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ARMSTRONG WORLD INDUSTRIES INC
Form 11-K
March 28, 2001

FORM 11-K
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 15(D) OF THE SECURITIES EXCHANGE ACT
OF 1934

For the fiscal year ended September 30, 2000

OR

TRANSITION REPORT PURSUANT TO SECTION 15(D) OF THE SECURITIES EXCHANGE ACT
OF 1934

For the transition period from _____ to _____

Commission file numbers 1-2116 and 333-32530

RETIREMENT SAVINGS PLAN FOR HOURLY-PAID EMPLOYEES
OF ARMSTRONG WORLD INDUSTRIES, INC.
(Full title of the Plan)

ARMSTRONG WORLD INDUSTRIES, INC.
ARMSTRONG HOLDINGS, INC.
2500 Columbia Avenue Lancaster, Pennsylvania 17604
(Name of issuer of the securities held pursuant to the Plan
and the address of its principal executive office)

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SIGNATURE

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

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

March 28, 2001 By: /s/: Matthew J. Angello

Matthew J. Angello Vice-Chairman of the Retirement Committee

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Independent Auditors' Report

The Retirement Committee
Armstrong World Industries, Inc.:

We have audited the accompanying statements of net assets available for benefits of the Retirement Savings Plan for Hourly-Paid Employees of Armstrong World Industries, Inc. as of September 30, 2000 and 1999 and the related statements of changes in net assets available for benefits for each of the years in the two-year period ended September 30, 2000. These financial statements are the responsibility of the plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Retirement Savings Plan for Hourly-Paid Employees of Armstrong World Industries, Inc. as of September 30, 2000 and 1999 and the changes in net assets available for benefits for each of the years in the two-year period ended September 30, 2000, in conformity with accounting principles generally accepted in the United States of America.

March 26, 2001
Philadelphia, Pennsylvania

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RETIREMENT SAVINGS PLAN FOR HOURLY-PAID EMPLOYEES
OF ARMSTRONG WORLD INDUSTRIES, INC.
Statement of Net Assets Available for Benefits
September 30, 2000 and 1999

| | 2000 | 1999 |
|--|--------------|--------------|
| | ---- | ---- |
| Assets: | | |
| Investments in master trust: | | |
| Cash equivalents: | | |
| Fidelity Retirement Money Market Portfolio | \$ 592,567 | \$ 684,549 |
| Shares of registered investment companies: | | |
| Fidelity Magellan Fund | 16,757,223 | 16,603,182 |
| Fidelity Low-Priced Stock Fund | 184,893 | 190,877 |
| Fidelity OTC Portfolio | 5,881,696 | 3,699,268 |
| Fidelity Asset Manager Fund | 1,915,567 | 1,169,693 |
| Fidelity Asset Manager: Income Fund | 88,486 | 232,356 |
| Fidelity Asset Manager: Growth Fund | 1,437,981 | 1,477,241 |
| Fidelity Overseas Fund | 263,589 | 110,057 |
| MAS Value Portfolio | 74,232 | 102,582 |
| MAS Mid Cap Value Portfolio | 923,750 | 725,634 |
| Spartan US Equity Index Fund | 10,101,077 | 10,753,530 |
| Morgan Stanley Global Equity Portfolio | 178,385 | 197,999 |
| Fixed income investment contracts: | | |
| Fidelity Interest Income Fund | 43,114,542 | 47,969,002 |
| Armstrong Common Stock | 3,997,425 | 7,268,901 |
| Participant loans | 1,527,799 | 2,099,291 |
| | ----- | ----- |
| Total investments | 87,039,212 | 93,284,162 |
| | ----- | ----- |
| Net assets available for benefits | \$87,039,212 | \$93,284,162 |
| | ===== | ===== |

The accompanying notes are an integral part of these financial statements.

