ARMSTRONG WORLD INDUSTRIES INC
Form 10-K
February 26, 2010

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

(Mark One)

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

For the fiscal year ended December 31, 2009

OR

o **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 þ No o

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 o No þ

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 þ No o

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 o No o

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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. o

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 o Accelerated filer þ Non-accelerated filer o Smaller reporting company o

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

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 þ No o

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

Documents Incorporated by Reference

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

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Uncertainties Affecting Forward-Looking Statements

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

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

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

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PART I

ITEM 1. BUSINESS

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

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

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

In December 2000, AWI filed a voluntary petition for relief under Chapter 11 of the U.S. Bankruptcy Code in order to use the court-supervised reorganization process to achieve a resolution of our asbestos liability. In October 2006, AWI s plan of reorganization (POR) became effective, and AWI emerged from Chapter 11. See Note 1 to the Consolidated Financial Statements for additional information about AWI s Chapter 11 case.

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

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Reportable Segments

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

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

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

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

Unallocated Corporate includes assets, liabilities, income and expenses that have not been allocated to the business units. Balance sheet items classified as Unallocated Corporate are primarily income tax related accounts, cash and cash equivalents, the Armstrong brand name, the U.S. prepaid pension cost/liability and long-term debt. Expenses for our corporate departments and certain benefit plans are allocated to the reportable segments based on known metrics, such as specific activity, time reporting, headcount, square-footage or net sales. The remaining items, which cannot be attributed to the reportable segments without a high degree of generalization, are reported in Unallocated Corporate.

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The following chart illustrates the breakdown of our consolidated net sales of $2.8 billion for the year ended December 31, 2009 by segment:

2009 Consolidated Net Sales by Segment

(in millions)

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

Markets

The major markets in which we compete are:

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

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

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

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

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

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

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Geographic Areas

We sell our products in more than 80 countries. Approximately 70% of our 2009 revenue was derived from sales in the Americas, the vast majority of which came in the United States and Canada. The following chart illustrates the breakdown of our consolidated net sales of $2.8 billion for the year ended December 31, 2009 by region, based on where the sale was made:

2009 Consolidated Net Sales by Geography

(in millions)

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

Customers

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

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

2009 Americas Sales by Customer Type

2009 Non-Americas Sales by Customer Type

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

Product Array and Impact on Performance

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

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Competition

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

Flooring segments Amtico International, Inc., Beaulieu International Group, N.V., Boa-Franc, Inc., Congoleum Corporation, Faus, Inc., Forbo Holding AG, Gerflor Group, Interface, Inc., IVC Group, Krono Holding AG, Mannington Mills, Inc., Metroflor Corporation, Mullican Flooring, L.P., Mohawk Industries, Inc., Pfleiderer AG, Shaw Industries, Inc., Somerset Hardwood Flooring, Tarkett AG and Wilsonart International.

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

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

Raw Materials

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

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

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

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

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

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Sourced Products

Some of the products that we sell are sourced from third parties. Our primary sourced products include various flooring products (laminate, wood, vinyl sheet and tile and ceramic), specialized ceiling products, and installation-related products and accessories for some of our manufactured products. We purchase some of our sourced products from suppliers that are located outside of the U.S., primarily from Asia and Europe. Sales of sourced products represented approximately 10% to 15% of our total consolidated revenue in 2009, 2008, and 2007.

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

Hedging

We use derivative financial instruments to hedge the following exposures: sourced product purchases denominated in foreign currency, cross-currency intercompany loans, interest rate risk, and energy. We use derivative financial instruments as risk management tools, not for speculative trading purposes. See Item 7A Quantitative and Qualitative Disclosures About Market Risk and Note 19 to the Consolidated Financial Statements of this Form 10-K for more information.

Patent and Intellectual Property Rights

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

Certain of our trademarks, including without limitation, ,Armstrong®, Allwood , Alterna , Arborcrest , Arteffects®, Axiom®, Bruce®, Calibra , Capella®, Caruth , Capz , Ceramaguard®, Cirrus®, Corlon®, Coronet , Cortega®, CushionStep , Designer Solarian®, DLW , Dune , Excelon®, Fine Fissured , Fundamentals®, Grand Illusions , Hartco®, HomerWood®, Infusions®, Luxe Plank , Medintech®, Medintone®, Mesa , Metalworks , Natural Creations®, Natural Inspirations®, Nature s Gallery®, Optima®, Park Avenue , Robbins®, Rhinofloor®, Sahara , Scala®, Second Look®, Solarian®, SoundScapes®, SoundSoak®, StrataMax®, Techzone , Timberland®, T. Morton , 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.

