

ARMSTRONG WORLD INDUSTRIES INC
Form 10-K
February 27, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2011

OR

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

For the transition period from _____ to _____

Commission File Number 1-2116

ARMSTRONG WORLD INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

Pennsylvania
(State or other jurisdiction of

23-0366390
(I.R.S. Employer

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incorporation or organization)

Identification No.)

2500 Columbia Avenue, Lancaster, Pennsylvania
(Address of principal executive offices)

17603
(Zip Code)

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

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

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

Title of each class

Common Stock (\$0.01 par value)

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

Yes No

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

Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

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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.

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes No

The aggregate market value of the Common Stock of Armstrong World Industries, Inc. held by non-affiliates based on the closing price (\$45.56 per share) on the New York Stock Exchange (trading symbol AWI) on June 30, 2011 was approximately \$618 million. As of February 21, 2012, the number of shares outstanding of registrant's Common Stock was 58,436,007.

Documents Incorporated by Reference

Certain sections of Armstrong World Industries, Inc.'s definitive Proxy Statement for use in connection with its 2012 annual meeting of stockholders, to be filed no later than April 30, 2012 (the first business day after the day that is 120 days after the last day of our 2011 fiscal year), are incorporated by reference into Part III of this Form 10-K Report where indicated.

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Cautionary Note Regarding Forward-Looking Statements

Certain information included in this report and in our other materials we have filed or will file with the Securities and Exchange Commission (SEC), as well as information included in oral statements or other written statements made or to be made by us, contains or may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (the PSLRA). 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, and other words or phrases of similar meaning in connection with any discussion of future operating or financial performance or the outcome of contingencies such as liabilities or legal proceedings.

From time to time, forward-looking statements also are included in other periodic reports on Forms 10-Q and 8-K, in press releases, in presentations, on our website and in other materials released to the public. Any or all of the forward-looking statements included in this report and in any other reports or public statements made by us are not guarantees of future performance and may turn out to be inaccurate. This can occur as a result of incorrect assumptions or as a consequence of known or unknown risks and uncertainties. Many factors mentioned in this report or in other reports or public statements made by us, including, without limitation, those relating to macroeconomic conditions, debt, liquidity, access to raw materials, competition, dependency on key customers, domestic and foreign government regulation and markets, protection of our intellectual property rights, labor matters, and adverse judgments and any related liabilities, will be important in determining our future performance. Consequently, actual results may differ materially from those that might be anticipated from our forward-looking statements. For discussion of factors that we believe could cause our actual results to differ materially from expected and historical results see Item 1A Risk Factors below.

Forward-looking statements speak only as of the date they are made. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise. This discussion is provided as permitted by the PSLRA, and all of our forward-looking statements are expressly qualified in their entirety by the cautionary statements contained or referenced in this section.

PART I

ITEM 1. BUSINESS

Armstrong World Industries, Inc. (AWI or the Company) 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. We are a leading global producer of flooring products and ceiling systems for use primarily in the construction and renovation of residential, commercial and institutional buildings. We design, manufacture and sell flooring products (primarily resilient and wood) and ceiling systems (primarily mineral fiber, fiberglass and metal) around the world. We also design, manufacture and sell kitchen and bathroom cabinets in the U.S.

The Armstrong World Industries, Inc. Asbestos Personal Injury Settlement Trust (Asbestos PI Trust) and Armor TPG Holdings LLC (TPG) together hold more than 60% of AWI's outstanding shares and have entered into a shareholders' agreement pursuant to which the Asbestos PI Trust and TPG have agreed to vote their shares together on certain matters.

Reportable Segments

We operate five business segments: Building Products, Resilient Flooring, Wood Flooring, Cabinets and Unallocated Corporate. See Note 3 to the Consolidated Financial Statements and Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations of this Form 10-K for additional financial information on our reportable segments.

Markets

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

North American Residential. Our Building Products, Resilient Flooring, Wood Flooring and Cabinets segments sell products for use in the home. Our ceiling products compete against mineral fiber and fiberglass products from other manufacturers, as well as drywall. Homeowners can choose from our vinyl and wood flooring products, for which we are North America's largest provider, or from our laminate flooring products. We compete directly with other domestic and international suppliers of these products. Our flooring products also compete with carpet and ceramic products, which we do not offer. In the kitchen and bath areas, we compete with thousands of other cabinet manufacturers ranging from large diversified corporations to small local craftsmen.