RETIREMENT SAVINGS PLAN FOR HOURLY-PAID EMPLOYEES
OF ARMSTRONG WORLD INDUSTRIES, INC.
Statement of Changes in Net Assets Available for Benefits
Years Ended September 30, 2000 and 1999

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| | 2000 ----- | 1999 ----- |
|---|---------------|---------------|
| Additions to net assets attributed to: | | |
| Contributions | \$ 5,266,582 | \$ 5,889,905 |
| Dividends | 3,129,975 | 2,622,910 |
| Interest | 2,703,533 | 2,923,006 |
| Realized gain on investments | 2,414,334 | 1,724,936 |
| Unrealized appreciation (depreciation) of investments | (5,677,831) | 3,165,545 |
| | ----- | ----- |
| Total additions | 7,836,593 | 16,326,302 |
| | ----- | ----- |
| Reduction in net assets attributed to: | | |
| Benefits paid to participants | 8,082,951 | 7,053,761 |
| Transfers to other employee benefit plans | 5,998,592 | 325,720 |
| | ----- | ----- |
| Total reductions | 14,081,543 | 7,379,481 |
| | ----- | ----- |
| Net increase (decrease) | (6,244,950) | 8,946,821 |
| Net assets available for benefits: | | |
| Beginning of year | 93,284,162 | 84,337,341 |
| | ----- | ----- |
| End of year | \$87,039,212 | \$93,284,162 |
| | ===== | ===== |

The accompanying notes are an integral part of these financial statements.

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

Notes to Financial Statements

(1) Summary of Significant Accounting Policies

(a) Basis of Presentation

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

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires

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management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from estimates recorded. Certain prior year amounts have been reclassified to conform to the current presentation.

(b) Investments in Master Trust

The money market portfolio is stated at cost, which approximates fair value. The interest income fund is comprised of guaranteed interest rate contracts within the Master Trust which are fully benefit responsive; and therefore are reflected at contract value plus credited interest in the financial statements. The value of the participant loans represents the unpaid principal of employee loans. The value of all other investments is based on quoted market price.

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

Realized gains and losses on investments are determined by the average cost method.

(c) Expenses

All legal, accounting and administrative expenses associated with Plan operations are paid by Armstrong World Industries, Inc. ("Armstrong")

(2) Plan Description

The Retirement Savings Plan for Hourly-Paid Employees of Armstrong World Industries, Inc. ("the Plan") is a defined contribution plan established for the purpose of providing eligible hourly-paid employees a means for long-term savings intended for the accumulation of retirement income in addition to that provided under other retirement plans maintained for the benefit of employees.

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

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

Sheltered account - Participants may contribute from 1% to 15% of

before-tax compensation as deferred compensation, as permitted under Section 401(k) of the Internal Revenue Code.

Standard account - Participants may contribute from 1% to 10% of

after-tax compensation.

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

Notes to Financial Statements, (Continued)

Rollover account - Participants may invest any untaxed amounts rolled

over from another tax-qualified, employer-sponsored plan.

Tax-deductible account (MIRA) - This account holds any contributions

made to the Plan before January 1, 1987. No new contributions can be made to this account.

Old Match account - This account holds any amount contributed by

Armstrong before matching contributions were discontinued. No new contributions are being made to this account.

Participants have an immediate 100 percent vested interest with respect to their contributions and are fully vested with regard to any previously made matching Armstrong contributions.

(3) Investments in Master Trust -----

Assets are held in a Master Trust administered by Fidelity Management Trust Co., as Trustee, and are segregated into fourteen investment options. The Plan participates in fourteen investment alternatives.

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

1. Spartan US Equity Index Fund - This fund is principally a portfolio of common stocks constructed and maintained with the objective of providing investment results which approximate the overall performance of the common stocks included in the Standard & Poor's Composite Index of 500 stocks.
2. Fidelity Magellan Fund - This fund invests in common stocks of companies having substantial growth prospects as determined by independent investment managers.
3. Fidelity Low-Priced Stock Fund - This fund seeks capital appreciation through investments primarily in U.S. and foreign low-priced stocks that may be undervalued, overlooked or out of favor.
4. Fidelity Retirement Money Market Portfolio - This fund invests in short-term (less than one year maturity) fixed income instruments such as U.S. Treasury Bills, bank certificates of deposit, and high grade commercial paper.
5. Fidelity Interest Income Fund - Contributions to this fund are invested in the general accounts of insurance companies and are credited at contracted interest rates. Invested principal and accumulated interest amounts are guaranteed against loss by the insurance company. Credited interest rates are reset periodically during the plan year. At September 30, 2000, the interest rates ranged between 4.73% and 7.58%. At September 30, 1999, the interest rates

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ranged between 4.73% and 7.88%. The average yields for the plan at September 30, 2000 and September 30, 1999 were 6.25% and 6.01%, respectively.