Employees

As of December 31, 2009, we had approximately 10,800 full-time and part-time employees worldwide, with approximately 7,300 employees located in the United States. Approximately 6,900 of the 10,800 are production and maintenance employees, of whom approximately 4,900 are located in the U.S. Approximately 64% of the production and maintenance employees in the U.S. are represented by labor unions. This percentage includes all production and maintenance employees at our plants and warehouses where labor unions exist. Outside the U.S., most of our production employees are covered by either industry-sponsored and/or state-sponsored collective bargaining mechanisms.

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

Research & Development

Research and development (R&D) activities are important and necessary in helping us improve our products competitiveness. Principal R&D functions include the development and improvement of products and manufacturing processes. We spent $38.0 million in 2009, $38.8 million in 2008 and $44.0 million in 2007 on R&D activities worldwide.

Environmental Matters

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

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

Liabilities of $6.3 million and $6.5 million at December 31, 2009 and December 31, 2008, respectively, were for environmental liabilities that we consider probable and for which a reasonable estimate of the probable liability could be made. See Note 30 to the Consolidated Financial Statements of this Form 10-K for more information.

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ITEM 1A. RISK FACTORS

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

We try to reduce both the likelihood that these risks will affect our businesses and their potential impact. However, no matter how accurate our foresight, how well we evaluate risks, and how effective we are at mitigating them, it is still possible that one of these problems or some other issue could have serious consequences for us, up to and including a materially adverse effect. See related discussions in this document and our other SEC filings for more details and subsequent disclosures.

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

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

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

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

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

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

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

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

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

Some of our businesses are dependent on a few key customers such as The Home Depot, Inc. and Lowe s Companies, Inc. The loss of sales to one of these major customers, or changes in our business relationship with them, could hurt both our revenues and profits.

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

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

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

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

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

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

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

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

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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.

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ITEM 2. PROPERTIES

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

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

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

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

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

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

ITEM 3. LEGAL PROCEEDINGS

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

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

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

ITEM 4A. EXECUTIVE OFFICERS OF THE COMPANY

Executive Officer Information

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

Michael D. Lockhart

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

Thomas B. Mangas

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

Stephen F. McNamara

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

Jeffrey D. Nickel

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

Frank J. Ready

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

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PART II

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

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

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

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

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

Issuer Purchases of Equity Securities

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

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

the 2006 Long Term Incentive Plan.

[2] The Company does not have a share buy-back program.

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ITEM 6. SELECTED FINANCIAL DATA

