



**Earnings Call Presentation
3rd Quarter 2011**

October 31, 2011



Safe Harbor Statement

Our disclosures in this presentation and in our other public documents and comments contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. 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," "believe," "outlook," and other words or phrases of similar meaning in connection with any discussion of future operating or financial performance. Forward-looking statements, by their nature, address matters that are uncertain and involve risks because they relate to events and depend on circumstances that may or may not occur in the future. A more detailed discussion of the risks and uncertainties that may affect our ability to achieve the projected performance is included in the "Risk Factors" and "Management's Discussion and Analysis" sections of our recent reports on Forms 10-K and 10-Q filed with the SEC. As a result, our actual results may differ materially from our expected results and from those expressed in our forward-looking statements. Forward-looking statements speak only as of the date they are made. We undertake no obligation to update any forward-looking statements beyond what is required under applicable securities law.

In addition, we will be referring to non-GAAP financial measures within the meaning of SEC Regulation G. A reconciliation of the differences between these measures with the most directly comparable financial measures calculated in accordance with GAAP are included within this presentation and available on the Investor Relations page of our website at www.armstrong.com.



Basis of Presentation Explanation

When reporting our financial results within this presentation, we make several adjustments. Management uses the non-GAAP measures below in managing the business and believes the adjustments provide meaningful comparisons of operating performance between periods. As reported results will be footnoted throughout the presentation.

- We report in comparable dollars to remove the effects of currency translation on the P&L. The budgeted exchange rate for the current year is used for all currency translations in the current year and prior years.
- We remove the impact of discrete expenses and income. Examples include plant closures, restructuring actions, and other large unusual items.
- Taxes for normalized Net Income and EPS for all periods presented are calculated using a constant 42%, which is based on the full year historical tax rate.

What Items Are Adjusted

	<u>Comparable Dollars</u>	<u>Other Adjustments</u>
Net Sales	Yes	No
Gross Profit	Yes	Yes
SG&A Expense	Yes	Yes
Equity Earnings	Yes	Yes
Operating Income	Yes	Yes
Net Income	Yes	Yes
Cash Flow	No	No
Return on Capital	Yes	Yes
EBITDA	Yes	Yes

All figures throughout the presentation are in \$ millions unless otherwise noted. Figures may not add due to rounding.



Key Metrics – Third Quarter 2011

	<u>2011 Actual</u>	<u>2010 Actual</u>	<u>Variance</u>
Net Sales ⁽¹⁾	\$757	\$752	0.7%
Operating Income ⁽²⁾	97	83	16.9%
<i>% of Sales</i>	<i>12.8%</i>	<i>11.0%</i>	<i>180 bps</i>
EBITDA	124	112	10.7%
<i>% of Sales</i>	<i>16.4%</i>	<i>14.9%</i>	<i>150 bps</i>
Earnings Per Share ⁽³⁾	\$0.86	\$0.82	4.9%
Free Cash Flow	73	79	(6)
Net (Cash) Debt	467	(236)	703

(1) As reported Net Sales: \$774 million in 2011 and \$740 million in 2010.

(2) As reported Operating Income: \$93 million in 2011 and \$45 million in 2010

(3) As reported EPS: \$0.89 in 2011 and \$0.42 in 2010.