6. Morgan Stanley Global Equity Portfolio - This fund invests in a diversified selection of stocks throughout the world, after a detailed analysis by local country investment experts. It seeks to increase the value of the investment over the long term through growth of capital.

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

Notes to Financial Statements, (Continued)

7. Armstrong Common Stock - Amounts invested in this fund, along with dividend earnings thereon, are invested in Armstrong common stock. Common stock shares held by the fund at September 30, 2000 and 1999 were 334,849 and 161,754, respectively. On May 1, 2000, Armstrong Holdings, Inc. acquired the stock of Armstrong World Industries, Inc. An indirect holding in Armstrong World Industries, Inc. makes up substantially all of the assets of Armstrong Holdings, Inc.
8. Fidelity Overseas Fund - This fund invests in securities of issuers whose principal business activities are outside the U.S. Investments may include common stock and securities convertible into common stock, as well as debt instruments.
9. Fidelity OTC Portfolio - This fund invests in securities traded in the over-the-counter securities market with the objective of maximizing capital appreciation. Over-the-counter securities include common and preferred stocks, securities convertible into common stock, warrants, and debt instruments.
10. Fidelity Asset Manager Fund - This is an asset allocation fund which invests in a portfolio of stocks, bonds, and short-term instruments. The fund has a balanced investment strategy with a goal of high total return with reduced risk over the long term.
11. Fidelity Asset Manager: Income Fund - This is an asset allocation fund which invests in a diversified portfolio of stocks, bonds, and short-term instruments. The fund has an investment strategy focusing on bonds and short-term instruments to achieve a high level of current income and capital preservation.
12. Fidelity Asset Manager: Growth Fund - This is an asset allocation fund invested in a diversified mix of stocks, bonds, and short-term instruments. The fund's investment strategy is an aggressive one emphasizing stocks with the goal of maximum total return over the long term.
13. MAS Mid Cap Value Portfolio - This fund invests in undervalued common stocks of mid-sized companies with a strong potential for increase in share price. It seeks to provide above-average long-term returns.
14. MAS Value Portfolio - This fund seeks to provide above average long-term returns by investing mostly in common stocks of large companies that are considered undervalued.

Participant loans represent the unpaid principal balances of loans made by Plan

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participants in accordance with established loan provision guidelines.

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

Notes to Financial Statements, (Continued)

The following table presents the cost and estimated fair values of the investments in securities of the Master Trust at September 30, 2000 and 1999:

| Investment ----- | September 30, 2000 ----- | | Septem ----- |
|--|-----------------------------|---------------------|-----------------|
| | Cost ---- | Fair Value ----- | Cost ---- |
| Spartan US Equity Index Fund | \$5,156,912 | \$10,101,077 | \$5,768,185 |
| Fidelity Magellan Fund | 11,662,740 | 16,757,223 | 11,880,548 |
| Fidelity Low-Priced Stock Fund | 198,294 | 184,893 | 219,255 |
| Fidelity Retirement Money Market Portfolio | 592,567 | 592,567 | 684,549 |
| Fidelity Interest Income Fund | 43,114,542 | 43,114,542 | 47,969,002 |
| Morgan Stanley Global Equity Portfolio | 197,830 | 178,385 | 209,379 |
| Armstrong Common Stock | 10,584,649 | 3,997,425 | 7,467,688 |
| Fidelity Overseas Fund | 270,400 | 263,589 | 100,677 |
| Fidelity OTC Portfolio | 5,064,281 | 5,881,696 | 2,964,750 |
| Fidelity Asset Manager Fund | 1,755,347 | 1,915,567 | 1,135,288 |
| Fidelity Asset Manager: Income Fund | 87,755 | 88,486 | 233,007 |
| Fidelity Asset Manager: Growth Fund | 1,246,616 | 1,437,981 | 1,351,450 |
| MAS Mid Cap Value Portfolio | 795,898 | 923,750 | 702,138 |
| MAS Value Portfolio | 86,083 | 74,232 | 123,625 |
| Participant Loans | 1,527,799 | 1,527,799 | 2,099,291 |
| | ----- | ----- | ----- |
| | \$82,341,713 | \$87,039,212 | \$82,908,832 |
| | ===== | ===== | ===== |

