 0.06	n/a
Dividends declared per share of common stock	\$ 13.74		\$ 4.50			
<b>Balance sheet data (end of period)</b>						
Total assets	2,922.4	3,302.6	3,351.8	4,639.4	4,152.7	
Long-term debt	839.6	432.5	454.8	485.8	801.5	
Total equity	1,090.8	1,907.9	1,751.3	2,444.1	2,172.1	

(1) Reflects the effects of the Plan of Reorganization and fresh-start reporting. AWI and its subsidiaries adopted fresh-start reporting upon AWI emerging from Chapter 11. Consequently, the impact of emergence, including the gain on settlement of liabilities subject to compromise and the gain on fresh-start reporting of \$1,955.5 million, is reflected in the Predecessor Company for the nine months ended September 30, 2006. The results of operations beginning October 1, 2006 are reflected within the Successor Company.

**Notes:**

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

**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. When we refer to we, our and us in this report, we are referring to AWI and its subsidiaries.

This discussion should be read in conjunction with the financial statements and the accompanying notes included elsewhere in this Form 10-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 impact of changes in foreign exchange rates when translating comparable foreign currency amounts. We calculate the translation effect of foreign exchange rates by applying constant foreign exchange rates to the equivalent periods reported foreign currency amounts. We believe that this non-GAAP metric provides a clearer picture of our operating performance. Furthermore, management evaluates the performance of the businesses excluding the effects of foreign exchange rates.

We maintain a website at <http://www.armstrong.com>. Information contained on our website is not 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).

**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. 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, 2010 we operated 34 manufacturing plants in eight countries, including 22 plants located throughout the U.S. In response to economic conditions during 2010, we closed two previously idled facilities: a Resilient Flooring plant in Montreal, Canada and a Wood Flooring plant in Center, Texas. We also closed strip mill operations (which had been previously idled) at our Oneida, Tennessee plant, while continuing to manufacture parquet flooring at this location. We closed a metal ceilings plant in St. Gallen, Switzerland and a Resilient Flooring plant in Teesside, U.K. We also announced plans to close our Resilient Flooring plant in Holmsund, Sweden and our Building Products plant in Beaver Falls, Pennsylvania effective in 2011. During the first quarter of 2011, we announced the idling of a Wood Flooring manufacturing plant in North Carolina effective April 30, 2011.

Through Worthington Armstrong Venture (WAVE), our joint venture with Worthington Industries, Inc., we also have an interest in eight additional plants in six countries that produce suspension system (grid) products for our ceiling systems.

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

**Table of Contents**

**Factors Affecting Revenues**

For an estimate of our segments' 2010 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 2010, these markets experienced the following:

According to the U.S. Census Bureau, in 2010 housing starts in the U.S. residential market increased 6% compared to 2009 to 0.59 million units. Housing completions in the U.S. declined by 18% in 2010 with approximately 0.66 million units completed. The National Association of Realtors indicated that sales of existing homes decreased 5% to 4.92 million units in 2010 from a level of 5.16 million units in 2009.

According to the U.S. Census Bureau, for the value of new construction put in place, the rate of decline in the North American key commercial market, in nominal dollar terms, was 19% in 2010 compared to 2009. Construction activity in the office, healthcare, education and retail segments declined 29%, 12%, 15% and 26%, respectively, in 2010 compared to 2009. These measures reflect the weakness of the new construction market. In addition, the market is comprised of renovation and repair and replacement which have generally been positive in 2010.

Markets in Western European countries declined with modest growth in Central Europe and continued weakness elsewhere. Eastern European markets grew.

Activity in Pacific Rim markets, specifically India, China, and Australia, grew.

*Pricing Initiatives*. We periodically modify prices in response to changes in costs for raw materials and energy, and to market conditions and the competitive environment. In certain cases, realized price increases are less than the announced price increases because of competitive reactions and changing market conditions.

We announced the following recent pricing actions:

Resilient Flooring announced a pricing increase in the Americas effective March 2010 which was rescinded after competition did not follow. We then announced a pricing increase in the Americas effective June 2010. We have also announced pricing increases in Europe effective January 2011 and domestically effective February 2011.

Wood Flooring announced price increases effective March and June of 2010.

Building Products announced price increases for ceiling tile in the Americas and Europe effective February 2010, for grid effective May 2010, again for ceiling tile in the Americas effective August 2010, and again for grid in the Americas effective in October 2010. We have also announced price increases for ceiling tile and grid in the Americas effective February 2011.

Cabinets announced a price increase effective February 2011.

We estimate pricing actions increased our total consolidated net sales in 2010 by approximately \$8 million when compared to 2009.

*Mix*. Each of our businesses offers a wide assortment of products that are differentiated by style/design and by performance attributes. Pricing for products within the assortment varies. Changes in the relative quantity of products purchased at the different price points can affect year-to-year comparisons of net sales and operating income. Compared to 2009, we estimate mix changes increased our total consolidated net sales in 2010 by approximately \$26 million.

**Table of Contents**

**Factors Affecting Operating Costs**

*Operating Expenses.* Our operating expenses are comprised of direct production costs (principally raw materials, labor and energy), manufacturing overhead costs, freight, 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 and plasticizers. Natural gas is also a significant input cost. Fluctuations in the prices of these inputs are generally beyond our control and have a direct impact on our financial results. In 2010 these input costs decreased operating income by approximately \$26 million when compared to the same periods of 2009.

We are committed to augmenting margin expansion through further cost elimination. In early 2010 we stated that, through the aggressive application of LEAN practices and projects to our manufacturing activities and to standardize, simplify and eliminate selling, general and administrative ( SG&A ) programs and policies, we are seeking to remove at least \$150 million of manufacturing and SG&A costs by 2013. In 2010, we announced the closure of two Building Products plants, three Resilient Flooring plants, and two of our previously idled Wood Products finished goods production facilities. During the first quarter of 2011, we announced the idling of a Wood Flooring manufacturing plant in North Carolina effective April 30, 2011. We will continue to evaluate the efficiency of our manufacturing footprint in the U.S. and Europe. The charges associated with our cost reduction initiatives may include severance and related termination benefits, fixed asset write-downs, asset impairments and accelerated depreciation and could be material to our financial statements. In 2010 we recorded expenses of approximately \$72 million for these initiatives. Even if we achieve these targeted savings, there is no assurance that our net operating results in the future will improve by this amount. As indicated in our discussion of risk factors, errors in planning or execution, as well as inflation and other external events, can cause unplanned costs or adversely affect operating costs.

*Intangible Asset Impairments.* During the fourth quarters of 2010 and 2009, we recorded non-cash impairment charges of \$22.4 million and \$18.0 million, respectively, to reduce the carrying amount of our Wood Flooring trademarks to their estimated fair value. The fair value in both years was negatively affected by lower expected future sales in the U.S. residential housing market. The initial fair value for these intangible assets was determined in 2006 as part of fresh start reporting. See Note 11 to the Consolidated Financial Statements for more information.

See also Results of Operations for further discussion of other significant items affecting operating costs.

**Factors Affecting Cash Flow**

Typically, we generate cash in our operating activities. The amount of cash generated in a period is dependent on a number of factors, including the amount of operating profit generated, changes in the amount of working capital (such as inventory, receivables and payables) required to operate our businesses, and investments in property, plant & equipment and computer software ( PP&E ).

During 2010 cash and cash equivalents decreased by \$253.7 million. A special cash dividend of \$798.6 million, repayments of our previous debt of \$430.0 million due to the refinancing of our credit facility and capital expenditures of \$92.7 million were partially offset by net cash from operating activities of \$190.4 million, \$800 million due to the refinancing of our credit facility, distributions from WAVE of \$51.0 million and proceeds from asset sales of \$25.8 million. During 2009 cash and cash equivalents increased by \$214.5 million. Net cash from operating activities of \$260.2 million and distributions from WAVE of \$53.5 million were partially offset by capital expenditures of \$105.1 million.

**Employees**

As of December 31, 2010, we had approximately 9,800 full-time and part-time employees worldwide. This compares to approximately 10,800 employees as of December 31, 2009. The decline was primarily due to the shutdown of finished goods production at two Wood Flooring plants and reductions in our U.S. corporate operations.



**Table of Contents**

During 2010 we negotiated three collective bargaining agreements, and we experienced no significant work stoppages. Throughout 2011, collective bargaining agreements covering approximately 1,500 employees at six plants are scheduled to expire. One of these agreements covering approximately 500 employees expired in February 2011. These employees are continuing to work under the terms of the expired contract.

**CRITICAL ACCOUNTING ESTIMATES**

In preparing our consolidated financial statements in accordance with U.S. GAAP, 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 internal and external information. We believe that our estimates and assumptions are reasonable. However, actual results may differ from what was estimated and could have a significant impact on the financial statements.

We have identified the following as our critical accounting estimates. We have discussed 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. 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.

The adoption of fresh-start reporting had a material effect on our Consolidated Financial Statements and was based on assumptions that employed a high degree of judgment. See Note 1 to the Consolidated Financial Statements for further information relative to our reorganization.

**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. Our defined benefit pension and postretirement benefit costs are developed from actuarial valuations. These valuations are calculated using a number of assumptions. 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.

The discount rate is used to determine retirement plan liabilities and to determine the interest cost component of net periodic pension and postretirement cost. Management utilizes the Hewitt above median yield curve, which is a hypothetical AA yield curve comprised of a series of annualized individual discount rates, as the primary basis for determining the discount rate. As of December 31, 2010 and 2009, we assumed discount rates of 5.10% and 5.60%, respectively, for the U.S. defined benefit pension plans. As of December 31, 2010, we assumed a discount rate of 4.90% compared with a discount rate of 5.30% as of December 31, 2009 for the U.S. postretirement plans. The effects of the change in discount rate will be amortized into earnings as described below. A one-quarter percentage point decrease in the discount rates for the U.S. pension and postretirement plans would decrease 2011 operating income by \$5.0 million. A one-quarter percentage point increase in the discount rates would increase 2011 operating income by \$4.7 million.

We have two U.S. defined benefit pension plans, a qualified funded plan and a nonqualified unfunded plan. For the qualified 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 asset classes over 10 to 20 years. Historical asset returns are monitored and considered when we develop our expected long-term return on plan assets. An incremental component is added for the expected return from active management based both on the plan's experience and on historical information obtained from the plan's investment consultants. These forecasted gross returns are reduced by estimated management fees and expenses, yielding a long-term

**Table of Contents**

rate of return of 7.25% per annum for 2011. The expected asset return assumption is based upon a long-term view; therefore, we do not expect to see frequent changes from year to year based on positive or negative actual performance in a single year. Over the 10 year period ended December 31, 2010, the annualized return was approximately 7.0% compared to an average expected return of 8.2%. The actual return on plan assets achieved for 2010 was 12.7%. The difference between the actual and expected rate of return on plan assets will be amortized into earnings as described below.

The expected long-term return on plan assets used in determining our 2010 U.S. pension credit was 8%. We have assumed a return on plan assets during 2011 of 7.25%. The decrease reflects the planned change in our asset allocations. The 2011 expected return on assets was calculated in a manner consistent with 2010. A one-quarter percentage point increase or decrease in this assumption would increase or decrease 2011 operating income by approximately \$5.3 million.

Contributions to the unfunded plan were \$3.4 million in 2010 and were made on a monthly basis to fund benefit payments. We estimate the 2011 contributions will be approximately \$3.8 million. See Note 18 to the Consolidated Financial Statements for more information.

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

	Assumptions			Actual		
	Post 65	Pre 65	Overall	Post 65	Pre 65	Overall
2009	10.0%	9.5%	9.8%	(7)%	(1)%	(5)%
2010	9.0%	8.5%	8.8%	(3)%	12%	4%
2011	8.5%	8.6%	8.5%			

The difference between the actual and expected health care costs is amortized into earnings as described below. As of December 31, 2010, health care cost increases are estimated to decrease ratably until 2019, after which they are estimated to be constant at 5%. A one percentage point increase in the assumed health care cost trend rate would reduce 2011 operating income by \$1.9 million, while a one percentage point decrease in the assumed health care cost trend rate would increase 2011 operating income by \$1.8 million. See Note 18 to the Consolidated Financial Statements for more information.

Actual results that differ from our various pension and postretirement plan estimates are captured as actuarial gains/losses. When certain thresholds are met, the gains and losses are amortized into future earnings over the expected remaining service period of plan participants, which is approximately eight years. Changes in assumptions could have significant effects on earnings in future years.

**Impairments of Long-Lived Tangible and Intangible Assets** In connection with our adoption of fresh-start reporting upon emerging from Chapter 11 in 2006, all long-lived tangible and intangible assets were adjusted to fair value. Our indefinite-lived intangibles are primarily trademarks and brand names, which are integral to our corporate identity and expected to contribute indefinitely to our corporate cash flows. Accordingly, they have been assigned an indefinite life. We conduct our annual impairment test for non-amortizable intangible assets during the fourth quarter, although we conduct interim impairment tests if events or circumstances indicate the asset might be impaired. We conduct impairment tests for tangible assets and amortizable intangible assets when indicators of impairment exist, such as operating losses and/or negative cash flows. If an indication of impairment exists, we compare the carrying amount of the asset group to the estimated undiscounted future cash flows expected to be generated by the assets. The estimate of an asset group's fair value is based on discounted future cash flows expected to be generated by the asset group, or based on management's estimated exit price assuming the assets could be sold in an orderly transaction between market participants or estimated salvage value if no sale is assumed. If the fair value is less than the carrying value of the asset group, we record an impairment charge equal to the difference between the fair value and carrying value of the asset group.



**Table of Contents**

The principal assumptions utilized in our impairment tests for tangible and definite-lived intangible assets include discount rate and operating profit adjusted for depreciation and amortization. The principal assumptions utilized in our impairment tests for indefinite-lived intangible assets include revenue growth rate, discount rate and royalty rate. Revenue growth rate and operating profit assumptions are consistent with those utilized in our operating plan and strategic planning process. The discount rate assumption is calculated based upon an estimated weighted average cost of equity which reflects the overall level of inherent risk and the rate of return a market participant would expect to achieve. Methodologies used for valuing our tangible and intangible assets did not change from prior periods. The cash flow estimates used in applying our impairment tests are based on management's analysis of information available at the time of the impairment test. Actual cash flows lower than the estimate could lead to significant future impairments. If subsequent testing indicates that new fair values have declined, the carrying values would be reduced and our future statements of income would be affected.

During the fourth quarters of 2010, 2009 and 2008, we recorded non-cash impairment charges of \$22.4 million, \$18.0 million and \$25.4 million, respectively, to reduce the carrying amount of our Wood Flooring trademarks to their estimated fair value based on the results of our annual impairment test. The fair values were negatively affected by lower expected sales in the U.S. residential housing market. The remaining carrying value of the Wood Flooring trademarks at December 31, 2010 was \$42.0 million. We have assumed depressed market activity in 2011 but anticipate market recovery starting in 2012. Continued declines in sales due to lower residential U.S. housing starts and renovation activity compared to our expectations could lead to future material impairments of Wood Flooring intangible assets.

In both 2010 and 2009 we tested the tangible assets and amortizable intangible assets of several asset groups within our Building Products Americas, Building Products Europe, Resilient Flooring Americas, and Resilient Flooring Europe reporting units for impairment due to negative earnings, negative cash flows, plant closure announcements, or other indicators of impairment. We also tested the tangible assets and amortizable intangible assets within our Cabinets reporting unit in 2009 and the tangible assets and amortizable intangible assets within our Unallocated Corporate and Wood reporting units in 2010 due to negative earnings, negative cash flows or other indicators of impairment. Based upon the impairment testing, the carrying value of the tangible assets for each of these asset groups was determined to be recoverable (except as discussed below) because the related undiscounted cash flows and/or fair value significantly exceeded the carrying value of assets.

During the fourth quarter of 2009 we recorded a \$3.0 million impairment charge on tangible assets, primarily machinery and equipment, for one of the asset groups within our European Resilient Flooring reporting unit. The fair values of land and buildings were determined by management estimates of market prices and independent valuations of the land and buildings based on observable market data available at that time. This data included recent sales and leases of comparable properties with similar characteristics within the same local real estate market (considered Level 2 inputs in the fair value hierarchy). The fair values of machinery and equipment were determined by management based on estimated sales and salvage value, which are unobservable inputs.

We also recorded an asset impairment charge of \$2.1 million in the second quarter of 2010 in SG&A expense for a European Resilient Flooring warehouse facility due to the decline in the commercial property sector. The fair values were determined by management estimates of market prices available at that time. This data included sales and leases of comparable properties within similar real estate markets (considered Level 3 inputs in the fair value hierarchy). The remaining carrying value of tangible assets within the European Resilient Flooring business was \$89.2 million as of December 31, 2010, with land and buildings representing the significant majority. Material uncertainties that could lead to a future material impairment charge include the level of European commercial construction and renovation activity.

During 2010 management decided to exit our corporate flight operations. As a result, we recorded a \$6.1 million impairment charge in selling, general and administrative ( SG&A ) expense for corporate aircraft in 2010. The fair values were determined by management estimates and an independent valuation based on information available at that time. The valuation information included sales of similar equipment and



**Table of Contents**

estimates of market prices (considered Level 2 inputs in the fair value hierarchy) for these assets. We sold the corporate aircraft in the fourth quarter of 2010.

We cannot predict the occurrence of certain events that might lead to material impairment charges in the future. Such events may include, but are not limited to, the impact of economic environments, particularly related to the commercial and residential construction industries, material adverse changes in relationships with significant customers, or strategic decisions made in response to economic and competitive conditions.

See Notes 3 and 11 to the Consolidated Financial Statements for further information.

**Income Taxes** Our effective tax rate is primarily determined based on our pre-tax income and the statutory income tax rates in the jurisdictions 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 returns, and some differences are temporary, reversing over time, such as depreciation expense. These temporary differences create deferred income tax assets and liabilities. Deferred income tax assets are also recorded for operating loss, capital loss and tax credit carryforwards.

Deferred income tax assets and liabilities are recognized by applying enacted tax rates to temporary differences that exist as of the balance sheet date. We record valuation allowances to reduce our deferred income tax assets if it is more likely than not that some portion or all of the deferred income tax assets will not be realized. As of December 31, 2010, we have recorded valuation allowances totaling \$168.1 million for various federal, state and foreign net operating loss, capital loss and foreign 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 if actual results differ from our projections, we may be required to adjust our valuation allowances accordingly. Such adjustment could be material to our Consolidated Financial Statements.

As further described in Note 16 to the Consolidated Financial Statements, our Consolidated Balance Sheet as of December 31, 2010 includes net deferred income tax assets of \$535.7 million. Included in this amount are deferred federal and state income tax assets of \$175.9 million and \$62.0 million, respectively, relating to federal and state net operating loss carryforwards. These net operating losses arose primarily as a result of the amounts paid to the Asbestos PI Trust in 2006. We have concluded that all but \$20.2 million of these income tax benefits are more likely than not to be realized in the future.

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 carryforwards 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 tax positions that management believes are supportable, but are potentially subject to challenge by the applicable taxing authorities. We review these tax uncertainties in light of the changing facts and circumstances and adjust them when warranted. We have several tax audits in process in various jurisdictions.

**ACCOUNTING PRONOUNCEMENTS EFFECTIVE IN FUTURE PERIODS**

There were no new accounting pronouncements issued or effective during the fiscal year which have had or are expected to have a material impact on the Consolidated Financial Statements. For a discussion of new accounting pronouncements, see Note 2 to our Consolidated Financial Statements.

**Table of Contents****RESULTS OF OPERATIONS**

Unless otherwise indicated, net sales in these results of operations are reported based upon the location where the sale was made. Certain prior year amounts have been reclassified to conform to the current year presentation. Please refer to Note 3 to the Consolidated Financial Statements for a reconciliation of segment operating income to consolidated earnings from continuing operations before income taxes.

**2010 COMPARED TO 2009****CONSOLIDATED RESULTS**

	2010	2009	Change is Favorable (Unfavorable)
Net sales:			
Americas	\$ 1,966.7	\$ 1,995.6	(1.4)%
Europe	600.9	626.0	(4.0)%
Pacific Rim	198.8	158.4	25.5%
 Total consolidated net sales	 \$ 2,766.4	 \$ 2,780.0	 (0.5)%
 Operating income	 \$ 81.1	 \$ 90.6	 (10.5)%

Consolidated net sales remained flat for the year, as a decrease in volume was largely offset by improved product mix. Net sales in the Americas decreased approximately 1% as decreased residential volumes more than offset price realization, improved product mix, and favorable foreign exchange of \$15.1 million.

Net sales in the European markets declined approximately 4% as Building Products volume growth was offset by less profitable mix in both Building Products and Resilient Flooring. In addition, results reflect unfavorable foreign exchange of \$20.7 million.

Net sales in the Pacific Rim increased approximately 26% primarily due to volume growth and favorable foreign exchange of \$12.9 million.

Cost of goods sold was 77.9% of net sales, compared to 77.7% for the same period in 2009. Compared to the prior year, reduced manufacturing costs were offset by higher input costs.

SG&A expenses in 2010 were \$531.3 million, or 19.2% of net sales, and \$552.4 million, or 19.9% of net sales, in 2009. The decreases were due to reductions in core SG&A expenses and a gain of \$2.3 million on the collection of a non-current note receivable. In 2010 these decreases offset \$14.7 million of CEO transition costs, a \$6.1 million asset impairment charge related to the termination of our flight operations and an asset impairment charge of \$2.1 million for a European warehouse facility.

Restructuring charges of \$22.0 million were recorded in 2010 for severance and related costs for several plant closures and reductions in SG&A personnel. See Note 15 to the Consolidated Financial Statements for further information.

Equity earnings from our WAVE joint venture were \$45.0 million compared to \$40.0 million in 2009. See Note 10 to the Consolidated Financial Statements for further information.

Interest expense was \$21.2 million compared to \$17.7 million in 2009. The increase is primarily due to the refinancing of our credit facility in the fourth quarter of 2010. In connection with the refinancing we wrote off \$3.8 million of unamortized debt financing costs related to our previous credit facility to interest expense.

**Table of Contents**

Other non-operating income was \$8.0 million compared to \$3.2 million in 2009. 2010 included \$2.5 million of interest income related to laminate duty refunds received as a result of customs litigation.

Income tax expense (benefit) was \$55.7 million and \$(2.5) million in 2010 and 2009, respectively. The effective tax rate for 2010 was 83.5% as compared to a rate of -3.3% for 2009. The effective tax rate for 2010 was significantly higher than 2009 due to the enactment of health care reform legislation in March 2010 and the impact of the settlement of the Internal Revenue Service examination in July 2009.

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

	2010	2009	Change is Favorable (Unfavorable)
Net sales:			
Americas	\$ 653.0	\$ 673.1	(3.0)%
Europe	276.5	294.3	(6.0)%
Pacific Rim	83.7	64.3	30.2%
Total segment net sales	\$ 1,013.2	\$ 1,031.7	(1.8)%
Operating income	\$ 13.1	\$ 0.1	Favorable

Net sales in the Americas declined primarily due to volume declines in residential and commercial markets, partially offset by product mix improvement and favorable foreign exchange of \$6.4 million.

Net sales in European markets declined on lower volume partially due to our exit in the fourth quarter of 2010 of the residential flooring business, unfavorable product mix, and unfavorable foreign exchange impact of \$11.6 million.

Net sales in the Pacific Rim increased due to higher volume and favorable foreign exchange impact of \$6.2 million.

Operating income improved as reduced manufacturing and SG&A expenses more than offset the margin impact of lower sales and raw material inflation. Operating income in 2010 was negatively impacted by approximately \$17 million of charges related to the restructuring of the European business, \$2.1 million of asset impairment charges and approximately \$7 million of costs related to the closure of our Montreal, Canada facility, partially offset by approximately \$7 million of income due to laminate duty refunds. See Note 31 to the Condensed Consolidated Financial Statements for further information on the laminate duty refunds. Operating income in 2009 was negatively impacted by \$4.7 million in cost reduction initiatives expenses and \$3.0 million of asset impairment charges. The European Resilient Flooring business incurred losses of \$36.1 million for 2010 and \$25.7 million for the same period in 2009.



**Table of Contents****Wood Flooring**

	2010	2009	Change is (Unfavorable)
Total segment net sales	\$ 479.1	\$ 510.4	(6.1)%
Operating (loss)	\$ (45.8)	\$ (5.9)	Unfavorable

Net sales declined due to lower volume in residential markets partially offset by improvements in product mix and price.

Operating income declined as the margin impact of lower sales, significant raw hardwood lumber material inflation and the related inventory valuation impact of this inflation, offset reduced manufacturing and SG&A expenses.

