

ARMSTRONG WORLD INDUSTRIES INC
Form 11-K
June 26, 2003

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 11-K

(Mark One)

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

For the fiscal year ended December 31, 2002

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

HARTCO FLOORING COMPANY RETIREMENT SAVINGS PLAN

(Full title of the Plan)

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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)

		<u>Page No.</u>
Item 1.	<u>Independent Auditors Report</u>	4
Item 2.	<u>Statements of Net Assets Available for Benefits December 31, 2002 and 2001</u>	5
Item 3.	<u>Statements of Changes in Net Assets Available for Benefits Years ended December 31, 2002 and 2001</u>	6
<u>Notes to Financial Statements</u>		7 13
<u>Exhibits</u>		14
	Consent of Independent Auditors	

Independent Auditors' Report

To the Retirement Committee of the

Hartco Flooring Company

Retirement Savings Plan:

We have audited the accompanying statements of net assets available for benefits of the Hartco Flooring Company Retirement Savings Plan as of December 31, 2002 and 2001, and the related statements of changes in net assets available for benefits for the years then ended. 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.

As discussed in Note 1 to the financial statements, on December 6, 2000, Armstrong World Industries, Inc. 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 its asbestos liability.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Hartco Flooring Company Retirement Savings Plan as of December 31, 2002 and 2001, and the changes in net assets available for benefits for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ KPMG LLP

Philadelphia, Pennsylvania

June 13, 2003

HARTCO FLOORING COMPANY

RETIREMENT SAVINGS PLAN

Statements of Net Assets Available for Benefits

December 31, 2002 and 2001

	December 31,	
	2002	2001
Assets:		
Investments in Master Trust		
Cash equivalents:		
Fidelity Retirement Money Market Portfolio	\$	\$ 1,104,893
Shares of registered investment companies:		
Fidelity Magellan Fund		1,662,086
Fidelity Equity Income Fund		1,231,342
Fidelity Intermediate Bond Fund		926,906
Fidelity Overseas Fund		373,857
Fidelity Asset Manager Fund		252,816
Armstrong Common Stock		285,950
Participant loans		299,941
	—	—
Total investments		6,137,791
	—	—
Receivables:		
Employer contributions		4,390
Employee contributions		10,821
Participants loans		3,789
	—	—
Total receivables		19,000
	—	—
Total assets		6,156,791
Refunds payable to participants		11,614
	—	—
Net assets available for benefits	\$	\$ 6,145,177

See accompanying notes to financial statements.

HARTCO FLOORING COMPANY

RETIREMENT SAVINGS PLAN

Statements of Changes in Net Assets Available for Benefits

Years ended December 31, 2002 and 2001

	Year Ended December 31,	
	2002	2001
Additions to net assets attributed to:		
Employee contributions	\$ 377,727	396,339
Employer contributions	147,314	134,374
Dividends	40,695	79,451
Interest on fixed income investments	51,104	90,540
Interest on loans	26,667	24,050
Total additions	643,507	724,754
Reductions from net assets attributed to:		
Benefits paid to participants	564,783	629,246
Net depreciation in fair value of investments	884,916	326,663
Transfers to other employee benefit plans	5,338,985	
Total reductions	6,788,684	955,909
Net decrease	(6,145,177)	(231,155)
Net assets available for benefits:		
Beginning of year	6,145,177	6,376,332
End of year	\$ 6,145,177	\$ 6,145,177

See accompanying notes to financial statements.

HARTCO FLOORING COMPANY

RETIREMENT SAVINGS PLAN

Notes to Financial Statements

(1) General Information

The Hartco Flooring Company Retirement Savings Plan (the Plan) was a defined contribution plan established for the purpose of providing eligible employees who are not members of a collective bargaining unit a means for long-term savings intended for the accumulation of retirement income. On June 28, 1996, Armstrong Wood Products, Inc. (formerly known as Triangle Pacific Corp.) (the Company or Plan Administrator) acquired all of the stock of Hartco Flooring Company from Premark International, Inc. In connection with this acquisition, Premark and the Company agreed to spin off, effective as of June 28, 1996, that portion of the Premark Plan benefiting participants who were employees or former employees of Hartco Flooring Company, to a separate plan sponsored and maintained by the Company to be known as the Hartco Flooring Company Retirement Savings Plan, as set forth herein, as a continuation, without interruption, of such portion of the Premark Plan.