	Successor Company				Predecessor Company	
(Dollars in millions except for per-share data)	Year 2009	Year 2008	Year 2007	Three Months Ended December 31, 2006	Nine Months Ended September 30, 2006(1)	Year 2005
Income statement data						
Net sales	$ 2,780.0	$ 3,393.0	$ 3,549.7	$ 817.3	$ 2,608.6	$ 3,326.6
Cost of goods sold	2,159.0	2,632.0	2,687.5	660.9	2,030.2	2,654.0
Selling, general and administrative expenses	552.4	579.9	611.3	143.5	415.5	587.8
Intangible asset impairment	18.0	25.4				
Restructuring charges, net		0.8	0.2	1.7	10.0	23.0
Equity (earnings) from joint ventures	(40.0)	(56.0)	(46.0)	(5.3)	(41.4)	(39.3)
Operating income	90.6	210.9	296.7	16.5	194.3	101.1
Interest expense	17.7	30.8	55.0	13.4	5.2	7.7
Other non-operating expense	0.9	1.3	1.4	0.3	1.0	1.5
Other non-operating (income)	(3.2)	(10.6)	(18.2)	(4.3)	(7.2)	(11.8)
Chapter 11 reorganization (income), net			(0.7)		(1,955.5)	(1.2)
Income tax (benefit) expense	(2.5)	109.0	106.4	3.8	726.6	(1.2)
Earnings from continuing operations	77.7	80.4	152.8	3.3	1,424.2	106.1
Per common share basic (a)	$ 1.36	$ 1.41	$ 2.69	$ 0.06	n/a	n/a
Per common share diluted (a)	$ 1.36	$ 1.41	$ 2.69	$ 0.06	n/a	n/a
Earnings (loss) from discontinued operations		0.6	(7.5)	(1.1)	(68.4)	5.0
Net earnings	$ 77.7	$ 81.0	$ 145.3	$ 2.2	$ 1,355.8	$ 111.1
Per common share basic (a)	$ 1.36	$ 1.42	$ 2.56	$ 0.04	n/a	n/a
Per common share diluted (a)	$ 1.36	$ 1.42	$ 2.56	$ 0.04	n/a	n/a
Dividends declared per share of common stock		$ 4.50				
Average number of common shares outstanding (in millions)	57.4	57.1	56.6	55.0	n/a	n/a
Average number of employees	11,400	12,500	13,500	14,500	14,700	14,900
Balance sheet data (end of period)						
Working capital	$ 974.3	$ 876.1	$ 1,003.7	$ 854.6		$ 1,128.0
Total assets	3,302.6	3,351.8	4,639.4	4,152.7		4,602.1
Liabilities subject to compromise				1.3		4,869.4
Net long-term debt (b)	432.5	454.8	485.8	801.5		21.5
Total equity (deficit)	1,907.9	1,751.3	2,444.1	2,172.1		(1,312.0)

(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, is reflected in the Predecessor Company for the nine months ended September 30, 2006 and the results of operations beginning October 1, 2006 are reflected within the Successor Company.

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.

(b) Net long-term debt excludes debt subject to compromise for 2005.

Certain prior year amounts have been reclassified to conform to the current year presentation.

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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.

OVERVIEW

We are a leading global producer of flooring products and ceiling systems for use primarily in the construction and renovation of residential, commercial and institutional buildings. Through our United States (U.S.) operations and U.S. and international subsidiaries, we design, manufacture and sell flooring products (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, 2009 we operated 36 manufacturing plants in nine countries, including 22 plants located throughout the U.S. In response to economic conditions during 2009, we idled a Resilient Flooring plant in Canada, a Wood Flooring plant in Mississippi and a Building Products plant in Alabama, and we closed a Cabinets plant in Nebraska and a previously idled Wood Flooring plant in Tennessee.

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.

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(dollar amounts in millions)

Our consolidated net sales for 2009 were $2.8 billion, approximately 18% less than consolidated net sales in 2008. Operating income was $90.6 million in 2009, as compared to $210.9 million in 2008. The decline in sales was primarily due to lower volume in residential and commercial markets around the world. The margin impact from sales volume declines offset the combined benefit from input cost deflation, reduced manufacturing costs and lower selling, general and administrative (SG&A) expenses. In addition, operating income was reduced by a $31.6 million non-cash charge from accelerated vesting of stock-based compensation due to a transaction between Armor TPG Holdings LLC (TPG) and the Armstrong World Industries, Inc. Asbestos Personal Injury Settlement Trust (Asbestos PI Trust). See Note 23 to the Consolidated Financial Statements.

Resilient Flooring sales declined across geographic regions on lower volumes. Despite lower sales, operating income improved compared to the prior year due to input cost deflation, lower manufacturing and SG&A expenses and fewer expenses related to cost reduction actions.

Wood Flooring sales continued to decline due to weak domestic residential housing markets. Operating loss was greater than the prior year as the margin impact of lower volumes more than offset raw material deflation, lower manufacturing costs and reduced SG&A expenses. Both years included significant intangible asset impairment charges.

Building Products sales declined due to lower activity in global commercial construction markets. Operating income also declined as the margin impact of lower volumes more than offset lower manufacturing costs and reduced SG&A expenses.

Cabinets sales and operating income declined primarily due to weak domestic residential housing markets. A reduction in manufacturing expense was offset by charges related to a plant closure.

Corporate Unallocated expense increased $38.3 million primarily due to a $31.6 million non-cash charge from accelerated vesting of stock-based compensation due to a transaction between TPG and the Asbestos PI Trust.