Operating income in 2010 was negatively impacted by approximately \$16 million of fixed asset write downs and restructuring charges related to the closure of two manufacturing facilities. Non-cash impairment charges of \$22.4 and \$18.0 million related to our Wood Flooring trademarks also negatively impacted operating income in 2010 and 2009, respectively.

**Building Products**

	2010	2009	Change is Favorable (Unfavorable)
Net sales:			
Americas	\$ 696.0	\$ 661.9	5.2%
Europe	324.4	331.7	(2.2)%
Pacific Rim	115.1	94.1	22.3%
Total segment net sales	\$ 1,135.5	\$ 1,087.7	4.4%
Operating income	\$ 171.0	\$ 155.9	9.7%

Net sales in the Americas increased due to improved product mix, price realization and favorable foreign exchange impact of \$6.4 million.

Net sales in Europe declined as higher volume was offset by less profitable product mix and unfavorable foreign exchange of \$9.1 million.

Net sales in the Pacific Rim increased on higher volume and favorable foreign exchange of \$6.7 million.

Operating income increased primarily due to the margin impact of increased sales, reduced manufacturing expenses, and higher earnings from WAVE, partially offset by restructuring costs and non-cash accelerated depreciation charges of approximately \$21 million in 2010 and a loss on the sale of our European metal ceilings contract installation business of \$5.8 million in 2010.

**Cabinets**

	2010	2009	Change is Favorable/ (Unfavorable)
Total segment net sales	\$ 138.6	\$ 150.2	(7.7)%
Operating (loss)	\$ (6.4)	\$ (18.3)	65.0%

Net sales decreased due to lower volume driven by continued declines in residential housing markets.

Operating loss improved primarily due to reduced SG&A and manufacturing expenses, partially offset by the margin impact of lower sales. Operating loss in 2009 was impacted by \$6.1 million of expenses related to the Auburn, Nebraska plant closure.



**Table of Contents**

**Unallocated Corporate**

Unallocated corporate expense of \$50.8 million increased from \$41.2 million in the prior year. 2010 included \$14.7 million for CEO transition costs, \$6.1 million of asset impairment charges related to the termination of our flight operations and \$4.0 million of restructuring charges. 2010 was negatively impacted compared to 2009 by a lower pension credit and costs related to the support of our LEAN initiatives. 2009 included \$31.6 million related to a change in control event which resulted in accelerated stock based compensation expense.

**FINANCIAL CONDITION AND LIQUIDITY**

**Cash Flow**

Operating activities for 2010 provided \$190.4 million of cash, a decrease of \$69.8 million compared to the \$260.2 million of cash provided for 2009. The decrease was primarily due to lower decreases in inventories during 2010 compared to 2009, and a decrease in accounts receivables in 2009 compared to a small increase in 2010. These decreases were partially offset by increases in accounts payable and accrued expenses across most business units, partially due to restructuring accruals, compared to decreases in 2009.

Net cash used by investing activities was unchanged. Higher proceeds from asset sales and lower capital expenditures were primarily offset by restricted cash received related to the financing of our new West Virginia mineral wool plant. Net cash used for financing activities was \$409.0 million for 2010, primarily due to a cash dividend of \$798.6 million partially offset by \$800 million of new debt that was used to repay our \$430 million credit agreement. In addition, we issued \$35 million in bonds related to our new West Virginia mineral wool plant. Net cash used for financing activities was \$26.7 million for 2009 primarily due to scheduled debt repayments. See Liquidity section for further discussion of our refinancing.

**Liquidity**

Our liquidity needs for operations vary throughout the year. We retain lines of credit to facilitate our seasonal needs. On November 23, 2010, we refinanced our \$1.1 billion credit facility and executed a \$1.05 billion senior credit facility arranged by Merrill Lynch, Pierce, Fenner & Smith, Inc., J.P. Morgan Securities, Inc., and Barclays Capital. This new facility consists of a \$250 million revolving credit facility (with a \$150 million sublimit for letters of credit), a \$250 million Term Loan A and a \$550 million Term Loan B. This \$1.05 billion senior credit facility is secured by U.S. personal property, the capital stock of material U.S. subsidiaries, and a pledge of 65% of the stock of our material first tier foreign subsidiaries.

The senior credit facility includes two financial covenants which require the ratio of consolidated earnings before interest, taxes, depreciation and amortization ( EBITDA ) to consolidated cash interest expense minus cash consolidated interest income ( consolidated interest coverage ratio ) to be greater than or equal to 3.0 to 1.0 and require the ratio of consolidated funded indebtedness minus AWI and domestic subsidiary unrestricted cash and cash equivalents up to \$100M to consolidated EBITDA ( consolidated leverage ratio ) to be less than or equal to 4.5 to 1.0 through June 30, 2012, 4.0 to 1.0 after June 30, 2012 through September 30, 2013 and 3.75 to 1.0 after September 30, 2013. As of December 31, 2010 we were fully in compliance with these covenants. We believe that default under these covenants is unlikely. Fully borrowing under our revolving credit facility would not violate these covenants. The Revolving Credit and Term Loan A portions are currently priced at a spread of 3.00% over LIBOR and the Term Loan B portion is priced at 3.50% over LIBOR with a 1.50% LIBOR floor for its entire term. The Term Loan A and Term Loan B were both fully drawn and are currently priced on a variable interest rate basis. The unpaid balances of Term Loan A, the Revolving Credit and Term Loan B of the credit facility may be prepaid without penalty at the maturity of their respective interest reset periods. Any amounts prepaid on the Term Loan A or Term Loan B may not be reborrowed.

During 2010 we were in compliance with all covenants of the previous and current credit agreement.

Mandatory prepayments are required under the senior credit facility pursuant to an annual leverage test starting with the year ending December 31, 2011 under which, if our consolidated leverage ratio is greater

**Table of Contents**

than 2.0 to 1.0, but less than 2.5 to 1.0, we would be required to make a prepayment of 25% of Consolidated Excess Cash Flow as defined by the credit agreement. If our consolidated leverage ratio is greater than 2.5 to 1.0, the prepayment amount would be 50% of Consolidated Excess Cash Flow.

As of December 31, 2010, we had \$315.8 million of cash and cash equivalents, \$35.7 million in the U.S. and \$280.1 million in various foreign jurisdictions.

Our current debt rating from S&P is BB- (negative) and from Moody's is B1 (stable).

On December 10, 2010 we established a \$100 million Receivables Securitization Program. AWI and its subsidiary, Armstrong Hardwood Flooring Company, sold their U.S. receivables to Armstrong Receivables Company LLC (ARC), a Delaware entity that is consolidated in these financial statements. ARC financed those receivables through Credit Agricole Corporate and Investment Bank, with a maximum commitment of \$100 million. In addition to the financing of receivables by Credit Agricole, under the documentation establishing the program, Credit Agricole may also issue letters of credit at the request of ARC. The purchase and letter of credit commitments under the program expire in December 2013, subject to possible extensions thereafter.

On December 31, 2010, we had outstanding letters of credit totaling \$74.4 million, of which \$37.3 million was issued under the revolving credit facility, \$36.2 million related to the West Virginia bond issue was issued under the securitization facility and \$0.9 million of international subsidiary letters of credit were issued by other banks. Letters of credit are issued to third party suppliers, insurance and financial institutions and typically can only be drawn upon in the event of AWI's failure to pay its obligations to the beneficiary.

As of December 31, 2010, our foreign subsidiaries had available lines of credit totaling \$25.6 million of which \$2.4 million was only available for letters of credit and guarantees. There were no borrowings under these lines of credit as of December 31, 2010 leaving \$23.2 million of unused lines of credit available for foreign borrowings. There was \$0.9 million of letters of credit issued against these credit lines as of December 31, 2010 leaving additional letter of credit availability of \$1.5 million. However, these lines of credit are uncommitted, and poor operating results or credit concerns at the related foreign subsidiaries could result in the lines being withdrawn by the lenders. We have been able to maintain and, as needed, replace, credit facilities to support our foreign operations.

On December 16, 2010 we issued \$35.0 million of Recovery Zone Facility bonds through Jackson County, West Virginia to finance the construction of our new mineral wool plant. These tax exempt bonds are seven day variable rate demand notes backed by a letter of credit. These bonds mature in 2041. As of December 31, 2010 the \$30 million of unspent proceeds must be used for expenditures related to the construction of our new mineral wool plant and are therefore accounted for as restricted cash within other non-current assets.

We paid a special cash dividend of \$13.74 per common share on December 10, 2010. This special cash dividend resulted in an aggregate payment to our shareholders of \$798.6 million. Funding for this dividend came from our debt refinancing and available cash. Payment of an additional \$4.7 million of the dividend is expected to be made when the underlying employee shares vest.

Our Board of Directors has approved the construction of a U.S. mineral wool plant to supply our Building Products plants, the allocation of capital to double our Building Products production capacity in China, and the construction of a China flooring plant. Total capital spending for these projects of approximately \$125 million will be incurred over several years, with most of the spending occurring in 2011 and 2012.

We believe that cash on hand and generated from operations, together with lines of credit, availability under our securitization program, and the availability under the \$250 million revolving credit facility, will be adequate to address our foreseeable liquidity needs based on current expectations of our business operations, capital expenditures and scheduled payments of debt obligations.

**Table of Contents****2009 COMPARED TO 2008**  
**CONSOLIDATED RESULTS**

	2009	2008	Change is (Unfavorable)
Net sales:			
Americas	\$ 1,995.6	\$ 2,384.4	(16.3)%
Europe	626.0	826.0	(24.2)%
Pacific Rim	158.4	182.6	(13.3)%
Total consolidated net sales	\$ 2,780.0	\$ 3,393.0	(18.1)%
Operating income	\$ 90.6	\$ 210.9	(57.0)%

Consolidated net sales declined approximately 18% as significant volume declines more than offset very modest improvements in price realization. Consolidated net sales were also negatively impacted by unfavorable foreign exchange of \$110.9 million.

Net sales in the Americas decreased approximately 16% as volume declined in all segments.

Net sales in the European markets decreased by approximately 24%, as net sales were impacted by unfavorable foreign exchange of \$83.2 million. Lower volume for Building Products was partially offset by modestly improved product mix, while Resilient Flooring sales declined on lower volume.

Net sales in the Pacific Rim decreased approximately 13% on lower volumes and unfavorable foreign exchange of \$11.9 million.

Cost of goods sold was 77.7% of net sales in 2009 compared to 77.6% of net sales in 2008. Reduced input and manufacturing costs offset the decline in sales.

SG&A expenses in 2009 were \$552.4 million, or 19.9% of net sales, compared to \$579.9 million, or 17.1% of net sales, in 2008. The change in expense was primarily due to reduced spending in all segments, partially offset by \$31.6 million accelerated stock-based compensation expense in 2009. The increase in SG&A expenses as a percent of net sales was due to the significant decrease in net sales.

Equity earnings, primarily from our WAVE joint venture, were \$40.0 million in 2009, as compared to \$56.0 million in 2008. See Note 10 to the Consolidated Financial Statements for further information.

Interest expense was \$17.7 million in 2009, compared to \$30.8 million in 2008. The reduction was primarily due to a drop in interest rates and a reduction in the average bank credit facility balance due to principal payments.

Income tax (benefit)/expense from continuing operations was \$(2.5) million and \$109.0 million in 2009 and 2008, respectively. The effective tax rate for 2009 was -3.3% as compared to a rate of 57.6% for 2008. The effective tax rate for 2009 was significantly lower than 2008 primarily due to the recognition of tax benefits related to the settlement of the Internal Revenue Service audit during July 2009.

**Table of Contents****REPORTABLE SEGMENT RESULTS****Resilient Flooring**

	2009	2008	Change is Favorable/ (Unfavorable)
Net sales:			
Americas	\$ 673.1	\$ 786.2	(14.4)%
Europe	294.3	355.1	(17.1)%
Pacific Rim	64.3	78.8	(18.4)%
Total segment net sales	\$ 1,031.7	\$ 1,220.1	(15.4)%
Operating income (loss)	\$ 0.1	\$ (16.8)	Favorable

Net sales in the Americas declined due to volume declines on broad weakness in residential and commercial markets and unfavorable foreign exchange of \$6.3 million. Modest price realization was offset by a less profitable product mix.

Net sales in European markets declined due to lower volume and unfavorable foreign exchange of \$32.9 million. Decreased sales in the Pacific Rim were due to unfavorable foreign exchange of \$6.6 million and lower volume partially offset by a better product mix.

Operating income increased as raw material deflation, lower freight costs, and reduced SG&A and manufacturing expenses offset the margin impact of lower volume and less profitable product mix. Operating income (loss) in 2009 and 2008, respectively, was negatively impacted by \$4.7 million and \$14.1 million of cost reduction initiatives expense and \$3.0 million and \$2.9 million of fixed asset impairments related to the European Resilient Flooring assets. Operating income included European Resilient Flooring losses of \$25.7 million for 2009 and \$38.2 million for 2008.

**Wood Flooring**

	2009	2008	Change is (Unfavorable)
Total segment net sales	\$ 510.4	\$ 624.6	(18.3)%
Operating (loss)	\$ (5.9)	\$ (2.4)	Unfavorable

Net sales decreased due to lower volume driven by continued declines in domestic residential housing markets.

Operating loss increased by \$3.5 million, primarily due to the margin impact of significantly lower sales partially offset by reduced manufacturing, SG&A, and raw material costs. In addition, operating loss in 2009 and 2008 were negatively impacted by non-cash impairment charges of \$18.0 million and \$25.4 million, respectively, related to our Wood trademarks.

**Table of Contents****Building Products**

	2009	2008	Change is (Unfavorable)
Net sales:			
Americas	\$ 661.9	\$ 794.4	(16.7)%
Europe	331.7	470.9	(29.6)%
Pacific Rim	94.1	103.8	(9.3)%
Total segment net sales	\$ 1,087.7	\$ 1,369.1	(20.6)%
Operating income	\$ 155.9	\$ 239.7	(35.0)%

The Americas net sales decreased primarily due to volume declines related to reduced commercial construction activity and unfavorable foreign exchange of \$6.7 million.

European sales declined due to significant volume declines in both Western and Eastern European markets associated with reduced commercial construction activity and unfavorable foreign exchange of \$50.3 million.

Net sales in the Pacific Rim declined on volume declines across the region and unfavorable foreign exchange of \$5.3 million, partially offset by modest improvement in product mix.

Operating income fell by \$83.8 million. The combination of volume declines and lower earnings from WAVE offset the benefits of reduced manufacturing and SG&A expenses, lower freight and modest price realization.

**Cabinets**

	2009	2008	Change is (Unfavorable)
Total segment net sales	\$ 150.2	\$ 179.2	(16.2)%
Operating (loss)	\$ (18.3)	\$ (6.7)	Unfavorable

Net sales declined due to lower volume driven by continued declines in residential housing markets.

Operating loss increased \$11.6 million primarily due to the margin impact from lower sales, partially offset by lower manufacturing costs. In addition, 2009 operating profit was negatively impacted by expenses of \$6.1 million related to the Auburn, Nebraska plant closure.

**Unallocated Corporate**

Unallocated corporate expense of \$41.2 million in 2009 increased from \$2.9 million in 2008. The increase was primarily due to accelerated stock-based compensation expense related to a change in control event which resulted in a non-cash charge of \$31.6 million and a lower U.S. pension credit.

**CASH FLOW**

As shown on the Consolidated Statements of Cash Flows, our cash and cash equivalents balance increased by \$214.5 million in 2009 compared to a decrease of \$159.3 million in 2008.

Operating activities in 2009 provided \$260.2 million of net cash, primarily due to cash earnings and a decrease in inventories across all business units of \$105.9 million due to lower current and projected sales activity. Operating activities in 2008 provided \$214.2 million of net cash, primarily due to cash earnings and distributions from WAVE of \$61.0 million (which includes a special distribution of \$5.5 million). These items were partially offset by a reduction in accounts payable and accrued expenses of \$88.2 million, primarily due to lower activity and the payment of incentive accruals during the first quarter of 2008.

**Table of Contents**

Investing activities in 2009 used \$41.0 million of cash primarily due to capital expenditures of \$105.1 million, partially offset by distributions, classified as a return of investment, from WAVE of \$53.5 million. Investing activities in 2008 used \$75.7 million of cash primarily due to capital expenditures of \$95.0 million, partially offset by distributions, classified as a return of investment, from WAVE of \$19.5 million.

Financing activities in 2009 used \$26.7 million of cash primarily due scheduled debt repayments. Financing activities in 2008 used \$277.0 million primarily due to a special cash dividend of \$256.4 million.

For management's discussion and analysis of financial condition and results of operations for the quarters ended December 31, 2010 and 2009, see Item 8 Financial Statements and Supplementary Data.

**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, 2010. 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 affecting the payments.

	2011	2012	2013	2014	2015	Thereafter	Total
Long-term debt	\$ 10.3	\$ 18.1	\$ 30.5	\$ 43.0	\$ 180.5	\$ 567.5	\$ 849.9
Scheduled interest payments <sup>(1)</sup>	38.5	39.6	45.1	51.6	52.9	119.5	347.2
Operating lease obligations <sup>(2)</sup>	11.3	8.8	4.4	2.3	1.2	4.5	32.5
Unconditional purchase obligations <sup>(3)</sup>	27.6	15.0	2.5	1.7	1.7		48.5
Other obligations <sup>(4), (5)</sup>	19.2						19.2
<b>Total contractual obligations</b>	<b>\$ 106.9</b>	<b>\$ 81.5</b>	<b>\$ 82.5</b>	<b>\$ 98.6</b>	<b>\$ 236.3</b>	<b>\$ 691.5</b>	<b>\$ 1,297.3</b>

(1) For debt with variable interest rates, we projected future interest payments based on market based interest rate swap curves.

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

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

(4) Other obligations include payments under severance agreements.

(5) Other obligations does not include \$126.3 million of liabilities under ASC 740 *Income Taxes*. Due to the uncertainty relating to these positions, we are unable to reasonably estimate the ultimate amount or timing of the settlement of these issues. See Note 16 to the Consolidated Financial Statements for more information.



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.

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 in 2013. Had these agreements terminated at December 31, 2010, Armstrong would have been obligated to purchase approximately \$9.6 million of inventory. Historically, due to production planning, we have not had to

**Table of Contents**

purchase material amounts of product at the end of similar contracts. Accordingly, no liability has been recorded for these guarantees.

As part of our executive compensation plan, certain current and former executives participate in a split-dollar insurance program where we are responsible for remitting the premiums. Since 1998, the program was closed to new participants. As of December 31, 2010, we carried a cash surrender value asset of \$10.1 million related to this program. Should we discontinue making premium payments, the insured executives have the right to the entire policy cash surrender value. In light of the Sarbanes-Oxley Act, we believe it is inappropriate to make the premium payments for two of the executives participating in this plan. As a result, we have required these two 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 in the U.S. for use as of December 31, 2010. Letters of credit are currently arranged through our revolving credit facility or our securitization facility.

	Total	Less			
Other Commercial	Amounts	Than 1	1 3	4 5	Over 5
Commitments	Committed	Year	Years	Years	Years
Letters of credit	\$ 73.5	\$ 73.5			

In addition, our foreign subsidiaries had available lines of credit totaling \$25.6 million of which \$2.4 million was only available for letters of credit and guarantees. There were no borrowings under these lines of credit as of December 31, 2010, leaving \$23.2 million of unused lines of credit available for foreign borrowings.

On December 31, 2010, we had a \$250 million revolving credit facility with a \$150 million sublimit for letters of credit, of which \$37.3 million was outstanding. There were \$25 million of borrowings under the revolving credit facility. Availability under this facility totaled \$187.7 million as of December 31, 2010. We also have the \$100 million securitization facility which as of December 31, 2010 had letters of credit outstanding of \$36.2 million and no borrowings against it. Maximum capacity under this facility was \$63.8 million, subject to accounts receivable balances and other collateral adjustments. There were \$0.9 million of letters of credit issued under these credit lines as of December 31, 2010 leaving additional letter of credit availability of \$1.5 million.

In disposing of assets, we 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 \$4.9 million has been recorded as of December 31, 2010.

**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, interest rate and commodity exposures. 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. We regularly monitor developments in the capital markets.

**Counter Party Risk**

We only enter into derivative transactions with established counterparties having a credit rating of A or better. We monitor counterparty credit default swap levels and credit ratings on a regular basis. All of our derivative transactions with counterparties are governed by master International Swap Dealer Agreements with netting arrangements. These agreements can limit our exposure in situations where we have gain and loss positions outstanding with a single counterparty. We generally do not post nor receive cash collateral with any counterparty for our derivative transactions. As of December 31, 2010 we had no cash collateral posted or received for any of our derivative transactions. These agreements do not contain any credit contingent features other than those contained in our bank credit facility. Exposure to individual counterparties is controlled, and thus we consider the risk of counterparty default to be negligible.

**Interest Rate Sensitivity**

We are subject to interest rate variability on our Term Loan A, Term Loan B, revolving credit facility and other borrowings. There were \$25 million of borrowings under the revolving credit facility as of December 31, 2010. A hypothetical increase of one-quarter percentage point in LIBOR interest rates from December 31, 2010 levels would increase 2011 interest expense by approximately \$0.7 million. A significant portion of our debt has a 1.5% LIBOR floor which would not be affected by a one-quarter percentage point move in LIBOR given the current low interest rate environment. As of December 31, 2010 we did not have any interest rate swaps outstanding.

The table below provides information about our long-term debt obligations as of December 31, 2010, including payment requirements and related weighted-average interest rates by scheduled maturity dates. Weighted average variable rates are based on implied forward rates in the yield curve.

Scheduled maturity date (\$ millions)	2011	2012	2013	2014	2015	After 2016	Total
As of December 31, 2010							
Long-term debt:							
Fixed rate	\$ 4.5	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ 4.5
Avg. interest rate	5.25%	5.77%	5.77%	5.77%	5.77%	5.77%	5.25%
Variable rate	\$ 5.8	\$ 18.1	\$ 30.5	\$ 43.0	\$ 180.5	\$ 567.5	\$ 845.4
Avg. interest rate	4.85%	4.43%	5.30%	6.29%	7.06%	7.14%	6.94%

**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 use foreign currency forward exchange contracts to reduce our remaining exposure. At December 31, 2010, our major foreign currency exposures are to the Canadian Dollar, Australian Dollar and Euro. A 10% strengthening of all currencies against the U.S. dollar compared to December 31, 2010 levels would increase our 2011 earnings before income taxes by approximately \$5.5 million, including the impact of current foreign currency forward exchange contracts.

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, 2010.

On balance sheet foreign exchange related derivatives	Maturing in
As of December 31, 2010	2011
Notional amounts (millions)	\$ 229.1
(Liabilities) at fair value (millions)	\$ (7.0)

**Natural Gas 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 North American natural gas volatility through derivative instruments, including forward swap contracts, purchased call options and zero-cost collars. As of December 31, 2010, we had contracts to hedge approximately \$37 million (notional amounts) of natural gas. All of these contracts mature by 2012. A 10% increase in North American natural gas prices compared to December 31, 2010 prices would increase our 2011 expenses by approximately \$0.4 million including the impact of current hedging contracts. At December 31, 2010 we had recorded liabilities of \$5.5 million related to these contracts.