Our products are used in new home construction and existing home renovation work. Industry analysts estimate 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/or product focus at national home centers and our building materials distributors can also significantly affect our revenue. Sales of our ceiling products for residential use appear to follow the trend of existing home sales, with a several month lag period between the change in existing home sales and our related operating results.

North American Commercial. Many of our products, primarily ceilings and Resilient Flooring, are used in commercial and institutional buildings. Our revenue opportunities come from new construction as well as renovation of existing buildings. Renovation work is estimated to represent approximately two-thirds of the total North American commercial market opportunity. Most of our revenue comes from four major segments of commercial building: office, education, retail and healthcare. We monitor U.S. construction starts and follow new projects. We have found that our revenue from new construction can lag behind

construction starts by as much as one year. We also monitor office vacancy rates, gross domestic product (GDP) and general employment levels, which can indicate movement in renovation and new construction opportunities. We believe that these statistics, taking into account the time-lag effect, provide a reasonable indication of our future revenue opportunity from commercial renovation and new construction.

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

The following table provides an estimate of our segments' 2011 net sales, by major markets.

(Estimated percentages of individual segment's sales)	North American Residential		North American Commercial		Outside of North America		Total
	New	Renovation	New	Renovation	New	Renovation	
Building Products		10%	10%	40%	25%	15%	100%
Resilient Flooring	5%	30%	5%	30%	10%	20%	100%
Wood Flooring	30%	70%					100%
Cabinets	50%	45%	5%				100%

Management has used estimates in creating the table above because the end use of our products is not always easily determinable.

Geographic Areas

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.

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

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

Working Capital

We produce goods for inventory and sell on credit to our customers. Generally, our distributors carry inventory as needed to meet local or rapid delivery requirements. We sell the vast majority of our products to select, pre-approved customers using customary trade terms that allow for payment in the future. These practices are typical within the industry.

Competition

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

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

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, LG Floors, Mannington Mills, Inc., Metroflor Corporation, Mullican Flooring, L.P., Mohawk Industries, Inc., Pfleiderer AG, Shaw Industries, Inc., Somerset Hardwood Flooring, and Tarkett AG.

Cabinets American Woodmark Corporation, Cardell Cabinetry, Fortune Brands Home & Security Inc., Masco Corporation, and Norcraft Companies.

Raw Materials

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

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

Sourced Products

Some of the products that we sell are sourced from third parties. Our primary sourced products include various flooring products (laminated, wood, vinyl sheet and tile), 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 2011, 2010, and 2009.

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

Seasonality

Generally our sales tend to be stronger in the second and third quarters of our fiscal year following the timing of new construction, renovation, and home sales.

Patent and Intellectual Property Rights

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

Patent protection extends for varying periods according to the date of patent filing or grant and the legal term of a patent in the various countries where patent protection is obtained. The actual protection afforded by a patent, which can vary from country to country, depends upon the type of patent, the scope of its coverage and the availability of legal remedies. Although we consider that, in the aggregate, our patents, licenses and trade secrets constitute a valuable asset of material importance to our business, we do not regard any of our businesses as being materially dependent upon any single patent or trade secret, or any group of related patents or trade secrets.

Certain of our trademarks, including without limitation, *Armstrong*[®], *Allwood*, *Alterna*, *Arborcrest*, *Arteffe*, *Bruce*[®], *Calibra*, *Cirrus*[®], *Coronet*, *Cortega*, *Dundee*, *DLW*, *Dune*, *Excelsior*, *Excelsior Fine Fissured*, *FireGuard*, *Imperial Initiator*, *Laurel*, *Luxe Plank*, *Manchester*, *Medintech*[®], *Medintone*[®], *Memories*, *Metalworks*, *Natural Creations*, *NaturCote*, *Optima*, *Plano*, *Scala*, *SoundSoak*[®], *Stonetex*[®], *Station Square*, *StrataMax*, *Timberline*[®], *ToughGuard*[®], *Ultima*[®], *Waverly*, and *Woodwork*[®] are important to our business because of their significant brand name recognition. Trademark protection continues in some countries as long as the mark is used, and continues in other countries as long as the mark is registered. Registrations are generally for fixed, but renewable, terms.

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

Employees

As of December 31, 2011, we had approximately 9,100 full-time and part-time employees worldwide. Approximately 58% 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. We believe that our relations with our employees are satisfactory.

