

# ARMSTRONG WORLD INDUSTRIES INC

## FORM 10-K (Annual Report)

Filed 02/28/11 for the Period Ending 12/31/10

|             |  |
|-------------|--|
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| Telephone   | 7173970611   |
| CIK         | 0000007431   |
| Symbol      | AWI  |
| SIC Code    | 3089 - Plastics Products, Not Elsewhere Classified |
| Industry    | Constr. - Supplies & Fixtures                      |
| Sector      | Capital Goods                                      |
| Fiscal Year | 12/31  |

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**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, 2010

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

**ARMSTRONG WORLD INDUSTRIES, INC.**

(Exact name of registrant as specified in its charter)

|  |  |  |
|--|--|--|
| <u>Pennsylvania</u><br>(State or other jurisdiction of<br>incorporation or organization)   | <u>1-2116</u><br>Commission file<br>number | <u>23-0366390</u><br>(I.R.S. Employer<br>Identification No.) |
| <u>P. O. Box 3001, Lancaster, Pennsylvania</u><br>(Address of principal executive offices) |  | <u>17604</u><br>(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:

| <u>Title of each class</u>      |
|---------------------------------|
| 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

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes  No

The aggregate market value of the Common Stock of Armstrong World Industries, Inc. held by non-affiliates based on the closing price (\$30.18 per share) on the New York Stock Exchange (trading symbol AWI) on June 30, 2010 was approximately \$612 million. As of February 22, 2011, the number of shares outstanding of registrant's Common Stock was 58,097,649.

### Documents Incorporated by Reference

Certain sections of Armstrong World Industries, Inc.'s definitive Proxy Statement for use in connection with its 2011 annual meeting of stockholders, to be filed subsequently, are incorporated by reference into Part III of this Form 10-K Report where indicated.

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**Uncertainties Affecting Forward-Looking Statements**

Our disclosures in this document and in other public documents and comments may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act. Those statements provide our expectations or forecasts of future events, 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.

Any of our forward-looking statements may turn out to be wrong. Actual results may differ materially from our expected results. Forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. We undertake no obligation to update any forward-looking statement beyond what is required under applicable securities law.

Risks and uncertainties that affect our business, operations and financial condition should be taken into account in evaluating any investment decision involving Armstrong World Industries, Inc. It is not possible to predict or identify all factors that could cause actual results to differ materially from expected and historical results. The discussion in the “Risk Factors” section within Item 1A is a summary of what we currently believe to be our most significant risk factors. Related disclosures in subsequent 10-K, 10-Q and 8-K reports should also be consulted.

PART I

**ITEM 1. BUSINESS**

Armstrong World Industries, Inc. (“AWI” or “the Company”) is a Pennsylvania corporation incorporated in 1891. 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.

We maintain a website at <http://www.armstrong.com>. Information contained on our website is not incorporated into this document. 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](http://www.sec.gov).

In December 2000, AWI 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 our asbestos liability. In October 2006, AWI’s plan of reorganization (“POR”) became effective, and AWI emerged from Chapter 11. See Note 1 to the Consolidated Financial Statements for additional information about AWI’s Chapter 11 case.

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

Our products are used in new home construction and existing home renovation work. Industry estimates are 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

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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 product focus at national home centers, which are our largest customers, 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' 2010 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 |       |
| Resilient Flooring                                    | 5%                         | 30%        | 5%                        | 30%        | 10%                      | 20%        | 100%  |
| Wood Flooring   | 35%                        | 65%        | —                         | —          | —                        | —          | 100%  |
| Building Products                                     | —                          | 10%        | 15%                       | 40%        | 20%                      | 15%        | 100%  |
| Cabinets  | 50%                        | 45%        | 5%                        | —          | —                        | —          | 100%  |

### **Geographic Areas**

We sell our products in more than 80 countries. The breakdown of our consolidated net sales for the year ended December 31, 2010 based on the geographic region in which the sale was made was:

|             |     |
|-------------|-----|
| Americas    | 71% |
| Europe      | 20% |
| Pacific Rim | 9%  |

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. The remainder of our sales are to contractors and retailers.

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

**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:

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

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

Cabinets — American Woodmark Corporation, Fortune Brands, Inc. and Masco Corporation.

**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:

| <u>Business</u>    | <u>Principal Raw Materials</u>  |
|--------------------|---|
| Resilient Flooring | Polyvinylchloride ("PVC") resins and films, plasticizers, backings, limestone, pigments, linseed oil, inks and stabilizers  |
| Wood Flooring      | Hardwood lumber, veneer, coatings and stains  |
| Building Products  | Mineral fibers, fiberglass, perlite, waste paper, clays, starches and steel used in the production of metal ceilings and for our WAVE joint venture's manufacturing of ceiling grid |
| 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 and ceramic), 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 2010, 2009, and 2008.

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

### **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<sup>®</sup>, Allwood<sup>™</sup>, Alterna<sup>™</sup>, Arborcrest<sup>™</sup>, Axiom<sup>®</sup>, Bruce<sup>®</sup>, Calibra<sup>™</sup>, Caruth<sup>™</sup>, Cirrus<sup>®</sup>, Coronet<sup>™</sup>, Cortega<sup>®</sup>, CushionStep<sup>™</sup>, Designer Solarian<sup>®</sup>, DLW<sup>™</sup>, Dune<sup>™</sup>, Excelon<sup>®</sup>, Fine Fissured<sup>™</sup>, Fundamentals<sup>®</sup>, Grand Illusions<sup>™</sup>, Luxe Plank<sup>™</sup>, Medintech<sup>®</sup>, Medintone<sup>®</sup>, Mesa<sup>™</sup>, Metalworks<sup>™</sup>, Natural Creations<sup>®</sup>, Natural Inspirations<sup>®</sup>, Nature's Gallery<sup>®</sup>, Optima<sup>®</sup>, Park Avenue<sup>™</sup>, Sahara<sup>™</sup>, Scala<sup>®</sup>, Second Look<sup>®</sup>, Solarian<sup>®</sup>, SoundSoak<sup>®</sup>, StrataMax<sup>®</sup>, Timberland<sup>®</sup>, ToughGuard<sup>®</sup>, Town&Country<sup>™</sup>, Ultima<sup>®</sup>, Waverly<sup>™</sup>, and Woodworks<sup>®</sup> 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 Liquidity for further information.

## **Employees**

As of December 31, 2010, we had approximately 9,800 full-time and part-time employees worldwide. Approximately 59% 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.

## **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 \$32.9 million in 2010, \$38.0 million in 2009 and \$38.8 million in 2008 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 similar state “Superfund” laws. Significant activities include investigating and/or remediating environmental contamination allegedly resulting from past industrial activity at several current or former plant sites. In a few cases, we are one of several potentially responsible parties (“PRPs”) which have potential liability for the required investigation and remediation of each site. In those cases, we have agreed to jointly fund that 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 \$8.3 million and \$6.3 million at December 31, 2010 and December 31, 2009, 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 31 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.

## **ITEM 1A. RISK FACTORS**

As noted in the introductory section titled “Uncertainties Affecting Forward-Looking Statements,” our business, operations and financial condition are subject to various risks. These risks should be taken into account in evaluating any investment decision involving AWI. It is not possible to predict or identify all factors that could cause actual results to differ materially from expected and historical results. The following discussion is a summary of what we believe to be our most significant risk factors. These and other factors could cause our actual results to differ materially from those in forward-looking statements made in this report.

We try to reduce both the likelihood that these risks will affect our businesses and their potential impact. However, no matter how accurate our foresight, how well we evaluate risks, and how effective we are at mitigating them, it is still possible that one of these risks or some other risks we have not identified could have serious consequences for us, and could cause a material adverse effect on our business. See related discussions in this document and our other SEC filings and our other public documents for more details and subsequent disclosures.

**Our November 23, 2010 refinancing, which was part of a leveraged recapitalization plan, resulted in a substantial amount of indebtedness which may adversely affect our cash flow and our ability to operate our business, comply with debt covenants, make payments on our indebtedness and declare dividends on our capital stock. The refinancing is described in more detail in the financial condition and liquidity section of management’s discussion and analysis (“MD&A”).**

This indebtedness, combined with our other financial obligations and contractual commitments, could:

- make it more difficult for us to satisfy our obligations with respect to our indebtedness, and any failure to comply with the obligations of any of our debt instruments, including restrictive covenants and borrowing conditions, could result in an event of default under the agreements governing such 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;
- 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 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.

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

To the extent that the indebtedness bears interest at floating rates, our sensitivity to interest rate fluctuations will increase.

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

- incur additional debt;
- pay dividends on or make other distributions in respect of our or our restricted subsidiaries' capital stock or redeem, repurchase or retire our or our restricted subsidiaries' capital stock or subordinated debt or make certain other restricted payments;
- 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.

**In addition to increased indebtedness levels due to the refinancing, we still may be able to incur substantially more debt. This could further exacerbate the risks associated with additional leverage.**

Even though we completed the refinancing and incurred the indebtedness described in these Risk Factors and in the financial condition and liquidity section of MD&A, we still may be able to incur substantial additional indebtedness in the future. Although the agreements governing our indebtedness contain restrictions on the incurrence of additional indebtedness, these restrictions are subject to a number of significant qualifications and exceptions, and any indebtedness incurred in compliance with these restrictions could be substantial. If new debt is added to our existing debt levels, the related risks that we face would be increased.

**Our business is dependent on construction activity. Downturns in construction activity and global economic conditions, such as weak consumer confidence and weak credit markets, adversely affect our business and our profitability.**

Our businesses have greater sales opportunities when construction activity is strong and, conversely, have fewer opportunities when such activity declines. Commercial and residential construction activity tends to increase when economies are strong, interest rates are favorable, government spending is strong, and consumers are confident. However, the commercial and residential construction cycles do not always move in tandem. When the economy is weak and access to credit is limited, customers, distributors and suppliers are at heightened risk of defaulting on their obligations. Since most of our sales are in the U.S., its economy is the most important for our business, but conditions in Europe, Canada and Asia also are significant. A prolonged economic downturn would exacerbate the adverse effect on our business, profitability, and the carrying value of assets.

**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. There are no significant debt maturities until 2015 and 2017 under our existing credit facility. While our recapitalization increased our indebtedness, we believe cash on hand, revolving credit facility capacity and cash generated from operations will be adequate to address our foreseeable liquidity needs. In connection with the recapitalization described above, Standard & Poor's and Moody's have lowered their credit ratings on AWI to BB- (negative) and B1, respectively; these downgrades may make future borrowings more difficult or more expensive. If our business experiences materially negative unforeseen events, we cannot assure we will generate sufficient cash flow from operations to fund our needs, maintain sufficient liquidity to operate and remain in compliance with our debt covenants.

**If the availability of raw materials and 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 sometimes has been tight. 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. The impact of increased costs is greatest where our ability to pass along increased costs through price increases on our products is limited, whether due to competitive pressures or other factors.

**Labor disputes or work stoppages could hurt production and reduce sales and profits.**

Most of our manufacturing employees are represented by unions and are covered by collective bargaining or similar agreements that must be periodically renegotiated. Throughout 2011, collective bargaining agreements covering approximately 1,500 employees at six plants are scheduled to expire. We anticipate that we will reach new contracts as current contracts expire. Failure to reach new contracts could lead to work stoppages, which could hurt production, revenues, profits and customer relations.

**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 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, e.g. from residential vinyl products to other flooring products, styling preferences or inability to offer new competitive performance features could hurt our sales. For certain products there is excess industry capacity in several geographic markets, which tends to increase price competition, as does competition from overseas competitors with lower cost structures.

**Reduction in sales 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, such as The Home Depot, Inc. and Lowe's Companies, Inc. The loss of sales to one of these major customers, or changes in our business relationship with them, could adversely affect both our revenues and profits.

**Changes in the political, regulatory and business environments of our international markets, including changes in duty rates, trade regulations, and currency exchange fluctuations 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. Also, approximately 30% of our annual 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, potential restrictions on repatriating profits to the U.S., and loss of sales to local competitors following currency devaluations in countries where we import products for sale.

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

We 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. In early 2010 we stated that, through the aggressive application of LEAN practices and projects to our manufacturing activities and to standardize, simplify and eliminate selling, general and administrative ("SG&A") programs and policies, we are seeking to remove at least \$150 million of manufacturing and SG&A costs by 2013; however, there can be no assurance that we will be able to achieve this level of cost savings. Even if we achieve these targeted savings, there is no assurance that our net operating results in the future will improve by this amount. We can err in planning and executing our actions, which could hurt our customer service and lead to unplanned costs.

**Adverse judgments in regulatory actions, product 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 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. 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. In addition, claims may arise related to patent infringement, environmental liabilities, distributor terminations, commercial contracts, antitrust or competition law, employment law and employee benefits issues, and other regulatory matters. While we have in place processes and policies to mitigate these risks and to investigate and address such claims as they arise, we cannot predict the costs to defend or resolve such claims. 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.

**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 the Company’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. Such a large percentage of ownership could result in below average equity market liquidity and affect matters which require approval by our shareholders.

**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 34 manufacturing plants in eight countries as of December 31, 2010. Three of our plants are leased and the remaining 31 are owned. We have 22 plants located throughout the United States. In addition, we have an interest through our WAVE joint venture in eight additional plants in six countries.

| Business Segment   | Number of Plants | Location of Principal Facilities  |
|--------------------|------------------|---|
| Resilient Flooring | 11               | U.S. (California, Illinois, Mississippi, Oklahoma, Pennsylvania), Australia and Germany                   |
| Wood Flooring      | 10               | U.S. (Arkansas, Kentucky, Missouri, North Carolina, Pennsylvania, Tennessee, and West Virginia) and China |
| Building Products  | 12               | U.S. (Florida, Georgia, Oregon, Pennsylvania), China, France, Germany and the U.K.                        |
| Cabinets           | 1                | U.S. (Pennsylvania)   |

During the first quarter of 2011, we announced the idling of a Wood Flooring manufacturing plant in North Carolina effective April 30, 2011.

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 Note 31 to the Consolidated Financial Statements, which is incorporated herein by reference, for a description of our significant legal proceedings.

## 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 22, 2011, there were approximately 58,097,649 holders of record of AWI's Common Stock.

|                                  | First    | Second   | Third    | Fourth   | Total Year |
|----------------------------------|----------|----------|----------|----------|------------|
| 2010                             |          |          |          |          |            |
| Price range of common stock—high | \$ 40.93 | \$ 45.05 | \$ 43.05 | \$ 54.58 | \$ 54.58   |
| Price range of common stock—low  | \$ 33.42 | \$ 29.44 | \$ 28.01 | \$ 39.55 | \$ 28.01   |
| 2009                             |          |          |          |          |            |
| Price range of common stock—high | \$ 23.74 | \$ 21.80 | \$ 35.50 | \$ 45.45 | \$ 45.45   |
| Price range of common stock—low  | \$ 9.42  | \$ 10.55 | \$ 15.05 | \$ 33.14 | \$ 9.42    |

The above figures represent the high and low intra-day sale prices for our common stock as reported by the New York Stock Exchange.

On November 23, 2010, our Board of Directors declared a special cash dividend of \$13.74 per common share, payable on December 10, 2010, to shareholders of record on December 3, 2010. This special cash dividend resulted in an aggregate cash payment to our shareholders of approximately \$800 million. There were no dividends declared during 2009.

Dividends are paid as and when declared by our Board of Directors and in accordance with restrictions set forth in covenants contained in our debt agreements. In general, our debt agreements allow us to make "restricted payments", which include dividends and stock repurchases, subject to certain dollar limitations and other restrictions and provided that we are in compliance with the financial and other covenants of our debt agreements and meet certain liquidity requirements after giving effect to the restricted payment. For further discussion of the debt agreements, see the financial condition and liquidity section of the Management's Discussion and Analysis of financial condition and operating results and Item 1A Risk Factors in this Form 10-K, and the debt agreements filed with our Current Report on Form 8-K dated November 24, 2010.

Issuer Purchases of Equity Securities

| Period              | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs <sup>1</sup> | Maximum Number of Shares that may yet be Purchased under the Plans or Programs |
|---------------------|----------------------------------|------------------------------|---|--|
| October 1-31, 2010  | —                                | —                            | —   | —  |
| November 1-30, 2010 | —                                | —                            | —   | —  |
| December 1-31, 2010 | —                                | —                            | —   | —  |
| Total               | —                                | —                            | N/A   | N/A  |

<sup>1</sup> The Company does not have a share buy-back program.

**EQUITY COMPENSATION PLAN INFORMATION**

This table provides information on Armstrong’s equity compensation plans. The figures in column (a) represent stock options to purchase Armstrong Common Shares, performance restricted shares, restricted stock and restricted stock units, all granted under the Company’s 2006 Long-Term Incentive Plan. The figures in columns (b) and (c) relate to the same Plan. The figure in Column (b) relates only to 1,978,371 stock options, since no payment is required under the grants of the other awards. The Common Shares in column (c) have been adjusted to reflect the Common Shares tendered from share tax withholding. All figures are as of December 31, 2010 as specified by SEC regulations.

|  | (a) Number of securities to be issued upon exercise of outstanding options, warrants, and rights | (b) Weighted-average exercise price of outstanding options, warrants, and rights | (c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) |
|--|--|--|---|
| Equity compensation plans approved by security holders     | 1,978,371  | \$ 24.02   | 2,001,535   |
| Equity compensation plans not approved by security holders | 0  | Not Applicable   | 0   |
| <b>Totals</b>  | <b>1,978,371</b>   | <b>\$ 24.02</b>  | <b>2,001,535</b>  |

**ITEM 6. SELECTED FINANCIAL DATA**

|  | Successor Company |              |              |              | Predecessor Company                              |   |
|--|-------------------|--------------|--------------|--------------|--|---|
|  | Year<br>2010      | Year<br>2009 | Year<br>2008 | Year<br>2007 | Three<br>Months<br>Ended<br>December<br>31, 2006 | Nine<br>Months<br>Ended<br>September<br>30, 2006 <sup>(1)</sup> |
| <i>(Dollars in millions except for per-share data)</i> |                   |              |              |              |  |   |
| <b>Income statement data</b>                           |                   |              |              |              |  |   |
| Net sales  | \$2,766.4         | \$2,780.0    | \$3,393.0    | \$3,549.7    | \$ 817.3   | \$ 2,608.6  |
| Operating income                                       | 81.1              | 90.6         | 210.9        | 296.7        | 16.5   | 194.3   |
| Earnings from continuing operations                    | 11.0              | 77.7         | 80.4         | 152.8        | 3.3  | 1,424.2   |
| Per common share — basic (a)                           | \$ 0.19           | \$ 1.36      | \$ 1.41      | \$ 2.69      | \$ 0.06  | n/a   |
| Per common share — diluted (a)                         | \$ 0.19           | \$ 1.36      | \$ 1.41      | \$ 2.69      | \$ 0.06  | n/a   |
| Dividends declared per share of common stock           | \$ 13.74          | —            | \$ 4.50      | —            | —  | —   |
| <b>Balance sheet data (end of period)</b>              |                   |              |              |              |  |   |
| Total assets   | 2,922.4           | 3,302.6      | 3,351.8      | 4,639.4      | 4,152.7  |   |
| Long-term debt   | 839.6             | 432.5        | 454.8        | 485.8        | 801.5  |   |
| Total equity   | 1,090.8           | 1,907.9      | 1,751.3      | 2,444.1      | 2,172.1  |   |

(1) Reflects the effects of the Plan of Reorganization and fresh-start reporting. AWI and its subsidiaries adopted fresh-start reporting upon AWI emerging from Chapter 11. Consequently, the impact of emergence, including the gain on settlement of liabilities subject to compromise and the gain on fresh-start reporting of \$1,955.5 million, is reflected in the Predecessor Company for the nine months ended September 30, 2006. The results of operations beginning October 1, 2006 are reflected within the Successor Company.

**Notes:**

(a) See definition of basic and diluted earnings per share in Note 2 to the Consolidated Financial Statements. The common stock of the Predecessor Company was not publicly traded.

## **ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Armstrong World Industries, Inc. ("AWI") 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.

This discussion should be read in conjunction with the financial statements and the accompanying notes included elsewhere in this Form 10-K. This discussion contains forward-looking statements based on our current expectations, which are inherently subject to risks and uncertainties. Actual results and the timing of certain events may differ significantly from those referred to in such forward-looking statements. We undertake no obligation beyond what is required under applicable securities law to publicly update or revise any forward-looking statement to reflect current or future events or circumstances, including those set forth in the section entitled "Uncertainties Affecting Forward-Looking Statements" and elsewhere in this Form 10-K.

Financial performance metrics excluding the translation effect of changes in foreign exchange rates are not in compliance with U.S. generally accepted accounting principles ("GAAP"). We believe that this information improves the comparability of business performance by excluding the impact of changes in foreign exchange rates when translating comparable foreign currency amounts. We calculate the translation effect of foreign exchange rates by applying constant foreign exchange rates to the equivalent periods' reported foreign currency amounts. We believe that this non-GAAP metric provides a clearer picture of our operating performance. Furthermore, management evaluates the performance of the businesses excluding the effects of foreign exchange rates.

We maintain a website at <http://www.armstrong.com>. Information contained on our website is not incorporated into this document. 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](http://www.sec.gov).

### **OVERVIEW**

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.

As of December 31, 2010 we operated 34 manufacturing plants in eight countries, including 22 plants located throughout the U.S. In response to economic conditions during 2010, we closed two previously idled facilities: a Resilient Flooring plant in Montreal, Canada and a Wood Flooring plant in Center, Texas. We also closed strip mill operations (which had been previously idled) at our Oneida, Tennessee plant, while continuing to manufacture parquet flooring at this location. We closed a metal ceilings plant in St. Gallen, Switzerland and a Resilient Flooring plant in Teesside, U.K. We also announced plans to close our Resilient Flooring plant in Holmsund, Sweden and our Building Products plant in Beaver Falls, Pennsylvania effective in 2011. During the first quarter of 2011, we announced the idling of a Wood Flooring manufacturing plant in North Carolina effective April 30, 2011.

Through Worthington Armstrong Venture ("WAVE"), our joint venture with Worthington Industries, Inc., we also have an interest in eight additional plants in six countries that produce suspension system (grid) products for our ceiling systems.

We report our financial results through the following segments: Resilient Flooring, Wood Flooring, Building Products, Cabinets and Unallocated Corporate. See "Results of Operations" and "Reportable Segment Results" for additional financial information on our consolidated company and our segments.

## **Factors Affecting Revenues**

For an estimate of our segments' 2010 net sales by major markets, see "Markets" in Item 1. Business of this Form 10-K.

*Markets.* We compete in building material markets around the world. The majority of our sales are in North America and Europe. During 2010, these markets experienced the following:

- According to the U.S. Census Bureau, in 2010 housing starts in the U.S. residential market increased 6% compared to 2009 to 0.59 million units. Housing completions in the U.S. declined by 18% in 2010 with approximately 0.66 million units completed. The National Association of Realtors indicated that sales of existing homes decreased 5% to 4.92 million units in 2010 from a level of 5.16 million units in 2009.
- According to the U.S. Census Bureau, for the value of new construction put in place, the rate of decline in the North American key commercial market, in nominal dollar terms, was 19% in 2010 compared to 2009. Construction activity in the office, healthcare, education and retail segments declined 29%, 12%, 15% and 26%, respectively, in 2010 compared to 2009. These measures reflect the weakness of the new construction market. In addition, the market is comprised of renovation and repair and replacement which have generally been positive in 2010.
- Markets in Western European countries declined with modest growth in Central Europe and continued weakness elsewhere. Eastern European markets grew.
- Activity in Pacific Rim markets, specifically India, China, and Australia, grew.

*Pricing Initiatives.* We periodically modify prices in response to changes in costs for raw materials and energy, and to market conditions and the competitive environment. In certain cases, realized price increases are less than the announced price increases because of competitive reactions and changing market conditions.

We announced the following recent pricing actions:

- Resilient Flooring announced a pricing increase in the Americas effective March 2010 which was rescinded after competition did not follow. We then announced a pricing increase in the Americas effective June 2010. We have also announced pricing increases in Europe effective January 2011 and domestically effective February 2011.
- Wood Flooring announced price increases effective March and June of 2010.
- Building Products announced price increases for ceiling tile in the Americas and Europe effective February 2010, for grid effective May 2010, again for ceiling tile in the Americas effective August 2010, and again for grid in the Americas effective in October 2010. We have also announced price increases for ceiling tile and grid in the Americas effective February 2011.
- Cabinets announced a price increase effective February 2011.

We estimate pricing actions increased our total consolidated net sales in 2010 by approximately \$8 million when compared to 2009.

*Mix.* Each of our businesses offers a wide assortment of products that are differentiated by style/design and by performance attributes. Pricing for products within the assortment varies. Changes in the relative quantity of products purchased at the different price points can affect year-to-year comparisons of net sales and operating income. Compared to 2009, we estimate mix changes increased our total consolidated net sales in 2010 by approximately \$26 million.

## **Factors Affecting Operating Costs**

*Operating Expenses.* Our operating expenses are comprised of direct production costs (principally raw materials, labor and energy), manufacturing overhead costs, freight, costs to purchase sourced products and selling, general and administrative (“SG&A”) expenses.

Our largest individual raw material expenditures are for lumber and veneers, PVC resins and plasticizers. Natural gas is also a significant input cost. Fluctuations in the prices of these inputs are generally beyond our control and have a direct impact on our financial results. In 2010 these input costs decreased operating income by approximately \$26 million when compared to the same periods of 2009.

We are committed to augmenting margin expansion through further cost elimination. In early 2010 we stated that, through the aggressive application of LEAN practices and projects to our manufacturing activities and to standardize, simplify and eliminate selling, general and administrative (“SG&A”) programs and policies, we are seeking to remove at least \$150 million of manufacturing and SG&A costs by 2013. In 2010, we announced the closure of two Building Products plants, three Resilient Flooring plants, and two of our previously idled Wood Products finished goods production facilities. During the first quarter of 2011, we announced the idling of a Wood Flooring manufacturing plant in North Carolina effective April 30, 2011. We will continue to evaluate the efficiency of our manufacturing footprint in the U.S. and Europe. The charges associated with our cost reduction initiatives may include severance and related termination benefits, fixed asset write-downs, asset impairments and accelerated depreciation and could be material to our financial statements. In 2010 we recorded expenses of approximately \$72 million for these initiatives. Even if we achieve these targeted savings, there is no assurance that our net operating results in the future will improve by this amount. As indicated in our discussion of risk factors, errors in planning or execution, as well as inflation and other external events, can cause unplanned costs or adversely affect operating costs.

*Intangible Asset Impairments.* During the fourth quarters of 2010 and 2009, we recorded non-cash impairment charges of \$22.4 million and \$18.0 million, respectively, to reduce the carrying amount of our Wood Flooring trademarks to their estimated fair value. The fair value in both years was negatively affected by lower expected future sales in the U.S. residential housing market. The initial fair value for these intangible assets was determined in 2006 as part of fresh start reporting. See Note 11 to the Consolidated Financial Statements for more information.

See also “Results of Operations” for further discussion of other significant items affecting operating costs.

## **Factors Affecting Cash Flow**

Typically, we generate cash in our operating activities. The amount of cash generated in a period is dependent on a number of factors, including the amount of operating profit generated, changes in the amount of working capital (such as inventory, receivables and payables) required to operate our businesses, and investments in property, plant & equipment and computer software (“PP&E”).

During 2010 cash and cash equivalents decreased by \$253.7 million. A special cash dividend of \$798.6 million, repayments of our previous debt of \$430.0 million due to the refinancing of our credit facility and capital expenditures of \$92.7 million were partially offset by net cash from operating activities of \$190.4 million, \$800 million due to the refinancing of our credit facility, distributions from WAVE of \$51.0 million and proceeds from asset sales of \$25.8 million. During 2009 cash and cash equivalents increased by \$214.5 million. Net cash from operating activities of \$260.2 million and distributions from WAVE of \$53.5 million were partially offset by capital expenditures of \$105.1 million.

## **Employees**

As of December 31, 2010, we had approximately 9,800 full-time and part-time employees worldwide. This compares to approximately 10,800 employees as of December 31, 2009. The decline was primarily due to the shutdown of finished goods production at two Wood Flooring plants and reductions in our U.S. corporate operations.

During 2010 we negotiated three collective bargaining agreements, and we experienced no significant work stoppages. Throughout 2011, collective bargaining agreements covering approximately 1,500 employees at six plants are scheduled to expire. One of these agreements covering approximately 500 employees expired in February 2011. These employees are continuing to work under the terms of the expired contract.

### **CRITICAL ACCOUNTING ESTIMATES**

In preparing our consolidated financial statements in accordance with U.S. GAAP, we are required to make certain 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. We evaluate our estimates and assumptions on an on-going basis, using relevant internal and external information. We believe that our estimates and assumptions are reasonable. However, actual results may differ from what was estimated and could have a significant impact on the financial statements.

We have identified the following as our critical accounting estimates. We have discussed these critical accounting estimates with our Audit Committee.

Fresh-Start Reporting and Reorganization Value — As part of our emergence from bankruptcy on October 2, 2006, we implemented fresh-start reporting. Our assets, liabilities and equity were adjusted to fair value. In this regard, our Consolidated Financial Statements for periods subsequent to October 2, 2006 reflect a new basis of accounting and are not comparable to our historical consolidated financial statements for periods prior to October 2, 2006.

The adoption of fresh-start reporting had a material effect on our Consolidated Financial Statements and was based on assumptions that employed a high degree of judgment. See Note 1 to the Consolidated Financial Statements for further information relative to our reorganization.

U.S. Pension Credit and Postretirement Benefit Costs — We maintain pension and postretirement plans throughout the world, with the most significant plans located in the U.S. Our defined benefit pension and postretirement benefit costs are developed from actuarial valuations. These valuations are calculated using a number of assumptions. Each assumption represents management's best estimate of the future. The assumptions that have the most significant impact on reported results are the discount rate, the estimated long-term return on plan assets and the estimated inflation in health care costs. These assumptions are generally updated annually.

The discount rate is used to determine retirement plan liabilities and to determine the interest cost component of net periodic pension and postretirement cost. Management utilizes the Hewitt above median yield curve, which is a hypothetical AA yield curve comprised of a series of annualized individual discount rates, as the primary basis for determining the discount rate. As of December 31, 2010 and 2009, we assumed discount rates of 5.10% and 5.60%, respectively, for the U.S. defined benefit pension plans. As of December 31, 2010, we assumed a discount rate of 4.90% compared with a discount rate of 5.30% as of December 31, 2009 for the U.S. postretirement plans. The effects of the change in discount rate will be amortized into earnings as described below. A one-quarter percentage point decrease in the discount rates for the U.S. pension and postretirement plans would decrease 2011 operating income by \$5.0 million. A one-quarter percentage point increase in the discount rates would increase 2011 operating income by \$4.7 million.

We have two U.S. defined benefit pension plans, a qualified funded plan and a nonqualified unfunded plan. For the qualified funded plan, the expected long-term return on plan assets represents a long-term view of the future estimated investment return on plan assets. This estimate is determined based on the target allocation of plan assets among asset classes and input from investment professionals on the expected performance of the asset classes over 10 to 20 years. Historical asset returns are monitored and considered when we develop our expected long-term return on plan assets. An incremental component is added for the expected return from active management based both on the plan's experience and on historical information obtained from the plan's investment consultants. These forecasted gross returns are reduced by estimated management fees and expenses, yielding a long-term

rate of return of 7.25% per annum for 2011. The expected asset return assumption is based upon a long-term view; therefore, we do not expect to see frequent changes from year to year based on positive or negative actual performance in a single year. Over the 10 year period ended December 31, 2010, the annualized return was approximately 7.0% compared to an average expected return of 8.2%. The actual return on plan assets achieved for 2010 was 12.7%. The difference between the actual and expected rate of return on plan assets will be amortized into earnings as described below.

The expected long-term return on plan assets used in determining our 2010 U.S. pension credit was 8%. We have assumed a return on plan assets during 2011 of 7.25%. The decrease reflects the planned change in our asset allocations. The 2011 expected return on assets was calculated in a manner consistent with 2010. A one-quarter percentage point increase or decrease in this assumption would increase or decrease 2011 operating income by approximately \$5.3 million.

Contributions to the unfunded plan were \$3.4 million in 2010 and were made on a monthly basis to fund benefit payments. We estimate the 2011 contributions will be approximately \$3.8 million. See Note 18 to the Consolidated Financial Statements for more information.

The estimated inflation in health care costs represents a long-term view (5-10 years) of the expected inflation in our postretirement health care costs. We separately estimate expected health care cost increases for pre-65 retirees and post-65 retirees due to the influence of Medicare coverage at age 65, as illustrated below:

|      | Assumptions |        |         | Actual  |        |         |
|------|-------------|--------|---------|---------|--------|---------|
|      | Post 65     | Pre 65 | Overall | Post 65 | Pre 65 | Overall |
| 2009 | 10.0%       | 9.5%   | 9.8%    | (7)%    | (1)%   | (5)%    |
| 2010 | 9.0%        | 8.5%   | 8.8%    | (3)%    | 12%    | 4%      |
| 2011 | 8.5%        | 8.6%   | 8.5%    |         |        |         |

The difference between the actual and expected health care costs is amortized into earnings as described below. As of December 31, 2010, health care cost increases are estimated to decrease ratably until 2019, after which they are estimated to be constant at 5%. A one percentage point increase in the assumed health care cost trend rate would reduce 2011 operating income by \$1.9 million, while a one percentage point decrease in the assumed health care cost trend rate would increase 2011 operating income by \$1.8 million. See Note 18 to the Consolidated Financial Statements for more information.

Actual results that differ from our various pension and postretirement plan estimates are captured as actuarial gains/losses. When certain thresholds are met, the gains and losses are amortized into future earnings over the expected remaining service period of plan participants, which is approximately eight years. Changes in assumptions could have significant effects on earnings in future years.

**Impairments of Long-Lived Tangible and Intangible Assets** — In connection with our adoption of fresh-start reporting upon emerging from Chapter 11 in 2006, all long-lived tangible and intangible assets were adjusted to fair value. Our indefinite-lived intangibles are primarily trademarks and brand names, which are integral to our corporate identity and expected to contribute indefinitely to our corporate cash flows. Accordingly, they have been assigned an indefinite life. We conduct our annual impairment test for non-amortizable intangible assets during the fourth quarter, although we conduct interim impairment tests if events or circumstances indicate the asset might be impaired. We conduct impairment tests for tangible assets and amortizable intangible assets when indicators of impairment exist, such as operating losses and/or negative cash flows. If an indication of impairment exists, we compare the carrying amount of the asset group to the estimated undiscounted future cash flows expected to be generated by the assets. The estimate of an asset group's fair value is based on discounted future cash flows expected to be generated by the asset group, or based on management's estimated exit price assuming the assets could be sold in an orderly transaction between market participants or estimated salvage value if no sale is assumed. If the fair value is less than the carrying value of the asset group, we record an impairment charge equal to the difference between the fair value and carrying value of the asset group.

The principal assumptions utilized in our impairment tests for tangible and definite-lived intangible assets include discount rate and operating profit adjusted for depreciation and amortization. The principal assumptions utilized in our impairment tests for indefinite-lived intangible assets include revenue growth rate, discount rate and royalty rate. Revenue growth rate and operating profit assumptions are consistent with those utilized in our operating plan and strategic planning process. The discount rate assumption is calculated based upon an estimated weighted average cost of equity which reflects the overall level of inherent risk and the rate of return a market participant would expect to achieve. Methodologies used for valuing our tangible and intangible assets did not change from prior periods.

The cash flow estimates used in applying our impairment tests are based on management's analysis of information available at the time of the impairment test. Actual cash flows lower than the estimate could lead to significant future impairments. If subsequent testing indicates that new fair values have declined, the carrying values would be reduced and our future statements of income would be affected.

During the fourth quarters of 2010, 2009 and 2008, we recorded non-cash impairment charges of \$22.4 million, \$18.0 million and \$25.4 million, respectively, to reduce the carrying amount of our Wood Flooring trademarks to their estimated fair value based on the results of our annual impairment test. The fair values were negatively affected by lower expected sales in the U.S. residential housing market. The remaining carrying value of the Wood Flooring trademarks at December 31, 2010 was \$42.0 million. We have assumed depressed market activity in 2011 but anticipate market recovery starting in 2012. Continued declines in sales due to lower residential U.S. housing starts and renovation activity compared to our expectations could lead to future material impairments of Wood Flooring intangible assets.

In both 2010 and 2009 we tested the tangible assets and amortizable intangible assets of several asset groups within our Building Products Americas, Building Products Europe, Resilient Flooring Americas, and Resilient Flooring Europe reporting units for impairment due to negative earnings, negative cash flows, plant closure announcements, or other indicators of impairment. We also tested the tangible assets and amortizable intangible assets within our Cabinets reporting unit in 2009 and the tangible assets and amortizable intangible assets within our Unallocated Corporate and Wood reporting units in 2010 due to negative earnings, negative cash flows or other indicators of impairment. Based upon the impairment testing, the carrying value of the tangible assets for each of these asset groups was determined to be recoverable (except as discussed below) because the related undiscounted cash flows and/or fair value significantly exceeded the carrying value of assets.

During the fourth quarter of 2009 we recorded a \$3.0 million impairment charge on tangible assets, primarily machinery and equipment, for one of the asset groups within our European Resilient Flooring reporting unit. The fair values of land and buildings were determined by management estimates of market prices and independent valuations of the land and buildings based on observable market data available at that time. This data included recent sales and leases of comparable properties with similar characteristics within the same local real estate market (considered Level 2 inputs in the fair value hierarchy). The fair values of machinery and equipment were determined by management based on estimated sales and salvage value, which are unobservable inputs.

We also recorded an asset impairment charge of \$2.1 million in the second quarter of 2010 in SG&A expense for a European Resilient Flooring warehouse facility due to the decline in the commercial property sector. The fair values were determined by management estimates of market prices available at that time. This data included sales and leases of comparable properties within similar real estate markets (considered Level 3 inputs in the fair value hierarchy).

The remaining carrying value of tangible assets within the European Resilient Flooring business was \$89.2 million as of December 31, 2010, with land and buildings representing the significant majority. Material uncertainties that could lead to a future material impairment charge include the level of European commercial construction and renovation activity.

During 2010 management decided to exit our corporate flight operations. As a result, we recorded a \$6.1 million impairment charge in selling, general and administrative ("SG&A") expense for corporate aircraft in 2010. The fair values were determined by management estimates and an independent valuation based on information available at that time. The valuation information included sales of similar equipment and

estimates of market prices (considered Level 2 inputs in the fair value hierarchy) for these assets. We sold the corporate aircraft in the fourth quarter of 2010.

We cannot predict the occurrence of certain events that might lead to material impairment charges in the future. Such events may include, but are not limited to, the impact of economic environments, particularly related to the commercial and residential construction industries, material adverse changes in relationships with significant customers, or strategic decisions made in response to economic and competitive conditions.

See Notes 3 and 11 to the Consolidated Financial Statements for further information.

**Income Taxes** — Our effective tax rate is primarily determined based on our pre-tax income and the statutory income tax rates in the jurisdictions in which we operate. The effective tax rate also reflects the tax impacts of items treated differently for tax purposes than for financial reporting purposes. Some of these differences are permanent, such as expenses that are not deductible in our tax returns, and some differences are temporary, reversing over time, such as depreciation expense. These temporary differences create deferred income tax assets and liabilities. Deferred income tax assets are also recorded for operating loss, capital loss and tax credit carryforwards.

Deferred income tax assets and liabilities are recognized by applying enacted tax rates to temporary differences that exist as of the balance sheet date. We record valuation allowances to reduce our deferred income tax assets if it is more likely than not that some portion or all of the deferred income tax assets will not be realized. As of December 31, 2010, we have recorded valuation allowances totaling \$168.1 million for various federal, state and foreign net operating loss, capital loss and foreign tax credit carryforwards. While we have considered future taxable income in assessing the need for the valuation allowances based on our best available projections, if these estimates and assumptions change in the future or if actual results differ from our projections, we may be required to adjust our valuation allowances accordingly. Such adjustment could be material to our Consolidated Financial Statements.

As further described in Note 16 to the Consolidated Financial Statements, our Consolidated Balance Sheet as of December 31, 2010 includes net deferred income tax assets of \$535.7 million. Included in this amount are deferred federal and state income tax assets of \$175.9 million and \$62.0 million, respectively, relating to federal and state net operating loss carryforwards. These net operating losses arose primarily as a result of the amounts paid to the Asbestos PI Trust in 2006. We have concluded that all but \$20.2 million of these income tax benefits are more likely than not to be realized in the future.

Inherent in determining our effective tax rate are judgments regarding business plans and expectations about future operations. These judgments include the amount and geographic mix of future taxable income, limitations on usage of net operating loss carryforwards after emergence from bankruptcy, potential tax law changes, the impact of ongoing or potential tax audits, earnings repatriation plans and other future tax consequences.

We establish reserves for tax positions that management believes are supportable, but are potentially subject to challenge by the applicable taxing authorities. We review these tax uncertainties in light of the changing facts and circumstances and adjust them when warranted. We have several tax audits in process in various jurisdictions.

#### **ACCOUNTING PRONOUNCEMENTS EFFECTIVE IN FUTURE PERIODS**

There were no new accounting pronouncements issued or effective during the fiscal year which have had or are expected to have a material impact on the Consolidated Financial Statements. For a discussion of new accounting pronouncements, see Note 2 to our Consolidated Financial Statements.

**RESULTS OF OPERATIONS**

Unless otherwise indicated, net sales in these results of operations are reported based upon the location where the sale was made. Certain prior year amounts have been reclassified to conform to the current year presentation. Please refer to Note 3 to the Consolidated Financial Statements for a reconciliation of segment operating income to consolidated earnings from continuing operations before income taxes.

**2010 COMPARED TO 2009**

**CONSOLIDATED RESULTS**

|                              | 2010       | 2009       | Change is Favorable<br>(Unfavorable) |
|------------------------------|------------|------------|--------------------------------------|
| Net sales:                   |            |            |                                      |
| Americas                     | \$ 1,966.7 | \$ 1,995.6 | (1.4)%                               |
| Europe                       | 600.9      | 626.0      | (4.0)%                               |
| Pacific Rim                  | 198.8      | 158.4      | 25.5%                                |
| Total consolidated net sales | \$ 2,766.4 | \$ 2,780.0 | (0.5)%                               |
| Operating income             | \$ 81.1    | \$ 90.6    | (10.5)%                              |

Consolidated net sales remained flat for the year, as a decrease in volume was largely offset by improved product mix.

Net sales in the Americas decreased approximately 1% as decreased residential volumes more than offset price realization, improved product mix, and favorable foreign exchange of \$15.1 million.

Net sales in the European markets declined approximately 4% as Building Products volume growth was offset by less profitable mix in both Building Products and Resilient Flooring. In addition, results reflect unfavorable foreign exchange of \$20.7 million.

Net sales in the Pacific Rim increased approximately 26% primarily due to volume growth and favorable foreign exchange of \$12.9 million.

Cost of goods sold was 77.9% of net sales, compared to 77.7% for the same period in 2009. Compared to the prior year, reduced manufacturing costs were offset by higher input costs.

SG&A expenses in 2010 were \$531.3 million, or 19.2% of net sales, and \$552.4 million, or 19.9% of net sales, in 2009. The decreases were due to reductions in core SG&A expenses and a gain of \$2.3 million on the collection of a non-current note receivable. In 2010 these decreases offset \$14.7 million of CEO transition costs, a \$6.1 million asset impairment charge related to the termination of our flight operations and an asset impairment charge of \$2.1 million for a European warehouse facility.

Restructuring charges of \$22.0 million were recorded in 2010 for severance and related costs for several plant closures and reductions in SG&A personnel. See Note 15 to the Consolidated Financial Statements for further information.

Equity earnings from our WAVE joint venture were \$45.0 million compared to \$40.0 million in 2009. See Note 10 to the Consolidated Financial Statements for further information.

Interest expense was \$21.2 million compared to \$17.7 million in 2009. The increase is primarily due to the refinancing of our credit facility in the fourth quarter of 2010. In connection with the refinancing we wrote off \$3.8 million of unamortized debt financing costs related to our previous credit facility to interest expense.

Other non-operating income was \$8.0 million compared to \$3.2 million in 2009. 2010 included \$2.5 million of interest income related to laminate duty refunds received as a result of customs litigation.

Income tax expense (benefit) was \$55.7 million and \$(2.5) million in 2010 and 2009, respectively. The effective tax rate for 2010 was 83.5% as compared to a rate of -3.3% for 2009. The effective tax rate for 2010 was significantly higher than 2009 due to the enactment of health care reform legislation in March 2010 and the impact of the settlement of the Internal Revenue Service examination in July 2009.

**REPORTABLE SEGMENT RESULTS**

**Resilient Flooring**

|                         | 2010       | 2009       | Change is Favorable<br>(Unfavorable) |
|-------------------------|------------|------------|--------------------------------------|
| Net sales:              |            |            |                                      |
| Americas                | \$ 653.0   | \$ 673.1   | (3.0)%                               |
| Europe                  | 276.5      | 294.3      | (6.0)%                               |
| Pacific Rim             | 83.7       | 64.3       | 30.2%                                |
| Total segment net sales | \$ 1,013.2 | \$ 1,031.7 | (1.8)%                               |
| Operating income        | \$ 13.1    | \$ 0.1     | Favorable                            |

Net sales in the Americas declined primarily due to volume declines in residential and commercial markets, partially offset by product mix improvement and favorable foreign exchange of \$6.4 million.

Net sales in European markets declined on lower volume partially due to our exit in the fourth quarter of 2010 of the residential flooring business, unfavorable product mix, and unfavorable foreign exchange impact of \$11.6 million.

Net sales in the Pacific Rim increased due to higher volume and favorable foreign exchange impact of \$6.2 million.

Operating income improved as reduced manufacturing and SG&A expenses more than offset the margin impact of lower sales and raw material inflation. Operating income in 2010 was negatively impacted by approximately \$17 million of charges related to the restructuring of the European business, \$2.1 million of asset impairment charges and approximately \$7 million of costs related to the closure of our Montreal, Canada facility, partially offset by approximately \$7 million of income due to laminate duty refunds. See Note 31 to the Condensed Consolidated Financial Statements for further information on the laminate duty refunds. Operating income in 2009 was negatively impacted by \$4.7 million in cost reduction initiatives expenses and \$3.0 million of asset impairment charges. The European Resilient Flooring business incurred losses of \$36.1 million for 2010 and \$25.7 million for the same period in 2009.

