



Earnings Call Presentation 2nd Quarter 2011

August 1, 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. 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," etc. in discussions of future operating or financial performance or the outcome of contingencies such as liabilities or legal proceedings. 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. 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 is 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 adjusted 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 major, 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 – Second Quarter 2011

	<u>2011 Actual</u>	<u>2010 Actual</u>	<u>Variance</u>
Net Sales ⁽¹⁾	\$733	\$733	0%
Operating Income ⁽²⁾	82	60	36.7%
<i>% of Sales</i>	<i>11.2%</i>	<i>8.2%</i>	<i>300 bps</i>
EBITDA	109	88	23.9%
<i>% of Sales</i>	<i>14.9%</i>	<i>12.0%</i>	<i>290 bps</i>
Earnings Per Share ⁽³⁾	\$0.70	\$0.57	22.8%
Free Cash Flow	50	89	(39)
Net (Cash) Debt	542	(141)	683

(1) As reported Net Sales: \$749 million in 2011 and \$725 million in 2010.

(2) As reported Operating Income: \$73 million in 2011 and \$53 million in 2010

(3) As reported EPS: \$0.64 in 2011 and \$0.46 in 2010.

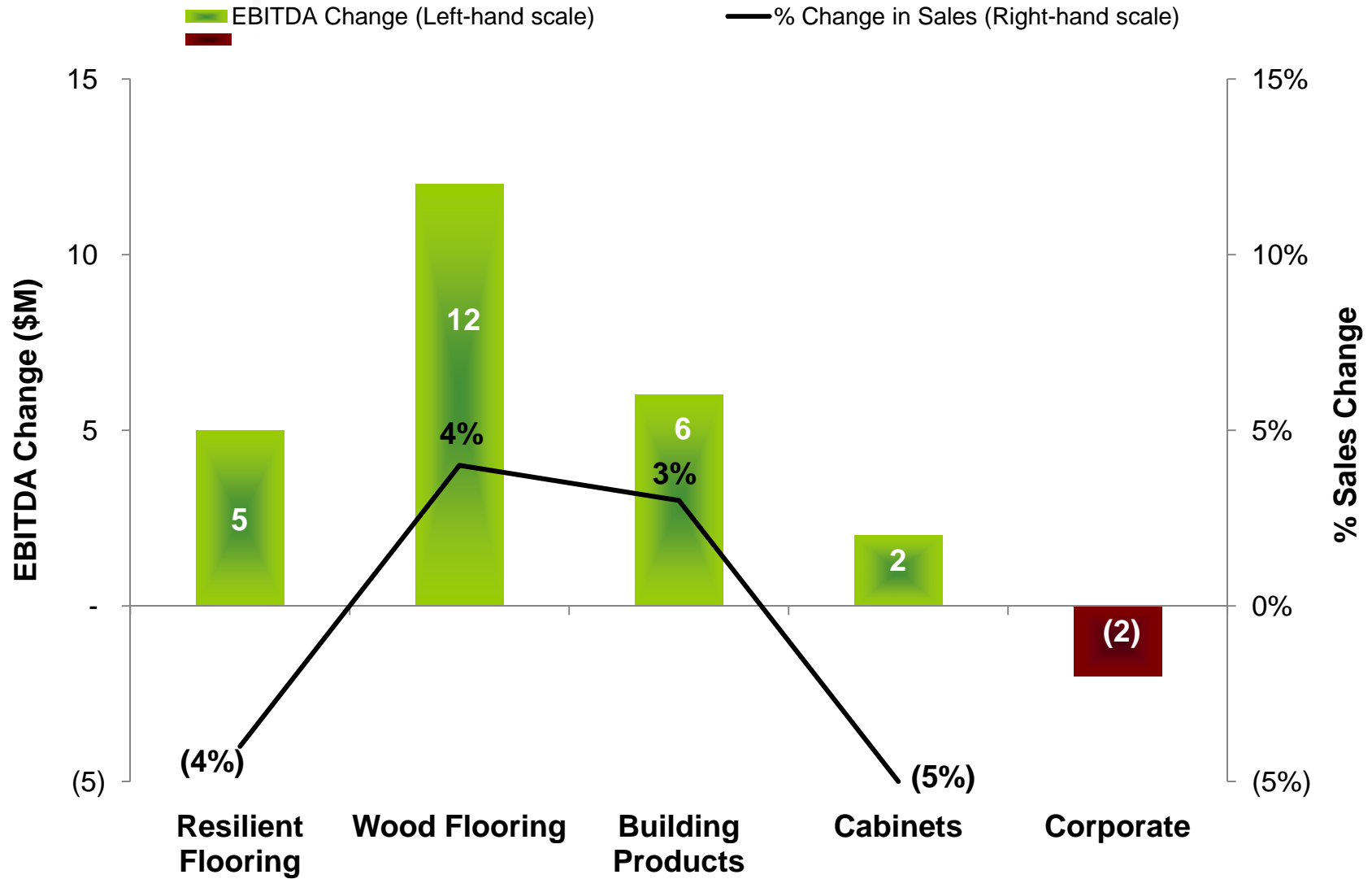


Q2 2011 – Adjusted EBITDA to Reported Net Income

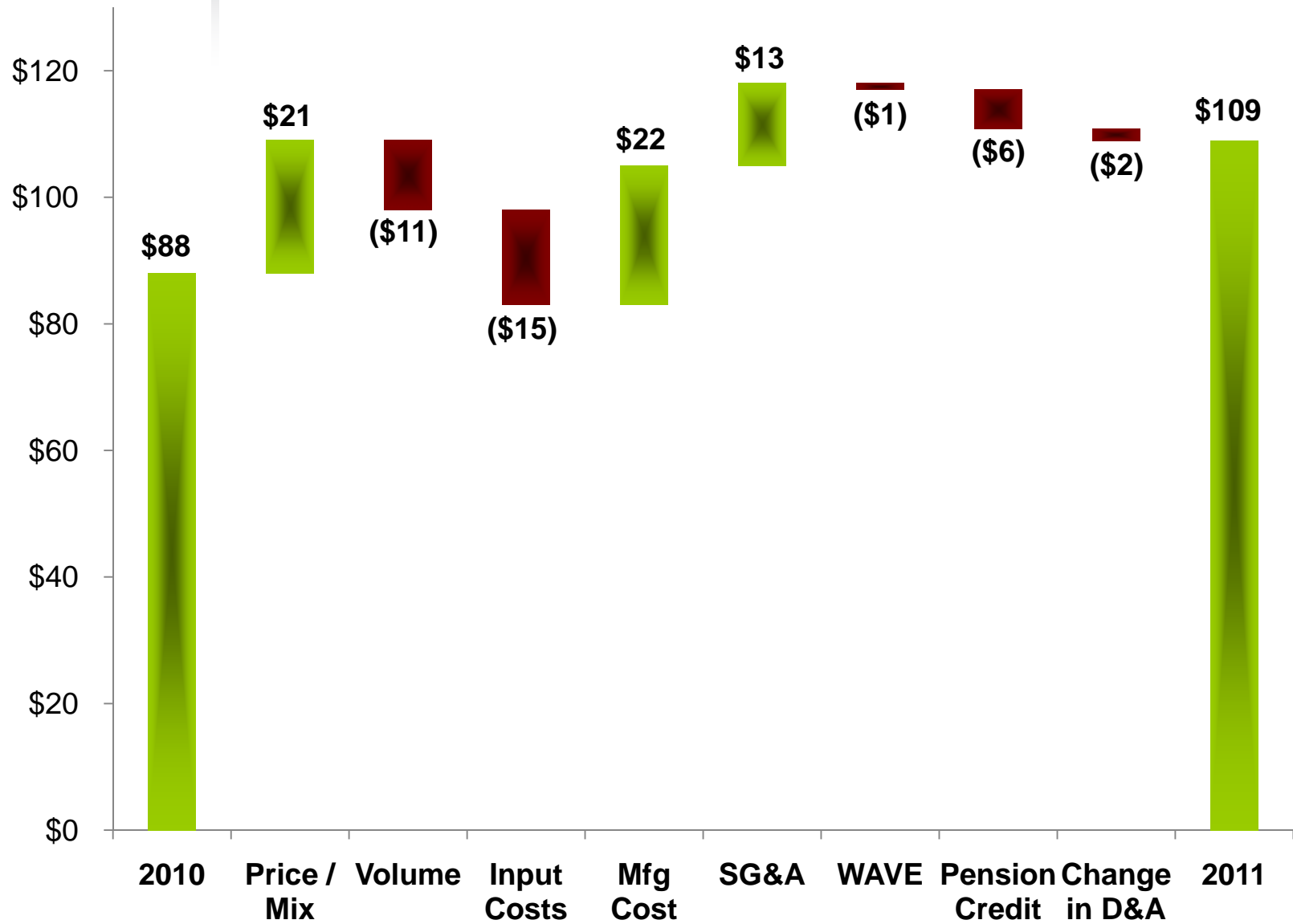
	<u>2011</u>	<u>2010</u>	<u>V</u>
EBITDA– Adjusted	\$109	\$88	\$21
Depreciation and Amortization	(27)	(28)	1
Operating Income – Adjusted	\$82	\$60	\$22
Foreign Exchange Movements	1	-	1
Cost Reduction Initiatives	(5)	(2)	(3)
Accelerated Depreciation (not included above)	(3)	-	(3)
Restructuring	(2)	-	(2)
Impairments	=	(5)	<u>5</u>
Operating Income – As Reported	\$73	\$53	\$20
Interest (Expense) Income	(12)	(4)	(8)
EBT	\$61	\$49	\$12
Tax (Expense) Benefit	(23)	(22)	(1)
Net Income	\$38	\$27	\$11