Factors Affecting Revenues

For an estimate of our segments 2009 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 2009, these markets experienced the following:

According to the U.S. Census Bureau, in 2009, housing starts of 0.55 million units in the U.S. residential market declined 38.7% compared to 2008. Housing completions in the U.S. decreased by 29.2% in 2009 with approximately 0.80 million units completed. The National Association of Realtors indicated that sales of existing homes increased 5.5% to 5.16 million units in 2009 from a level of 4.89 million in 2008.

According to the U.S. Census Bureau, U.S. retail sales through building materials, garden equipment and supply stores (an indicator of home renovation activity) decreased 11.3% in 2009 compared 2008.

According to the U.S. Census Bureau the rate of growth in the North American key commercial market, in nominal dollar terms, was -14.7% in 2009. Construction activity in the office, healthcare, and retail segments decreased 19.5%, 0.5%, and 31.3% respectively, while activity in the education segment was up 0.3%. In the fourth quarter accelerating rates of decline across these segments caused an overall rate of decline of 22.1%.

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(dollar amounts in millions)

Markets in European countries experienced broad declines. The declines were particularly acute in Eastern European markets.

Activity in Pacific Rim markets was generally slow.

Quality and Customer Service Issues. Our quality and customer service are critical components of our total value proposition. In 2009, we experienced no significant quality or customer service issues.

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 did not introduce any significant pricing actions in 2009. We estimate prior year pricing actions increased our total consolidated net sales in 2009 by approximately $33 million when compared to 2008.

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 2008, we estimate mix changes increased our total consolidated net sales in 2009 by approximately $6 million.

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 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 2009 these input costs were approximately $62 million lower than in 2008.

Stock-based Compensation. 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 pursuant to which the Asbestos PI Trust and TPG have agreed to vote their shares together on certain matters. Please refer to the shareholder s agreement incorporated by reference in this Form 10-K as Exhibit 99.2. Under the terms of the 2006 Long-Term Incentive Plan, a change in control occurred, causing the accelerated vesting of all unvested stock-based compensation issued to employees and directors. The non-cash charge to earnings related to this accelerated vesting was $31.6 million and was recorded in the third quarter of 2009 in SG&A expenses.

Intangible Asset Impairments. During the fourth quarters of 2009 and 2008 we recorded non-cash impairment charges of $18.0 million and $25.4 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 cash flows due to the decline 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.

Cost Reduction Initiatives. During 2009 we recorded $12.7 million of charges primarily related to the closure of our Auburn, Nebraska Cabinets facility, organizational and manufacturing changes for our European Resilient Flooring business, and the closure of a previously idled Wood Flooring plant.

During 2008 we recorded $20.0 million of charges (severance of $17.7 million and accelerated depreciation of $2.3 million) primarily related to organizational and manufacturing changes for our

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European Resilient Flooring business and the termination costs for certain corporate employees. The European organizational changes were due to the decision to consolidate and outsource several SG&A functions. The manufacturing changes primarily related 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 expense ($12.7 million).

On-going Cost Improvements. In addition to the above-mentioned cost reduction initiatives, we have an ongoing focus on continually improving our cost structure. As a result of these cost reduction initiatives and our on-going improvement efforts, we have realized significant reductions in our manufacturing conversion costs. Additional charges may be incurred in future periods for further cost reduction actions.

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 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. During 2008, cash and cash equivalents decreased by $159.3 million, with net cash from operating activities of $214.2 million offset by a special cash dividend of $256.4 million, and capital expenditures of $95.0 million.

Employees

As of December 31, 2009, we had approximately 10,800 full-time and part-time employees worldwide. This compares to approximately 12,200 employees as of December 31, 2008. The decline related primarily to reductions in the manufacturing workforce as a result of significant sales volume declines.

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

During 2009, we negotiated five collective bargaining agreements and none of our locations experienced work stoppages. Throughout 2010, collective bargaining agreements covering approximately 800 employees at three plants are scheduled to expire.

CRITICAL ACCOUNTING ESTIMATES

In preparing our consolidated financial statements in accordance with U.S. generally accepted accounting principles (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.