**Wood Flooring**

|                         | 2010      | 2009     | Change is<br>(Unfavorable) |
|-------------------------|-----------|----------|----------------------------|
| Total segment net sales | \$ 479.1  | \$ 510.4 | (6.1)%                     |
| Operating (loss)        | \$ (45.8) | \$ (5.9) | Unfavorable                |

Net sales declined due to lower volume in residential markets partially offset by improvements in product mix and price.

Operating income declined as the margin impact of lower sales, significant raw hardwood lumber material inflation and the related inventory valuation impact of this inflation, offset reduced manufacturing and SG&A expenses. Operating income in 2010 was negatively impacted by approximately \$16 million of fixed asset write downs and restructuring charges related to the closure of two manufacturing facilities. Non-cash impairment charges of \$22.4 and \$18.0 million related to our Wood Flooring trademarks also negatively impacted operating income in 2010 and 2009, respectively.

**Building Products**

|                         | 2010       | 2009       | Change is Favorable<br>(Unfavorable) |
|-------------------------|------------|------------|--------------------------------------|
| Net sales:              |            |            |                                      |
| Americas                | \$ 696.0   | \$ 661.9   | 5.2%                                 |
| Europe                  | 324.4      | 331.7      | (2.2)%                               |
| Pacific Rim             | 115.1      | 94.1       | 22.3%                                |
| Total segment net sales | \$ 1,135.5 | \$ 1,087.7 | 4.4%                                 |
| Operating income        | \$ 171.0   | \$ 155.9   | 9.7%                                 |

Net sales in the Americas increased due to improved product mix, price realization and favorable foreign exchange impact of \$6.4 million.

Net sales in Europe declined as higher volume was offset by less profitable product mix and unfavorable foreign exchange of \$9.1 million.

Net sales in the Pacific Rim increased on higher volume and favorable foreign exchange of \$6.7 million.

Operating income increased primarily due to the margin impact of increased sales, reduced manufacturing expenses, and higher earnings from WAVE, partially offset by restructuring costs and non-cash accelerated depreciation charges of approximately \$21 million in 2010 and a loss on the sale of our European metal ceilings contract installation business of \$5.8 million in 2010.

**Cabinets**

|                         | 2010     | 2009      | Change is Favorable/<br>(Unfavorable) |
|-------------------------|----------|-----------|---------------------------------------|
| Total segment net sales | \$ 138.6 | \$ 150.2  | (7.7)%                                |
| Operating (loss)        | \$ (6.4) | \$ (18.3) | 65.0%                                 |

Net sales decreased due to lower volume driven by continued declines in residential housing markets.

Operating loss improved primarily due to reduced SG&A and manufacturing expenses, partially offset by the margin impact of lower sales. Operating loss in 2009 was impacted by \$6.1 million of expenses related to the Auburn, Nebraska plant closure.

## **Unallocated Corporate**

Unallocated corporate expense of \$50.8 million increased from \$41.2 million in the prior year. 2010 included \$14.7 million for CEO transition costs, \$6.1 million of asset impairment charges related to the termination of our flight operations and \$4.0 million of restructuring charges. 2010 was negatively impacted compared to 2009 by a lower pension credit and costs related to the support of our LEAN initiatives. 2009 included \$31.6 million related to a change in control event which resulted in accelerated stock-based compensation expense.

## **FINANCIAL CONDITION AND LIQUIDITY**

### Cash Flow

Operating activities for 2010 provided \$190.4 million of cash, a decrease of \$69.8 million compared to the \$260.2 million of cash provided for 2009. The decrease was primarily due to lower decreases in inventories during 2010 compared to 2009, and a decrease in accounts receivables in 2009 compared to a small increase in 2010. These decreases were partially offset by increases in accounts payable and accrued expenses across most business units, partially due to restructuring accruals, compared to decreases in 2009.

Net cash used by investing activities was unchanged. Higher proceeds from asset sales and lower capital expenditures were primarily offset by restricted cash received related to the financing of our new West Virginia mineral wool plant.

Net cash used for financing activities was \$409.0 million for 2010, primarily due to a cash dividend of \$798.6 million partially offset by \$800 million of new debt that was used to repay our \$430 million credit agreement. In addition, we issued \$35 million in bonds related to our new West Virginia mineral wool plant. Net cash used for financing activities was \$26.7 million for 2009 primarily due to scheduled debt repayments. See Liquidity section for further discussion of our refinancing.

### Liquidity

Our liquidity needs for operations vary throughout the year. We retain lines of credit to facilitate our seasonal needs. On November 23, 2010, we refinanced our \$1.1 billion credit facility and executed a \$1.05 billion senior credit facility arranged by Merrill Lynch, Pierce, Fenner & Smith, Inc., J.P. Morgan Securities, Inc., and Barclays Capital. This new facility consists of a \$250 million revolving credit facility (with a \$150 million sublimit for letters of credit), a \$250 million Term Loan A and a \$550 million Term Loan B. This \$1.05 billion senior credit facility is secured by U.S. personal property, the capital stock of material U.S. subsidiaries, and a pledge of 65% of the stock of our material first tier foreign subsidiaries.

The senior credit facility includes two financial covenants which require the ratio of consolidated earnings before interest, taxes, depreciation and amortization ("EBITDA") to consolidated cash interest expense minus cash consolidated interest income ("consolidated interest coverage ratio") to be greater than or equal to 3.0 to 1.0 and require the ratio of consolidated funded indebtedness minus AWI and domestic subsidiary unrestricted cash and cash equivalents up to \$100M to consolidated EBITDA ("consolidated leverage ratio") to be less than or equal to 4.5 to 1.0 through June 30, 2012, 4.0 to 1.0 after June 30, 2012 through September 30, 2013 and 3.75 to 1.0 after September 30, 2013. As of December 31, 2010 we were fully in compliance with these covenants. We believe that default under these covenants is unlikely. Fully borrowing under our revolving credit facility would not violate these covenants.

The Revolving Credit and Term Loan A portions are currently priced at a spread of 3.00% over LIBOR and the Term Loan B portion is priced at 3.50% over LIBOR with a 1.50% LIBOR floor for its entire term. The Term Loan A and Term Loan B were both fully drawn and are currently priced on a variable interest rate basis. The unpaid balances of Term Loan A, the Revolving Credit and Term Loan B of the credit facility may be prepaid without penalty at the maturity of their respective interest reset periods. Any amounts prepaid on the Term Loan A or Term Loan B may not be reborrowed.

During 2010 we were in compliance with all covenants of the previous and current credit agreement.

Mandatory prepayments are required under the senior credit facility pursuant to an annual leverage test starting with the year ending December 31, 2011 under which, if our consolidated leverage ratio is greater

than 2.0 to 1.0, but less than 2.5 to 1.0, we would be required to make a prepayment of 25% of Consolidated Excess Cash Flow as defined by the credit agreement. If our consolidated leverage ratio is greater than 2.5 to 1.0, the prepayment amount would be 50% of Consolidated Excess Cash Flow.

As of December 31, 2010, we had \$315.8 million of cash and cash equivalents, \$35.7 million in the U.S. and \$280.1 million in various foreign jurisdictions.

Our current debt rating from S&P is BB- (negative) and from Moody's is B1 (stable).

On December 10, 2010 we established a \$100 million Receivables Securitization Program. AWI and its subsidiary, Armstrong Hardwood Flooring Company, sold their U.S. receivables to Armstrong Receivables Company LLC ("ARC"), a Delaware entity that is consolidated in these financial statements. ARC financed those receivables through Credit Agricole Corporate and Investment Bank, with a maximum commitment of \$100 million. In addition to the financing of receivables by Credit Agricole, under the documentation establishing the program, Credit Agricole may also issue letters of credit at the request of ARC. The purchase and letter of credit commitments under the program expire in December 2013, subject to possible extensions thereafter.

On December 31, 2010, we had outstanding letters of credit totaling \$74.4 million, of which \$37.3 million was issued under the revolving credit facility, \$36.2 million related to the West Virginia bond issue was issued under the securitization facility and \$0.9 million of international subsidiary letters of credit were issued by other banks. Letters of credit are issued to third party suppliers, insurance and financial institutions and typically can only be drawn upon in the event of AWI's failure to pay its obligations to the beneficiary.

As of December 31, 2010, our foreign subsidiaries had available lines of credit totaling \$25.6 million of which \$2.4 million was only available for letters of credit and guarantees. There were no borrowings under these lines of credit as of December 31, 2010 leaving \$23.2 million of unused lines of credit available for foreign borrowings. There was \$0.9 million of letters of credit issued against these credit lines as of December 31, 2010 leaving additional letter of credit availability of \$1.5 million. However, these lines of credit are uncommitted, and poor operating results or credit concerns at the related foreign subsidiaries could result in the lines being withdrawn by the lenders. We have been able to maintain and, as needed, replace, credit facilities to support our foreign operations.

On December 16, 2010 we issued \$35.0 million of Recovery Zone Facility bonds through Jackson County, West Virginia to finance the construction of our new mineral wool plant. These tax exempt bonds are seven day variable rate demand notes backed by a letter of credit. These bonds mature in 2041. As of December 31, 2010 the \$30 million of unspent proceeds must be used for expenditures related to the construction of our new mineral wool plant and are therefore accounted for as restricted cash within other non-current assets.

We paid a special cash dividend of \$13.74 per common share on December 10, 2010. This special cash dividend resulted in an aggregate payment to our shareholders of \$798.6 million. Funding for this dividend came from our debt refinancing and available cash. Payment of an additional \$4.7 million of the dividend is expected to be made when the underlying employee shares vest.

Our Board of Directors has approved the construction of a U.S. mineral wool plant to supply our Building Products plants, the allocation of capital to double our Building Products production capacity in China, and the construction of a China flooring plant. Total capital spending for these projects of approximately \$125 million will be incurred over several years, with most of the spending occurring in 2011 and 2012.

We believe that cash on hand and generated from operations, together with lines of credit, availability under our securitization program, and the availability under the \$250 million revolving credit facility, will be adequate to address our foreseeable liquidity needs based on current expectations of our business operations, capital expenditures and scheduled payments of debt obligations.

**2009 COMPARED TO 2008**

**CONSOLIDATED RESULTS**

|                              | <u>2009</u>       | <u>2008</u>       | <u>Change is<br/>(Unfavorable)</u> |
|------------------------------|-------------------|-------------------|------------------------------------|
| Net sales:                   |                   |                   |                                    |
| Americas                     | \$ 1,995.6        | \$ 2,384.4        | (16.3)%                            |
| Europe                       | 626.0             | 826.0             | (24.2)%                            |
| Pacific Rim                  | 158.4             | 182.6             | (13.3)%                            |
| Total consolidated net sales | <u>\$ 2,780.0</u> | <u>\$ 3,393.0</u> | <u>(18.1)%</u>                     |
| Operating income             | \$ 90.6           | \$ 210.9          | (57.0)%                            |

Consolidated net sales declined approximately 18% as significant volume declines more than offset very modest improvements in price realization. Consolidated net sales were also negatively impacted by unfavorable foreign exchange of \$110.9 million.

Net sales in the Americas decreased approximately 16% as volume declined in all segments.

Net sales in the European markets decreased by approximately 24%, as net sales were impacted by unfavorable foreign exchange of \$83.2 million. Lower volume for Building Products was partially offset by modestly improved product mix, while Resilient Flooring sales declined on lower volume.

Net sales in the Pacific Rim decreased approximately 13% on lower volumes and unfavorable foreign exchange of \$11.9 million.

Cost of goods sold was 77.7% of net sales in 2009 compared to 77.6% of net sales in 2008. Reduced input and manufacturing costs offset the decline in sales.

SG&A expenses in 2009 were \$552.4 million, or 19.9% of net sales, compared to \$579.9 million, or 17.1% of net sales, in 2008. The change in expense was primarily due to reduced spending in all segments, partially offset by \$31.6 million accelerated stock-based compensation expense in 2009. The increase in SG&A expenses as a percent of net sales was due to the significant decrease in net sales.

Equity earnings, primarily from our WAVE joint venture, were \$40.0 million in 2009, as compared to \$56.0 million in 2008. See Note 10 to the Consolidated Financial Statements for further information.

Interest expense was \$17.7 million in 2009, compared to \$30.8 million in 2008. The reduction was primarily due to a drop in interest rates and a reduction in the average bank credit facility balance due to principal payments.

Income tax (benefit)/expense from continuing operations was \$(2.5) million and \$109.0 million in 2009 and 2008, respectively. The effective tax rate for 2009 was -3.3% as compared to a rate of 57.6% for 2008. The effective tax rate for 2009 was significantly lower than 2008 primarily due to the recognition of tax benefits related to the settlement of the Internal Revenue Service audit during July 2009.

**REPORTABLE SEGMENT RESULTS****Resilient Flooring**

|                         | 2009       | 2008       | Change is Favorable/<br>(Unfavorable) |
|-------------------------|------------|------------|---------------------------------------|
| Net sales:              |            |            |                                       |
| Americas                | \$ 673.1   | \$ 786.2   | (14.4)%                               |
| Europe                  | 294.3      | 355.1      | (17.1)%                               |
| Pacific Rim             | 64.3       | 78.8       | (18.4)%                               |
| Total segment net sales | \$ 1,031.7 | \$ 1,220.1 | (15.4)%                               |
| Operating income (loss) | \$ 0.1     | \$ (16.8)  | Favorable                             |

Net sales in the Americas declined due to volume declines on broad weakness in residential and commercial markets and unfavorable foreign exchange of \$6.3 million. Modest price realization was offset by a less profitable product mix.

Net sales in European markets declined due to lower volume and unfavorable foreign exchange of \$32.9 million.

Decreased sales in the Pacific Rim were due to unfavorable foreign exchange of \$6.6 million and lower volume partially offset by a better product mix.

Operating income increased as raw material deflation, lower freight costs, and reduced SG&A and manufacturing expenses offset the margin impact of lower volume and less profitable product mix. Operating income (loss) in 2009 and 2008, respectively, was negatively impacted by \$4.7 million and \$14.1 million of cost reduction initiatives expense and \$3.0 million and \$2.9 million of fixed asset impairments related to the European Resilient Flooring assets. Operating income included European Resilient Flooring losses of \$25.7 million for 2009 and \$38.2 million for 2008.

**Wood Flooring**

|                         | 2009     | 2008     | Change is<br>(Unfavorable) |
|-------------------------|----------|----------|----------------------------|
| Total segment net sales | \$ 510.4 | \$ 624.6 | (18.3)%                    |
| Operating (loss)        | \$ (5.9) | \$ (2.4) | Unfavorable                |

Net sales decreased due to lower volume driven by continued declines in domestic residential housing markets.

Operating loss increased by \$3.5 million, primarily due to the margin impact of significantly lower sales partially offset by reduced manufacturing, SG&A, and raw material costs. In addition, operating loss in 2009 and 2008 were negatively impacted by non-cash impairment charges of \$18.0 million and \$25.4 million, respectively, related to our Wood trademarks.

**Building Products**

|                         | 2009       | 2008       | Change is<br>(Unfavorable) |
|-------------------------|------------|------------|----------------------------|
| Net sales:              |            |            |                            |
| Americas                | \$ 661.9   | \$ 794.4   | (16.7)%                    |
| Europe                  | 331.7      | 470.9      | (29.6)%                    |
| Pacific Rim             | 94.1       | 103.8      | (9.3)%                     |
| Total segment net sales | \$ 1,087.7 | \$ 1,369.1 | (20.6)%                    |
| Operating income        | \$ 155.9   | \$ 239.7   | (35.0)%                    |

The Americas net sales decreased primarily due to volume declines related to reduced commercial construction activity and unfavorable foreign exchange of \$6.7 million.

European sales declined due to significant volume declines in both Western and Eastern European markets associated with reduced commercial construction activity and unfavorable foreign exchange of \$50.3 million.

Net sales in the Pacific Rim declined on volume declines across the region and unfavorable foreign exchange of \$5.3 million, partially offset by modest improvement in product mix.

Operating income fell by \$83.8 million. The combination of volume declines and lower earnings from WAVE offset the benefits of reduced manufacturing and SG&A expenses, lower freight and modest price realization.

**Cabinets**

|                         | 2009      | 2008     | Change is<br>(Unfavorable) |
|-------------------------|-----------|----------|----------------------------|
| Total segment net sales | \$ 150.2  | \$ 179.2 | (16.2)%                    |
| Operating (loss)        | \$ (18.3) | \$ (6.7) | Unfavorable                |

Net sales declined due to lower volume driven by continued declines in residential housing markets.

Operating loss increased \$11.6 million primarily due to the margin impact from lower sales, partially offset by lower manufacturing costs. In addition, 2009 operating profit was negatively impacted by expenses of \$6.1 million related to the Auburn, Nebraska plant closure.

**Unallocated Corporate**

Unallocated corporate expense of \$41.2 million in 2009 increased from \$2.9 million in 2008. The increase was primarily due to accelerated stock-based compensation expense related to a change in control event which resulted in a non-cash charge of \$31.6 million and a lower U.S. pension credit.

**CASH FLOW**

As shown on the Consolidated Statements of Cash Flows, our cash and cash equivalents balance increased by \$214.5 million in 2009 compared to a decrease of \$159.3 million in 2008.

Operating activities in 2009 provided \$260.2 million of net cash, primarily due to cash earnings and a decrease in inventories across all business units of \$105.9 million due to lower current and projected sales activity. Operating activities in 2008 provided \$214.2 million of net cash, primarily due to cash earnings and distributions from WAVE of \$61.0 million (which includes a special distribution of \$5.5 million). These items were partially offset by a reduction in accounts payable and accrued expenses of \$88.2 million, primarily due to lower activity and the payment of incentive accruals during the first quarter of 2008.

Investing activities in 2009 used \$41.0 million of cash primarily due to capital expenditures of \$105.1 million, partially offset by distributions, classified as a return of investment, from WAVE of \$53.5 million. Investing activities in 2008 used \$75.7 million of cash primarily due to capital expenditures of \$95.0 million, partially offset by distributions, classified as a return of investment, from WAVE of \$19.5 million.

Financing activities in 2009 used \$26.7 million of cash primarily due scheduled debt repayments. Financing activities in 2008 used \$277.0 million primarily due to a special cash dividend of \$256.4 million.

For management’s discussion and analysis of financial condition and results of operations for the quarters ended December 31, 2010 and 2009, see Item 8 Financial Statements and Supplementary Data.

**OFF-BALANCE SHEET ARRANGEMENTS**

No disclosures are required pursuant to Item 303(a)(4) of Regulation S-K.

**CONTRACTUAL OBLIGATIONS**

As part of our normal operations, we enter into numerous contractual obligations that require specific payments during the term of the various agreements. The following table includes amounts ongoing under contractual obligations existing as of December 31, 2010. Only known payments that are dependent solely on the passage of time are included. Obligations under contracts that contain minimum payment amounts are shown at the minimum payment amount. Contracts that have variable payment structures without minimum payments are excluded. Purchase orders that are entered into in the normal course of business are also excluded because they are generally cancelable and not legally binding. Amounts are presented below based upon the currently scheduled payment terms. Actual future payments may differ from the amounts presented below due to changes in payment terms or events affecting the payments.

|   | <u>2011</u>     | <u>2012</u>    | <u>2013</u>    | <u>2014</u>    | <u>2015</u>     | <u>Thereafter</u> | <u>Total</u>      |
|---|-----------------|----------------|----------------|----------------|-----------------|-------------------|-------------------|
| Long-term debt                                    | \$ 10.3         | \$ 18.1        | \$ 30.5        | \$ 43.0        | \$ 180.5        | \$ 567.5          | \$ 849.9          |
| Scheduled interest payments <sup>(1)</sup>        | 38.5            | 39.6           | 45.1           | 51.6           | 52.9            | 119.5             | 347.2             |
| Operating lease obligations <sup>(2)</sup>        | 11.3            | 8.8            | 4.4            | 2.3            | 1.2             | 4.5               | 32.5              |
| Unconditional purchase obligations <sup>(3)</sup> | 27.6            | 15.0           | 2.5            | 1.7            | 1.7             | —                 | 48.5              |
| Other obligations <sup>(4), (5)</sup>             | 19.2            | —              | —              | —              | —               | —                 | 19.2              |
| Total contractual obligations                     | <u>\$ 106.9</u> | <u>\$ 81.5</u> | <u>\$ 82.5</u> | <u>\$ 98.6</u> | <u>\$ 236.3</u> | <u>\$ 691.5</u>   | <u>\$ 1,297.3</u> |

- (1) For debt with variable interest rates, we projected future interest payments based on market based interest rate swap curves.
- (2) Lease obligations include the minimum payments due under existing agreements with noncancelable lease terms in excess of one year.
- (3) Unconditional purchase obligations include (a) purchase contracts whereby we must make guaranteed minimum payments of a specified amount regardless of how little material is actually purchased (“take or pay” contracts) and (b) service agreements. Unconditional purchase obligations exclude contracts entered into during the normal course of business that are non-cancelable and have fixed per unit fees, but where the monthly commitment varies based upon usage. Cellular phone contracts are an example.
- (4) Other obligations include payments under severance agreements.
- (5) Other obligations does not include \$126.3 million of liabilities under ASC 740 “Income Taxes”. Due to the uncertainty relating to these positions, we are unable to reasonably estimate the ultimate amount or timing of the settlement of these issues. See Note 16 to the Consolidated Financial Statements for more information.

We have issued financial guarantees to assure payment on behalf of our subsidiaries in the event of default on various debt and lease obligations in the table above. We have not issued any guarantees on behalf of joint-venture or unrelated businesses.

We are party to supply agreements, some of which require the purchase of inventory remaining at the supplier upon termination of the agreement. The last such agreement will expire in 2013. Had these agreements terminated at December 31, 2010, Armstrong would have been obligated to purchase approximately \$9.6 million of inventory. Historically, due to production planning, we have not had to

purchase material amounts of product at the end of similar contracts. Accordingly, no liability has been recorded for these guarantees.

As part of our executive compensation plan, certain current and former executives participate in a split-dollar insurance program where we are responsible for remitting the premiums. Since 1998, the program was closed to new participants. As of December 31, 2010, we carried a cash surrender value asset of \$10.1 million related to this program. Should we discontinue making premium payments, the insured executives have the right to the entire policy cash surrender value. In light of the Sarbanes-Oxley Act, we believe it is inappropriate to make the premium payments for two of the executives participating in this plan. As a result, we have required these two individuals to make the premium payments to continue the policy.

We utilize lines of credit and other commercial commitments in order to ensure that adequate funds are available to meet operating requirements. Letters of credit are issued to third party suppliers, insurance and financial institutions and typically can only be drawn upon in the event of our failure to pay our obligations to the beneficiary. This table summarizes the commitments we have available in the U.S. for use as of December 31, 2010. Letters of credit are currently arranged through our revolving credit facility or our securitization facility.

| Other Commercial Commitments | Total Amounts Committed | Less Than 1 Year | 1 – 3 Years | 4 – 5 Years | Over 5 Years |
|------------------------------|-------------------------|------------------|-------------|-------------|--------------|
| Letters of credit            | \$ 73.5                 | \$ 73.5          | —           | —           | —            |

In addition, our foreign subsidiaries had available lines of credit totaling \$25.6 million of which \$2.4 million was only available for letters of credit and guarantees. There were no borrowings under these lines of credit as of December 31, 2010, leaving \$23.2 million of unused lines of credit available for foreign borrowings.

On December 31, 2010, we had a \$250 million revolving credit facility with a \$150 million sublimit for letters of credit, of which \$37.3 million was outstanding. There were \$25 million of borrowings under the revolving credit facility. Availability under this facility totaled \$187.7 million as of December 31, 2010. We also have the \$100 million securitization facility which as of December 31, 2010 had letters of credit outstanding of \$36.2 million and no borrowings against it. Maximum capacity under this facility was \$63.8 million, subject to accounts receivable balances and other collateral adjustments. There were \$0.9 million of letters of credit issued under these credit lines as of December 31, 2010 leaving additional letter of credit availability of \$1.5 million.

In disposing of assets, we have entered into contracts that included various indemnity provisions, covering such matters as taxes, environmental liabilities and asbestos and other litigation. Some of these contracts have exposure limits, but many do not. Due to the nature of the indemnities, it is not possible to estimate the potential maximum exposure under these contracts. For contracts under which an indemnity claim has been received, a liability of \$4.9 million has been recorded as of December 31, 2010.

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**Market Risk

We are exposed to market risk from changes in foreign currency exchange rates, interest rates and commodity prices that could impact our results of operations and financial condition. We use forward swaps and option contracts to hedge currency, interest rate and commodity exposures. Forward swap and option contracts are entered into for periods consistent with underlying exposure and do not constitute positions independent of those exposures. We use derivative financial instruments as risk management tools and not for speculative trading purposes. In addition, derivative financial instruments are entered into with a diversified group of major financial institutions in order to manage our exposure to potential nonperformance on such instruments. We regularly monitor developments in the capital markets.

Counter Party Risk

We only enter into derivative transactions with established counterparties having a credit rating of A or better. We monitor counterparty credit default swap levels and credit ratings on a regular basis. All of our derivative transactions with counterparties are governed by master International Swap Dealer Agreements with netting arrangements. These agreements can limit our exposure in situations where we have gain and loss positions outstanding with a single counterparty. We generally do not post nor receive cash collateral with any counterparty for our derivative transactions. As of December 31, 2010 we had no cash collateral posted or received for any of our derivative transactions. These agreements do not contain any credit contingent features other than those contained in our bank credit facility. Exposure to individual counterparties is controlled, and thus we consider the risk of counterparty default to be negligible.

Interest Rate Sensitivity

We are subject to interest rate variability on our Term Loan A, Term Loan B, revolving credit facility and other borrowings. There were \$25 million of borrowings under the revolving credit facility as of December 31, 2010. A hypothetical increase of one-quarter percentage point in LIBOR interest rates from December 31, 2010 levels would increase 2011 interest expense by approximately \$0.7 million. A significant portion of our debt has a 1.5% LIBOR floor which would not be affected by a one-quarter percentage point move in LIBOR given the current low interest rate environment. As of December 31, 2010 we did not have any interest rate swaps outstanding.

The table below provides information about our long-term debt obligations as of December 31, 2010, including payment requirements and related weighted-average interest rates by scheduled maturity dates. Weighted average variable rates are based on implied forward rates in the yield curve.

| Scheduled maturity date<br>(\$ millions) | 2011   | 2012    | 2013    | 2014    | 2015     | After<br>2016 | Total    |
|--|--------|---------|---------|---------|----------|---------------|----------|
| As of December 31, 2010                  |        |         |         |         |          |               |          |
| Long-term debt:                          |        |         |         |         |          |               |          |
| Fixed rate                               | \$ 4.5 | \$ 0.0  | \$ 0.0  | \$ 0.0  | \$ 0.0   | \$ 0.0        | \$ 4.5   |
| Avg. interest rate                       | 5.25%  | 5.77%   | 5.77%   | 5.77%   | 5.77%    | 5.77%         | 5.25%    |
| Variable rate                            | \$ 5.8 | \$ 18.1 | \$ 30.5 | \$ 43.0 | \$ 180.5 | \$ 567.5      | \$ 845.4 |
| Avg. interest rate                       | 4.85%  | 4.43%   | 5.30%   | 6.29%   | 7.06%    | 7.14%         | 6.94%    |

Exchange Rate Sensitivity

We manufacture and sell our products in a number of countries throughout the world and, as a result, are exposed to movements in foreign currency exchange rates. To a large extent, our global manufacturing and sales provide a natural hedge of foreign currency exchange rate movement. We use foreign currency forward exchange contracts to reduce our remaining exposure. At December 31, 2010, our major foreign currency exposures are to the Canadian Dollar, Australian Dollar and Euro. A 10% strengthening of all currencies against the U.S. dollar compared to December 31, 2010 levels would increase our 2011 earnings before income taxes by approximately \$5.5 million, including the impact of current foreign currency forward exchange contracts.

We also use foreign currency forward exchange contracts to hedge exposures created by cross-currency intercompany loans.

The table below details our outstanding currency instruments as of December 31, 2010.

| On balance sheet foreign exchange related derivatives | Maturing in<br>2011 |
|---|---------------------|
| As of December 31, 2010                               |                     |
| Notional amounts (millions)                           | \$ 229.1            |
| (Liabilities) at fair value (millions)                | \$ (7.0)            |

Natural Gas Price Sensitivity

We purchase natural gas for use in the manufacture of ceiling tiles and other products, as well as to heat many of our facilities. As a result, we are exposed to movements in the price of natural gas. We have a policy of reducing North American natural gas volatility through derivative instruments, including forward swap contracts, purchased call options and zero-cost collars. As of December 31, 2010, we had contracts to hedge approximately \$37 million (notional amounts) of natural gas. All of these contracts mature by 2012. A 10% increase in North American natural gas prices compared to December 31, 2010 prices would increase our 2011 expenses by approximately \$0.4 million including the impact of current hedging contracts. At December 31, 2010 we had recorded liabilities of \$5.5 million related to these contracts.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

SUPPLEMENTARY DATA

Quarterly Financial Information for the Years Ended December 31, 2010 and 2009 (Unaudited)

The following consolidated financial statements are filed as part of this Annual Report on Form 10-K:

|  |    |
|--|----|
| Reports of Independent Registered Public Accounting Firm                                   | 42 |
| Consolidated Statements of Earnings for the Years Ended December 31, 2010, 2009 and 2008   | 44 |
| Consolidated Balance Sheets as of December 31, 2010 and 2009                               | 45 |
| Consolidated Statements of Equity for the Years Ended December 31, 2010, 2009 and 2008     | 46 |
| Consolidated Statements of Cash Flows for the Years Ended December 31, 2010, 2009 and 2008 | 47 |
| Notes to Consolidated Financial Statements   | 48 |
| Schedule II for the Years Ended December 31, 2010, 2009, and 2008                          |    |

QUARTERLY FINANCIAL INFORMATION  
ARMSTRONG WORLD INDUSTRIES, INC. AND SUBSIDIARIES (unaudited)

(millions except for per share data)

|                                  | <u>First</u> | <u>Second</u> | <u>Third</u> | <u>Fourth</u> |
|----------------------------------|--------------|---------------|--------------|---------------|
| <b>2010</b>                      |              |               |              |               |
| Net sales                        | \$ 658.9     | \$ 724.8      | \$ 739.8     | \$ 642.9      |
| Gross profit                     | 145.8        | 170.4         | 172.0        | 123.6         |
| Net earnings (loss)              | (19.4)       | 26.8          | 24.6         | (21.0)        |
| Per share of common stock:       |              |               |              |               |
| Basic                            | \$ (0.34)    | \$ 0.47       | \$ 0.42      | \$ (0.36)     |
| Diluted                          | \$ (0.34)    | \$ 0.46       | \$ 0.42      | \$ (0.36)     |
| Price range of common stock—high | \$ 40.93     | \$ 45.05      | \$ 43.05     | \$ 54.58      |
| Price range of common stock—low  | \$ 33.42     | \$ 29.44      | \$ 28.01     | \$ 39.55      |
| Dividends paid per share         | —            | —             | —            | \$ 13.74      |
|                                  | <u>First</u> | <u>Second</u> | <u>Third</u> | <u>Fourth</u> |
| <b>2009</b>                      |              |               |              |               |
| Net sales                        | \$ 668.3     | \$ 705.7      | \$ 753.0     | \$ 653.0      |
| Gross profit                     | 131.4        | 164.0         | 188.0        | 137.6         |
| Net earnings (loss)              | (11.2)       | 28.3          | 64.4         | (3.8)         |
| Per share of common stock:       |              |               |              |               |
| Basic                            | \$ (0.20)    | \$ 0.50       | \$ 1.13      | \$ (0.07)     |
| Diluted                          | \$ (0.20)    | \$ 0.50       | \$ 1.12      | \$ (0.07)     |
| Price range of common stock—high | \$ 23.74     | \$ 21.80      | \$ 35.50     | \$ 45.45      |
| Price range of common stock—low  | \$ 9.42      | \$ 10.55      | \$ 15.05     | \$ 33.14      |
| Dividends paid per share         | —            | —             | —            | —             |

Note: The net sales and gross profit amounts reported above are reported on a continuing operations basis. The sum of the quarterly earnings per share data may not equal the total year amounts due to changes in the average shares outstanding and, for diluted data, the exclusion of the antidilutive effect in certain quarters.

## **Fourth Quarter 2010 Compared With Fourth Quarter 2009**

Net sales of \$642.9 million in the fourth quarter of 2010 decreased from net sales of \$653.0 million in the fourth quarter of 2009, a decrease of 1.5%. Excluding the unfavorable effects of foreign exchange rates of \$5.5 million, net sales decreased less than 1%. The decline was due to volume declines partially offset by favorable price realization. Resilient Flooring net sales decreased 2.1%, excluding the unfavorable effects of foreign exchange rates, primarily due to lower volume in the North American residential markets. Wood Flooring net sales decreased by 10.7% primarily due to lower volume driven by continued declines in residential markets. Building Products net sales increased by 6.1%, excluding the unfavorable effects of foreign exchange rates, due to increased volume and price realization. Cabinets net sales decreased by 6.6% on volume declines in the residential housing markets. Net sales decreased less than 1% in the Americas. Excluding the unfavorable effects of foreign exchange rates of \$9.7 million, European net sales decreased less than 1%. Excluding the favorable effects of foreign exchange rates of \$2.1 million, Pacific Rim sales increased 3.3%.

The fourth quarters of 2010 and 2009 were negatively impacted by non-cash impairment charges of \$22.4 and \$18.0 million, respectively, related to our Wood trademarks. The fourth quarter of 2010 was impacted by approximately \$19 million of fixed asset write downs and severance charges and a \$5.8 million loss on the sale of our European metal ceilings contract installation business. The fourth quarter of 2009 was negatively impacted by approximately \$7 million of cost reduction expenses and \$3 million of fixed asset impairment charges.

For the fourth quarter of 2010, cost of goods sold was 80.8% of net sales, compared to 78.9% in 2009. The 1.9% increase was due to higher input costs, increased fixed asset write downs, and related inventory valuation impact offset slightly by higher price realization.

Selling, general and administrative ("SG&A") expenses for the fourth quarter of 2010 were \$130.8 million, or 20.3% of net sales, as compared to \$131.1 million, or 20.1% of net sales, for the fourth quarter of 2009. Reductions in SG&A expenses in 2010 were offset by increased severance charges and the loss on the sale of our European metal ceilings contract installation business.

Restructuring charges of \$7.0 million were recorded in the fourth quarter of 2010 for severance and related costs for several plant closures and reductions in SG&A personnel.

An operating loss of \$30.2 million in the fourth quarter of 2010 compared to \$1.6 million in the fourth quarter of 2009 primarily resulted from the items discussed above.

Interest expense was \$9.4 million compared to \$3.8 million in 2009. The increase was primarily due to the refinancing of our credit facility in the fourth quarter of 2010. In connection with the refinancing we wrote off \$3.8 million of unamortized debt financing costs related to our previous credit facility to interest expense.

The income tax benefit for the fourth quarter of 2010 was \$17.0 million on a pre-tax loss of \$38.0 million versus a benefit of \$1.4 million on a pre-tax loss of \$5.2 million in 2009. The effective tax rate for the fourth quarter of 2010 was favorable versus 2009 primarily due to a reduction in the amount of unbenefitted foreign losses.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended. Our internal control over financial reporting was designed to provide reasonable assurance to management and our Board of Directors regarding the reliability of financial reporting and the fair presentation of our financial statements.

With the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on our evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2010.

KPMG LLP, an independent registered public accounting firm, audited our internal control over financial reporting as of December 31, 2010. Their audit report can be found on page 42.

/s/ Matthew J. Espe  
Matthew J. Espe  
Chief Executive Officer and President

/s/ Thomas B. Mangas  
Thomas B. Mangas  
Senior Vice President and Chief Financial Officer

/s/ Stephen F. McNamara  
Stephen F. McNamara  
Vice President and Corporate Controller

February 28, 2011

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders  
Armstrong World Industries, Inc.:

We have audited Armstrong World Industries, Inc. and subsidiaries' ("the Company") internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Armstrong World Industries, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as of December 31, 2010 and 2009, and the related consolidated statements of earnings, equity, and cash flows for each of the years in the three-year period ended December 31, 2010, and our report dated February 28, 2011 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Philadelphia, Pennsylvania  
February 28, 2011

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders  
Armstrong World Industries, Inc.:

We have audited the accompanying consolidated balance sheets of Armstrong World Industries, Inc. and subsidiaries ("the Company") as of December 31, 2010 and 2009, and the related consolidated statements of earnings, equity and cash flows for each of the years in the three-year period ended December 31, 2010. In connection with our audits of the consolidated financial statements, we also have audited the financial statement schedule as listed in the accompanying index on page 38. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Armstrong World Industries, Inc. and subsidiaries as of December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2010, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 28, 2011 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

Philadelphia, Pennsylvania  
February 28, 2011

Armstrong World Industries, Inc., and Subsidiaries  
 Consolidated Statements of Earnings  
 (amounts in millions, except per share data)

|  | Years Ended December 31, |                |                |
|--|--------------------------|----------------|----------------|
|  | 2010                     | 2009           | 2008           |
| Net sales  | \$ 2,766.4               | \$ 2,780.0     | \$ 3,393.0     |
| Cost of goods sold   | 2,154.6                  | 2,159.0        | 2,632.0        |
| Gross profit   | 611.8                    | 621.0          | 761.0          |
| Selling, general and administrative expenses               | 531.3                    | 552.4          | 579.9          |
| Intangible asset impairment                                | 22.4                     | 18.0           | 25.4           |
| Restructuring charges                                      | 22.0                     | —              | 0.8            |
| Equity earnings from joint venture                         | (45.0)                   | (40.0)         | (56.0)         |
| Operating income   | 81.1                     | 90.6           | 210.9          |
| Interest expense   | 21.2                     | 17.7           | 30.8           |
| Other non-operating expense                                | 1.2                      | 0.9            | 1.3            |
| Other non-operating (income)                               | (8.0)                    | (3.2)          | (10.6)         |
| Earnings before income taxes                               | 66.7                     | 75.2           | 189.4          |
| Income tax expense (benefit)                               | 55.7                     | (2.5)          | 109.0          |
| Earnings from continuing operations                        | 11.0                     | 77.7           | 80.4           |
| Gain from discontinued operations, net of tax              | —                        | —              | 0.6            |
| Net earnings   | <u>\$ 11.0</u>           | <u>\$ 77.7</u> | <u>\$ 81.0</u> |
| Earnings per share of common stock, continuing operations: |                          |                |                |
| Basic  | \$ 0.19                  | \$ 1.36        | \$ 1.41        |
| Diluted  | \$ 0.19                  | \$ 1.36        | \$ 1.41        |
| Gain per share of common stock, discontinued operations:   |                          |                |                |
| Basic  | \$ —                     | \$ —           | \$ 0.01        |
| Diluted  | \$ —                     | \$ —           | \$ 0.01        |
| Earnings per share of common stock:                        |                          |                |                |
| Basic  | \$ 0.19                  | \$ 1.36        | \$ 1.42        |
| Diluted  | \$ 0.19                  | \$ 1.36        | \$ 1.42        |
| Average number of common shares outstanding:               |                          |                |                |
| Basic  | 57.7                     | 56.8           | 56.4           |
| Diluted  | 58.2                     | 57.0           | 56.4           |

See accompanying notes to consolidated financial statements beginning on page 48.

Armstrong World Industries, Inc., and Subsidiaries  
Consolidated Balance Sheets  
(amounts in millions, except share data)

|   | December 31,<br>2010 | December 31,<br>2009 |
|---|----------------------|----------------------|
| <b>Assets</b>   |                      |                      |
| Current assets:   |                      |                      |
| Cash and cash equivalents   | \$ 315.8             | \$ 569.5             |
| Accounts and notes receivable, net  | 229.5                | 229.1                |
| Inventories, net  | 398.5                | 445.0                |
| Deferred income taxes   | 20.9                 | 16.3                 |
| Income tax receivable   | 20.7                 | 16.5                 |
| Other current assets  | 35.3                 | 55.2                 |
| Total current assets  | <u>1,020.7</u>       | <u>1,331.6</u>       |
| Property, plant and equipment, less accumulated depreciation and amortization of \$482.8 and \$390.0, respectively                      | 854.9                | 929.2                |
| Prepaid pension costs   | 130.7                | 114.3                |
| Investment in joint venture   | 188.6                | 194.6                |
| Intangible assets, net  | 556.1                | 592.8                |
| Restricted cash   | 30.0                 | —                    |
| Deferred income taxes   | 45.0                 | 58.2                 |
| Other noncurrent assets   | 96.4                 | 81.9                 |
| Total assets  | <u>\$ 2,922.4</u>    | <u>\$ 3,302.6</u>    |
| <b>Liabilities and Equity</b>   |                      |                      |
| Current liabilities:  |                      |                      |
| Short-term debt   | \$ 25.0              | \$ 0.1               |
| Current installments of long-term debt  | 10.3                 | 40.0                 |
| Accounts payable and accrued expenses   | 340.3                | 311.0                |
| Income tax payable  | 4.9                  | 3.1                  |
| Deferred income taxes   | 2.4                  | 3.1                  |
| Total current liabilities   | <u>382.9</u>         | <u>357.3</u>         |
| Long-term debt, less current installments   | 839.6                | 432.5                |
| Postretirement benefit liabilities  | 277.9                | 296.9                |
| Pension benefit liabilities   | 202.1                | 223.5                |
| Other long-term liabilities   | 70.3                 | 67.1                 |
| Income taxes payable  | 34.7                 | 9.2                  |
| Deferred income taxes   | 24.1                 | 8.2                  |
| Total noncurrent liabilities  | <u>1,448.7</u>       | <u>1,037.4</u>       |
| Shareholders' equity:   |                      |                      |
| Common stock, \$0.01 par value per share, authorized 200 million shares; issued 58,070,807 shares in 2010 and 57,433,503 shares in 2009 | 0.6                  | 0.6                  |
| Capital in excess of par value  | 1,451.2              | 2,052.1              |
| Retained earnings (accumulated deficit)   | (35.3)               | 144.4                |
| Accumulated other comprehensive (loss)  | (325.7)              | (297.8)              |
| Total shareholders' equity  | <u>1,090.8</u>       | <u>1,899.3</u>       |
| Non-controlling interest  | —                    | 8.6                  |
| Total equity  | <u>1,090.8</u>       | <u>1,907.9</u>       |
| Total liabilities and equity  | <u>\$ 2,922.4</u>    | <u>\$ 3,302.6</u>    |

See accompanying notes to consolidated financial statements beginning on page 48.