On July 22, 1998, the Company was acquired by Armstrong World Industries, Inc. (a subsidiary of Armstrong Holdings, Inc.). On December 6, 2000, Armstrong World Industries, Inc. (Armstrong) filed a voluntary petition for relief under Chapter 11 of the U.S. Bankruptcy Code in Wilmington, DE in order to use the court-supervised reorganization process to achieve a resolution of its asbestos liability. Management does not believe that Armstrong s bankruptcy filing had an adverse impact on the operations of the Plan.

(2) Plan Merger

On October 17, 2002, Armstrong s Retirement Committee unanimously passed a resolution to merge the Plan into the Retirement Savings and Stock Ownership Plan of Armstrong World Industries, Inc. for salaried employees of Hartco and the Retirement Savings Plan for Hourly-Paid Employees of Armstrong World Industries, Inc. for hourly-paid employees of Hartco on or around December 16, 2002. Effective December 20, 2002, all plan assets and liabilities were transferred out of the Plan.

In the Retirement Savings and Stock Ownership Plan of Armstrong World Industries, Inc. and the Retirement Savings Plan for Hourly-Paid Employees of Armstrong World Industries, Inc., separate balances are maintained for contributions made by or on behalf of each 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.

(3) Plan Description

The following description of the Plan provides only general information. Participants should refer to the Plan document for more detailed information.

(a) General

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The Plan was a defined contribution plan which provides retirement benefits to employees of Hartco Flooring Company, a division of Armstrong Wood Products, Inc., who were not members of a collective bargaining agreement and whose customary employment was for at least 1,000 hours during a 12-month period. Employees were eligible to participate in the Plan on the first day of the month coincident with or following the completion of six months of service. All eligible employees whose customary employment was not for at least 1,000 hours during a year participated in the Plan on the first day of the month coincident with or following the 12-month period after their employment or any plan year thereafter, provided 1,000 hours of service were completed during this

HARTCO FLOORING COMPANY

RETIREMENT SAVINGS PLAN

Notes to Financial Statements

time period. However, employees were prohibited from being active participants in any other defined contribution plan to which the Company or any subsidiary contributed on their behalf. Effective November 1, 2001, the Plan was amended to allow for immediate participation by employees upon the completion of one hour of service. The Plan was administered by Armstrong Wood Products, Inc., and advised by the Administrative Committee appointed by the board of directors. The Plan was subject to the provisions of the *Department of Labor's Rules and Regulations for Reporting and Disclosure Under the Employee Retirement Income Security Act of 1974 (ERISA)*.

(b) Contributions

Participants were permitted to contribute from 1% to 16% of their eligible compensation to the Plan, as defined by the Plan documents and were subject to the Internal Revenue Service limitations. Participants elected to invest their contributions in any of the available investment funds offered by Fidelity Management Trust Company, the Trustee.

The Company provided a 50% match of active participants' contributions, for up to 6% of the participant's eligible compensation. In addition to the Company match, the Company made discretionary contributions to the profit sharing portion of the Plan which were determined by the Board of Directors of Hartco Flooring Company. The profit sharing contribution for the year ended December 31, 2001 was \$0. Effective July 3, 2002, the Plan was amended to eliminate the profit sharing portion of the Plan.

(c) Participant Accounts

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

(d) Vesting

As a result of the Plan merger, all active participants became 100% vested in the balances in all of his or her accounts. Any participant who was inactive as of the Plan merger date was not eligible for the 100% vesting in the Company match, but was subject to previous vesting rules:

Years of Vesting Service	Vested Percentage
less than 1	0%
1 but less than 2	20%
2 but less than 3	40%
3 but less than 4	60%

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4 but less than 5	80%
5 or more	100%

Active participants who were age 65 or over were automatically 100% vested in the value of Company contributions and related earnings credited to their account. In addition, if a participant's employment terminated due to death or disability, the participant became fully vested with respect to Company contributions.

HARTCO FLOORING COMPANY

RETIREMENT SAVINGS PLAN

Notes to Financial Statements

(e) Participant Loans

Participants were allowed to borrow from the Plan an amount greater than \$1,000 but less than 50% of the participant's vested account balance. In no event could the participant borrow more than \$50,000. Loans issued prior to the plan merger (Note 2) were charged an interest rate at 1% above the prime rate of interest being charged by local banks at the time the loan was authorized.