**Table of Contents**

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

**SUPPLEMENTARY DATA**

Quarterly Financial Information for the Years Ended December 31, 2010 and 2009 (Unaudited)

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

<u>Reports of Independent Registered Public Accounting Firm</u>	42
<u>Consolidated Statements of Earnings for the Years Ended December 31, 2010, 2009 and 2008</u>	44
<u>Consolidated Balance Sheets as of December 31, 2010 and 2009</u>	45
<u>Consolidated Statements of Equity for the Years Ended December 31, 2010, 2009 and 2008</u>	46
<u>Consolidated Statements of Cash Flows for the Years Ended December 31, 2010, 2009 and 2008</u>	47
<u>Notes to Consolidated Financial Statements</u>	48
<u>Schedule II for the Years Ended December 31, 2010, 2009, and 2008</u>	

**Table of Contents**

## QUARTERLY FINANCIAL INFORMATION

ARMSTRONG WORLD INDUSTRIES, INC. AND SUBSIDIARIES (unaudited)

(millions except for per share data)

	First	Second	Third	Fourth
2010				
Net sales	\$ 658.9	\$ 724.8	\$ 739.8	\$ 642.9
Gross profit	145.8	170.4	172.0	123.6
Net earnings (loss)	(19.4)	26.8	24.6	(21.0)
Per share of common stock:				
Basic	\$ (0.34)	\$ 0.47	\$ 0.42	\$ (0.36)
Diluted	\$ (0.34)	\$ 0.46	\$ 0.42	\$ (0.36)
Price range of common stock high	\$ 40.93	\$ 45.05	\$ 43.05	\$ 54.58
Price range of common stock low	\$ 33.42	\$ 29.44	\$ 28.01	\$ 39.55
Dividends paid per share				\$ 13.74
	First	Second	Third	Fourth
2009				
Net sales	\$ 668.3	\$ 705.7	\$ 753.0	\$ 653.0
Gross profit	131.4	164.0	188.0	137.6
Net earnings (loss)	(11.2)	28.3	64.4	(3.8)
Per share of common stock:				
Basic	\$ (0.20)	\$ 0.50	\$ 1.13	\$ (0.07)
Diluted	\$ (0.20)	\$ 0.50	\$ 1.12	\$ (0.07)
Price range of common stock high	\$ 23.74	\$ 21.80	\$ 35.50	\$ 45.45
Price range of common stock low	\$ 9.42	\$ 10.55	\$ 15.05	\$ 33.14
Dividends paid per share				

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

**Table of Contents**

**Fourth Quarter 2010 Compared With Fourth Quarter 2009**

Net sales of \$642.9 million in the fourth quarter of 2010 decreased from net sales of \$653.0 million in the fourth quarter of 2009, a decrease of 1.5%. Excluding the unfavorable effects of foreign exchange rates of \$5.5 million, net sales decreased less than 1%. The decline was due to volume declines partially offset by favorable price realization. Resilient Flooring net sales decreased 2.1%, excluding the unfavorable effects of foreign exchange rates, primarily due to lower volume in the North American residential markets. Wood Flooring net sales decreased by 10.7% primarily due to lower volume driven by continued declines in residential markets. Building Products net sales increased by 6.1%, excluding the unfavorable effects of foreign exchange rates, due to increased volume and price realization. Cabinets net sales decreased by 6.6% on volume declines in the residential housing markets. Net sales decreased less than 1% in the Americas. Excluding the unfavorable effects of foreign exchange rates of \$9.7 million, European net sales decreased less than 1%. Excluding the favorable effects of foreign exchange rates of \$2.1 million, Pacific Rim sales increased 3.3%.

The fourth quarters of 2010 and 2009 were negatively impacted by non-cash impairment charges of \$22.4 and \$18.0 million, respectively, related to our Wood trademarks. The fourth quarter of 2010 was impacted by approximately \$19 million of fixed asset write downs and severance charges and a \$5.8 million loss on the sale of our European metal ceilings contract installation business. The fourth quarter of 2009 was negatively impacted by approximately \$7 million of cost reduction expenses and \$3 million of fixed asset impairment charges.

For the fourth quarter of 2010, cost of goods sold was 80.8% of net sales, compared to 78.9% in 2009. The 1.9% increase was due to higher input costs, increased fixed asset write downs, and related inventory valuation impact offset slightly by higher price realization.

Selling, general and administrative ( SG&A ) expenses for the fourth quarter of 2010 were \$130.8 million, or 20.3% of net sales, as compared to \$131.1 million, or 20.1% of net sales, for the fourth quarter of 2009. Reductions in SG&A expenses in 2010 were offset by increased severance charges and the loss on the sale of our European metal ceilings contract installation business.

Restructuring charges of \$7.0 million were recorded in the fourth quarter of 2010 for severance and related costs for several plant closures and reductions in SG&A personnel.

An operating loss of \$30.2 million in the fourth quarter of 2010 compared to \$1.6 million in the fourth quarter of 2009 primarily resulted from the items discussed above.

Interest expense was \$9.4 million compared to \$3.8 million in 2009. The increase was primarily due to the refinancing of our credit facility in the fourth quarter of 2010. In connection with the refinancing we wrote off \$3.8 million of unamortized debt financing costs related to our previous credit facility to interest expense.

The income tax benefit for the fourth quarter of 2010 was \$17.0 million on a pre-tax loss of \$38.0 million versus a benefit of \$1.4 million on a pre-tax loss of \$5.2 million in 2009. The effective tax rate for the fourth quarter of 2010 was favorable versus 2009 primarily due to a reduction in the amount of unbenefitted foreign losses.

**Table of Contents**

**MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

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

With the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on our evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2010.

KPMG LLP, an independent registered public accounting firm, audited our internal control over financial reporting as of December 31, 2010. Their audit report can be found on page 42.

/s/ Matthew J. Espe

Matthew J. Espe  
Chief Executive Officer and President

/s/ Thomas B. Mangas

Thomas B. Mangas  
Senior Vice President and Chief Financial Officer

/s/ Stephen F. McNamara

Stephen F. McNamara  
Vice President and Corporate Controller  
February 28, 2011



**Table of Contents**

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Shareholders

Armstrong World Industries, Inc.:

We have audited Armstrong World Industries, Inc. and subsidiaries (the Company) internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, Armstrong World Industries, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as of December 31, 2010 and 2009, and the related consolidated statements of earnings, equity, and cash flows for each of the years in the three-year period ended December 31, 2010, and our report dated February 28, 2011 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Philadelphia, Pennsylvania

February 28, 2011

**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 balance sheets of Armstrong World Industries, Inc. and subsidiaries ( the Company ) as of December 31, 2010 and 2009, and the related consolidated statements of earnings, equity and cash flows for each of the years in the three-year period ended December 31, 2010. 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 38. 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, 2010 and 2009, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2010, 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.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company s internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 28, 2011 expressed an unqualified opinion on the effectiveness of the Company s internal control over financial reporting.

/s/ KPMG LLP

Philadelphia, Pennsylvania

February 28, 2011

**Table of Contents**

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

	Years Ended December 31,		
	2010	2009	2008
Net sales	\$ 2,766.4	\$ 2,780.0	\$ 3,393.0
Cost of goods sold	2,154.6	2,159.0	2,632.0
Gross profit	611.8	621.0	761.0
Selling, general and administrative expenses	531.3	552.4	579.9
Intangible asset impairment	22.4	18.0	25.4
Restructuring charges	22.0		0.8
Equity earnings from joint venture	(45.0)	(40.0)	(56.0)
Operating income	81.1	90.6	210.9
Interest expense	21.2	17.7	30.8
Other non-operating expense	1.2	0.9	1.3
Other non-operating (income)	(8.0)	(3.2)	(10.6)
Earnings before income taxes	66.7	75.2	189.4
Income tax expense (benefit)	55.7	(2.5)	109.0
Earnings from continuing operations	11.0	77.7	80.4
Gain from discontinued operations, net of tax			0.6
Net earnings	\$ 11.0	\$ 77.7	\$ 81.0
Earnings per share of common stock, continuing operations:			
Basic	\$ 0.19	\$ 1.36	\$ 1.41
Diluted	\$ 0.19	\$ 1.36	\$ 1.41
Gain per share of common stock, discontinued operations:			
Basic	\$	\$	\$ 0.01
Diluted	\$	\$	\$ 0.01
Earnings per share of common stock:			
Basic	\$ 0.19	\$ 1.36	\$ 1.42
Diluted	\$ 0.19	\$ 1.36	\$ 1.42
Average number of common shares outstanding:			
Basic	57.7	56.8	56.4
Diluted	58.2	57.0	56.4

See accompanying notes to consolidated financial statements beginning on page 48.

**Table of Contents**

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

	December 31, 2010	December 31, 2009
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 315.8	\$ 569.5
Accounts and notes receivable, net	229.5	229.1
Inventories, net	398.5	445.0
Deferred income taxes	20.9	16.3
Income tax receivable	20.7	16.5
Other current assets	35.3	55.2
<b>Total current assets</b>	<b>1,020.7</b>	<b>1,331.6</b>
Property, plant and equipment, less accumulated depreciation and amortization of \$482.8 and \$390.0, respectively	854.9	929.2
Prepaid pension costs	130.7	114.3
Investment in joint venture	188.6	194.6
Intangible assets, net	556.1	592.8
Restricted cash	30.0	
Deferred income taxes	45.0	58.2
Other noncurrent assets	96.4	81.9
<b>Total assets</b>	<b>\$ 2,922.4</b>	<b>\$ 3,302.6</b>
<b>Liabilities and Equity</b>		
Current liabilities:		
Short-term debt	\$ 25.0	\$ 0.1
Current installments of long-term debt	10.3	40.0
Accounts payable and accrued expenses	340.3	311.0
Income tax payable	4.9	3.1
Deferred income taxes	2.4	3.1
<b>Total current liabilities</b>	<b>382.9</b>	<b>357.3</b>
Long-term debt, less current installments	839.6	432.5
Postretirement benefit liabilities	277.9	296.9
Pension benefit liabilities	202.1	223.5
Other long-term liabilities	70.3	67.1
Income taxes payable	34.7	9.2
Deferred income taxes	24.1	8.2
<b>Total noncurrent liabilities</b>	<b>1,448.7</b>	<b>1,037.4</b>

Shareholders' equity:

Common stock, \$0.01 par value per share, authorized 200 million shares; issued 58,070,807 shares in 2010 and 57,433,503 shares in 2009	0.6	0.6
Capital in excess of par value	1,451.2	2,052.1
Retained earnings (accumulated deficit)	(35.3)	144.4
Accumulated other comprehensive (loss)	(325.7)	(297.8)
Total shareholders' equity	1,090.8	1,899.3
Non-controlling interest		8.6
Total equity	1,090.8	1,907.9
Total liabilities and equity	\$ 2,922.4	\$ 3,302.6

See accompanying notes to consolidated financial statements beginning on page 48.

**Table of Contents**

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

	Total		AWI Shareholders Year 2010	Non-Controlling Interest
Non-Controlling Interest:				
Balance at beginning of year	\$ 8.6			\$ 8.6
Non-controlling interest purchase	(8.6)			(8.6)
Balance as of December 31	\$		\$	\$
Common stock:				
Balance at beginning of year and December 31	\$ 0.6		\$ 0.6	
Capital in excess of par value:				
Balance at beginning of year	\$ 2,052.1		\$ 2,052.1	
Share-based employee compensation	14.7		14.7	
Dividend in excess of retained earnings	(612.1)		(612.1)	
Non-controlling interest purchase	(3.5)		(3.5)	
Balance at December 31	\$ 1,451.2		\$ 1,451.2	
Accumulated deficit:				
Balance at beginning of year	\$ 144.4		\$ 144.4	
Net earnings for period	11.0	\$ 11.0	11.0	\$ 11.0
Dividend	(190.7)		(190.7)	
Balance at December 31	\$ (35.3)		\$ (35.3)	
Accumulated other comprehensive income (loss):				
Balance at beginning of year	\$ (297.8)		\$ (297.8)	
Foreign currency translation adjustments	(0.3)		(0.3)	
Derivative gain, net	0.5		0.5	
Non-controlling interest purchase	1.1		1.1	
Pension and postretirement adjustments	(29.2)		(29.2)	
Total other comprehensive (loss)	(27.9)	(27.9)	(27.9)	(27.9)
Balance at December 31	\$ (325.7)		\$ (325.7)	
Comprehensive (loss)		\$ (16.9)		\$ (16.9)
Total equity	\$ 1,090.8		\$ 1,090.8	

## Year 2009

Non-Controlling Interest:							
Balance at beginning of year	\$	8.1			\$	8.1	
Common stock:							
Balance at beginning of year and December 31	\$	0.6		\$	0.6		
Capital in excess of par value:							
Balance at beginning of year	\$	2,024.7		\$	2,024.7		
Share-based employee compensation		27.4			27.4		
Balance at December 31	\$	2,052.1		\$	2,052.1		
Retained earnings:							
Balance at beginning of year	\$	66.7		\$	66.7		
Net earnings for period		78.2	\$	78.2		77.7	\$
					77.7	0.5	\$
							0.5
Balance at December 31	\$	144.9		\$	144.4		\$
						0.5	
Accumulated other comprehensive (loss) income:							
Balance at beginning of year	\$	(348.8)		\$	(348.8)		
Foreign currency translation adjustments		34.4			34.4		
Derivative (loss), net		(2.2)			(2.2)		
Pension and postretirement adjustments		18.8			18.8		
Total other comprehensive income		51.0		51.0		51.0	51.0
Balance at December 31	\$	(297.8)		\$	(297.8)		
Comprehensive income			\$	129.2		\$	128.7
							\$
							0.5
Total equity	\$	1,907.9		\$	1,899.3		\$
						8.6	

## Year 2008

Non-Controlling Interest:			
Balance at beginning of year	\$	7.4	\$
			7.4
Common stock:			
Balance at beginning of year and December 31	\$	0.6	\$
			0.6
Capital in excess of par value:			
Balance at beginning of year	\$	2,112.6	\$
			2,112.6



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Share-based employee compensation	7.2		7.2			
Dividends in excess of retained earnings	(95.1)		(95.1)			
Balance at December 31	\$ 2,024.7		\$ 2,024.7			
Retained earnings:						
Balance at beginning of year	\$ 147.5		\$ 147.5			
Net earnings for period	81.2	\$ 81.2	81.0	\$ 81.0	0.2	\$ 0.2
Dividends	(161.8)		(161.8)			
Balance at December 31	\$ 66.9		\$ 66.7		\$ 0.2	
Accumulated other comprehensive (loss) income:						
Balance at beginning of year	\$ 176.0		\$ 176.0			
Foreign currency translation adjustments	(42.2)		(42.7)		0.5	
Derivative gain, net	1.4		1.4			
Pension and postretirement adjustments	(483.5)		(483.5)			
Total other comprehensive (loss) income	(524.3)	(524.3)	(524.8)	(524.8)	0.5	0.5
Balance at December 31	\$ (348.3)		\$ (348.8)		0.5	
Comprehensive (loss) income		\$ (443.1)		\$ (443.8)		\$ 0.7
Total equity	\$ 1,751.3		\$ 1,743.2		\$ 8.1	

See accompanying notes to consolidated financial statements beginning on page 48.

**Table of Contents**

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

	Year Ended December 31,		
	2010	2009	2008
Cash flows from operating activities:			
Net earnings	\$ 11.0	\$ 77.7	\$ 81.0
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	143.3	146.8	149.8
Asset impairments	30.6	21.0	28.3
Deferred income taxes	21.3	135.6	74.0
Stock-based compensation	5.0	38.2	7.5
Equity earnings from joint venture	(45.0)	(40.0)	(56.0)
Distributions from joint venture			61.0
U.S. pension credit	(50.9)	(58.2)	(63.0)
Restructuring charges	22.0		0.8
Restructuring payments	(7.5)		
Insurance proceeds environmental recovery			10.0
Changes in operating assets and liabilities:			
Receivables	(2.9)	23.9	42.8
Inventories	41.2	105.9	(16.1)
Other current assets	19.2	7.0	(7.2)
Other noncurrent assets	(25.4)	2.1	(2.6)
Accounts payable and accrued expenses	10.8	(36.9)	(88.2)
Income taxes	25.9	(147.0)	9.7
Other long-term liabilities	(7.9)	(18.6)	(10.2)
Cash distributed under the POR			(3.1)
Other, net	(0.3)	2.7	(4.3)
 Net cash provided by operating activities	 190.4	 260.2	 214.2
 Cash flows from investing activities:			
Purchases of property, plant and equipment	(92.7)	(105.1)	(95.0)
Divestiture (acquisition)	(0.6)	8.0	(0.8)
Restricted cash	(30.0)		
Return of investment from joint venture	51.0	53.5	19.5
Proceeds from noncurrent note receivable	5.5		
Proceeds from the sale of assets	25.8	2.6	0.6
 Net cash (used for) investing activities	 (41.0)	 (41.0)	 (75.7)
 Cash flows from financing activities:			
Proceeds from revolving credit facility and other debt	50.0		25.0
Payments on revolving credit facility and other debt	(25.1)	(1.2)	(27.5)
Issuance of long-term debt	839.3	2.4	5.4

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Payments of long-term debt	(462.1)	(25.6)	(20.9)
Financing costs	(18.0)		(2.6)
Special dividend paid	(798.6)	(1.3)	(256.4)
Proceeds from exercised stock options	13.3	2.3	
Purchase of non-controlling interest	(7.8)	(3.3)	
Net cash (used for) financing activities	(409.0)	(26.7)	(277.0)
Effect of exchange rate changes on cash and cash equivalents	5.9	22.0	(20.8)
Net (decrease) increase in cash and cash equivalents	\$ (253.7)	\$ 214.5	\$ (159.3)
Cash and cash equivalents at beginning of year	569.5	355.0	514.3
Cash and cash equivalents at end of year	\$ 315.8	\$ 569.5	\$ 355.0

See accompanying notes to consolidated financial statements beginning on page 48.

**Table of Contents**

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. 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 plan of reorganization ( POR ) on October 2, 2006, and its subsidiaries collectively. We use the term AWI when we are referring solely to Armstrong World Industries, Inc. In December 2000, AWI 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. On October 2, 2006, AWI s court-approved POR became effective, and AWI emerged from Chapter 11.

**Resolution of Disputed Claims**

All claims in AWI s Chapter 11 case have been resolved and closed. In February 2008 AWI made a final distribution to general unsecured creditors of AWI under the POR. The Bankruptcy Court closed AWI s Chapter 11 case on September 2, 2008. No further distributions will be made.

**Asbestos PI Trust**

On October 2, 2006, the Armstrong World Industries, Inc. Asbestos Personal Injury Settlement Trust ( Asbestos PI Trust ) was created to address AWI s personal injury (including wrongful death) asbestos-related liability. All present and future asbestos-related personal injury claims against AWI, including contribution claims of co-defendants, arising directly or indirectly out of AWI s pre-Filing use of, or other activities involving, asbestos are channeled to the Asbestos PI Trust.

**Accounting Impact**

Accounting Standards Codification ( ASC ) 852 *Restructuring* provides financial reporting guidance for entities that reorganize under the Bankruptcy Code. This fresh start reporting guidance was reflected in the accompanying consolidated financial statements.

ASC 852 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. There was no Chapter 11 income or expense recorded in 2008, 2009, or 2010.

For Chapter 11 related post-emergence activities AWI recorded \$1.4 million and \$2.0 million of income for 2009 and 2008, respectively. These amounts included reversals of certain environmental and other accruals set-up during settlement accounting and the recording of undistributed cash partially offset by professional fees.

**Share Ownership**

In August 2009 Armor TPG Holdings LLC ( TPG ) and the Asbestos PI Trust entered into agreements whereby TPG purchased 7,000,000 shares of AWI 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**

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

**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. All significant intercompany transactions have been eliminated from the consolidated financial statements.

**Use of Estimates.** These financial statements are prepared in accordance with U.S. generally accepted accounting principles. The statements include management estimates and judgments, where appropriate. Management utilizes estimates to record many items including asset values, allowances for bad debts, inventory obsolescence and lower of cost or market charges, warranty, workers' compensation, general liability and environmental claims and income taxes. When preparing an estimate, management determines the amount based upon the consideration of relevant information. Management may confer with outside parties, including outside counsel. Actual results may differ from these estimates.

**Reclassifications.** Certain amounts in the prior years' Consolidated Financial Statements and related notes thereto have been recast to conform to the 2010 presentation.

**Revenue Recognition.** We recognize revenue from the sale of products when persuasive evidence of an arrangement exists, title and risk of loss transfers to the customers, prices are fixed and determinable, and it is reasonably assured the related accounts receivable is collectible. 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.

**Shipping and Handling Costs.** Shipping and handling costs are reflected in cost of goods sold.

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

**Research and Development Costs.** We recognize research and development costs 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. See Note 18 for disclosures on pension and postretirement benefits.

**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 income 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.

We record valuation allowances to reduce our deferred income tax assets if it is more likely than not that some portion or all of the deferred income tax assets will not be realized. For tax benefits that may be challenged by a taxing authority, we make an assessment of whether the position is more likely than not to be sustained upon an examination by the taxing authorities. Based on this analysis, we record the impact of these uncertain tax positions, including penalties and interest in the period in which such determination is made.

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

**Table of Contents**

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

**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.

**Concentration of Credit.** We principally sell products to customers in the building products industries in various geographic regions. No one customer accounted for 10% or more of our total consolidated net sales in the years 2010, 2009, and 2008. 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, customer credits 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. Cash flows from the collection of current receivables are classified as operating cash flows on the consolidated statements of cash flows. Cash flows from the collection of non-current receivables are classified as investing cash flows on the consolidated statements of cash flows.

We establish credit-worthiness prior to extending credit. We estimate the recoverability of 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 collectability of the receivable, all or a portion of the receivable is reserved. 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. See Note 7 for further information on our accounting for inventories.

**Property and Depreciation.** Property, plant and equipment in place as of September 30, 2006 was set equal to fair value as of our emergence date and is currently stated at that value less impairment charges and accumulated depreciation and amortization. Property, plant and equipment acquired after our emergence date is stated at acquisition cost less impairment charges and accumulated depreciation and amortization. Upon emergence from Chapter 11 in 2006, certain tangible assets were assigned shortened useful lives, and most of these assets were fully depreciated as of the fourth quarter of 2009.

Depreciation charges for financial reporting purposes are determined on a straight-line basis at rates calculated to provide for the full depreciation of assets at the end of their useful lives. Machinery and equipment includes manufacturing equipment (depreciated over 3 to 15 years), computer equipment (3 to 5 years) and office furniture and equipment (5 to 7 years). Within manufacturing equipment, assets that are subject to quick obsolescence or wear out quickly, such as tooling and engraving equipment, are depreciated over shorter periods (3 to 7 years). Heavy production equipment, such as conveyors and production presses, are depreciated over longer periods (15 years). Buildings are depreciated over 15 to 30 years, depending on factors such as type of construction and use. Certain buildings existing at our emergence date are depreciated over shorter periods. Computer software is depreciated over 3 to 7 years.

Property, plant and equipment are tested for impairment when indicators of impairment are present, such as operating losses and/or negative cash flows. If an indication of impairment exists, we compare the carrying amount of the asset group to the estimated undiscounted future cash flows expected to be

**Table of Contents**

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

generated by the assets. The estimate of an asset group's fair value is based on discounted future cash flows expected to be generated by the asset group, or based on management's estimated exit price assuming the assets could be sold in an orderly transaction between market participants, or estimated salvage value if no sale is assumed. If the fair value is less than the carrying value of the asset group, we record an impairment charge equal to the difference between the fair value and carrying value of the asset group. Impairments of assets related to our manufacturing operations are recorded in cost of goods sold. 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 selling, general and administrative (SG&A) expenses.

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.

**Asset Retirement Obligations.** We recognize the fair value of obligations associated with the retirement of tangible long-lived assets in the period in which they are incurred. Upon initial recognition of a liability, the discounted cost is capitalized as part of the related long-lived asset and depreciated over the corresponding asset's useful life. Over time, accretion of the liability is recognized as an operating expense to reflect the change in the liability's present value.

**Intangible Assets.** Effective with our emergence from Chapter 11 in 2006 and as part of fresh-start reporting, goodwill was eliminated from our balance sheet, and intangible assets were revalued and identified. Intangible assets with determinable useful lives are amortized over their respective estimated useful lives.

We periodically review significant definite-lived intangible assets for impairment when indicators of impairment exist. We review our businesses for indicators of impairment such as operating losses and/or negative cash flows. If an indication of impairment exists, we compare the carrying amount of the asset group to the estimated undiscounted future cash flows expected to be generated by the assets. The estimate of an asset group's fair value is based on discounted future cash flows expected to be generated by the asset group, or based on management's estimated exit price assuming the assets could be sold in an orderly transaction between market participants. If the fair value is less than the carrying value of the asset group, we record an impairment charge equal to the difference between the fair value and carrying value of the asset group.

Our indefinite-lived intangibles are primarily trademarks and brand names, which are integral to our corporate identity and expected to contribute indefinitely to our corporate cash flows. Accordingly, they have been assigned an indefinite life. We perform annual impairment tests during the fourth quarter on these indefinite-lived intangibles. These assets undergo more frequent tests if an indication of possible impairment exists.

The principal assumptions utilized in our impairment tests for definite-lived intangible assets include operating profit adjusted for depreciation and amortization and discount rate. The principal assumptions utilized in our impairment tests for indefinite-lived intangible assets include revenue growth rate, discount rate and royalty rate. Revenue growth rate and operating profit assumptions are consistent with those utilized in our operating plan and strategic planning process. The discount rate assumption is calculated based upon an estimated weighted average cost of equity which reflects the overall level of inherent risk and the rate of return a market participant would expect to achieve.

Methodologies used for valuing our intangible assets did not change from prior periods.

See Note 11 for disclosure on intangible assets.

**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 period end exchange rate. Revenues and expenses are translated at exchange rates effective during each month.

**Table of Contents**

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

Foreign currency translation gains or losses are included as a component of accumulated other comprehensive (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 offset the effect of currency, interest rate and commodity price variability. See Notes 19 and 20 for further discussion.