Armstrong World Industries, Inc., and Subsidiaries  
Consolidated Statements of Equity  
(amounts in millions)

|   | Total      | AWI Shareholders |            | Non-Controlling Interest |         |         |
|---|------------|------------------|------------|--------------------------|---------|---------|
|   |            | Year 2010        |            |                          |         |         |
| <b>Year 2010</b>                                      |            |                  |            |                          |         |         |
| <b>Non-Controlling Interest:</b>                      |            |                  |            |                          |         |         |
| Balance at beginning of year                          | \$ 8.6     |                  | —          |                          | \$ 8.6  |         |
| Non-controlling interest purchase                     | (8.6)      |                  | —          |                          | (8.6)   |         |
| Balance as of December 31                             | \$ —       |                  | \$ —       |                          | \$ —    |         |
| <b>Common stock:</b>                                  |            |                  |            |                          |         |         |
| Balance at beginning of year and December 31          | \$ 0.6     |                  | \$ 0.6     |                          |         |         |
| <b>Capital in excess of par value:</b>                |            |                  |            |                          |         |         |
| Balance at beginning of year                          | \$ 2,052.1 |                  | \$ 2,052.1 |                          |         |         |
| Share-based employee compensation                     | 14.7       |                  | 14.7       |                          |         |         |
| Dividend in excess of retained earnings               | (612.1)    |                  | (612.1)    |                          |         |         |
| Non-controlling interest purchase                     | (3.5)      |                  | (3.5)      |                          |         |         |
| Balance at December 31                                | \$ 1,451.2 |                  | \$ 1,451.2 |                          |         |         |
| <b>Accumulated deficit:</b>                           |            |                  |            |                          |         |         |
| Balance at beginning of year                          | \$ 144.4   |                  | \$ 144.4   |                          |         |         |
| Net earnings for period                               | 11.0       | \$ 11.0          |            | \$ 11.0                  |         | \$ 11.0 |
| Dividend  | (190.7)    |                  | (190.7)    |                          |         |         |
| Balance at December 31                                | \$ (35.3)  |                  | \$ (35.3)  |                          |         |         |
| <b>Accumulated other comprehensive income (loss):</b> |            |                  |            |                          |         |         |
| Balance at beginning of year                          | \$ (297.8) |                  | \$ (297.8) |                          |         |         |
| Foreign currency translation adjustments              | (0.3)      |                  | (0.3)      |                          |         |         |
| Derivative gain, net                                  | 0.5        |                  | 0.5        |                          |         |         |
| Non-controlling interest purchase                     | 1.1        |                  | 1.1        |                          |         |         |
| Pension and postretirement adjustments                | (29.2)     |                  | (29.2)     |                          |         |         |
| Total other comprehensive (loss)                      | (27.9)     | (27.9)           |            | (27.9)                   |         | (27.9)  |
| Balance at December 31                                | \$ (325.7) |                  | \$ (325.7) |                          |         |         |
| Comprehensive (loss)                                  |            | \$ (16.9)        |            | \$ (16.9)                |         |         |
| Total equity  | \$ 1,090.8 |                  | \$ 1,090.8 |                          |         |         |
| <b>Year 2009</b>                                      |            |                  |            |                          |         |         |
| <b>Non-Controlling Interest:</b>                      |            |                  |            |                          |         |         |
| Balance at beginning of year                          | \$ 8.1     |                  | —          |                          | \$ 8.1  |         |
| <b>Common stock:</b>                                  |            |                  |            |                          |         |         |
| Balance at beginning of year and December 31          | \$ 0.6     |                  | \$ 0.6     |                          |         |         |
| <b>Capital in excess of par value:</b>                |            |                  |            |                          |         |         |
| Balance at beginning of year                          | \$ 2,024.7 |                  | \$ 2,024.7 |                          |         |         |
| Share-based employee compensation                     | 27.4       |                  | 27.4       |                          |         |         |
| Balance at December 31                                | \$ 2,052.1 |                  | \$ 2,052.1 |                          |         |         |
| <b>Retained earnings:</b>                             |            |                  |            |                          |         |         |
| Balance at beginning of year                          | \$ 66.7    |                  | \$ 66.7    |                          |         |         |
| Net earnings for period                               | 78.2       | \$ 78.2          |            | \$ 77.7                  | \$ 77.7 |         |
| Dividends   | (10.3)     |                  | (10.3)     |                          |         |         |
| Balance at December 31                                | \$ 144.9   |                  | \$ 144.4   |                          | \$ 0.5  | \$ 0.5  |
| <b>Accumulated other comprehensive (loss) income:</b> |            |                  |            |                          |         |         |
| Balance at beginning of year                          | \$ (348.8) |                  | \$ (348.8) |                          |         |         |
| Foreign currency translation adjustments              | 34.4       |                  | 34.4       |                          |         |         |
| Derivative (loss), net                                | (2.2)      |                  | (2.2)      |                          |         |         |
| Pension and postretirement adjustments                | 18.8       |                  | 18.8       |                          |         |         |
| Total other comprehensive income                      | 51.0       | 51.0             |            | 51.0                     | 51.0    |         |
| Balance at December 31                                | \$ (297.8) |                  | \$ (297.8) |                          |         |         |
| Comprehensive income                                  |            | \$ 129.2         |            | \$ 128.7                 |         | \$ 0.5  |
| Total equity  | \$ 1,907.9 |                  | \$ 1,899.3 |                          | \$ 8.6  |         |
| <b>Year 2008</b>                                      |            |                  |            |                          |         |         |
| <b>Non-Controlling Interest:</b>                      |            |                  |            |                          |         |         |
| Balance at beginning of year                          | \$ 7.4     |                  |            |                          | \$ 7.4  |         |
| <b>Common stock:</b>                                  |            |                  |            |                          |         |         |
| Balance at beginning of year and December 31          | \$ 0.6     |                  | \$ 0.6     |                          |         |         |
| <b>Capital in excess of par value:</b>                |            |                  |            |                          |         |         |
| Balance at beginning of year                          | \$ 2,112.6 |                  | \$ 2,112.6 |                          |         |         |
| Share-based employee compensation                     | 7.2        |                  | 7.2        |                          |         |         |
| Dividends in excess of retained earnings              | (95.1)     |                  | (95.1)     |                          |         |         |
| Balance at December 31                                | \$ 2,024.7 |                  | \$ 2,024.7 |                          |         |         |
| <b>Retained earnings:</b>                             |            |                  |            |                          |         |         |
| Balance at beginning of year                          | \$ 147.5   |                  | \$ 147.5   |                          |         |         |
| Net earnings for period                               | 81.2       | \$ 81.2          |            | \$ 81.0                  | \$ 81.0 |         |
| Dividends   | (161.8)    |                  | (161.8)    |                          |         |         |
| Balance at December 31                                | \$ 66.9    |                  | \$ 66.7    |                          | \$ 0.2  | \$ 0.2  |
| <b>Accumulated other comprehensive (loss) income:</b> |            |                  |            |                          |         |         |
| Balance at beginning of year                          | \$ 176.0   |                  | \$ 176.0   |                          |         |         |

|  |            |            |            |            |        |        |
|--|------------|------------|------------|------------|--------|--------|
| Foreign currency translation adjustments | (42.2)     |            | (42.7)     |            | 0.5    |        |
| Derivative gain, net                     | 1.4        |            | 1.4        |            | —      |        |
| Pension and postretirement adjustments   | (483.5)    |            | (483.5)    |            | —      |        |
| Total other comprehensive (loss) income  | (524.3)    | (524.3)    | (524.8)    | (524.8)    | 0.5    | 0.5    |
| Balance at December 31                   | \$ (348.3) |            | \$ (348.8) |            | 0.5    |        |
| Comprehensive (loss) income              |            | \$ (443.1) |            | \$ (443.8) |        | \$ 0.7 |
| Total equity                             | \$ 1,751.3 |            | \$ 1,743.2 |            | \$ 8.1 |        |

See accompanying notes to consolidated financial statements beginning on page 48.

Armstrong World Industries, Inc., and Subsidiaries  
Consolidated Statements of Cash Flows  
(amounts in millions)

|   | Year Ended December 31, |                 |                 |
|---|-------------------------|-----------------|-----------------|
|   | 2010                    | 2009            | 2008            |
| <b>Cash flows from operating activities:</b>  |                         |                 |                 |
| Net earnings  | \$ 11.0                 | \$ 77.7         | \$ 81.0         |
| Adjustments to reconcile net earnings to net cash provided by operating activities: |                         |                 |                 |
| Depreciation and amortization   | 143.3                   | 146.8           | 149.8           |
| Asset impairments   | 30.6                    | 21.0            | 28.3            |
| Deferred income taxes   | 21.3                    | 135.6           | 74.0            |
| Stock-based compensation  | 5.0                     | 38.2            | 7.5             |
| Equity earnings from joint venture  | (45.0)                  | (40.0)          | (56.0)          |
| Distributions from joint venture  | —                       | —               | 61.0            |
| U.S. pension credit   | (50.9)                  | (58.2)          | (63.0)          |
| Restructuring charges   | 22.0                    | —               | 0.8             |
| Restructuring payments  | (7.5)                   | —               | —               |
| Insurance proceeds — environmental recovery   | —                       | —               | 10.0            |
| Changes in operating assets and liabilities:  |                         |                 |                 |
| Receivables   | (2.9)                   | 23.9            | 42.8            |
| Inventories   | 41.2                    | 105.9           | (16.1)          |
| Other current assets  | 19.2                    | 7.0             | (7.2)           |
| Other noncurrent assets   | (25.4)                  | 2.1             | (2.6)           |
| Accounts payable and accrued expenses   | 10.8                    | (36.9)          | (88.2)          |
| Income taxes  | 25.9                    | (147.0)         | 9.7             |
| Other long-term liabilities   | (7.9)                   | (18.6)          | (10.2)          |
| Cash distributed under the POR  | —                       | —               | (3.1)           |
| Other, net  | (0.3)                   | 2.7             | (4.3)           |
| Net cash provided by operating activities   | <u>190.4</u>            | <u>260.2</u>    | <u>214.2</u>    |
| <b>Cash flows from investing activities:</b>  |                         |                 |                 |
| Purchases of property, plant and equipment  | (92.7)                  | (105.1)         | (95.0)          |
| Divestiture (acquisition)   | (0.6)                   | 8.0             | (0.8)           |
| Restricted cash   | (30.0)                  | —               | —               |
| Return of investment from joint venture   | 51.0                    | 53.5            | 19.5            |
| Proceeds from noncurrent note receivable  | 5.5                     | —               | —               |
| Proceeds from the sale of assets  | 25.8                    | 2.6             | 0.6             |
| Net cash (used for) investing activities  | <u>(41.0)</u>           | <u>(41.0)</u>   | <u>(75.7)</u>   |
| <b>Cash flows from financing activities:</b>  |                         |                 |                 |
| Proceeds from revolving credit facility and other debt                              | 50.0                    | —               | 25.0            |
| Payments on revolving credit facility and other debt                                | (25.1)                  | (1.2)           | (27.5)          |
| Issuance of long-term debt  | 839.3                   | 2.4             | 5.4             |
| Payments of long-term debt  | (462.1)                 | (25.6)          | (20.9)          |
| Financing costs   | (18.0)                  | —               | (2.6)           |
| Special dividend paid   | (798.6)                 | (1.3)           | (256.4)         |
| Proceeds from exercised stock options   | 13.3                    | 2.3             | —               |
| Purchase of non-controlling interest  | (7.8)                   | (3.3)           | —               |
| Net cash (used for) financing activities  | <u>(409.0)</u>          | <u>(26.7)</u>   | <u>(277.0)</u>  |
| Effect of exchange rate changes on cash and cash equivalents                        | 5.9                     | 22.0            | (20.8)          |
| Net (decrease) increase in cash and cash equivalents                                | \$ (253.7)              | \$ 214.5        | \$ (159.3)      |
| Cash and cash equivalents at beginning of year                                      | 569.5                   | 355.0           | 514.3           |
| Cash and cash equivalents at end of year  | <u>\$ 315.8</u>         | <u>\$ 569.5</u> | <u>\$ 355.0</u> |

See accompanying notes to consolidated financial statements beginning on page 48.



Armstrong World Industries, Inc., and Subsidiaries  
Notes to Consolidated Financial Statements  
(dollar amounts in millions)

NOTE 1. BUSINESS AND CHAPTER 11 REORGANIZATION

Armstrong World Industries, Inc. (“AWI”) 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. References in this report to “reorganized Armstrong” are to AWI as it was reorganized under the plan of reorganization (“POR”) on October 2, 2006, and its subsidiaries collectively. We use the term “AWI” when we are referring solely to Armstrong World Industries, Inc.

In December 2000, AWI filed a voluntary petition for relief (“the Filing”) under Chapter 11 of the U.S. Bankruptcy Code (“the Bankruptcy Code”) in the United States Bankruptcy Court for the District of Delaware (“the Bankruptcy Court”) in order to use the court-supervised reorganization process to achieve a resolution of AWI’s asbestos-related liability. On October 2, 2006, AWI’s court-approved POR became effective, and AWI emerged from Chapter 11.

Resolution of Disputed Claims

All claims in AWI’s Chapter 11 case have been resolved and closed. In February 2008 AWI made a final distribution to general unsecured creditors of AWI under the POR. The Bankruptcy Court closed AWI’s Chapter 11 case on September 2, 2008. No further distributions will be made.

Asbestos PI Trust

On October 2, 2006, the Armstrong World Industries, Inc. Asbestos Personal Injury Settlement Trust (“Asbestos PI Trust”) was created to address AWI’s personal injury (including wrongful death) asbestos-related liability. All present and future asbestos-related personal injury claims against AWI, including contribution claims of co-defendants, arising directly or indirectly out of AWI’s pre-Filing use of, or other activities involving, asbestos are channeled to the Asbestos PI Trust.

Accounting Impact

Accounting Standards Codification (“ASC”) 852 “*Restructuring*” provides financial reporting guidance for entities that reorganize under the Bankruptcy Code. This fresh start reporting guidance was reflected in the accompanying consolidated financial statements.

ASC 852 requires separate reporting of all revenues, expenses, realized gains and losses, and provision for losses related to the Filing as Chapter 11 reorganization costs, net. There was no Chapter 11 income or expense recorded in 2008, 2009, or 2010.

For Chapter 11 related post-emergence activities AWI recorded \$1.4 million and \$2.0 million of income for 2009 and 2008, respectively. These amounts included reversals of certain environmental and other accruals set-up during settlement accounting and the recording of undistributed cash partially offset by professional fees.

Share Ownership

In August 2009 Armor TPG Holdings LLC (“TPG”) and the Asbestos PI Trust entered into agreements whereby TPG purchased 7,000,000 shares of AWI common stock from the Asbestos PI Trust and acquired an economic interest in an additional 1,039,777 shares from the Asbestos PI Trust. The Asbestos PI Trust and 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.

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NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation Policy . The consolidated financial statements and accompanying data in this report include the accounts of AWI and its majority-owned subsidiaries. All significant intercompany transactions have been eliminated from the consolidated financial statements.

Use of Estimates . These financial statements are prepared in accordance with U.S. generally accepted accounting principles. The statements include management estimates and judgments, where appropriate. Management utilizes estimates to record many items including asset values, allowances for bad debts, inventory obsolescence and lower of cost or market charges, warranty, workers' compensation, general liability and environmental claims and income taxes. When preparing an estimate, management determines the amount based upon the consideration of relevant information. Management may confer with outside parties, including outside counsel. Actual results may differ from these estimates.

Reclassifications . Certain amounts in the prior years' Consolidated Financial Statements and related notes thereto have been recast to conform to the 2010 presentation.

Revenue Recognition . We recognize revenue from the sale of products when persuasive evidence of an arrangement exists, title and risk of loss transfers to the customers, prices are fixed and determinable, and it is reasonably assured the related accounts receivable is collectible. Our sales terms primarily are FOB shipping point. We have some sales terms that are FOB destination. Our products are sold with normal and customary return provisions. Sales discounts are deducted immediately from the sales invoice. Provisions, which are recorded as a reduction of revenue, are made for the estimated cost of rebates, promotional programs and warranties. We defer recognizing revenue if special sales agreements, established at the time of sale, warrant this treatment.

Sales Incentives . Sales incentives are reflected as a reduction of net sales.

Shipping and Handling Costs . Shipping and handling costs are reflected in cost of goods sold.

Advertising Costs . We recognize advertising expenses as they are incurred.

Research and Development Costs . We recognize research and development costs as they are incurred.

Pension and Postretirement Benefits . We have benefit plans that provide for pension, medical and life insurance benefits to certain eligible employees when they retire from active service. See Note 18 for disclosures on pension and postretirement benefits.

Taxes . The provision for income taxes has been determined using the asset and liability approach of accounting for income taxes to reflect the expected future tax consequences of events recognized in the financial statements. Deferred income tax assets and liabilities are recognized by applying enacted tax rates to temporary differences that exist as of the balance sheet date which result from differences in the timing of reported taxable income between tax and financial reporting.

We record valuation allowances to reduce our deferred income tax assets if it is more likely than not that some portion or all of the deferred income tax assets will not be realized. For tax benefits that may be challenged by a taxing authority, we make an assessment of whether the position is more likely than not to be sustained upon an examination by the taxing authorities. Based on this analysis, we record the impact of these uncertain tax positions, including penalties and interest in the period in which such determination is made.

Taxes collected from customers and remitted to governmental authorities are reported on a net basis.

Armstrong World Industries, Inc., and Subsidiaries  
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Earnings per Common Share . Basic earnings per share is computed by dividing the earnings by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per common share reflects the potential dilution of securities that could share in the earnings.

Cash and Cash Equivalents . Cash and cash equivalents include cash on hand and short-term investments that have maturities of three months or less when purchased.

Concentration of Credit . We principally sell products to customers in the building products industries in various geographic regions. No one customer accounted for 10% or more of our total consolidated net sales in the years 2010, 2009, and 2008. We monitor the creditworthiness of our customers and generally do not require collateral.

Receivables . We sell the vast majority of our products to select, pre-approved customers using customary trade terms that allow for payment in the future. Customer trade receivables, customer notes receivable and miscellaneous receivables (which include supply related rebates and claims to be received, unpaid insurance claims from litigation and other), net of allowances for doubtful accounts, customer credits and warranties are reported in accounts and notes receivable, net. Notes receivable from divesting certain businesses are included in other current assets and other non-current assets based upon the payment terms. Cash flows from the collection of current receivables are classified as operating cash flows on the consolidated statements of cash flows. Cash flows from the collection of non-current receivables are classified as investing cash flows on the consolidated statements of cash flows.

We establish credit-worthiness prior to extending credit. We estimate the recoverability of receivables each period. This estimate is based upon triggering events and new information in the period, which can include the review of any available financial statements and forecasts, as well as discussions with legal counsel and the management of the debtor company. As events occur which impact the collectability of the receivable, all or a portion of the receivable is reserved. Account balances are charged off against the allowance when the potential for recovery is considered remote. We do not have any off-balance-sheet credit exposure related to our customers.

Inventories . Inventories are valued at the lower of cost or market. Inventories also include certain samples used in ongoing sales and marketing activities. See Note 7 for further information on our accounting for inventories.

Property and Depreciation . Property, plant and equipment in place as of September 30, 2006 was set equal to fair value as of our emergence date and is currently stated at that value less impairment charges and accumulated depreciation and amortization. Property, plant and equipment acquired after our emergence date is stated at acquisition cost less impairment charges and accumulated depreciation and amortization. Upon emergence from Chapter 11 in 2006, certain tangible assets were assigned shortened useful lives, and most of these assets were fully depreciated as of the fourth quarter of 2009.

Depreciation charges for financial reporting purposes are determined on a straight-line basis at rates calculated to provide for the full depreciation of assets at the end of their useful lives. Machinery and equipment includes manufacturing equipment (depreciated over 3 to 15 years), computer equipment (3 to 5 years) and office furniture and equipment (5 to 7 years). Within manufacturing equipment, assets that are subject to quick obsolescence or wear out quickly, such as tooling and engraving equipment, are depreciated over shorter periods (3 to 7 years). Heavy production equipment, such as conveyors and production presses, are depreciated over longer periods (15 years). Buildings are depreciated over 15 to 30 years, depending on factors such as type of construction and use. Certain buildings existing at our emergence date are depreciated over shorter periods. Computer software is depreciated over 3 to 7 years.

Property, plant and equipment are tested for impairment when indicators of impairment are present, such as operating losses and/or negative cash flows. If an indication of impairment exists, we compare the carrying amount of the asset group to the estimated undiscounted future cash flows expected to be

Armstrong World Industries, Inc., and Subsidiaries  
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generated by the assets. The estimate of an asset group's fair value is based on discounted future cash flows expected to be generated by the asset group, or based on management's estimated exit price assuming the assets could be sold in an orderly transaction between market participants, or estimated salvage value if no sale is assumed. If the fair value is less than the carrying value of the asset group, we record an impairment charge equal to the difference between the fair value and carrying value of the asset group. Impairments of assets related to our manufacturing operations are recorded in cost of goods sold. When assets are disposed of or retired, their costs and related depreciation are removed from the financial statements, and any resulting gains or losses normally are reflected in cost of goods sold or selling, general and administrative ("SG&A") expenses.

Plant and equipment held under capital leases are stated at the present value of the minimum lease payments. Plant and equipment held under capital leases and leasehold improvements are amortized on a straight line basis over the life of the lease plus any specific option periods.

Asset Retirement Obligations. We recognize the fair value of obligations associated with the retirement of tangible long-lived assets in the period in which they are incurred. Upon initial recognition of a liability, the discounted cost is capitalized as part of the related long-lived asset and depreciated over the corresponding asset's useful life. Over time, accretion of the liability is recognized as an operating expense to reflect the change in the liability's present value.

Intangible Assets. Effective with our emergence from Chapter 11 in 2006 and as part of fresh-start reporting, goodwill was eliminated from our balance sheet, and intangible assets were revalued and identified. Intangible assets with determinable useful lives are amortized over their respective estimated useful lives.

We periodically review significant definite-lived intangible assets for impairment when indicators of impairment exist. We review our businesses for indicators of impairment such as operating losses and/or negative cash flows. If an indication of impairment exists, we compare the carrying amount of the asset group to the estimated undiscounted future cash flows expected to be generated by the assets. The estimate of an asset group's fair value is based on discounted future cash flows expected to be generated by the asset group, or based on management's estimated exit price assuming the assets could be sold in an orderly transaction between market participants. If the fair value is less than the carrying value of the asset group, we record an impairment charge equal to the difference between the fair value and carrying value of the asset group.

Our indefinite-lived intangibles are primarily trademarks and brand names, which are integral to our corporate identity and expected to contribute indefinitely to our corporate cash flows. Accordingly, they have been assigned an indefinite life. We perform annual impairment tests during the fourth quarter on these indefinite-lived intangibles. These assets undergo more frequent tests if an indication of possible impairment exists.

The principal assumptions utilized in our impairment tests for definite-lived intangible assets include operating profit adjusted for depreciation and amortization and discount rate. The principal assumptions utilized in our impairment tests for indefinite-lived intangible assets include revenue growth rate, discount rate and royalty rate. Revenue growth rate and operating profit assumptions are consistent with those utilized in our operating plan and strategic planning process. The discount rate assumption is calculated based upon an estimated weighted average cost of equity which reflects the overall level of inherent risk and the rate of return a market participant would expect to achieve. Methodologies used for valuing our intangible assets did not change from prior periods.

See Note 11 for disclosure on intangible assets.

Foreign Currency Transactions. Assets and liabilities of our subsidiaries operating outside the United States which account in a functional currency other than U.S. dollars are translated using the period end exchange rate. Revenues and expenses are translated at exchange rates effective during each month.

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Foreign currency translation gains or losses are included as a component of accumulated other comprehensive (loss) within shareholders' equity. Gains or losses on foreign currency transactions are recognized through the statement of earnings.

Financial Instruments and Derivatives. From time to time, we use derivatives and other financial instruments to offset the effect of currency, interest rate and commodity price variability. See Notes 19 and 20 for further discussion.

Stock-based Employee Compensation. For awards with only service and performance conditions that have a graded vesting schedule, we recognize compensation expense on a straight-line basis over the vesting period for the entire award. For awards with market conditions, we recognize compensation expense over the derived service period. See Note 24 for additional information on stock-based employee compensation.

Recently Adopted Accounting Standards

In September 2006 the FASB issued new guidance on fair value. The new guidance, which is now part of ASC 820, "*Fair Value Measurements and Disclosures*," establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. ASC 820 was effective for fiscal years beginning after November 15, 2007. However, the effective date for certain non-financial assets and liabilities was deferred to fiscal years beginning after November 15, 2008. There was no material impact from our initial adoption of the provisions of the guidance in 2008, nor was there a material impact from our adoption of the remaining portions of ASC 820 on January 1, 2009.

During 2009 we adopted new guidance, which is now part of ASC 810, "*Consolidation*," which requires the recognition of a non-controlling interest (formerly known as a "minority interest") as equity in the consolidated financial statements and separate from the parent's equity. The amount of net income attributable to the non-controlling interest was immaterial for the years ended December 31, 2010 and 2009, and, therefore, is included in consolidated net income on the face of the income statement.

During 2009 we adopted new guidance, which is now part of ASC 323, "*Investments-Equity Method and Joint Ventures*," which discusses the accounting for contingent consideration agreements of an equity method investment and the requirement for the investor to recognize its share of any impairment charges recorded by the investee. ASC 323 requires the investor to record share issuances by the investee as if it has sold a portion of its investment with any resulting gain or loss being reflected in earnings. There was no material impact from our adoption of ASC 323 on January 1, 2009.

During 2009 we adopted new guidance, which is now part of ASC 815, "*Derivatives and Hedging*". The new guidance enhances the disclosure requirements for derivative instruments and hedging activities to provide users of financial statements with a better understanding of the objectives of a company's derivative use and the risks managed. The changes to the disclosure requirements surrounding derivatives and hedging activities have been incorporated into the footnotes to the financial statements. See Note 20 for our disclosures related to hedging activities.

Effective January 1, 2009 we adopted new guidance, which is now part of ASC 260, "*Earnings Per Share*". Under ASC 260, share-based payment awards (whether vested or unvested) that contain nonforfeitable rights to dividends or dividend equivalents, whether paid or unpaid, are participating securities and shall be included in the computation of earnings per share ("EPS") pursuant to the two-class method as described in ASC 260. All prior-period EPS data presented has been adjusted retrospectively to conform to the provisions of ASC 260.

Effective January 1, 2009 we adopted new guidance, which is now part of ASC 715, "*Compensation — Retirement Benefits*," which requires additional disclosures about plan assets in an employer's defined benefit pension or other postretirement plan. The objectives of the disclosures are to provide users of financial statements with an understanding of the major categories of plan assets, fair value

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measurements for plan assets, how investment decisions are made, and concentrations of risk within the plan assets. See Note 18 for our disclosures related to retirement plan assets.

In May 2009 and February 2010 the FASB issued new guidance, which is now part of ASC 855, “*Subsequent Events*”. ASC 855 requires management to evaluate subsequent events through the date the financial statements were issued or the date the financial statements were available to be issued. We have evaluated subsequent events through the issuance of this Form 10-K.

In June 2009 the FASB issued new guidance, which is now part of ASC 105, “*Generally Accepted Accounting Principles*”. ASC 105 has become the source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernment entities. It also modified the GAAP hierarchy to include only two levels of GAAP: authoritative and non-authoritative. ASC 105 was effective for financial statements issued for interim and annual periods ending after September 15, 2009. We adopted ASC 105 for the reporting of our 2009 third quarter results. The adoption had no impact on the reporting of our financial position, results of operations, or cash flows.

In January 2010 the FASB issued new guidance, which is now part of ASC 820, “*Fair Value Measurements and Disclosures*”. The new guidance requires disclosures of the amounts of assets and liabilities transferred into and out of Levels 1 and 2, along with a description of the reasons for the transfers. The new guidance also requires additional disclosures related to activity presented for Level 3 measurements. These provisions were effective for us as of January 1, 2010, except for the additional disclosures related to activities for Level 3 measurements which are effective for us as of January 1, 2011. There was no impact on our financial statements from the adoption of this guidance.

Recently Issued Accounting Standards

In July 2010 the FASB issued new guidance, which is now part of ASC 310, “*Receivables*”. The new guidance increases the disclosure requirements regarding the credit quality of financing receivables and the allowance for credit losses. Some of the provisions were effective for us as of December 31, 2010 and others as of January 1, 2011. We have not had and do not expect a material impact on our financial statements from the adoption of this guidance.

NOTE 3. NATURE OF OPERATIONS

*Resilient Flooring* — produces and sources a broad range of floor coverings primarily for homes and commercial and institutional buildings. Manufactured products in this segment include vinyl sheet, vinyl tile and linoleum flooring. In addition, our Resilient Flooring segment sources and sells laminate flooring products, ceramic tile products, adhesives, installation and maintenance materials and accessories. Resilient Flooring products are offered in a wide variety of types, designs, and colors. We sell these products worldwide to wholesalers, large home centers, retailers, contractors and to the manufactured homes industry.

*Wood Flooring* — produces and sources wood flooring products for use in new residential construction and renovation, with some commercial applications in stores, restaurants and high-end offices. The product offering includes pre-finished solid and engineered wood floors in various wood species, and related accessories. Virtually all of our Wood Flooring sales are in North America. Our Wood Flooring products are generally sold to independent wholesale flooring distributors and large home centers. Our products are principally sold under the brand names Bruce<sup>®</sup>, Robbins<sup>®</sup>, Timberland<sup>®</sup>, Armstrong<sup>®</sup>, HomerWood<sup>®</sup> and Capella<sup>®</sup>.

*Building Products* — produces suspended mineral fiber, soft fiber and metal ceiling systems for use in commercial, institutional, and residential settings. In addition, our Building Products segment sources complementary ceiling products. Our products, which are sold worldwide, are available in numerous colors, performance characteristics and designs, and offer attributes such as acoustical control, rated fire protection and aesthetic appeal. Commercial ceiling materials and accessories are sold to ceiling systems contractors and to resale distributors. Residential ceiling products are sold in North America

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primarily to wholesalers and retailers (including large home centers). Suspension system (grid) products manufactured by Worthington Armstrong Venture (“WAVE”) are sold by both Armstrong and our WAVE joint venture.

*Cabinets* — produces kitchen and bathroom cabinetry and related products, which are used primarily in the U.S. residential new construction and renovation markets. Through our system of Company-owned and independent distribution centers and through direct sales to builders, our Cabinets segment provides design, fabrication and installation services to single and multi-family homebuilders, remodelers and consumers under the Armstrong® brand name. All of Cabinets’ sales are in the U.S.

*Unallocated Corporate* — includes assets, liabilities, income and expenses that have not been allocated to the business units. Balance sheet items classified as Unallocated Corporate are primarily income tax related accounts, cash and cash equivalents, the Armstrong brand name, the U.S. prepaid pension cost and long-term debt. Expenses for our corporate departments and certain benefit plans are allocated to the reportable segments based on known metrics, such as specific activity, time reporting, headcount, square-footage or net sales. The remaining items, which cannot be attributed to the reportable segments without a high degree of generalization, are reported in Unallocated Corporate.

| For the year ended 2010                        | Resilient<br>Flooring | Wood<br>Flooring | Building<br>Products | Cabinets | Unallocated<br>Corporate | Total      |
|--|-----------------------|------------------|----------------------|----------|--------------------------|------------|
| Net sales to external customers                | \$ 1,013.2            | \$ 479.1         | \$ 1,135.5           | \$ 138.6 | —                        | \$ 2,766.4 |
| Equity (earnings) from joint venture           | —                     | —                | (45.0)               | —        | —                        | (45.0)     |
| Segment operating income (loss) <sup>(1)</sup> | 13.1                  | (45.8)           | 171.0                | (6.4)    | (50.8)                   | 81.1       |
| Restructuring charges                          | 13.9                  | 0.9              | 3.2                  | —        | 4.0                      | 22.0       |
| Segment assets                                 | 582.6                 | 340.7            | 931.4                | 47.9     | 1,019.8                  | 2,922.4    |
| Depreciation and amortization                  | 38.6                  | 26.4             | 62.5                 | 2.0      | 13.8                     | 143.3      |
| Asset impairments                              | 2.1                   | 22.4             | —                    | —        | 6.1                      | 30.6       |
| Investment in joint venture                    | —                     | —                | 188.6                | —        | —                        | 188.6      |
| Capital additions                              | 24.0                  | 12.2             | 47.7                 | 3.0      | 5.8                      | 92.7       |
|  |                       |                  |                      |          |                          |            |
| For the year ended 2009                        | Resilient<br>Flooring | Wood<br>Flooring | Building<br>Products | Cabinets | Unallocated<br>Corporate | Total      |
| Net sales to external customers                | \$ 1,031.7            | \$ 510.4         | \$ 1,087.7           | \$ 150.2 | —                        | \$ 2,780.0 |
| Equity (earnings) from joint venture           | —                     | —                | (40.0)               | —        | —                        | (40.0)     |
| Segment operating income (loss) <sup>(1)</sup> | 0.1                   | (5.9)            | 155.9                | (18.3)   | (41.2)                   | 90.6       |
| Segment assets                                 | 645.2                 | 410.3            | 966.0                | 53.2     | 1,227.9                  | 3,302.6    |
| Depreciation and amortization                  | 45.2                  | 14.9             | 61.5                 | 7.2      | 18.0                     | 146.8      |
| Asset impairments                              | 3.0                   | 18.0             | —                    | —        | —                        | 21.0       |
| Investment in joint venture                    | 0.1                   | —                | 194.5                | —        | —                        | 194.6      |
| Capital additions                              | 50.5                  | 10.3             | 31.8                 | 2.5      | 10.0                     | 105.1      |
|  |                       |                  |                      |          |                          |            |
| For the year ended 2008                        | Resilient<br>Flooring | Wood<br>Flooring | Building<br>Products | Cabinets | Unallocated<br>Corporate | Total      |
| Net sales to external customers                | \$ 1,220.1            | \$ 624.6         | \$ 1,369.1           | \$ 179.2 | —                        | \$ 3,393.0 |
| Equity (earnings) from joint venture           | —                     | —                | (56.0)               | —        | —                        | (56.0)     |
| Segment operating income (loss) <sup>(1)</sup> | (16.8)                | (2.4)            | 239.7                | (6.7)    | (2.9)                    | 210.9      |
| Restructuring charges                          | —                     | —                | —                    | —        | 0.8                      | 0.8        |
| Segment assets                                 | 670.2                 | 470.9            | 1,049.6              | 71.2     | 1,089.9                  | 3,351.8    |
| Depreciation and amortization                  | 49.8                  | 12.6             | 64.8                 | 2.4      | 20.2                     | 149.8      |
| Asset Impairments                              | 2.9                   | 25.4             | —                    | —        | —                        | 28.3       |
| Investment in joint venture                    | 0.1                   | —                | 208.1                | —        | —                        | 208.2      |
| Capital additions                              | 26.4                  | 11.8             | 41.1                 | 3.7      | 12.0                     | 95.0       |

<sup>(1)</sup> Segment operating income (loss) is the measure of segment profit or loss reviewed by the chief operating decision maker. The sum of the segments’ operating income (loss) equals the total consolidated operating income as reported on our income statement. The following reconciles our total consolidated operating income to earnings from continuing operations before income taxes. These items are only measured and managed on a consolidated basis:



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|   | 2010           | 2009           | 2008            |
|---|----------------|----------------|-----------------|
| Segment operating income                                | \$ 81.1        | \$ 90.6        | \$ 210.9        |
| Interest expense  | 21.2           | 17.7           | 30.8            |
| Other non-operating expense                             | 1.2            | 0.9            | 1.3             |
| Other non-operating (income)                            | (8.0)          | (3.2)          | (10.6)          |
| Earnings from continuing operations before income taxes | <u>\$ 66.7</u> | <u>\$ 75.2</u> | <u>\$ 189.4</u> |

Accounting policies of the segments are the same as those described in the summary of significant accounting policies.

The sales in the table below are allocated to geographic areas based upon the location of the customer.

| Geographic Areas             | 2010              | 2009              | 2008              |
|------------------------------|-------------------|-------------------|-------------------|
| <b>Net trade sales</b>       |                   |                   |                   |
| <b>Americas:</b>             |                   |                   |                   |
| United States                | \$ 1,742.4        | \$ 1,810.5        | \$ 2,177.4        |
| Canada                       | 179.4             | 152.0             | 166.0             |
| Other Americas               | 39.5              | 30.1              | 43.4              |
| <b>Total Americas</b>        | <u>\$ 1,961.3</u> | <u>\$ 1,992.6</u> | <u>\$ 2,386.8</u> |
| <b>Europe:</b>               |                   |                   |                   |
| Germany                      | \$ 146.3          | \$ 154.7          | \$ 185.7          |
| United Kingdom               | 79.9              | 94.1              | 134.7             |
| Other Europe                 | 334.0             | 347.3             | 464.1             |
| <b>Total Europe</b>          | <u>\$ 560.2</u>   | <u>\$ 596.1</u>   | <u>\$ 784.5</u>   |
| <b>Total Pacific Rim</b>     | <u>\$ 244.9</u>   | <u>\$ 191.3</u>   | <u>\$ 221.7</u>   |
| <b>Total net trade sales</b> | <u>\$ 2,766.4</u> | <u>\$ 2,780.0</u> | <u>\$ 3,393.0</u> |

| Property, plant and equipment, net<br>at December 31 | 2010            | 2009            |
|--|-----------------|-----------------|
| <b>Americas:</b>                                     |                 |                 |
| United States  | \$ 635.7        | \$ 678.1        |
| Other Americas                                       | 6.0             | 14.1            |
| <b>Total Americas</b>                                | <u>\$ 641.7</u> | <u>\$ 692.2</u> |
| <b>Europe:</b>                                       |                 |                 |
| Germany  | \$ 115.2        | \$ 123.1        |
| Other Europe   | 44.3            | 63.6            |
| <b>Total Europe</b>                                  | <u>\$ 159.5</u> | <u>\$ 186.7</u> |
| <b>Total Pacific Rim</b>                             | <u>\$ 53.7</u>  | <u>\$ 50.3</u>  |
| <b>Total property, plant and equipment, net</b>      | <u>\$ 854.9</u> | <u>\$ 929.2</u> |

Impairment testing of our tangible assets occurs whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable.

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The Wood Flooring business recorded operating losses in 2010 and 2009 primarily due to non-cash impairment charges of \$22.4 million and \$18.0 million, respectively. The 2010 operating loss also included restructuring charges. See Note 15 for further information on our restructuring charges. The Wood Flooring business had positive cash flows for both 2010 and 2009. There were no indicators of impairment for the tangible assets of the Wood Flooring business in 2010 and 2009 (except as noted below).

During 2010 management decided to exit our corporate flight operations. As a result, we recorded a \$6.1 million impairment charge in selling, general and administrative (“SG&A”) expense. The fair value was determined by management estimates and an independent valuation based on information available at that time. The valuation information included sales of similar equipment and estimates of market prices (considered Level 2 inputs in the fair value hierarchy as described in Note 18) for these assets. We sold the corporate aircraft in the fourth quarter of 2010.

During the first quarter of 2010, we announced that one of our European metal ceilings manufacturing facilities would be shut down in the second quarter of 2010, which prompted us to perform an impairment test for this asset group. The carrying amount of the tangible assets was determined to be recoverable as the projected undiscounted cash flows exceeded the carrying value. We sold the facility in the third quarter of 2010.

We also recorded an asset impairment charge of \$2.1 million in the second quarter of 2010 in SG&A expense for a European Resilient Flooring warehouse facility due to the decline in the commercial property sector. The fair value was determined by management estimates of market prices available at that time. This data included sales and leases of comparable properties within similar real estate markets (considered Level 3 inputs in the fair value hierarchy).

During the third quarter of 2010, we decided to close a ceilings plant, one of our previously idled Wood Flooring plants, portions of another previously idled Wood Flooring plant, and a Resilient Flooring facility. These facilities were shut down in 2010 or will be shut down in 2011. We concluded that an indicator of impairment existed for these asset groups, which prompted us to perform impairment analyses for these asset groups. In each case the carrying amount of the tangible assets was determined to be recoverable as the projected undiscounted cash flows, or estimated fair value of the assets, exceeded the carrying value.

In the third quarter of 2010 we announced our intention to exit the residential flooring business in Europe. We concluded that an indicator of impairment existed which prompted us to perform an impairment analysis. The carrying amount of the tangible assets was determined to be recoverable as the estimated fair value of the assets exceeded the carrying value. We sold the assets related to this business during the fourth quarter of 2010.

During the fourth quarter of 2009, we recorded a \$3.0 million impairment charge in cost of goods sold for certain European Resilient Flooring tangible assets, primarily machinery and equipment. The fair value was determined by management estimates of market prices and independent valuations of the land and building assets based on observable market data available at that time. This data included recent sales and leases of comparable properties with similar characteristics within the same local real estate market (considered Level 2 inputs in the fair value hierarchy).

The Cabinets business incurred operating losses beginning in 2008 and continuing through 2010. In 2009 and 2010 the carrying amount of the tangible assets was determined to be recoverable as the projected undiscounted cash flows exceeded the carrying value.

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NOTE 4 ACQUISITIONS

As of December 31, 2009, we owned 80% of our Shanghai ceiling operations. During the fourth quarter of 2009, we made deposits of \$3.3 million to initiate the purchase of the remaining 20% interest. During the first quarter of 2010, we completed the acquisition with additional cash payments of \$7.8 million. We recorded the difference between the purchase price and the net book value of the net equity acquired within capital in excess of par value.

NOTE 5. DIVESTITURES

In the fourth quarter of 2010, the sale of our European metal ceilings contract installation business resulted in a loss of \$5.8 million which was recorded in SG&A expenses.

NOTE 6. ACCOUNTS AND NOTES RECEIVABLE

|   | December<br>31, 2010 | December<br>31, 2009 |
|---|----------------------|----------------------|
| Customer receivables                                | \$ 265.1             | \$ 269.3             |
| Customer notes                                      | 2.0                  | 2.5                  |
| Miscellaneous receivables                           | 5.5                  | 5.6                  |
| Less allowance for warranties, discounts and losses | (43.1)               | (48.3)               |
| Accounts and notes receivable, net                  | <u>\$ 229.5</u>      | <u>\$ 229.1</u>      |

Generally, we sell our products to select, pre-approved customers whose businesses are affected by changes in economic and market conditions. We consider these factors and the financial condition of each customer when establishing our allowance for losses from doubtful accounts.

NOTE 7. INVENTORIES

|                              | December<br>31, 2010 | December<br>31, 2009 |
|------------------------------|----------------------|----------------------|
| Finished goods               | \$ 277.7             | \$ 281.0             |
| Goods in process             | 26.7                 | 36.2                 |
| Raw materials and supplies   | 119.9                | 134.4                |
| Less LIFO and other reserves | (25.8)               | (6.6)                |
| Total inventories, net       | <u>\$ 398.5</u>      | <u>\$ 445.0</u>      |

Approximately 65% and 63% of our total inventory in 2010 and 2009, respectively, was valued on a LIFO (last-in, first-out) basis. Inventory values were lower than would have been reported on a total FIFO (first-in, first-out) basis by \$17.1 million and \$4.2 million in 2010 and 2009, respectively.

The distinction between the use of different methods of inventory valuation is primarily based on geographical locations and/or legal entities rather than types of inventory. The following table summarizes the amount of inventory that is not accounted for under the LIFO method.

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|                         | December 31,<br>2010 | December 31,<br>2009 |
|-------------------------|----------------------|----------------------|
| International locations | \$ 124.3             | \$ 147.0             |
| Cabinets                | 10.0                 | 13.7                 |
| Wood flooring           | 0.3                  | 0.6                  |
| Resilient flooring      | 1.3                  | 1.2                  |
| U.S. sourced products   | 3.7                  | 3.2                  |
| Total                   | <u>\$ 139.6</u>      | <u>\$ 165.7</u>      |

Substantially all of our international locations use the FIFO method of inventory valuation (or other methods which closely approximate the FIFO method) primarily because either the LIFO method is not permitted for local tax and/or statutory reporting purposes, or the entities were part of various acquisitions that had adopted the FIFO method prior to our acquisition. In these situations, a conversion to LIFO would be highly complex and involve excessive cost and effort to achieve under local tax and/or statutory reporting requirements.

The sourced products represent certain finished goods sourced from third party manufacturers, primarily from foreign suppliers.

NOTE 8. OTHER CURRENT ASSETS

|                            | December 31,<br>2010 | December 31,<br>2009 |
|----------------------------|----------------------|----------------------|
| Prepaid expenses           | \$ 28.7              | \$ 36.0              |
| Assets held for sale       | 2.5                  | 7.8                  |
| Other                      | 4.1                  | 11.4                 |
| Total other current assets | <u>\$ 35.3</u>       | <u>\$ 55.2</u>       |

The reduction in prepaid expenses was primarily due to a prepayment for the buyout of our minority interest partner in China which occurred in 2009.

Assets held for sale decreased due to the sale of a European Resilient Flooring warehouse facility.

The reduction in "Other" was primarily due to the receipt of proceeds from an entrustment loan related to our Chinese entity.

NOTE 9. PROPERTY, PLANT AND EQUIPMENT

|  | December 31,<br>2010 | December 31,<br>2009 |
|--|----------------------|----------------------|
| Land   | \$ 119.9             | \$ 131.5             |
| Buildings                                      | 298.4                | 303.8                |
| Machinery and equipment                        | 827.0                | 787.5                |
| Computer software                              | 32.2                 | 30.6                 |
| Construction in progress                       | 60.2                 | 65.8                 |
| Less accumulated depreciation and amortization | (482.8)              | (390.0)              |
| Net property, plant and equipment              | <u>\$ 854.9</u>      | <u>\$ 929.2</u>      |

Land and Buildings decreased primarily due to the 2010 sales of our St. Gallen, Switzerland and Teesside, U.K. facilities with a combined net book value of \$11.5 million. See Note 2 for discussion of policies related to property and depreciation and asset retirement obligations.

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**NOTE 10. EQUITY INVESTMENTS**

Investment in joint venture of \$188.6 million at December 31, 2010 represented the equity interest in our 50% investment in our WAVE joint venture.

We use the equity in earnings method to determine the appropriate classification of distributions from WAVE within our cash flow statement. During 2010 and 2009 WAVE distributed amounts in excess of our capital contributions and proportionate share of retained earnings. Accordingly, in 2010 and 2009 the distributions were reflected as a return of investment in cash flows from investing activity in our Consolidated Statement of Cash Flows. In 2008, \$19.5 million of the distributions were reflected as a return of investment in cash flows from investing activity, and the remaining \$61.0 million was recorded within cash flows from operating activities.

We account for our WAVE joint venture using the equity method of accounting. Our recorded investment in WAVE was higher than our 50% share of the carrying values reported in WAVE's consolidated financial statements by \$200.6 million as of December 31, 2010 and \$206.6 million as of December 31, 2009. These differences are due to our adoption of fresh-start reporting upon emergence from Chapter 11, while WAVE's consolidated financial statements do not reflect fresh-start reporting. The differences are comprised of the following fair value adjustments to assets:

|                               | December 31,<br>2010 | December 31,<br>2009 |
|-------------------------------|----------------------|----------------------|
| Property, plant and equipment | \$ 1.4               | \$ 1.8               |
| Other intangibles             | 168.7                | 174.3                |
| Goodwill                      | 30.5                 | 30.5                 |
| Total                         | <u>\$ 200.6</u>      | <u>\$ 206.6</u>      |

Other intangibles include customer relationships, trademarks and developed technology. Customer relationships are amortized over 20 years and developed technology is amortized over 15 years. Trademarks have an indefinite life.

See Exhibit 99.1 for WAVE's consolidated financial statements. Condensed financial data for WAVE is summarized below:

|                               | December 31,<br>2010 | December 31,<br>2009 |
|-------------------------------|----------------------|----------------------|
| Current assets                | \$ 112.5             | \$ 110.0             |
| Non-current assets            | 35.7                 | 36.2                 |
| Current liabilities           | 22.1                 | 17.3                 |
| Other non-current liabilities | 154.8                | 154.6                |

|              | 2010     | 2009     | 2008     |
|--------------|----------|----------|----------|
| Net sales    | \$ 332.2 | \$ 307.9 | \$ 421.8 |
| Gross profit | 137.5    | 118.9    | 160.2    |
| Net earnings | 105.6    | 92.8     | 125.4    |

See discussion in Note 30 for additional information on this related party.

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**NOTE 11. INTANGIBLE ASSETS**

During the fourth quarters of 2010, 2009, and 2008 we conducted our annual impairment testing of non-amortizable intangible assets. Our impairment analysis determined that the carrying value of our Wood Flooring trademarks was in excess of the fair value. We determined the fair value of these intangible assets by utilizing relief from royalty analysis that incorporated projections of revenue and cash flows. The initial fair value for these intangible assets was determined in 2006 as part of fresh start reporting. The fair values were negatively affected by lower expected future sales in the U.S. residential housing market. Based on the result of the analysis, we recorded non-cash impairment charges of \$22.4 million in the fourth quarter of 2010, \$18.0 million in the fourth quarter of 2009, and 25.4 million in the fourth quarter of 2008. See Note 2 for a discussion of our accounting policy for intangible assets.

Further adjustments were made to the carrying value of intangibles during the fourth quarter of 2010 and 2009. These adjustments were primarily tax-related and due to the purchase of land use rights in China.