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 \$29.2 million in 2011, \$32.9 million in 2010 and \$38.0 million in 2009 on R&D activities worldwide.

Sustainability and Environmental Matters

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

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

We are committed to complying with all environmental laws and regulations that are applicable to our operations. Regulatory activities of particular importance to our operations include proceedings under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), and state or international Superfund and similar type laws at several domestically- and internationally-owned, formerly owned and non-owned locations allegedly resulting from past industrial activity. In a few cases, we are one of several potentially responsible parties (PRPs) where we have agreed to jointly fund the required investigation and remediation, while preserving our defenses to the liability. We may also have rights of contribution or reimbursement from other parties or coverage under applicable insurance policies. Most of our manufacturing and certain of our research facilities are affected by various federal, state and local environmental requirements relating to the discharge of materials or the protection of the environment. We make expenditures necessary for compliance with applicable environmental requirements at each of our operating facilities.

We have not experienced a material adverse effect upon our capital expenditures or competitive position as a result of environmental control legislation and regulations. Liabilities of \$7.3 million and \$8.3 million at December 31, 2011 and December 31, 2010, respectively, were recorded for environmental liabilities that we consider probable and for which a reasonable estimate of the probable liability could be made. See Note 30 to the Consolidated Financial Statements and Item 1A. Risk Factors , for information regarding the possible effects that compliance with environmental laws and regulations and climate change may have on our businesses and operating results.

Website

We maintain a website at <http://www.armstrong.com>. Information contained on our website is not incorporated into this document. Reference in this Form 10-K to our website is an inactive text reference only. 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.

ITEM 1A. RISK FACTORS

Worldwide economic conditions and credit tightening could have a material adverse impact on our business.

Our business may be adversely impacted by changes in United States or global economic conditions, including inflation, deflation, interest rates, availability of capital, consumer spending rates, energy availability and costs, and the effects of governmental initiatives to manage economic conditions. Volatility in financial markets and the deterioration of national and global economic conditions could materially adversely impact our operations, financial results and/or liquidity including as follows:

the financial stability of our customers or suppliers may be compromised, which could result in additional bad debts for us or non-performance by suppliers;

one or more of the financial institutions syndicated under our senior secured credit facility may cease to be able to fulfill their funding obligations, which could adversely impact our liquidity;

it may become more costly or difficult to obtain financing or refinance our debt in the future;

the value of our assets held in pension plans may decline; and/or

our assets may be impaired or subject to write down or write off.

Uncertainty about global economic conditions may cause consumers of our products to postpone spending in response to tighter credit, negative financial news and/or declines in income or asset values. This could have a material adverse impact on the demand for our products and on our financial condition and operating results. A deterioration of economic conditions would likely exacerbate these adverse effects and could result in a wide-ranging and prolonged impact on general business conditions, thereby negatively impacting our operations, financial results and/or liquidity.

Our business is dependent on construction activity. Downturns in construction activity could adversely affect our business and results of operations.

Our businesses have greater sales opportunities when construction activity is strong and, conversely, have fewer opportunities when such activity declines. The cyclical nature of commercial and residential construction activity tends to be influenced by prevailing economic conditions, including favorable interest rates, strong government spending, consumer confidence and other factors beyond our control. Prolonged downturns in construction activity could have an adverse effect on our business, profitability, and the carrying value of assets.

Our indebtedness may adversely affect our cash flow and our ability to operate our business, make payments on our indebtedness and declare dividends on our capital stock.

Our level of indebtedness and degree of leverage could:

make it more difficult for us to satisfy our obligations with respect to our indebtedness;

make us more vulnerable to adverse changes in general economic, industry and competitive conditions and adverse changes in government regulation;

limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;

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place us at a competitive disadvantage compared to our competitors that are less leveraged and therefore more able to take advantage of opportunities that our leverage prevents us from exploiting;

limit our ability to refinance existing indebtedness or borrow additional amounts for working capital, capital expenditures, acquisitions, debt service requirements, execution of our business strategy or other purposes;

restrict our ability to pay dividends on our capital stock; and

adversely affect our credit ratings.

We may also incur additional indebtedness, which could exacerbate the risks described above. In addition, to the extent that our indebtedness bears interest at floating rates, our sensitivity to interest rate fluctuations will increase.