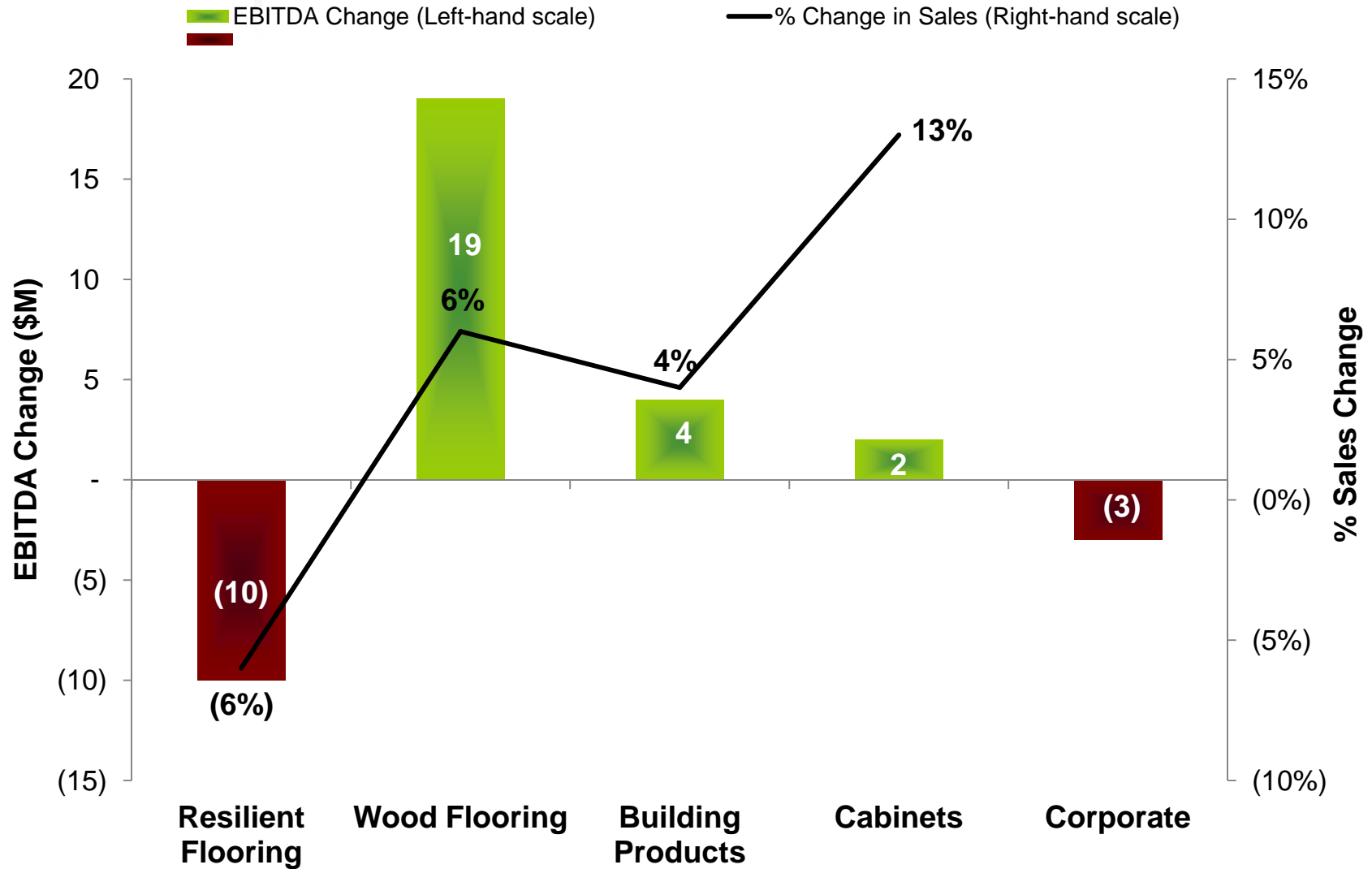


Third Quarter 2011 – Adjusted EBITDA to Reported Net Income

	<u>2011</u>	<u>2010</u>	<u>V</u>
EBITDA– Adjusted	\$124	\$112	\$12
Depreciation and Amortization	(27)	(29)	2
Operating Income – Adjusted	\$97	\$83	\$14
Foreign Exchange Movements	2	(1)	3
Cost Reduction Initiatives	(3)	(7)	4
Laminate Duty Refund	-	7	(7)
Accelerated Depreciation (not included above)	-	(20)	20
CEO transition costs	-	(2)	2
Restructuring	(1)	(15)	14
Impairments	<u>(2)</u>	=	<u>(2)</u>
Operating Income – As Reported	\$93	\$45	\$48
Interest (Expense) Income	<u>(10)</u>	=	<u>(10)</u>
EBT	\$83	\$45	\$38
Tax (Expense) Benefit	<u>(30)</u>	<u>(20)</u>	<u>(10)</u>
Net Income	\$53	\$25	\$28