The following table details amounts related to our intangible assets as of December 31, 2010 and 2009.

|  | Estimated Useful Life | December 31, 2010     |                          | December 31, 2009     |                          |
|--|-----------------------|-----------------------|--------------------------|-----------------------|--------------------------|
|  |                       | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization |
| <b>Amortizing intangible assets</b>                      |                       |                       |                          |                       |                          |
| Customer relationships                                   | 20 years              | \$ 170.7              | \$ 36.3                  | \$ 171.0              | \$ 27.7                  |
| Developed technology                                     | 15 years              | 80.8                  | 22.9                     | 80.9                  | 17.5                     |
| Other  | Various               | 11.8                  | 0.7                      | 10.8                  | 0.5                      |
| <b>Total</b>   |                       | <b>\$ 263.3</b>       | <b>\$ 59.9</b>           | <b>\$ 262.7</b>       | <b>\$ 45.7</b>           |
| <b>Non-amortizing intangible assets</b>                  |                       |                       |                          |                       |                          |
| Trademarks and brand names                               | Indefinite            | 352.7                 |                          | 375.8                 |                          |
| <b>Total other intangible assets</b>                     |                       | <b>\$ 616.0</b>       |                          | <b>\$ 638.5</b>       |                          |
| <b>Amortization and impairment charges</b>               |                       |                       |                          |                       |                          |
|  |                       |                       | 2010                     | 2009                  | 2008                     |
| Amortization   |                       |                       | \$ 14.2                  | \$ 14.2               | \$ 14.3                  |
| Intangible asset impairment                              |                       |                       | 22.4                     | 18.0                  | 25.4                     |
| <b>Total amortization expense and impairment charges</b> |                       |                       | <b>\$ 36.6</b>           | <b>\$ 32.2</b>        | <b>\$ 39.7</b>           |

The annual amortization expense expected for the years 2011 through 2015 is \$14.1 million in each year.

**NOTE 12. OTHER NON-CURRENT ASSETS**

|   | December 31, 2010 | December 31, 2009 |
|---|-------------------|-------------------|
| Cash surrender value of Company owned life insurance policies | \$ 61.5           | \$ 56.5           |
| Debt financing costs  | 19.5              | 5.6               |
| Other   | 15.4              | 19.8              |
| <b>Total other non-current assets</b>                         | <b>\$ 96.4</b>    | <b>\$ 81.9</b>    |

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NOTE 13. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

|   | December 31,<br>2010 | December 31,<br>2009 |
|---|----------------------|----------------------|
| Payables, trade and other                   | \$ 169.5             | \$ 159.6             |
| Employment costs                            | 109.9                | 107.2                |
| Restructuring accruals                      | 14.5                 | —                    |
| Other                                       | 46.4                 | 44.2                 |
| Total accounts payable and accrued expenses | <u>\$ 340.3</u>      | <u>\$ 311.0</u>      |

NOTE 14. SEVERANCE AND RELATED COSTS

See Note 15 for a discussion of severance charges associated with restructuring actions.

In 2010 we recorded \$11.2 million in SG&A expense for severance and related expenses to reflect the separation costs for our former Chairman and Chief Executive Officer. In accordance with the separation agreement, payment was made in the third quarter of 2010.

During 2010 we announced the shutdown of finished goods production at two Wood Flooring plants, the restarting of certain operations at a previously idled Wood Flooring plant, the closure of a European metal ceilings manufacturing facility and a crew reduction in a European Building Products plant. We recorded \$5.7 million of severance and related expenses in 2010 for approximately 500 employees affected by these actions. The charges were recorded in cost of goods sold.

In addition to the charges described above, in 2010 we also recorded \$7.5 million of severance and related expenses for employees affected by the elimination of approximately 220 other manufacturing and SG&A positions around the world. The charges were recorded in SG&A expense (\$5.6 million) and cost of goods sold (\$1.9 million).

In 2009 we recorded \$17.5 million of severance and related expenses, primarily to reflect the separation costs for approximately 1,000 employees, including executives and employees affected by the cessation of production at four manufacturing facilities. The charges were recorded in SG&A expenses (\$10.5 million) and cost of goods sold (\$7.0 million).

In 2008 we recorded \$7.4 million of severance and related expenses to reflect the termination costs for certain corporate employees. We also recorded a reduction of our stock-based compensation expense of \$1.5 million in the first quarter of 2008 related to stock grants that were forfeited by these employees. These costs were recorded as SG&A expenses.

During 2008 we recorded \$14.1 million of severance and other related charges primarily related to organizational and manufacturing changes for our European Resilient Flooring business. The organizational changes related to the decision to consolidate and outsource several SG&A functions. The manufacturing changes related primarily to the decision to cease production of automotive carpeting and other specialized textile flooring products. These charges were recorded as part of cost of goods sold (\$7.3 million) and SG&A expenses (\$6.8 million).

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**NOTE 15. RESTRUCTURING ACTIONS**

During the third quarter of 2010, management made several significant decisions to address our cost structure. Given the materiality to our financial statements and impact to our operations, we decided to classify charges related to these actions as restructuring charges. We recorded \$22.0 million of restructuring charges in the third and fourth quarters of 2010. The following table summarizes these charges:

| Action Title          | 2010           | Approximate<br>Number of<br>Employees<br>Affected | Segment  |
|-----------------------|----------------|---|--|
| Floor Products Europe | \$ 11.8        | 520   | Resilient Flooring   |
| North America SG&A    | 5.8            | 160   | Unallocated Corporate, Building Products, Resilient Flooring |
| Beaver Falls plant    | 2.3            | 150   | Building Products  |
| Montreal              | 1.2            | 170   | Resilient Flooring   |
| Wood products         | 0.9            | 80  | Wood Flooring  |
| Total                 | <u>\$ 22.0</u> |   |  |

**Floor Products Europe** : We announced in the third quarter of 2010 that we intend to focus our European flooring strategy on products and regions where we believe we can be a market leader, and we will streamline our product range and sales organization accordingly. During the fourth quarter of 2010, we withdrew from the residential market, and as a result, we sold our Teesside, UK, manufacturing facility. In addition, we no longer intend to manufacture heterogeneous vinyl flooring at our Holmsund, Sweden plant, and we anticipate that the Holmsund facility also will close.

In addition to the restructuring costs of \$11.8 million reflected in the above table, we also recorded \$5.0 million of other related costs in cost of goods sold (\$3.5 million) and SG&A (\$1.5 million). These costs are primarily related to inventory and samples obsolescence.

In total, we expect to incur expenses of \$30 million to \$35 million for these actions through 2011. The expenses primarily will include severance benefits and asset write-downs. The amount of severance benefits will be determined following consultations with works councils.

**North America SG&A** : We are committed to augmenting margin expansion through the aggressive adoption of LEAN practices and projects to standardize, simplify or eliminate SG&A activities. As a result, in the third quarter of 2010, we began to restructure our U.S. SG&A operations. The restructuring expense related to this initiative was recorded in the Unallocated Corporate (\$4.0 million), Building Products (\$0.9 million) and Resilient Flooring (\$0.9 million) segments.

In total, we expect to incur restructuring expenses of \$8 million to \$12 million through 2011 as we further streamline SG&A functions.

**Beaver Falls Plant** : In the third quarter of 2010, we announced that the Beaver Falls, Pennsylvania, plant is scheduled to close in 2011. The closing will be phased as we transition production to other facilities. The decision to close the plant was driven by the location and layout of the plant, technology limitations and the continued limited demand for the products we make at the plant.

In addition to the restructuring costs of \$2.3 million reflected in the table above, we also recorded \$10.0 million of accelerated depreciation in cost of goods sold.

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In total, we expect to incur expenses of \$20 million to \$25 million for this action through 2011. The expenses will primarily include accelerated depreciation and severance benefits.

**Montreal:** In the third quarter of 2010, we announced the closing of our warehouse and previously idled plant in Montreal, Canada. The facility closed in the fourth quarter of 2010. The decision to close this facility was driven by the expectation that we will be able to service the demand for our resilient tile products from our other manufacturing locations.

In addition to the restructuring costs of \$1.2 million reflected in the previous table, we also recorded \$6.5 million of fixed asset write-downs in cost of goods sold.

We do not expect to incur further restructuring costs related to this initiative.

**Wood Products:** In the third quarter of 2010, we announced the closing of our previously idled Center, Texas plant and a portion of our previously idled Oneida, Tennessee plant. Operations at Center and the strip mill operations at Oneida ceased in the fourth quarter of 2010. The decision to close these facilities was driven by the expectation that we will be able to service the demand for our wood products from our other manufacturing locations.

In addition to the restructuring costs of \$0.9 million reflected in the previous table, we also recorded \$14.9 million of fixed asset write-downs and lease termination costs in cost of goods sold.

We do not expect to incur further restructuring costs related to these locations.

The following table summarizes activity in the restructuring accruals.

|                   | Severance and Related Costs |                      |                       |               |                  |                |
|-------------------|-----------------------------|----------------------|-----------------------|---------------|------------------|----------------|
|                   | Floor<br>Products<br>Europe | Consolidated<br>SG&A | Beaver Falls<br>Plant | Montreal      | Wood<br>Products | Total          |
| December 31, 2009 | —                           | —                    | —                     | —             | —                | —              |
| Net charges       | \$ 11.8                     | \$ 5.8               | \$ 2.3                | \$ 1.2        | \$ 0.9           | \$ 22.0        |
| Cash payments     | (5.7)                       | (1.1)                | (0.4)                 | —             | (0.3)            | (7.5)          |
| December 31, 2010 | <u>\$ 6.1</u>               | <u>\$ 4.7</u>        | <u>\$ 1.9</u>         | <u>\$ 1.2</u> | <u>\$ 0.6</u>    | <u>\$ 14.5</u> |

Most of the accrual balance as of December 31, 2010 is expected to be paid during 2011.

#### NOTE 16. INCOME TAXES

The tax effects of principal temporary differences between the carrying amounts of assets and liabilities and their tax bases are summarized in the following table. Management believes it is more likely than not that results of future operations will generate sufficient taxable income to realize deferred tax assets, net of valuation allowances, including the remaining federal net operating losses of \$175.9 million principally resulting from payments to the Asbestos PI Trust in 2006 under the POR that may be carried forward for the remaining 16 years. In arriving at this conclusion, we considered the profit before tax generated for the years 1996 through 2010, as well as future reversals of existing taxable temporary differences and projections of future profit before tax.

We have provided valuation allowances for certain deferred state and foreign income tax assets, foreign tax credits and other basis adjustments of \$168.1 million. We have \$1,376.7 million of state net operating loss ("NOL") carryforwards with expirations between 2011 and 2030. In addition, we have \$496.8 million of foreign NOL carryforwards, of which \$464.9 million are available for carryforward indefinitely and \$31.9 million expire between 2011 and 2019. We also have alternative minimum tax credit carryforwards of \$14.9 million which are available to reduce future federal income taxes.

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Our valuation allowances increased from 2009 by a net amount of \$12.7 million. This includes a decrease of \$1.3 million for foreign tax credits, a decrease of \$0.4 million for capital loss carryforwards, a decrease for certain deferred state income tax assets of \$2.2 million, and an increase for foreign tax loss carryforwards of \$16.6 million. The valuation allowance for foreign tax credits decreased by \$1.3 million for carryforward expirations. The valuation allowance for capital losses decreased by \$0.4 million due to the reversal of a loss provision made in 2009. The decrease in the valuation allowance for certain deferred state income tax assets of \$2.2 million was primarily due to an increase in the amount of future reversals of existing taxable temporary differences. The increase in the valuation allowance for foreign tax loss carryforwards was primarily due to additional unbenefitted losses partially offset by carryforward expirations that also reduced the related deferred income tax assets. We estimate we will need to generate future taxable income of approximately \$502.6 million for federal income tax purposes and \$1,088.9 million for state income tax purposes during the respective realization periods in order to fully realize the net deferred income tax assets discussed above.

| Deferred income tax assets (liabilities)   | December 31,<br>2010 | December 31,<br>2009 |
|--|----------------------|----------------------|
| Postretirement benefits  | \$ 122.4             | \$ 165.1             |
| Pension benefit liabilities  | 14.4                 | 19.3                 |
| Net operating losses   | 375.7                | 354.4                |
| Foreign tax credit carryforwards   | 97.3                 | 88.6                 |
| Capital losses   | 4.4                  | 3.3                  |
| Other  | 89.6                 | 97.2                 |
| Total deferred income tax assets   | 703.8                | 727.9                |
| Valuation allowances   | (168.1)              | (155.4)              |
| Net deferred income tax assets   | 535.7                | 572.5                |
| Intangibles  | (259.9)              | (275.8)              |
| Accumulated depreciation   | (82.5)               | (94.6)               |
| Prepaid pension costs  | (32.0)               | (28.3)               |
| Tax on unremitted earnings   | (98.5)               | (87.0)               |
| Inventories  | (20.4)               | (18.3)               |
| Other  | (3.0)                | (5.3)                |
| Total deferred income tax liabilities  | (496.3)              | (509.3)              |
| Net deferred income tax assets   | <u>\$ 39.4</u>       | <u>\$ 63.2</u>       |
| Deferred income taxes have been classified in the Consolidated Balance Sheet as: |                      |                      |
| Deferred income tax assets — current   | \$ 20.9              | \$ 16.3              |
| Deferred income tax assets — noncurrent  | 45.0                 | 58.2                 |
| Deferred income tax liabilities — current  | (2.4)                | (3.1)                |
| Deferred income tax liabilities — noncurrent                                     | (24.1)               | (8.2)                |
| Net deferred income tax assets   | <u>\$ 39.4</u>       | <u>\$ 63.2</u>       |

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| Details of taxes  | 2010           | 2009            | 2008            |
|---|----------------|-----------------|-----------------|
| Earnings (loss) from continuing operations before income taxes: |                |                 |                 |
| Domestic  | \$ 229.9       | \$ 75.5         | \$ 171.0        |
| Foreign   | (17.1)         | (0.3)           | 18.4            |
| Eliminations of dividends from foreign subsidiaries             | (146.1)        | —               | —               |
| Total   | <u>\$ 66.7</u> | <u>\$ 75.2</u>  | <u>\$ 189.4</u> |
| Income tax provision (benefit):                                 |                |                 |                 |
| Current:  |                |                 |                 |
| Federal   | \$ 24.0        | \$ (153.4)      | \$ 8.3          |
| Foreign   | 10.5           | 13.9            | 21.3            |
| State   | (0.1)          | 1.4             | 5.4             |
| Total current   | <u>34.4</u>    | <u>(138.1)</u>  | <u>35.0</u>     |
| Deferred:   |                |                 |                 |
| Federal   | 22.5           | 134.9           | 46.5            |
| Foreign   | (3.0)          | —               | (1.1)           |
| State   | 1.8            | 0.7             | 28.6            |
| Total deferred  | <u>21.3</u>    | <u>135.6</u>    | <u>74.0</u>     |
| Total income tax expense (benefit)                              | <u>\$ 55.7</u> | <u>\$ (2.5)</u> | <u>\$ 109.0</u> |

At December 31, 2010, we had \$99.1 million of book basis (including unremitted earnings) in excess of tax basis in the shares of certain foreign subsidiaries for which no deferred income taxes have been provided because we consider the underlying earnings to be permanently reinvested. This basis difference could reverse through a sale of the subsidiaries, the receipt of dividends from the subsidiaries, or various other events. It is not practical to calculate the residual income tax which would result if these basis differences reversed due to the complexities of the tax law and the hypothetical nature of the calculations. We do, however, estimate that approximately \$0.8 million in foreign withholding taxes would be payable if the underlying earnings were to be distributed.

| Reconciliation to U.S. statutory tax rate                                       | 2010           | 2009            | 2008            |
|---|----------------|-----------------|-----------------|
| Continuing operations tax at statutory rate                                     | \$ 23.3        | \$ 26.3         | \$ 66.3         |
| State income tax expense, net of federal benefit                                | 1.5            | 2.2             | 8.1             |
| (Decrease)/increase in valuation allowances on deferred state income tax assets | (2.2)          | (0.8)           | 13.9            |
| Increases in valuation allowances on deferred foreign income tax assets         | 14.9           | 17.3            | 14.2            |
| Decrease in valuation allowance for foreign tax credits                         | —              | (31.3)          | —               |
| Tax on foreign and foreign-source income  | (4.4)          | (3.7)           | (0.9)           |
| Interest on uncertain tax positions   | —              | —               | 5.9             |
| Permanent book/tax differences  | 1.2            | 4.7             | (2.4)           |
| Impact of health care reform legislation on Medicare Part D subsidy             | 22.0           | —               | —               |
| IRS audit settlement  | —              | (12.9)          | —               |
| Recharacterization of stock loss  | —              | (7.6)           | —               |
| Tax on unremitted earnings  | (0.6)          | 3.3             | 3.9             |
| Tax expense (benefit) at effective rate   | <u>\$ 55.7</u> | <u>\$ (2.5)</u> | <u>\$ 109.0</u> |

During March 2010 President Obama signed into law comprehensive health care reform legislation under the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 (together, the "Act"). The federal government currently provides a partial subsidy, on a tax-free

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basis, to companies that provide certain retiree prescription drug benefits (the "Medicare Part D subsidy"). The Act reduces the tax deductibility of retiree health care costs to the extent of any Medicare Part D subsidy received beginning in 2013. As a result of this change in tax treatment, we recorded a non-cash income tax charge of approximately \$22 million in the first quarter of 2010. We also recorded a decrease of \$16.1 million to noncurrent deferred income tax assets and accumulated other comprehensive income that was related to an adjustment to the non-subsidized portion of our postretirement benefit liabilities.

In October 2007, we received \$178.7 million in refunds for federal income taxes paid over the preceding ten years. The refunds resulted from the carryback of a portion of NOL's created by the funding of the Asbestos PI Trust in October 2006. The refunds were subject to an examination by the Internal Revenue Service ("IRS"). Upon receipt of the refunds in the fourth quarter of 2007, we recorded a liability of \$144.6 million pending completion of the IRS audit. We also recorded a noncurrent deferred income tax asset of \$144.6 million for future tax benefits that would result from a disallowance of the refunds. In addition, we had accrued \$10.0 million of interest as of June 30, 2009, on this unrecognized tax benefit as income tax expense.

The IRS completed its audit and in July 2009 notified us that the Joint Committee on Taxation of the U.S. Congress had also issued its final approval of our refunds. Therefore, in the third quarter of 2009, we recorded a decrease in the liability for previously unrecognized tax benefits of \$154.6 million. We also recorded a decrease in noncurrent deferred income tax assets of \$144.6 million for the reduction in future tax benefits from the settlement of this tax position. As a result, we recorded an income tax benefit of \$10.0 million in the third quarter of 2009 for the settlement of this tax position.

Additionally, through the second quarter of 2009, we had accrued U.S. income taxes of approximately \$50 million for unremitted earnings of foreign subsidiaries that were not considered to be permanently reinvested. Due to uncertainty regarding the NOL carryover discussed above, we provided a valuation allowance of \$31.3 million on the foreign tax credits that would be available upon the remittance of these earnings to the U.S. With the settlement of the IRS audit in July 2009, this uncertainty was eliminated. Therefore, in the third quarter of 2009, we removed the valuation allowance on these foreign tax credits.

We have \$126.3 million of Unrecognized Tax Benefits ("UTB") as of December 31, 2010. Of this amount \$81.1 million (\$79.7 million, net of federal benefit), if recognized in future periods, would impact the reported effective tax rate. The remaining amount of \$45.2 million, if recognized in future periods, would be fully reduced by additional valuation allowances.

It is reasonably possible that certain UTB's may increase or decrease within the next twelve months due to tax examination changes, settlement activities, expirations of statute of limitations, or the impact on recognition and measurement considerations related to the results of published tax cases or other similar activities. Over the next twelve months, we estimate that UTB's may decrease by \$0.7 million due to statutes expiring and increase by \$2.4 million due to uncertain tax positions expected to be taken on tax returns.

We account for all interest and penalties on uncertain income tax positions as income tax expense. We reported \$1.8 million of interest and penalty exposure as accrued income tax in the Consolidated Balance Sheet as of December 31, 2010, of which \$1.2 million was recognized as income tax expense during 2010.

We have significant operations in over 25 countries and file income tax returns in approximately 85 tax jurisdictions, in some cases for multiple legal entities per jurisdiction. Generally, we have open tax years subject to tax audit on average of between three years and six years. We have not materially extended any open statutes of limitation for any significant location and have reviewed and accrued for, where necessary, tax liabilities for open periods. As discussed above, the IRS audit for the 2005 and 2006 tax years was completed during the third quarter of 2009. The tax years 2007, 2008, 2009 and 2010 are subject to future potential tax adjustments. All tax years prior to 2007 have been settled with the IRS.

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We also have examinations in progress in Germany and Canada. We have evaluated the need for tax reserves for these audits.

We had the following activity for UTB's for the years ended December 31, 2010, 2009 and 2008:

|  | 2010            | 2009           | 2008            |
|--|-----------------|----------------|-----------------|
| Unrecognized tax benefits balance at January 1   | \$ 57.5         | \$ 174.4       | \$ 180.7        |
| Gross change for current year positions          | 71.5            | 6.1            | 0.8             |
| Increases for prior period positions             | 2.5             | 29.1           | 3.4             |
| Decrease for prior period positions              | (2.4)           | (149.8)        | (8.0)           |
| Decrease due to settlements and payments         | (1.8)           | (1.9)          | (0.9)           |
| Decrease due to statute expirations              | (1.0)           | (0.4)          | (1.6)           |
| Unrecognized tax benefits balance at December 31 | <u>\$ 126.3</u> | <u>\$ 57.5</u> | <u>\$ 174.4</u> |
| <b>Other taxes</b>                               | <b>2010</b>     | <b>2009</b>    | <b>2008</b>     |
| Payroll taxes                                    | \$ 64.3         | \$ 64.7        | \$ 71.2         |
| Property, franchise and capital stock taxes      | 14.4            | 16.0           | 15.4            |

NOTE 17. DEBT

|  | December 31,<br>2010 | Average<br>year-end<br>interest rate | December 31,<br>2009 | Average<br>year-end<br>interest rate |
|--|----------------------|--------------------------------------|----------------------|--------------------------------------|
| Term loan A due 2011                       | —                    | —                                    | \$ 262.5             | 1.78%                                |
| Term loan B due 2013                       | —                    | —                                    | 191.6                | 1.98%                                |
| Term loan A due 2015                       | \$ 250.0             | 3.28%                                | —                    | —                                    |
| Term loan B due 2017                       | 550.0                | 5.00%                                | —                    | —                                    |
| Revolver (\$250 million) due 2015          | 25.0                 | 5.25%                                | —                    | —                                    |
| Other Short Term Bank Loans                | —                    | —                                    | 0.1                  | 1.00%                                |
| Other Long Term Bank Loans                 | 4.9                  | 3.85%                                | 8.3                  | 5.05%                                |
| Tax exempt bonds due 2025 – 2041           | 45.0                 | 2.00%                                | 10.0                 | 1.83%                                |
| Capital lease obligations due through 2018 | —                    | —                                    | 0.1                  | 4.37%                                |
| Subtotal                                   | 874.9                | 4.36%                                | 472.6                | 1.92%                                |
| Less current portion and short-term debt   | 35.3                 | 5.02%                                | 40.1                 | 2.47%                                |
| Total long-term debt, less current portion | <u>\$ 839.6</u>      | <u>4.33%</u>                         | <u>\$ 432.5</u>      | <u>1.87%</u>                         |

On November 23, 2010, we refinanced our \$1.1 billion credit facility and executed a \$1.05 billion senior credit facility arranged by Merrill Lynch, Pierce, Fenner & Smith, Inc., J.P. Morgan Securities, Inc., and Barclays Capital. During 2010 we were in compliance with all covenants of the previous and current credit agreements. This new facility consists of a \$250 million revolving credit facility (with a \$150 million sublimit for letters of credit), a \$250 million Term Loan A and a \$550 million Term Loan B. This \$1.05 billion senior credit facility is secured by U.S. personal property, the capital stock of material U.S. subsidiaries, and a pledge of 65% of the stock of our material first tier foreign subsidiaries. In 2010, in connection with the refinancing, we repaid amounts owed under the previous credit facility and wrote off \$3.8 million of unamortized debt financing costs related to our previous credit facility to interest expense.

The senior credit facility includes two financial covenants which require the ratio of consolidated earnings before interest, taxes, depreciation and amortization ("EBITDA") to consolidated cash interest expense minus cash consolidated interest income ("consolidated interest coverage ratio") to be greater than or equal to 3.0 to 1.0 and require the ratio of consolidated funded indebtedness minus AWI and domestic

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subsidiary unrestricted cash and cash equivalents up to \$100 million to consolidated EBITDA (“consolidated leverage ratio”) to be less than or equal to 4.5 to 1.0 through June 30, 2012, 4.0 to 1.0 after June 30, 2012 through September 30, 2013 and 3.75 to 1.0 after September 30, 2013. As of December 31, 2010 we were in compliance with these covenants. We believe that default under these covenants is unlikely. Fully borrowing under our revolving credit facility would not violate these covenants.

The Revolving Credit and Term Loan A portions are currently priced at a spread of 3.00% over LIBOR and the Term Loan B portion is priced at 3.50% over LIBOR with a 1.50% LIBOR floor for its entire term. The Term Loan A and Term Loan B were both fully drawn and are currently priced on a variable interest rate basis. The unpaid balances of Term Loan A (\$250 million), Revolving Credit (\$25 million) and Term Loan B (\$550 million) of the credit facility may be prepaid without penalty at the maturity of their respective interest reset periods. Any amounts prepaid on the Term Loan A or Term Loan B may not be reborrowed.

Mandatory prepayments are required under the senior credit facility pursuant to an annual leverage test starting with the year ending December 31, 2011 under which, if our consolidated leverage ratio is greater than 2.0 to 1.0 but less than 2.5 to 1.0, we would be required to make a prepayment of 25% of Consolidated Excess Cash Flow as defined by the credit agreement. If our Consolidated Leverage Ratio is greater than 2.5 to 1.0, the prepayment amount would be 50% of Consolidated Excess Cash Flow.

On December 10, 2010 we entered into a \$100 million Accounts Receivable Securitization Facility with financial institutions (the “funding entities”) with a three year term. Under this agreement Armstrong World Industries and Armstrong Hardwood Flooring Company (the Originators) sell their accounts receivables to Armstrong Receivables Company, LLC (“ARC”), a Delaware entity that is consolidated in these financial statements. ARC is a 100% wholly owned single member LLC special purpose entity created specifically for this transaction, therefore any receivables sold to ARC are not available to the general creditors of AWI. ARC then sells an undivided interest in the purchased accounts receivables to the funding entities. This undivided interest acts as collateral for drawings on the facility. Any borrowings under this facility are obligations of ARC and not AWI. ARC contracts with and pays a servicing fee to Armstrong World Industries to manage, collect and service the purchased accounts receivables.

All new receivables under the program generated by the originators are continuously purchased by ARC with the proceeds from collections of receivables previously purchased. Ongoing changes in the amount of funding under the program, through changes in the amount of undivided interests sold by ARC, reflect seasonal variations in the level of accounts receivable, changes in collection trends and other factors such as changes in sales prices and volumes. ARC has issued subordinated notes payable to the originators for the difference between the face amount of uncollected accounts receivable purchased, less a discount, and cash paid to the originators that was funded by the sale of the undivided interests. The subordinated notes issued by ARC are subordinated to the undivided interests of the funding entities in the purchased receivables. The balance of the subordinated notes payable, which are eliminated in consolidation, totaled \$97.5 million as of December 31, 2010. As of December 31, 2010 we had no borrowings under this facility but had \$36.2 million of letters of credit issued under the facility.

On December 16, 2010 we issued \$35.0 million of Recovery Zone Facility bonds through Jackson County, West Virginia to finance the construction of our new mineral wool plant. These tax exempt bonds are seven day variable rate demand notes backed by a letter of credit. These bonds mature in 2041. As of December 31, 2010 the \$30 million of unspent proceeds must be used for expenditures related to the construction of our new mineral wool plant and are therefore accounted for as restricted cash within other non-current assets.

Approximately \$0.4 million of the remaining outstanding debt as of December 31, 2010 was secured with buildings and other assets. The credit lines at our foreign subsidiaries are subject to immaterial annual commitment fees.

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|                                       |          |
|---------------------------------------|----------|
| Scheduled payments of long-term debt: |          |
| 2011                                  | \$ 10.3  |
| 2012                                  | \$ 18.1  |
| 2013                                  | \$ 30.5  |
| 2014                                  | \$ 43.0  |
| 2015                                  | \$ 180.5 |
| 2016 and later                        | \$ 567.5 |

We utilize lines of credit and other commercial commitments in order to ensure that adequate funds are available to meet operating requirements. On December 31, 2010, we had a \$250 million revolving credit facility with a \$150 million sublimit for letters of credit, of which \$37.3 million was outstanding. There were \$25 million of borrowings under the revolving credit facility. Availability under this facility totaled \$187.7 million as of December 31, 2010. We also have the \$100 million securitization facility which as of December 31, 2010 had letters of credit outstanding of \$36.2 million and no borrowings against it. Maximum capacity under this facility was \$63.8 million, subject to accounts receivable balances and other collateral adjustments, as of December 31, 2010. As of December 31, 2010, our foreign subsidiaries had available lines of credit totaling \$25.6 million of which \$2.4 million was only available for letters of credit and guarantees. There were no borrowings under these lines of credit as of December 31, 2010 leaving \$23.2 million of unused lines of credit available for foreign borrowings. There were \$0.9 million of letters of credit issued under these credit lines as of December 31, 2010 leaving additional letter of credit availability of \$1.5 million.

On December 31, 2010, we had outstanding letters of credit totaling \$74.4 million, of which \$37.3 million was issued under the revolving credit facility, \$36.2 million was issued under the securitization facility and \$0.9 million of international subsidiary letters of credit were issued by other banks. Letters of credit are issued to third party suppliers, insurance and financial institutions and typically can only be drawn upon in the event of AWI's failure to pay its obligations to the beneficiary.

#### NOTE 18. PENSION AND OTHER BENEFIT PROGRAMS

We have defined benefit pension plans and postretirement medical and insurance benefit plans covering eligible employees worldwide. We also have defined-contribution pension plans for eligible employees. Benefits from defined benefit pension plans, which cover most employees worldwide, are based primarily on an employee's compensation and years of service. We fund our pension plans when appropriate. We fund postretirement benefits on a pay-as-you-go basis, with the retiree paying a portion of the cost for health care benefits by means of deductibles and contributions.

#### UNITED STATES PLANS

The following tables summarize the balance sheet impact of the pension and postretirement benefit plans, as well as the related benefit obligations, assets, funded status and rate assumptions. The pension benefits disclosures include both the qualified, funded Retirement Income Plan (RIP) and the Retirement Benefit Equity Plan, which is a nonqualified, unfunded plan designed to provide pension benefits in excess of the limits defined under Sections 415 and 401(a)(17) of the Internal Revenue Code.

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We use a December 31 measurement date for our U.S. defined benefit plans.

| U.S. defined-benefit pension plans                  | 2010              | 2009              |
|---|-------------------|-------------------|
| Change in benefit obligation:                       |                   |                   |
| Benefit obligation as of beginning of period        | \$ 1,780.1        | \$ 1,755.7        |
| Service cost  | 16.4              | 18.0              |
| Interest cost                                       | 96.4              | 96.0              |
| Plan amendments                                     | 0.4               | 12.9              |
| Special termination benefits                        | —                 | 0.2               |
| Actuarial loss                                      | 91.6              | 11.1              |
| Benefits paid                                       | (117.2)           | (113.8)           |
| Benefit obligation as of end of period              | <u>\$ 1,867.7</u> | <u>\$ 1,780.1</u> |
| Change in plan assets:                              |                   |                   |
| Fair value of plan assets as of beginning of period | \$ 1,850.3        | \$ 1,701.6        |
| Actual return on plan assets                        | 210.1             | 259.2             |
| Employer contribution                               | 3.4               | 3.3               |
| Benefits paid                                       | (117.2)           | (113.8)           |
| Fair value of plan assets as of end of period       | <u>\$ 1,946.6</u> | <u>\$ 1,850.3</u> |
| Funded status of the plans                          | \$ 78.9           | \$ 70.2           |

| U.S. defined-benefit pension plans   | 2010  | 2009  |
|--|-------|-------|
| Weighted-average assumptions used to determine benefit obligations at end of period:     |       |       |
| Discount rate  | 5.10% | 5.60% |
| Rate of compensation increase  | 3.10% | 4.00% |
| Weighted-average assumptions used to determine net periodic benefit cost for the period: |       |       |
| Discount rate  | 5.60% | 5.60% |
| Expected return on plan assets   | 8.00% | 8.00% |
| Rate of compensation increase  | 4.00% | 4.00% |

The accumulated benefit obligation for the U.S. defined benefit pension plans was \$1,849.5 million and \$1,755.7 million at December 31, 2010 and 2009, respectively.

| U.S. pension plans with benefit obligations in excess of assets | 2010    | 2009    |
|---|---------|---------|
| Projected benefit obligation, December 31                       | \$ 49.4 | \$ 43.9 |
| Accumulated benefit obligation, December 31                     | 48.8    | 42.8    |
| Fair value of plan assets, December 31                          | —       | —       |

The components of pension credit are as follows:

| U.S. defined-benefit pension plans                | 2010             | 2009             | 2008             |
|---|------------------|------------------|------------------|
| Service cost of benefits earned during the period | \$ 16.4          | \$ 18.0          | \$ 17.4          |
| Interest cost on projected benefit obligation     | 96.4             | 96.0             | 97.8             |
| Expected return on plan assets                    | (167.0)          | (171.2)          | (175.3)          |
| Amortization of prior service cost                | 1.8              | 1.8              | 0.3              |
| Recognized net actuarial loss                     | 4.3              | —                | —                |
| Net periodic pension credit                       | <u>\$ (48.1)</u> | <u>\$ (55.4)</u> | <u>\$ (59.8)</u> |

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Investment Policies

The RIP's primary investment objective is to maintain the funded status of the plan such that the likelihood that we will be required to make significant contributions to the plan is limited. This objective is to be achieved by:

- Investing a substantial portion of the plan assets in high quality corporate bonds whose duration is at least equal to that of the plan's liabilities such that there is a relatively high correlation between the movements of the plan's liability and asset values.
- Investing in publicly traded equities in order to increase the ratio of plan assets to liabilities over time.
- Limiting investment return volatility by diversifying among additional asset classes with differing expected rates of return and return correlations.
- Using derivatives to either implement investment positions efficiently or to hedge risk but not to create investment leverage.

Each asset class utilized by the RIP has a defined asset allocation target and allowable range. The table below shows the asset allocation target and the December 31, 2010 and 2009 position for each asset class:

| Asset Class          | Target Weight at  | Position at December 31, |      |
|----------------------|-------------------|--------------------------|------|
|                      | December 31, 2010 | 2010                     | 2009 |
| Domestic equity      | 40%               | 37%                      | 38%  |
| International equity | 22%               | 21%                      | 22%  |
| High yield bonds     | 5%                | 5%                       | 6%   |
| Long duration bonds  | 26%               | 31%                      | 30%  |
| Real estate          | 7%                | 5%                       | 4%   |
| Other fixed income   | 0%                | 1%                       | 0%   |

Pension plan assets are required to be reported and disclosed at fair value in the financial statements. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Three levels of inputs may be used to measure fair value:

Level 1 — Quoted prices in active markets for identical assets or liabilities.

Level 2 — Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

The asset's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

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The following table sets forth by level within the fair value hierarchy a summary of the RIP's assets measured at fair value on a recurring basis:

| Description                             | Value at December 31, 2010 |                   |                 | Total             |
|---|----------------------------|-------------------|-----------------|-------------------|
|   | Level 1                    | Level 2           | Level 3         |                   |
| Long duration bonds                     | —                          | \$ 604.5          | —               | \$ 604.5          |
| Domestic equity                         | \$ 604.2                   | 91.5              | —               | 695.7             |
| International equity                    | 145.1                      | 254.3             | —               | 399.4             |
| High yield bonds                        | —                          | 98.3              | —               | 98.3              |
| Real estate                             | —                          | —                 | \$ 103.1        | 103.1             |
| Other investments                       | —                          | —                 | 5.5             | 5.5               |
| Money market investments                | 29.9                       | —                 | —               | 29.9              |
| Receivables/short term investments, net | 10.2                       | —                 | —               | 10.2              |
| Net assets                              | <u>\$ 789.4</u>            | <u>\$ 1,048.6</u> | <u>\$ 108.6</u> | <u>\$ 1,946.6</u> |

| Description                             | Value at December 31, 2009 |                 |                | Total             |
|---|----------------------------|-----------------|----------------|-------------------|
|   | Level 1                    | Level 2         | Level 3        |                   |
| Long duration bonds                     | —                          | \$ 541.2        | —              | \$ 541.2          |
| Domestic equity                         | \$ 683.4                   | 2.9             | —              | 686.3             |
| International equity                    | 145.2                      | 260.6           | —              | 405.8             |
| High yield bonds                        | —                          | 98.1            | —              | 98.1              |
| Real estate                             | —                          | —               | \$ 84.6        | 84.6              |
| Other investments                       | —                          | —               | 8.4            | 8.4               |
| Money market investments                | 24.9                       | —               | —              | 24.9              |
| Receivables/short term investments, net | 1.0                        | —               | —              | 1.0               |
| Net assets                              | <u>\$ 854.5</u>            | <u>\$ 902.8</u> | <u>\$ 93.0</u> | <u>\$ 1,850.3</u> |

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The table below sets forth a summary of changes in the fair value of the RIP's level 3 assets for the years ended December 31, 2009 and 2010:

|   | Level 3 Assets Gains and Losses |                      |                 |
|---|---------------------------------|----------------------|-----------------|
|   | Real Estate                     | Other<br>Investments | Total           |
| Balance, December 31, 2008                        | \$ 116.1                        | \$ 10.2              | \$ 126.3        |
| Realized (loss) gain                              | (0.5)                           | 0.3                  | (0.2)           |
| Unrealized (loss) gain                            | (30.8)                          | (1.4)                | (32.2)          |
| Purchases, (sales), issuances, (settlements), net | (0.2)                           | (0.7)                | (0.9)           |
| Balance, December 31, 2009                        | \$ 84.6                         | \$ 8.4               | \$ 93.0         |
| Realized (loss) gain                              | (1.6)                           | 0.4                  | (1.2)           |
| Unrealized (loss) gain                            | 9.7                             | (1.5)                | 8.2             |
| Purchases, (sales), issuances, (settlements), net | 10.4                            | (1.8)                | 8.6             |
| Balance, December 31, 2010                        | <u>\$ 103.1</u>                 | <u>\$ 5.5</u>        | <u>\$ 108.6</u> |

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2010 and 2009.

*Long Duration Bonds:* Consists of investments in individual corporate bonds as well as investments in registered investment funds and common and collective trust funds investing in fixed income securities tailored to institutional investors. Certain corporate bonds are valued based on a compilation of primarily observable market information or a broker quote in a non-active market. There are no readily available market quotations for registered investment company funds or common collective trust funds. The fair value is based on the underlying securities in the fund's portfolio which is typically the amount which the fund might reasonably expect to receive for the security upon a current sale.

*Domestic and International equity securities:* Consists of investments in common and preferred stocks as well as investments in registered investment funds investing in equities tailored to institutional investors. Common and preferred stocks are valued at the closing price reported on the active market on which the individual securities are traded. There are no readily available market quotations for registered investment company funds. The fair value is based on the underlying securities in the fund's portfolio which is typically the amount which the fund might reasonably expect to receive for the security upon a current sale.

*High Yield Bonds:* Consists of investments in individual corporate bonds as well as an investment in a registered investment fund investing in fixed income securities tailored to institutional investors. Certain corporate bonds are valued based on a compilation of primarily observable market information or a broker quote in a non-active market. There are no readily available market quotations for registered investment company funds. The fair value is based on the underlying securities in the fund's portfolio which is typically the amount which the fund might reasonably expect to receive for the security upon a current sale.

*Real Estate:* The RIP's real estate investments are comprised of both open-end and closed-end funds. There are no readily available market quotations for these real estate funds. The fund's fair value is based on the underlying real estate assets held by the fund. Underlying real estate assets are valued on the basis of a discounted cash flow approach, which includes the future rental receipts, expenses and residual values as the highest and best use of the real estate from a market participant view. Independent appraisals may also be used to determine fair value for the underlying assets of these funds.

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*Other Investments:* Consists of investments in a group insurance annuity contract and a limited partnership. The fair value for the group insurance annuity contract was determined by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the credit-worthiness of the issuer. For our investment in the limited partnership, the majority of the partnership's underlying securities are invested in publicly traded securities which are valued at the closing price reported on the active market on which the individual securities are traded. The remaining other investments within the partnership are valued based on available inputs, including recent financing rounds, comparable company valuations, and other available data. The investment in the limited partnership is non-redeemable until the expiration of the term of the agreement.

*Money Market Investments:* The money market investment consists of an institutional investor mutual fund, valued at the fund's net asset value ("NAV") which is normally calculated at the close of business daily.

*Receivables/Short Term Investments, net:* Cash and short term investments consist of cash and cash equivalents and other payables and receivables (net). The carrying amounts of cash and cash equivalents approximate fair value due to the short-term maturity of these instruments. Other payables and receivables consist primarily of margin on account for a fund, accrued fees and receivables related to investment positions liquidated for which proceeds had not been received at December 31. The carrying amounts of payables and receivables approximate fair value due to the short-term nature of these instruments.

The RIP has \$830.0 million and \$698.3 million of investments in alternative investment funds at December 31, 2010 and December 31, 2009, respectively, which are reported at fair value, and we have concluded that the net asset value reported by the underlying fund approximates the fair value of the investment. These investments are redeemable at NAV under agreements with the underlying funds. However, it is possible that these redemption rights may be restricted or eliminated by the funds in the future in accordance with the underlying fund agreements. Due to the nature of the investments held by the funds, changes in market conditions and the economic environment may significantly impact the NAV of the funds and, consequently, the fair value of the RIP's interest in the funds. Furthermore, changes to the liquidity provisions of the funds may significantly impact the fair value of the RIP's interest in the funds.

Basis of Rate-of-Return Assumption

Long-term asset class return assumptions are determined based on input from investment professionals on the expected performance of the asset classes over 10 to 20 years. The forecasts were averaged to come up with consensus passive return forecasts for each asset class. An incremental component was added for the expected return from active management based both on the RIP's experience and on historical information obtained from the RIP's investment consultants. These forecast gross returns were reduced by estimated management fees and expenses, yielding a long-term return forecast of 8.00% per annum for 2010.

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| U.S. defined-benefit retiree health and life insurance plans | 2010            | 2009            |
|--|-----------------|-----------------|
| Change in benefit obligation:                                |                 |                 |
| Benefit obligation as of beginning of period                 | \$ 327.5        | \$ 334.3        |
| Service cost   | 2.4             | 1.9             |
| Interest cost  | 14.8            | 16.7            |
| Plan participants' contributions                             | 5.9             | 6.0             |
| Plan amendments  | —               | 0.1             |
| Effect of curtailment  | (1.9)           | (0.2)           |
| Actuarial gain   | (16.7)          | (3.9)           |
| Benefits paid, gross   | (29.8)          | (30.2)          |
| Medicare subsidy receipts                                    | 2.2             | 2.8             |
| Benefit obligation as of end of period                       | <u>\$ 304.4</u> | <u>\$ 327.5</u> |
| Change in plan assets:                                       |                 |                 |
| Fair value of plan assets as of beginning of period          | —               | —               |
| Employer contribution  | \$ 21.7         | \$ 21.4         |
| Plan participants' contributions                             | 5.9             | 6.0             |
| Benefits paid, gross   | (29.8)          | (30.2)          |
| Medicare subsidy receipts                                    | 2.2             | 2.8             |
| Fair value of plan assets as of end of period                | <u>\$ —</u>     | <u>\$ —</u>     |
| Funded status of the plans                                   | \$ (304.4)      | \$ (327.5)      |

| U.S. defined-benefit retiree health and life insurance plans                              | 2010  | 2009  |
|---|-------|-------|
| Weighted-average discount rate used to determine benefit obligations at end of period     | 4.90% | 5.30% |
| Weighted-average discount rate used to determine net periodic benefit cost for the period | 5.30% | 5.60% |

The components of postretirement benefit costs are as follows:

| U.S. defined-benefit retiree health and life insurance plans   | 2010           | 2009           | 2008           |
|--|----------------|----------------|----------------|
| Service cost of benefits earned during the period              | \$ 2.4         | \$ 1.9         | \$ 1.7         |
| Interest cost on accumulated postretirement benefit obligation | 14.8           | 16.7           | 18.9           |
| Amortization of net actuarial gain                             | (6.3)          | (4.4)          | (1.5)          |
| Net periodic postretirement benefit cost                       | <u>\$ 10.9</u> | <u>\$ 14.2</u> | <u>\$ 19.1</u> |

For measurement purposes, average rates of annual increase in the per capita cost of covered health care benefits of 8.6% for pre-65 retirees and 8.5% for post-65 retirees were assumed for 2011, decreasing ratably to an ultimate rate of 5% in 2019. Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

| U.S. retiree health and life insurance benefit plans | One percentage point |          |
|--|----------------------|----------|
|  | Increase             | Decrease |
| Effect on total service and interest cost components | \$ 0.6               | \$ (0.5) |
| Effect on postretirement benefit obligation          | 10.4                 | (9.4)    |

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Amounts recognized in assets and (liabilities) at year end consist of :

|                                       | Pension Benefits |                | Retiree Health and Life Insurance Benefits |                   |
|---------------------------------------|------------------|----------------|--|-------------------|
|                                       | 2010             | 2009           | 2010                                       | 2009              |
| Prepaid pension costs                 | \$ 128.3         | \$ 114.1       | —  | —                 |
| Accounts payable and accrued expenses | (3.9)            | (3.3)          | \$ (26.5)                                  | \$ (30.6)         |
| Postretirement benefit liabilities    | —                | —              | (277.9)                                    | (296.9)           |
| Pension benefit liabilities           | (45.5)           | (40.6)         | —  | —                 |
| Net amount recognized                 | <u>\$ 78.9</u>   | <u>\$ 70.2</u> | <u>\$ (304.4)</u>                          | <u>\$ (327.5)</u> |

Pre-tax amounts recognized in accumulated other comprehensive income (loss) at year end consist of :

|   | Pension Benefits  |                   | Retiree Health and Life Insurance Benefits |                |
|---|-------------------|-------------------|--|----------------|
|   | 2010              | 2009              | 2010                                       | 2009           |
| Net actuarial (loss) gain                     | \$ (594.5)        | \$ (550.2)        | \$ 58.2                                    | \$ 46.9        |
| Prior service cost                            | (12.8)            | (14.2)            | (0.1)                                      | (0.1)          |
| Accumulated other comprehensive (loss) income | <u>\$ (607.3)</u> | <u>\$ (564.4)</u> | <u>\$ 58.1</u>                             | <u>\$ 46.8</u> |

We expect to amortize \$20.5 million of previously unrecognized prior service cost and net actuarial losses into the pension credit in 2011. We expect to amortize \$3.4 million of previously unrecognized net actuarial gains into postretirement benefit cost in 2011.