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

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

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

incur additional debt;

pay dividends on or make other distributions in respect of our capital stock or redeem, repurchase or retire our capital stock or subordinated debt or make certain other restricted payments;

make certain acquisitions;

sell certain assets;

consolidate, merge, sell or otherwise dispose of all or substantially all of our assets; and

create liens on certain assets to secure debt.

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

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

Our liquidity needs vary throughout the year. If our business experiences materially negative unforeseen events, we may be unable to generate sufficient cash flow from operations to fund our needs, maintain sufficient liquidity to operate and remain in compliance with our debt covenants, which could result in reduced or delayed planned capital expenditures and other investments and adversely affect our future revenue prospects.

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

The cost and availability of raw materials, packaging materials, energy and sourced products are critical to our operations. For example, we use substantial quantities of natural gas, petroleum-based raw materials, hardwood lumber and mineral fiber in our manufacturing operations. The cost of some of these items has been volatile in recent years and availability has been limited at times. We source some materials from a limited number of suppliers, which, among other things, increases the risk of unavailability. Limited availability could cause us to reformulate products or limit our production. Decreased access to raw materials and energy or significant increased production cost differentials and any corresponding inability to pass along such costs through price increases could have a material adverse effect on our business, financial condition and operating results.

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 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, from residential vinyl products to other flooring products, for example, styling preferences or inability to offer new competitive performance features could have an adverse effect on our sales. In addition, excess industry capacity exists for certain products in several geographic markets, which tends to increase price competition, as does competition from overseas competitors with lower cost structures.

Sales fluctuations 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. The loss of sales to one of these major customers, or any adverse change in our business relationship with any one of them, could have an adverse effect on both our revenues and profits.

Our plant construction projects may adversely impact our results.

We are in various stages of building new manufacturing plants. There can be no assurance that the actual cost of these facilities will not exceed our projections. In addition, we may experience delays in the construction of these facilities for many reasons, including unavailability of materials, labor or equipment, regulatory matters or inclement weather. Economic and competitive advantages expected from these projects may not materialize as a result of delays, cost overruns or changes in market conditions.

We are subject to risks associated with our international operations in both established and emerging markets. Legislative, political, regulatory and economic volatility, as well as vulnerability to infrastructure and labor disruptions, 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 markets. Approximately 30% of our 2011 revenues are from operations outside the U.S. Our international trade is subject to currency exchange fluctuations, trade regulations, import duties, logistics costs, delays and other related risks. Our international operations are also subject to variable tax rates, credit risks in emerging markets, political risks, uncertain legal systems, high costs in repatriating profits to the U.S. from some countries, and loss of sales to local competitors following currency devaluations in countries where we import products for sale. In addition, our international growth strategy depends in part on our ability to expand our operations in certain emerging markets. However, some emerging markets have greater political and economic volatility and greater vulnerability to infrastructure and labor disruptions than established markets. In many countries outside of the U.S., particularly in those with developing economies, it may be common for others to engage in business practices prohibited by laws and regulations applicable to us, such as the Foreign Corrupt Practices Act or similar

local anti-bribery laws. These laws generally prohibit companies and their employees, contractors or agents from making improper payments to government officials for the purpose of obtaining or retaining business. Failure to comply with these laws could subject us to civil and criminal penalties. As we continue to expand our business globally, including in emerging markets, we may have difficulty anticipating and effectively managing these and other risks that our international operations may face, which may adversely impact our business outside the United States and our financial condition and results of operations.

Our intellectual property rights may not provide meaningful commercial protection for our products or brands, which could adversely impact our business.

We rely on our proprietary intellectual property, including numerous patents and registered trademarks, as well as our licensed intellectual property. We monitor and protect against activities that might infringe, dilute, or otherwise harm our patents, trademarks and other intellectual property and rely on the patent, trademark and other laws of the United States and other countries. However, we may be unable to prevent third parties from using our intellectual property without our authorization. In addition, the laws of some non-United States jurisdictions, particularly those of certain emerging markets, provide less protection for our proprietary rights than the laws of the United States. To the extent we cannot protect our intellectual property, unauthorized use and misuse of our intellectual property could harm our competitive position and have a material adverse impact on our business, financial condition and results of operations.

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

We aggressively look for ways to make our operations more efficient and effective. We reduce, move and expand our plants and operations as needed. Such actions involve substantial planning, often require capital investments and may result in charges for fixed asset impairments or obsolescence and substantial severance costs. We are committed to augmenting margin expansion through further cost elimination. However, there can be no assurance that we will be able to achieve our desired level of cost savings. Even if we achieve our targeted savings, there is no assurance that our net operating results in the future will improve by this amount. Planning and executing delays or challenges could adversely affect our customer service and result in unplanned costs.