**Stock-based Employee Compensation.** For awards with only service and performance conditions that have a graded vesting schedule, we recognize compensation expense on a straight-line basis over the vesting period for the entire award. For awards with market conditions, we recognize compensation expense over the derived service period. See Note 24 for additional information on stock-based employee compensation.

**Recently Adopted Accounting Standards**

In September 2006 the FASB issued new guidance on fair value. The new guidance, which is now part of ASC 820, *Fair Value Measurements and Disclosures*, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. ASC 820 was effective for fiscal years beginning after November 15, 2007. However, the effective date for certain non-financial assets and liabilities was deferred to fiscal years beginning after November 15, 2008. There was no material impact from our initial adoption of the provisions of the guidance in 2008, nor was there a material impact from our adoption of the remaining portions of ASC 820 on January 1, 2009.

During 2009 we adopted new guidance, which is now part of ASC 810, *Consolidation*, which requires the recognition of a non-controlling interest (formerly known as a minority interest) as equity in the consolidated financial statements and separate from the parent's equity. The amount of net income attributable to the non-controlling interest was immaterial for the years ended December 31, 2010 and 2009, and, therefore, is included in consolidated net income on the face of the income statement.

During 2009 we adopted new guidance, which is now part of ASC 323, *Investments-Equity Method and Joint Ventures*, which discusses the accounting for contingent consideration agreements of an equity method investment and the requirement for the investor to recognize its share of any impairment charges recorded by the investee. ASC 323 requires the investor to record share issuances by the investee as if it has sold a portion of its investment with any resulting gain or loss being reflected in earnings. There was no material impact from our adoption of ASC 323 on January 1, 2009.

During 2009 we adopted new guidance, which is now part of ASC 815, *Derivatives and Hedging*. The new guidance enhances the disclosure requirements for derivative instruments and hedging activities to provide users of financial statements with a better understanding of the objectives of a company's derivative use and the risks managed. The changes to the disclosure requirements surrounding derivatives and hedging activities have been incorporated into the footnotes to the financial statements. See Note 20 for our disclosures related to hedging activities.

Effective January 1, 2009 we adopted new guidance, which is now part of ASC 260, *Earnings Per Share*. Under ASC 260, share-based payment awards (whether vested or unvested) that contain nonforfeitable rights to dividends or dividend equivalents, whether paid or unpaid, are participating securities and shall be included in the computation of earnings per share (EPS) pursuant to the two-class method as described in ASC 260. All prior-period EPS data presented has been adjusted retrospectively to conform to the provisions of ASC 260.

Effective January 1, 2009 we adopted new guidance, which is now part of ASC 715, *Compensation - Retirement Benefits*, which requires additional disclosures about plan assets in an employer's defined benefit pension or other postretirement plan. The objectives of the disclosures are to provide users of financial statements with an understanding of the major categories of plan assets, fair value



**Table of Contents**

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

measurements for plan assets, how investment decisions are made, and concentrations of risk within the plan assets. See Note 18 for our disclosures related to retirement plan assets.

In May 2009 and February 2010 the FASB issued new guidance, which is now part of ASC 855, *Subsequent Events*. ASC 855 requires management to evaluate subsequent events through the date the financial statements were issued or the date the financial statements were available to be issued. We have evaluated subsequent events through the issuance of this Form 10-K.

In June 2009 the FASB issued new guidance, which is now part of ASC 105, *Generally Accepted Accounting Principles*. ASC 105 has become the source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernment entities. It also modified the GAAP hierarchy to include only two levels of GAAP: authoritative and non-authoritative. ASC 105 was effective for financial statements issued for interim and annual periods ending after September 15, 2009. We adopted ASC 105 for the reporting of our 2009 third quarter results. The adoption had no impact on the reporting of our financial position, results of operations, or cash flows.

In January 2010 the FASB issued new guidance, which is now part of ASC 820, *Fair Value Measurements and Disclosures*. The new guidance requires disclosures of the amounts of assets and liabilities transferred into and out of Levels 1 and 2, along with a description of the reasons for the transfers. The new guidance also requires additional disclosures related to activity presented for Level 3 measurements. These provisions were effective for us as of January 1, 2010, except for the additional disclosures related to activities for Level 3 measurements which are effective for us as of January 1, 2011. There was no impact on our financial statements from the adoption of this guidance.

**Recently Issued Accounting Standards**

In July 2010 the FASB issued new guidance, which is now part of ASC 310, *Receivables*. The new guidance increases the disclosure requirements regarding the credit quality of financing receivables and the allowance for credit losses. Some of the provisions were effective for us as of December 31, 2010 and others as of January 1, 2011. We have not had and do not expect a material impact on our financial statements from the adoption of this guidance.

**NOTE 3. NATURE OF OPERATIONS**

*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®, 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



**Table of Contents**

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

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 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.

	Resilient Flooring	Wood Flooring	Building Products	Cabinets	Unallocated Corporate	Total
For the year ended 2010						
Net sales to external customers	\$ 1,013.2	\$ 479.1	\$ 1,135.5	\$ 138.6		\$ 2,766.4
Equity (earnings) from joint venture			(45.0)			(45.0)
Segment operating income (loss) <sup>(1)</sup>	13.1	(45.8)	171.0	(6.4)	(50.8)	81.1
Restructuring charges	13.9	0.9	3.2		4.0	22.0
Segment assets	582.6	340.7	931.4	47.9	1,019.8	2,922.4
Depreciation and amortization	38.6	26.4	62.5	2.0	13.8	143.3
Asset impairments	2.1	22.4			6.1	30.6
Investment in joint venture			188.6			188.6
Capital additions	24.0	12.2	47.7	3.0	5.8	92.7

	Resilient Flooring	Wood Flooring	Building Products	Cabinets	Unallocated Corporate	Total
For the year ended 2009						
Net sales to external customers	\$ 1,031.7	\$ 510.4	\$ 1,087.7	\$ 150.2		\$ 2,780.0
Equity (earnings) from joint venture			(40.0)			(40.0)
Segment operating income (loss) <sup>(1)</sup>	0.1	(5.9)	155.9	(18.3)	(41.2)	90.6
Segment assets	645.2	410.3	966.0	53.2	1,227.9	3,302.6
Depreciation and amortization	45.2	14.9	61.5	7.2	18.0	146.8
Asset impairments	3.0	18.0				21.0
Investment in joint venture	0.1		194.5			194.6
Capital additions	50.5	10.3	31.8	2.5	10.0	105.1

	Resilient Flooring	Wood Flooring	Building Products	Cabinets	Unallocated Corporate	Total
For the year ended 2008						
Net sales to external customers	\$ 1,220.1	\$ 624.6	\$ 1,369.1	\$ 179.2		\$ 3,393.0
Equity (earnings) from joint venture			(56.0)			(56.0)
Segment operating income (loss) <sup>(1)</sup>	(16.8)	(2.4)	239.7	(6.7)	(2.9)	210.9
Restructuring charges					0.8	0.8
Segment assets	670.2	470.9	1,049.6	71.2	1,089.9	3,351.8
Depreciation and amortization	49.8	12.6	64.8	2.4	20.2	149.8
Asset Impairments	2.9	25.4				28.3

Investment in joint venture	0.1		208.1			208.2
Capital additions	26.4	11.8	41.1	3.7	12.0	95.0

- (1) Segment operating income (loss) is the measure of segment profit or loss reviewed by the chief operating decision maker. The sum of the segments operating income (loss) equals the total consolidated operating income as reported on our income statement. The following reconciles our total consolidated operating income to earnings from continuing operations before income taxes. These items are only measured and managed on a consolidated basis:

**Table of Contents**

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

	2010	2009	2008
Segment operating income	\$ 81.1	\$ 90.6	\$ 210.9
Interest expense	21.2	17.7	30.8
Other non-operating expense	1.2	0.9	1.3
Other non-operating (income)	(8.0)	(3.2)	(10.6)
Earnings from continuing operations before income taxes	\$ 66.7	\$ 75.2	\$ 189.4

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.

Geographic Areas	2010	2009	2008
Net trade sales			
Americas:			
United States	\$ 1,742.4	\$ 1,810.5	\$ 2,177.4
Canada	179.4	152.0	166.0
Other Americas	39.5	30.1	43.4
Total Americas	\$ 1,961.3	\$ 1,992.6	\$ 2,386.8
Europe:			
Germany	\$ 146.3	\$ 154.7	\$ 185.7
United Kingdom	79.9	94.1	134.7
Other Europe	334.0	347.3	464.1
Total Europe	\$ 560.2	\$ 596.1	\$ 784.5
Total Pacific Rim	\$ 244.9	\$ 191.3	\$ 221.7
Total net trade sales	\$ 2,766.4	\$ 2,780.0	\$ 3,393.0

Property, plant and equipment, net at December 31	2010	2009
Americas:		
United States	\$ 635.7	\$ 678.1
Other Americas	6.0	14.1
Total Americas	\$ 641.7	\$ 692.2

Europe:			
Germany	\$	115.2	\$ 123.1
Other Europe		44.3	63.6
Total Europe	\$	159.5	\$ 186.7
Total Pacific Rim	\$	53.7	\$ 50.3
Total property, plant and equipment, net	\$	854.9	\$ 929.2

Impairment testing of our tangible assets occurs whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable.

**Table of Contents**

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

The Wood Flooring business recorded operating losses in 2010 and 2009 primarily due to non-cash impairment charges of \$22.4 million and \$18.0 million, respectively. The 2010 operating loss also included restructuring charges. See Note 15 for further information on our restructuring charges. The Wood Flooring business had positive cash flows for both 2010 and 2009. There were no indicators of impairment for the tangible assets of the Wood Flooring business in 2010 and 2009 (except as noted below).

During 2010 management decided to exit our corporate flight operations. As a result, we recorded a \$6.1 million impairment charge in selling, general and administrative ( SG&A ) expense. The fair value was determined by management estimates and an independent valuation based on information available at that time. The valuation information included sales of similar equipment and estimates of market prices (considered Level 2 inputs in the fair value hierarchy as described in Note 18) for these assets. We sold the corporate aircraft in the fourth quarter of 2010. During the first quarter of 2010, we announced that one of our European metal ceilings manufacturing facilities would be shut down in the second quarter of 2010, which prompted us to perform an impairment test for this asset group. The carrying amount of the tangible assets was determined to be recoverable as the projected undiscounted cash flows exceeded the carrying value. We sold the facility in the third quarter of 2010.

We also recorded an asset impairment charge of \$2.1 million in the second quarter of 2010 in SG&A expense for a European Resilient Flooring warehouse facility due to the decline in the commercial property sector. The fair value was determined by management estimates of market prices available at that time. This data included sales and leases of comparable properties within similar real estate markets (considered Level 3 inputs in the fair value hierarchy). During the third quarter of 2010, we decided to close a ceilings plant, one of our previously idled Wood Flooring plants, portions of another previously idled Wood Flooring plant, and a Resilient Flooring facility. These facilities were shut down in 2010 or will be shut down in 2011. We concluded that an indicator of impairment existed for these asset groups, which prompted us to perform impairment analyses for these asset groups. In each case the carrying amount of the tangible assets was determined to be recoverable as the projected undiscounted cash flows, or estimated fair value of the assets, exceeded the carrying value.

In the third quarter of 2010 we announced our intention to exit the residential flooring business in Europe. We concluded that an indicator of impairment existed which prompted us to perform an impairment analysis. The carrying amount of the tangible assets was determined to be recoverable as the estimated fair value of the assets exceeded the carrying value. We sold the assets related to this business during the fourth quarter of 2010.

During the fourth quarter of 2009, we recorded a \$3.0 million impairment charge in cost of goods sold for certain European Resilient Flooring tangible assets, primarily machinery and equipment. The fair value was determined by management estimates of market prices and independent valuations of the land and building assets based on observable market data available at that time. This data included recent sales and leases of comparable properties with similar characteristics within the same local real estate market (considered Level 2 inputs in the fair value hierarchy). The Cabinets business incurred operating losses beginning in 2008 and continuing through 2010. In 2009 and 2010 the carrying amount of the tangible assets was determined to be recoverable as the projected undiscounted cash flows exceeded the carrying value.

**Table of Contents**

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

**NOTE 4 ACQUISITIONS**

As of December 31, 2009, we owned 80% of our Shanghai ceiling operations. During the fourth quarter of 2009, we made deposits of \$3.3 million to initiate the purchase of the remaining 20% interest. During the first quarter of 2010, we completed the acquisition with additional cash payments of \$7.8 million. We recorded the difference between the purchase price and the net book value of the net equity acquired within capital in excess of par value.

**NOTE 5. DIVESTITURES**

In the fourth quarter of 2010, the sale of our European metal ceilings contract installation business resulted in a loss of \$5.8 million which was recorded in SG&A expenses.

**NOTE 6. ACCOUNTS AND NOTES RECEIVABLE**

	December 31, 2010	December 31, 2009
Customer receivables	\$ 265.1	\$ 269.3
Customer notes	2.0	2.5
Miscellaneous receivables	5.5	5.6
Less allowance for warranties, discounts and losses	(43.1)	(48.3)
Accounts and notes receivable, net	\$ 229.5	\$ 229.1

Generally, we sell our products to select, pre-approved customers whose businesses are affected by changes in economic and market conditions. We consider these factors and the financial condition of each customer when establishing our allowance for losses from doubtful accounts.

**NOTE 7. INVENTORIES**

	December 31, 2010	December 31, 2009
Finished goods	\$ 277.7	\$ 281.0
Goods in process	26.7	36.2
Raw materials and supplies	119.9	134.4
Less LIFO and other reserves	(25.8)	(6.6)
Total inventories, net	\$ 398.5	\$ 445.0

Approximately 65% and 63% of our total inventory in 2010 and 2009, respectively, was valued on a LIFO (last-in, first-out) basis. Inventory values were lower than would have been reported on a total FIFO (first-in, first-out) basis by \$17.1 million and \$4.2 million in 2010 and 2009, respectively.

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



**Table of Contents**

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

	December 31, 2010	December 31, 2009
International locations	\$ 124.3	\$ 147.0
Cabinets	10.0	13.7
Wood flooring	0.3	0.6
Resilient flooring	1.3	1.2
U.S. sourced products	3.7	3.2
 Total	 \$ 139.6	 \$ 165.7

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

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

**NOTE 8. OTHER CURRENT ASSETS**

	December 31, 2010	December 31, 2009
Prepaid expenses	\$ 28.7	\$ 36.0
Assets held for sale	2.5	7.8
Other	4.1	11.4
 Total other current assets	 \$ 35.3	 \$ 55.2

The reduction in prepaid expenses was primarily due to a prepayment for the buyout of our minority interest partner in China which occurred in 2009.

Assets held for sale decreased due to the sale of a European Resilient Flooring warehouse facility.

The reduction in Other was primarily due to the receipt of proceeds from an entrustment loan related to our Chinese entity.

**NOTE 9. PROPERTY, PLANT AND EQUIPMENT**

	December 31, 2010	December 31, 2009
Land	\$ 119.9	\$ 131.5
Buildings	298.4	303.8
Machinery and equipment	827.0	787.5
Computer software	32.2	30.6
Construction in progress	60.2	65.8
Less accumulated depreciation and amortization	(482.8)	(390.0)
 Net property, plant and equipment	 \$ 854.9	 \$ 929.2

Land and Buildings decreased primarily due to the 2010 sales of our St. Gallen, Switzerland and Teesside, U.K. facilities with a combined net book value of \$11.5 million. See Note 2 for discussion of policies related to property and depreciation and asset retirement obligations.

**Table of Contents**

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

**NOTE 10. EQUITY INVESTMENTS**

Investment in joint venture of \$188.6 million at December 31, 2010 represented the equity interest in our 50% investment in our WAVE joint venture.

We use the equity in earnings method to determine the appropriate classification of distributions from WAVE within our cash flow statement. During 2010 and 2009 WAVE distributed amounts in excess of our capital contributions and proportionate share of retained earnings. Accordingly, in 2010 and 2009 the distributions were reflected as a return of investment in cash flows from investing activity in our Consolidated Statement of Cash Flows. In 2008, \$19.5 million of the distributions were reflected as a return of investment in cash flows from investing activity, and the remaining \$61.0 million was recorded within cash flows from operating activities.

We account for our WAVE joint venture using the equity method of accounting. Our recorded investment in WAVE was higher than our 50% share of the carrying values reported in WAVE's consolidated financial statements by \$200.6 million as of December 31, 2010 and \$206.6 million as of December 31, 2009. These differences are due to our adoption of fresh-start reporting upon emergence from Chapter 11, while WAVE's consolidated financial statements do not reflect fresh-start reporting. The differences are comprised of the following fair value adjustments to assets:

	December 31, 2010	December 31, 2009
Property, plant and equipment	\$ 1.4	\$ 1.8
Other intangibles	168.7	174.3
Goodwill	30.5	30.5
Total	\$ 200.6	\$ 206.6

Other intangibles include customer relationships, trademarks and developed technology. Customer relationships are amortized over 20 years and developed technology is amortized over 15 years. Trademarks have an indefinite life. See Exhibit 99.1 for WAVE's consolidated financial statements. Condensed financial data for WAVE is summarized below:

	December 31, 2010	December 31, 2009
Current assets	\$ 112.5	\$ 110.0
Non-current assets	35.7	36.2
Current liabilities	22.1	17.3
Other non-current liabilities	154.8	154.6

	2010	2009	2008
Net sales	\$ 332.2	\$ 307.9	\$ 421.8
Gross profit	137.5	118.9	160.2
Net earnings	105.6	92.8	125.4

See discussion in Note 30 for additional information on this related party.

**Table of Contents**

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

**NOTE 11. INTANGIBLE ASSETS**

During the fourth quarters of 2010, 2009, and 2008 we conducted our annual impairment testing of non-amortizable intangible assets. Our impairment analysis determined that the carrying value of our Wood Flooring trademarks was in excess of the fair value. We determined the fair value of these intangible assets by utilizing relief from royalty analysis that incorporated projections of revenue and cash flows. The initial fair value for these intangible assets was determined in 2006 as part of fresh start reporting. The fair values were negatively affected by lower expected future sales in the U.S. residential housing market. Based on the result of the analysis, we recorded non-cash impairment charges of \$22.4 million in the fourth quarter of 2010, \$18.0 million in the fourth quarter of 2009, and 25.4 million in the fourth quarter of 2008. See Note 2 for a discussion of our accounting policy for intangible assets.

Further adjustments were made to the carrying value of intangibles during the fourth quarter of 2010 and 2009. These adjustments were primarily tax-related and due to the purchase of land use rights in China.

The following table details amounts related to our intangible assets as of December 31, 2010 and 2009.

	Estimated Useful Life	December 31, 2010		December 31, 2009	
		Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortizing intangible assets					
Customer relationships	20 years	\$ 170.7	\$ 36.3	\$ 171.0	\$ 27.7
Developed technology	15 years	80.8	22.9	80.9	17.5
Other	Various	11.8	0.7	10.8	0.5
Total		\$ 263.3	\$ 59.9	\$ 262.7	\$ 45.7

Non-amortizing intangible assets

Trademarks and brand names	Indefinite	352.7		375.8	
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Total other intangible assets		\$ 616.0		\$ 638.5	
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	2010	2009	2008
Amortization	\$ 14.2	\$ 14.2	\$ 14.3
Intangible asset impairment	22.4	18.0	25.4
Total amortization expense and impairment charges	\$ 36.6	\$ 32.2	\$ 39.7

The annual amortization expense expected for the years 2011 through 2015 is \$14.1 million in each year.

**NOTE 12. OTHER NON-CURRENT ASSETS**

	December 31, 2010	December 31, 2009
Cash surrender value of Company owned life insurance policies	\$ 61.5	\$ 56.5

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Debt financing costs	19.5	5.6
Other	15.4	19.8
Total other non-current assets	\$ 96.4	\$ 81.9

**Table of Contents**

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

**NOTE 13. ACCOUNTS PAYABLE AND ACCRUED EXPENSES**

	December 31, 2010	December 31, 2009
Payables, trade and other	\$ 169.5	\$ 159.6
Employment costs	109.9	107.2
Restructuring accruals	14.5	
Other	46.4	44.2
 Total accounts payable and accrued expenses	 \$ 340.3	 \$ 311.0

**NOTE 14. SEVERANCE AND RELATED COSTS**

See Note 15 for a discussion of severance charges associated with restructuring actions.

In 2010 we recorded \$11.2 million in SG&A expense for severance and related expenses to reflect the separation costs for our former Chairman and Chief Executive Officer. In accordance with the separation agreement, payment was made in the third quarter of 2010.

During 2010 we announced the shutdown of finished goods production at two Wood Flooring plants, the restarting of certain operations at a previously idled Wood Flooring plant, the closure of a European metal ceilings manufacturing facility and a crew reduction in a European Building Products plant. We recorded \$5.7 million of severance and related expenses in 2010 for approximately 500 employees affected by these actions. The charges were recorded in cost of goods sold.

In addition to the charges described above, in 2010 we also recorded \$7.5 million of severance and related expenses for employees affected by the elimination of approximately 220 other manufacturing and SG&A positions around the world. The charges were recorded in SG&A expense (\$5.6 million) and cost of goods sold (\$1.9 million).

In 2009 we recorded \$17.5 million of severance and related expenses, primarily to reflect the separation costs for approximately 1,000 employees, including executives and employees affected by the cessation of production at four manufacturing facilities. The charges were recorded in SG&A expenses (\$10.5 million) and cost of goods sold (\$7.0 million).

In 2008 we recorded \$7.4 million of severance and related expenses to reflect the termination costs for certain corporate employees. We also recorded a reduction of our stock-based compensation expense of \$1.5 million in the first quarter of 2008 related to stock grants that were forfeited by these employees. These costs were recorded as SG&A expenses.

During 2008 we recorded \$14.1 million of severance and other related charges primarily related to organizational and manufacturing changes for our European Resilient Flooring business. The organizational changes related to the decision to consolidate and outsource several SG&A functions. The manufacturing changes related primarily to the decision to cease production of automotive carpeting and other specialized textile flooring products. These charges were recorded as part of cost of goods sold (\$7.3 million) and SG&A expenses (\$6.8 million).

**Table of Contents**

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

**NOTE 15. RESTRUCTURING ACTIONS**

During the third quarter of 2010, management made several significant decisions to address our cost structure. Given the materiality to our financial statements and impact to our operations, we decided to classify charges related to these actions as restructuring charges. We recorded \$22.0 million of restructuring charges in the third and fourth quarters of 2010. The following table summarizes these charges:

Action Title	2010	Approximate Number of Employees Affected	Segment
Floor Products Europe	\$ 11.8	520	Resilient Flooring Unallocated Corporate, Building Products, Resilient
North America SG&A	5.8	160	Flooring
Beaver Falls plant	2.3	150	Building Products
Montreal	1.2	170	Resilient Flooring
Wood products	0.9	80	Wood Flooring
Total	\$ 22.0		

**Floor Products Europe:** We announced in the third quarter of 2010 that we intend to focus our European flooring strategy on products and regions where we believe we can be a market leader, and we will streamline our product range and sales organization accordingly. During the fourth quarter of 2010, we withdrew from the residential market, and as a result, we sold our Teesside, UK, manufacturing facility. In addition, we no longer intend to manufacture heterogeneous vinyl flooring at our Holmsund, Sweden plant, and we anticipate that the Holmsund facility also will close.

In addition to the restructuring costs of \$11.8 million reflected in the above table, we also recorded \$5.0 million of other related costs in cost of goods sold (\$3.5 million) and SG&A (\$1.5 million). These costs are primarily related to inventory and samples obsolescence.

In total, we expect to incur expenses of \$30 million to \$35 million for these actions through 2011. The expenses primarily will include severance benefits and asset write-downs. The amount of severance benefits will be determined following consultations with works councils.

**North America SG&A:** We are committed to augmenting margin expansion through the aggressive adoption of LEAN practices and projects to standardize, simplify or eliminate SG&A activities. As a result, in the third quarter of 2010, we began to restructure our U.S. SG&A operations. The restructuring expense related to this initiative was recorded in the Unallocated Corporate (\$4.0 million), Building Products (\$0.9 million) and Resilient Flooring (\$0.9 million) segments.

In total, we expect to incur restructuring expenses of \$8 million to \$12 million through 2011 as we further streamline SG&A functions.

**Beaver Falls Plant:** In the third quarter of 2010, we announced that the Beaver Falls, Pennsylvania, plant is scheduled to close in 2011. The closing will be phased as we transition production to other facilities. The decision to close the plant was driven by the location and layout of the plant, technology limitations and the continued limited demand for the products we make at the plant.