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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, 2009 and 2008, we assumed a discount rate of 5.60% for the U.S. defined benefit pension plans. As of December 31, 2009, we assumed a discount rate of 5.30% compared with a discount rate of 5.60% as of December 31, 2008 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 2010 operating income by $4.3 million. A one-quarter percentage point increase in the discount rates would increase 2010 operating income by $3.7 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 rate of return of 8% per annum. 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, 2009, the annualized return was approximately 6.2% compared to an average expected return of 8.4%. The actual return on plan assets achieved for 2009 was 16.3%. The difference between the actual and expected rate of return on plan assets will be amortized into earnings as described below.

Although our qualified funded plan was underfunded on a GAAP basis as of December 31, 2008, it returned to an overfunded position as of December 31, 2009. In both years, the plan remained overfunded for purposes of calculating required contributions. We do not expect the decrease in plan assets in 2008 to lead to significant pension funding contributions over the next few years.

The expected long-term return on plan assets used in determining our 2009 U.S. pension credit was 8%. We have also assumed a return on plan assets during 2010 of 8%. The 2010 expected return on assets was calculated in a manner consistent with 2009. A one-quarter percentage point increase or decrease in this assumption would increase or decrease 2010 operating income by approximately $5.2 million.

Contributions to the unfunded plan were $3.3 million in 2009 and were made on a monthly basis to fund benefit payments. We estimate the 2010 contributions will be approximately $3.3 million. See Note 17 to the Consolidated Financial Statements for more information.

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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
2008	11.0%	10.5%	10.8%	(5)%	12%	0%
2009	10.0%	9.5%	9.8%	(7)%	(1)%	(5)%
2010	9.0%	8.5%	8.8%			

Actual health care costs were lower than expected in 2009, primarily due to favorable claims experience. The difference between the actual and expected health care costs is amortized into earnings as described below. As of December 31, 2009, health care cost increases are estimated to decrease by one percentage point per year until 2014, 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 2010 operating income by $1.2 million, while a one percentage point decrease in the assumed health care cost trend rate would increase 2010 operating income by $1.2 million. See Note 17 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 nine 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.

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 2009 and 2008, we recorded non-cash impairment charges of $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 value in both years was negatively affected by lower expected future cash flows due to the decline 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. The remaining carrying value of the Wood Flooring trademarks at December 31, 2009 was $64.6 million. Material uncertainties that could lead to future material impairment charges for Wood Flooring intangible assets include significant declines in residential U.S. housing starts and renovation activity below our expectations. We have assumed depressed market activity in 2010 but anticipate market recovery starting in 2011.

During 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, Resilient Flooring Europe, and Cabinets reporting units for impairment 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); the related undiscounted cash flows and/or fair value significantly exceeded the carrying value of assets.

The European Resilient Flooring business had operating losses and negative cash flows during 2009. We have assumed further short-term declines in this market in 2010 but anticipate future recovery starting in 2011. Based on our on-going evaluation of strategic alternatives for our European flooring business, we reevaluated our asset groups within the European Resilient Flooring reporting unit. Accordingly, 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. This data includes recent sales and leases of comparable properties with similar characteristics within the same local real estate market. The fair values of machinery and equipment were determined by management based on estimated sales and salvage value, which are unobservable inputs. The remaining carrying value of tangible assets within the European Resilient Flooring business was $102.2 million as of December 31, 2009, 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.

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.

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

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

While historical results have not differed materially from our estimated accruals, future experience related to these accruals could differ significantly from the estimated amounts during the year. If this occurs, we would adjust our accruals accordingly. Our sales-related accruals totaled $54.4 million and $64.5 million as of December 31, 2009 and 2008, respectively. We record the costs of these accruals as a reduction of gross sales.

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 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, 2009, we have recorded valuation allowances totaling $155.4 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 15 to the Consolidated Financial Statements, our Consolidated Balance Sheet as of December 31, 2009 includes net deferred income tax assets of $572.5 million. Included in these amounts are deferred federal and state income tax assets of $173.1 million and $62.2 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 $22.3 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.

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ACCOUNTING PRONOUNCEMENTS EFFECTIVE IN FUTURE PERIODS

In June 2009 the Financial Accounting Standards Board (FASB) issued new guidance, which is now part of Accounting Standards Codification (ASC) 810, *Consolidations* , which amends the consolidation guidance applicable to variable interest entities. These provisions of ASC 810 are effective as of the beginning of the first fiscal year that begins after November 15, 2009. We do not expect a material impact on our financial statements from the adoption of this guidance.