Adverse judgments in regulatory actions, product claims, environmental 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 warranty or contractual requirements, and users could claim to be harmed by use or misuse of our products. These claims could give rise to breach of contract, warranty or recall claims, or claims for negligence, product liability, strict liability, personal injury or property damage. They could also result in negative publicity that could harm our sales and operating results. The building materials industry has been subject to claims relating to silicates, mold, PCBs, PVC, formaldehyde, toxic fumes, fire-retardant properties and other issues, as well as for incidents of catastrophic loss, such as building fires. Product liability insurance coverage may not be available or adequate in all circumstances to cover these claims.

We are parties to several legal proceedings involving environmental matters (see Note 30 to the Consolidated Financial Statements included in this Form 10-K), and we have incurred, and will continue to incur, capital and operating expenditures and other costs in complying with environmental laws and regulations. It is possible that we could become subject to additional environmental liabilities in the future. We are also subject to regulatory requirements regarding protection of the environment. Current and future environmental laws and regulations, including those proposed concerning climate change, could

increase our cost of compliance, cost of energy, or otherwise materially adversely affect our business, results of operations and financial condition.

In addition, claims and investigations may arise related to patent infringement, environmental matters, distributor relationships, commercial contracts, antitrust or competition law requirements, employment and employee benefits issues, and other compliance and regulatory matters. While we have processes and policies designed to mitigate these risks and to investigate and address such claims as they arise, we cannot predict or, in some cases, control the costs to defend or resolve such claims.

Increased costs of labor, labor disputes, work stoppages or union organizing activity could delay or impede production and reduce sales and profits.

Increased costs of U.S. and international labor, including the costs of employee benefits plans, could affect our financial results and operations. As the majority of our manufacturing employees are represented by unions and covered by collective bargaining or similar agreements, there are also costs attributable to our periodic renegotiation of those agreements. Throughout 2011, we renegotiated collective bargaining agreements covering approximately 1,500 employees at six plants. During the second half of 2012, collective bargaining agreements covering approximately 500 employees at two plants are scheduled to expire. We are also subject to the risk that strikes or other types of conflicts with organized personnel may arise or that we may become the subject of union organizing activity at our facilities that do not have union representation. Prolonged negotiations, conflicts or related activities could lead to increased costs and work stoppages, which could adversely affect production, revenues, profits and customer relations.

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 our 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 that require approval by our shareholders.

We are outsourcing our information technology infrastructure and certain finance and accounting functions, which will make us more dependent upon third parties.

In an effort to make our IT, finance and accounting functions more efficient, increase related capabilities, as well as generate cost savings, we began to outsource a significant portion of our IT infrastructure and certain finance and accounting functions to separate third party service providers during the fourth quarter of 2011. As a result, we rely on third parties to ensure that our related needs are sufficiently met. This reliance subjects us to risks arising from the loss of control over certain processes, changes in pricing that may affect our operating results, and potentially, termination of provisions of these services by our supplier. A failure of our service providers to perform may have a significant adverse effect on our business.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

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

We produce and market Armstrong products and services throughout the world, operating 32 manufacturing plants in eight countries as of December 31, 2011. Four of our plants are leased and the remaining 28 are owned. We operate 20 plants located throughout the United States. In addition, we have an interest through our WAVE joint venture in eight additional plants in six countries.

	September 30, Number of Plants	September 30, Location of Principal Facilities
Business Segment		
Resilient Flooring	10	U.S. (California, Illinois, Mississippi, Oklahoma, Pennsylvania), Australia and Germany
Wood Flooring	9	U.S. (Arkansas, Kentucky, Missouri, Pennsylvania, Tennessee, and West Virginia) and China
Building Products	12	U.S. (Florida, Georgia, Ohio, Oregon, Pennsylvania), China, France, Germany and the U.K.
Cabinets	1	U.S. (Pennsylvania)
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 the Specific Material Events section of the Environmental Matters section of Note 30 to the Consolidated Financial Statements, which is incorporated herein by reference, for a description of our significant legal proceedings.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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 21, 2012, there were approximately 425 holders of record of AWI's Common Stock.

September 30, September 30, September 30, September 30, September 30,