In addition to the restructuring costs of \$2.3 million reflected in the table above, we also recorded \$10.0 million of accelerated depreciation in cost of goods sold.





**Table of Contents**

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

In total, we expect to incur expenses of \$20 million to \$25 million for this action through 2011. The expenses will primarily include accelerated depreciation and severance benefits.

**Montreal:** In the third quarter of 2010, we announced the closing of our warehouse and previously idled plant in Montreal, Canada. The facility closed in the fourth quarter of 2010. The decision to close this facility was driven by the expectation that we will be able to service the demand for our resilient tile products from our other manufacturing locations.

In addition to the restructuring costs of \$1.2 million reflected in the previous table, we also recorded \$6.5 million of fixed asset write-downs in cost of goods sold.

We do not expect to incur further restructuring costs related to this initiative.

**Wood Products:** In the third quarter of 2010, we announced the closing of our previously idled Center, Texas plant and a portion of our previously idled Oneida, Tennessee plant. Operations at Center and the strip mill operations at Oneida ceased in the fourth quarter of 2010. The decision to close these facilities was driven by the expectation that we will be able to service the demand for our wood products from our other manufacturing locations.

In addition to the restructuring costs of \$0.9 million reflected in the previous table, we also recorded \$14.9 million of fixed asset write-downs and lease termination costs in cost of goods sold.

We do not expect to incur further restructuring costs related to these locations.

The following table summarizes activity in the restructuring accruals.

	Severance and Related Costs						
	Floor Products Europe	Consolidated SG&A	Beaver Falls Plant	Montreal	Wood Products	Total	
December 31, 2009							
Net charges	\$ 11.8	\$ 5.8	\$ 2.3	\$ 1.2	\$ 0.9	\$ 22.0	
Cash payments	(5.7)	(1.1)	(0.4)		(0.3)	(7.5)	
December 31, 2010	\$ 6.1	\$ 4.7	\$ 1.9	\$ 1.2	\$ 0.6	\$ 14.5	

Most of the accrual balance as of December 31, 2010 is expected to be paid during 2011.

**NOTE 16. INCOME TAXES**

The tax effects of principal temporary differences between the carrying amounts of assets and liabilities and their tax bases are summarized in the following table. Management believes it is more likely than not that results of future operations will generate sufficient taxable income to realize deferred tax assets, net of valuation allowances, including the remaining federal net operating losses of \$175.9 million principally resulting from payments to the Asbestos PI Trust in 2006 under the POR that may be carried forward for the remaining 16 years. In arriving at this conclusion, we considered the profit before tax generated for the years 1996 through 2010, as well as future reversals of existing taxable temporary differences and projections of future profit before tax.

We have provided valuation allowances for certain deferred state and foreign income tax assets, foreign tax credits and other basis adjustments of \$168.1 million. We have \$1,376.7 million of state net operating loss ( NOL ) carryforwards with expirations between 2011 and 2030. In addition, we have \$496.8 million of foreign NOL carryforwards, of which \$464.9 million are available for carryforward indefinitely and \$31.9 million expire between 2011 and 2019. We also have alternative minimum tax credit carryforwards of \$14.9 million which are available to reduce future federal income taxes.



**Table of Contents**

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

Our valuation allowances increased from 2009 by a net amount of \$12.7 million. This includes a decrease of \$1.3 million for foreign tax credits, a decrease of \$0.4 million for capital loss carryforwards, a decrease for certain deferred state income tax assets of \$2.2 million, and an increase for foreign tax loss carryforwards of \$16.6 million. The valuation allowance for foreign tax credits decreased by \$1.3 million for carryforward expirations. The valuation allowance for capital losses decreased by \$0.4 million due to the reversal of a loss provision made in 2009. The decrease in the valuation allowance for certain deferred state income tax assets of \$2.2 million was primarily due to an increase in the amount of future reversals of existing taxable temporary differences. The increase in the valuation allowance for foreign tax loss carryforwards was primarily due to additional unbenefitted losses partially offset by carryforward expirations that also reduced the related deferred income tax assets. We estimate we will need to generate future taxable income of approximately \$502.6 million for federal income tax purposes and \$1,088.9 million for state income tax purposes during the respective realization periods in order to fully realize the net deferred income tax assets discussed above.

	December 31, 2010	December 31, 2009
Deferred income tax assets (liabilities)		
Postretirement benefits	\$ 122.4	\$ 165.1
Pension benefit liabilities	14.4	19.3
Net operating losses	375.7	354.4
Foreign tax credit carryforwards	97.3	88.6
Capital losses	4.4	3.3
Other	89.6	97.2
 Total deferred income tax assets	 703.8	 727.9
Valuation allowances	(168.1)	(155.4)
 Net deferred income tax assets	 535.7	 572.5
 Intangibles	 (259.9)	 (275.8)
Accumulated depreciation	(82.5)	(94.6)
Prepaid pension costs	(32.0)	(28.3)
Tax on unremitted earnings	(98.5)	(87.0)
Inventories	(20.4)	(18.3)
Other	(3.0)	(5.3)
 Total deferred income tax liabilities	 (496.3)	 (509.3)
 Net deferred income tax assets	 \$ 39.4	 \$ 63.2
 Deferred income taxes have been classified in the Consolidated Balance Sheet as:		
Deferred income tax assets current	\$ 20.9	\$ 16.3
Deferred income tax assets noncurrent	45.0	58.2
Deferred income tax liabilities current	(2.4)	(3.1)
Deferred income tax liabilities noncurrent	(24.1)	(8.2)
 Net deferred income tax assets	 \$ 39.4	 \$ 63.2



**Table of Contents**

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

Details of taxes	2010	2009	2008
Earnings (loss) from continuing operations before income taxes:			
Domestic	\$ 229.9	\$ 75.5	\$ 171.0
Foreign	(17.1)	(0.3)	18.4
Eliminations of dividends from foreign subsidiaries	(146.1)		
<b>Total</b>	<b>\$ 66.7</b>	<b>\$ 75.2</b>	<b>\$ 189.4</b>
Income tax provision (benefit):			
Current:			
Federal	\$ 24.0	\$ (153.4)	\$ 8.3
Foreign	10.5	13.9	21.3
State	(0.1)	1.4	5.4
<b>Total current</b>	<b>34.4</b>	<b>(138.1)</b>	<b>35.0</b>
Deferred:			
Federal	22.5	134.9	46.5
Foreign	(3.0)		(1.1)
State	1.8	0.7	28.6
<b>Total deferred</b>	<b>21.3</b>	<b>135.6</b>	<b>74.0</b>
<b>Total income tax expense (benefit)</b>	<b>\$ 55.7</b>	<b>\$ (2.5)</b>	<b>\$ 109.0</b>

At December 31, 2010, we had \$99.1 million of book basis (including unremitted earnings) in excess of tax basis in the shares of certain foreign subsidiaries for which no deferred income taxes have been provided because we consider the underlying earnings to be permanently reinvested. This basis difference could reverse through a sale of the subsidiaries, the receipt of dividends from the subsidiaries, or various other events. It is not practical to calculate the residual income tax which would result if these basis differences reversed due to the complexities of the tax law and the hypothetical nature of the calculations. We do, however, estimate that approximately \$0.8 million in foreign withholding taxes would be payable if the underlying earnings were to be distributed.

Reconciliation to U.S. statutory tax rate	2010	2009	2008
Continuing operations tax at statutory rate	\$ 23.3	\$ 26.3	\$ 66.3
State income tax expense, net of federal benefit	1.5	2.2	8.1
(Decrease)/increase in valuation allowances on deferred state income tax assets	(2.2)	(0.8)	13.9
Increases in valuation allowances on deferred foreign income tax assets	14.9	17.3	14.2
Decrease in valuation allowance for foreign tax credits		(31.3)	
Tax on foreign and foreign-source income	(4.4)	(3.7)	(0.9)
Interest on uncertain tax positions			5.9
Permanent book/tax differences	1.2	4.7	(2.4)
Impact of health care reform legislation on Medicare Part D subsidy	22.0		

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IRS audit settlement			(12.9)	
Recharacterization of stock loss			(7.6)	
Tax on unremitted earnings	(0.6)		3.3	3.9
Tax expense (benefit) at effective rate	\$ 55.7	\$ (2.5)		\$ 109.0

During March 2010 President Obama signed into law comprehensive health care reform legislation under the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 (together, the Act ). The federal government currently provides a partial subsidy, on a tax-free

**Table of Contents**

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

basis, to companies that provide certain retiree prescription drug benefits (the Medicare Part D subsidy). The Act reduces the tax deductibility of retiree health care costs to the extent of any Medicare Part D subsidy received beginning in 2013. As a result of this change in tax treatment, we recorded a non-cash income tax charge of approximately \$22 million in the first quarter of 2010. We also recorded a decrease of \$16.1 million to noncurrent deferred income tax assets and accumulated other comprehensive income that was related to an adjustment to the non-subsidized portion of our postretirement benefit liabilities.

In October 2007, we received \$178.7 million in refunds for federal income taxes paid over the preceding ten years. The refunds resulted from the carryback of a portion of NOLs created by the funding of the Asbestos PI Trust in October 2006. The refunds were subject to an examination by the Internal Revenue Service (IRS). Upon receipt of the refunds in the fourth quarter of 2007, we recorded a liability of \$144.6 million pending completion of the IRS audit. We also recorded a noncurrent deferred income tax asset of \$144.6 million for future tax benefits that would result from a disallowance of the refunds. In addition, we had accrued \$10.0 million of interest as of June 30, 2009, on this unrecognized tax benefit as income tax expense.

The IRS completed its audit and in July 2009 notified us that the Joint Committee on Taxation of the U.S. Congress had also issued its final approval of our refunds. Therefore, in the third quarter of 2009, we recorded a decrease in the liability for previously unrecognized tax benefits of \$154.6 million. We also recorded a decrease in noncurrent deferred income tax assets of \$144.6 million for the reduction in future tax benefits from the settlement of this tax position. As a result, we recorded an income tax benefit of \$10.0 million in the third quarter of 2009 for the settlement of this tax position.

Additionally, through the second quarter of 2009, we had accrued U.S. income taxes of approximately \$50 million for unremitted earnings of foreign subsidiaries that were not considered to be permanently reinvested. Due to uncertainty regarding the NOL carryover discussed above, we provided a valuation allowance of \$31.3 million on the foreign tax credits that would be available upon the remittance of these earnings to the U.S. With the settlement of the IRS audit in July 2009, this uncertainty was eliminated. Therefore, in the third quarter of 2009, we removed the valuation allowance on these foreign tax credits.

We have \$126.3 million of Unrecognized Tax Benefits (UTB) as of December 31, 2010. Of this amount \$81.1 million (\$79.7 million, net of federal benefit), if recognized in future periods, would impact the reported effective tax rate. The remaining amount of \$45.2 million, if recognized in future periods, would be fully reduced by additional valuation allowances.

It is reasonably possible that certain UTBs may increase or decrease within the next twelve months due to tax examination changes, settlement activities, expirations of statute of limitations, or the impact on recognition and measurement considerations related to the results of published tax cases or other similar activities. Over the next twelve months, we estimate that UTBs may decrease by \$0.7 million due to statutes expiring and increase by \$2.4 million due to uncertain tax positions expected to be taken on tax returns.

We account for all interest and penalties on uncertain income tax positions as income tax expense. We reported \$1.8 million of interest and penalty exposure as accrued income tax in the Consolidated Balance Sheet as of December 31, 2010, of which \$1.2 million was recognized as income tax expense during 2010.

We have significant operations in over 25 countries and file income tax returns in approximately 85 tax jurisdictions, in some cases for multiple legal entities per jurisdiction. Generally, we have open tax years subject to tax audit on average of between three years and six years. We have not materially extended any open statutes of limitation for any significant location and have reviewed and accrued for, where necessary, tax liabilities for open periods. As discussed above, the IRS audit for the 2005 and 2006 tax years was completed during the third quarter of 2009. The tax years 2007, 2008, 2009 and 2010 are subject to future potential tax adjustments. All tax years prior to 2007 have been settled with the IRS.





**Table of Contents**

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

We also have examinations in progress in Germany and Canada. We have evaluated the need for tax reserves for these audits.

We had the following activity for UTB's for the years ended December 31, 2010, 2009 and 2008:

	2010	2009	2008
Unrecognized tax benefits balance at January 1	\$ 57.5	\$ 174.4	\$ 180.7
Gross change for current year positions	71.5	6.1	0.8
Increases for prior period positions	2.5	29.1	3.4
Decrease for prior period positions	(2.4)	(149.8)	(8.0)
Decrease due to settlements and payments	(1.8)	(1.9)	(0.9)
Decrease due to statute expirations	(1.0)	(0.4)	(1.6)
Unrecognized tax benefits balance at December 31	\$ 126.3	\$ 57.5	\$ 174.4

	2010	2009	2008
Other taxes			
Payroll taxes	\$ 64.3	\$ 64.7	\$ 71.2
Property, franchise and capital stock taxes	14.4	16.0	15.4

**NOTE 17. DEBT**

	December 31, 2010	Average year-end interest rate	December 31, 2009	Average year-end interest rate
Term loan A due 2011			\$ 262.5	1.78%
Term loan B due 2013			191.6	1.98%
Term loan A due 2015	\$ 250.0	3.28%		
Term loan B due 2017	550.0	5.00%		
Revolver (\$250 million) due 2015	25.0	5.25%		
Other Short Term Bank Loans			0.1	1.00%
Other Long Term Bank Loans	4.9	3.85%	8.3	5.05%
Tax exempt bonds due 2025 - 2041	45.0	2.00%	10.0	1.83%
Capital lease obligations due through 2018			0.1	4.37%
Subtotal	874.9	4.36%	472.6	1.92%
Less current portion and short-term debt	35.3	5.02%	40.1	2.47%
Total long-term debt, less current portion	\$ 839.6	4.33%	\$ 432.5	1.87%

On November 23, 2010, we refinanced our \$1.1 billion credit facility and executed a \$1.05 billion senior credit facility arranged by Merrill Lynch, Pierce, Fenner & Smith, Inc., J.P. Morgan Securities, Inc., and Barclays Capital. During 2010 we were in compliance with all covenants of the previous and current credit agreements. This new facility consists of a \$250 million revolving credit facility (with a \$150 million sublimit for letters of credit), a \$250 million Term Loan A and a \$550 million Term Loan B. This \$1.05 billion senior credit facility is secured by U.S. personal property, the capital stock of material U.S. subsidiaries, and a pledge of 65% of the stock of our material first tier

foreign subsidiaries. In 2010, in connection with the refinancing, we repaid amounts owed under the previous credit facility and wrote off \$3.8 million of unamortized debt financing costs related to our previous credit facility to interest expense.

The senior credit facility includes two financial covenants which require the ratio of consolidated earnings before interest, taxes, depreciation and amortization ( EBITDA ) to consolidated cash interest expense minus cash consolidated interest income ( consolidated interest coverage ratio ) to be greater than or equal to 3.0 to 1.0 and require the ratio of consolidated funded indebtedness minus AWI and domestic

**Table of Contents**

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

subsidiary unrestricted cash and cash equivalents up to \$100 million to consolidated EBITDA ( consolidated leverage ratio ) to be less than or equal to 4.5 to 1.0 through June 30, 2012, 4.0 to 1.0 after June 30, 2012 through September 30, 2013 and 3.75 to 1.0 after September 30, 2013. As of December 31, 2010 we were in compliance with these covenants. We believe that default under these covenants is unlikely. Fully borrowing under our revolving credit facility would not violate these covenants.

The Revolving Credit and Term Loan A portions are currently priced at a spread of 3.00% over LIBOR and the Term Loan B portion is priced at 3.50% over LIBOR with a 1.50% LIBOR floor for its entire term. The Term Loan A and Term Loan B were both fully drawn and are currently priced on a variable interest rate basis. The unpaid balances of Term Loan A (\$250 million), Revolving Credit (\$25 million) and Term Loan B (\$550 million) of the credit facility may be prepaid without penalty at the maturity of their respective interest reset periods. Any amounts prepaid on the Term Loan A or Term Loan B may not be reborrowed.

Mandatory prepayments are required under the senior credit facility pursuant to an annual leverage test starting with the year ending December 31, 2011 under which, if our consolidated leverage ratio is greater than 2.0 to 1.0 but less than 2.5 to 1.0, we would be required to make a prepayment of 25% of Consolidated Excess Cash Flow as defined by the credit agreement. If our Consolidated Leverage Ratio is greater than 2.5 to 1.0, the prepayment amount would be 50% of Consolidated Excess Cash Flow.

On December 10, 2010 we entered into a \$100 million Accounts Receivable Securitization Facility with financial institutions (the funding entities ) with a three year term. Under this agreement Armstrong World Industries and Armstrong Hardwood Flooring Company (the Originators) sell their accounts receivables to Armstrong Receivables Company, LLC ( ARC ), a Delaware entity that is consolidated in these financial statements. ARC is a 100% wholly owned single member LLC special purpose entity created specifically for this transaction, therefore any receivables sold to ARC are not available to the general creditors of AWI. ARC then sells an undivided interest in the purchased accounts receivables to the funding entities. This undivided interest acts as collateral for drawings on the facility. Any borrowings under this facility are obligations of ARC and not AWI. ARC contracts with and pays a servicing fee to Armstrong World Industries to manage, collect and service the purchased accounts receivables.

All new receivables under the program generated by the originators are continuously purchased by ARC with the proceeds from collections of receivables previously purchased. Ongoing changes in the amount of funding under the program, through changes in the amount of undivided interests sold by ARC, reflect seasonal variations in the level of accounts receivable, changes in collection trends and other factors such as changes in sales prices and volumes. ARC has issued subordinated notes payable to the originators for the difference between the face amount of uncollected accounts receivable purchased, less a discount, and cash paid to the originators that was funded by the sale of the undivided interests. The subordinated notes issued by ARC are subordinated to the undivided interests of the funding entities in the purchased receivables. The balance of the subordinated notes payable, which are eliminated in consolidation, totaled \$97.5 million as of December 31, 2010. As of December 31, 2010 we had no borrowings under this facility but had \$36.2 million of letters of credit issued under the facility.

On December 16, 2010 we issued \$35.0 million of Recovery Zone Facility bonds through Jackson County, West Virginia to finance the construction of our new mineral wool plant. These tax exempt bonds are seven day variable rate demand notes backed by a letter of credit. These bonds mature in 2041. As of December 31, 2010 the \$30 million of unspent proceeds must be used for expenditures related to the construction of our new mineral wool plant and are therefore accounted for as restricted cash within other non-current assets.

Approximately \$0.4 million of the remaining outstanding debt as of December 31, 2010 was secured with buildings and other assets. The credit lines at our foreign subsidiaries are subject to immaterial annual commitment fees.

**Table of Contents**

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

## Scheduled payments of long-term debt:

2011	\$	10.3
2012	\$	18.1
2013	\$	30.5
2014	\$	43.0
2015	\$	180.5
2016 and later	\$	567.5

We utilize lines of credit and other commercial commitments in order to ensure that adequate funds are available to meet operating requirements. On December 31, 2010, we had a \$250 million revolving credit facility with a \$150 million sublimit for letters of credit, of which \$37.3 million was outstanding. There were \$25 million of borrowings under the revolving credit facility. Availability under this facility totaled \$187.7 million as of December 31, 2010. We also have the \$100 million securitization facility which as of December 31, 2010 had letters of credit outstanding of \$36.2 million and no borrowings against it. Maximum capacity under this facility was \$63.8 million, subject to accounts receivable balances and other collateral adjustments, as of December 31, 2010. As of December 31, 2010, our foreign subsidiaries had available lines of credit totaling \$25.6 million of which \$2.4 million was only available for letters of credit and guarantees. There were no borrowings under these lines of credit as of December 31, 2010 leaving \$23.2 million of unused lines of credit available for foreign borrowings. There were \$0.9 million of letters of credit issued under these credit lines as of December 31, 2010 leaving additional letter of credit availability of \$1.5 million.

On December 31, 2010, we had outstanding letters of credit totaling \$74.4 million, of which \$37.3 million was issued under the revolving credit facility, \$36.2 million was issued under the securitization facility and \$0.9 million of international subsidiary letters of credit were issued by other banks. Letters of credit are issued to third party suppliers, insurance and financial institutions and typically can only be drawn upon in the event of AWI's failure to pay its obligations to the beneficiary.

**NOTE 18. PENSION AND OTHER BENEFIT PROGRAMS**

We have defined benefit pension plans and postretirement medical and insurance benefit plans covering eligible employees worldwide. We also have defined-contribution pension plans for eligible employees. Benefits from defined benefit pension plans, which cover most employees worldwide, are based primarily on an employee's compensation and years of service. We fund our pension plans when appropriate. We fund postretirement benefits on a pay-as-you-go basis, with the retiree paying a portion of the cost for health care benefits by means of deductibles and contributions.

**UNITED STATES PLANS**

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

**Table of Contents**

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

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

U.S. defined-benefit pension plans	2010	2009
Change in benefit obligation:		
Benefit obligation as of beginning of period	\$ 1,780.1	\$ 1,755.7
Service cost	16.4	18.0
Interest cost	96.4	96.0
Plan amendments	0.4	12.9
Special termination benefits		0.2
Actuarial loss	91.6	11.1
Benefits paid	(117.2)	(113.8)
 Benefit obligation as of end of period	 \$ 1,867.7	 \$ 1,780.1
 Change in plan assets:		
Fair value of plan assets as of beginning of period	\$ 1,850.3	\$ 1,701.6
Actual return on plan assets	210.1	259.2
Employer contribution	3.4	3.3
Benefits paid	(117.2)	(113.8)
 Fair value of plan assets as of end of period	 \$ 1,946.6	 \$ 1,850.3
 Funded status of the plans	 \$ 78.9	 \$ 70.2

U.S. defined-benefit pension plans	2010	2009
Weighted-average assumptions used to determine benefit obligations at end of period:		
Discount rate	5.10%	5.60%
Rate of compensation increase	3.10%	4.00%
Weighted-average assumptions used to determine net periodic benefit cost for the period:		
Discount rate	5.60%	5.60%
Expected return on plan assets	8.00%	8.00%
Rate of compensation increase	4.00%	4.00%

The accumulated benefit obligation for the U.S. defined benefit pension plans was \$1,849.5 million and \$1,755.7 million at December 31, 2010 and 2009, respectively.

U.S. pension plans with benefit obligations in excess of assets	2010	2009
Projected benefit obligation, December 31	\$ 49.4	\$ 43.9
Accumulated benefit obligation, December 31	48.8	42.8
Fair value of plan assets, December 31		
The components of pension credit are as follows:		

U.S. defined-benefit pension plans	2010	2009	2008
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Service cost of benefits earned during the period	\$	16.4	\$	18.0	\$	17.4
Interest cost on projected benefit obligation		96.4		96.0		97.8
Expected return on plan assets		(167.0)		(171.2)		(175.3)
Amortization of prior service cost		1.8		1.8		0.3
Recognized net actuarial loss		4.3				
Net periodic pension credit	\$	(48.1)	\$	(55.4)	\$	(59.8)

**Table of Contents**

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

**Investment Policies**

The RIP's primary investment objective is to maintain the funded status of the plan such that the likelihood that we will be required to make significant contributions to the plan is limited. This objective is to be achieved by:

Investing a substantial portion of the plan assets in high quality corporate bonds whose duration is at least equal to that of the plan's liabilities such that there is a relatively high correlation between the movements of the plan's liability and asset values.

Investing in publicly traded equities in order to increase the ratio of plan assets to liabilities over time.

Limiting investment return volatility by diversifying among additional asset classes with differing expected rates of return and return correlations.

Using derivatives to either implement investment positions efficiently or to hedge risk but not to create investment leverage.