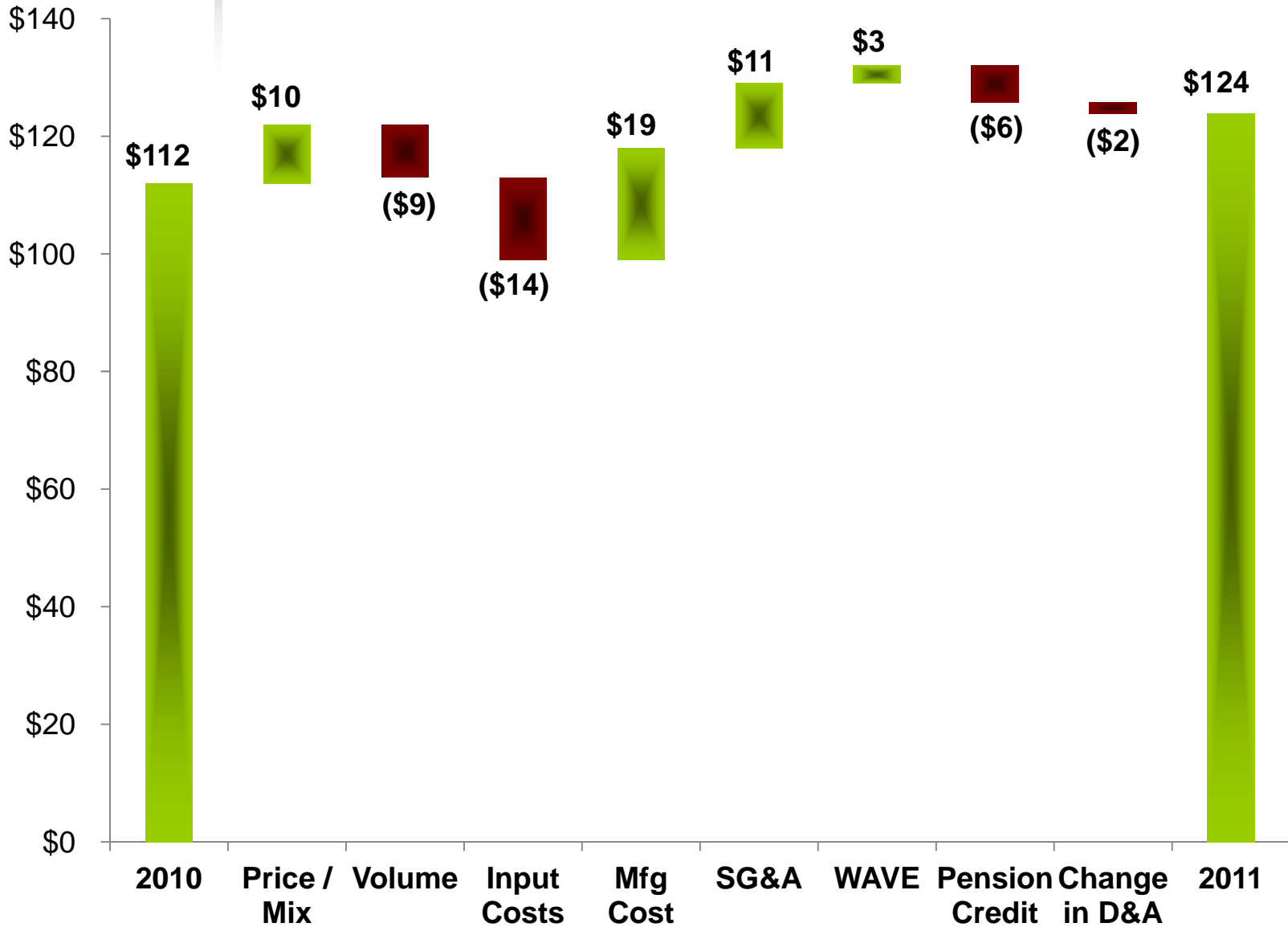


Third Quarter Sales and EBITDA by Segment – 2011 vs. 2010



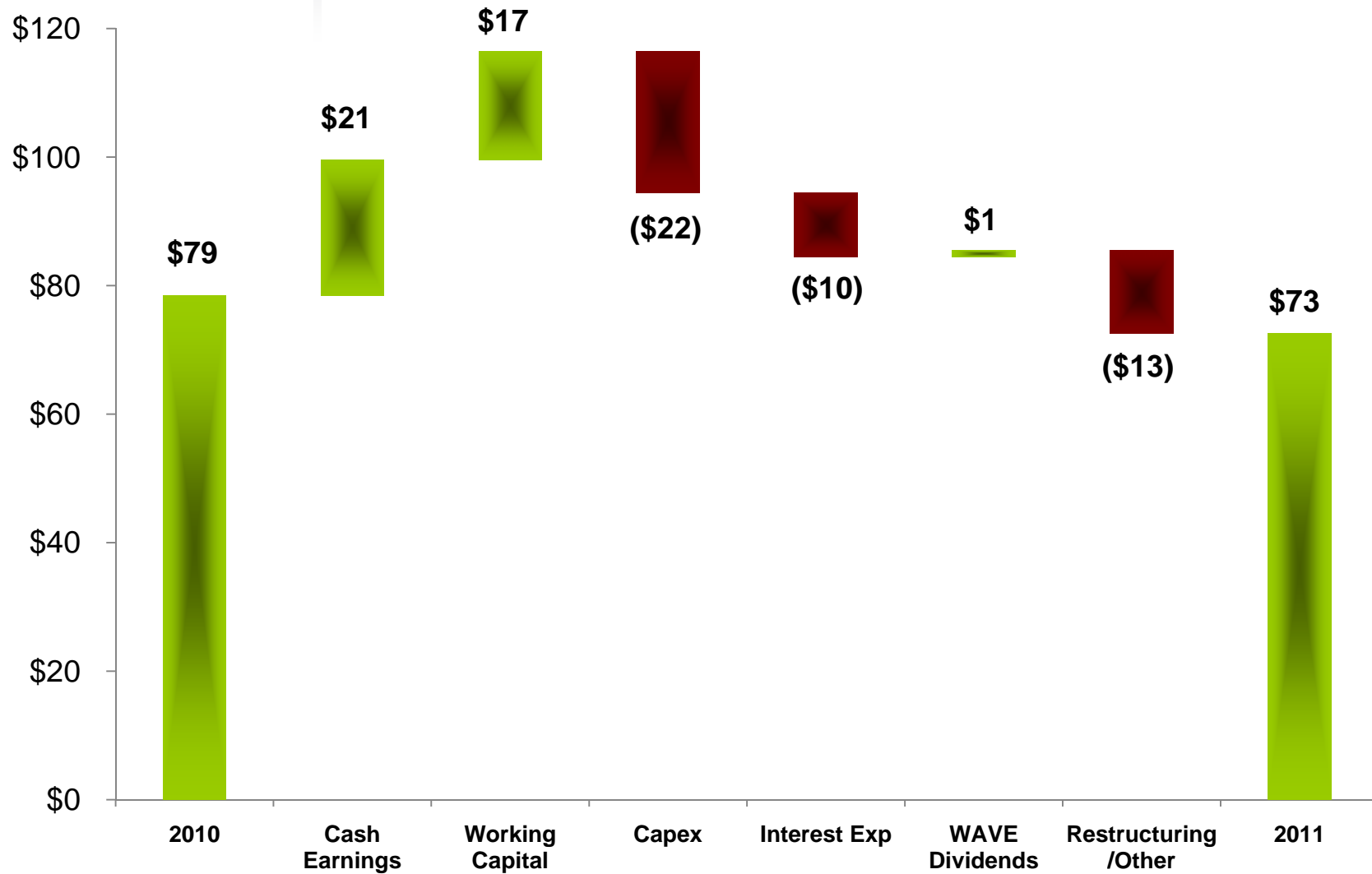


EBITDA Bridge – Third Quarter 2011 versus Prior Year





Free Cash Flow – Third Quarter 2011 versus Prior Year