The amounts of realized gain (loss) on investments in securities of the Master Trust for the years ended September 30, 2000 and 1999 are presented below:

| 2000 ---- | Aggregate Proceeds ----- | Aggregate Cost ---- | Realized Gain (Loss) ----- |
|--|--------------------------------|---------------------------|----------------------------------|
| Spartan US Equity Index Fund | \$3,057,257 | \$1,812,427 | \$1,244,830 |
| Fidelity Magellan Fund | 4,951,037 | 3,722,653 | 1,228,384 |
| Fidelity Low-Priced Stock Fund | 74,439 | 81,231 | (6,792) |
| Morgan Stanley Global Equity Portfolio | 120,949 | 138,397 | (17,448) |
| Armstrong Common Stock | 6,810,023 | 7,473,466 | (663,443) |
| Fidelity Overseas Fund | 178,675 | 176,732 | 1,943 |
| Fidelity OTC Portfolio | 6,203,083 | 5,636,775 | 566,308 |
| Fidelity Asset Manager Fund | 254,768 | 231,503 | 23,265 |
| Fidelity Asset Manager: Income Fund | 163,104 | 161,826 | 1,278 |
| Fidelity Asset Manager: Growth Fund | 453,796 | 421,167 | 32,629 |
| MAS Mid Cap Value Portfolio | 266,519 | 252,286 | 14,233 |
| MAS Value Portfolio | 59,092 | 69,945 | (10,853) |

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| | | |
|--------------------------------|--------------------------------|-------------------------------|
| ----- \$22,592,742 ===== | ----- \$20,178,408 ===== | ----- \$2,414,334 ===== |
|--------------------------------|--------------------------------|-------------------------------|

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

Notes to Financial Statements, (Continued)

| 1999 ---- | Aggregate Proceeds ----- | Aggregate Cost ---- | Realized Gain (Loss) ----- |
|--|--------------------------------|---------------------------|----------------------------------|
| Spartan US Equity Index Fund | \$1,904,011 | \$1,183,945 | \$720,066 |
| Fidelity Magellan Fund | 3,718,576 | 3,164,588 | 553,988 |
| Fidelity Low-Priced Stock Fund | 78,083 | 87,527 | (9,444) |
| Morgan Stanley Global Equity Portfolio | 32,447 | 34,270 | (1,823) |
| Armstrong Common Stock | 1,363,576 | 1,164,103 | 199,473 |
| Fidelity Overseas Fund | 25,445 | 24,901 | 544 |
| Fidelity OTC Portfolio | 3,669,345 | 3,443,994 | 225,351 |
| Fidelity Asset Manager Fund | 210,801 | 201,615 | 9,186 |
| Fidelity Asset Manager: Income Fund | 58,821 | 58,793 | 28 |
| Fidelity Asset Manager: Growth Fund | 420,833 | 388,874 | 31,959 |
| MAS Mid Cap Value Portfolio | 187,350 | 189,278 | (1,928) |
| MAS Value portfolio | 11,787 | 14,251 | (2,464) |
| | ----- | ----- | ----- |
| | \$11,681,075 ===== | \$9,956,139 ===== | \$1,724,936 ===== |

(4) Benefits

Under terms of the Plan, a participant (or a beneficiary) is eligible for benefits upon retirement, termination of employment, or death before retirement. Disbursement of the total amount credited to a participant's account is payable (i) in a lump sum or (ii) in the case of retirement, in such other manner as requested by the participant and approved by the Plan Administrator.

In addition, an active employee may elect to withdraw all or any part of his account attributable to after-tax contributions. Before reaching age 59 1/2, an active employee may withdraw his pretax contributions from the Sheltered Account, provided he can demonstrate financial hardship. Such employee shall be ineligible to make contributions for a 12-month period. An active employee may elect to withdraw all or any portion of his account balance in the Tax-Deductible (MIRA) and Rollover Accounts.

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

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manner agreed to by the employee and the Plan Administrator.

(5) Obligation for Benefits

All the funds of the Plan are held by investing institutions appointed by Armstrong under a trust agreement or investment contract. Benefits under the Plan are payable only out of these funds. Armstrong has no legal obligation to make any direct payment of benefits accrued under the Plan.