We expect to contribute \$3.9 million to our U.S. defined benefit pension plans and \$26.4 million to our U.S. postretirement benefit plans in 2011.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid over the next ten years for our U.S. plans:

|           | Pension Benefits | Retiree Health and Life Insurance Benefits, Gross | Retiree Health Medicare Subsidy Receipts |
|-----------|------------------|---|--|
| 2011      | \$ 124.7         | \$ 27.5   | \$ (1.1)                                 |
| 2012      | 124.3            | 27.8  | (1.2)                                    |
| 2013      | 126.2            | 28.1  | (1.3)                                    |
| 2014      | 127.8            | 27.5  | (1.4)                                    |
| 2015      | 128.2            | 27.4  | (1.5)                                    |
| 2016-2020 | 659.9            | 124.1   | (9.9)                                    |

These estimated benefit payments are based on assumptions about future events. Actual benefit payments may vary significantly from these estimates.

#### NON-U.S. PLANS

We have defined benefit pension plans covering employees in a number of foreign countries that utilize assumptions which are consistent with, but not identical to, those of the U.S. plans. The following tables summarize the balance sheet impact of foreign pension benefit plans, as well as the related benefit obligations, assets, funded status and rate assumptions.

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We use a December 31 measurement date for all of our non-U.S. defined benefit plans.

| Non-U.S. defined-benefit plans  | 2010            | 2009            |
|---|-----------------|-----------------|
| <b>Change in benefit obligation:</b>  |                 |                 |
| Benefit obligation as of beginning of period  | \$ 385.8        | \$ 329.2        |
| Service cost  | 5.4             | 5.1             |
| Interest cost   | 18.3            | 19.3            |
| Plan participants' contributions  | 1.5             | 2.0             |
| Foreign currency translation adjustment   | (27.7)          | 18.7            |
| Effect of plan settlements and curtailments   | (7.7)           | (0.2)           |
| Effect of termination benefits  | 1.3             | —               |
| Actuarial loss  | 6.1             | 36.2            |
| Benefits paid   | (28.4)          | (24.5)          |
| Benefit obligation as of end of period  | <u>\$ 354.6</u> | <u>\$ 385.8</u> |
| <b>Change in plan assets:</b>   |                 |                 |
| Fair value of plan assets as of beginning of period   | \$ 190.3        | \$ 156.1        |
| Actual return on plan assets  | 18.7            | 23.2            |
| Employer contributions  | 23.9            | 17.7            |
| Plan participants' contributions  | 1.5             | 2.0             |
| Foreign currency translation adjustment   | (11.7)          | 15.8            |
| Effect of settlements   | (5.6)           | —               |
| Benefits paid   | (28.4)          | (24.5)          |
| Fair value of plan assets as of end of period   | <u>\$ 188.7</u> | <u>\$ 190.3</u> |
| Funded status of the plans  | \$ (165.9)      | \$ (195.5)      |
| <b>Non-U.S. defined-benefit plans</b>   |                 |                 |
| <b>Weighted-average assumptions used to determine benefit obligations at end of period:</b>     |                 |                 |
| Discount rate   | 5.0%            | 5.1%            |
| Rate of compensation increase   | 3.1%            | 3.3%            |
| <b>Weighted-average assumptions used to determine net periodic benefit cost for the period:</b> |                 |                 |
| Discount rate   | 5.1%            | 5.8%            |
| Expected return on plan assets  | 6.5%            | 6.5%            |
| Rate of compensation increase   | 3.0%            | 3.4%            |

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| Non-U.S. pension plans with benefit obligations in excess of assets | 2010     | 2009     |
|---|----------|----------|
| Projected benefit obligation, December 31                           | \$ 208.2 | \$ 384.6 |
| Accumulated benefit obligation, December 31                         | 201.3    | 359.1    |
| Fair value of plan assets, December 31                              | 39.9     | 189.0    |

The components of pension cost are as follows:

| Non-U.S. defined-benefit plans                    | 2010           | 2009           | 2008           |
|---|----------------|----------------|----------------|
| Service cost of benefits earned during the period | \$ 5.4         | \$ 5.1         | \$ 5.6         |
| Interest cost on projected benefit obligation     | 18.3           | 19.3           | 21.3           |
| Expected return on plan assets                    | (13.4)         | (12.8)         | (16.0)         |
| Amortization of net actuarial loss (gain)         | 0.3            | (0.9)          | (0.5)          |
| Net periodic pension cost                         | <u>\$ 10.6</u> | <u>\$ 10.7</u> | <u>\$ 10.4</u> |

#### Investment Policies

Each of the funded non-US pension plan's primary investment objective is to earn sufficient long-term returns on investments both to increase the ratio of the assets to liabilities in order for the plans to meet their benefits obligations and to minimize required cash contributions to the plans. This is to be achieved by (a) investing primarily in publicly-traded equities, (b) limiting return volatility by diversifying investments among additional asset classes with differing expected rates of return and return correlations, and (c) utilizing long duration bonds to limit the volatility of the plans' asset/liability ratios.

Each of the plans has a targeted asset allocation for each asset class. The table below shows, for each asset class, the weighted average of the several plans' asset allocation targets and positions at December 31, 2010 and 2009:

| Asset Class         | Target Weight at<br>December 31, 2010 | Position at December 31, |      |
|---------------------|---------------------------------------|--------------------------|------|
|                     |                                       | 2010                     | 2009 |
| Equities            | 54%                                   | 56%                      | 60%  |
| Long duration bonds | 34%                                   | 33%                      | 26%  |
| Other fixed income  | 3%                                    | 2%                       | 8%   |
| Real estate         | 9%                                    | 9%                       | 6%   |

The following table sets forth by level within the fair value hierarchy a summary of our non-U.S. plan assets measured at fair value on a recurring basis:

| Description                           | Value at December 31, 2010 |                 |                 |
|---------------------------------------|----------------------------|-----------------|-----------------|
|                                       | Level 1                    | Level 2         | Total           |
| Bonds                                 | —                          | \$ 65.3         | \$ 65.3         |
| Equities                              | \$ 1.2                     | 105.1           | 106.3           |
| Real estate                           | —                          | 15.6            | 15.6            |
| Cash and other short term investments | 1.5                        | —               | 1.5             |
| Net assets                            | <u>\$ 2.7</u>              | <u>\$ 186.0</u> | <u>\$ 188.7</u> |

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| Description                           | Value at December 31, 2009 |                 |                 |
|---------------------------------------|----------------------------|-----------------|-----------------|
|                                       | Level 1                    | Level 2         | Total           |
| Bonds                                 | —                          | \$ 64.4         | \$ 64.4         |
| Equities                              | \$ 4.3                     | 110.0           | 114.3           |
| Real estate                           | —                          | 11.1            | 11.1            |
| Cash and other short term investments | 0.5                        | —               | 0.5             |
| Net assets                            | <u>\$ 4.8</u>              | <u>\$ 185.5</u> | <u>\$ 190.3</u> |

Following is a description of the valuation methodologies used for non-U.S. plan assets measured at fair value. There have been no changes in the methodologies used at December 31, 2010 and 2009.

*Bonds:* Consists of investments in individual corporate bonds as well as investments in pooled funds investing in fixed income securities tailored to institutional investors. Certain corporate bonds are valued at the closing price reported in the active market in which the bond is traded. There are no readily available market quotations for pooled funds. The fair value is based on the underlying securities in the fund's portfolio which is typically the amount which the fund might reasonably expect to receive for the security upon a current sale.

*Equities:* Consists of investments in common and preferred stocks as well as investments in pooled funds investing in international equities tailored to institutional investors. Equity securities are valued at the closing price reported on the active market on which the individual securities are traded. There are no readily available market quotations for pooled funds. The fair value is based on the underlying securities in the fund's portfolio which is typically the amount which the fund might reasonably expect to receive for the security upon a current sale.

*Real Estate:* The plans' real estate investments are comprised of pooled real estate mutual funds valued based on a compilation of primarily observable market information or a broker quote in a non-active market.

*Cash and other Short Term Investments:* Cash and short term investments consist primarily of cash and cash equivalents, and plan receivables/payables. The carrying amounts of cash and cash equivalents and receivables/payables approximate fair value due to the short-term nature of these instruments.

The non-U.S. pension plans have \$185.4 million and \$179.9 million of investments in alternative investment funds at December 31, 2010 and December 31, 2009, respectively, which are reported at fair value. We have concluded that the net asset value reported by the underlying fund approximates the fair value of the investment. These investments are redeemable at NAV under agreements with the underlying funds. However, it is possible that these redemption rights may be restricted or eliminated by the funds in the future in accordance with the underlying fund agreements. Due to the nature of the investments held by the funds, changes in market conditions and the economic environment may significantly impact the net asset value of the funds and, consequently, the fair value of the plans' interest in the funds. Furthermore, changes to the liquidity provisions of the funds may significantly impact the fair value of the plans' interest in the funds.

#### Basis of Rate-of-Return Assumption

Long-term asset class return forecasts were obtained from investment professionals. The forecasts were averaged to come up with consensus passive return forecasts for each asset class. These forecast asset class returns were weighted by the plans' target asset class weights, yielding a long-term return forecast of 6.5% for the years ended December 31, 2010 and 2009.

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Amounts recognized in the consolidated balance sheets consist of :

|                                       | 2010              | 2009              |
|---------------------------------------|-------------------|-------------------|
| Prepaid pension costs                 | \$ 2.4            | \$ 0.1            |
| Accounts payable and accrued expenses | (11.7)            | (12.8)            |
| Pension benefit liabilities           | (156.6)           | (182.8)           |
| Net amount recognized                 | <u>\$ (165.9)</u> | <u>\$ (195.5)</u> |

Pre-tax amounts recognized in accumulated other comprehensive income (loss) at year end consist of :

|  | 2010             | 2009             |
|--|------------------|------------------|
| Net actuarial (loss)                   | \$ (11.2)        | \$ (14.4)        |
| Accumulated other comprehensive (loss) | <u>\$ (11.2)</u> | <u>\$ (14.4)</u> |

We expect to amortize \$0.2 million of previously unrecognized net actuarial losses into pension cost in 2011.

The accumulated benefit obligation for the non-U.S. defined benefit pension plans was \$338.7 million and \$360.2 million at December 31, 2010 and 2009, respectively.

We expect to contribute \$15.6 million to our non-U.S. defined benefit pension plans in 2011.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid over the next ten years:

|           | Pension Benefits |
|-----------|------------------|
| 2011      | \$ 36.0          |
| 2012      | 19.7             |
| 2013      | 20.1             |
| 2014      | 21.4             |
| 2015      | 21.8             |
| 2016-2020 | 116.6            |

Costs for other worldwide defined contribution benefit plans and multiemployer pension plans were \$13.2 million in 2010, \$13.3 million in 2009 and \$14.8 million in 2008.

**NOTE 19. FINANCIAL INSTRUMENTS**

We do not hold or issue financial instruments for trading purposes. The estimated fair values of our financial instruments are as follows:

|                                       | December 31, 2010 |                      | December 31, 2009 |                      |
|---------------------------------------|-------------------|----------------------|-------------------|----------------------|
|                                       | Carrying amount   | Estimated Fair Value | Carrying amount   | Estimated Fair Value |
| <b>Assets/(Liabilities):</b>          |                   |                      |                   |                      |
| Money market investments              | —                 | —                    | \$ 250.1          | \$ 250.1             |
| Total debt, including current portion | \$ (874.9)        | \$ (882.8)           | (472.5)           | (462.1)              |
| Foreign currency derivative contracts | (7.0)             | (7.0)                | (4.1)             | (4.1)                |
| Natural gas contracts                 | (5.5)             | (5.5)                | (4.6)             | (4.6)                |

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The carrying amounts of cash and cash equivalents of \$315.8 million at December 31, 2010 (made up of bank deposits), receivables, accounts payable and accrued expenses, short-term debt and current installments of long-term debt approximate fair value because of the short-term maturity of these instruments. The fair value estimates of long-term debt were based upon quotes from a major financial institution of recently observed trading levels of our Term Loan B debt. The fair value estimates of foreign currency contract obligations are estimated from market quotes provided by a well recognized national market data provider. The fair value estimates of natural gas contracts are estimated by using internal valuation models with verification by obtaining quotes from major financial institutions. For swap transactions, fair value is verified using NYMEX market quotes provided by a well recognized national market data provider. For option based strategies, fair value is verified using an industry standard Black-Scholes model with market based inputs, including but not limited to, underlying asset price, strike price, implied volatility, discounted risk free rate and time to expiration, provided by a well recognized national market data provider.

As of December 31, 2010 we also have \$30.0 million of restricted cash that is held by a trustee related to the construction of our West Virginia mineral wool plant. The trustee has invested the cash in money market investments. The carrying value on our balance sheet approximates the fair value because of the short-term maturity of the instruments.

Refer to Note 18 for a discussion of fair value and the related inputs used to measure fair value. Assets and liabilities measured at fair value on a recurring basis are summarized below:

|                                       | December 31, 2010                    |  | December 31, 2009                       |  |
|---------------------------------------|--------------------------------------|--|---|--|
|                                       | Fair value based on                  |  | Fair value based on                     |  |
|                                       | Quoted, active<br>markets<br>Level 1 | Other<br>observable<br>inputs<br>Level 2 | Quoted,<br>active<br>markets<br>Level 1 | Other<br>observable<br>inputs<br>Level 2 |
| <b>Assets/(Liabilities):</b>          |                                      |  |   |  |
| Money market investments              | —                                    | —  | \$ 250.1                                | —  |
| Foreign currency contract obligations | \$ (7.0)                             | —  | (4.1)                                   | —  |
| Natural gas contracts                 | —                                    | \$ (5.5)                                 | —                                       | \$ (4.6)                                 |

We do not have any financial assets or liabilities that are valued using Level 3 (unobservable) inputs.

#### NOTE 20. DERIVATIVE FINANCIAL INSTRUMENTS

We are exposed to market risk from changes in foreign exchange rates, interest rates and commodity prices that could impact our results of operations and financial condition. We use forward swaps and option contracts to hedge these exposures. Exposure to individual counterparties is controlled and derivative financial instruments are entered into with a diversified group of major financial institutions. Forward swaps and option contracts are entered into for periods consistent with underlying exposure and do not constitute positions independent of those exposures. At inception, hedges that we designate as hedging instruments under ASC 815 are formally documented as either (1) a hedge of a forecasted transaction or “cash flow” hedge, or (2) a hedge of the fair value of a recognized liability or asset or “fair value” hedge. We also formally assess both at inception and at least quarterly thereafter, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in either the fair value or cash flows of the hedged item. If it is determined that a derivative ceases to be a highly effective hedge, or if the anticipated transaction is no longer probable of occurring, we discontinue hedge accounting, and any future mark-to-market adjustments are recognized in earnings. We use derivative financial instruments as risk management tools and not for speculative trading purposes.

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Counter Party Risk

We only enter into derivative transactions with established counterparties having a credit rating of A or better. We monitor counterparty credit default swap levels and credit ratings on a regular basis. All of our derivative transactions with counterparties are governed by master International Swap Dealer Agreements (“ISDA’s”) with netting arrangements. These agreements can limit our exposure in situations where we have gain and loss positions outstanding with a single counterparty. We generally do not post or receive cash collateral with any counterparty for our derivative transactions. As of December 31, 2010, we had no cash collateral posted or received for any of our derivative transactions. These ISDA agreements do not have any credit contingent features; however, a default under our bank credit facility would trigger a default under these agreements. Exposure to individual counterparties is controlled, and thus we consider the risk of counterparty default to be negligible.

Commodity Price Risk — We purchase natural gas for use in the manufacture of ceiling tiles and other products, and to heat many of our facilities. As a result, we are exposed to movements in the price of natural gas. We have a policy to reduce cost volatility for North American natural gas purchases by purchasing natural gas forward contracts and swaps, purchased call options, and zero-cost collars up to 15 months forward to reduce our overall exposure to natural gas price movements. There is a high correlation between the hedged item and the hedged instrument. The gains and losses on these transactions offset gains and losses on the transactions being hedged. These instruments are designated as cash flow hedges. At December 31, 2010 and December 31, 2009 the notional amount of these hedges was \$37 million and \$42 million, respectively. The mark-to-market gain or loss on qualifying hedges is included in other comprehensive income to the extent effective, and reclassified into cost of goods sold in the period during which the underlying gas is consumed. The mark-to-market gains or losses on ineffective portions of hedges are recognized in cost of goods sold immediately. The earnings impact of the ineffective portion of these hedges was not material for the years ended December 31, 2010 and 2009. The contracts are based on forecasted usage of natural gas measured in mmBtu’s.

In June 2009, we de-designated several monthly natural gas hedge contracts maturing through May 2010 due to their over hedged positions. The over hedged positions were due to updated projected production volumes (and gas usage) at our U.S. ceilings plants that were significantly lower than originally forecasted when we entered into the hedges. We discontinued hedge accounting on the hedges and re-designated a portion of the original contracts based upon our revised forecasts, which were designated as cash flow hedges. Starting in July 2009 the fair value adjustments for the portion of the derivative contracts not designated as a hedge were recognized in cost of goods sold. The earnings impact related to the over hedged portion of these hedges was not material for the years ended December 31, 2010 and 2009.

Currency Rate Risk —

Sales and Purchases — We manufacture and sell our products in a number of countries throughout the world and, as a result, we are exposed to movements in foreign currency exchange rates. To a large extent, our global manufacturing and sales provide a natural hedge of foreign currency exchange rate movement, as foreign currency expenses generally offset foreign currency revenues. We manage our cash flow exposures on a net basis and use derivatives to hedge the majority of our unmatched foreign currency cash inflows and outflows. As of December 31, 2010, our major foreign currency exposures are to the Canadian dollar, the Australian dollar, and the Euro.

We use foreign currency forward exchange contracts to reduce our exposure to the risk that the eventual net cash inflows and outflows resulting from the sale of products to foreign customers and purchases from foreign suppliers will be adversely affected by changes in exchange rates. These derivative instruments are used for forecasted transactions and are classified as cash flow hedges. Cash flow hedges are executed quarterly, generally up to 15 months forward, and allow us to further reduce our overall exposure to exchange rate movements, since gains and losses on these contracts offset gains and losses on the transactions being hedged. The notional amount of these hedges was \$89.9 million and \$86.7 million at December 31, 2010 and December 31, 2009, respectively. Gains and losses on these instruments are recorded in other comprehensive income, to the extent effective, until the

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underlying transaction is recognized in earnings. The earnings impact of the ineffective portion of these hedges was not material for the years ended December 31, 2010 and 2009.

Intercompany Loans and Dividends— We also use foreign currency forward exchange contracts to hedge exposures created by cross-currency intercompany loans and dividends. The underlying intercompany loans are classified as short-term, and translation adjustments related to these loans are recorded in other non-operating income or expense. The offsetting gains or losses on the related derivative contracts are also recorded in other non-operating income or expense. These contracts are decreased or increased as repayments are made or additional intercompany loans are extended or adjusted for intercompany dividend activity as necessary. The notional amount of these hedges was \$143.2 million and \$8.3 million at December 31, 2010 and December 31, 2009, respectively.

Financial Statement Impacts

Our derivative assets, whether or not designated as hedging instruments, were not material for the years ended December 31, 2010 and 2009.

The following tables detail amounts related to our derivatives as of December 31, 2010 and December 31, 2009.

|   | Liability Derivatives                 |                                    |                                    |
|---|---------------------------------------|------------------------------------|------------------------------------|
|   | Balance Sheet<br>Location             | Fair Value<br>December<br>31, 2010 | Fair Value<br>December<br>31, 2009 |
| <b>Derivatives designated as hedging instruments</b>                      |                                       |                                    |                                    |
| Natural gas commodity contracts   | Accounts payable and accrued expenses | \$ 5.5                             | \$ 3.6                             |
| Natural gas commodity contracts   | Other long-term liabilities           | —                                  | 0.2                                |
| Foreign exchange contracts  | Accounts payable and accrued expenses | 2.4                                | 4.3                                |
| <b>Total derivatives designated as hedging instruments</b>                |                                       | <b>\$ 7.9</b>                      | <b>\$ 8.1</b>                      |
| <b>Derivatives not designated as hedging instruments</b>                  |                                       |                                    |                                    |
| Natural gas commodity contracts   | Accounts payable and accrued expenses | —                                  | \$ 0.8                             |
| Foreign exchange contracts  | Accounts payable and accrued expenses | \$ 4.6                             | 0.1                                |
| <b>Total derivative liabilities not designated as hedging instruments</b> |                                       | <b>\$ 4.6</b>                      | <b>\$ 0.9</b>                      |

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|  | Amount of (Loss) Recognized in Other<br>Comprehensive Income ("OCI") (Effective<br>Portion) (a) |   |
|--|---|---|
|  | For the Year Ended<br>December 31, 2010   | For the Year Ended<br>December 31, 2009 |
| Derivatives in Cash Flow Hedging Relationships |   |   |
| Natural gas commodity contracts                | \$ (5.3)  | \$ (4.3)                                |
| Foreign exchange contracts                     | (2.4)   | (4.1)                                   |
| <b>Total</b>                                   | <b>\$ (7.7)</b>   | <b>\$ (8.4)</b>                         |

(a) As of December 31, 2010 the amount of existing (losses) in Accumulated OCI expected to be recognized in earnings over the next twelve months is \$ (7.6) million.

|  | Location           | Gain (Loss) Reclassified from Accumulated OCI<br>into Income (Effective Portion) |                  |
|--|--------------------|--|------------------|
|  |                    | For the Year<br>Ended December 31,   |                  |
|  |                    | 2010   | 2009             |
| Derivatives in Cash Flow Hedging Relationships |                    |  |                  |
| Natural gas commodity contracts                | Cost of goods sold | \$ (9.2)   | \$ (22.4)        |
| Foreign exchange contracts                     | Cost of goods sold | (5.4)  | 1.4              |
| <b>Total</b>                                   |                    | <b>\$ (14.6)</b>   | <b>\$ (21.0)</b> |

|  | Location of Gain (Loss)<br>Recognized in Income on<br>Derivative (Ineffective<br>Portion) (a) |
|--|---|
| Derivatives in Cash Flow Hedging Relationships |   |
| Natural gas commodity contracts                | Cost of goods sold  |
| Foreign exchange contracts                     | SG&A expense  |

(a) The amount recognized in income related to the ineffective portion of the hedging relationships was immaterial in 2010 and 2009. No gains or losses are excluded from the assessment of the hedge effectiveness.

The amount of loss recognized in income for derivative instruments not designated as hedging instruments was \$4.7 and \$1.0 million, respectively, for the years ended December 31, 2010 and 2009.

#### NOTE 21. GUARANTEES

In disposing of assets, we have entered into contracts that included various indemnity provisions, covering such matters as taxes, environmental liabilities and asbestos and other litigation. Some of these contracts have exposure limits, but many do not. Due to the nature of the indemnities, it is not possible to estimate the potential maximum exposure under these contracts. For contracts under which an indemnity claim has been received, a liability of \$4.9 million has been recorded as of December 31, 2010.

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**NOTE 22. PRODUCT WARRANTIES**

We provide direct customer and end-user warranties for our products. These warranties cover manufacturing defects that would prevent the product from performing in line with its intended and marketed use. The terms of these warranties vary by product and generally provide for the repair or replacement of the defective product. We collect and analyze warranty claims data with a focus on the historic amount of claims, the products involved, the amount of time between the warranty claims and their respective sales and the amount of current sales.

The following table summarizes the activity for the accrual of product warranties for 2010 and 2009:

|   | 2010           | 2009           |
|---|----------------|----------------|
| Balance at beginning of year            | \$ 14.1        | \$ 16.3        |
| Reductions for payments                 | (18.1)         | (20.4)         |
| Current year warranty accruals          | 16.3           | 18.7           |
| Preexisting warranty accrual changes    | (0.2)          | (0.5)          |
| Effects of foreign exchange translation | (0.2)          | —              |
| Balance at end of year                  | <u>\$ 11.9</u> | <u>\$ 14.1</u> |

The warranty provision and related reserve are recorded as a reduction of sales and accounts receivable.

**NOTE 23. OTHER LONG-TERM LIABILITIES**

|  | December 31,<br>2010 | December 31,<br>2009 |
|--|----------------------|----------------------|
| Long-term deferred compensation arrangements | \$ 27.9              | \$ 29.8              |
| U.S. workers' compensation                   | 12.2                 | 11.9                 |
| Postemployment benefit liabilities           | 8.1                  | 9.1                  |
| Environmental liabilities                    | 8.3                  | 6.3                  |
| Other  | 13.8                 | 10.0                 |
| Total other long-term liabilities            | <u>\$ 70.3</u>       | <u>\$ 67.1</u>       |

**NOTE 24. STOCK-BASED COMPENSATION PLANS**

The 2006 Long-Term Incentive Plan ("2006 Plan") authorizes us to issue stock options, stock appreciation rights, restricted stock awards, stock units, performance-based awards and cash awards to officers and key employees. No more than 5,349,000 common shares may be issued under the 2006 Plan, and the 2006 Plan will terminate on October 2, 2016, after which time no further awards may be made. As of December 31, 2010, 2,001,535 shares were available for future grants under the 2006 plan.

For grants made between our Chapter 11 emergence on October 2, 2006 and October 17, 2006, options were granted to purchase shares at a price equal to the volume weighted average closing price of the shares for the period October 18, 2006 through October 31, 2006. For grants made on or after October 18, 2006, options were granted to purchase shares at prices equal to the closing market price of the shares on the dates the options were granted. The options generally become exercisable in two to four years and expire 10 years from the date of grant.

In August 2009 TPG and the Asbestos PI Trust entered into an agreement whereby TPG purchased 7,000,000 shares of AWI common stock from the Asbestos PI Trust, and acquired an economic interest in an additional 1,039,777 shares from the Asbestos PI Trust. The Asbestos PI Trust and TPG together hold more than 60% of AWI's outstanding shares and have entered into a shareholders' agreement

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pursuant to which the Asbestos PI Trust and TPG have agreed to vote their shares together on certain matters. Under the terms of the 2006 Plan, a change in control occurred as a result of the Asbestos PI Trust and TPG agreement, causing the accelerated vesting of all unvested stock-based compensation. The non-cash charge to earnings related to this accelerated vesting was \$31.6 million and was recorded within SG&A expenses in the third quarter of 2009.

|  | Year Ended December 31, 2010       |   |  |   |
|--|------------------------------------|---|--|---|
|  | Number of<br>shares<br>(thousands) | Weighted-<br>average<br>exercise<br>price | Weighted-<br>average<br>remaining<br>contractual<br>term (years) | Aggregate<br>intrinsic<br>value<br>(millions) |
| Option shares outstanding at beginning of period | 1,627.5                            | \$ 25.87                                  |  |   |
| Options granted                                  | 526.5                              | 37.22                                     |  |   |
| Option adjustment for December dividend          | 463.6                              | 24.01                                     |  |   |
| Option shares exercised                          | (615.4)                            | (21.55)                                   |  | \$ 13.2                                       |
| Options forfeited                                | (23.8)                             | (38.06)                                   |  |   |
| Option shares outstanding at end of period       | 1,978.4                            | \$ 24.02                                  | 6.7  | \$ 37.5                                       |
| Option shares exercisable at end of period       | 1,323.7                            | 21.78                                     | 5.4  | \$ 28.1                                       |
| Option shares expected to vest                   | 627.0                              | 28.52                                     |  | \$ 9.1  |

  

|  | Year Ended December 31, 2009       |   |  |   |
|--|------------------------------------|---|--|---|
|  | Number of<br>shares<br>(thousands) | Weighted-<br>average<br>exercise<br>price | Weighted-<br>average<br>remaining<br>contractual<br>term (years) | Aggregate<br>intrinsic<br>value<br>(millions) |
| Option shares outstanding at beginning of period | 1,532.9                            | \$ 29.85                                  |  |   |
| Options granted                                  | 434.9                              | 13.46                                     |  |   |
| Option shares exercised                          | (79.3)                             | (29.37)                                   |  | \$ 1.0  |
| Options forfeited                                | (261.0)                            | (27.37)                                   |  |   |
| Option shares outstanding at end of period       | 1,627.5                            | \$ 25.87                                  | 7.3  | \$ 21.3                                       |
| Option shares exercisable at end of period       | 1,627.5                            | 25.87                                     | 7.3  | \$ 21.3                                       |
| Option shares expected to vest                   | —                                  | —   |  |   |

We have reserved sufficient authorized shares to allow us to issue new shares upon exercise of all outstanding options. When options are actually exercised, we may issue new shares, use treasury shares (if available), acquire shares held by investors, or a combination of these alternatives in order to satisfy the option exercises. The total grant date fair value of options exercised during the year ended December 31, 2010 was \$6.2 million. Cash proceeds received from options exercised for the year ended December 31, 2010 were \$13.3 million.

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The fair value of option grants was estimated on the date of grant using the Black-Scholes option pricing model. The weighted average assumptions for the years 2010, 2009 and 2008 are presented in the table below.

|  | 2010     | 2009    | 2008     |
|--|----------|---------|----------|
| Weighted-average grant date fair value of options granted (dollars per option) | \$ 15.44 | \$ 4.77 | \$ 12.21 |
| Assumptions  |          |         |          |
| Risk free rate of return   | 2.8%     | 2.1%    | 3.2%     |
| Expected volatility  | 38.1%    | 32.7%   | 29.8%    |
| Expected term (in years)   | 6.1      | 6.0     | 6.0      |
| Expected dividend yield  | 0.0%     | 0.0%    | 0.0%     |

The risk free rate of return is determined based on the implied yield available on zero coupon U.S. Treasury bills at the time of grant with a remaining term equal to the expected term of the option. Because reorganized Armstrong's stock has only been trading since the fourth quarter of 2006, the expected volatility is established based on an average of the actual historical volatilities of the stock prices of a peer group of companies. The expected life is the midpoint of the average vesting period and the contractual life of the grant. For the same reasons mentioned earlier we are using an allowable simplified method to determine an appropriate expected term for our option valuation assumptions. The expected dividend yield is assumed to be zero because, at the time of each grant, we had no plans to declare a dividend. The assumptions outlined above are applicable to all option grants.

Under the terms of the 2006 Plan, the Management Development and Compensation Committee of our Board of Directors is required to make equitable adjustments to stock option grants if there is a change in our capital structure. The special cash dividend in December 2010 qualified as a change to our capital structure under the terms of the 2006 Plan. We used the Black-Scholes option pricing model to determine the fair value of the awards before and after the special cash dividend, using consistent assumptions for the risk free rate of return, expected term, expected volatility and expected dividend yield. The stock prices used in the before and after calculations were \$52.86 (the NYSE volume weighted average stock price on December 10, 2010, the day before the ex-dividend date) and \$40.59 (the NYSE volume weighted average stock price on December 13, 2010, the ex-dividend date), respectively. For all option grants, the fair value of the award before and after the dividend remained the same. Therefore, there was no incremental cost recognized in our financial statements due to these award modifications. The following changes were made to the options outstanding as a result of this change:

|                         | Pre-Dividend Grant Terms |                | Post-Dividend Grant Terms |                |
|-------------------------|--------------------------|----------------|---------------------------|----------------|
|                         | Number of Shares         | Exercise Price | Number of Shares          | Exercise Price |
| Options granted in 2006 | 707,535                  | \$29.37        | 921,281                   | \$22.55        |
| Options granted in 2007 | 64,100                   | 39.88          | 83,452                    | 30.62          |
| Options granted in 2008 | 151,904                  | 28.45 – 36.74  | 197,834                   | 21.85 – 28.21  |
| Options granted in 2009 | 107,779                  | 13.46          | 140,371                   | 10.34          |
| Options granted in 2010 | 502,682                  | 34.13 – 38.06  | 654,673                   | 26.21 – 29.23  |

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We have also granted restricted stock and restricted stock units. These awards generally had vesting periods of two to four years at the grant date. A summary of the 2010 and 2009 activity related to these awards follows:

|                   | Non-Vested Stock Awards |   |
|-------------------|-------------------------|---|
|                   | Number of<br>Shares     | Weighted-<br>average fair<br>value at grant<br>date |
| January 1, 2009   | 607,486                 | \$ 36.86  |
| Granted           | 445,183                 | 13.46   |
| Vested            | (947,459)               | (26.53)   |
| Forfeited         | (105,210)               | (34.23)   |
| December 31, 2009 | 0                       | \$ 0.00   |
| Granted           | 72,951                  | 36.52   |
| Vested            | 0                       | 0.00  |
| Forfeited         | 0                       | 0.00  |
| December 31, 2010 | 72,951                  | \$ 36.52  |

In addition to options and restricted stock and restricted stock units, we have also granted performance restricted stock and performance restricted stock units. These awards generally had vesting periods of two to four years at the grant date. A summary of the 2010 and 2009 activity related to these awards follows:

|                     | Non-Vested Performance Stock<br>Awards |   |
|---------------------|--|---|
|                     | Number of<br>Shares                    | Weighted-<br>average fair<br>value at grant<br>date |
| January 1, 2009     | 96,290                                 | \$ 41.23  |
| Granted             | 116,624                                | 13.46   |
| Vested              | (319,371)                              | (20.08)   |
| Performance premium | 106,457                                | 26.02   |
| Forfeited           | —                                      | —   |
| December 31, 2009   | —                                      | \$ —  |
| Granted             | 290,950                                | 38.09   |
| Vested              | —                                      | —   |
| Performance premium | 11,064                                 | 38.19   |
| Forfeited           | (29,987)                               | 38.06   |
| December 31, 2010   | 272,027                                | \$ 38.09  |

In 2010 we granted predominantly performance based stock awards to the participants in our long term incentive plan. These awards entitled the recipient to a specified number of shares of Armstrong's common stock, provided the defined financial targets were achieved over the one year performance period, and the subsequent two year service period was fulfilled. The financial performance targets were met. In addition to these awards we granted our Chief Executive Officer performance restricted stock units vesting equally on December 31, 2012 and 2013, provided that specified stock price targets are achieved.

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In addition to the equity awards described above, as of December 31, 2010 we had 30,924 fully-vested phantom shares outstanding for non-employee directors under the 2006 Phantom Stock Unit Plan. These awards are settled in cash and generally had vesting periods of one to three years. The awards are generally payable six months following the director's separation from service. The total liability recorded for these shares as of December 31, 2010 was \$2.1 million. The awards under the 2006 Phantom Stock Unit Plan are not reflected in the Non-Vested Stock Awards tables above. The 2006 Phantom Stock Unit Plan is still in place; however, no additional shares will be granted under that plan.

During 2008, we adopted the 2008 Directors Stock Unit Plan. At December 31, 2010 and 2009 there were 119,763 and 141,782 restricted stock units, respectively, outstanding under the 2008 Directors Stock Unit Plan. In 2010 and 2009 we granted 59,981 and 29,832 restricted stock units, respectively, to non-employee directors. These awards generally have vesting periods of one to three years, and, as of December 31, 2010 and 2009, 72,147 and 111,950 shares, respectively, were vested but not yet delivered. The awards are generally payable six months following the director's separation from service. During 2010 we released 61,084 shares to four retired directors. Additionally as a result of these retirements the directors forfeited 20,916 shares in 2010. The awards granted under the 2008 Directors Stock Unit Plan are not reflected in the Non-Vested Stock Awards tables above.

We recognize share-based compensation expense on a straight-line basis over the vesting period. Share-based compensation cost was \$5.6 million (\$3.7 million net of tax benefit) in 2010; \$38.9 million (\$29.6 million net of tax benefit), including the impact of the accelerated vesting, in 2009, and \$8.1 million (\$5.2 million net of tax benefit) in 2008. Share-based compensation expense is recorded as a component of SG&A expenses. The benefits of tax deductions in excess of grant date fair value from the exercise of stock options and vesting of stock-based awards for the years ended December 31, 2010 and 2009 was \$2.9 million and \$1.5 million, respectively. To the extent the vesting date value is greater than the grant date value, the excess tax benefit is a credit to additional paid in capital ("APIC"), but only if it reduces income tax currently payable. Due to our NOL, the credit to APIC will be suspended until the NOL is fully utilized.

As of December 31, 2010, there was \$15.5 million of total unrecognized compensation cost related to non-vested share-based compensation arrangements. That cost is expected to be recognized over a weighted-average period of 2.3 years.

#### NOTE 25. EMPLOYEE COMPENSATION

Employee compensation is presented in the table below. Charges for severance costs and early retirement incentives to terminated employees that were otherwise recorded as restructuring charges have been excluded.

| Employee compensation cost                 | 2010            | 2009            | 2008            |
|--|-----------------|-----------------|-----------------|
| Wages, salaries and incentive compensation | \$ 627.6        | \$ 623.4        | \$ 697.5        |
| Payroll taxes                              | 64.3            | 64.7            | 71.2            |
| Pension expense (credits), net             | (24.3)          | (31.4)          | (34.6)          |
| Insurance and other benefit costs          | 59.0            | 69.1            | 77.5            |
| Stock-based compensation                   | 5.6             | 38.3            | 8.1             |
| Total                                      | <u>\$ 732.2</u> | <u>\$ 764.1</u> | <u>\$ 819.7</u> |

2010 includes \$11.2 million for severance and related expenses to reflect the separation costs for our former Chairman and Chief Executive Officer.

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**NOTE 26. LEASES**

We rent certain real estate and equipment. Several leases include options for renewal or purchase, and contain clauses for payment of real estate taxes and insurance. In most cases, management expects that in the normal course of business, leases will be renewed or replaced by other leases.

|                   | 2010           | 2009           | 2008           |
|-------------------|----------------|----------------|----------------|
| Rent expense      | \$ 24.0        | \$ 25.8        | \$ 25.0        |
| Sublease (income) | (3.0)          | (3.1)          | (2.0)          |
| Net rent expense  | <u>\$ 21.0</u> | <u>\$ 22.7</u> | <u>\$ 23.0</u> |

Future minimum payments at December 31, 2010 by year and in the aggregate, having noncancelable lease terms in excess of one year are as follows:

|                                  | Total Minimum<br>Lease Payments | Sublease<br>(Income) | Net Minimum<br>Lease Payments |
|----------------------------------|---------------------------------|----------------------|-------------------------------|
| Scheduled minimum lease payments |                                 |                      |                               |
| 2011                             | \$ 12.1                         | \$ (0.8)             | \$ 11.3                       |
| 2012                             | 9.4                             | (0.6)                | 8.8                           |
| 2013                             | 4.8                             | (0.4)                | 4.4                           |
| 2014                             | 2.5                             | (0.2)                | 2.3                           |
| 2015                             | 1.4                             | (0.2)                | 1.2                           |
| Thereafter                       | 4.9                             | (0.4)                | 4.5                           |
| Total                            | <u>\$ 35.1</u>                  | <u>\$ (2.6)</u>      | <u>\$ 32.5</u>                |

Assets under capital leases at December 31, 2010 and 2009 are not material.

**NOTE 27. SHAREHOLDERS' EQUITY**

There were no treasury shares at December 31, 2010 or December 31, 2009.

The balance of each component of accumulated other comprehensive (loss) as of December 31, 2010 and 2009 is presented in the table below.

|  | December 31,<br>2010 | December 31,<br>2009 |
|--|----------------------|----------------------|
| Foreign currency translation adjustments | \$ 24.7              | \$ 23.9              |
| Derivative (loss), net                   | (5.0)                | (5.5)                |
| Pension and postretirement adjustments   | (345.4)              | (316.2)              |
| Accumulated other comprehensive (loss)   | <u>\$ (325.7)</u>    | <u>\$ (297.8)</u>    |

The amounts and related tax effects allocated to each component of other comprehensive income (loss) for 2010, 2009, and 2008 are presented in the table below.

|  | Pre-tax<br>Amount | Tax (Expense)   | After tax<br>Amount |
|--|-------------------|-----------------|---------------------|
| 2010                                     |                   |                 |                     |
| Foreign currency translation adjustments | \$ 0.3            | \$ (0.6)        | \$ (0.3)            |
| Derivative gain (loss), net              | 0.7               | (0.2)           | 0.5                 |
| Pension and postretirement adjustments   | (28.4)            | (0.8)           | (29.2)              |
| Purchase of non-controlling interest     | 1.1               | —               | 1.1                 |
| Total other comprehensive income (loss)  | <u>\$ (26.3)</u>  | <u>\$ (1.6)</u> | <u>\$ (27.9)</u>    |

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| 2009                                     | Pre-tax<br>Amount | Tax (Expense)    | After tax<br>Amount |
|--|-------------------|------------------|---------------------|
| Foreign currency translation adjustments | \$ 38.3           | \$ (3.9)         | \$ 34.4             |
| Derivative gain (loss), net              | (1.6)             | (0.6)            | (2.2)               |
| Pension and postretirement adjustments   | 37.9              | (19.1)           | 18.8                |
| Total other comprehensive income (loss)  | <u>\$ 74.6</u>    | <u>\$ (23.6)</u> | <u>\$ 51.0</u>      |

  

| 2008                                     | Pre-tax<br>Amount | Tax (Expense)   | After tax<br>Amount |
|--|-------------------|-----------------|---------------------|
| Foreign currency translation adjustments | \$ (49.2)         | \$ 7.1          | \$ (2.2)            |
| Derivative gain (loss), net              | 0.7               | 0.7             | 1.4                 |
| Pension and postretirement adjustments   | (792.0)           | 308.5           | (483.5)             |
| Total other comprehensive income (loss)  | <u>\$ (840.5)</u> | <u>\$ 316.3</u> | <u>\$ (524.3)</u>   |

## NOTE 28. SUPPLEMENTAL FINANCIAL INFORMATION

| Selected operating expenses                                | 2010          | 2009          | 2008           |
|--|---------------|---------------|----------------|
| Maintenance and repair costs                               | \$ 94.6       | \$ 103.5      | \$ 111.3       |
| Research and development costs                             | 32.9          | 38.0          | 38.8           |
| Advertising costs  | 27.5          | 28.8          | 29.6           |
| Other non-operating expense                                |               |               |                |
| Foreign currency transaction loss, net of hedging activity | \$ 1.1        | \$ 0.3        | \$ 1.1         |
| Other  | 0.1           | 0.6           | 0.2            |
| Total  | <u>\$ 1.2</u> | <u>\$ 0.9</u> | <u>\$ 1.3</u>  |
| Other non-operating income                                 |               |               |                |
| Interest income  | \$ 7.1        | \$ 3.1        | \$ 10.5        |
| Foreign currency transaction gain, net of hedging activity | 0.7           | 0.1           | 0.1            |
| Other  | 0.2           | —             | —              |
| Total  | <u>\$ 8.0</u> | <u>\$ 3.2</u> | <u>\$ 10.6</u> |

## NOTE 29. SUPPLEMENTAL CASH FLOW INFORMATION

|                        | 2010    | 2009    | 2008    |
|------------------------|---------|---------|---------|
| Interest paid          | \$ 11.3 | \$ 10.4 | \$ 24.2 |
| Income taxes paid, net | 8.5     | 8.9     | 25.7    |

## NOTE 30. RELATED PARTIES

We purchase grid products from WAVE, our 50%-owned joint venture with Worthington Industries. The total amount of these purchases was approximately \$79 million in 2010, \$67 million in 2009, and \$98 million in 2008. We also provide certain selling, promotional and administrative processing services to WAVE for which we receive reimbursement. Those services amounted to \$15.2 million in 2010, \$14.2 million in 2009, and \$16.1 million in 2008. The net amounts due from us to WAVE for all of our relationships were \$2.0 million and \$4.1 million at the end of 2010 and 2009, respectively. See Note 10 for additional information.

We incurred approximately \$3.1 million and \$0.6 million in consulting fees related to services provided by an affiliate of TPG in 2010 and 2009, respectively. The amounts due, from us to the TPG affiliate, were

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\$0.6 million and \$0.2 million at the end of 2010 and 2009, respectively. See Note 1 for additional information.

NOTE 31. LITIGATION AND RELATED MATTERS

ENVIRONMENTAL MATTERS

Environmental Expenditures

Our manufacturing and research facilities are affected by various federal, state and local requirements relating to the discharge of materials and the protection of the environment. We make expenditures necessary for compliance with applicable environmental requirements at each of our operating facilities. Regulatory requirements continually change, therefore we cannot predict with certainty future expenditures associated with compliance with environmental requirements.

Environmental Remediation

*Summary*

We are actively involved in proceedings under the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"), and similar state "Superfund" laws at several off-site locations. We have also been investigating and/or remediating environmental contamination allegedly resulting from past industrial activity at several current or former plant sites. In a few cases, we are one of several potentially responsible parties ("PRPs") which have potential liability for the required investigation and remediation of each site. In those cases, we have agreed to jointly fund that 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.

Estimates of our future environmental liability at the Superfund sites and current or former plant sites are based on evaluations of currently available facts regarding each individual site. We consider factors such as our activities associated with the site, existing technology, presently enacted laws and regulations and prior company experience in remediating contaminated sites. Although current law imposes joint and several liability on all parties at Superfund sites, our contribution to the remediation of these sites is expected to be limited by the number of other companies potentially liable for site remediation. As a result, our estimated liability reflects only our expected share. In determining the probability of contribution, we consider the solvency of other parties, whether liability is being disputed, the terms of any existing agreements and experience with similar matters, and the effect of our Chapter 11 reorganization upon the validity of the claim.

*Specific Events*

In August 2010 we entered into a Consent Order with the Oregon Department of Environmental Quality ("ODEQ") along with Kaiser Gypsum Company, Inc. ("Kaiser"), and Owens Corning Sales LLC ("OC") with respect to our St. Helens, Oregon facility, which was previously owned by Kaiser and then OC. The Consent Order, which replaces a previous order of the ODEQ requiring us to investigate and remediate hazardous substances present at the facility, requires that we and Kaiser complete a remedial investigation and feasibility study ("RI/FS") on the portion of the site owned by us. The Consent Order further requires us, Kaiser and OC to conduct an RI/FS in the adjacent Scappoose Bay. Estimates of our future liability at the site include our estimate of the cost of the investigation work agreed to with ODEQ. Estimates of future liability also include our estimate of the cost of possible remedies for certain portions of the property owned by us. The RI/FS for the portion of the property owned by us is not yet complete. It is probable that additional corrective action for the portion of the property owned by us will be required. Such corrective action may result in additional costs greater than currently estimated, and may be material. We currently are not able to estimate with reasonable certainty the total cost of liability that we may ultimately incur with respect to the Scappoose Bay, although it is possible that such amounts may be material.