In January 2010 the FASB issued new guidance, which is now part of ASC 810, *Consolidations* . The revised scope of the decrease-in-ownership provisions clarifies that transfers of a subsidiary that constitute a business or nonprofit activity to an equity-method investee or joint venture and transfers of groups of assets that constitute a business or nonprofit activity in exchange for a noncontrolling interest in an entity, including an equity-method investee or joint venture, are within the scope of ASC 810 rather than being within the scope of guidance applicable to equity-method investees and joint ventures or nonmonetary exchanges. These provisions of ASC 810 are effective upon issuance. There was no material impact on our financial statements from the adoption of this guidance in January 2010.

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 of ASC 820 are effective for interim and annual reporting periods beginning after December 15, 2009, except for the additional disclosures related to activities for Level 3 measurements which are required for fiscal years beginning after December 15, 2010 and interim periods within those years. We do not expect any impact on our financial statements from the adoption of this guidance.

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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.

2009 COMPARED TO 2008

CONSOLIDATED RESULTS

	2009	2008	Change is (Unfavorable) As Reported	Excluding Effects of Foreign Exchange Rates[1]
Net sales:				
Americas	$ 1,995.6	$ 2,384.4	(16.3)%	(15.9)%
Europe	626.0	826.0	(24.2)%	(16.8)%
Pacific Rim	158.4	182.6	(13.3)%	(7.7)%
Total consolidated net sales	$ 2,780.0	$ 3,393.0	(18.1)%	(15.6)%
Cost of goods sold	2,159.0	2,632.0		
SG&A expenses	552.4	579.9		
Intangible asset impairment	18.0	25.4		
Restructuring charges, net		0.8		
Equity earnings from joint ventures	(40.0)	(56.0)		
Operating income	$ 90.6	$ 210.9	(57.0)%	(55.7)%
Interest expense	17.7	30.8		
Other non-operating expense	0.9	1.3		
Other non-operating (income)	(3.2)	(10.6)		
Income tax (benefit) expense	(2.5)	109.0		
(Gain) from discontinued operations		(0.6)		
Net earnings	$ 77.7	$ 81.0		

(1) Excludes unfavorable foreign exchange rate effect in translation of $110.9 million on consolidated net sales and $8.4 million on operating

income

Consolidated net sales, excluding the translation effect of changes in foreign exchange rates, declined approximately 16% as significant volume declines more than offset very modest improvements in price realization (as described previously in Pricing Initiatives).

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

Excluding the translation effect of changes in foreign exchange rates, net sales in the European markets decreased by approximately 17%. Lower volume for Building Products was partially offset by modestly improved product mix, while Resilient Flooring sales declined on lower volume.

Excluding the translation effect of changes in foreign exchange rates, net sales in the Pacific Rim decreased approximately 8% on lower volumes.

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2009 and 2008 operating expenses were impacted by several significant items. The significant items which impacted cost of goods sold (COGS), SG&A expenses and restructuring charges include:

Increase / (Reduction) in Expenses

Item	**Where Reported**	**2009**	**2008**
Cost reduction initiatives expenses (1)	COGS	$ 12.8	$ 7.3
Fixed asset impairment (2)	COGS	3.0	2.9
Cost reduction initiatives (income) expenses (1)	SG&A	(0.1)	12.7
Environmental insurance settlement (3)	SG&A		(6.9)
Chapter 11 related post-emergence (income) (4)	SG&A		(1.3)
Review of strategic alternatives (5)	SG&A		1.2
Intangible asset impairment (6)	Intangible asset impairment	18.0	25.4
Cost reduction initiatives expenses (7)	Restructuring		0.8
Accelerated stock-based compensation expense (8)	SG&A	31.6	

(1) See Factors Affecting Operating Costs for a discussion of the cost reduction initiatives.

(2) In 2009 and 2008 we recorded fixed asset impairment charges related to certain European Resilient Flooring assets.

(3) In 2008, we received an insurance settlement related to an environmental matter.

(4) Represents the reversal of a

contingent liability that was no longer owed to creditors after our final Chapter 11 distribution.

(5) These expenses were incurred, primarily from advisors, in conducting our review of strategic alternatives which concluded in 2008.