Q2 Sales and EBITDA by Segment – 2011 vs. 2010

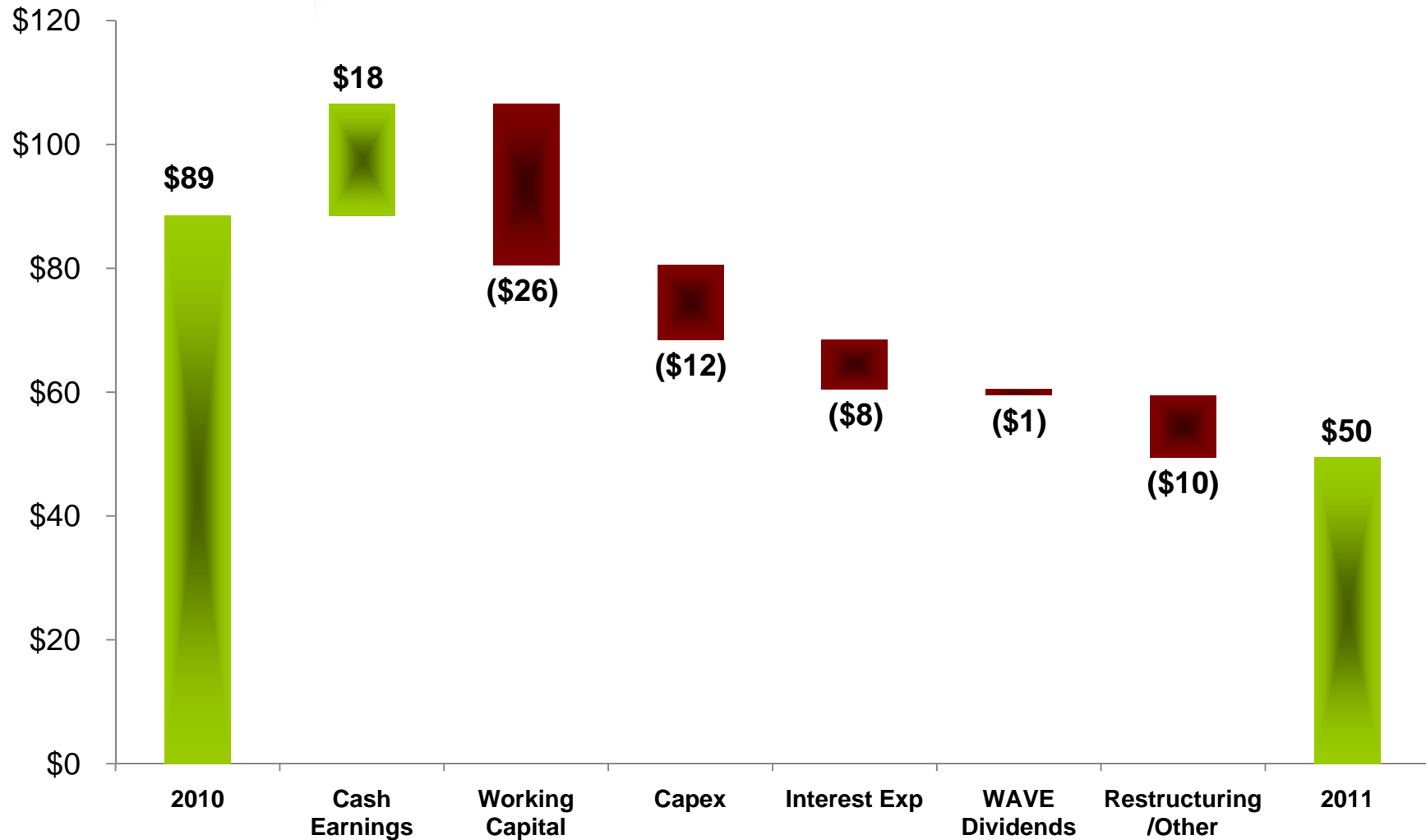


EBITDA Bridge – Q2 2011 versus Prior Year





Free Cash Flow – Second Quarter 2011 versus Prior Year





Key Metrics – 1st Half 2011

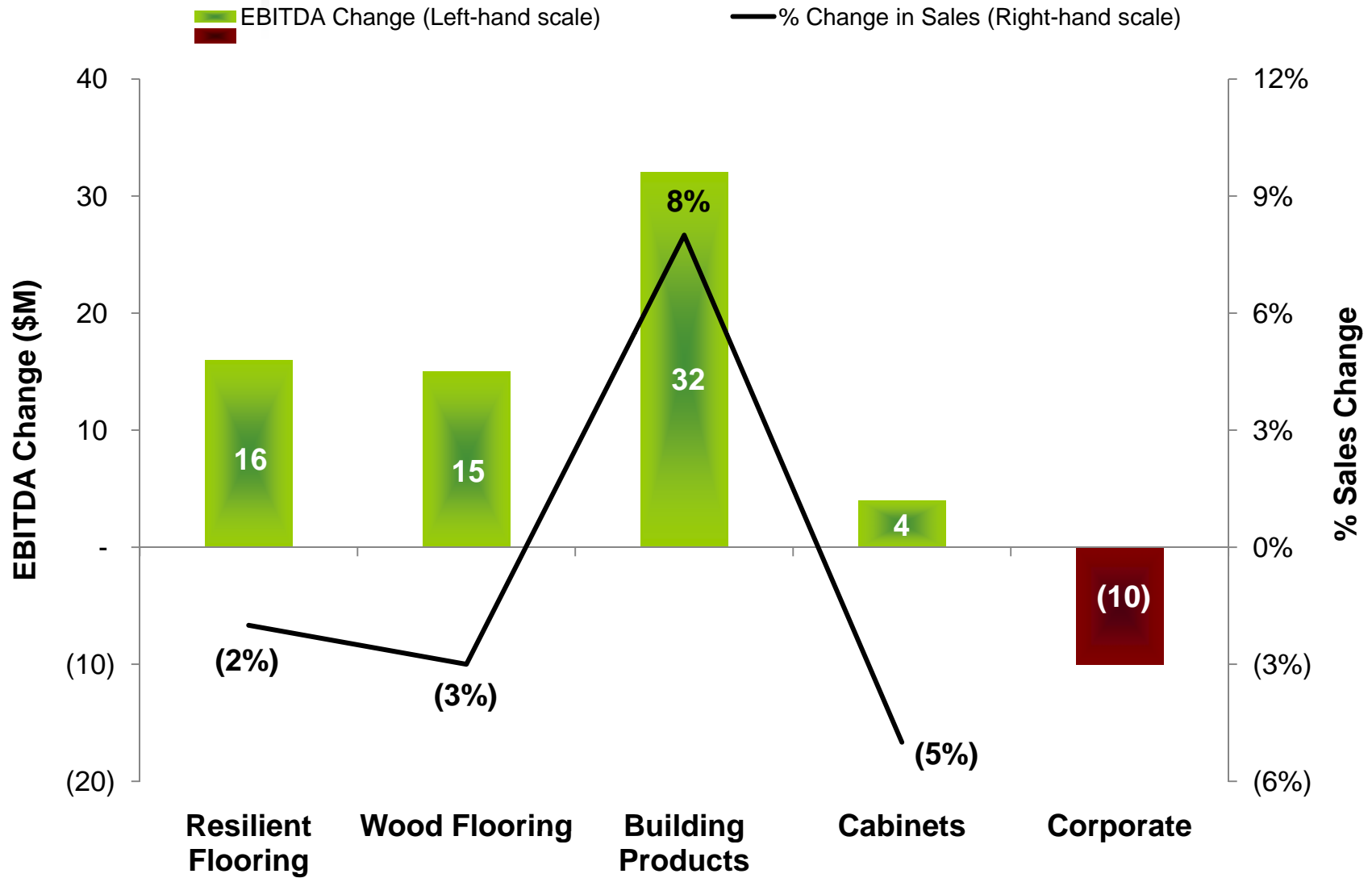
	<u>2011 Actual</u>	<u>2010 Actual</u>	<u>Variance</u>
Net Sales ⁽¹⁾	\$1,414	\$1,393	1.5%
Operating Income ⁽²⁾	149	87	71.3%
<i>% of Sales</i>	<i>10.5%</i>	<i>6.3%</i>	<i>430 bps</i>
EBITDA	202	144	40.3%
<i>% of Sales</i>	<i>14.3%</i>	<i>10.3%</i>	<i>400 bps</i>
Earnings Per Share ⁽³⁾	\$1.21	\$0.80	51.3%
Free Cash Flow	6	59	(53)
Net (Cash) Debt	542	(141)	683