Costs and responsibilities for the RI/FS for certain portions of the property owned by us continue to be shared with Kaiser pursuant to an agreement between Kaiser and us. Limited contributions to these costs are also being made available by ODEQ pursuant to its settlement with OC for OC's liabilities for the property. In

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August 2010, contemporaneously with the execution of the Consent Order, we, Kaiser and OC entered into a cost allocation agreement for the investigation and possible remediation of the Scappoose Bay.

The U.S. Environmental Protection Agency (“EPA”) has informed us that it has proposed that two landfills located on a portion of our facility in Macon, Georgia, along with the former Macon Naval Ordnance Plant landfill adjacent to our property, and portions of Rocky Creek, collectively the “Macon Site,” be added to the National Priorities List due to the presence of contaminants, most notably PCBs. In September 2010 we entered into an Administrative Order on Consent for a Removal Action with the EPA to investigate PCB contamination in one of the landfills on our property that will be a portion of the proposed Superfund Site. Our recorded liability includes estimated costs for work that is anticipated to be performed under the Order. Additionally, we will ultimately incur expenses for closure or some form of action on the landfill. While those amounts are not reasonably estimable at this time due to the early stages of the investigation, they may be material. Additionally, it is probable that we will incur field investigation, engineering and oversight costs associated with an RI/FS with respect to the remainder of the proposed Superfund site, including Rocky Creek. We, along with other parties, may also ultimately incur costs in remedying contamination discovered during the RI/FS. While we are not currently able to estimate with reasonable certainty any amounts we may incur with respect to those activities, such amounts may be material.

*Summary of Financial Position*

Liabilities of \$8.3 million and \$6.3 million at December 31, 2010 and, 2009, respectively, were recorded for potential environmental liabilities that we consider probable and for which a reasonable estimate of the probable liability could be made. Where existing data is sufficient to estimate the liability, that estimate has been used; where only a range of probable liabilities is available and no amount within that range is more likely than any other, the lower end of the range has been used. As assessments and remediation activities progress at each site, these liabilities are reviewed to reflect new information as it becomes available. These liabilities are undiscounted.

The estimated liabilities above do not take into account any claims for recoveries from insurance or third parties. It is our policy to record probable recoveries that are either available through settlement or anticipated to be recovered through negotiation or litigation as assets in the Consolidated Balance Sheets. No amounts were recorded for probable recoveries at December 31, 2010 and 2009.

Actual costs to be incurred at identified sites may vary from our estimates. Based on our current knowledge of the identified sites, we are not able to estimate with reasonable certainty future costs which may exceed amounts already recognized.

CUSTOMS LITIGATION

In 2002 we began protesting the classification and 6% duty rate then being applied by the U.S. government on imports of our laminate flooring. After administrative denial of several of these protests, we filed a lawsuit against the United States in the U.S. Court of International Trade (New York), challenging the U.S. government’s classification and duty rate and its administrative denial of our protests. With the agreement of the U.S. Department of Justice (“DOJ”), Armstrong’s case was placed on the reserve calendar pending resolution of two test cases challenging the classification and applicable duty rate of similar laminate flooring. The test cases were decided in 2008 by the U.S. Court of International Trade, which found in favor of the U.S. government. The plaintiffs appealed to the U.S. Court of Appeals for the Federal Circuit. In September 2009 the Court of Appeals reversed the decisions of the Court of International Trade and found that the laminate flooring in the test cases should have been classified differently, and that a 3.2% duty rate should have been applied. Upon expiration of the U.S. government’s period to file notice of further appeals, we filed a stipulation request with the DOJ to stipulate that our case covered imports of laminate flooring which were like goods for which the 3.2% duty rate likewise should apply. After review by U.S. Customs and Border Protection (“Customs”), the DOJ agreed to our proposed stipulation, which was approved by the U.S. Court of International Trade in March 2010. The stipulation provided a refund of a portion of duties paid by us on the imported laminate flooring at issue in the case, and further allows us to recover refunds on additional entries of laminate flooring which were properly protested. We have sought refunds on protested imports of laminate

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flooring from April 2001 through January 2007, when the classification was corrected by statute. We began receiving refunds in March 2010, and have received \$9.7 million through December 31, 2010. Of this amount, \$7.2 million was recorded as a reduction of cost of goods sold within our Resilient Flooring segment, and \$2.5 million was recorded as interest income reported within other non-operating income.

ANTIDUMPING AND COUNTERVAILING DUTY PETITION

On October 21, 2010, a coalition of U.S. producers of multilayered wood flooring (not including Armstrong) filed antidumping (“AD”) and countervailing duty (“CVD”) petitions regarding multilayered hardwood flooring from China. The AD petition requests that the Department of Commerce impose duties of up to 269% on imports of multilayered hardwood flooring, which it claims is needed to offset unfair pricing from Chinese imports that injure the U.S. industry. The CVD petition requests an unspecified level of duties be imposed on importers to offset alleged unfair subsidies provided by the Chinese government (such as the undervaluation of the Chinese currency, various tax benefits for foreign-invested enterprises, VAT and tariff exemptions on imported equipment, and electricity being provided at artificially low rates).

We are a domestic producer of multilayered wood flooring. We produce multilayered wood flooring domestically, import from suppliers in China, and have a plant in China that manufactures multilayered wood flooring for export to the U.S. We are specifically mentioned in the AD and CVD petitions as an importer. Under the U.S. AD and CVD laws, a U.S. importer may be responsible for the payment of any antidumping and countervailing duties. The Department of Commerce and the International Trade Commission investigations are ongoing but the outcome of the case remains uncertain. As a result, at this time we cannot determine whether an adverse ruling is probable or estimable. However, if such an adverse ruling were to be issued, we could be subject to duties on multilayered hardwood flooring imported from China, and it is possible such duties could be material.

DIVESTITURE DISPUTE

In 2007 we sold Tapijtfabriek H. Desseaux N.V. and its subsidiaries — the principal operating companies in our European Textile and Sports Flooring business. Certain post completion adjustments specified in the agreement were disputed by the parties after the sale. The matter was referred to an independent expert for a binding determination. In December 2008 a decision was reached with all disputed items awarded in our favor. Full payment of \$8.0 million was received in January 2009. The purchaser filed an appeal to nullify the independent expert’s decision. An appeal hearing was held in May 2010. The court ruled in our favor on all matters in this dispute in July 2010.

OTHER CLAIMS

Additionally, from time to time we may be involved in various other claims and legal actions involving product liability, patent infringement, breach of contract, distributor termination, employment law issues and other actions arising in the ordinary course of business. While complete assurance cannot be given to the outcome of these claims, we do not currently believe losses related to these matters would be material.

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**NOTE 32. EARNINGS PER SHARE**

Earnings per share components may not add due to rounding.

The following table is a reconciliation of net earnings to net earnings attributable to common shares used in our basic and diluted EPS calculations for the years ended December 31, 2010, 2009, and 2008:

|   | 2010           | 2009           | 2008           |
|---|----------------|----------------|----------------|
| Net earnings                                      | \$ 11.0        | \$ 77.7        | \$ 81.0        |
| Net earnings allocated to non-vested share awards | —              | (0.4)          | (0.6)          |
| Net earnings attributable to common shares        | <u>\$ 11.0</u> | <u>\$ 77.3</u> | <u>\$ 80.4</u> |

The following table is a reconciliation of basic shares outstanding to diluted shares outstanding for the years ended December 31, 2010, 2009, and 2008:

| millions of shares                     | 2010        | 2009        | 2008        |
|--|-------------|-------------|-------------|
| Basic shares outstanding               | 57.7        | 56.8        | 56.4        |
| Dilutive effect of stock option awards | 0.5         | 0.2         | —           |
| Diluted shares outstanding             | <u>58.2</u> | <u>57.0</u> | <u>56.4</u> |

**NOTE 33. SPECIAL CASH DIVIDEND**

On November 23, 2010 our Board of Directors declared a special cash dividend in the amount of \$13.74 per share, or \$803.3 million in the aggregate. The special cash dividend, \$798.6 million, was paid on December 10, 2010 to shareholders of record as of December 3, 2010. The unpaid portion of the dividend, \$4.7 million, is reflected in other long term liabilities and will be paid when the underlying employee shares vest. The dividend was funded in part by the proceeds of the new term loans remaining after repayment of previous debt and in part with existing cash.

**NOTE 34. SUBSEQUENT EVENT**

In February 2011 we announced plans to idle our Wood Flooring manufacturing plant in Statesville, North Carolina effective April 30, 2011. We plan to service our customers' ongoing requirements from our other U.S. facilities. This action will reduce employment by approximately 115 positions.

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

Not applicable.

**ITEM 9A. CONTROLS AND PROCEDURES**

Our management, with the participation of our chief executive officer and our chief financial officer, performed an evaluation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 (“Exchange Act”)) as of the end of the period covered by this Annual Report on Form 10-K. Our chief executive officer and our chief financial officer have concluded that our disclosure controls and procedures were effective insofar as they are designed to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission’s rules and forms, and they include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the fiscal quarter ended December 31, 2010 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Management’s Report on Internal Control over Financial Reporting and the Report of Independent Registered Public Accounting Firm are incorporated by reference to Item 8.

PART III

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The information required by Item 10 is incorporated by reference to the sections entitled “Board of Directors — Director Information,” “Board Committees — Audit Committee and Audit Committee Expert,” “Board Committees — Nominating and Governance Committee,” “Code of Ethics,” “Management” and “Section 16(a) Beneficial Ownership Reporting Compliance” in the Company’s proxy statement for its 2011 annual meeting of shareholders.

**ITEM 11. EXECUTIVE COMPENSATION**

The information required by Item 11 is incorporated by reference to the sections entitled “Compensation Discussion and Analysis,” “Compensation Committee Report,” “Summary Compensation Table,” “Grants of Plan-Based Awards,” “Outstanding Equity Awards at Fiscal Year-End,” “Option Exercises and Stock Vested,” “Pension Benefits,” “Nonqualified Deferred Compensation,” “Potential Payments Upon Termination or Change in Control,” “Board of Directors — Board’s Role in Risk Management Oversight,” “Compensation Committee Interlocks and Insider Participation” and “Compensation of Directors” in the Company’s proxy statement for its 2011 annual meeting of shareholders.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The information required by Item 12 is incorporated by reference to the sections entitled “Security Ownership of Certain Beneficial Owners,” “Security Ownership of Management” and “Equity Compensation Plan Information” in the Company’s proxy statement for its 2011 annual meeting of shareholders.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The information required by Item 13 is incorporated by reference to the sections entitled “Certain Relationships and Related Transactions” and “Director Independence” in the Company’s proxy statement for its 2011 annual meeting of shareholders.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The information required by Item 14 is incorporated by reference to the sections entitled “Audit Committee Report” and “Relationship with Independent Auditors” in the Company’s proxy statement for its 2011 annual meeting of shareholders.

PART IV

**Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

(a) Listing of Documents

1. The financial statements and schedule of Armstrong World Industries, Inc. filed as a part of this 2010 Annual Report on Form 10-K is listed in the "Index to Financial Statements and Schedules" on Page 38.
2. The financial statements required to be filed pursuant to Item 15 of Form 10-K are:  
  
Worthington Armstrong Venture consolidated financial statements for the years ended December 31, 2010, 2009, and 2008 (filed herewith as Exhibit 99.1)
3. The following exhibits are filed as part of this 2010 Annual Report on Form 10-K:

| <u>Exhibit No.</u> | <u>Description</u>   |
|--------------------|--|
| No. 2              | Armstrong World Industries, Inc.'s Fourth Amended Plan of Reorganization, as amended by modifications through May 23, 2006, is incorporated by reference from the 2005 Annual Report on Form 10-K, wherein it appeared as Exhibit 2.3.           |
| No. 3.1            | Amended and Restated Certificate of Incorporation of Armstrong World Industries, Inc. is incorporated by reference from the Current Report on Form 8-K dated October 2, 2006, wherein it appeared as Exhibit 3.1.                                |
| No. 3.2            | Bylaws of Armstrong World Industries, Inc. as amended, are incorporated by reference from the Current Report on Form 8-K dated August 5, 2010, wherein they appeared as Exhibit 3.1.   |
| No. 10.1           | Management Achievement Plan for Key Executives, effective as of November 28, 1983, as amended April 30, 2007 and December 8, 2008, is incorporated by reference from the 2008 Annual Report on Form 10-K, wherein it appeared as Exhibit 10.1. * |
| No. 10.2           | Retirement Benefit Equity Plan, effective January 1, 2005, as amended October 29, 2007 and December 8, 2008, is incorporated by reference from the 2008 Annual Report on Form 10-K, wherein it appeared as Exhibit 10.2. *                       |
| No. 10.3           | Bonus Replacement Retirement Plan, effective as of January 1, 1998, as amended January 1, 2007, is incorporated by reference from the 2007 Annual Report on Form 10-K, wherein it appeared as Exhibit 10.9.*                                     |
| No. 10.4           | Nonqualified Deferred Compensation Plan effective January 2005, as amended July 23, 2010. The amended Nonqualified Deferred Compensation Plan is filed with this Report. *   |
| No. 10.5           | Schedule of Armstrong World Industries, Inc. Nonemployee Directors Compensation Summary is incorporated by reference from the Quarterly Report on Form 10-Q for the quarter ended June 30, 2010, wherein it appeared as Exhibit 10.5.*           |

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| <u>Exhibit No.</u> | <u>Description</u>   |
|--------------------|--|
| No. 10.6           | Amended and Restated Credit Agreement dated as of November 23, 2010, among the company, the other borrower and guarantors named therein, Bank of America, N.A., as administrative agent and collateral agent, the other lenders party thereto, JP Morgan Chase Bank, N.A., as syndication agent, Barclays Bank PLC, as documentation agent, and Merrill Lynch, Pierce, Fenner & Smith Incorporated, J.P. Morgan Securities, Inc. and Barclays Capital, the investment banking division of Barclays Bank, PLC, as co-lead arrangers and joint book makers, is incorporated by reference from the Current Report on Form 8-K dated November 23, 2010, wherein it appeared as Exhibit 10.1. |
| No. 10.7           | Amended and Restated Security Agreement dated as of November 23, 2010, by and among the Company, the grantors named therein and Bank of America, N.A., as collateral agent, is incorporated by reference from the Current Report on Form 8-K dated November 23, 2010, wherein it appeared as Exhibit 10.2.   |
| No. 10.8           | Amended and Restated Pledge Agreement dated as of November 23, 2010, by and among the Company, the pledgors named therein and Bank of America, N.A., as collateral agent, is incorporated by reference from the Current Report on Form 8-K dated November 23, 2010, wherein it appeared as Exhibit 10.3.   |
| No. 10.9           | Amended and Restated Canadian Pledge Agreement dated as of November 23, 2010, by and among the Company and Bank of America, N.A., as collateral agent, incorporated by reference from the Current Report on Form 8-K dated November 23, 2010, wherein it appeared as Exhibit 10.4.   |
| No. 10.10          | Equitable Mortgage of Shares dated February 12, 2007, between the Company and Bank of America, N.A., as administrative agent and collateral agent, is incorporated by reference on from the Current Report on Form 8-K dated November 23, 2010, wherein it appeared as Exhibit 10.5.   |
| No. 10.11          | Armstrong World Industries, Inc. Asbestos Personal Injury Settlement Trust Agreement dated as of October 2, 2006, by and among Armstrong World Industries, Inc. and trustees, is incorporated by reference from the Current Report on Form 8-K dated October 2, 2006, wherein it appeared as Exhibit 10.2.   |
| No. 10.12          | Stockholder and Registration Rights Agreement, dated as of October 2, 2006, by and between Armstrong World Industries, Inc. and the Armstrong World Industries, Inc. Asbestos Personal Injury Settlement Trust is incorporated by reference from the Current Report on Form 8-K dated October 2, 2006, wherein it appeared as Exhibit 10.3.  |
| No. 10.13          | 2006 Long-Term Incentive Plan, as amended February 23, 2009, is incorporated by reference from the 2008 Annual Report on Form 10-K, wherein it appeared as Exhibit 10.13. *  |
| No. 10.14          | Form of 2006 Long-Term Incentive Plan Stock Option Agreement is incorporated by reference from the Current Report on Form 8-K dated October 2, 2006, wherein it appeared as Exhibit 10.5. *  |
| No. 10.15          | Form of 2006 Long-Term Incentive Plan Restricted Stock Award Agreement is incorporated by reference from the Current Report on Form 8-K dated October 2, 2006, wherein it appeared as Exhibit 10.6. *  |
| No. 10.16          | Form of 2006 Long-Term Incentive Plan notice of restricted stock and/or option award is incorporated by reference from the Current Report on Form 8-K dated October 2, 2006, wherein it appeared as Exhibit 10.7. *  |

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| <u>Exhibit No.</u> | <u>Description</u>   |
|--------------------|--|
| No. 10.17          | 2006 Phantom Stock Unit Plan, as amended December 8, 2008, is incorporated by reference from the 2008 Annual Report on Form 10-K, wherein it appeared as Exhibit 10.18. *  |
| No. 10.18          | 2006 Phantom Stock Unit Agreement is incorporated by reference from the Current Report on Form 8-K dated October 23, 2006, wherein it appeared as Exhibit 10.3. A Schedule of Participating Directors is incorporated by reference from the 2006 Annual Report on Form 10-K, wherein it appeared as Exhibit 10.36. *           |
| No. 10.19          | 2007 Award under the 2006 Phantom Stock Unit Agreement and the Schedule of Participating Directors are incorporated by reference from the Current Report on Form 8-K dated October 22, 2007, wherein they appeared as Exhibits 10.1 and 10.2, respectively. *  |
| No. 10.20          | Stipulation and Agreement with Respect to Claims of Armstrong Holdings, Inc. and Armstrong Worldwide, Inc.; and Motion for Order Approving Stipulation and Agreement are incorporated by reference from the Current Report on Form 8-K dated February 26, 2007, wherein they appeared as Exhibits 99.2 and 99.3, respectively. |
| No. 10.21          | Form of grant letter used in connection with awards of restricted stock under the 2006 Long-Term Incentive Plan is incorporated by reference from the 2007 Annual Report on Form 10-K, wherein it appeared as Exhibit 10.35.*  |
| No. 10.22          | Form of grant letter used in connection with award of stock options under the 2006 Long-Term Incentive Plan is incorporated by reference from the Quarterly Report on Form 10-Q for the quarter ended March 31, 2008, wherein it appeared as Exhibit 10.37. *  |
| No. 10.23          | The 2008 Directors Stock Unit Plan, as amended December 8, 2008, November 23, 2010 and November 30, 2010 is filed with this Report.*   |
| No. 10.24          | Form of 2009 Award under the 2008 Director Stock Unit Plan is incorporated by reference from the Quarterly Report on Form 10-Q for the quarter ended September 30, 2009, wherein it appeared as Exhibit 10.27. *   |
| No. 10.25          | Form of Indemnification Agreement for Officers and Directors of Armstrong World Industries, Inc. is incorporated by reference from the Report on Form 8-K dated June 4, 2010, wherein it appeared as Exhibit 10.1. A Schedule of Participating Officers and Directors is filed with this Report. *                             |
| No. 10.26          | Non-Disclosure Agreement, dated July 30, 2009, between Armstrong World Industries, Inc. and TPG Capital, L.P. (incorporated by reference to Exhibit 3 to the Schedule 13D filed by TPG Advisors VI, Inc., TPG Advisors V, Inc., David Bonderman and James G. Coulter with the SEC on August 11, 2009).                         |
| No. 10.27          | Undertaking Letter from TPG Capital L.P., dated August 10, 2009, to Armstrong World Industries, Inc. (incorporated by reference to Exhibit (e)(4) to the Schedule 14D-9 filed by Armstrong World Industries, Inc. with the SEC on September 15, 2009).   |
| No. 10.28          | Offer Letter to Thomas B. Mangas dated December 23, 2009, is incorporated by reference from the Current Report on Form 8-K dated January 8, 2010, wherein it appeared as Exhibit 99.2. *   |

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| <u>Exhibit No.</u> | <u>Description</u>  |
|--------------------|---|
| No. 10.29          | Letter to Frank J. Ready dated January 8, 2010, incorporated by reference from the 2009 Annual Report on Form 10-K, wherein it appeared as Exhibit 10.32. *   |
| No. 10.30          | Form of grant letter used in connection with the equity grant of stock options under the 2006 Long-Term Incentive Plan to Thomas B. Mangas is incorporated by reference from the Current Report on Form 8-K dated April 1, 2010, wherein it appeared as Exhibit 10.1. *   |
| No. 10.31          | Form of grant letter used in connection with the equity grant of stock options under the 2006 Long-Term Incentive Plan to Messrs. McNamara, Nickel and Ready is incorporated by reference from the Current Report on Form 8-K dated April 1, 2010, wherein it appeared as Exhibit 10.2. *   |
| No. 10.32          | Employment Agreement with Matthew J. Espe dated June 24, 2010 is incorporated by reference from the Current Report filed on Form 8-K dated June 25, 2010, wherein it appeared as Exhibit 10.1. *  |
| No. 10.33          | Change in control agreement with Matthew J. Espe dated June 24, 2010 is incorporated by reference from the Current Report on Form 8-K dated June 25, 2010, wherein it appeared as Exhibit 10.2. *   |
| No. 10.34          | Form of change in control agreement with Thomas B. Mangas and Jeffrey D. Nickel is incorporated by reference from the Current Report on Form 8-K dated July 2, 2010, wherein it appeared as Exhibit 10.1. *   |
| No. 10.35          | Indemnification Agreement with Matthew J. Espe is incorporated by reference from the Current Report on Form 8-K dated June 4, 2010, wherein it appeared as Exhibit 10.1.  |
| No. 10.36          | Form of change in control agreement with Stephen F. McNamara is incorporated by reference from the Current Report on Form 8-K dated July 2, 2010, wherein it appeared as Exhibit 10.1. *  |
| No. 10.37          | Form of 2010 Award under the 2008 Directors Stock Unit Plan is incorporated by reference from the Quarterly Report on Form 10-Q for the quarter ended September 30, 2009, wherein appeared as Exhibit 10.27. A schedule of Participating Directors to the 2010 Award under the 2008 Directors Stock Unit Plan is filed with this Report.* |
| No. 10.38          | Form of change in control agreement with Thomas B. Kane dated November 4, 2010, is incorporated by reference from the Current Report on Form 8-K dated July 2, 2010, wherein it appeared as Exhibit 10.1. *   |
| No. 11             | Computation of Earnings Per Share.  |
| No. 14             | The Armstrong Code of Business Conduct, revised as of December 21, 2010, is filed with this Report.   |
| No. 21             | Armstrong World Industries, Inc.'s Subsidiaries.  |
| No. 23.1           | Consent of Independent Registered Public Accounting Firm.   |
| No. 23.2           | Consent of Independent Auditors.  |
| No. 24             | Power of Attorney and Authorizing Resolution.   |
| No. 31.1           | Certification of Chief Executive Officer required by Rule 13a-15(e) or 15d-15(e) of the Securities Exchange Act.  |

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| <u>Exhibit No.</u> | <u>Description</u>  |
|--------------------|---|
| No. 31.2           | Certification of Chief Financial Officer required by Rule 13a-15(e) or 15d-15(e) of the Securities Exchange Act.  |
| No. 32.1           | Certification of Chief Executive Officer required by Rule 13a and 18 U.S.C. Section 1350 (furnished herewith).  |
| No. 32.2           | Certification of Chief Financial Officer required by Rule 13a and 18 U.S.C. Section 1350 (furnished herewith).  |
| No. 99.1           | Worthington Armstrong Venture consolidated financial statements as of December 31, 2009 and 2010 and for the years ended December 31, 2008, 2009 and 2010.  |
| No. 99.2           | Shareholders' Agreement, dated as of August 28, 2009, by and among Armor TPG Holdings LLC and Armstrong World Industries, Inc. Asbestos Personal Injury Settlement Trust (incorporated by reference to Exhibit (d)(3) of the Schedule TO filed on September 3, 2009, by TPG Advisors VI, Inc., Armor TPG Holdings LLC and others with respect to Armstrong World Industries, Inc.). |
| *                  | Management Contract or Compensatory Plan.   |

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ARMSTRONG WORLD INDUSTRIES, INC.  
(Registrant)

By: /s/ Matthew J. Espe  
Chief Executive Officer and President

Date: February 28, 2011

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this Report has been signed below by the following persons on behalf of the registrant Armstrong and in the capacities and on the dates indicated.

Directors and Principal Officers of the registrant AWI:

| <u>Name</u>         | <u>Title</u>   |
|---------------------|--|
| Matthew J. Espe     | Chief Executive Officer and President<br>(Principal Executive Officer)             |
| Thomas B. Mangas    | Senior Vice President and Chief Financial Officer<br>(Principal Financial Officer) |
| Stephen F. McNamara | Vice President and Controller<br>(Chief Accounting Officer)                        |
| Stanley A. Askren   | Director   |
| David Bonderman     | Director   |
| Kevin Burns         | Director   |
| James J. Gaffney    | Director   |
| Tao Huang           | Director   |
| Michael F. Johnston | Director   |
| Larry S. McWilliams | Director   |
| James J. O'Connor   | Director   |
| John J. Roberts     | Director   |
| Richard E. Wenz     | Director   |
| Bettina M. Whyte    | Director   |

By: /s/ Matthew J. Espe  
(Matthew J. Espe)  
As of February 28, 2011

By: /s/ Thomas B. Mangas  
(Thomas B. Mangas)  
As of February 28, 2011

By: /s/ Stephen F. McNamara  
(Stephen F. McNamara)  
As of February 28, 2011



## SCHEDULE II

Armstrong World Industries, Inc.  
Valuation and Qualifying Reserves of Accounts Receivable  
(amounts in millions)

|   | 2010           | 2009           | 2008           |
|---|----------------|----------------|----------------|
| <b>Provision for Losses</b>                   |                |                |                |
| Balance at beginning of year                  | \$ 10.5        | \$ 10.8        | \$ 11.8        |
| Additions charged to earnings                 | 7.3            | 7.8            | 8.6            |
| Deductions                                    | (8.0)          | (8.1)          | (9.6)          |
| Divestitures                                  | (0.5)          | —              | —              |
| Balance at end of year                        | <u>\$ 9.3</u>  | <u>\$ 10.5</u> | <u>\$ 10.8</u> |
| <b>Provision for Discounts and Warranties</b> |                |                |                |
| Balance at beginning of year                  | \$ 37.8        | \$ 43.7        | \$ 51.9        |
| Additions charged to earnings                 | 171.2          | 182.0          | 225.6          |
| Deductions                                    | (175.2)        | (187.9)        | (233.8)        |
| Balance at end of year                        | <u>\$ 33.8</u> | <u>\$ 37.8</u> | <u>\$ 43.7</u> |

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Exhibit Index

| <u>Exhibit No.</u> |   |
|--------------------|---|
| No. 10.4           | Nonqualified Deferred Compensation Plan effective January 2005, as amended July 23, 2010.   |
| No. 10.23          | The 2008 Directors Stock Unit Plan, as amended December 8, 2008, November 23, 2010 and November 30, 2010.   |
| No. 10.25          | Form of Indemnification Agreement for Officers and Directors of Armstrong World Industries, Inc. is incorporated by reference from the Report on Form 8-K dated June 4, 2010, wherein it appeared as Exhibit 10.1. A Schedule of Participating Officers and Directors is filed with this Report.  |
| No. 10.37          | Form of 2010 Award under the 2008 Directors Stock Unit Plan is incorporated by reference from the Quarterly Report on Form 10-Q for the quarter ended September 30, 2009, wherein appeared as Exhibit 10.27. A schedule of Participating Directors to the 2010 Award under the 2008 Directors Stock Unit Plan is filed with this Report.* |
| No. 11             | Computation of Earnings Per Share.  |
| No. 14             | The Armstrong Code of Business Conduct, revised as of December 21, 2010.  |
| No. 21             | Armstrong World Industries, Inc.'s Subsidiaries.  |
| No. 23.1           | Consent of Independent Registered Public Accounting Firm.   |
| No. 23.2           | Consent of Independent Auditors.  |
| No. 24             | Power of Attorney and Authorizing Resolution.   |
| No. 31.1           | Certification of Principal Executive Officer required by Rule 13a-15(e) or 15d-15(e) of the Exchange Act.   |
| No. 31.2           | Certification of Principal Financial Officer required by Rule 13a-15(e) or 15d-15(e) of the Exchange Act.   |
| No. 32.1           | Certification of Chief Executive Officer required by Rule 13a and 18 U.S.C. Section 1350.   |
| No. 32.2           | Certification of Chief Financial Officer required by Rule 13a and 18 U.S.C. Section 1350.   |
| No. 99.1           | Worthington Armstrong Venture consolidated financial statements as of December 31, 2010 and 2009 and for the years ended December 31, 2010, 2009 and 2008.  |

**ARMSTRONG  
NONQUALIFIED DEFERRED COMPENSATION PLAN**

The Armstrong Nonqualified Deferred Compensation Plan (the "Plan") was established by the Retirement Committee of Armstrong World Industries, Inc. effective January 1, 2005.

The Plan is a nonqualified deferred compensation plan for a select group of management or highly compensated employees and nonemployee directors. The Plan is intended to meet the requirements of Section 409A of the Internal Revenue Code of 1986, as amended, to achieve deferral of taxation until deferred amounts are distributed in accordance with the terms of the Plan.

**1. DEFINITIONS**

**1.1 "Account"** shall mean an account established on the books of the Company for the purpose of recording amounts credited on behalf of a Participant and any income, expenses, gains or losses included thereon.

**1.2 "Administrator"** shall mean the Retirement Committee of the Company.

**1.3 "Beneficiary"** means the person or persons, trust or other entity designated in writing by a Participant to receive payments under the Plan upon the death of a Participant.

**1.4 "Board"** means the Board of Directors of the Company.

**1.5 "Bonus"** means any discretionary performance-based cash bonuses paid for services with the Company.

**1.6 "Change in Control"** means the first to occur of any of the following events: (i) a Change in Ownership of the Corporation, (ii) a Change in Effective Control of the Corporation or (iii) a Change in the Ownership of a Substantial Portion of the Assets of the Corporation.

(a) A "Change in Ownership" of the Corporation occurs on the date that any one person, or more than one person acting as a group acquires ownership of stock of the Corporation that, together with stock held by such person or group, constitutes more than 50 percent of the total fair market value or total voting power of the stock of the Corporation.

(b) A "Change in Effective Control" of the Corporation occurs on the date that either:

(i) Any one person, or more than one person acting as a group, acquires (or has acquired during the 12 month period ending on the date of the most recent acquisition by such person or persons) ownership of stock of the Corporation possessing 35 percent or more of the total voting power of the stock of the Corporation; or

(ii) a majority of members of the Corporation's board of directors is replaced during any 12 month period by directors whose appointment or election is not endorsed by a majority of the members of the Corporation's board of directors prior to the date of the appointment or election.

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(c) A “Change in the Ownership of a Substantial Portion of the Assets of the Corporation” occurs on the date that any one person, or more than one person acting as a group, acquires (or has acquired during the 12 month period ending on the date of the most recent acquisition by such person or persons) assets from the Corporation that have a total gross fair market value equal to or more than 40 percent of the total gross fair market value of all of the assets of the Corporation immediately prior to such acquisition or acquisitions. For this purpose, gross fair market value means the value of the assets being disposed of, determined without regard to any liabilities associated with such assets. There is no Change in Control event under this Section 1.6(c) when there is a transfer to an entity that is controlled by the shareholders of the transferring corporation immediately after the transfer.

The determination of whether a Change in Control event has occurred will be made in accordance with the requirements of Code Section 409A and the guidance issued thereunder. The foregoing definition of Change in Control shall exclude the occurrence of the date(s) on which (i) the Chapter 11 Plan of Reorganization of the Company shall become effective and (ii) the creation by the Company of the Asbestos Personal Injury Trust.

**1.7 “Code”** means the Internal Revenue Code of 1986, as amended from time to time.

**1.8 “Corporation”** shall mean Armstrong Holdings, Inc. or any successor by merger, purchase or otherwise.

**1.9 “Company”** shall mean Armstrong World Industries, Inc. and any other subsidiary corporation controlled by the Corporation that that adopts this Plan with the permission of the Administrator.

**1.10 “Compensation”** shall mean:

(a) for an employee Participant, Compensation shall include:

(i) for purposes of deferral of Compensation under Section 3, a Participant’s annual base salary and any actual bonus payable under the Participant’s employing Company’s annual bonus plan received by the employee for services with such Company and,

(ii) for purposes of determining the Restoration Matching Credits under Section 4.1, in addition to the amounts under Section 1.10(a)(i) above, amounts allocated, if any, to a Participant’s account under the Bonus Replacement Retirement Plan of Armstrong World Industries, Inc.

(b) for a nonemployee director Participant, Compensation shall include payments to the director of regularly scheduled cash compensation.

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**1.11 “Director Deferrals”** means the deferrals elected by the Participant pursuant to Section 3.3.

**1.12 “Director Deferral Account”** means the Account with is maintained with respect to the Director Deferral credits of the Participant and any hypothetical earnings or losses thereon.

**1.13 “Effective Date”** means January 1, 2005.

**1.14 “Excess Compensation”** means the Participant’s Compensation for the Plan Year in excess of 12.5 times the Code Section 402(g) limit in effect for such Plan Year.

**1.15 “Investment Funds”** shall mean the investment alternatives made available by the Administrator from time to time under the Plan.

**1.16 “Participant”** shall be each nonemployee director and employee who has been selected for participation by the Administrator, who satisfies all conditions of eligibility.

**1.17 “Plan”** means the Armstrong Nonqualified Deferred Compensation Plan, the Plan set forth herein, as amended from time to time.

**1.18 “Plan Year”** means a 12-consecutive month period commencing January 1st and ending on the following December 31st.

**1.19 “Qualified Plan”** means the Savings and Investment Plan of Armstrong World Industries, Inc. and any successor plan thereto.

**1.20 “Restoration Bonus Deferrals”** means the deferrals elected by the Participant pursuant to Section 3.2.

**1.21 “Restoration Deferral Account”** means the Account which is maintained with respect to the Restoration Salary Deferrals and Restoration Bonus Deferrals of the Participant and any hypothetical earnings or losses thereon.

**1.22 “Restoration Matching Credits”** means the credits allocated to the Participant pursuant to Section 4.1.

**1.23 “Restoration Matching Account”** means the Account which is maintained with respect to the Restoration Matching Credits of the Participant and any hypothetical earnings or losses thereon.

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**1.24 “Restoration Salary Deferrals”** means the deferrals elected by the Participant pursuant to Section 3.1.

**1.25 “Retirement Supplement Credits”** means the credits allocated to the Participant pursuant to Section 4.2.

**1.26 “Retirement Supplement Account”** means the Account which is maintained with respect to the Retirement Supplement Credits of the Participant and any hypothetical earnings or losses thereon.

**1.27 “Termination”** means a Participant’s “separation from service” as defined under Treas. Reg. § 1.409A-1 (h).

**1.28 “Unforeseeable Emergency”** means a severe financial hardship to the Participant resulting from an illness or accident of the Participant, the Participant’s spouse, or a dependent (as defined in Code Section 152(a)) of the Participant, loss of the Participant’s property due to casualty, or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant.

**1.29 “Valuation Date”** means any day on which the New York Stock Exchange or any successor to its business is open for trading.

## **2. ELIGIBILITY AND PARTICIPATION**

**2.1 Eligibility for Participation:** Participation in the Plan is limited to those individuals who have been selected for participation by the Administrator. No individual shall be eligible for selection unless he/she meets one or more of the following criteria:

(a) To be eligible to make Restoration Salary Deferrals or Restoration Bonus Deferrals for a Plan Year:

(i) the individual must be a management employee in a position Grade 15 or higher as of the September 1st prior to the Plan Year or, for the Plan Year in which an individual is first hired by or transferred to a Company, the individual must be hired or transferred to a position that is Grade 15 or higher (individuals previously employed by a participating Company who are promoted to a position Grade 15 or higher must be in the eligible position as of the September 1 prior to the Plan Year to participate for that Plan Year), and

(ii) the individual must earn Compensation for the Plan Year in excess of 12.5 times the Code Section 402(g) limit in effect for such Plan Year.

(b) To be eligible to make Director Deferrals for a Plan Year, the individual must be a nonemployee director of the Corporation as of the December 1st prior to the Plan Year and be authorized to participate in the Plan by the Nominating and Governance Committee of the board of the Corporation.

(c) To be eligible to receive Restoration Matching Credits, the employee Participants must make a Restoration Salary Deferral election or a Restoration Bonus Deferral election for the Plan Year and must not be actively accruing any benefit under the Retirement Income Plan for Employees of Armstrong World Industries, Inc.

(d) To be eligible to receive Retirement Supplement Credits, the individual must be a management employee in a position Grade 15 or higher as of his or her crediting date and have been designated to receive Retirement Supplement Credits by the Administrator.

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**2.2 Commencement of Participation:** Each Participant shall be provided an opportunity to designate irrevocably, prior to each Plan Year (or, in the Participant's first year of eligibility, within 30 days following the date the Participant became eligible), his or her elections pursuant to Article 3. Any such designation must be made in the manner authorized by the Administrator and must be accompanied by, as applicable:

- (a) an irrevocable authorization for the Company to make regular deductions to cover the amount of such deferrals elected pursuant to Section 3.1 or Section 3.3;
- (b) an irrevocable authorization to defer receipt of a percentage of future Bonus amounts for any year as elected under Section 3.2;
- (c) an investment election with respect to each of the Participant's Accounts as provided under Section 5.3;
- (d) a designation of Beneficiary; and
- (e) a designation as to the form and timing of the distribution of each of the Participant's Accounts as provided under Sections 6.1 and 6.2.

**2.3 Cessation of Participation:** A Participant shall cease to be an active Participant on the earliest of:

- (a) the date on which the Plan terminates, or
- (b) the date on which he or she ceases to be eligible to participate in the Plan under Section 2.1.

A former active Participant will be deemed a Participant for all purposes except with respect to the right to make deferrals, as long as he or she maintains a Participant Account.

### 3. DEFERRAL OF COMPENSATION

**3.1 Restoration Salary Deferrals :** Each Participant eligible to make Restoration Salary Deferrals may authorize the Company by which he or she is employed, in the manner described in Section 2.2, to have Restoration Salary Deferrals made on his or her behalf. Such election shall apply to the Participant's Excess Compensation attributable to services performed in the Plan Year subsequent to the election. Such Restoration Salary Deferrals shall be a stated percentage of the Participant's Excess Compensation, up to 8 percent as designated by the Participant. A Participant's annual election to make a Restoration Salary Deferral shall be irrevocable for such calendar year. A Participant must make a new election in each calendar year to make a Restoration Salary Deferral for the subsequent calendar year.

**3.2 Restoration Bonus Deferrals:** Notwithstanding deferrals made under Section 3.1, by December 31 of each year or such earlier date as the Administrator may determine, each Participant eligible to make Restoration Bonus Deferrals may authorize the Company by which he or she is employed, in the manner described in Section 2.2, to defer a percentage of his or her Bonus that is Excess Compensation that would otherwise be payable for services performed in the twelve-month period beginning on the January 1 immediately following such December 31. Such Restoration Bonus Deferrals shall be a stated percentage of the Participant's Excess Compensation, up to 8 percent as designated by the Participant. A Participant must make a new election in each calendar year to defer a Bonus for the subsequent calendar year.

**3.3 Director Deferrals:** Each Participant eligible to make Director Deferrals may authorize the Company, in the manner described in Section 2.2, to have Director Deferrals made on his or her behalf. Such election shall apply to the Participant's Compensation attributable to services performed in the Plan Year subsequent to the election. Such Director Deferrals shall be a stated whole percentage of the Participant's Compensation, up to 100 percent as designated by the Participant. A Participant must make a new election in each calendar year to make Director Deferrals for the subsequent calendar year.

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**3.4 First Year of Eligibility:** In the case of the first year in which a Participant becomes eligible to participate in the Plan, such Participant's election with respect to Sections 3.1 or 3.3 may be made with respect to services to be performed subsequent to the election within 30 days following the date the Participant becomes eligible to participate in the Plan.

#### **4. EMPLOYER CONTRIBUTIONS**

**4.1 Restoration Matching Credits:** For each pay period that the employee Participant makes Restoration Salary Deferrals and/or Restoration Bonus Deferrals, the Company shall make Restoration Matching Credits on behalf of each Participant eligible for Restoration Matching Credits in an amount equal to 100% of the first 4% and 50% of the next 4% of the Participant's Restoration Salary Deferrals and Restoration Bonus Deferrals for such pay period. Such Restoration Matching Credits shall be fully vested at the same time as the Participant's matching contributions under the Qualified Plan.

**4.2 Retirement Supplement Credits:** The Company shall make Retirement Supplement Credits to the Retirement Supplement Account in the manner and at such time as determined by the Administrator. Retirement Supplement Credits shall be fully vested at the same time as the Participant's matching contributions under the Qualified Plan.

#### **5. INVESTMENT OF CONTRIBUTION**

**5.1 Establishment of Accounts:** The Company shall establish Accounts for each Participant, but only to the extent the Participant has amounts to be allocated to such Account:

- (a) a Restoration Deferral Account to which shall be credited the Participant's Restoration Salary Deferrals and Restoration Bonus Deferrals and any deemed earnings and losses credited thereto;
- (b) a Director Deferral Account to which shall be credited the Participant's Director Deferrals and any deemed earnings and losses credited thereto.
- (c) a Restoration Matching Account to which shall be credited the Participant's Restoration Matching Credits and any deemed earnings and losses credited thereto.
- (d) a Retirement Supplement Account to which shall be credited the Participant's Retirement Supplement Credits and any deemed earnings and losses credited thereto.

Each Participant shall receive periodic statements (no less frequently than quarterly) reflecting the balances in his or her Participant Accounts.

**5.2 Obligation of the Company:** Individual benefits under the Plan are payable as they become due solely from the general assets of the Company. To the extent a Participant, or any person, acquires a right to receive payments under this Plan, such right shall be no greater than the right of any general creditor of the Company. Neither this Plan, nor any action taken pursuant to the terms of this Plan, shall be considered to create a fiduciary relationship between the Company and the Participant, or any other persons, or to require the establishment of a trust in which the assets are beyond the claims of any general creditor of the Company.

**5.3 Establishment of Investment Funds:** The Administrator will establish multiple deemed Investment Funds which will be maintained for the purpose of determining the investment return to be credited to each Participant's Accounts. The Administrator may change the number, identity or composition of the Investment Funds from time to time. Each Participant will indicate the Investment Funds based on which amounts allocated in accordance with Articles 3 and 4 are to be adjusted. Each Participant's Accounts will be increased or decreased by the net amount of investment earnings or losses that it would have achieved had it actually been invested in the deemed investments. The Company is not required to purchase or hold any of the deemed investments. Investment Fund elections must be made in a minimum of 1% increments and in such manner as the Administrator will specify. A Participant may make separate Investment Fund elections with respect to each Account (as applicable) set forth in Section 5.1. A Participant may change his or her Investment Fund election periodically in the manner provided by the Administrator. Any such change shall become effective as soon as administratively practicable following the date the Administrator receives notice of such change in the form prescribed by the Administrator.

**5.4 Crediting Investment Results:** No less frequently than as of each Valuation Date, each Participant Account will be increased or decreased to reflect investment results. Each Participant Account will be credited with the investment return of the Investment Funds in which the Participant elected to be deemed to participate. The credited investment return is intended to reflect the actual performance of the Investment Funds net of any applicable investment management fees or administrative expenses determined by the Administrator. Notwithstanding the above, the amount of any payment of Plan benefits pursuant to Article 6 or upon Plan termination shall be determined as of the Valuation Date preceding the date of payment.

## **6. PAYMENT AND AMOUNT OF BENEFITS**

### **6.1 Form of Distribution:**

(a) Each Participant shall elect the form and timing of the distribution with respect to each of his or her Participant Accounts in the manner authorized by the Administrator. The Participant's election shall indicate the form of distribution of the amounts credited to each of the Participant's:

(1) Restoration Deferral Account and Restoration Matching Account (a single election with respect to these accounts);

(2) Director Deferral Account; and

(3) Retirement Supplement Account.

(b) The Participant's election shall indicate that a payment shall be made in a lump sum or substantially equal monthly installments. If the Participant elects a monthly installment distribution, the amount of each installment shall be determined by multiplying the Participant's remaining Account balance by a fraction, the numerator of which is one (1) and the denominator of which is the number of months remaining in the installment period.

(c) If the Participant fails to timely make an election with respect to the form of distribution of his or her Account(s) as provided in this Section 6.1, the Participant's Account(s) shall be distributed in a lump sum.

**6.2 Time of Distribution:** Each Participant shall elect the timing of the distribution with respect to his or her Participant Account in the manner authorized by the Administrator. A Participant shall make a separate election as to the timing of payment with respect to each Account grouping specified in Section 6.1(a) above. The Participant's election(s) shall indicate that payment shall be made (in the case of a lump sum election) or shall commence (in the case of an installment election):

(a) within 45 days following the Participant's Termination; provided, however, if the Participant is a key employee (as defined in Code Section 416(i) without regard to paragraph (5) thereof) and the stock of the Company or the Corporation is publicly traded on an established securities market, distributions shall not commence before the date which is 6 months following the date of Termination (or, if earlier, the death of the Participant); or

(b) in a specific month and year, but in no event (1) later than the first of the month following the Participant's 70th birthday, or (2) earlier than the Participant's Termination. If a Participant elects his or her distribution to be made or commenced in accordance with this paragraph (b), and such date falls before the Participant's Termination, the distribution shall be made within 45 days following the Participant's Termination.

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If the Participant fails to timely make an election with respect to the timing of distribution of his or her Account(s) as provided in this Section 6.2, the Participant's Account(s) shall be distributed or commence distribution on or within 45 days following the Participant's Termination.