Each asset class utilized by the RIP has a defined asset allocation target and allowable range. The table below shows the asset allocation target and the December 31, 2010 and 2009 position for each asset class:

Asset Class	Target Weight at	Position at December 31,	
	December 31, 2010	2010	2009
Domestic equity	40%	37%	38%
International equity	22%	21%	22%
High yield bonds	5%	5%	6%
Long duration bonds	26%	31%	30%
Real estate	7%	5%	4%
Other fixed income	0%	1%	0%

Pension plan assets are required to be reported and disclosed at fair value in the financial statements. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Three levels of inputs may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

The asset's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

**Table of Contents**

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

The following table sets forth by level within the fair value hierarchy a summary of the RIP's assets measured at fair value on a recurring basis:

Description	Value at December 31, 2010			Total
	Level 1	Level 2	Level 3	
Long duration bonds		\$ 604.5		\$ 604.5
Domestic equity	\$ 604.2	91.5		695.7
International equity	145.1	254.3		399.4
High yield bonds		98.3		98.3
Real estate			\$ 103.1	103.1
Other investments			5.5	5.5
Money market investments	29.9			29.9
Receivables/short term investments, net	10.2			10.2
Net assets	\$ 789.4	\$ 1,048.6	\$ 108.6	\$ 1,946.6

Description	Value at December 31, 2009			Total
	Level 1	Level 2	Level 3	
Long duration bonds		\$ 541.2		\$ 541.2
Domestic equity	\$ 683.4	2.9		686.3
International equity	145.2	260.6		405.8
High yield bonds		98.1		98.1
Real estate			\$ 84.6	84.6
Other investments			8.4	8.4
Money market investments	24.9			24.9
Receivables/short term investments, net	1.0			1.0
Net assets	\$ 854.5	\$ 902.8	\$ 93.0	\$ 1,850.3



**Table of Contents**

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

The table below sets forth a summary of changes in the fair value of the RIP's level 3 assets for the years ended December 31, 2009 and 2010:

	Level 3 Assets Gains and Losses		
	Real Estate	Investments	Other Total
Balance, December 31, 2008	\$ 116.1	\$ 10.2	\$ 126.3
Realized (loss) gain	(0.5)	0.3	(0.2)
Unrealized (loss) gain	(30.8)	(1.4)	(32.2)
Purchases, (sales), issuances, (settlements), net	(0.2)	(0.7)	(0.9)
Balance, December 31, 2009	\$ 84.6	\$ 8.4	\$ 93.0
Realized (loss) gain	(1.6)	0.4	(1.2)
Unrealized (loss) gain	9.7	(1.5)	8.2
Purchases, (sales), issuances, (settlements), net	10.4	(1.8)	8.6
Balance, December 31, 2010	\$ 103.1	\$ 5.5	\$ 108.6

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2010 and 2009.

*Long Duration Bonds:* Consists of investments in individual corporate bonds as well as investments in registered investment funds and common and collective trust funds investing in fixed income securities tailored to institutional investors. Certain corporate bonds are valued based on a compilation of primarily observable market information or a broker quote in a non-active market. There are no readily available market quotations for registered investment company funds or common collective trust funds. The fair value is based on the underlying securities in the fund's portfolio which is typically the amount which the fund might reasonably expect to receive for the security upon a current sale.

*Domestic and International equity securities:* Consists of investments in common and preferred stocks as well as investments in registered investment funds investing in equities tailored to institutional investors. Common and preferred stocks are valued at the closing price reported on the active market on which the individual securities are traded. There are no readily available market quotations for registered investment company funds. The fair value is based on the underlying securities in the fund's portfolio which is typically the amount which the fund might reasonably expect to receive for the security upon a current sale.

*High Yield Bonds:* Consists of investments in individual corporate bonds as well as an investment in a registered investment fund investing in fixed income securities tailored to institutional investors. Certain corporate bonds are valued based on a compilation of primarily observable market information or a broker quote in a non-active market. There are no readily available market quotations for registered investment company funds. The fair value is based on the underlying securities in the fund's portfolio which is typically the amount which the fund might reasonably expect to receive for the security upon a current sale.

*Real Estate:* The RIP's real estate investments are comprised of both open-end and closed-end funds. There are no readily available market quotations for these real estate funds. The fund's fair value is based on the underlying real estate assets held by the fund. Underlying real estate assets are valued on the basis of a discounted cash flow approach, which includes the future rental receipts, expenses and residual values as the highest and best use of the real estate from a market participant view. Independent appraisals may also be used to determine fair value for the underlying assets of these funds.



**Table of Contents**

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

*Other Investments:* Consists of investments in a group insurance annuity contract and a limited partnership. The fair value for the group insurance annuity contract was determined by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the credit-worthiness of the issuer. For our investment in the limited partnership, the majority of the partnership's underlying securities are invested in publicly traded securities which are valued at the closing price reported on the active market on which the individual securities are traded. The remaining other investments within the partnership are valued based on available inputs, including recent financing rounds, comparable company valuations, and other available data. The investment in the limited partnership is non-redeemable until the expiration of the term of the agreement.

*Money Market Investments:* The money market investment consists of an institutional investor mutual fund, valued at the fund's net asset value (NAV) which is normally calculated at the close of business daily.

*Receivables/Short Term Investments, net:* Cash and short term investments consist of cash and cash equivalents and other payables and receivables (net). The carrying amounts of cash and cash equivalents approximate fair value due to the short-term maturity of these instruments. Other payables and receivables consist primarily of margin on account for a fund, accrued fees and receivables related to investment positions liquidated for which proceeds had not been received at December 31. The carrying amounts of payables and receivables approximate fair value due to the short-term nature of these instruments.

The RIP has \$830.0 million and \$698.3 million of investments in alternative investment funds at December 31, 2010 and December 31, 2009, respectively, which are reported at fair value, and we have concluded that the net asset value reported by the underlying fund approximates the fair value of the investment. These investments are redeemable at NAV under agreements with the underlying funds. However, it is possible that these redemption rights may be restricted or eliminated by the funds in the future in accordance with the underlying fund agreements. Due to the nature of the investments held by the funds, changes in market conditions and the economic environment may significantly impact the NAV of the funds and, consequently, the fair value of the RIP's interest in the funds. Furthermore, changes to the liquidity provisions of the funds may significantly impact the fair value of the RIP's interest in the funds.

**Basis of Rate-of-Return Assumption**

Long-term asset class return assumptions are determined based on input from investment professionals on the expected performance of the asset classes over 10 to 20 years. The forecasts were averaged to come up with consensus passive return forecasts for each asset class. An incremental component was added for the expected return from active management based both on the RIP's experience and on historical information obtained from the RIP's investment consultants. These forecast gross returns were reduced by estimated management fees and expenses, yielding a long-term return forecast of 8.00% per annum for 2010.

**Table of Contents**

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

U.S. defined-benefit retiree health and life insurance plans	2010	2009	
Change in benefit obligation:			
Benefit obligation as of beginning of period	\$ 327.5	\$ 334.3	
Service cost	2.4	1.9	
Interest cost	14.8	16.7	
Plan participants' contributions	5.9	6.0	
Plan amendments		0.1	
Effect of curtailment	(1.9)	(0.2)	
Actuarial gain	(16.7)	(3.9)	
Benefits paid, gross	(29.8)	(30.2)	
Medicare subsidy receipts	2.2	2.8	
Benefit obligation as of end of period	\$ 304.4	\$ 327.5	
Change in plan assets:			
Fair value of plan assets as of beginning of period			
Employer contribution	\$ 21.7	\$ 21.4	
Plan participants' contributions	5.9	6.0	
Benefits paid, gross	(29.8)	(30.2)	
Medicare subsidy receipts	2.2	2.8	
Fair value of plan assets as of end of period	\$	\$	
Funded status of the plans	\$ (304.4)	\$ (327.5)	
U.S. defined-benefit retiree health and life insurance plans	2010	2009	
Weighted-average discount rate used to determine benefit obligations at end of period	4.90%	5.30%	
Weighted-average discount rate used to determine net periodic benefit cost for the period	5.30%	5.60%	
The components of postretirement benefit costs are as follows:			
U.S. defined-benefit retiree health and life insurance plans	2010	2009	2008
Service cost of benefits earned during the period	\$ 2.4	\$ 1.9	\$ 1.7
Interest cost on accumulated postretirement benefit obligation	14.8	16.7	18.9
Amortization of net actuarial gain	(6.3)	(4.4)	(1.5)
Net periodic postretirement benefit cost	\$ 10.9	\$ 14.2	\$ 19.1

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For measurement purposes, average rates of annual increase in the per capita cost of covered health care benefits of 8.6% for pre-65 retirees and 8.5% for post-65 retirees were assumed for 2011, decreasing ratably to an ultimate rate of 5% in 2019. Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	One percentage point	
	Increase	Decrease
U.S. retiree health and life insurance benefit plans		
Effect on total service and interest cost components	\$ 0.6	\$ (0.5)
Effect on postretirement benefit obligation	10.4	(9.4)

**Table of Contents**

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

Amounts recognized in assets and (liabilities) at year end consist of:

	Pension Benefits		Retiree Health and Life Insurance Benefits	
	2010	2009	2010	2009
Prepaid pension costs	\$ 128.3	\$ 114.1		
Accounts payable and accrued expenses	(3.9)	(3.3)	\$ (26.5)	\$ (30.6)
Postretirement benefit liabilities			(277.9)	(296.9)
Pension benefit liabilities	(45.5)	(40.6)		
Net amount recognized	\$ 78.9	\$ 70.2	\$ (304.4)	\$ (327.5)

Pre-tax amounts recognized in accumulated other comprehensive income (loss) at year end consist of:

	Pension Benefits		Retiree Health and Life Insurance Benefits	
	2010	2009	2010	2009
Net actuarial (loss) gain	\$ (594.5)	\$ (550.2)	\$ 58.2	\$ 46.9
Prior service cost	(12.8)	(14.2)	(0.1)	(0.1)
Accumulated other comprehensive (loss) income	\$ (607.3)	\$ (564.4)	\$ 58.1	\$ 46.8

We expect to amortize \$20.5 million of previously unrecognized prior service cost and net actuarial losses into the pension credit in 2011. We expect to amortize \$3.4 million of previously unrecognized net actuarial gains into postretirement benefit cost in 2011.

We expect to contribute \$3.9 million to our U.S. defined benefit pension plans and \$26.4 million to our U.S. postretirement benefit plans in 2011.

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

	Pension Benefits	Retiree Health and Life Insurance Benefits, Gross	Retiree Health Medicare Subsidy Receipts
	2011	\$ 124.7	\$ 27.5
2012	124.3	27.8	(1.2)
2013	126.2	28.1	(1.3)
2014	127.8	27.5	(1.4)
2015	128.2	27.4	(1.5)
2016-2020	659.9	124.1	(9.9)

These estimated benefit payments are based on assumptions about future events. Actual benefit payments may vary significantly from these estimates.

NON-U.S. PLANS

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

**Table of Contents**

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

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

Non-U.S. defined-benefit plans	2010	2009
Change in benefit obligation:		
Benefit obligation as of beginning of period	\$ 385.8	\$ 329.2
Service cost	5.4	5.1
Interest cost	18.3	19.3
Plan participants' contributions	1.5	2.0
Foreign currency translation adjustment	(27.7)	18.7
Effect of plan settlements and curtailments	(7.7)	(0.2)
Effect of termination benefits	1.3	
Actuarial loss	6.1	36.2
Benefits paid	(28.4)	(24.5)
 Benefit obligation as of end of period	 \$ 354.6	 \$ 385.8
 Change in plan assets:		
Fair value of plan assets as of beginning of period	\$ 190.3	\$ 156.1
Actual return on plan assets	18.7	23.2
Employer contributions	23.9	17.7
Plan participants' contributions	1.5	2.0
Foreign currency translation adjustment	(11.7)	15.8
Effect of settlements	(5.6)	
Benefits paid	(28.4)	(24.5)
 Fair value of plan assets as of end of period	 \$ 188.7	 \$ 190.3
 Funded status of the plans	 \$ (165.9)	 \$ (195.5)
 Non-U.S. defined-benefit plans	 2010	 2009
Weighted-average assumptions used to determine benefit obligations at end of period:		
Discount rate	5.0%	5.1%
Rate of compensation increase	3.1%	3.3%
 Weighted-average assumptions used to determine net periodic benefit cost for the period:		
Discount rate	5.1%	5.8%
Expected return on plan assets	6.5%	6.5%
Rate of compensation increase	3.0%	3.4%



**Table of Contents**

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

Non-U.S. pension plans with benefit obligations in excess of assets	2010	2009
Projected benefit obligation, December 31	\$ 208.2	\$ 384.6
Accumulated benefit obligation, December 31	201.3	359.1
Fair value of plan assets, December 31	39.9	189.0

The components of pension cost are as follows:

Non-U.S. defined-benefit plans	2010	2009	2008
Service cost of benefits earned during the period	\$ 5.4	\$ 5.1	\$ 5.6
Interest cost on projected benefit obligation	18.3	19.3	21.3
Expected return on plan assets	(13.4)	(12.8)	(16.0)
Amortization of net actuarial loss (gain)	0.3	(0.9)	(0.5)
Net periodic pension cost	\$ 10.6	\$ 10.7	\$ 10.4

**Investment Policies**

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

Each of the plans has a targeted asset allocation for each asset class. The table below shows, for each asset class, the weighted average of the several plans' asset allocation targets and positions at December 31, 2010 and 2009:

Asset Class	Target Weight at	Position at December 31,	
	December 31, 2010	2010	2009
Equities	54%	56%	60%
Long duration bonds	34%	33%	26%
Other fixed income	3%	2%	8%
Real estate	9%	9%	6%

The following table sets forth by level within the fair value hierarchy a summary of our non-U.S. plan assets measured at fair value on a recurring basis:

Description	Value at December 31, 2010		
	Level 1	Level 2	Total
Bonds		\$ 65.3	\$ 65.3
Equities	\$ 1.2	105.1	106.3
Real estate		15.6	15.6
Cash and other short term investments	1.5		1.5
Net assets	\$ 2.7	\$ 186.0	\$ 188.7



**Table of Contents**

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

Description	Value at December 31, 2009		
	Level 1	Level 2	Total
Bonds		\$ 64.4	\$ 64.4
Equities	\$ 4.3	110.0	114.3
Real estate		11.1	11.1
Cash and other short term investments	0.5		0.5
Net assets	\$ 4.8	\$ 185.5	\$ 190.3

Following is a description of the valuation methodologies used for non-U.S. plan assets measured at fair value. There have been no changes in the methodologies used at December 31, 2010 and 2009.

*Bonds:* Consists of investments in individual corporate bonds as well as investments in pooled funds investing in fixed income securities tailored to institutional investors. Certain corporate bonds are valued at the closing price reported in the active market in which the bond is traded. There are no readily available market quotations for pooled funds. The fair value is based on the underlying securities in the fund's portfolio which is typically the amount which the fund might reasonably expect to receive for the security upon a current sale.

*Equities:* Consists of investments in common and preferred stocks as well as investments in pooled funds investing in international equities tailored to institutional investors. Equity securities are valued at the closing price reported on the active market on which the individual securities are traded. There are no readily available market quotations for pooled funds. The fair value is based on the underlying securities in the fund's portfolio which is typically the amount which the fund might reasonably expect to receive for the security upon a current sale.

*Real Estate:* The plans' real estate investments are comprised of pooled real estate mutual funds valued based on a compilation of primarily observable market information or a broker quote in a non-active market.

*Cash and other Short Term Investments:* Cash and short term investments consist primarily of cash and cash equivalents, and plan receivables/payables. The carrying amounts of cash and cash equivalents and receivables/payables approximate fair value due to the short-term nature of these instruments.

The non-U.S. pension plans have \$185.4 million and \$179.9 million of investments in alternative investment funds at December 31, 2010 and December 31, 2009, respectively, which are reported at fair value. We have concluded that the net asset value reported by the underlying fund approximates the fair value of the investment. These investments are redeemable at NAV under agreements with the underlying funds. However, it is possible that these redemption rights may be restricted or eliminated by the funds in the future in accordance with the underlying fund agreements. Due to the nature of the investments held by the funds, changes in market conditions and the economic environment may significantly impact the net asset value of the funds and, consequently, the fair value of the plans' interest in the funds. Furthermore, changes to the liquidity provisions of the funds may significantly impact the fair value of the plans' interest in the funds.

**Basis of Rate-of-Return Assumption**

Long-term asset class return forecasts were obtained from investment professionals. The forecasts were averaged to come up with consensus passive return forecasts for each asset class. These forecast asset class returns were weighted by the plans' target asset class weights, yielding a long-term return forecast of 6.5% for the years ended December 31, 2010 and 2009.

**Table of Contents**

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

Amounts recognized in the consolidated balance sheets consist of:

	2010	2009
Prepaid pension costs	\$ 2.4	\$ 0.1
Accounts payable and accrued expenses	(11.7)	(12.8)
Pension benefit liabilities	(156.6)	(182.8)
Net amount recognized	\$ (165.9)	\$ (195.5)

Pre-tax amounts recognized in accumulated other comprehensive income (loss) at year end consist of:

	2010	2009
Net actuarial (loss)	\$ (11.2)	\$ (14.4)
Accumulated other comprehensive (loss)	\$ (11.2)	\$ (14.4)

We expect to amortize \$0.2 million of previously unrecognized net actuarial losses into pension cost in 2011.

The accumulated benefit obligation for the non-U.S. defined benefit pension plans was \$338.7 million and \$360.2 million at December 31, 2010 and 2009, respectively.

We expect to contribute \$15.6 million to our non-U.S. defined benefit pension plans in 2011.

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

	Pension Benefits
2011	\$ 36.0
2012	19.7
2013	20.1
2014	21.4
2015	21.8
2016-2020	116.6

Costs for other worldwide defined contribution benefit plans and multiemployer pension plans were \$13.2 million in 2010, \$13.3 million in 2009 and \$14.8 million in 2008.

**NOTE 19. FINANCIAL INSTRUMENTS**

We do not hold or issue financial instruments for trading purposes. The estimated fair values of our financial instruments are as follows:

	December 31, 2010		December 31, 2009	
	Carrying amount	Estimated Fair Value	Carrying amount	Estimated Fair Value
Assets/(Liabilities):				
Money market investments			\$ 250.1	\$ 250.1
Total debt, including current portion	\$ (874.9)	\$ (882.8)	(472.5)	(462.1)
Foreign currency derivative contracts	(7.0)	(7.0)	(4.1)	(4.1)
Natural gas contracts	(5.5)	(5.5)	(4.6)	(4.6)



**Table of Contents**

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

The carrying amounts of cash and cash equivalents of \$315.8 million at December 31, 2010 (made up of bank deposits), receivables, accounts payable and accrued expenses, short-term debt and current installments of long-term debt approximate fair value because of the short-term maturity of these instruments. The fair value estimates of long-term debt were based upon quotes from a major financial institution of recently observed trading levels of our Term Loan B debt. The fair value estimates of foreign currency contract obligations are estimated from market quotes provided by a well recognized national market data provider. The fair value estimates of natural gas contracts are estimated by using internal valuation models with verification by obtaining quotes from major financial institutions. For swap transactions, fair value is verified using NYMEX market quotes provided by a well recognized national market data provider. For option based strategies, fair value is verified using an industry standard Black-Scholes model with market based inputs, including but not limited to, underlying asset price, strike price, implied volatility, discounted risk free rate and time to expiration, provided by a well recognized national market data provider. As of December 31, 2010 we also have \$30.0 million of restricted cash that is held by a trustee related to the construction of our West Virginia mineral wool plant. The trustee has invested the cash in money market investments. The carrying value on our balance sheet approximates the fair value because of the short-term maturity of the instruments.

Refer to Note 18 for a discussion of fair value and the related inputs used to measure fair value. Assets and liabilities measured at fair value on a recurring basis are summarized below:

	December 31, 2010		December 31, 2009	
	Quoted, active markets Level 1	Other observable inputs Level 2	Quoted, active markets Level 1	Other observable inputs Level 2
Assets/(Liabilities):				
Money market investments			\$ 250.1	
Foreign currency contract obligations	\$ (7.0)		(4.1)	
Natural gas contracts		\$ (5.5)		\$ (4.6)

We do not have any financial assets or liabilities that are valued using Level 3 (unobservable) inputs.

**NOTE 20. DERIVATIVE FINANCIAL INSTRUMENTS**

We are exposed to market risk from changes in foreign 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 these exposures. Exposure to individual counterparties is controlled and derivative financial instruments are entered into with a diversified group of major financial institutions. Forward swaps and option contracts are entered into for periods consistent with underlying exposure and do not constitute positions independent of those exposures. At inception, hedges that we designate as hedging instruments under ASC 815 are formally documented as either (1) a hedge of a forecasted transaction or cash flow hedge, or (2) a hedge of the fair value of a recognized liability or asset or fair value hedge. We also formally assess both at inception and at least quarterly thereafter, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in either the fair value or cash flows of the hedged item. If it is determined that a derivative ceases to be a highly effective hedge, or if the anticipated transaction is no longer probable of occurring, we discontinue hedge accounting, and any future mark-to-market adjustments are recognized in earnings. We use derivative financial instruments as risk management tools and not for speculative trading purposes.



**Table of Contents**

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

**Counter Party Risk**

We only enter into derivative transactions with established counterparties having a credit rating of A or better. We monitor counterparty credit default swap levels and credit ratings on a regular basis. All of our derivative transactions with counterparties are governed by master International Swap Dealer Agreements ( ISDA s ) with netting arrangements. These agreements can limit our exposure in situations where we have gain and loss positions outstanding with a single counterparty. We generally do not post or receive cash collateral with any counterparty for our derivative transactions. As of December 31, 2010, we had no cash collateral posted or received for any of our derivative transactions. These ISDA agreements do not have any credit contingent features; however, a default under our bank credit facility would trigger a default under these agreements. Exposure to individual counterparties is controlled, and thus we consider the risk of counterparty default to be negligible.

**Commodity Price Risk** We purchase natural gas for use in the manufacture of ceiling tiles and other products, and to heat many of our facilities. As a result, we are exposed to movements in the price of natural gas. We have a policy to reduce cost volatility for North American natural gas purchases by purchasing natural gas forward contracts and swaps, purchased call options, and zero-cost collars up to 15 months forward to reduce our overall exposure to natural gas price movements. There is a high correlation between the hedged item and the hedged instrument. The gains and losses on these transactions offset gains and losses on the transactions being hedged. These instruments are designated as cash flow hedges. At December 31, 2010 and December 31, 2009 the notional amount of these hedges was \$37 million and \$42 million, respectively. The mark-to-market gain or loss on qualifying hedges is included in other comprehensive income to the extent effective, and reclassified into cost of goods sold in the period during which the underlying gas is consumed. The mark-to-market gains or losses on ineffective portions of hedges are recognized in cost of goods sold immediately. The earnings impact of the ineffective portion of these hedges was not material for the years ended December 31, 2010 and 2009. The contracts are based on forecasted usage of natural gas measured in mmBtu s.

In June 2009, we de-designated several monthly natural gas hedge contracts maturing through May 2010 due to their over hedged positions. The over hedged positions were due to updated projected production volumes (and gas usage) at our U.S. ceilings plants that were significantly lower than originally forecasted when we entered into the hedges. We discontinued hedge accounting on the hedges and re-designated a portion of the original contracts based upon our revised forecasts, which were designated as cash flow hedges. Starting in July 2009 the fair value adjustments for the portion of the derivative contracts not designated as a hedge were recognized in cost of goods sold. The earnings impact related to the over hedged portion of these hedges was not material for the years ended December 31, 2010 and 2009.

**Currency Rate Risk**

**Sales and Purchases** We manufacture and sell our products in a number of countries throughout the world and, as a result, we are exposed to movements in foreign currency exchange rates. To a large extent, our global manufacturing and sales provide a natural hedge of foreign currency exchange rate movement, as foreign currency expenses generally offset foreign currency revenues. We manage our cash flow exposures on a net basis and use derivatives to hedge the majority of our unmatched foreign currency cash inflows and outflows. As of December 31, 2010, our major foreign currency exposures are to the Canadian dollar, the Australian dollar, and the Euro.

We use foreign currency forward exchange contracts to reduce our exposure to the risk that the eventual net cash inflows and outflows resulting from the sale of products to foreign customers and purchases from foreign suppliers will be adversely affected by changes in exchange rates. These derivative instruments are used for forecasted transactions and are classified as cash flow hedges. Cash flow hedges are executed quarterly, generally up to 15 months forward, and allow us to further reduce our overall exposure to exchange rate movements, since gains and losses on these contracts offset gains and losses on the transactions being hedged. The notional amount of these hedges was \$89.9 million and \$86.7 million at December 31, 2010 and December 31, 2009, respectively. Gains and losses on these instruments are recorded in other comprehensive income, to the extent effective, until the





**Table of Contents**

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

underlying transaction is recognized in earnings. The earnings impact of the ineffective portion of these hedges was not material for the years ended December 31, 2010 and 2009.

**Intercompany Loans and Dividends** We also use foreign currency forward exchange contracts to hedge exposures created by cross-currency intercompany loans and dividends. The underlying intercompany loans are classified as short-term, and translation adjustments related to these loans are recorded in other non-operating income or expense. The offsetting gains or losses on the related derivative contracts are also recorded in other non-operating income or expense. These contracts are decreased or increased as repayments are made or additional intercompany loans are extended or adjusted for intercompany dividend activity as necessary. The notional amount of these hedges was \$143.2 million and \$8.3 million at December 31, 2010 and December 31, 2009, respectively.