(6) During the fourth quarters of 2009 and 2008, we recorded non-cash impairment charges of our Wood Flooring trademarks.

(7) Represents an increase to a previously recorded reserve for a noncancelable U.K. operating lease which extends through 2017.

(8) Represents non-cash charges related to accelerated vesting of stock-based compensation issued to employees and

directors.

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 the $31.6 million accelerated stock-based compensation expense. The increase in SG&A expenses as a percent of net sales is 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.

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REPORTABLE SEGMENT RESULTS

Resilient Flooring

					Change is Favorable (Unfavorable)	
		2009		2008	As Reported	Excluding Effects of Foreign Exchange Rates[1]
Net sales:						
Americas	$	673.1	$	786.2	(14.4)%	(13.8)%
Europe		294.3		355.1	(17.1)%	(9.3)%
Pacific Rim		64.3		78.8	(18.4)%	(11.9)%
Total segment net sales	$	1,031.7	$	1,220.1	(15.4)%	(12.5)%
Operating income (loss)	$	0.1	$	(16.8)	Favorable	Favorable

(1) Excludes unfavorable foreign exchange rate effect in translation of $45.8 million on net sales and $1.3 million on operating income

Net sales in the Americas declined $113.1 million due to volume declines on broad weakness in residential and commercial markets. Modest price realization was offset by a less profitable product mix.

Excluding the translation effect of changes in foreign exchange rates, net sales in European markets declined $27.9 million due to lower volume.

Excluding the translation effect of changes in foreign exchange rates, net sales in the Pacific Rim declined $7.9 million. Lower volume was 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 included European Resilient Flooring losses of $25.7 million for 2009 and $38.2 million for 2008. Both 2009 and 2008 results were affected by the items detailed in the following table.

Increase / (Reduction) in Expenses

Item		**2009**		**2008**
Cost reduction initiatives expenses [1]	$	4.7	$	14.1
Fixed asset impairments [2]		3.0		2.9

(1)

See Factors Affecting Operating Costs for a discussion of the cost reduction initiatives.

(2) Fixed asset impairment charges related to certain European Resilient Flooring assets.

Wood Flooring

		2009		2008	Change is (Unfavorable)
Total segment net sales [1]	$	510.4	$	624.6	(18.3)%
Operating (loss)	$	(5.9)	$	(2.4)	Unfavorable

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

Net sales decreased by $114.2 million due to lower volume driven by continued declines in domestic residential housing markets.

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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, both 2009 and 2008 operating profit was affected by items as detailed in the following table.

Increase / (Reduction) in Expenses

Item	**2009**	**2008**
Cost reduction initiatives expenses [1]	$ 1.9	
Intangible asset impairment [2]	18.0	$ 25.4

(1) See Factors Affecting Operating Costs for a discussion of the cost reduction initiatives.

(2) During the fourth quarters of 2009 and 2008, we recorded non-cash impairment charges to reduce the carrying amount of our Wood Flooring trademarks to their estimated fair value based on the results of our annual impairment test.

Building Products

			Change is (Unfavorable)	
	2009	2008	As Reported	Excluding Effects of Foreign Exchange Rates[1]
Net sales:				
Americas	$ 661.9	$ 794.4	(16.7)%	(16.1)%
Europe	331.7	470.9	(29.6)%	(22.4)%

Pacific Rim		94.1		103.8	(9.3)%	(4.7)%
Total segment net sales	$	1,087.7	$	1,369.1	(20.6)%	(17.2)%
Operating income	$	155.9	$	239.7	(35.0)%	(32.7)%

(1) Excludes unfavorable foreign exchange rate effect in translation of $62.3 million on net sales and $9.1 million on operating income

The Americas net sales decreased $132.5 million primarily due to volume declines related to reduced commercial construction activity.

Excluding the translation effect of changes in foreign exchange rates, net sales in Europe declined by $88.9 million due to significant volume declines in both Western and Eastern European markets associated with reduced commercial construction activity.

Excluding the translation effect of changes in foreign exchange rates, net sales in the Pacific Rim declined $4.4 million on volume declines across the region, 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.

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Cabinets

	2009	2008	Change is (Unfavorable)
Total segment net sales [1]	$ 150.2	$ 179.2	(16.2)%
Operating (loss)	$ (18.3)	$ (6.7)	Unfavorable