Key Metrics – September YTD 2011

	<u>2011 Actual</u>	<u>2010 Actual</u>	<u>Variance</u>
Net Sales ⁽¹⁾	\$2,172	\$2,145	1.3%
Operating Income ⁽²⁾	246	170	44.7%
<i>% of Sales</i>	<i>11.3%</i>	<i>7.9%</i>	<i>340 bps</i>
EBITDA	325	256	27.0%
<i>% of Sales</i>	<i>15.0%</i>	<i>11.9%</i>	<i>300 bps</i>
Earnings Per Share ⁽³⁾	\$2.07	\$1.61	28.6%
Free Cash Flow	79	137	(58)
Net (Cash) Debt	467	(236)	703

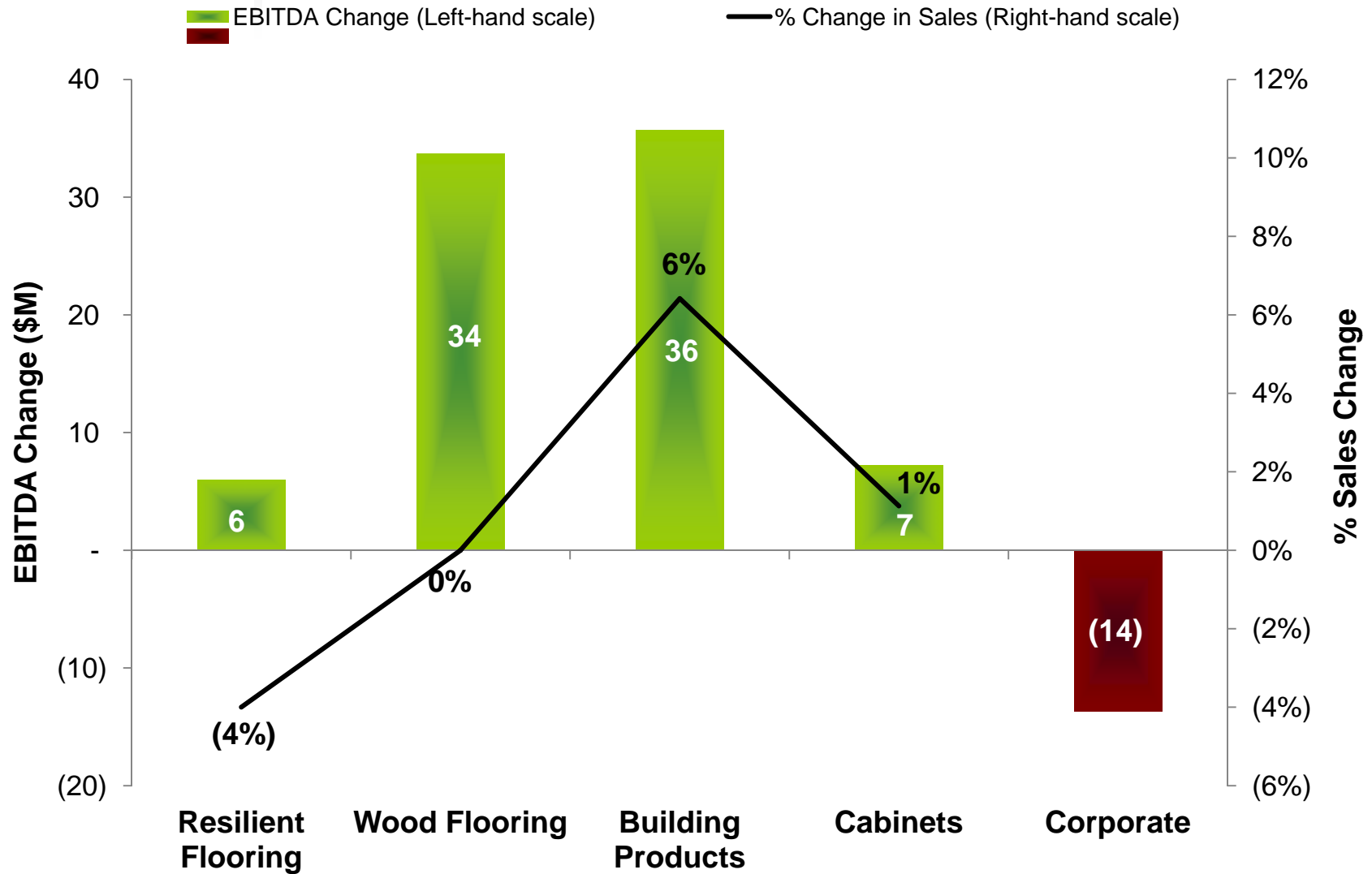
(1) As reported Net Sales: \$2,207 million in 2011 and \$2,124 million in 2010.