Except as may be provided in an investment contract, neither Armstrong nor any investing institution guarantees the funds of the Plan against any loss or depreciation or guarantees the payment of any benefit hereunder. Although Armstrong has not expressed any intent to terminate the Plan, it may do so at any time. In case of termination or partial termination, the total amount in each employee's account will be distributed as the Plan Administrator directs.

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

Notes to Financial Statements, (Continued)

(6) Eligibility

All hourly employees of Armstrong or of any participating affiliated company which adopts this plan are eligible to participate if bargained for by the employees' collective bargaining unit. Eligible participants who leave Armstrong and are later reemployed can resume participation in the Plan on the date of rehire.

(7) Federal Income Taxes

By a letter dated February 13, 1996, the Internal Revenue Service has determined and informed Armstrong that the Plan qualifies under the applicable provisions of the Internal Revenue Code and is therefore exempt from federal income taxes.

(8) Master Trust Agreement

Effective October 1, 1990, the Plan established a Master Trust Agreement with Fidelity Management Trust Company. Under the Master Trust Agreement, the Plan assets held by Fidelity Management Trust Company are commingled and invested with the assets of the Retirement Savings and Stock Ownership Plan of Armstrong World Industries, Inc., the Bonus Replacement Retirement Plan of Armstrong World Industries, Inc., the Triangle Pacific Corp. Salaried Employees' Profit Sharing Plan, the Triangle Pacific Corp. Non-Union Hourly Employees 401(k) Plan, the Hartco Flooring Co. Retirement Savings Plan, the Hartco Flooring Co. Bargaining Employees' Retirement Savings Plan, and the Robbins Hardwood Flooring, Inc. Employees' Retirement Savings Plan. Separate accounting for each plan under the Master Trust Agreement is provided by Fidelity Management Trust Company. The Plan has an undivided interest in the assets of this trust, and ownership is represented by proportionate dollar interest. The following summarizes the financial information of the Master Trust at September 30, 2000 and 1999:

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| | September 30, 2000 | | September 30, 1999 |
|-----------------------------------|--------------------|---------------|--------------------|
| | Cost | Fair Value | Cost |
| | ---- | ----- | ---- |
| Cash equivalents | \$15,477,286 | \$15,477,286 | \$16,666,634 |
| Armstrong Common Stock | 26,493,157 | 10,181,553 | 17,595,364 |
| Registered investment companies | 202,786,119 | 297,113,053 | 185,579,655 |
| Fixed income investment contracts | 166,384,012 | 166,384,012 | 178,879,174 |
| Participant loans | 6,140,006 | 6,140,006 | 7,386,076 |
| | ----- | ----- | ----- |
| Total investments in Master Trust | \$417,280,580 | \$495,295,910 | \$406,106,903 |
| | ===== | ===== | ===== |
| Plan's interest in Master Trust | \$82,341,713 | \$87,039,212 | \$82,908,832 |
| Plan's percentage in Master Trust | 19.7% | 17.6% | 20.4% |

During 2000 and 1999, the Master Trust's investments (including investments bought, sold, and held during the year) appreciated (depreciated) in value as follows:

| | 2000 | 1999 |
|---|---------------|--------------|
| | ---- | ---- |
| Net appreciation (depreciation) in Master Trust | \$9,258,013 | \$42,827,180 |
| Allocated net appreciation (depreciation) in Master Trust | \$(3,263,497) | \$4,890,481 |

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

Notes to Financial Statements, (Continued)

During 2000 and 1999, interest and dividends in the Master Trust were as follows:

| | 2000 | 1999 |
|--|--------------|--------------|
| | ---- | ---- |
| Interest and dividends in Master Trust | \$32,031,519 | \$33,770,761 |
| Allocated interest and dividends from Investment in Master Trust | \$5,833,508 | \$5,545,916 |

All of the above information was certified as complete and accurate by the trustee at September 30, 2000 and 1999 and for the years then ended.

(9) Subsequent Events

On December 6, 2000, Armstrong filed a voluntary petition for relief under Chapter 11 of the U.S. Bankruptcy Code in Wilmington, DE in order to use the

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court-supervised reorganization process to achieve a resolution of its asbestos liability.

As of December 19, 2000 the Plan was amended to eliminate the Armstrong Common Stock Fund as an investment option effective with contributions made on or after December 27, 2000 and transfers processed on or after January 1, 2001.