**Financial Statement Impacts**

Our derivative assets, whether or not designated as hedging instruments, were not material for the years ended December 31, 2010 and 2009.

The following tables detail amounts related to our derivatives as of December 31, 2010 and December 31, 2009.

	Balance Sheet Location	Liability Derivatives	
		Fair Value December 31, 2010	Fair Value December 31, 2009
Derivatives designated as hedging instruments			
Natural gas commodity contracts	Accounts payable and accrued expenses	\$ 5.5	\$ 3.6
Natural gas commodity contracts	Other long-term liabilities		0.2
Foreign exchange contracts	Accounts payable and accrued expenses	2.4	4.3
Total derivatives designated as hedging instruments		\$ 7.9	\$ 8.1
Derivatives not designated as hedging instruments			
Natural gas commodity contracts	Accounts payable and accrued expenses		\$ 0.8
Foreign exchange contracts	Accounts payable and accrued expenses	\$ 4.6	0.1
Total derivative liabilities not designated as hedging instruments		\$ 4.6	\$ 0.9

**Table of Contents**

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

	Amount of (Loss) Recognized in Other Comprehensive Income ( OCI ) (Effective Portion) (a)	
	For the Year Ended December 31, 2010	For the Year Ended December 31, 2009
	Derivatives in Cash Flow Hedging Relationships	
Natural gas commodity contracts	\$ (5.3)	\$ (4.3)
Foreign exchange contracts	(2.4)	(4.1)
<b>Total</b>	<b>\$ (7.7)</b>	<b>\$ (8.4)</b>

(a) As of December 31, 2010 the amount of existing (losses) in Accumulated OCI expected to be recognized in earnings over the next twelve months is \$ (7.6) million.

	Location	Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) For the Year Ended December 31,	
		2010	2009
Derivatives in Cash Flow Hedging Relationships			
Natural gas commodity contracts	Cost of goods sold	\$ (9.2)	\$ (22.4)
Foreign exchange contracts	Cost of goods sold	(5.4)	1.4
<b>Total</b>		<b>\$ (14.6)</b>	<b>\$ (21.0)</b>

	Location of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion) (a)
Derivatives in Cash Flow Hedging Relationships	
Natural gas commodity contracts	Cost of goods sold
Foreign exchange contracts	SG&A expense

(a) The amount recognized in income related to the ineffective portion of the hedging relationships was immaterial in 2010 and 2009. No gains or losses are excluded from the assessment of the hedge effectiveness.

The amount of loss recognized in income for derivative instruments not designated as hedging instruments was \$4.7 and \$1.0 million, respectively, for the years ended December 31, 2010 and 2009.

**NOTE 21. GUARANTEES**

In disposing of assets, we 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 \$4.9 million has been recorded as of December 31, 2010.

**Table of Contents**

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

**NOTE 22. PRODUCT WARRANTIES**

We provide direct customer and end-user warranties for our products. These warranties cover manufacturing defects that would prevent the product from performing in line with its intended and marketed use. The terms of these warranties vary by product and generally provide for the repair or replacement of the defective product. We collect and analyze warranty claims data with a focus on the historic amount of claims, the products involved, the amount of time between the warranty claims and their respective sales and the amount of current sales.

The following table summarizes the activity for the accrual of product warranties for 2010 and 2009:

	2010	2009
Balance at beginning of year	\$ 14.1	\$ 16.3
Reductions for payments	(18.1)	(20.4)
Current year warranty accruals	16.3	18.7
Preexisting warranty accrual changes	(0.2)	(0.5)
Effects of foreign exchange translation	(0.2)	
Balance at end of year	\$ 11.9	\$ 14.1

The warranty provision and related reserve are recorded as a reduction of sales and accounts receivable.

**NOTE 23. OTHER LONG-TERM LIABILITIES**

	December 31, 2010	December 31, 2009
Long-term deferred compensation arrangements	\$ 27.9	\$ 29.8
U.S. workers compensation	12.2	11.9
Postemployment benefit liabilities	8.1	9.1
Environmental liabilities	8.3	6.3
Other	13.8	10.0
Total other long-term liabilities	\$ 70.3	\$ 67.1

**NOTE 24. STOCK-BASED COMPENSATION PLANS**

The 2006 Long-Term Incentive Plan ( 2006 Plan ) authorizes us to issue stock options, stock appreciation rights, restricted stock awards, stock units, performance-based awards and cash awards to officers and key employees. No more than 5,349,000 common shares may be issued under the 2006 Plan, and the 2006 Plan will terminate on October 2, 2016, after which time no further awards may be made. As of December 31, 2010, 2,001,535 shares were available for future grants under the 2006 plan.

For grants made between our Chapter 11 emergence on October 2, 2006 and October 17, 2006, options were granted to purchase shares at a price equal to the volume weighted average closing price of the shares for the period October 18, 2006 through October 31, 2006. For grants made on or after October 18, 2006, options were granted to purchase shares at prices equal to the closing market price of the shares on the dates the options were granted. The options generally become exercisable in two to four years and expire 10 years from the date of grant.

In August 2009 TPG and the Asbestos PI Trust entered into an agreement whereby TPG purchased 7,000,000 shares of AWI 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



**Table of Contents**

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

pursuant to which the Asbestos PI Trust and TPG have agreed to vote their shares together on certain matters. Under the terms of the 2006 Plan, a change in control occurred as a result of the Asbestos PI Trust and TPG agreement, causing the accelerated vesting of all unvested stock-based compensation. The non-cash charge to earnings related to this accelerated vesting was \$31.6 million and was recorded within SG&A expenses in the third quarter of 2009.

	Year Ended December 31, 2010			
	Number of shares (thousands)	Weighted- average exercise price	Weighted- average remaining contractual term (years)	Aggregate intrinsic value (millions)
Option shares outstanding at beginning of period	1,627.5	\$ 25.87		
Options granted	526.5	37.22		
Option adjustment for December dividend	463.6	24.01		
Option shares exercised	(615.4)	(21.55)		\$ 13.2
Options forfeited	(23.8)	(38.06)		
Option shares outstanding at end of period	1,978.4	\$ 24.02	6.7	\$ 37.5
Option shares exercisable at end of period	1,323.7	21.78	5.4	\$ 28.1
Option shares expected to vest	627.0	28.52		\$ 9.1
	Year Ended December 31, 2009			
	Number of shares (thousands)	Weighted- average exercise price	Weighted- average remaining contractual term (years)	Aggregate intrinsic value (millions)
Option shares outstanding at beginning of period	1,532.9	\$ 29.85		
Options granted	434.9	13.46		
Option shares exercised	(79.3)	(29.37)		\$ 1.0
Options forfeited	(261.0)	(27.37)		
Option shares outstanding at end of period	1,627.5	\$ 25.87	7.3	\$ 21.3
Option shares exercisable at end of period	1,627.5	25.87	7.3	\$ 21.3
Option shares expected to vest				

We have reserved sufficient authorized shares to allow us to issue new shares upon exercise of all outstanding options. When options are actually exercised, we may issue new shares, use treasury shares (if available), acquire shares held by investors, or a combination of these alternatives in order to satisfy the option exercises. The total grant date fair value of options exercised during the year ended December 31, 2010 was \$6.2 million. Cash proceeds received from options exercised for the year ended December 31, 2010 were \$13.3 million.

**Table of Contents**

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

The fair value of option grants was estimated on the date of grant using the Black-Scholes option pricing model. The weighted average assumptions for the years 2010, 2009 and 2008 are presented in the table below.

	2010	2009	2008
Weighted-average grant date fair value of options granted (dollars per option)	\$ 15.44	\$ 4.77	\$ 12.21
Assumptions			
Risk free rate of return	2.8%	2.1%	3.2%
Expected volatility	38.1%	32.7%	29.8%
Expected term (in years)	6.1	6.0	6.0
Expected dividend yield	0.0%	0.0%	0.0%

The risk free rate of return is determined based on the implied yield available on zero coupon U.S. Treasury bills at the time of grant with a remaining term equal to the expected term of the option. Because reorganized Armstrong's stock has only been trading since the fourth quarter of 2006, the expected volatility is established based on an average of the actual historical volatilities of the stock prices of a peer group of companies. The expected life is the midpoint of the average vesting period and the contractual life of the grant. For the same reasons mentioned earlier we are using an allowable simplified method to determine an appropriate expected term for our option valuation assumptions. The expected dividend yield is assumed to be zero because, at the time of each grant, we had no plans to declare a dividend. The assumptions outlined above are applicable to all option grants.

Under the terms of the 2006 Plan, the Management Development and Compensation Committee of our Board of Directors is required to make equitable adjustments to stock option grants if there is a change in our capital structure. The special cash dividend in December 2010 qualified as a change to our capital structure under the terms of the 2006 Plan. We used the Black-Scholes option pricing model to determine the fair value of the awards before and after the special cash dividend, using consistent assumptions for the risk free rate of return, expected term, expected volatility and expected dividend yield. The stock prices used in the before and after calculations were \$52.86 (the NYSE volume weighted average stock price on December 10, 2010, the day before the ex-dividend date) and \$40.59 (the NYSE volume weighted average stock price on December 13, 2010, the ex-dividend date), respectively. For all option grants, the fair value of the award before and after the dividend remained the same. Therefore, there was no incremental cost recognized in our financial statements due to these award modifications. The following changes were made to the options outstanding as a result of this change:

	Pre-Dividend Grant Terms		Post-Dividend Grant Terms	
	Number of Shares	Exercise Price	Number of Shares	Exercise Price
Options granted in 2006	707,535	\$29.37	921,281	\$22.55
Options granted in 2007	64,100	39.88	83,452	30.62
Options granted in 2008	151,904	28.45 36.74	197,834	21.85 28.21
Options granted in 2009	107,779	13.46	140,371	10.34
Options granted in 2010	502,682	34.13 38.06	654,673	26.21 29.23



**Table of Contents**

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

We have also granted restricted stock and restricted stock units. These awards generally had vesting periods of two to four years at the grant date. A summary of the 2010 and 2009 activity related to these awards follows:

	Non-Vested Stock Awards	
	Number of Shares	Weighted- average fair value at grant date
January 1, 2009	607,486	\$ 36.86
Granted	445,183	13.46
Vested	(947,459)	(26.53)
Forfeited	(105,210)	(34.23)
December 31, 2009	0	\$ 0.00
Granted	72,951	36.52
Vested	0	0.00
Forfeited	0	0.00
December 31, 2010	72,951	\$ 36.52

In addition to options and restricted stock and restricted stock units, we have also granted performance restricted stock and performance restricted stock units. These awards generally had vesting periods of two to four years at the grant date. A summary of the 2010 and 2009 activity related to these awards follows:

	Non-Vested Performance Stock Awards	
	Number of Shares	Weighted- average fair value at grant date
January 1, 2009	96,290	\$ 41.23
Granted	116,624	13.46
Vested	(319,371)	(20.08)
Performance premium Forfeited	106,457	26.02
December 31, 2009		\$
Granted	290,950	38.09
Vested		
Performance premium	11,064	38.19
Forfeited	(29,987)	38.06
December 31, 2010	272,027	\$ 38.09

In 2010 we granted predominantly performance based stock awards to the participants in our long term incentive plan. These awards entitled the recipient to a specified number of shares of Armstrong's common stock, provided the defined financial targets were achieved over the one year performance period, and the subsequent two year service period was fulfilled. The financial performance targets were met. In addition to these awards we granted our Chief Executive Officer performance restricted stock units vesting equally on December 31, 2012 and 2013, provided that specified stock price targets are achieved.

**Table of Contents**

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

In addition to the equity awards described above, as of December 31, 2010 we had 30,924 fully-vested phantom shares outstanding for non-employee directors under the 2006 Phantom Stock Unit Plan. These awards are settled in cash and generally had vesting periods of one to three years. The awards are generally payable six months following the director's separation from service. The total liability recorded for these shares as of December 31, 2010 was \$2.1 million. The awards under the 2006 Phantom Stock Unit Plan are not reflected in the Non-Vested Stock Awards tables above. The 2006 Phantom Stock Unit Plan is still in place; however, no additional shares will be granted under that plan.

During 2008, we adopted the 2008 Directors Stock Unit Plan. At December 31, 2010 and 2009 there were 119,763 and 141,782 restricted stock units, respectively, outstanding under the 2008 Directors Stock Unit Plan. In 2010 and 2009 we granted 59,981 and 29,832 restricted stock units, respectively, to non-employee directors. These awards generally have vesting periods of one to three years, and, as of December 31, 2010 and 2009, 72,147 and 111,950 shares, respectively, were vested but not yet delivered. The awards are generally payable six months following the director's separation from service. During 2010 we released 61,084 shares to four retired directors. Additionally as a result of these retirements the directors forfeited 20,916 shares in 2010. The awards granted under the 2008 Directors Stock Unit Plan are not reflected in the Non-Vested Stock Awards tables above.

We recognize share-based compensation expense on a straight-line basis over the vesting period. Share-based compensation cost was \$5.6 million (\$3.7 million net of tax benefit) in 2010; \$38.9 million (\$29.6 million net of tax benefit), including the impact of the accelerated vesting, in 2009, and \$8.1 million (\$5.2 million net of tax benefit) in 2008. Share-based compensation expense is recorded as a component of SG&A expenses. The benefits of tax deductions in excess of grant date fair value from the exercise of stock options and vesting of stock-based awards for the years ended December 31, 2010 and 2009 was \$2.9 million and \$1.5 million, respectively. To the extent the vesting date value is greater than the grant date value, the excess tax benefit is a credit to additional paid in capital ( APIC ), but only if it reduces income tax currently payable. Due to our NOL, the credit to APIC will be suspended until the NOL is fully utilized.

As of December 31, 2010, there was \$15.5 million of total unrecognized compensation cost related to non-vested share-based compensation arrangements. That cost is expected to be recognized over a weighted-average period of 2.3 years.

**NOTE 25. EMPLOYEE COMPENSATION**

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

Employee compensation cost	2010	2009	2008
Wages, salaries and incentive compensation	\$ 627.6	\$ 623.4	\$ 697.5
Payroll taxes	64.3	64.7	71.2
Pension expense (credits), net	(24.3)	(31.4)	(34.6)
Insurance and other benefit costs	59.0	69.1	77.5
Stock-based compensation	5.6	38.3	8.1
Total	\$ 732.2	\$ 764.1	\$ 819.7

2010 includes \$11.2 million for severance and related expenses to reflect the separation costs for our former Chairman and Chief Executive Officer.

**Table of Contents**

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

**NOTE 26. LEASES**

We rent certain real estate and equipment. Several leases include options for renewal or purchase, and contain clauses for payment of real estate taxes and insurance. In most cases, management expects that in the normal course of business, leases will be renewed or replaced by other leases.

	2010	2009	2008
Rent expense	\$ 24.0	\$ 25.8	\$ 25.0
Sublease (income)	(3.0)	(3.1)	(2.0)
Net rent expense	\$ 21.0	\$ 22.7	\$ 23.0

Future minimum payments at December 31, 2010 by year and in the aggregate, having noncancelable lease terms in excess of one year are as follows:

	Total Minimum Lease Payments	Sublease (Income)	Net Minimum Lease Payments
Scheduled minimum lease payments			
2011	\$ 12.1	\$ (0.8)	\$ 11.3
2012	9.4	(0.6)	8.8
2013	4.8	(0.4)	4.4
2014	2.5	(0.2)	2.3
2015	1.4	(0.2)	1.2
Thereafter	4.9	(0.4)	4.5
Total	\$ 35.1	\$ (2.6)	\$ 32.5

Assets under capital leases at December 31, 2010 and 2009 are not material.

**NOTE 27. SHAREHOLDERS' EQUITY**

There were no treasury shares at December 31, 2010 or December 31, 2009.

The balance of each component of accumulated other comprehensive (loss) as of December 31, 2010 and 2009 is presented in the table below.

	December 31, 2010	December 31, 2009
Foreign currency translation adjustments	\$ 24.7	\$ 23.9
Derivative (loss), net	(5.0)	(5.5)
Pension and postretirement adjustments	(345.4)	(316.2)
Accumulated other comprehensive (loss)	\$ (325.7)	\$ (297.8)

The amounts and related tax effects allocated to each component of other comprehensive income (loss) for 2010, 2009, and 2008 are presented in the table below.

	Pre-tax Amount	Tax (Expense)	After tax Amount
2010			

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Foreign currency translation adjustments	\$	0.3	\$	(0.6)	\$	(0.3)
Derivative gain (loss), net		0.7		(0.2)		0.5
Pension and postretirement adjustments		(28.4)		(0.8)		(29.2)
Purchase of non-controlling interest		1.1				1.1
Total other comprehensive income (loss)	\$	(26.3)	\$	(1.6)	\$	(27.9)

**Table of Contents**

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

2009	Pre-tax Amount	Tax (Expense)	After tax Amount
Foreign currency translation adjustments	\$ 38.3	\$ (3.9)	\$ 34.4
Derivative gain (loss), net	(1.6)	(0.6)	(2.2)
Pension and postretirement adjustments	37.9	(19.1)	18.8
Total other comprehensive income (loss)	\$ 74.6	\$ (23.6)	\$ 51.0

2008	Pre-tax Amount	Tax (Expense)	After tax Amount
Foreign currency translation adjustments	\$ (49.2)	\$ 7.1	\$ (2.2)
Derivative gain (loss), net	0.7	0.7	1.4
Pension and postretirement adjustments	(792.0)	308.5	(483.5)
Total other comprehensive income (loss)	\$ (840.5)	\$ 316.3	\$ (524.3)

**NOTE 28. SUPPLEMENTAL FINANCIAL INFORMATION**

Selected operating expenses	2010	2009	2008
Maintenance and repair costs	\$ 94.6	\$ 103.5	\$ 111.3
Research and development costs	32.9	38.0	38.8
Advertising costs	27.5	28.8	29.6
Other non-operating expense			
Foreign currency transaction loss, net of hedging activity	\$ 1.1	\$ 0.3	\$ 1.1
Other	0.1	0.6	0.2
Total	\$ 1.2	\$ 0.9	\$ 1.3
Other non-operating income			
Interest income	\$ 7.1	\$ 3.1	\$ 10.5
Foreign currency transaction gain, net of hedging activity	0.7	0.1	0.1
Other	0.2		
Total	\$ 8.0	\$ 3.2	\$ 10.6

**NOTE 29. SUPPLEMENTAL CASH FLOW INFORMATION**

	2010	2009	2008
Interest paid	\$ 11.3	\$ 10.4	\$ 24.2
Income taxes paid, net	8.5	8.9	25.7

**NOTE 30. RELATED PARTIES**

We purchase grid products from WAVE, our 50%-owned joint venture with Worthington Industries. The total amount of these purchases was approximately \$79 million in 2010, \$67 million in 2009, and \$98 million in 2008. We also provide certain selling, promotional and administrative processing services to WAVE for which we receive reimbursement. Those services amounted to \$15.2 million in 2010, \$14.2 million in 2009, and \$16.1 million in 2008. The net amounts due from us to WAVE for all of our relationships were \$2.0 million and \$4.1 million at the end of 2010 and 2009, respectively. See Note 10 for additional information.

We incurred approximately \$3.1 million and \$0.6 million in consulting fees related to services provided by an affiliate of TPG in 2010 and 2009, respectively. The amounts due, from us to the TPG affiliate, were

**Table of Contents**

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

\$0.6 million and \$0.2 million at the end of 2010 and 2009, respectively. See Note 1 for additional information.

**NOTE 31. LITIGATION AND RELATED MATTERS**

**ENVIRONMENTAL MATTERS**

**Environmental Expenditures**

Our manufacturing and research facilities are affected by various federal, state and local requirements relating to the discharge of materials and the protection of the environment. We make expenditures necessary for compliance with applicable environmental requirements at each of our operating facilities. Regulatory requirements continually change, therefore we cannot predict with certainty future expenditures associated with compliance with environmental requirements.

**Environmental Remediation**

*Summary*

We are actively involved in proceedings under the Comprehensive Environmental Response, Compensation and Liability Act ( CERCLA ), and similar state Superfund laws at several off-site locations. We have also been investigating and/or remediating environmental contamination allegedly resulting from past industrial activity at several current or former plant sites. In a few cases, we are one of several potentially responsible parties ( PRPs ) which have potential liability for the required investigation and remediation of each site. In those cases, we have agreed to jointly fund that required investigation and remediation, while preserving our defenses to the liability. We may also have rights of contribution or reimbursement from other parties or coverage under applicable insurance policies. Estimates of our future environmental liability at the Superfund sites and current or former plant sites are based on evaluations of currently available facts regarding each individual site. We consider factors such as our activities associated with the site, existing technology, presently enacted laws and regulations and prior company experience in remediating contaminated sites. Although current law imposes joint and several liability on all parties at Superfund sites, our contribution to the remediation of these sites is expected to be limited by the number of other companies potentially liable for site remediation. As a result, our estimated liability reflects only our expected share. In determining the probability of contribution, we consider the solvency of other parties, whether liability is being disputed, the terms of any existing agreements and experience with similar matters, and the effect of our Chapter 11 reorganization upon the validity of the claim.

*Specific Events*

In August 2010 we entered into a Consent Order with the Oregon Department of Environmental Quality ( ODEQ ) along with Kaiser Gypsum Company, Inc. ( Kaiser ), and Owens Corning Sales LLC ( OC ) with respect to our St. Helens, Oregon facility, which was previously owned by Kaiser and then OC. The Consent Order, which replaces a previous order of the ODEQ requiring us to investigate and remediate hazardous substances present at the facility, requires that we and Kaiser complete a remedial investigation and feasibility study ( RI/FS ) on the portion of the site owned by us. The Consent Order further requires us, Kaiser and OC to conduct an RI/FS in the adjacent Scappoose Bay. Estimates of our future liability at the site include our estimate of the cost of the investigation work agreed to with ODEQ. Estimates of future liability also include our estimate of the cost of possible remedies for certain portions of the property owned by us. The RI/FS for the portion of the property owned by us is not yet complete. It is probable that additional corrective action for the portion of the property owned by us will be required. Such corrective action may result in additional costs greater than currently estimated, and may be material. We currently are not able to estimate with reasonable certainty the total cost of liability that we may ultimately incur with respect to the Scappoose Bay, although it is possible that such amounts may be material.

Costs and responsibilities for the RI/FS for certain portions of the property owned by us continue to be shared with Kaiser pursuant to an agreement between Kaiser and us. Limited contributions to these costs are also being made available by ODEQ pursuant to its settlement with OC for OC s liabilities for the property. In





**Table of Contents**

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

August 2010, contemporaneously with the execution of the Consent Order, we, Kaiser and OC entered into a cost allocation agreement for the investigation and possible remediation of the Scappoose Bay.

The U.S. Environmental Protection Agency ( EPA ) has informed us that it has proposed that two landfills located on a portion of our facility in Macon, Georgia, along with the former Macon Naval Ordnance Plant landfill adjacent to our property, and portions of Rocky Creek, collectively the Macon Site, be added to the National Priorities List due to the presence of contaminants, most notably PCBs. In September 2010 we entered into an Administrative Order on Consent for a Removal Action with the EPA to investigate PCB contamination in one of the landfills on our property that will be a portion of the proposed Superfund Site. Our recorded liability includes estimated costs for work that is anticipated to be performed under the Order. Additionally, we will ultimately incur expenses for closure or some form of action on the landfill. While those amounts are not reasonably estimable at this time due to the early stages of the investigation, they may be material. Additionally, it is probable that we will incur field investigation, engineering and oversight costs associated with an RI/FS with respect to the remainder of the proposed Superfund site, including Rocky Creek. We, along with other parties, may also ultimately incur costs in remediating contamination discovered during the RI/FS. While we are not currently able to estimate with reasonable certainty any amounts we may incur with respect to those activities, such amounts may be material.

*Summary of Financial Position*

Liabilities of \$8.3 million and \$6.3 million at December 31, 2010 and, 2009, respectively, were recorded for potential environmental liabilities that we consider probable and for which a reasonable estimate of the probable liability could be made. Where existing data is sufficient to estimate the liability, that estimate has been used; where only a range of probable liabilities is available and no amount within that range is more likely than any other, the lower end of the range has been used. As assessments and remediation activities progress at each site, these liabilities are reviewed to reflect new information as it becomes available. These liabilities are undiscounted.

The estimated liabilities above do not take into account any claims for recoveries from insurance or third parties. It is our policy to record probable recoveries that are either available through settlement or anticipated to be recovered through negotiation or litigation as assets in the Consolidated Balance Sheets. No amounts were recorded for probable recoveries at December 31, 2010 and 2009.