(2) As reported Operating Income: \$218 million in 2011 and \$111 million in 2010

(3) As reported EPS: \$1.75 in 2011 and \$0.55 in 2010.

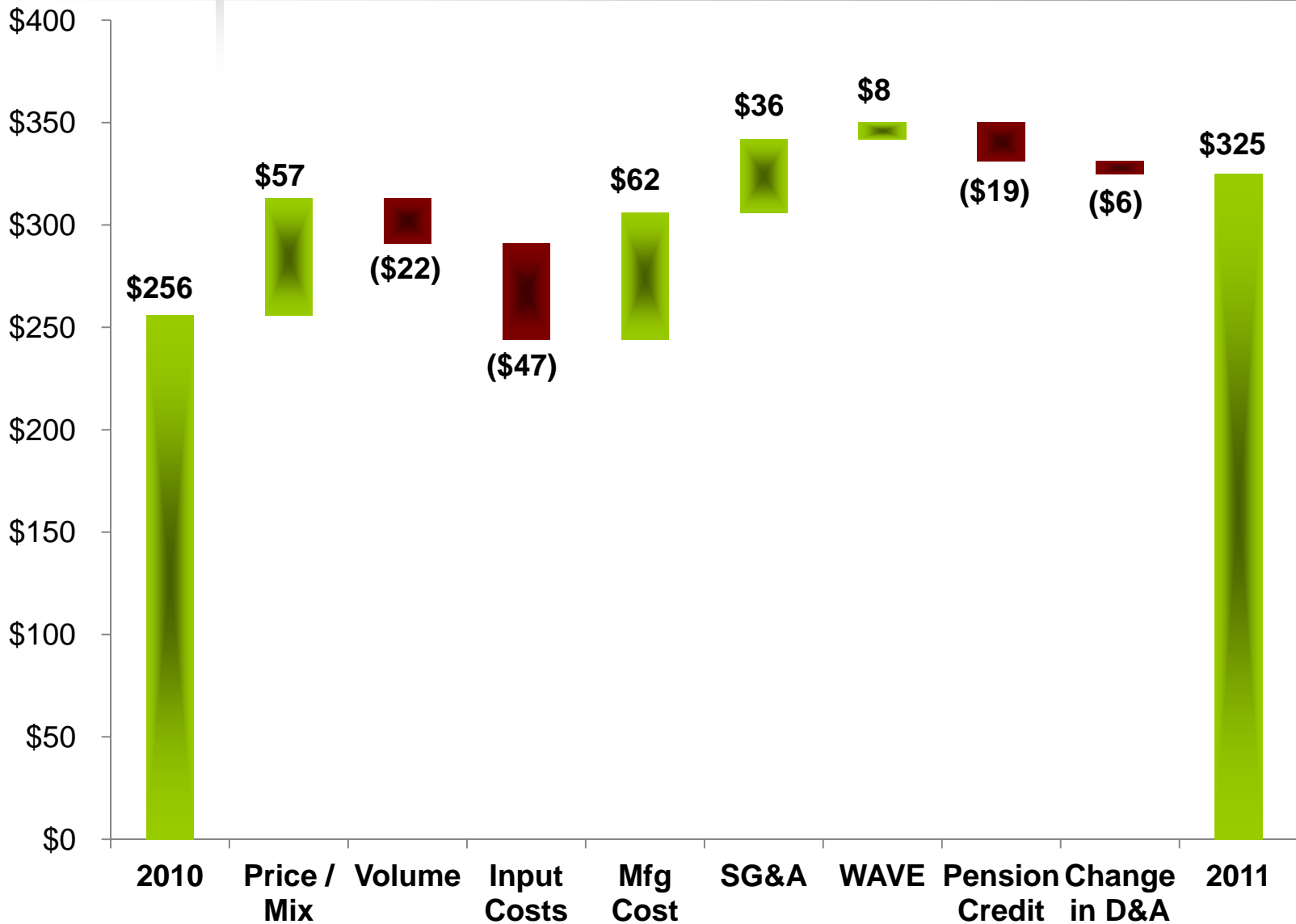


September YTD Sales and EBITDA by Segment – 2011 vs. 2010





EBITDA Bridge – September YTD 2011 versus Prior Year





Key Metrics – Guidance 2011

	2011			2010		Variance	
	<u>Estimate Range</u>						
Net Sales ⁽¹⁾	2,850	to	2,900	2,766	3%	to	5%
Operating Income ⁽²⁾	275	to	295	189	46%	to	56%
EBITDA	380	to	400	303	25%	to	32%
Earnings Per Share ⁽³⁾	\$2.25	to	\$2.45	\$1.73	30%	to	42%
Free Cash Flow	80	to	120	180	(56%)	to	(33%)

(1) Sales figures include foreign exchange impact.

(2) As reported Operating Income: \$235- 255 million in 2011 and \$81 million 2010.

(3) As reported earnings per share: \$1.86- \$2.06 in 2011 and \$0.19 in 2010.

- Raw Material & Energy Inflation \$50 - \$60 million increase
- Manufacturing Productivity* Gross Margin +150 to +200 bps vs. 2010
- U.S. Pension Credit ~\$25 million, down ~\$25 million vs. 2010
60% manufacturing, 40% SG&A
- Earnings from WAVE \$5 - \$10 million vs. 2010