(1) As reported Net Sales: \$1,434 million in 2011 and \$1,384 million in 2010.

(2) As reported Operating Income: \$125 million in 2011 and \$66 million in 2010

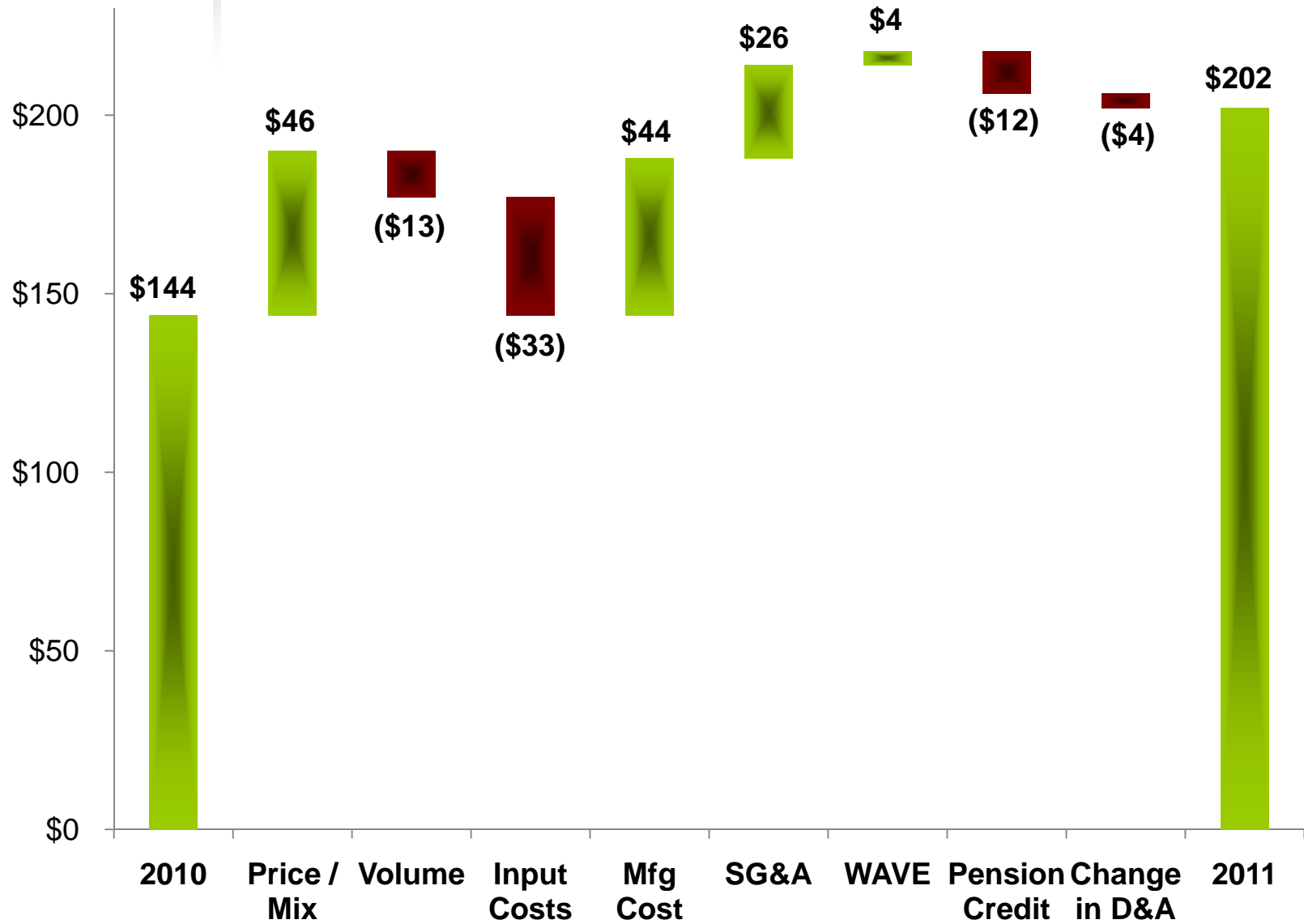
(3) As reported EPS: \$0.87 in 2011 and \$0.13 in 2010.