(f) Payment of Benefits

Upon termination of service due to death, disability, or retirement, a participant elected to receive the vested value of his or her account as a lump-sum distribution, a rollover into another investment, or by purchasing an annuity under the terms of an annuity contract. For termination of service due to other reasons, a participant received the value of the vested interest in his or her account as a lump-sum distribution. Active employees were allowed to make hardship withdrawals from their vested account balance, subject to the determination by the Plan Administrator that the withdrawal was required to meet an immediate and heavy financial need.

(g) Forfeitures

Company contributions forfeited by terminating employees (\$18,181 in 2002 and \$19,654 in 2001) were used to reduce future Company contributions to the Plan. The Company reinstated forfeited balances to the accounts of participants who rejoined the Company within five years of their termination.

(4) Summary of Significant Accounting Policies

(a) Basis of Presentation

The financial statements of the Plan are prepared under the accrual method of accounting.

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

(b) Investments in Master Trust

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The money market portfolio is stated at cost, which approximates fair value. The value of the participant loans represents the unpaid principal of employee loans. The value of all other investments is based on the net asset value.

Securities transactions are recognized on the settlement date (that 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. Interest income on participant loans is recorded when paid.

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

HARTCO FLOORING COMPANY

RETIREMENT SAVINGS PLAN

Notes to Financial Statements

(c) *Administration Expenses*

In accordance with the provisions of the Plan, unless paid by the Company, all costs of administering the Plan are charged to the Plan. During 2002 and 2001, all significant expenses were paid by the Company.

(5) **Investments in Master Trust**

Assets were held in a Master Trust administered by Fidelity Management Trust Company, as Trustee, and were segregated into seven investment options. Certain Plan investments were shares of mutual funds managed by Fidelity Management Trust Company, and therefore, transactions related to these shares qualified as party-in-interest transactions.

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

1. **Armstrong Holdings, Inc. common stock** Effective April 1, 1999, the Plan was amended to include Armstrong World Industries, Inc. common stock as one of the investment options. Amounts invested in this fund, along with dividend earnings thereon, are invested in Armstrong common stock. 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. On December 6, 2000, Armstrong World Industries, Inc. filed a voluntary petition for relief under Chapter 11 of the U.S. Bankruptcy Code in Wilmington, DE in order to use the 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 Holdings, Inc. 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. Such common stock shares held by the fund at December 31, 2002 and 2001 were 0 and 83,856, respectively.
2. **Fidelity Magellan Fund** This fund invests in common stocks of companies having substantial growth prospects as determined by independent investment managers.
3. **Fidelity Equity Income Fund** The Fidelity Equity Income Fund has a primary objective of seeking moderate income levels by investing 65% of total assets in foreign and domestic income producing securities, such as stocks, bonds, and other debt securities. The fund also seeks capital appreciation when consistent with its primary objective.
4. **Fidelity Intermediate Bond Fund** The Fidelity Intermediate Bond Fund has a primary objective of seeking high current income by investing in U.S. dollar-dominated investment grade debt securities with maturities between three to ten years. The Lehman Brothers Intermediate Government/Corporate Bond Index is used as a guide in structuring the fund and selecting the investments.
- 5.

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.

HARTCO FLOORING COMPANY**RETIREMENT SAVINGS PLAN**

Notes to Financial Statements

6. **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.
7. **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.

Participant loans represent the unpaid principal balance of loans to Plan participants in accordance with established loan provision guidelines. As of the Plan merger date, the interest rates ranged between 4.75% and 10.5%. At December 31, 2001, the interest rates ranged between 7.0% and 10.5%.

The following table presents estimated fair values of the investments in the Master Trust at December 31, 2002 and 2001:

Investment	December 31, 2002	December 31, 2001
Armstrong Holdings, Inc. common stock	\$	\$ 285,950
Fidelity Magellan Fund		1,662,086
Fidelity Equity Income Fund		1,231,342
Fidelity Intermediate Bond Fund		926,906
Fidelity Overseas Fund		373,857
Fidelity Asset Manager Fund		252,816
Fidelity Retirement Money Market Portfolio		1,104,893
Participant loans		299,941
Total investments	\$	\$ 6,137,791

The amounts of net appreciation (depreciation) in fair value investments in securities of the Master Trust for the years ended December 31, 2002 and 2001 are presented below:

	2002	2001
Armstrong Holdings, Inc. common stock	\$ (219,504)	\$ 120,222
Fidelity Magellan Fund	(386,759)	(232,102)
Fidelity Equity Income Fund	(210,874)	(122,207)
Fidelity Intermediate Bond Fund	31,962	24,706
Fidelity Overseas Fund	(72,333)	(98,243)
Fidelity Asset Manager Fund	(27,408)	(19,039)

Total net (depreciation)	<u>\$ (884,916)</u>	<u>\$ (326,663)</u>
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(6) Tax Status of the Plan

The Internal Revenue Service has determined and informed the Company by a letter dated May 21, 2003, that the Plan is designed in accordance with the applicable provisions of the Internal Revenue Code and therefore is exempt from federal income taxes.

HARTCO FLOORING COMPANY**RETIREMENT SAVINGS PLAN**

Notes to Financial Statements

(7) Obligation for Benefits

All of the funds in the Plan were held by investing institutions appointed by the Company under a trust agreement. Benefits under the Plan were payable only out of these funds. The Company had no legal obligation to make any direct payment of benefits accrued under the Plan. Neither the Company nor any investing institution guaranteed the funds of the Plan against any loss or depreciation or guaranteed the payment of any benefit.

(8) Master Trust Agreement

Under the Master Trust Agreement with Fidelity Management Trust Company, the Plan assets held by Fidelity Management Trust Company were commingled and invested with the assets of the Retirement Savings and Stock Ownership Plan of Armstrong World Industries, Inc., the Retirement Savings Plan for Hourly-Paid Employees of Armstrong World Industries, Inc., the Bonus Replacement Retirement Plan of Armstrong World Industries, Inc., the Armstrong Wood Products Salaried Employees 401(k) Plan, the Armstrong Wood Products Non-Union Hourly Employees 401(k) Plan, the Hartco Flooring Company 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 was provided by Fidelity Management Trust Company. The Plan had an undivided interest in the assets of this trust, and ownership was represented by proportionate dollar interest. The following summarizes the financial information of the Master Trust at December 31, 2002 and 2001:

	December 31, 2002		December 31, 2001	
	Cost	Fair Value	Cost	Fair Value
Cash equivalents	\$ 17,417,943	\$ 17,417,943	\$ 14,702,620	\$ 14,702,620
Armstrong Common Stock	24,690,434	766,616	28,334,396	7,805,221
Registered investment companies	198,960,863	175,998,853	204,567,980	223,909,392
Fixed income investment contracts	179,105,268	179,105,268	168,529,123	168,529,123
Participant loans	5,979,311	5,979,311	6,245,993	6,245,993
Total investments in Master Trust	\$ 426,153,819	\$ 379,267,991	\$ 422,380,112	\$ 421,192,349
Plan's interest in Master Trust	\$	\$	\$ 6,993,593	\$ 6,137,791
Plan's percentage in Master Trust	0.00%	0.00%	1.66%	1.46%

During 2002 and 2001, the Master Trust's investments (including investments bought, sold, and held during the year) depreciated in value as follows:

2002

2001

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Net (depreciation) in Master Trust	\$ (61,104,877)	\$ (34,850,533)
Allocated net (depreciation) in Master Trust	\$ (884,916)	\$ (326,663)

HARTCO FLOORING COMPANY

RETIREMENT SAVINGS PLAN

Notes to Financial Statements

During 2002 and 2001, interest and dividends in the Master Trust were as follows:

	<u>2002</u>	<u>2001</u>
Interest and dividends in Master Trust	\$ 12,173,182	\$ 14,943,680
Allocated interest and dividends from Investment in Master Trust	\$ 118,466	\$ 194,041

Consent of Independent Auditors

The Retirement Committee of the

Hartco Flooring Company

Retirement Savings Plan:

We consent to incorporation by reference in the registration statement (No. 333-74633) on Form S-8 of Armstrong World Industries, Inc. of our report dated June 13, 2003, relating to the statements of net assets available for benefits of the Hartco Flooring Company Retirement Savings Plan as of December 31, 2002 and 2001, and the related statements of changes in net assets available for benefits for the years then ended, which report is included herein.

Our report dated June 13, 2003 contains an emphasis paragraph that states that on December 6, 2000, Armstrong World Industries, Inc. 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 its asbestos liability.

/s/ KPMG LLP

Philadelphia, Pennsylvania

June 25, 2003