- Cash Taxes/ETR ~\$25 million. Adjusted ETR of 42%
- Q4 Sales \$645 – \$695 million
EBITDA \$55 – \$75 million
- Capital Spending* ~\$150-\$170 million
- Exclusions from EBITDA* ~\$22 - \$25 million associated with already announced actions

* Changed from July Outlook



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Appendix



September YTD– Adjusted EBITDA to Reported Net Income

	<u>2011</u>	<u>2010</u>	<u>V</u>
EBITDA– Adjusted	\$325	\$256	\$69
Depreciation and Amortization	(79)	(86)	7
Operating Income – Adjusted	\$246	\$170	\$76
Foreign Exchange Movements	3	(2)	5
Cost Reduction Initiatives	(12)	(9)	(3)
Laminate Duty refunds	-	7	(7)
Accelerated Depreciation (not included above)	(9)	(19)	10
CEO transition costs	-	(13)	13
Restructuring	(8)	(15)	7
Impairments	<u>(2)</u>	<u>(8)</u>	<u>6</u>
Operating Income – As Reported	\$218	\$111	\$107
Interest (Expense) Income	<u>(36)</u>	<u>(6)</u>	<u>(30)</u>
EBT	\$182	\$105	\$77
Healthcare Reform- Medicare Subsidy Elimination	=	(22)	22
Tax (Expense) Benefit	<u>(78)</u>	<u>(51)</u>	<u>(27)</u>
Net Income	\$104	\$32	\$72