**6.3 Change in Control Election:** Notwithstanding the elections made in accordance with Sections 6.1 and 6.2 above, a Participant may elect that in the event of a Change in Control, a election shall be superseded and that, in the event of the Participant's Termination within 12 months following the Change in Control, the Account balance shall be paid in a lump sum. If so elected, such lump sum payment shall be made within 45 days following the Participant's Termination; provided, however, if the Participant is a key employee (as defined in Code Section 416(i) without regard to paragraph (5) thereof) and the stock of the Company or the Corporation is publicly traded on an established securities market, distributions shall not commence before the date which is 6 months following the date of Termination (or, if earlier, the death of the Participant).

**6.4 Change in Form or Time of Distribution:** A Participant may change his or her form and timing election applicable to the distribution of an Account under Sections 6.1, 6.2 and 6.3, provided that such request for change (i) does not take effect until at least twelve (12) months after the date on which it is made, (ii) with respect to payments made at a specified time or pursuant to a fixed schedule, is made at least twelve (12) months prior to the date on which such distribution would otherwise have been made or commenced and (iii) with respect to elections under Section 6.1 and 6.2, the first payment with respect to such new election is deferred for a period of not less than five (5) years beyond the date such distribution would otherwise have been made.

**6.5 Distribution after Death:** If a Participant dies prior to receiving the entire amounts credited to his or her Participant Accounts, the remaining amounts shall be paid to the Participant's Beneficiary designated by the Participant at the time and in the form as previously elected by the Participant under Section 6.1, 6.2 and 6.3 (i.e, there are no special distribution elections for distribution upon death). In the case of an election for amounts to be paid as of Termination, the Participant's death shall be considered a Termination.

**6.6 De Minimis Distributions:** Notwithstanding the provisions of Sections 6.1, 6.2, 6.3, 6.4 and 6.5 with respect to the form of distribution, if, as of the Participant's Termination or death and prior to the commencement of installment payments, the value of amounts in all of the Participant's Accounts (determined as of the Valuation Date immediately preceding such date) is less than \$10,000, the entire balance in the Participant's Accounts shall be distributed to the Participant (or if the Participant is deceased, the Participant's Beneficiary) as a lump sum payment.

**6.7 Distribution Due to Unforeseeable Emergency:** Distributions hereunder may commence if the Administrator determines, based upon uniform, established standards consistent with Treas. Reg. § 1.409A-3(i)(3), that the Participant has incurred an Unforeseeable Emergency. The amount distributed under this Section 6.7 shall not exceed the amount necessary to satisfy such emergency plus amounts necessary to pay taxes reasonably anticipated as a result of the distribution, after taking into account the extent to which such hardship is or maybe relieved through reimbursement or compensation by insurance or otherwise or by liquidation of the Participant's assets (to the extent the liquidation of such assets would not itself cause severe financial hardship.) Distributions under this Section 6.7 shall be distributed from either the Participant's Restoration Deferral Account or Director Deferral Account, as appropriate, under Section 5.1. Distributions under this Section 6.7 from a Participant's Restoration Deferral Account shall first be debited from the Participant's Restoration Salary Deferrals and then from the Participant's Restoration Bonus Deferrals, and any deemed earnings and losses credited thereto. No distribution under this Section 6.7 shall be made from the Participant's Restoration Matching Account under Section 5.1. Amounts distributed pursuant to this Section 6.7 shall be debited prorata from each Investment Fund maintained for the respective Account at the time of distribution under Section 5.3.

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**6.8 Termination for Willful, Deliberate or Gross Misconduct:** In the event that a Participant (i) is discharged for willful, deliberate, or gross misconduct as determined by the Board or a duly constituted committee thereof; or (ii) if following the Participant's Termination and, within a period of three years thereafter, the Participant engages in any business or enters into any employment which the Board or a duly constituted committee thereof determines to be either directly or indirectly competitive with the business of the Company or substantially injurious to the Company's financial interest (the occurrence of an event described in (i) or (ii) shall be referred to as "Injurious Conduct"), all amounts attributable to the Restoration Matching Account and Retirement Supplement Account shall be forfeited. Further, the Board or a duly constituted committee thereof, in its discretion, may require the Participant who has engaged in Injurious Conduct to return any amounts attributable to the Restoration Matching Account and Retirement Supplement Account previously received by the Participant, provided the right to require repayment under this Section 6.8 must be exercised within ninety (90) days after the Board (or committee, as the case may be) first learns of the Injurious Conduct, but in no event later than twenty-four (24) months after the Participant's Termination. A Participant may request the Board or a duly constituted committee thereof, in writing, to determine whether any proposed business or employment activity would constitute Injurious Conduct. Such a request shall fully describe the proposed activity and the Board's (or the committee's, as the case may be) determination shall be limited to the specific activity so described.

## **7. FINANCING**

No Participant shall have any right or interest in any such policy or the proceeds thereof or in any other specific fund or asset the Corporation or the Company as a result of the Plan. The rights of Participants to benefit payments hereunder shall be no greater than those of a general creditor.

## **8. AMENDMENT OR TERMINATION**

**8.1 Plan Amendment:** The Plan may be amended or otherwise modified by the Administrator, in whole or in part, provided that no amendment or modification shall divest any Participant of any amount previously credited to his or her Participant Accounts under Article 3 and 4 or of the amount and method of crediting earnings to such Participant Accounts under Article 5 of the Plan as of the date of such amendment.

**8.2 Termination of the Plan:** The Administrator reserves the right to terminate the Plan at any time in whole or in part. In the event of any such termination, the Company shall pay a benefit to the Participant or the Beneficiary of any deceased Participant, in lieu of other benefits hereunder, equal to the value of the Participant's Accounts in the form and at the benefit commencement date elected by the Participant pursuant to Article 6 of the Plan. Earnings shall continue to be allocated under Article 5 of the Plan after the termination of the Plan until the Participant's benefits have been paid in full notwithstanding the termination of the Plan.

## **9. ADMINISTRATION**

**9.1 Administration:** Responsibility for establishing the requirements for participation and for administration of the Plan shall be vested in the Administrator, which shall have the full and exclusive discretionary authority to interpret the Plan, to determine all benefits and to resolve all questions arising from the administration, interpretation, and application of their provisions, either by general rules or by particular decisions, including determinations as to whether a claimant is eligible for benefits, the amount, form and timing of benefits, and any other matter (including any question of fact) raised by a claimant or identified by the Administrator. The Administrator may delegate administrative tasks as necessary to persons who are not Administrator members. All decisions of the Administrator shall be conclusive and binding upon all affected persons.

**9.2 Plan Expenses:** The expenses of administering the Plan shall be borne by the Corporation and the Company. No employee shall receive any remuneration for service in such capacity. However, expenses of the Administrator or its members paid or incurred in connection with administering the Plan shall be reimbursed by the Corporation and the Company.

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**9.3 Liability:** The Corporation and the Company shall indemnify and hold harmless the members of the Administrator against any and all claims, loss, damage, expense or liability arising from any action or failure to act with respect to this Plan, except in the case of gross negligence or willful misconduct.

## **10. CLAIMS PROCEDURE**

**10.1 Claim:** Any person claiming a benefit, requesting an interpretation or ruling under the Plan, or requesting information under the Plan shall present the request in writing to the Administrator which shall respond in writing as soon as practicable.

**10.2 Denial of Claim:** If the claim or request is denied, the written notice of denial shall state:

- (a) The reasons for denial, with specific reference to the Plan provisions on which the denial is based.
- (b) A description of any additional material or information required and an explanation of why it is necessary.
- (c) An explanation of the Plan's claim review procedure.

**10.3 Review of Claim:** Any person whose claim or request is denied or who has not received a response within thirty (30) days may request review by notice given in writing to the Administrator. The claim or request shall be reviewed by the Administrator who may, but shall not be required to, grant the claimant a hearing. On review, the claimant may have representation, examine pertinent documents, and submit issues and comments in writing.

**10.4 Final Decision:** The decision on review shall normally be made within sixty (60) days. If an extension of time is required for a hearing or other special circumstances, the claimant shall be notified and the time limit shall be one hundred twenty (120) days. The decision shall be in writing and shall state the reasons and the relevant Plan provisions. All decisions on review shall be final and bind all parties concerned.

**10.5 Attorney's Fees and Expenses:** In the event a Participant's claim for benefits under this Plan is denied and the Participant successfully appeals the denial of such claim under the foregoing procedures, the Corporation or the Company shall pay or reimburse the legal fees and expenses directly incurred by the Participant in connection with his appeal subject to a maximum payment or reimbursement of one-third of the balance of the Participant's Accounts. Any such legal fees and expenses shall be paid to, or on behalf of, the Participant no later than thirty (30) days following the Participant's written request for the payment of such legal fees and expenses, provided the Participant supplies the Administrator with evidence of the fees and expenses incurred by the Participant that the Administrator, in its sole discretion, determines is sufficient.

**10.6 Interest on Delayed Payments:** Further, in the event a Participant's claim for benefits under this Plan is denied and the Participant successfully appeals the denial of such claim under the foregoing procedures, the Corporation or the Company shall pay to the Participant interest on the portion of the Participant's benefits that were not otherwise paid when due because of the initial denial of the claim. For purposes of the preceding sentence, interest shall accrue at an annual rate equal to the prime rate as quoted in the Wall Street Journal as of the date the benefits would otherwise have been paid if the claim had not initially been denied, plus five percent (5%), and shall be adjusted as necessary to reflect any partial payment or payments of the amounts owed to the Participant.

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## 11. MISCELLANEOUS

**11.1 Non-Alienation of Benefits:** No amount payable under the Plan shall be subject to assignment, transfer, sale, pledge, encumbrance, alienation or charge by a Participant or the Beneficiary of a Participant except as may be required by law.

**11.2 Limitation of Rights:** Neither the establishment of this Plan, nor any modification thereof, nor the creation of an Account, nor the payment of any benefits shall be construed as giving:

(a) any Participant, Beneficiary, or any other person whomsoever, any legal or equitable right against the Company or the Corporation unless such right shall be specifically provided for in the Plan or conferred by affirmative action of the Administrator in accordance with the terms and provisions of the Plan; or

(b) any Participant, or other person whomsoever, the right to be retained in the service of the Company or the Corporation, and all Participants and other employees shall remain subject to termination to the same extent as if the Plan had never been adopted.

**11.3 Participant's Rights Unsecured:** The right of any Participant or Beneficiary to receive payment under the provisions of the Plan shall be as an unsecured claim against the Company, as the case may be, and no provisions contained in the Plan shall be construed to give any Participant or Beneficiary at any time a security interest in the Participant's Accounts or any asset of the Company or the Corporation. The liabilities of the Company or the Corporation to any Participant or Beneficiary pursuant to the Plan shall be those of a debtor pursuant to such contractual obligations as are created by the Plan. Accounts, if any, which may be set aside by the Company or the Corporation for accounting purposes shall not in any way be held in trust for, or be subject to the claims of, a Participant or Beneficiary.

**11.4 Incapacity:** In the event that the Administrator shall find that a Participant or other person entitled to benefits hereunder is unable to care for his or her affairs because of illness or accident, the Administrator may direct that any benefit payment due him or her, unless claim shall have been made therefor by a duly appointed legal representative, be paid to the Participant's spouse, child, parent or other blood relative, or to a person with whom he or she resides, and any such payment so made shall be a complete discharge of the liabilities of the Corporation, any employing Company and the Plan therefor.

**11.5 Withholding:** There shall be deducted from all payments under this Plan the amount of any taxes required to be withheld by any Federal, state or local government. The Participants and their Beneficiaries, distributees, and personal representatives will bear any and all Federal, foreign, state, local or other income or other taxes imposed on amounts paid under this Plan.

**11.6 Severability:** Should any provision of the Plan or any regulations adopted thereunder be deemed or held to be unlawful or invalid for any reason, such fact shall not adversely affect the other provisions or regulations unless such invalidity shall render impossible or impractical the functioning of the Plan and, in such case, the appropriate parties shall adopt a new provision or regulation to take the place of the one held illegal or invalid.

**11.7 Controlling Law:** The Plan shall be governed by the laws of the Commonwealth of Pennsylvania except to the extent preempted by ERISA and any other law of the United States.

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SIGNATURE

IN WITNESS WHEREOF, the Retirement Committee of the Company has executed this Plan on the \_\_\_\_\_ day of July, 2010.

\_\_\_\_\_  
Eileen Beck

\_\_\_\_\_  
Thomas Mangas

\_\_\_\_\_  
William Rodruan

\_\_\_\_\_  
Jeffrey Nickel

**Armstrong World Industries Inc.****2008 Directors Stock Unit Plan**

Adopted by Armstrong World Industries, Inc. Board of Directors on April 11, 2008

*I. Purpose*

The purposes of this 2008 Directors Stock Unit Plan (the "Plan") are to promote the growth and profitability of Armstrong World Industries, Inc. (the "Corporation") by increasing the mutuality of interests between directors and the shareholders of the Corporation.

*II. Definitions*

The following terms shall have the meanings shown:

- 2.1 "Beneficial Owner" shall have the meaning set forth in Rule 13d-3 under the Securities Exchange Act of 1934, as amended (the "Exchange Act").
  - 2.2 "Board" shall mean the Board of Directors of the Corporation.
  - 2.3 "Change in Control Event" shall mean the occurrence of the event set forth in any one of the following paragraphs with respect to the Corporation:
    - (a) Any Person is or becomes the Beneficial Owner, directly or indirectly, of securities of the Corporation (not including in the securities beneficially owned by such Person any securities acquired directly from the Corporation or its affiliates) representing 20% or more of either the then outstanding shares of common stock of the Corporation or the combined voting power of the Corporation's then outstanding securities, excluding any Person who becomes such a Beneficial Owner in connection with a transaction described in clause (i) of paragraph (c) below; or
    - (b) The following individuals cease for any reason to constitute a majority of the number of directors then serving: individuals who, on the date hereof, constitute the Board and any new director (other than a director whose initial assumption of office is in connection with an actual or threatened election contest, including but not limited to a consent solicitation, relating to the election of directors of the Corporation) whose appointment or election by the Board or nomination for election by the Corporation's shareholders was approved by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors on the date hereof or whose appointment, election or nomination for election was previously so approved; or
    - (c) There is consummated a merger or consolidation of the Corporation (including a triangular merger to which the Corporation is a party) with any other corporation other than (i) a merger or consolidation which would result in the voting securities of the Corporation outstanding immediately prior to such merger or consolidation continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or any parent thereof) at least 66 2/3% of the combined voting power of the voting securities of the Corporation or such surviving entity or any parent thereof outstanding immediately after such merger or consolidation, or (ii) a merger or consolidation effected to implement a recapitalization of the Corporation (or similar transaction) in which no Person is or becomes the Beneficial Owner, directly or indirectly, of securities of the Corporation (not including in the securities Beneficially Owned by such Person any securities acquired directly from the Corporation or its subsidiaries) representing 20% or more of either the then outstanding shares of common stock of the Corporation or the combined voting power of the Corporation's then outstanding securities; or
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(d) The shareholders of the Corporation approve a plan of complete liquidation or dissolution of the Corporation or there is consummated an agreement for the sale or disposition by the Corporation of all or substantially all of the Corporation's assets, other than a sale or disposition by the Corporation of all or substantially all of the Corporation's assets to an entity, at least 75% of the combined voting power of the voting securities of which are owned by shareholders of the Corporation in substantially the same proportions as their ownership of the Corporation immediately prior to such sale. Notwithstanding the foregoing, no "Change in Control" shall be deemed to have occurred if there is consummated any transaction or series of integrated transactions immediately following which the record holders of the common stock of the Corporation immediately prior to such transaction or series of transactions continue to have substantially the same proportionate ownership in an entity which owns all or substantially all of the assets of the Corporation immediately following such transaction or series of transactions.

- 2.4 "Committee" shall mean the Nominating and Governance Committee of the Board, or any successor committee.
- 2.5 "Common Stock" shall mean Common Stock of the Corporation.
- 2.6 "Delivery Date" shall have the meaning set forth in Section 4.4(b).
- 2.7 "Fair Market Value" shall mean the closing price of the Common Stock on the stock exchange on which the Common Stock is listed on the relevant date, or, if no sale shall have been made on such exchange on that date, the closing price on the following day on which there was a sale.
- 2.8 "Participant" shall mean a non-employee director to whom Units are granted under the Plan.
- 2.9 "Person" shall have the meaning given in Section 3(a)(9) of the Exchange Act, as modified and used in Sections 13(d) and 14(d) thereof, except that such term shall not include (i) the Corporation or any of its subsidiaries, (ii) a trustee or other fiduciary holding securities under an employee benefit plan of the Corporation or any of its subsidiaries, (iii) an underwriter temporarily holding securities pursuant to an offering of such securities, (iv) a corporation owned, directly or indirectly, by the shareholders of the Corporation in substantially the same proportions as their ownership of stock of the Corporation, or (v) an entity or entities which are eligible to file and have filed a Schedule 13G under Rule 13d-1(b) of the Exchange Act, which Schedule indicates beneficial ownership of 15% or more of the outstanding shares of common stock of the Corporation or the combined voting power of the Corporation's then outstanding securities.
- 2.10 "Unit" shall mean a right granted by the Committee pursuant to Section 4.1 to receive one share of Common Stock as of a specified date, which right may be made conditional upon the occurrence or nonoccurrence of other specified events as herein provided.
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2.11 "Section 409A Change in Control Event" shall mean the first to occur of any of the following events with respect to the Corporation:

- (a) Any one person, or more than one person acting as a group (as determined for purposes of 13d-3 of the Securities Exchange Act of 1934, as amended), acquires ownership of stock of the Corporation that, together with stock held by such person or group, constitutes more than 50% of the total fair market value or total voting power of the stock of the Corporation. However, if any one person, or more than one person acting as a group, is considered to own more than 50% of the total fair market value or total voting power of the stock of the Corporation, the acquisition of additional stock by the same person or persons is not considered to cause a change in the ownership of the Corporation (or to cause a change in the effective control of the corporation (as determined for purposes of 13d-3 of the Securities Exchange Act of 1934, as amended). An increase in the percentage of stock owned by any one person, or persons acting as a group, as a result of a transaction in which the Corporation acquires its stock in exchange for property will be treated as an acquisition of stock for purposes of this paragraph. This paragraph applies only when there is a transfer of stock of the Corporation (or issuance of stock of the Corporation) and stock in the Corporation remains outstanding after the transaction.
- (b) (i) Any one person, or more than one person acting as a group (as determined for purposes of 13d-3 of the Securities Exchange Act of 1934, as amended), acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such person or persons) ownership of stock of the Corporation possessing 30% or more of the total voting power of the stock of the Corporation; or (ii) A majority of members of the Corporation's Board of Directors is replaced during any 12-month period by directors whose appointment or election is not endorsed by a majority of the members of the Corporation's Board of Directors before the date of the appointment or election.

Notwithstanding the foregoing, if any one person, or more than one person acting as a group, is considered to effectively control the Corporation (as determined for purposes of 13d-3 of the Securities Exchange Act of 1934, as amended), the acquisition of additional control of the Corporation by the same person or persons is not considered to cause a change in the effective control of the Corporation (or to cause a change in the ownership of the Corporation within the meaning of Treas. Reg. §1.409A-3(i)(5)(v)).

- (c) Any one person, or more than one person acting as a group (as determined for purposes of 13d-3 of the Securities Exchange Act of 1934, as amended), acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such person or persons) assets from the Corporation that have a total gross fair market value equal to or more than 40% of the total gross fair market value of all of the assets of the Corporation immediately before such acquisition or acquisitions. For this purpose, gross fair market value means the value of the assets of the Corporation, or the value of the assets being disposed of, determined without regard to any liabilities associated with such assets. Notwithstanding the foregoing, there is no change in control event when there is a transfer to an entity that is controlled by the shareholders of the Corporation immediately after the transfer. A transfer of assets by the Corporation is not treated as a change in the ownership of such assets if the assets are transferred to: (i) a shareholder of the Corporation (immediately before the asset transfer) in exchange for or with respect to its stock; (ii) an entity, 50% or more of the total value or voting power of which is owned, directly or indirectly, by the Corporation; (iii) a person, or more than one person acting as a group, that owns, directly or indirectly, 50% or more of the total value or voting power of all the outstanding stock of the Corporation; or (iv) an entity, at least 50% of the total value or voting power of which is owned, directly or indirectly, by a person described in (iii) of this paragraph.
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### III. General

- 3.1 Administration. The Plan may be administered by the Board or, if delegated, to the Committee. Administration shall be delegable to the extent provided by law. If authority is delegated to the Committee, the following provisions would apply:
- (a) Each member of the Committee shall at the time of any action under the Plan be a “disinterested person” as then defined under Rule 16b-3 under the Exchange Act or any successor rule.
  - (b) The Committee shall have the authority in its sole discretion from time to time: (i) to make discretionary grants of Units to eligible directors as provided herein; (ii) to prescribe such terms, conditions, limitations and restrictions, not inconsistent with the Plan, applicable to any grant as deemed appropriate; and (iii) to interpret the Plan, to adopt, amend and rescind rules and regulations relating to the Plan, and to make all other determinations and take all other action necessary or advisable for the implementation and administration of the Plan. A majority of the Committee shall constitute a quorum, and the action of a majority of the members of the Committee present at any meeting at which a quorum is present, or acts unanimously adopted in writing without the holding of a meeting, shall be the acts of the Committee.
  - (c) All such actions shall be final, conclusive and binding upon the Participant. No member of the Committee shall be liable for any action taken or decision made in good faith relating to the Plan or any grant thereunder.
- 3.2 Eligibility. A grant of Units under the Plan may be made to any non-employee director of the Corporation.
- 3.3 Aggregate Limit on Grants. The aggregate number of shares of Common Stock which may be issued in connection with Units granted under the Plan shall not exceed 300,000 shares, subject to adjustments pursuant to Sections 5.4 and 5.5. Shares subject to grants under this Plan may either be authorized but unissued shares or previously issued shares that have been reacquired by the Corporation. Shares authorized under the Plan may be used to satisfy obligations of the Corporation for units granted under the 2006 Phantom Stock Unit Plan based upon election by Participants holding such units.
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- 3.4 Election to Satisfy Units under the 2006 Plan . Participants who hold units granted under the 2006 Phantom Stock Unit Plan may elect to have the Corporation satisfy its payment obligations in respect of such units in the same manner in which the Corporation satisfies its payment obligations for units granted under this Plan, e.g., by delivering one share of common stock for each unit granted under that plan out of the reserve for shares authorized for issuance under this Plan. Payments to Participants who have made such election in respect of units under that 2006 Plan will be made according to the terms of this Plan.
- 3.5 Term . Grants under this Plan may be made through October 2017. No further grants may be made after that date unless shareholders have approved an extension of the Plan.

#### *IV. Units*

- 4.1 Grant of Units . Each non-employee director of the Corporation shall be granted the number of Units set forth below, contingent upon their service on the Board in such capacity on the date of grant:
- (a) Annual Grants . On the first business day following the first regular Board meeting following the annual meeting of shareholders, each non-employee director shall be granted a number of Units equal to (i) 55% of the total compensation payable to the non-employee director as an annual retainer divided by (ii) the Fair Market Value of a share of Common Stock on that date, rounded to the next highest whole number.
  - (b) Discretionary Grants . Units may also be granted at such times, and in amounts to such eligible non-employee directors, upon such terms and conditions as are deemed appropriate.
  - (c) Pro-rated Grants . In the case of a non-employee director who is elected other than at the annual meeting of shareholders, the Board may pro-rate the amount of the annual grant of stock Units awarded to such director to correspond to the period of the time to be served by the director between such director's election and the next annual meeting of shareholders.
- 4.2 Grant Agreements . The grant of any Units shall be evidenced by a written agreement executed by the Corporation and the Participant, stating the number of Units granted and such other terms and conditions of the grant as the Board or the Committee may from time to time determine. The Plan has been written with the intent of complying with Section 409A of the U.S. Internal Revenue Code. However, if any grant shall be deemed to constitute a deferral of compensation subject to said section, in the discretion of the Committee, the grant may be unilaterally modified to comply with the requirements of said section or cancelled.
- 4.3 Optional Terms and Conditions of Units . To the extent not inconsistent with the Plan, the Board or the Committee may prescribe such terms and conditions applicable to any grant of Units as it may in its discretion determine.
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4.4 Standard Terms and Conditions of Units . Unless otherwise determined by the Board or the Committee pursuant to Section 4.3, each grant of Units shall be made on the following terms and conditions, in addition to such other terms, conditions, limitations and restrictions as the Board or Committee, in its discretion, may determine to prescribe:

- (a) Vesting . The date on which each Unit shall vest, contingent upon the Participant's continued service as a director of the Corporation on such date, shall be the earlier of:
- (i) the one-year anniversary of the grant;
  - (ii) the death or total and permanent disability of the Participant; or
  - (iii) the date of any Change in Control Event.

- (b) Delivery Date . The date on which each vested Unit shall be paid ("Delivery Date") shall be the earlier of:
- (i) the six-month anniversary of the director's separation from service from the Corporation for any reason other than a removal for cause; or
  - (ii) the date of any Change in Control Event, provided that Participant is a director of the Corporation on such date and that such Change in Control Event also qualifies as a Section 409A Change in Control Event.

Upon the Delivery Date, the Corporation shall deliver to the Participant shares of Common Stock in payment for the vested Units, with one share of Common Stock delivered for each vested Unit.

- (c) Forfeiture of Units . Upon the effective date of a separation of the Participant's service as a director with the Corporation for cause, as determined by the Board or the Committee, all Units for which the Delivery Date has not occurred, whether or not vested, shall immediately be forfeited to the Corporation without consideration or further action being required of the Corporation. Upon the effective date of a separation of the Participant's service as a director with the Corporation for any reason other than cause, as determined by the Board or the Committee, all unvested Units shall immediately be forfeited to the Corporation without consideration or further action being required of the Corporation. For purposes of the two immediately preceding sentences, the effective date of the Participant's separation shall be the date on which the Participant ceases to perform services as a director of the Corporation as determined under Section 409A of the Code.
- (d) Dividend Equivalents . If an award of Units is outstanding as of the record date for determination of the shareholders of the Corporation entitled to receive a cash dividend on its outstanding shares of Common Stock, Participants shall be entitled to dividend equivalents as described in this subsection (d). In the event of such a cash dividend, a Participant shall receive a cash payment in an amount equal to (i) the per share amount of such dividend, multiplied by (ii) the number of the Participant's outstanding Units, which shall be paid on the payment date for such dividend, provided the Participant is serving as a director of the Corporation on such date. If a Participant separated from service for any reason other than a removal for cause and the Participant's vested Units have not yet been paid pursuant to section 4.4(b) on the record date for the cash dividend, the Participant shall be entitled to receive a cash payment in an amount equal to (i) the per share amount of such dividend, multiplied by (ii) the number of the Participant's outstanding vested Units, which shall be paid on the payment date for such dividend.
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4.5 Transfer Restriction . No Unit shall be assignable or transferable by another than by will, or if the Participant dies intestate, by the laws of descent and distribution of the state of domicile at the time of death.

*V. Miscellaneous*

- 5.1 No Right to Continued Service . Nothing in the Plan or in any agreement entered into pursuant to the Plan shall confer upon any Participant the right to continue in the service as a director of the Corporation or affect any right which the Corporation or its shareholders may have to elect or remove directors.
- 5.2 Non-Uniform Determinations . The Board's or Committee's determinations under the Plan need not be uniform and may be made by it selectively among persons who receive, or are eligible to receive, grants under the Plan, whether or not such persons are similarly situated.
- 5.3 No Rights as Shareholders . Recipients of grants under the Plan shall have no rights as shareholders of the Corporation with respect thereto until shares of Common Stock are delivered in payment therefor.
- 5.4 Adjustments of Stock . In the event of any change or changes in the outstanding Common Stock, the Committee shall in its discretion appropriately adjust the number of Units which may be granted under the Plan, the number of Units subject to grants made under the Plan and any and all other matters deemed appropriate by the Committee.
- 5.5 Reorganization . In the event that the outstanding Common Stock shall be changed in number, class or character by reason of any split-up, change of par value, stock dividend, combination or reclassification of shares, merger, consolidation or other corporate change, or shall be changed in value by reason of any spin-off, dividend in partial liquidation or other special distribution, the Board or the Committee shall make such changes as it may deem equitable in outstanding Units granted pursuant to the Plan and the number and character of Units available for future grants.
- 5.6 Amendment or Termination of the Plan . The Board may at any time terminate the Plan and may from time to time amend the Plan as it may deem advisable; provided, however, that approval of the shareholders of the Corporation will be required for any amendment:
- (a) To increase the total number of shares issuable under the Plan under Section 3.3 (except for adjustments under Section 5.4 or 5.5); or
  - (b) That would otherwise constitute a "material revision" within the meaning of applicable rules of the New York Stock Exchange in effect at that time.
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An amendment of this Plan will, unless the amendment provides otherwise, be immediately and automatically effective for all outstanding grants. The Board may also amend any outstanding grants under this Plan, provided the grants, as amended, contain only such terms and conditions as would be permitted or required for a new grant under this Plan.

5.7 Governing Law. This Plan will be governed by the laws of the Commonwealth of Pennsylvania, without regard to any conflict of law rules.

(Amendments adopted August 5, 2010, effective November 30, 2010)

(Amendments adopted November 23, 2010, effective November 23, 2010)

Schedule of Participating Directors and Officers to Form Indemnification Agreement

Armstrong World Industries, Inc. entered into indemnification agreements with its directors, Stanley A. Askren, David Bonderman, Kevin R. Burns, Matthew J. Espe, James J. Gaffney, Tao Huang, Michael F. Johnston, Larry S. McWilliams, James J. O'Connor, John J. Roberts, Richard E. Wenz and Bettina M. Whyte and certain of its officers including Matthew J. Espe, Victor D. Grizzle, Thomas M. Kane, Thomas B. Mangas, Stephen F. McNamara, Jeffrey D. Nickel, and Frank J. Ready.

Schedule of Participating Directors to the 2010 Award under the 2008 Directors Stock Unit Plan

Armstrong World Industries, Inc. has entered into Unit Agreements for the 2010 Award with Stanley A. Askren, James J. Gaffney, Tao Huang, Michael F. Johnston, Larry S. McWilliams, James J. O'Connor, John J. Roberts, Richard E. Wenz and Bettina M. Whyte.

## ARMSTRONG WORLD INDUSTRIES, INC. AND SUBSIDIARIES

COMPUTATION OF EARNINGS PER SHARE  
(AMOUNTS IN MILLIONS EXCEPT FOR PER-SHARE DATA)

|   | Year Ended December 31, |         |         |
|---|-------------------------|---------|---------|
|   | 2010                    | 2009    | 2008    |
| <b>Basic earnings per share</b>   |                         |         |         |
| Net earnings  | \$ 11.0                 | \$ 77.7 | \$ 81.0 |
| Net earnings allocated to non-vested share awards   | —                       | (0.4)   | (0.6)   |
| Net earnings attributable to common shares  | \$ 11.0                 | \$ 77.3 | \$ 80.4 |
| Basic weighted average number of common shares outstanding                                    | 57.7                    | 56.8    | 56.4    |
| Basic earnings per share  | \$ 0.19                 | \$ 1.36 | \$ 1.42 |
| <b>Diluted earnings per share</b>   |                         |         |         |
| Net earnings  | \$ 11.0                 | \$ 77.7 | \$ 81.0 |
| Net earnings allocated to non-vested share awards   | —                       | (0.4)   | (0.6)   |
| Net earnings attributable to common shares  | \$ 11.0                 | \$ 77.3 | \$ 80.4 |
| Basic weighted average number of common shares outstanding                                    | 57.7                    | 56.8    | 56.4    |
| Weighted average number of common shares issuable under stock option or unvested stock grants | 0.5                     | 0.2     | —       |
| Diluted weighted average number of common shares outstanding                                  | 58.2                    | 57.0    | 56.4    |
| Diluted earnings per share  | \$ 0.19                 | \$ 1.36 | \$ 1.42 |

Code of Business Conduct

ARMSTRONG OPERATING PRINCIPLES

- To respect the dignity and inherent rights of the individual in all dealings with people.
  - To maintain high moral and ethical standards and to reflect honesty, integrity, reliability and forthrightness in all relationships.
  - To reflect the tenets of good taste and common courtesy in all attitudes words and deeds.
  - To serve fairly and in proper balance the interests of all groups associated with the business — customers, stockholders, employees, suppliers, community neighbors, government and the general public.
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Dear Fellow Employees:

In the last year the headlines too often told of people and companies who have not done business the right way. We want to impress upon all Armstrong employees the importance of complying with our Code of Business Conduct, and the necessity of conducting ourselves ethically in all business practices.

We all want Armstrong to be a great company. Greatness demands making the right decisions — quickly. Our Code of Business Conduct helps us understand the ethical considerations we must weigh when making the right decisions. The Code also tells us where to go when we need help fully understanding a situation.

For almost 150 years, Armstrong employees have been living the spirit of our Code of Business Conduct by following a few basic rules of ethical behavior. Making a company great takes the work of teams of people. Yet the unethical or non-compliant actions of one individual can undermine a company's quest for greatness.

We urge you to read carefully our Code of Business Conduct and acknowledge your understanding of these principles. Let's continue to do business the right way!

Armstrong Management

**This** Code of Business Conduct provides a summary of the Company policies for conducting business in a legal and ethical manner. Our fundamental policy is that all business conducted by Armstrong and its subsidiaries must comply with all applicable laws and regulations and meet high ethical standards.

The purpose of the Code is to:

- Prevent unethical or unlawful behavior;
- Discover and stop any such behavior that may occur as soon as possible; and
- Discipline those who violate the standards contained in the Code and related policies.

In matters where the Code establishes standards that go beyond the strict requirements of the law, violations of the Code and related disciplinary actions by the Company are not intended to be grounds for claims by third parties, such as government authorities or customers. Nonetheless, the Company intends to respond to such incidents in a manner designed to reassure customers' faith in our products and our integrity.

## **CORPORATE COMPLIANCE OFFICE**

The Chief Compliance Officer is an officer designated by the Board of Directors. This officer reports to the Audit Committee of the Board of Directors and the full Board. The Audit Committee oversees Armstrong's general compliance with the law and this Code of Conduct. The Director of Compliance reports to the Chief Compliance Officer. You can reach the Director of Compliance via e-mail at "Director of Compliance" on the Armstrong system or the toll free Armstrong Ethics Line at 877-481-8913 (access the Armstrong Corkboard/Compliance for toll-free access codes for countries outside North America).

The Director of Compliance works with business managers and employees to provide timely, pragmatic advice on compliance questions and administer education, training and compliance auditing programs. The Director is also involved in investigation of violations of the Code.

## **MANAGEMENT AND EMPLOYEES' ROLES**

"Compliance" and "ethics" are not just a concern of management. They are the responsibility of every employee. We all must be active participants in furthering the policy of this Code. Whether we develop, manufacture, procure, market or sell Armstrong's products, or deal with our customers or consumers, we all have a direct impact on our Company's good name. Managers must understand our Operating Principles and the Code and make them "real" for all employees. They must be active in supporting the Code and teaching employees about it. Each of us must make the Code a part of our workday life. All employees are obliged to cooperate in the investigation of possible violations.

## **QUESTIONS AND REPORTS OF POSSIBLE VIOLATIONS**

If you have a question concerning the Code or related policies, or if you need help with a legal or ethical question, e-mail the Director of Compliance at "Director of Compliance" on the Armstrong system or call 877-481-8913. Employees are encouraged to discuss their questions and report possible problems to their supervisors first. However, we recognize that there are occasional situations where this is not the best course. In that case, please contact the Legal Department. Our objective is to have meaningful opportunities for employees in all situations to come forward, ask questions and report potential problems.

## **IN THE EVENT OF A VIOLATION**

We hope that serious violations of the Code never occur. Through communication and education, we want to avoid problems rather than deal with their consequences.

Failure to comply with the Code can have severe consequences for both the Company and the people involved. In addition to damaging our good name and hurting trade and consumer relations and business opportunities, conduct that violates the Code may also violate the law. This can subject those involved to prosecution, imprisonment and fines.

We will impose discipline for violations of the Code, up to and including termination of employment in appropriate cases. Some violations may result in our referring individual misconduct to government authorities and seeking reimbursement for loss from the employee responsible.

## **WHAT TO DO ABOUT SUSPECTED VIOLATIONS**

If you know of or suspect there is a violation of the law, regulations, this Code, or the Company's related policies, you are to report that information immediately. Contact your supervisor, your human resources manager, your supervisor's supervisor, the Director of Compliance, or the Legal Department. Supervisors to whom a possible violation is reported must, in turn, report it to the Director of Compliance. If you believe a person to whom you have reported a potential violation has not taken appropriate action, contact the Director of Compliance or the Legal Department.

## **CONFIDENTIALITY**

Reports of potential violations will be treated confidentially to the extent reasonable and possible and allowed by our legal obligations. No person reporting a suspected violation will be subjected to retaliation because of a good-faith report. If there are any reprisals against such an employee, those responsible for the reprisals will be subject to disciplinary action.

It is preferred that you identify yourself when reporting suspected violations to allow investigators to contact you if further information is needed. In every case, we will do our best to respect a request to keep your identity confidential. We do this to encourage employees to come forward, but we cannot *guarantee* confidentiality because government authorities may request it or your testimony may be needed in legal proceedings.

If you have special concerns about confidentiality, however, you may report suspected violations by calling the toll-free Ethics Line at 877-481-8913. Calls to that number have their origin blocked, and we will not attempt to track them.

## **REPORTING YOUR OWN MISTAKES**

We strongly encourage people to voluntarily report their own errors. A voluntary report demonstrates the type of integrity and character that we want to foster in the Company. If you are involved in a violation, your reporting of it, the degree of your cooperation, and whether the violation is deliberate or unintentional will be considered in any resulting disciplinary action. An unintentional error made in good faith that is voluntarily and promptly reported is unlikely to be punished, and your prompt report may help avoid more serious problems.

## **Compliance *with* LAWS and POLICIES**

### **GENERAL**

The actions of the Company and its directors, officers, employees, agents, consultants and other representatives must be in compliance with applicable laws, this Code and our policies. When there is doubt as to the lawfulness of any proposed activity, seek advice from the Legal Department.

Described on the following pages are summaries of certain legal obligations and policies that are particularly important to our business and reputation. Further information on any of these matters may be obtained from the Legal Department or the Director of Compliance. You may access more detailed discussion on a variety of legal and policy issues through those sources.

## **PRODUCT SAFETY AND QUALITY**

Armstrong built its reputation on providing products of uncompromising quality. The philosophy “Let the customer have faith” is a foundation of our culture. We will continue to serve the needs of our customers only if we maintain this dedication to product safety and quality. Our products are subject to laws around the world relating to safety and performance. We will comply with these laws and, in some cases, may set even higher Armstrong standards for safety, durability, maintenance or appearance.

Our concern for product safety extends from product design and manufacture to products’ use in homes and commercial buildings. It involves:

- the raw materials we use
- product design
- our manufacturing processes
- installation safety
- flammability and toxicity once installed
- product performance
- use of recycled materials and recyclability

All products, whether manufactured by our own operations or sourced from third parties, must conform to applicable safety and quality standards, and must be approved through our Product Safety Design Review process. Each business operation must be aware of standards for jurisdictions to which products will be supplied. Appropriate raw materials, manufacturing processes, quality controls and testing specifications and procedures must be utilized to verify the conformance of products with applicable requirements.

Product problems must be reported to the appropriate product manager and, in serious cases affecting health and safety, to the business unit head and to the Legal Department. The business unit must take necessary measures to protect public health and safety and safeguard our customers' interests and our reputation for quality.

## **ENVIRONMENTAL COMPLIANCE**

Our policy on the environment recognizes the importance of exercising care in the selection, use and conservation of energy and raw materials, especially natural resources, providing for environmental safety in workplaces and communities; and reducing risks to the earth, its waters and atmosphere. The Company is committed to exercising environmental stewardship in our dealings with customers, employees, community neighbors and government in meeting an obligation to future generations.

Violations of environmental laws can be serious for Armstrong, our employees, and the communities in which we operate and live. The Company and individual employees may be liable not only for the costs of cleaning up pollution, but also for significant penalties. Violations of pollution control and waste management regulations can subject us to enormous penalties, and responsible employees can be fined or imprisoned.

- Your activities must strictly adhere to all applicable environmental laws and regulations, to all Company policies and procedures, and to the requirements of all environmental permits.
- Intentionally bypassing any environmental control or monitoring device in violation of any permit condition or regulation is strictly prohibited.
- The entry of information known to be false on any governmental environmental form, on any monitoring report, or in response to any request for information from any government agency is prohibited. Tampering with or diluting of samples, or otherwise providing false information about sampling, as well as intentional failure to follow permit conditions or applicable protocols for collecting, sampling, testing, analyzing, or recording environmental data is prohibited.
- If you become aware that any employee is violating any environmental law, regulation, or permit, providing false information or data, or bypassing any environmental control or monitoring device, immediately report that information to your supervisor, your supervisor's supervisor or, as appropriate, the Director, Environment, Health and Safety, the Legal Department, or the Director of Compliance.
- Immediately report all spills above Reportable Quantity or releases in excess of permitted amount in accordance with established procedures at your facility. Unless exigent circumstances involve all hands in containing a release, a report to proper authorities should be made within mere minutes of discovering it. If you are uncertain to whom you should report, report to the facility manager, the Director, Environment, Health and Safety or the Director of Compliance.

## **COMPETITION/ANTITRUST**

It is our policy to compete vigorously, but fairly, and to comply with applicable antitrust and competition laws. While these laws are not easy to summarize, in general those of the United States require that there be no agreements or understandings with our competitors that affect prices, terms or conditions of sale or unreasonably restrain competition. Antitrust laws apply to many aspects of business behavior. Any questions about permissible conduct should be raised with the Legal Department before any action is taken.

There are to be no discussions or other contacts with competitors regarding prices to be charged by Armstrong or our competitors, or the territories or markets in which products will be sold. Further, there should be no agreements with competitors as to persons or companies to whom products or services will be sold or not sold. Some laws also affect price differences between customers and the terms of agreements with suppliers. Agreements with customers, suppliers, distributors, or retailers should be reviewed with the Legal Department prior to signing, as should any arrangements resulting in price differences to competing customers.

Trade association meetings and other industry gatherings typically serve legitimate purposes, but bring together competitors who are prone to discuss matters of mutual concern. Any discussion or action that may involve prohibited conduct must be avoided, whatever the setting. Agreements can be inferred from informal discussions or the mere exchange between competitors of information from which collusion could result. Any communication with a competitor, no matter how innocuous it may seem at the time, may later be subject to antitrust scrutiny. Employees must conduct all relations with competitors, including social activities, as if they were completely in the public view.

## **INTERNATIONAL BUSINESS ISSUES**

Employees must comply with the laws of the countries in which they operate. Even if certain laws do not seem to be enforced in practice, or if a violation is not subject to censure, violations are still prohibited. If you have a question about certain activities, contact the Legal Department. You must get clearance before you risk taking questionable actions.

Employees responsible for matters affected by the following U.S. laws must be aware how they apply. Many other countries have their own laws on these matters, some of which can differ from U.S. law. Employees responsible for our international operations must be aware of all these laws and how they affect our business.

**The Foreign Corrupt Practices Act.** Under this law and our policies, employees and Company agents cannot offer or make bribes, payments, offers or “gifts” of value to obtain or retain business. Indirect payments made through agents and the use of personal funds for such purposes is also prohibited. The Company discourages the presentation of gifts generally. (See “Improper Payments” below.)

**Antiboycott Laws.** Armstrong conducts its business in accordance with U.S. antiboycott laws intended to prevent cooperation with unsanctioned foreign boycotts. In general, the antiboycott laws prohibit cooperation with a foreign boycott by (i) refusing to do business with another person, (ii) taking certain discriminatory employment actions, (iii) furnishing information on the race, religion, sex or national origin of any U.S. person, (iv) furnishing information concerning any person’s affiliations or business relationships with a boycotted country or any person believed to be restricted from doing business in the boycotting countries, and (v) utilizing letters of credit containing certain boycott provisions. Employees should promptly report any request for boycott-related cooperation or information.

**U.S. Embargoes.** We conduct our business in light of U.S. international trade policies. For example, trade restrictions can affect countries such as North Korea, Cuba, Iran, Libya, Syria, Sudan, Yugoslavia (Serbia and Montenegro), Iraq, Afghanistan, Burma (Myanmar), UNITA (Angola) and Sierra Leone. The list of embargoed countries changes periodically. Contact the Legal Department concerning such changes. The restrictions imposed vary. They may affect exports, imports, travel, currency transactions and assets and accounts. Generally speaking, what may not be done directly also may not be done or arranged through third parties. Any contact in respect to an embargoed country must be reviewed in advance with the Legal Department.

**Export Controls.** Under the U.S. Export Administration Regulations, the export of goods, services and information from the United States requires an export license from the Commerce Department. Our general license applies to most regular product shipments, but take care in exports of special materials such as dangerous chemicals and certain unusual products. It is also important to observe documentation and record retention requirements for exports and imports.

## LABOR AND EMPLOYMENT LAWS

**Equal Employment Opportunity.** We are dedicated to providing equal employment opportunities. In the U.S., this policy is applied without regard to any impermissible classification. We respect all people, regardless of race, color, religion, sex, national origin, citizenship, age, disability or veteran status. All employees must avoid any act that is designed to cause, or causes, unlawful employment discrimination in any aspect of a person's employment, including decisions concerning hiring, placement, transfer, demotion, promotion, recruitment, training, advertising, compensation, termination or use of employee benefits or facilities. We will not tolerate harassment of or by our employees based upon such discrimination.

**Sexual Harassment.** Sexual harassment is one type of employment discrimination. We support the right of our employees to work in an environment that is free from sexual harassment. This may include unwelcome sexual advances, requests for sexual favors, and any other verbal or physical conduct or visible condition of a sexual nature that has the effect of unreasonably interfering with an employee's work performance or that creates an intimidating, hostile, or offensive work environment. If you believe you have been the victim of sexual harassment you should contact your supervisor; your human resources manager; your supervisor's supervisor; or the Manager, Employment Practices. All allegations of harassment will be investigated in as confidential a manner as possible, and appropriate corrective and disciplinary action will be taken.