Actual costs to be incurred at identified sites may vary from our estimates. Based on our current knowledge of the identified sites, we are not able to estimate with reasonable certainty future costs which may exceed amounts already recognized.

**CUSTOMS LITIGATION**

In 2002 we began protesting the classification and 6% duty rate then being applied by the U.S. government on imports of our laminate flooring. After administrative denial of several of these protests, we filed a lawsuit against the United States in the U.S. Court of International Trade (New York), challenging the U.S. government's classification and duty rate and its administrative denial of our protests. With the agreement of the U.S. Department of Justice ( DOJ ), Armstrong's case was placed on the reserve calendar pending resolution of two test cases challenging the classification and applicable duty rate of similar laminate flooring. The test cases were decided in 2008 by the U.S. Court of International Trade, which found in favor of the U.S. government. The plaintiffs appealed to the U.S. Court of Appeals for the Federal Circuit. In September 2009 the Court of Appeals reversed the decisions of the Court of International Trade and found that the laminate flooring in the test cases should have been classified differently, and that a 3.2% duty rate should have been applied. Upon expiration of the U.S. government's period to file notice of further appeals, we filed a stipulation request with the DOJ to stipulate that our case covered imports of laminate flooring which were like goods for which the 3.2% duty rate likewise should apply. After review by U.S. Customs and Border Protection ( Customs ), the DOJ agreed to our proposed stipulation, which was approved by the U.S. Court of International Trade in March 2010. The stipulation provided a refund of a portion of duties paid by us on the imported laminate flooring at issue in the case, and further allows us to recover refunds on additional entries of laminate flooring which were properly protested. We have sought refunds on protested imports of laminate



**Table of Contents**

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

flooring from April 2001 through January 2007, when the classification was corrected by statute. We began receiving refunds in March 2010, and have received \$9.7 million through December 31, 2010. Of this amount, \$7.2 million was recorded as a reduction of cost of goods sold within our Resilient Flooring segment, and \$2.5 million was recorded as interest income reported within other non-operating income.

**ANTIDUMPING AND COUNTERVAILING DUTY PETITION**

On October 21, 2010, a coalition of U.S. producers of multilayered wood flooring (not including Armstrong) filed antidumping ( AD ) and countervailing duty ( CVD ) petitions regarding multilayered hardwood flooring from China. The AD petition requests that the Department of Commerce impose duties of up to 269% on imports of multilayered hardwood flooring, which it claims is needed to offset unfair pricing from Chinese imports that injure the U.S. industry. The CVD petition requests an unspecified level of duties be imposed on importers to offset alleged unfair subsidies provided by the Chinese government (such as the undervaluation of the Chinese currency, various tax benefits for foreign-invested enterprises, VAT and tariff exemptions on imported equipment, and electricity being provided at artificially low rates).

We are a domestic producer of multilayered wood flooring. We produce multilayered wood flooring domestically, import from suppliers in China, and have a plant in China that manufactures multilayered wood flooring for export to the U.S. We are specifically mentioned in the AD and CVD petitions as an importer. Under the U.S. AD and CVD laws, a U.S. importer may be responsible for the payment of any antidumping and countervailing duties. The Department of Commerce and the International Trade Commission investigations are ongoing but the outcome of the case remains uncertain. As a result, at this time we cannot determine whether an adverse ruling is probable or estimable. However, if such an adverse ruling were to be issued, we could be subject to duties on multilayered hardwood flooring imported from China, and it is possible such duties could be material.

**DIVESTITURE DISPUTE**

In 2007 we sold Tapijtfabriek H. Desseaux N.V. and its subsidiaries the principal operating companies in our European Textile and Sports Flooring business. Certain post completion adjustments specified in the agreement were disputed by the parties after the sale. The matter was referred to an independent expert for a binding determination. In December 2008 a decision was reached with all disputed items awarded in our favor. Full payment of \$8.0 million was received in January 2009. The purchaser filed an appeal to nullify the independent expert's decision. An appeal hearing was held in May 2010. The court ruled in our favor on all matters in this dispute in July 2010.

**OTHER CLAIMS**

Additionally, from time to time we may be involved in various other claims and legal actions involving product liability, patent infringement, breach of contract, distributor termination, employment law issues and other actions arising in the ordinary course of business. While complete assurance cannot be given to the outcome of these claims, we do not currently believe losses related to these matters would be material.

**Table of Contents**

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

**NOTE 32. EARNINGS PER SHARE**

Earnings per share components may not add due to rounding.

The following table is a reconciliation of net earnings to net earnings attributable to common shares used in our basic and diluted EPS calculations for the years ended December 31, 2010, 2009, and 2008:

	2010	2009	2008
Net earnings	\$ 11.0	\$ 77.7	\$ 81.0
Net earnings allocated to non-vested share awards		(0.4)	(0.6)
Net earnings attributable to common shares	\$ 11.0	\$ 77.3	\$ 80.4

The following table is a reconciliation of basic shares outstanding to diluted shares outstanding for the years ended December 31, 2010, 2009, and 2008:

millions of shares	2010	2009	2008
Basic shares outstanding	57.7	56.8	56.4
Dilutive effect of stock option awards	0.5	0.2	
Diluted shares outstanding	58.2	57.0	56.4

**NOTE 33. SPECIAL CASH DIVIDEND**

On November 23, 2010 our Board of Directors declared a special cash dividend in the amount of \$13.74 per share, or \$803.3 million in the aggregate. The special cash dividend, \$798.6 million, was paid on December 10, 2010 to shareholders of record as of December 3, 2010. The unpaid portion of the dividend, \$4.7 million, is reflected in other long term liabilities and will be paid when the underlying employee shares vest. The dividend was funded in part by the proceeds of the new term loans remaining after repayment of previous debt and in part with existing cash.

**NOTE 34. SUBSEQUENT EVENT**

In February 2011 we announced plans to idle our Wood Flooring manufacturing plant in Statesville, North Carolina effective April 30, 2011. We plan to service our customers ongoing requirements from our other U.S. facilities. This action will reduce employment by approximately 115 positions.

**Table of Contents**

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

Not applicable.

**ITEM 9A. CONTROLS AND PROCEDURES**

Our management, with the participation of our chief executive officer and our chief financial officer, performed an evaluation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 ( Exchange Act )) as of the end of the period covered by this Annual Report on Form 10-K. Our chief executive officer and our chief financial officer have concluded that our disclosure controls and procedures were effective insofar as they are designed to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms, and they include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the fiscal quarter ended December 31, 2010 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Management's Report on Internal Control over Financial Reporting and the Report of Independent Registered Public Accounting Firm are incorporated by reference to Item 8.

**Table of Contents**

**PART III**

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The information required by Item 10 is incorporated by reference to the sections entitled Board of Directors Director Information, Board Committees Audit Committee and Audit Committee Expert, Board Committees Nominating and Governance Committee, Code of Ethics, Management and Section 16(a) Beneficial Ownership Reporting Compliance in the Company's proxy statement for its 2011 annual meeting of shareholders.

**ITEM 11. EXECUTIVE COMPENSATION**

The information required by Item 11 is incorporated by reference to the sections entitled Compensation Discussion and Analysis, Compensation Committee Report, Summary Compensation Table, Grants of Plan-Based Awards, Outstanding Equity Awards at Fiscal Year-End, Option Exercises and Stock Vested, Pension Benefits, Nonqualified Deferred Compensation, Potential Payments Upon Termination or Change in Control, Board of Directors Board's Role in Risk Management Oversight, Compensation Committee Interlocks and Insider Participation and Compensation of Directors in the Company's proxy statement for its 2011 annual meeting of shareholders.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The information required by Item 12 is incorporated by reference to the sections entitled Security Ownership of Certain Beneficial Owners, Security Ownership of Management and Equity Compensation Plan Information in the Company's proxy statement for its 2011 annual meeting of shareholders.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The information required by Item 13 is incorporated by reference to the sections entitled Certain Relationships and Related Transactions and Director Independence in the Company's proxy statement for its 2011 annual meeting of shareholders.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The information required by Item 14 is incorporated by reference to the sections entitled Audit Committee Report and Relationship with Independent Auditors in the Company's proxy statement for its 2011 annual meeting of shareholders.

**Table of Contents**

**PART IV**

**Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

(a) Listing of Documents

1. The financial statements and schedule of Armstrong World Industries, Inc. filed as a part of this 2010 Annual Report on Form 10-K is listed in the Index to Financial Statements and Schedules on Page 38.

2. The financial statements required to be filed pursuant to Item 15 of Form 10-K are:

Worthington Armstrong Venture consolidated financial statements for the years ended December 31, 2010, 2009, and 2008 (filed herewith as Exhibit 99.1)

3. The following exhibits are filed as part of this 2010 Annual Report on Form 10-K:

Exhibit No.	Description
No. 2	Armstrong World Industries, Inc.'s Fourth Amended Plan of Reorganization, as amended by modifications through May 23, 2006, is incorporated by reference from the 2005 Annual Report on Form 10-K, wherein it appeared as Exhibit 2.3.
No. 3.1	Amended and Restated Certificate of Incorporation of Armstrong World Industries, Inc. is incorporated by reference from the Current Report on Form 8-K dated October 2, 2006, wherein it appeared as Exhibit 3.1.
No. 3.2	Bylaws of Armstrong World Industries, Inc. as amended, are incorporated by reference from the Current Report on Form 8-K dated August 5, 2010, wherein they appeared as Exhibit 3.1.
No. 10.1	Management Achievement Plan for Key Executives, effective as of November 28, 1983, as amended April 30, 2007 and December 8, 2008, is incorporated by reference from the 2008 Annual Report on Form 10-K, wherein it appeared as Exhibit 10.1. *
No. 10.2	Retirement Benefit Equity Plan, effective January 1, 2005, as amended October 29, 2007 and December 8, 2008, is incorporated by reference from the 2008 Annual Report on Form 10-K, wherein it appeared as Exhibit 10.2. *
No. 10.3	Bonus Replacement Retirement Plan, effective as of January 1, 1998, as amended January 1, 2007, is incorporated by reference from the 2007 Annual Report on Form 10-K, wherein it appeared as Exhibit 10.9.*
No. 10.4	Nonqualified Deferred Compensation Plan effective January 2005, as amended July 23, 2010. The amended Nonqualified Deferred Compensation Plan is filed with this Report. *
No. 10.5	Schedule of Armstrong World Industries, Inc. Nonemployee Directors Compensation Summary is incorporated by reference from the Quarterly Report on Form 10-Q for the quarter ended June 30, 2010, wherein it appeared as Exhibit 10.5.*



**Table of Contents**

Exhibit No.	Description
No. 10.6	Amended and Restated Credit Agreement dated as of November 23, 2010, among the company, the other borrower and guarantors named therein, Bank of America, N.A., as administrative agent and collateral agent, the other lenders party thereto, JP Morgan Chase Bank, N.A., as syndication agent, Barclays Bank PLC, as documentation agent, and Merrill Lynch, Pierce, Fenner & Smith Incorporated, J.P. Morgan Securities, Inc. and Barclays Capital, the investment banking division of Barclays Bank, PLC, as co-lead arrangers and joint book makers, is incorporated by reference from the Current Report on Form 8-K dated November 23, 2010, wherein it appeared as Exhibit 10.1.
No. 10.7	Amended and Restated Security Agreement dated as of November 23, 2010, by and among the Company, the grantors named therein and Bank of America, N.A., as collateral agent, is incorporated by reference from the Current Report on Form 8-K dated November 23, 2010, wherein it appeared as Exhibit 10.2.
No. 10.8	Amended and Restated Pledge Agreement dated as of November 23, 2010, by and among the Company, the pledgors named therein and Bank of America, N.A., as collateral agent, is incorporated by reference from the Current Report on Form 8-K dated November 23, 2010, wherein it appeared as Exhibit 10.3.
No. 10.9	Amended and Restated Canadian Pledge Agreement dated as of November 23, 2010, by and among the Company and Bank of America, N.A., as collateral agent, incorporated by reference from the Current Report on Form 8-K dated November 23, 2010, wherein it appeared as Exhibit 10.4.
No. 10.10	Equitable Mortgage of Shares dated February 12, 2007, between the Company and Bank of America, N.A., as administrative agent and collateral agent, is incorporated by reference on from the Current Report on Form 8-K dated November 23, 2010, wherein it appeared as Exhibit 10.5.
No. 10.11	Armstrong World Industries, Inc. Asbestos Personal Injury Settlement Trust Agreement dated as of October 2, 2006, by and among Armstrong World Industries, Inc. and trustees, is incorporated by reference from the Current Report on Form 8-K dated October 2, 2006, wherein it appeared as Exhibit 10.2.
No. 10.12	Stockholder and Registration Rights Agreement, dated as of October 2, 2006, by and between Armstrong World Industries, Inc. and the Armstrong World Industries, Inc. Asbestos Personal Injury Settlement Trust is incorporated by reference from the Current Report on Form 8-K dated October 2, 2006, wherein it appeared as Exhibit 10.3.
No. 10.13	2006 Long-Term Incentive Plan, as amended February 23, 2009, is incorporated by reference from the 2008 Annual Report on Form 10-K, wherein it appeared as Exhibit 10.13. *
No. 10.14	Form of 2006 Long-Term Incentive Plan Stock Option Agreement is incorporated by reference from the Current Report on Form 8-K dated October 2, 2006, wherein it appeared as Exhibit 10.5. *
No. 10.15	Form of 2006 Long-Term Incentive Plan Restricted Stock Award Agreement is incorporated by reference from the Current Report on Form 8-K dated October 2, 2006, wherein it appeared as Exhibit 10.6. *

- No. 10.16 Form of 2006 Long-Term Incentive Plan notice of restricted stock and/or option award is incorporated by reference from the Current Report on Form 8-K dated October 2, 2006, wherein it appeared as Exhibit 10.7. \*

**Table of Contents**

Exhibit No.	Description
No. 10.17	2006 Phantom Stock Unit Plan, as amended December 8, 2008, is incorporated by reference from the 2008 Annual Report on Form 10-K, wherein it appeared as Exhibit 10.18. *
No. 10.18	2006 Phantom Stock Unit Agreement is incorporated by reference from the Current Report on Form 8-K dated October 23, 2006, wherein it appeared as Exhibit 10.3. A Schedule of Participating Directors is incorporated by reference from the 2006 Annual Report on Form 10-K, wherein it appeared as Exhibit 10.36. *
No. 10.19	2007 Award under the 2006 Phantom Stock Unit Agreement and the Schedule of Participating Directors are incorporated by reference from the Current Report on Form 8-K dated October 22, 2007, wherein they appeared as Exhibits 10.1 and 10.2, respectively. *
No. 10.20	Stipulation and Agreement with Respect to Claims of Armstrong Holdings, Inc. and Armstrong Worldwide, Inc.; and Motion for Order Approving Stipulation and Agreement are incorporated by reference from the Current Report on Form 8-K dated February 26, 2007, wherein they appeared as Exhibits 99.2 and 99.3, respectively.
No. 10.21	Form of grant letter used in connection with awards of restricted stock under the 2006 Long-Term Incentive Plan is incorporated by reference from the 2007 Annual Report on Form 10-K, wherein it appeared as Exhibit 10.35.*
No. 10.22	Form of grant letter used in connection with award of stock options under the 2006 Long-Term Incentive Plan is incorporated by reference from the Quarterly Report on Form 10-Q for the quarter ended March 31, 2008, wherein it appeared as Exhibit 10.37. *
No. 10.23	The 2008 Directors Stock Unit Plan, as amended December 8, 2008, November 23, 2010 and November 30, 2010 is filed with this Report.*
No. 10.24	Form of 2009 Award under the 2008 Director Stock Unit Plan is incorporated by reference from the Quarterly Report on Form 10-Q for the quarter ended September 30, 2009, wherein it appeared as Exhibit 10.27. *
No. 10.25	Form of Indemnification Agreement for Officers and Directors of Armstrong World Industries, Inc. is incorporated by reference from the Report on Form 8-K dated June 4, 2010, wherein it appeared as Exhibit 10.1. A Schedule of Participating Officers and Directors is filed with this Report. *
No. 10.26	Non-Disclosure Agreement, dated July 30, 2009, between Armstrong World Industries, Inc. and TPG Capital, L.P. (incorporated by reference to Exhibit 3 to the Schedule 13D filed by TPG Advisors VI, Inc., TPG Advisors V, Inc., David Bonderman and James G. Coulter with the SEC on August 11, 2009).
No. 10.27	Undertaking Letter from TPG Capital L.P., dated August 10, 2009, to Armstrong World Industries, Inc. (incorporated by reference to Exhibit (e)(4) to the Schedule 14D-9 filed by Armstrong World Industries, Inc. with the SEC on September 15, 2009).
No. 10.28	

Offer Letter to Thomas B. Mangas dated December 23, 2009, is incorporated by reference from the Current Report on Form 8-K dated January 8, 2010, wherein it appeared as Exhibit 99.2. \*

**Table of Contents**

Exhibit No.	Description
No. 10.29	Letter to Frank J. Ready dated January 8, 2010, incorporated by reference from the 2009 Annual Report on Form 10-K, wherein it appeared as Exhibit 10.32. *
No. 10.30	Form of grant letter used in connection with the equity grant of stock options under the 2006 Long-Term Incentive Plan to Thomas B. Mangas is incorporated by reference from the Current Report on Form 8-K dated April 1, 2010, wherein it appeared as Exhibit 10.1. *
No. 10.31	Form of grant letter used in connection with the equity grant of stock options under the 2006 Long-Term Incentive Plan to Messrs. McNamara, Nickel and Ready is incorporated by reference from the Current Report on Form 8-K dated April 1, 2010, wherein it appeared as Exhibit 10.2. *
No. 10.32	Employment Agreement with Matthew J. Espe dated June 24, 2010 is incorporated by reference from the Current Report filed on Form 8-K dated June 25, 2010, wherein it appeared as Exhibit 10.1. *
No. 10.33	Change in control agreement with Matthew J. Espe dated June 24, 2010 is incorporated by reference from the Current Report on Form 8-K dated June 25, 2010, wherein it appeared as Exhibit 10.2. *
No. 10.34	Form of change in control agreement with Thomas B. Mangas and Jeffrey D. Nickel is incorporated by reference from the Current Report on Form 8-K dated July 2, 2010, wherein it appeared as Exhibit 10.1. *
No. 10.35	Indemnification Agreement with Matthew J. Espe is incorporated by reference from the Current Report on Form 8-K dated June 4, 2010, wherein it appeared as Exhibit 10.1.
No. 10.36	Form of change in control agreement with Stephen F. McNamara is incorporated by reference from the Current Report on Form 8-K dated July 2, 2010, wherein it appeared as Exhibit 10.1. *
No. 10.37	Form of 2010 Award under the 2008 Directors Stock Unit Plan is incorporated by reference from the Quarterly Report on Form 10-Q for the quarter ended September 30, 2009, wherein appeared as Exhibit 10.27. A schedule of Participating Directors to the 2010 Award under the 2008 Directors Stock Unit Plan is filed with this Report.*
No. 10.38	Form of change in control agreement with Thomas B. Kane dated November 4, 2010, is incorporated by reference from the Current Report on Form 8-K dated July 2, 2010, wherein it appeared as Exhibit 10.1. *
No. 11	Computation of Earnings Per Share.
No. 14	The Armstrong Code of Business Conduct, revised as of December 21, 2010, is filed with this Report.
No. 21	Armstrong World Industries, Inc. s Subsidiaries.
No. 23.1	Consent of Independent Registered Public Accounting Firm.
No. 23.2	Consent of Independent Auditors.

No. 24	Power of Attorney and Authorizing Resolution.
No. 31.1	Certification of Chief Executive Officer required by Rule 13a-15(e) or 15d-15(e) of the Securities Exchange Act.

**Table of Contents**

Exhibit No.	Description
No. 31.2	Certification of Chief Financial Officer required by Rule 13a-15(e) or 15d-15(e) of the Securities Exchange Act.
No. 32.1	Certification of Chief Executive Officer required by Rule 13a and 18 U.S.C. Section 1350 (furnished herewith).
No. 32.2	Certification of Chief Financial Officer required by Rule 13a and 18 U.S.C. Section 1350 (furnished herewith).
No. 99.1	Worthington Armstrong Venture consolidated financial statements as of December 31, 2009 and 2010 and for the years ended December 31, 2008, 2009 and 2010.
No. 99.2	Shareholders Agreement, dated as of August 28, 2009, by and among Armor TPG Holdings LLC and Armstrong World Industries, Inc. Asbestos Personal Injury Settlement Trust (incorporated by reference to Exhibit (d)(3) of the Schedule TO filed on September 3, 2009, by TPG Advisors VI, Inc., Armor TPG Holdings LLC and others with respect to Armstrong World Industries, Inc.).
*	Management Contract or Compensatory Plan.

**Table of Contents**

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**ARMSTRONG WORLD INDUSTRIES,  
INC.**

(Registrant)

By: /s/ Matthew J. Espe  
Chief Executive Officer and President

Date: February 28, 2011

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this Report has been signed below by the following persons on behalf of the registrant Armstrong and in the capacities and on the dates indicated. Directors and Principal Officers of the registrant AWI:

Name	Title
Matthew J. Espe	Chief Executive Officer and President (Principal Executive Officer)
Thomas B. Mangas	Senior Vice President and Chief Financial Officer (Principal Financial Officer)
Stephen F. McNamara	Vice President and Controller (Chief Accounting Officer)
Stanley A. Askren	Director
David Bonderman	Director
Kevin Burns	Director
James J. Gaffney	Director
Tao Huang	Director
Michael F. Johnston	Director
Larry S. McWilliams	Director
James J. O Connor	Director
John J. Roberts	Director
Richard E. Wenz	Director
Bettina M. Whyte	Director

By: /s/ Matthew J. Espe



(Matthew J. Espe)

As of February 28, 2011

By: /s/ Thomas B. Mangas

(Thomas B. Mangas)

As of February 28, 2011

By: /s/ Stephen F. McNamara

(Stephen F. McNamara)

As of February 28, 2011

**Table of Contents****SCHEDULE II**

Armstrong World Industries, Inc.

**Valuation and Qualifying Reserves of Accounts Receivable**

(amounts in millions)

	2010	2009	2008
Provision for Losses			
Balance at beginning of year	\$ 10.5	\$ 10.8	\$ 11.8
Additions charged to earnings	7.3	7.8	8.6
Deductions	(8.0)	(8.1)	(9.6)
Divestitures	(0.5)		
Balance at end of year	\$ 9.3	\$ 10.5	\$ 10.8
Provision for Discounts and Warranties			
Balance at beginning of year	\$ 37.8	\$ 43.7	\$ 51.9
Additions charged to earnings	171.2	182.0	225.6
Deductions	(175.2)	(187.9)	(233.8)
Balance at end of year	\$ 33.8	\$ 37.8	\$ 43.7

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**Table of Contents**

Exhibit Index

Exhibit No.	
No. 10.4	Nonqualified Deferred Compensation Plan effective January 2005, as amended July 23, 2010.
No. 10.23	The 2008 Directors Stock Unit Plan, as amended December 8, 2008, November 23, 2010 and November 30, 2010.
No. 10.25	Form of Indemnification Agreement for Officers and Directors of Armstrong World Industries, Inc. is incorporated by reference from the Report on Form 8-K dated June 4, 2010, wherein it appeared as Exhibit 10.1. A Schedule of Participating Officers and Directors is filed with this Report.
No. 10.37	Form of 2010 Award under the 2008 Directors Stock Unit Plan is incorporated by reference from the Quarterly Report on Form 10-Q for the quarter ended September 30, 2009, wherein appeared as Exhibit 10.27. A schedule of Participating Directors to the 2010 Award under the 2008 Directors Stock Unit Plan is filed with this Report.*
No. 11	Computation of Earnings Per Share.
No. 14	The Armstrong Code of Business Conduct, revised as of December 21, 2010.
No. 21	Armstrong World Industries, Inc. s Subsidiaries.
No. 23.1	Consent of Independent Registered Public Accounting Firm.
No. 23.2	Consent of Independent Auditors.
No. 24	Power of Attorney and Authorizing Resolution.
No. 31.1	Certification of Principal Executive Officer required by Rule 13a-15(e) or 15d-15(e) of the Exchange Act.
No. 31.2	Certification of Principal Financial Officer required by Rule 13a-15(e) or 15d-15(e) of the Exchange Act.
No. 32.1	Certification of Chief Executive Officer required by Rule 13a and 18 U.S.C. Section 1350.
No. 32.2	Certification of Chief Financial Officer required by Rule 13a and 18 U.S.C. Section 1350.
No. 99.1	Worthington Armstrong Venture consolidated financial statements as of December 31, 2010 and 2009 and for the years ended December 31, 2010, 2009 and 2008.