Adjusted Operating Income to Free Cash Flow

	2011 Estimate Range		
Adjusted Operating Income	275	to	295
D&A			105
Adjusted EBITDA	380	to	400
Changes in Working Capital	(10)	to	10
Capex	(150)	to	(170)
Pension Credit			(25)
Interest Expense			(50)
Cash Taxes			(25)
Other, including cash payments for restructuring and one-time items			(30)
Free Cash Flow	80	to	120



Consolidated Results

Third Quarter								
	<u>2011 Reported</u>	<u>Comparability⁽¹⁾ Adjustments</u>	<u>FX⁽²⁾ Adj</u>	<u>2011 Adjusted</u>	<u>2010 Reported</u>	<u>Comparability⁽¹⁾ Adjustments</u>	<u>FX⁽²⁾ Adj</u>	<u>2010 Adjusted</u>
Net Sales	774	-	(17)	757	740	-	12	752
Operating Income	93	6	(2)	97	45	37	1	83
EPS	\$0.89	(\$0.02)	(\$0.01)	\$0.86	\$0.42	\$0.40	\$-	\$0.82

September YTD								
	<u>2011 Reported</u>	<u>Comparability⁽¹⁾ Adjustments</u>	<u>FX⁽²⁾ Adj</u>	<u>2011 Adjusted</u>	<u>2010 Reported</u>	<u>Comparability⁽¹⁾ Adjustments</u>	<u>FX⁽²⁾ Adj</u>	<u>2010 Adjusted</u>
Net Sales	2,207	-	(35)	2,172	2,124	-	21	2,145
Operating Income	218	31	(3)	246	111	59	-	170
EPS	\$1.75	\$0.34	(\$0.02)	\$2.07	\$0.55	\$1.06	\$-	\$1.61

(1) See earnings press release and 10-Q for additional detail on comparability adjustments

(2) Eliminates impact of foreign exchange movements



Segment Operating Income (Loss)

Third Quarter						
	2011 <u>Reported</u>	Comparability ⁽¹⁾ <u>Adjustments</u>	2011 <u>Adjusted</u>	2010 <u>Reported</u>	Comparability ⁽¹⁾ <u>Adjustments</u>	2010 <u>Adjusted</u>
Building Products	72	1	73	59	10	69
Resilient Flooring	11	4	15	10	14	24
Wood Flooring	17	-	17	(13)	11	(2)
Cabinets	2	-	2	(1)	-	(1)
Unallocated Corporate (Expense) Income	(9)	-	(9)	(10)	4	(6)

September YTD						
	2011 <u>Reported</u>	Comparability ⁽¹⁾ <u>Adjustments</u>	2011 <u>Adjusted</u>	2010 <u>Reported</u>	Comparability ⁽¹⁾ <u>Adjustments</u>	2010 <u>Adjusted</u>
Building Products	191	11	202	155	11	166
Resilient Flooring	21	18	39	15	15	30
Wood Flooring	34	(1)	33	(14)	12	(2)
Cabinets	2	-	2	(6)	1	(5)
Unallocated Corporate (Expense) Income	(30)	-	(30)	(39)	20	(19)

(1) Eliminates impact of foreign exchange movements and non-recurring items; see earnings press release and 10-Q for additional detail.



Cash Flow

	<u>Third Quarter</u>		<u>September YTD</u>	
(\$ millions)	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Net Cash From Operations	98	85	130	141
Less: Net Cash from Investing	(25)	(6)	(51)	(4)
Equals Free Cash Flow	73	79	79	137