1H Sales and EBITDA by Segment – 2011 vs. 2010





EBITDA Bridge – 1H 2011 versus Prior Year





Key Metrics – Guidance 2011

	2011				Variance	
	<u>Estimate Range</u>		<u>2010</u>			
Net Sales ⁽¹⁾	2,900	to 3,000	2,766	5%	to	8%
Operating Income ⁽²⁾	280	to 310	189	48%	to	64%
EBITDA	385	to 415	303	27%	to	37%
Earnings Per Share ⁽³⁾	\$2.29	to \$2.58	\$1.73	32%	to	49%
Free Cash Flow	80	to 120	180	(56%)	to	(33%)

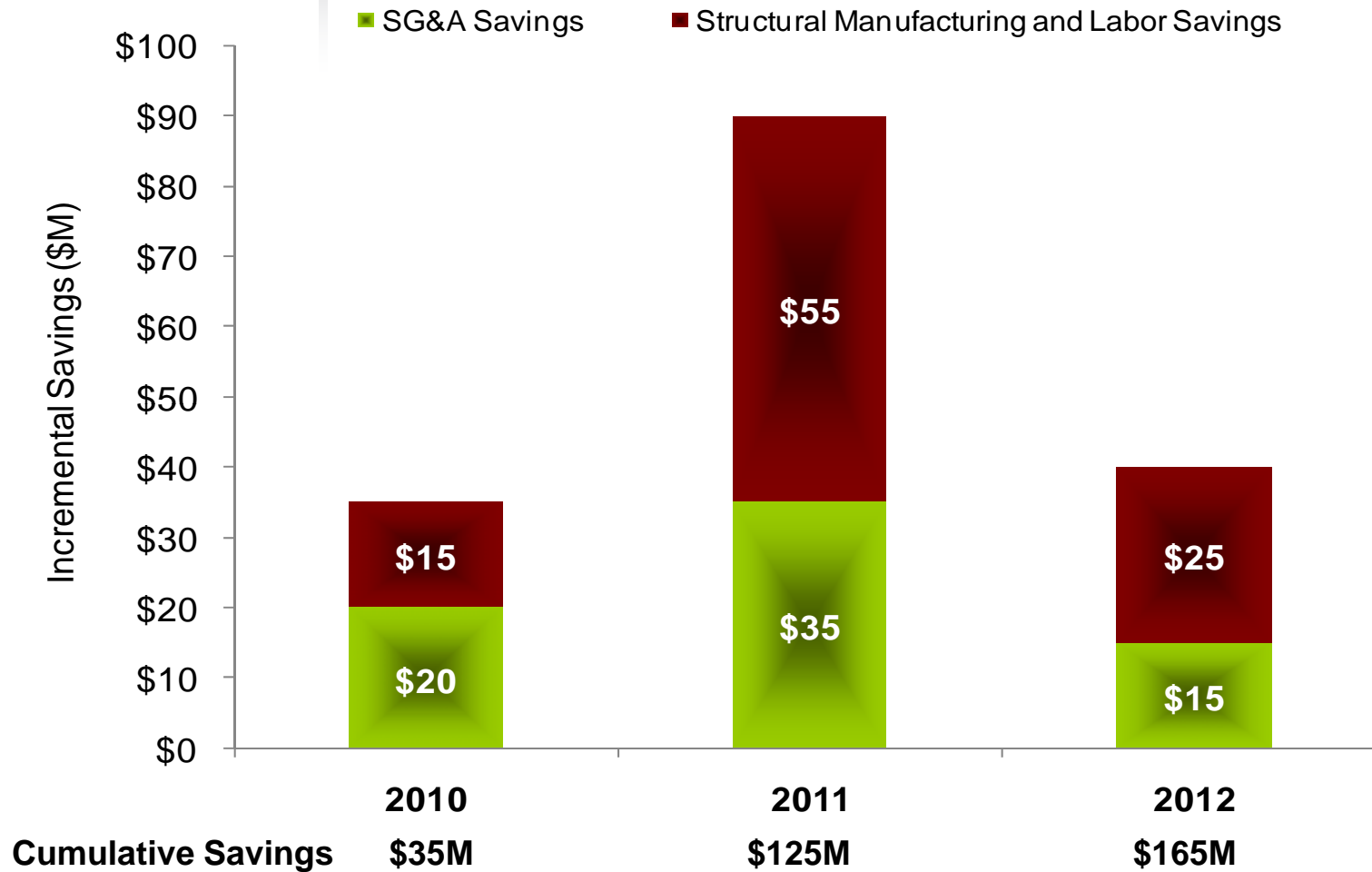
(1) Sales figures include foreign exchange impact.

(2) As reported Operating Income: \$255- 285 million in 2011 and \$81 million 2010.

(3) As reported earnings per share: \$2.01 - \$2.32 in 2011 and \$0.19 in 2010.



\$165 Million Savings Program



**\$165M savings from manufacturing and SG&A, net of inflation.
Manufacturing savings driven by plant closures and LEAN.**

- Raw Material & Energy Inflation* \$50 - \$60 million increase
- Manufacturing Productivity* Gross Margin +175 to +225 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%
- Q3 Sales \$780 – \$830 million
EBITDA \$115 – \$130 million
- Capital Spending ~\$180-\$200 million
- Exclusions from EBITDA* ~\$18 - \$22 million associated with already announced actions

* Changed from April Outlook



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Appendix



1H 2011 – Adjusted EBITDA to Reported Net Income

	<u>2011</u>	<u>2010</u>	<u>V</u>
EBITDA– Adjusted	\$202	\$144	\$58
Depreciation and Amortization	(53)	(57)	4
Operating Income – Adjusted	\$149	\$87	\$62
Foreign Exchange Movements	(1)	-	(1)
Cost Reduction Initiatives	(25)	(13)	(12)
Accelerated Depreciation (not included above)	9	-	9
Restructuring	(7)	-	(7)
Impairments	=	<u>(8)</u>	<u>8</u>
Operating Income – As Reported	\$125	\$66	\$59
Interest (Expense) Income	<u>(26)</u>	<u>(6)</u>	<u>(20)</u>
EBT	\$99	\$60	\$39
Healthcare Reform- Medicare Subsidy Elimination	=	(22)	22
Tax (Expense) Benefit	<u>(48)</u>	<u>(31)</u>	<u>(17)</u>
Net Income	\$51	\$7	\$44



Adjusted Operating Income to Free Cash Flow

	2011 Estimate Range		
Adjusted Operating Income	280	to	310
D&A			105
Adjusted EBITDA	385	to	415
Changes in Working Capital	5	to	25
Capex	(180)	to	(200)
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

Second 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	749	-	(16)	733	725	-	8	733
Operating Income	73	10	(1)	82	53	7	-	60
EPS	\$0.64	\$0.07	(\$0.01)	\$0.70	\$0.46	\$0.11	\$-	\$0.57

Full Year 2011

	<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	1,434	-	(20)	1,414	1,384	-	9	1,393
Operating Income	125	25	(1)	149	66	21	-	87
EPS	\$0.87	\$0.35	(\$0.01)	\$1.21	\$0.13	\$0.67	\$-	\$0.80

(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)

Second 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	57	4	61	53	2	55
Resilient Flooring	11	6	17	10	2	12
Wood Flooring	14	(1)	13	1	-	1
Cabinets	1	-	1	-	-	-
Unallocated Corporate (Expense) Income	(10)	-	(10)	(11)	3	(8)

Full Year 2011						
	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	119	10	129	95	2	97
Resilient Flooring	10	14	24	5	1	6
Wood Flooring	17	(1)	16	(1)	1	-
Cabinets	-	-	-	(4)	-	(4)
Unallocated Corporate (Expense) Income	(21)	1	(20)	(29)	17	(12)

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



Cash Flow

	<u>Second Quarter</u>		<u>Full Year</u>	
(\$ millions)	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Net Cash From Operations	68	84	32	56
Plus / (Minus) Net Cash from Investing	(18)	5	(26)	3
Equals Free Cash Flow	50	89	6	59