## WORKPLACE SAFETY

**Safety and Health.** We are committed to eliminating hazards from the workplace, providing employees with a safe and healthy work environment and complying with all such applicable occupational safety and health laws and standards. Employees are required to comply with all such laws and related Company policies. Employees are also required to appropriately report any adverse health or unsafe conditions, hazards, broken equipment or machinery, and accidents.

## CONFLICTS OF INTEREST

Every Armstrong employee has a primary business responsibility to the Company, and must avoid any activity that may interfere, or have the appearance of interfering, with the performance of this responsibility. A conflict of interest is any interest, relationship or activity that is incompatible with the best interests of the Company or that potentially affects a person's objectivity in performing services for the Company. An individual may have this type of conflict of interest not only when he or she is in fact improperly influenced, but also when a situation lends itself to improper influence.

A conflicting interest may unconsciously influence even the most conscientious person, and the mere existence of that interest may cause the propriety of an employee's acts to be questioned. Potential conflict situations may include, but are not limited to:

- Serving as a director, officer, employee, partner, consultant or agent of a firm that is a present or potential supplier, customer, competitor or other business partner of the Company;
- Owning stock or other interest in an enterprise described above or other investment such as trading in commodities used by the Company (except where the stock or interest is generally available to the public and does not adversely affect the employee's judgment, job performance or loyalty);
- Receiving from a vendor or other enterprise described above a gratuity, special allowance, discount, loan at a special rate or other benefit not generally available to the public is a violation of policy. In addition, it is also a violation to accept a gift when its value is in excess of that which is allowable under our Gift Policy.
- Any other significant direct or indirect personal interest in a transaction involving the Company;

- Disclosing or personal use of the Company's confidential or proprietary information; and
- Appropriating for personal benefit a business opportunity that the Company might have an interest in pursuing, without first making the opportunity available to the Company.

Employees should review their personal and employment situations and must discuss any possible conflicts of interest that arise by virtue of their own activities or the activities of their family members with their supervisors. If you have any questions regarding a possible conflict of interest, contact the Director of Compliance or the Legal Department.

### **INSIDE INFORMATION — SECURITIES**

Employees and consultants may not use or pass on nonpublic, material information about Armstrong or our business partners acquired during the course of business.

Do not trade in Armstrong securities or other companies' securities based upon such non-public, material information. Do not disclose inside information to outsiders, either intentionally or inadvertently, under any circumstances, whether during the business day, in after-hours discussions or on the Internet. Protect all proprietary and confidential information and keep it within authorized circles in the Company. Only the Public Relations office or other persons authorized by the Chief Financial Officer may publicly release material corporate information or respond to inquiries from the media, the financial community, investors and others. Refer all such inquiries about corporate or earnings-related news to the specified officials or to your supervisor to do so.

Material information is any information that an investor might consider important in deciding whether to buy, sell or hold securities. Examples include: financial results or forecasts; changes in dividends; possible acquisitions, divestitures or joint ventures; significant discoveries or product developments; and information concerning major litigation developments. Information is considered to be non-public unless it has been adequately disclosed and available to the public. Examples of adequate disclosure include public filings with securities regulatory authorities and issuance of press releases. Regular product and promotional information can be shared with industry and trade press, but major product news, such as a breakthrough new product or a major recall, should only be disclosed by proper corporate sources.

As indicated above, this policy also applies to material non-public information you learn about our distributors, retailers, suppliers, or acquisition targets. If you learn such information about one of these parties, you may not disclose it outside authorized Company circles, or trade in the securities of that company based on that information until the information has become public. If you have a question as to whether information is proprietary, material or nonpublic, contact the Legal Department.

### **FALSE STATEMENTS; FRAUD**

It is a violation of our policy and potentially a criminal offense to knowingly and willfully make or cause to be made a false statement, orally or in writing, to a government official. It is also improper to conceal a material fact called for in a governmental report, application or inquiry. You can get into trouble even if you do not personally make the false statement or conceal any facts. For example, you cannot provide false information to another employee knowing that, or under circumstances making it likely that, the information will be provided to the government. These prohibitions extend to all communications with any federal, state, local or foreign government agency. If you have any questions about this, contact the Legal Department.

In addition, any scheme to defraud anyone, including customers, suppliers, or the Company itself, out of money, property, or honest services is prohibited. Transactions must be properly documented, and the creation of false or misleading documentation or the reporting of false, misleading or nonexistent transactions is prohibited.

## **IMPROPER PAYMENTS**

No employee, agent or consultant may offer, give, solicit, receive, or encourage any form of bribe, illegal rebate, improper gratuity, or kickback, whether directly or indirectly. Armstrong policy severely restricts conduct such as gift giving. Personal funds or resources may not be used to do anything that is otherwise prohibited. All payments and receipts must be recorded accurately in our books and records.

With respect to government officials and other customers, it is not necessary that a gift or payment be given with the intent to influence that person to be prohibited. Further information is set forth above in the section titled "International Business Issues."

## **DELEGATING AUTHORITY**

Delegate authority on behalf of the Company only to employees and outside representatives who are people of integrity. Do not delegate substantial business or financial authority to people you know or suspect based upon objective criteria (such as a prior history or threats) might violate the law in the course of their work. Your decision can be based on background checks, information in personnel files, audit results, and customer/supplier surveys. This requires careful judgment on the part of managers. It presents some delicate issues, including employee privacy and the risk of defamation.

- Unless approved by appropriate authority, do not hire or retain anyone you know has been convicted of a criminal offense pertaining to their prospective areas of responsibility.
- Make appropriate background checks and other reasonable inquiry into the status of any potential employee, agent or consultant.
- Periodically review delegations of substantial discretionary authority (including applicable controls).
- If any employee, agent or consultant is charged with a criminal offense, contact the Legal Department about removing the person from responsibility for related business operations, and terminating the person if he or she is subsequently convicted.

## **THEFT OR SIMILAR CONDUCT**

Theft, fraud, embezzlement, misappropriation or wrongful taking of any property, including that of the Company, is prohibited, whether or not the act could result in a criminal proceeding. This includes unauthorized use of our assets, including proprietary information, trade secrets, and computer and communications systems.

## **WIRETAPPING AND EAVESDROPPING**

It is our policy to comply fully with all laws governing wiretapping, eavesdropping, and other forms of electronic surveillance. Without express permission from the Legal Department, no employee may use any type of device to acquire the contents of any wire, oral or electronic communication.

## **POLITICAL ACTIVITIES**

We must comply with all campaign finance and election laws. You may not use Company funds, assets (including phones, copiers, or computers), services, or facilities on behalf of a political party or candidate. Only limited exceptions on conditions approved by the Legal Department for certain types of fundraising and political activity involving corporate executives is allowed. We will not compensate or reimburse any employee or other individual, in any form, for a political contribution they make or intend to make. Also, U.S. law prohibits honoraria payments to U.S. public officials.

## **ADVERTISING**

Advertising and product labeling are regulated by law. Generally, the law prohibits false, misleading or deceptive advertising and inaccurate labels. All advertising claims about our products or services must be truthful and have a reasonable basis. Fair and accurate advertising is important not only to comply with the law, but also to preserve the Company's goodwill and reputation. All advertising claims must be substantiated in advance of their publication. The labeling of our products must also comply with advertising laws and labeling practices laws. It is our policy to label and advertise our products and services in accordance with the law. No employee may create, approve or disseminate any advertising materials or labels for our products or services that are false, misleading, or deceptive or that contain objective claims that cannot be substantiated. Failure to comply may result in both civil and criminal penalties.



## INTELLECTUAL PROPERTY

Various laws govern the use of material or information that may be the subject of a trademark, patent or copyright or that may be treated as a trade secret. We have rights to many trademarks, patents, copyrights and trade secrets that are vital to our success. To protect our rights, employees' use of all such intellectual property must be in accordance with applicable laws and our policies. Certain of these matters are described below. For further information concerning all aspects of intellectual property requirements, contact the Legal Department.

**Copyright Compliance.** Written materials, such as books, articles, magazines, drawings, computer software, photographs and advertising are covered by copyright law. It is a violation of law and of our policy to make unauthorized copies of these materials. Violations can subject both the employee and the Company to substantial penalties. The copyright law and our policy also prohibit illegal duplication of computer software. Copyright law does, however, permit copying of copyrighted material under limited circumstances.

**Trademark Protection.** A trademark is a word, symbol, name, device or combination thereof used to identify a product or line of products or services and to distinguish them from the products and services of other companies. We use a number of trademarks that are recognized by the public and are extremely valuable. All employees must use our trademarks in accordance with our Policy on Approvals, Use and Protection of Trademarks to ensure that our trademarks are protected. Employees must clear new trademarks through the Legal Department and should notify the Legal Department of any unauthorized use of our trademarks.

**Patent Protection.** It is Company policy to respect the valid patents of our competitors and other parties. No employee should intentionally infringe the patented technology of others.

## RECORDS MANAGEMENT

You and your work group's management of business records, both paper and electronic, must take place in accordance with our records management policy. It is our policy to control the retention, long-term storage and destruction of business records in accordance with legal, tax, auditing, operational and historical requirements. If you have questions concerning records management, consult Internal Auditing, the Tax Department or the Legal Department.

**Financial Records.** Company financial and business records must be prepared accurately and stored properly. Keep books, records, and accounts that accurately and fairly reflect all transactions and disposition of assets. All transactions must be executed only in accordance with proper authority. Books, records, and accounts must reflect, accurately and fairly and within our normal system of accountability, all transactions and other events that are the subject of specific regulatory record keeping requirements.

All transactions must be recorded as necessary or appropriate to permit the preparation of financial statements in conformity with generally accepted accounting principles and other applicable rules and to ensure accountability for all our assets and activities. All assets and liabilities must be properly recorded. Under no circumstances may there be any unrecorded fund or asset, regardless of the purposes intended. No improper or inaccurate entry may be knowingly made on our books and records.

No payment on behalf of the Company may be approved or made with the intention, understanding or awareness that any part of the payment is to be used for any purpose other than that described by the documents supporting the payments. All receipts and disbursements must be fully and accurately described on our books and records and must be supported by appropriate documentation properly describing their purposes.

***A LAST Word***

Thank you for reviewing this Code. It protects all of us as well as the Company. We all want to work for a company we can be proud of. Armstrong is such a company. Let's keep it that way.

**Please make a copy of this Acknowledgment page only, complete it and return to Shared Services. Where differences in local law or policy varies from those outlined, local law or policy will apply. For issues pertaining to the Code of Business Conduct, e.g. where an employee function does not exist locally, contact your local HR department for information or assistance.**

**EMPLOYEE/CONSULTANT  
Acknowledgment  
Armstrong Code of Business Conduct**

NOTE: You may be asked to sign an Acknowledgment periodically. Keep your copy of the Code in a safe place for further reference. (The Code does not, in any way, constitute an employment contract, a consultancy agreement, an assurance of continued employment, or employment other than at-will.)

To: Director of Compliance

From: \_\_\_\_\_  
Print Name Department

- I acknowledge that I have received, read and understand the Armstrong Code of Business Conduct (the "Code"). I have obtained guidance where I have had questions.
- I acknowledge that the Code sets and refers to policies and procedures which I must follow.
- I acknowledge that my compliance with the Code is a requirement of my employment (or consulting agreement if applicable) with Armstrong and/or its affiliated company.
- I acknowledge that I can perform my duties in compliance with the Code and Company policies.
- I acknowledge it is my duty to report actual or suspected violations of the Code to my supervisor or other Company officials specified by the Code and to cooperate with investigations.
- Except as I have described below, I am not aware of any violation or suspected violation of the Code or Company policy.

\_\_\_\_\_  
Date

\_\_\_\_\_  
Signature

**Subsidiaries of Armstrong World Industries, Inc.  
As of December 31, 2010**

The following is a list of subsidiaries of Armstrong World Industries, Inc., omitting certain subsidiaries, which, considered in the aggregate as a single subsidiary, would not constitute a significant subsidiary.

| U.S. Subsidiaries  | Jurisdiction of<br>Incorporation |
|--|----------------------------------|
| Armstrong Cork Finance LLC   | Delaware                         |
| Armstrong NW LLC   | Delaware                         |
| Armstrong Hardwood Flooring Company                                    | Tennessee                        |
| Armstrong Realty Group, Inc.   | Pennsylvania                     |
| Armstrong Ventures, Inc.   | Delaware                         |
| Armstrong Wood Products, Inc.  | Delaware                         |
| Armstrong World Industries (Delaware) LLC                              | Delaware                         |
| AWI Licensing Company  | Delaware                         |
| HomerWood Hardwood Flooring Company                                    | Delaware                         |
| Patriot Flooring Supply, Inc.  | Delaware                         |
| Worthington Armstrong Venture (50% owned Delaware General Partnership) |                                  |
| Armstrong Receivables Company Limited                                  | Delaware                         |
| Non-U.S. Subsidiaries  | Jurisdiction of<br>Incorporation |
| Armstrong (U.K.) Investments   | United Kingdom                   |
| Armstrong Architectural Products S.L.                                  | Spain                            |
| Armstrong Building Products B.V.                                       | Netherlands                      |
| Armstrong Building Products Company (Shanghai) Ltd.                    | PRC                              |
| Armstrong Building Products GmbH                                       | Germany                          |
| Armstrong DLW AG   | Germany                          |
| Armstrong DLW Licensing GmbH   | Germany                          |
| Armstrong Metal Ceilings Limited                                       | United Kingdom                   |
| Armstrong Metalldecken AG  | Switzerland                      |
| Armstrong Metalldecken GmbH  | Austria                          |
| Armstrong Metalldecken Holdings AG                                     | Switzerland                      |
| Armstrong World Industries (Australia) Pty. Ltd.                       | Australia                        |
| Armstrong World Industries AB  | Sweden                           |
| Armstrong World Industries Canada Ltd.                                 | Canada                           |
| Armstrong World Industries Holding GmbH                                | Germany                          |
| Armstrong World Industries Ltd.  | United Kingdom                   |

Consent of Independent Registered Public Accounting Firm

The Board of Directors  
Armstrong World Industries, Inc.:

We consent to the incorporation by reference in the registration statements (Nos. 333-138034 and 333-154765) on Form S-8 of Armstrong World Industries, Inc. of our reports dated February 28, 2011, with respect to the consolidated balance sheets of Armstrong World Industries, Inc. and subsidiaries as of December 31, 2010 and 2009, and the related consolidated statements of earnings, equity, and cash flows for each of the years in the three-year period ended December 31, 2010, and related financial statement schedule, and the effectiveness of internal control over financial reporting as of December 31, 2010, which reports appear in the December 31, 2010 annual report on Form 10-K of Armstrong World Industries, Inc.

/s/ KPMG LLP

Philadelphia, Pennsylvania  
February 28, 2011

Consent of Independent Auditors

The Board of Directors  
Worthington Armstrong Venture:

We consent to the incorporation by reference in the registration statement (Nos. 333-138034 and 333-154765) on Form S-8 of Armstrong World Industries, Inc. of our report dated February 18, 2011, with respect to the consolidated balance sheets of Worthington Armstrong Venture and subsidiaries as of December 31, 2010 and 2009 and the related consolidated statements of income, partners' equity (deficit) and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2010, which report is included in the December 31, 2010 annual report on Form 10-K of Armstrong World Industries, Inc.

/s/ KPMG LLP

Philadelphia, Pennsylvania  
February 28, 2011

ARMSTRONG WORLD INDUSTRIES, INC.  
CERTIFICATION REGARDING  
POWER OF ATTORNEY

I, Jeffrey D. Nickel, Senior Vice President, Secretary and General Counsel of Armstrong World Industries, Inc., a corporation organized and existing under the laws of the Commonwealth of Pennsylvania, do hereby certify that at a meeting of the Board of Directors of said corporation duly held on the 25th day of February, 2011, at which a quorum was present and acting throughout, the following resolution was adopted and is now in full force and effect.

RESOLVED that the execution of the Company's 2010 Annual Report on Form 10-K on behalf of the Company and by members of the Board of Directors through respective powers of attorney granting Matthew J. Espe, Thomas B. Mangas, Jeffrey D. Nickel and Mary J. Huwaldt the power to sign on their behalf is authorized.

IN WITNESS WHEREOF, I have hereunto set my hand and the seal of said corporation this 28th day of February, 2011.

/s/ Jeffrey D. Nickel

Jeffrey D. Nickel  
Senior Vice President, Secretary and  
General Counsel

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**ARMSTRONG WORLD INDUSTRIES, INC.****POWER OF ATTORNEY**

RE: 2010 ANNUAL REPORT ON FORM 10-K

I, Matthew J. Espe, as a Director of Armstrong World Industries, Inc., do hereby constitute and appoint, JEFFREY D. NICKEL or, in the case of his absence or inability to act as such, THOMAS B. MANGAS or MARY J. HUWALDT, my agent, to sign in my name and on my behalf the Company's Annual Report on Form 10-K for the year ended December 31, 2010, and any amendments thereto, to be filed by the Company with the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended, with the same effect as if such signature were made by me personally.

/s/ Matthew J. Espe

Matthew J. Espe

Dated: February 28, 2011

Each of the undersigned hereby constitutes and appoints, MATTHEW J. ESPE or, in the case of his absence or inability to act as such, JEFFREY D. NICKEL or, in the case of his absence or inability to act as such, THOMAS B. MANGAS or MARY J. HUWALDT, as attorney-in-fact, for her or for him, to sign the Company's Annual Report on Form 10-K for the year ended December 31, 2010, and any amendments thereto, to be filed by the Company with the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended, with the same effect as if each signed personally.

Pursuant to the Securities and Exchange Act of 1934, as amended, this Report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

|                     |          |                   |
|---------------------|----------|-------------------|
| Stan A. Askren      | Director | February 28, 2011 |
| David Bonderman     | Director | February 28, 2011 |
| Kevin R. Burns      | Director | February 28, 2011 |
| Matthew J. Espe     | Director | February 28, 2011 |
| James J. Gaffney    | Director | February 28, 2011 |
| Tao Huang           | Director | February 28, 2011 |
| Michael F. Johnston | Director | February 28, 2011 |
| Larry S. McWilliams | Director | February 28, 2011 |
| James J. O'Connor   | Director | February 28, 2011 |
| John J. Roberts     | Director | February 28, 2011 |
| Richard E. Wenz     | Director | February 28, 2011 |

I, Matthew J. Espe, certify that:

- 1) I have reviewed this report on Form 10-K of Armstrong World Industries, Inc.;
- 2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- 3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- 4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- 5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: February 28, 2011

/s/ Matthew J. Espe

Matthew J. Espe

Chief Executive Officer and President

I, Thomas B. Mangas, certify that:

- 1) I have reviewed this report on Form 10-K of Armstrong World Industries, Inc.;
- 2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- 3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- 4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- 5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: February 28, 2011

/s/ Thomas B. Mangas  
Thomas B. Mangas  
Senior Vice President and Chief Financial Officer

Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.

Armstrong World Industries, Inc.  
(the "Company")

*Written Statement by Chief Executive Officer*  
Pursuant to Section 906 of Sarbanes-Oxley Act of 2002

I certify to the best of my knowledge and belief that the Company's Form 10-K annual report containing its financial statements for the fiscal year ended December 31, 2010 fully complies with the requirements of Section 13(a) and 15(d) of the Securities Exchange Act of 1934 as amended, and that information contained in that report fairly presents, in all material respects, the financial condition and results of operations of the Company as of that date.

/s/ Matthew J. Espe

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Matthew J. Espe  
Chief Executive Officer and President  
Armstrong World Industries, Inc.

Dated: February 28, 2011

Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.

Armstrong World Industries, Inc.  
(the "Company")

*Written Statement by Chief Financial Officer*  
Pursuant to Section 906 of Sarbanes-Oxley Act of 2002

I certify to the best of my knowledge and belief that the Company's Form 10-K annual report containing its financial statements for the fiscal year ended December 31, 2010 fully complies with the requirements of Section 13(a) and 15(d) of the Securities Exchange Act of 1934 as amended, and that information contained in that report fairly presents, in all material respects, the financial condition and results of operations of the Company as of that date.

/s/ Thomas B. Mangas

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Thomas B. Mangas  
Senior Vice President and Chief Financial Officer  
Armstrong World Industries, Inc.

Dated: February 28, 2011

**WORTHINGTON ARMSTRONG VENTURE**

Consolidated Financial Statements

December 31, 2010 and 2009

(With Independent Auditors' Report Thereon)

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## WORTHINGTON ARMSTRONG VENTURE

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## Independent Auditors' Report

The Board of Directors  
Worthington Armstrong Venture:

We have audited the accompanying consolidated balance sheets of Worthington Armstrong Venture and subsidiaries (the Company) as of December 31, 2010 and 2009, and the related consolidated statements of income, partners' equity (deficit) and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2010. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Worthington Armstrong Venture and subsidiaries as of December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2010, in conformity with U.S. generally accepted accounting principles.

(issued 02/18/11)

Philadelphia, Pennsylvania  
February 18, 2011

## WORTHINGTON ARMSTRONG VENTURE

### Consolidated Balance Sheets

December 31, 2010 and 2009

(in thousands)

|   | <u>2010</u>       | <u>2009</u>     |
|---|-------------------|-----------------|
| <b>Assets</b>                                     |                   |                 |
| Current assets:                                   |                   |                 |
| Cash and cash equivalents                         | \$ 45,533         | 48,797          |
| Accounts receivable, net                          | 30,615            | 27,819          |
| Inventory, net                                    | 35,086            | 31,560          |
| Other current assets                              | <u>1,265</u>      | <u>1,843</u>    |
| Total current assets                              | 112,499           | 110,019         |
| Property, plant, and equipment, net               | 33,417            | 33,657          |
| Goodwill  | 2,053             | 2,245           |
| Other assets                                      | <u>235</u>        | <u>323</u>      |
| Total assets                                      | <u>\$ 148,204</u> | <u>146,244</u>  |
| <b>Liabilities and Partners' Equity (Deficit)</b> |                   |                 |
| Current liabilities:                              |                   |                 |
| Accounts payable                                  | \$ 14,529         | 11,178          |
| Accrued expenses                                  | 6,466             | 5,493           |
| Taxes payable                                     | <u>1,077</u>      | <u>670</u>      |
| Total current liabilities                         | <u>22,072</u>     | <u>17,341</u>   |
| Long-term liabilities:                            |                   |                 |
| Deferred income taxes                             | 159               | 181             |
| Long-term debt                                    | 150,000           | 150,000         |
| Other long-term liabilities                       | <u>4,438</u>      | <u>4,454</u>    |
| Total long-term liabilities                       | <u>154,597</u>    | <u>154,635</u>  |
| Total liabilities                                 | <u>176,669</u>    | <u>171,976</u>  |
| Partners' equity (deficit):                       |                   |                 |
| Contributed capital                               | —                 | —               |
| Accumulated (deficit)                             | (27,060)          | (27,339)        |
| Accumulated other comprehensive income (loss)     | <u>(1,405)</u>    | <u>1,607</u>    |
| Total partners' equity (deficit)                  | <u>(28,465)</u>   | <u>(25,732)</u> |
| Total liabilities and partners' equity (deficit)  | <u>\$ 148,204</u> | <u>146,244</u>  |

See accompanying notes to consolidated financial statements.

## WORTHINGTON ARMSTRONG VENTURE

### Consolidated Statements of Income

Years ended December 31, 2010, 2009, and 2008

(in thousands)

|   | <b>2010</b>       | <b>2009</b>      | <b>2008</b>      |
|---|-------------------|------------------|------------------|
| Net sales                                     | \$ 332,165        | 307,938          | 421,836          |
| Cost of sales                                 | <u>(194,657)</u>  | <u>(189,083)</u> | <u>(261,664)</u> |
| Gross margin                                  | 137,508           | 118,855          | 160,172          |
| Selling, general, and administrative expenses | <u>(28,108)</u>   | <u>(23,441)</u>  | <u>(27,349)</u>  |
|   | 109,400           | 95,414           | 132,823          |
| Other income                                  | 204               | 254              | 108              |
| Interest income                               | 33                | 120              | 1,501            |
| Interest expense                              | <u>(1,398)</u>    | <u>(2,005)</u>   | <u>(3,965)</u>   |
| Income before income tax expense              | 108,239           | 93,783           | 130,467          |
| Income tax expense                            | <u>(2,430)</u>    | <u>(1,005)</u>   | <u>(5,022)</u>   |
| Net income                                    | <u>\$ 105,809</u> | <u>92,778</u>    | <u>125,445</u>   |

See accompanying notes to consolidated financial statements.

## WORTHINGTON ARMSTRONG VENTURE

### Consolidated Statements of Partners' Equity (Deficit) and Comprehensive Income

Years ended December 31, 2010, 2009, and 2008

(in thousands)

|   | Contributed capital            |  | Accumulated<br>(deficit) | Accumulated<br>other<br>comprehensive<br>income (loss) | Total<br>partners'<br>equity (deficit) | Comprehensive<br>income |
|---|--------------------------------|--|--------------------------|--|--|-------------------------|
|   | Armstrong<br>Ventures,<br>Inc. | The<br>Worthington<br>Steel<br>Company |                          |  |  |                         |
| Balance, January 1, 2008                    | \$ 12,825                      | 9,613                                  | —                        | 6,432  | 28,870                                 |                         |
| Net income                                  | —                              | —                                      | 125,445                  | —  | 125,445                                | \$ 125,445              |
| Distributions                               | (12,825)                       | (9,613)                                | (138,562)                | —  | (161,000)                              | —                       |
| Change in pension plan                      | —                              | —                                      | —                        | (2,217)  | (2,217)                                | (2,217)                 |
| Foreign currency translation<br>adjustments | —                              | —                                      | —                        | (4,258)  | (4,258)                                | (4,258)                 |
| Balance, December 31, 2008                  | \$ —                           | —                                      | (13,117)                 | (43)   | (13,160)                               | \$ 118,970              |
| Net income                                  | —                              | —                                      | 92,778                   | —  | 92,778                                 | \$ 92,778               |
| Distributions                               | —                              | —                                      | (107,000)                | —  | (107,000)                              | —                       |
| Change in pension plan                      | —                              | —                                      | —                        | 528  | 528                                    | 528                     |
| Foreign currency translation<br>adjustments | —                              | —                                      | —                        | 1,122  | 1,122                                  | 1,122                   |
| Balance, December 31, 2009                  | \$ —                           | —                                      | (27,339)                 | 1,607  | (25,732)                               | \$ 94,428               |
| Net income                                  | —                              | —                                      | 105,809                  | —  | 105,809                                | \$ 105,809              |
| Distributions                               | —                              | —                                      | (105,530)                | —  | (105,530)                              | —                       |
| Change in pension plan                      | —                              | —                                      | —                        | (560)  | (560)                                  | (560)                   |
| Foreign currency translation<br>adjustments | —                              | —                                      | —                        | (2,452)  | (2,452)                                | (2,452)                 |
| Balance, December 31, 2010                  | \$ —                           | —                                      | (27,060)                 | (1,405)  | (28,465)                               | \$ 102,797              |

See accompanying notes to consolidated financial statements.

## WORTHINGTON ARMSTRONG VENTURE

### Consolidated Statements of Cash Flows

Years ended December 31, 2010, 2009, and 2008

(in thousands)

|   | <u>2010</u>      | <u>2009</u>      | <u>2008</u>      |
|---|------------------|------------------|------------------|
| <b>Cash flows from operating activities:</b>                                      |                  |                  |                  |
| Net income  | \$ 105,809       | 92,778           | 125,445          |
| Adjustments to reconcile net income to net cash provided by operating activities: |                  |                  |                  |
| Depreciation and amortization   | 3,909            | 3,711            | 3,648            |
| Deferred income taxes   | 61               | (414)            | 69               |
| Change in accounts receivable   | (3,145)          | 6,209            | 11,714           |
| Change in inventory   | (4,187)          | 15,276           | (11,385)         |
| Change in accounts payable and accrued expenses                                   | 4,553            | (2,989)          | (7,491)          |
| Other   | 945              | (2,779)          | (1,367)          |
| Net cash provided by operating activities   | <u>107,945</u>   | <u>111,792</u>   | <u>120,633</u>   |
| <b>Cash flows from investing activities:</b>                                      |                  |                  |                  |
| Purchases of property, plant, and equipment                                       | (3,802)          | (7,380)          | (6,272)          |
| Sale of property, plant, and equipment  | 31               | 282              | 75               |
| Net cash used in investing activities   | <u>(3,771)</u>   | <u>(7,098)</u>   | <u>(6,197)</u>   |
| <b>Cash flows from financing activities:</b>                                      |                  |                  |                  |
| Issuance of long-term debt  | —                | —                | 50,000           |
| Distributions paid  | (105,530)        | (107,000)        | (161,000)        |
| Net cash used in financing activities   | <u>(105,530)</u> | <u>(107,000)</u> | <u>(111,000)</u> |
| Effect of exchange rate changes on cash and cash equivalents                      | (1,908)          | 819              | (456)            |
| Net increase (decrease) in cash and cash equivalents                              | (3,264)          | (1,487)          | 2,980            |
| Cash and cash equivalents at beginning of year                                    | <u>48,797</u>    | <u>50,284</u>    | <u>47,304</u>    |
| Cash and cash equivalents at end of year  | <u>\$ 45,533</u> | <u>48,797</u>    | <u>50,284</u>    |
| <b>Supplemental disclosures:</b>  |                  |                  |                  |
| Interest paid   | \$ 1,376         | 2,391            | 4,530            |
| Income taxes paid   | 1,134            | 3,876            | 3,423            |

See accompanying notes to consolidated financial statements.

# WORTHINGTON ARMSTRONG VENTURE

## Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(in thousands)

### Description of Business

Worthington Armstrong Venture (the Company) is a general partnership, formed in June 1992, between Armstrong Ventures, Inc. (Armstrong), a subsidiary of Armstrong World Industries, Inc., and The Worthington Steel Company (Worthington), a Delaware corporation (a subsidiary of Worthington Industries, Inc.). Its business is to manufacture and market suspension systems for commercial and residential ceiling markets throughout the world. The Company has manufacturing plants located in the United States, France, Spain, the United Kingdom, the Peoples Republic of China, and India.

### Summary of Significant Accounting Policies

#### *Use of Estimates*

These consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) and include management estimates and judgments, where appropriate. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include the carrying amount of property, plant, and equipment and goodwill, valuation allowances for receivables and inventories, and assets and obligations related to employee benefits.

The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany transactions have been eliminated.

#### *Revenue Recognition*

The Company recognizes revenue from the sale of products when title transfers, generally on the date of shipment and collection of the relevant receivable is probable. At the time of shipment, a provision is made for estimated applicable discounts and losses that reduce revenue. Sales with independent U.S. distributors of products to major home center retailers are recorded when the products are shipped from the distributor's locations to these retailers.

Sales taxes collected from customers and remitted to governmental authorities are accounted for on a net basis and, therefore, are excluded from revenues in the consolidated statements of income.

#### *Advertising Costs*

The Company recognizes advertising expense as incurred. Advertising expense was \$867, \$1,015, and \$1,193 for the years ended December 31, 2010, 2009, and 2008, respectively.

#### *Research and Development Expenditures*

The Company recognizes research and development expense as expenditures are incurred. Total research and development expense was \$3,442, \$3,623, and \$4,762 for the years ended December 31, 2010, 2009, and 2008, respectively.

#### *Taxes*

The Company is a general partnership in the United States, and accordingly, generally, U.S. federal and state income taxes are the responsibility of the two general partners. Deferred income tax assets and liabilities are recognized for foreign subsidiaries for taxes estimated to be payable in future years based upon differences between the financial reporting and tax bases of assets and liabilities. Deferred tax assets and liabilities are determined using enacted rates expected to apply to taxable income in the years the temporary differences are expected to be recovered or settled. In connection with the adoption of FASB *Accounting Standards Update* (ASU) No. 2009-06 as of January 1, 2009, and following the guidance in FASB Accounting Standards Codification (ASC) Topic 740 — *Income Taxes*, the Company recognizes the effect of uncertain income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. Prior to the adoption of ASU No. 2009-06, the Company recognized the effect of income tax positions only if such positions were probable or

being sustained.

(Continued)

## **WORTHINGTON ARMSTRONG VENTURE**

### Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(in thousands)

#### ***Cash and Cash Equivalents***

Short-term cash investments that have original maturities of three months or less when purchased are considered to be cash equivalents.

#### ***Trade Accounts Receivable***

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The Company maintains an allowance for doubtful accounts for estimated losses inherent in its accounts receivable portfolio. In establishing the required allowance, management considers historical losses, current receivables aging, and existing industry and national economic data. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Company does not have any off-balance-sheet credit exposure related to its customers.

#### ***Inventories***

Inventories are valued at the lower of cost or market. Cost is determined on the first-in, first-out method.

#### ***Long-Lived Assets***

Property, plant, and equipment are stated at cost, with accumulated depreciation and amortization deducted to arrive at net book value. Depreciation charges are determined generally on the straight-line basis over the useful lives as follows: buildings, 30 years; machinery and equipment, 5 to 15 years; and leasehold improvements over the shorter of 10 years or the life of the lease. Impairment losses are recorded when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount. If an impairment exists, the asset is reduced to fair value.

#### ***Goodwill***

Goodwill represents the excess of the aggregate purchase price over the fair value of the net assets acquired in a purchase business combination. Goodwill is tested for impairment at least annually. The impairment tests performed in 2010, 2009, and 2008 did not result in an impairment of the Company's goodwill.

#### ***Foreign Currency Translation and Transactions***

For subsidiaries with functional currencies other than the U.S. dollar, income statement items are translated into dollars at average exchange rates throughout the year and balance sheet items are translated at year-end exchange rates. Gains or losses on foreign currency transactions are recognized in other income, net in the accompanying consolidated statements of income. Gains and losses on foreign currency translation are recognized in accumulated other comprehensive income in the accompanying consolidated balance sheets.

(Continued)

## WORTHINGTON ARMSTRONG VENTURE

### Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(in thousands)

#### Accounts Receivable

The Company sells its products to select, preapproved customers whose businesses are directly affected by changes in economic and market conditions. The Company considers these factors and the financial condition of each customer when establishing its allowance for losses from doubtful accounts. The allowance for doubtful accounts was \$1,062 and \$862 at December 31, 2010 and 2009, respectively.

#### Inventory

|                   | <b>2010</b>      | <b>2009</b>   |
|-------------------|------------------|---------------|
| Finished goods    | \$ 14,602        | 13,176        |
| Goods in process  | 24               | 59            |
| Raw materials     | 17,341           | 14,935        |
| Supplies          | <u>3,119</u>     | <u>3,390</u>  |
| Total inventories | <u>\$ 35,086</u> | <u>31,560</u> |

#### Property, Plant, and Equipment

|   | <b>2010</b>      | <b>2009</b>     |
|---|------------------|-----------------|
| Land                                      | \$ 1,901         | 1,942           |
| Buildings                                 | 17,099           | 15,014          |
| Machinery and equipment                   | 74,679           | 73,105          |
| Computer software                         | 978              | 1,069           |
| Construction in process                   | <u>1,859</u>     | <u>3,800</u>    |
|   | 96,516           | 94,930          |
| Accumulated depreciation and amortization | <u>(63,099)</u>  | <u>(61,273)</u> |
| Total property, plant, and equipment, net | <u>\$ 33,417</u> | <u>33,657</u>   |

Depreciation and amortization expense was \$3,909, \$3,711, and \$3,648 in 2010, 2009, and 2008, respectively.

#### Goodwill

Goodwill increased (decreased) by \$(192), \$15, and \$(48) during 2010, 2009, and 2008, respectively, due to foreign currency translation.

(Continued)

## WORTHINGTON ARMSTRONG VENTURE

### Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(in thousands)

#### Fair Value of Financial Instruments

The Company does not hold or issue financial instruments for trading purposes.

The carrying amounts of cash and cash equivalents, accounts receivable, and accounts payable approximate their fair value due to the short-term maturity of these instruments. The carrying value of debt approximates fair value as the debt carries a variable interest rate.

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. U.S. GAAP establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. The three levels of inputs used to measure fair value are as follows:

Level 1 — Quoted prices in active markets for identical assets or liabilities

Level 2 — Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data

Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies, and similar techniques that use significant unobservable inputs.

Assets measured at fair value on a recurring basis are summarized below:

|  | <u>Quoted active markets (Level 1)</u> |               |
|--|--|---------------|
|  | <u>2010</u>                            | <u>2009</u>   |
| Assets:  |  |               |
| Money market investments (included within cash and cash equivalents) | \$ 24,717                              | 22,905        |
|  | <u>\$ 24,717</u>                       | <u>22,905</u> |

The Company adopted the section within ASC Topic 820 — *Fair Value Measurements and Disclosures* that relates to determining the fair value of non-financial assets and liabilities as of January 1, 2009. This did not have a material impact on the financial statements.

The Company does not have any significant financial or nonfinancial assets or liabilities that are valued using Level 2 or 3 inputs.

#### Debt

In May 2007, the Company amended the line-of-credit facility to extend the credit agreement to May 2012 and to increase the line of credit to \$150 million. The revolving line of credit is unsecured. At December 31, 2010 and 2009, there was \$150 million outstanding on this line-of-credit. The amount outstanding bears interest ranging from 0.86%-0.99% and 0.79%-1.76% at December 31, 2010 and 2009, respectively.

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## WORTHINGTON ARMSTRONG VENTURE

### Notes to Consolidated Financial Statements

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(in thousands)

The line-of-credit contains certain restrictive financial covenants, including, among others, interest coverage and leverage ratios, as well as restrictions on dividends. The Company was in compliance with its covenants as of December 31, 2010 and 2009.

#### Pension Benefit Programs

The Company contributes to the Worthington defined contribution deferred profit sharing plan for eligible U.S. employees. Cost for this plan was \$868, \$824, and \$1,138 for 2010, 2009, and 2008, respectively.

The Company contributes to government-related pension programs in a number of foreign countries. The cost for these plans amounted to \$356, \$329, and \$296 for 2010, 2009, and 2008, respectively.

The Company also has a U.S. defined benefit pension plan for eligible hourly employees that worked in its former manufacturing plant located in Malvern, Pennsylvania. This plan was curtailed in January 2004 due to the consolidation of the Company's East Coast operations, which eliminated the expected future years of service for participants in the plan.

The Company has included the required disclosures related to the adoption of ASC Topic 715 — *Compensation — Retirement Benefits* during 2009.

The following table sets forth the defined benefit pension plan's benefit obligations, fair value of plan assets, and funded status at December 31, 2010 and 2009:

|  | <b>2010</b>       | <b>2009</b>    |
|--|-------------------|----------------|
| Projected benefit obligation at beginning of year    | \$ 8,436          | 8,683          |
| Interest cost  | 503               | 507            |
| Actuarial (gain) loss                                | 774               | (19)           |
| Benefits paid  | (632)             | (735)          |
| Projected benefit obligation at end of year          | <u>\$ 9,081</u>   | <u>8,436</u>   |
|  | <b>2010</b>       | <b>2009</b>    |
| Benefit obligation at December 31                    | \$ 9,081          | 8,436          |
| Fair value of plan assets as of December 31          | <u>5,637</u>      | <u>5,531</u>   |
| Funded status at end of year                         | <u>\$ (3,444)</u> | <u>(2,905)</u> |
| Amounts recognized in the balance sheets consist of: |                   |                |
| Other long-term liabilities                          | \$ (3,444)        | (2,905)        |
| Accumulated other comprehensive loss                 | 4,405             | 3,845          |

Amounts recognized in accumulated other comprehensive loss represent unrecognized net actuarial losses.

(Continued)

## WORTHINGTON ARMSTRONG VENTURE

### Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(in thousands)

The components of net periodic benefit cost (benefit) are as follows:

|                                | <u>2010</u>   | <u>2009</u> | <u>2008</u> |
|--------------------------------|---------------|-------------|-------------|
| Interest cost                  | \$ 503        | 507         | 511         |
| Expected return on plan assets | (430)         | (411)       | (584)       |
| Recognized net actuarial loss  | 238           | 247         | 209         |
| Net periodic benefit cost      | <u>\$ 311</u> | <u>343</u>  | <u>136</u>  |

The accumulated benefit obligation for the U.S. defined benefit plan was \$9,081 and \$8,436 at December 31, 2010 and 2009, respectively.

The net loss for the defined benefit pension plan that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year is \$140.

Weighted average assumptions used to determine benefit obligations for the years ended and as of December 31, 2010 and 2009 are as follows:

|  | <u>2010</u> | <u>2009</u> |
|--|-------------|-------------|
| Weighted average assumptions for the year ended December 31: |             |             |
| Discount rate  | 6.10%       | 6.10%       |
| Expected long-term rate of return on plan assets             | 8.00        | 8.00        |

Weighted average assumptions as of December 31:

|  |       |       |
|--|-------|-------|
| Discount rate                                    | 5.30% | 6.10% |
| Expected long-term rate of return on plan assets | 8.00  | 8.00  |

Pension plan assets are required to be disclosed at fair value in the consolidated financial statements. Fair value is defined in note 7 — Fair Value of Financial Instruments.

The U.S. defined benefit pension plan assets' fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

(Continued)

**WORTHINGTON ARMSTRONG VENTURE**

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(in thousands)

The following table sets forth by level within the fair value hierarchy a summary of the plan's assets measured at fair value on a recurring basis as of December 31, 2010:

|                                   | Fair value      | 2010                                  |                                   |
|-----------------------------------|-----------------|---------------------------------------|-----------------------------------|
|                                   |                 | Fair value based on                   |                                   |
|                                   |                 | Quoted active<br>markets<br>(Level 1) | Observable<br>inputs<br>(Level 2) |
| <b>Investment:</b>                |                 |                                       |                                   |
| Cash and money market funds       | \$ 250          | 250                                   | —                                 |
| Corporate bonds                   | 700             | —                                     | 700                               |
| U.S. government and agency issues | 664             | —                                     | 664                               |
| Common stocks                     | 4,023           | 4,023                                 | —                                 |
|                                   | <u>\$ 5,637</u> | <u>4,273</u>                          | <u>1,364</u>                      |
|                                   |                 |                                       |                                   |
|                                   | Fair value      | 2009                                  |                                   |
|                                   |                 | Fair value based on                   |                                   |
|                                   |                 | Quoted active<br>markets<br>(Level 1) | Observable<br>inputs<br>(Level 2) |
| <b>Investment:</b>                |                 |                                       |                                   |
| Cash and money market funds       | \$ 340          | 340                                   | —                                 |
| Corporate bonds                   | 716             | —                                     | 716                               |
| U.S. government and agency issues | 684             | —                                     | 684                               |
| Common stocks                     | 3,791           | 3,791                                 | —                                 |
|                                   | <u>\$ 5,531</u> | <u>4,131</u>                          | <u>1,400</u>                      |

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2010 and 2009.

*Cash* : Consists of cash and cash equivalents. The carrying amounts of cash and cash equivalents approximate fair value due to the short-term maturity of these instruments.

*Money market funds* : The money market investment consists of an institutional investor money market fund, valued at the fund's net asset value (NAV), which is normally calculated at the close of business daily. The fund's assets are valued as of this time for the purpose of computing the fund's NAV.

*Corporate bonds and U.S. government and agency issues* : Consist of investments in individual corporate bonds or government bonds. These bonds are each individually valued using a yield curve model, based on observable inputs, that may also incorporate available trade and bid/ask spread data where available.

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## WORTHINGTON ARMSTRONG VENTURE

### Notes to Consolidated Financial Statements

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(in thousands)

*Common stocks* : Consist of investments in common stocks that are valued at the closing price reported on the active market on which the individual security is traded.

In developing the 8% expected long-term rate of return assumption, the Company considered its historical returns and reviewed asset class return expectations and long-term inflation assumptions.

The primary investment objective of the defined benefit pension plan is to achieve long-term growth of capital in excess of 8% annually, exclusive of contributions or withdrawals. This objective is to be achieved through a balanced portfolio comprising equities, fixed income, and cash investments.

Each asset class utilized by the defined benefit pension plan has a targeted percentage. The following table shows the asset allocation target and the December 31, 2010 and 2009 position:

|                         | Target weight | Position at December 31 |      |
|-------------------------|---------------|-------------------------|------|
|                         |               | 2010                    | 2009 |
| Equity securities       | 65%           | 71%                     | 69%  |
| Fixed income securities | 35            | 24                      | 25   |
| Cash and equivalents    | —             | 5                       | 6    |

The Company made contributions of \$333, \$271, and \$58 to the U.S. defined benefit pension plan in 2010, 2009, and 2008, respectively. The Company expects to contribute \$300 to the plan in 2011.

The benefits expected to be paid in each of the next five years and in the aggregate for the five years thereafter are shown in the following table:

| Expected future payments for the year ending December 31: |        |
|---|--------|
| 2010  | \$ 637 |
| 2011  | 631    |
| 2012  | 628    |
| 2013  | 625    |
| 2014  | 611    |
| 2015 – 2019   | 2,955  |

The expected benefits are based on the same assumptions used to measure the Company's benefit obligation at December 31, 2010.

### Income Taxes

The Company is a general partnership in the United States, and accordingly, generally, U.S. federal and state income taxes are the responsibility of the two general partners. Therefore, no income tax provision has been recorded on U.S. income. There are no significant differences between the statutory income tax rates in foreign countries where the Company operates and the income tax provision recorded in the income statements. No deferred taxes, including withholding taxes, have been provided on the unremitted earnings of foreign subsidiaries as the Company's intention is to invest these earnings permanently.

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## WORTHINGTON ARMSTRONG VENTURE

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(in thousands)

Deferred tax balances recorded on the balance sheets relate primarily to depreciation, tax-deductible goodwill, and accrued expenses. In 2010, the provision for income tax expense (benefit) was \$2,430 comprising \$2,446 current and (\$16) deferred. In 2009, the provision for income tax expense (benefit) was \$1,005 comprising \$1,391 current and (\$386) deferred. In 2008, the provision for income tax expense (benefit) was \$5,022 comprising \$5,078 current and (\$56) deferred.

The Company adopted the provisions of ASC Topic 740, *Income Taxes*, related to the accounting for uncertainties in income taxes on January 1, 2009. As a result of this implementation, the Company did not recognize any liabilities for unrecognized tax benefits.

The Company is open for tax examination by foreign taxing authorities for various jurisdictions from 2006-2010. We have no reserve related to these tax years.

#### Leases

The Company rents certain real estate and equipment. Several leases include options for renewal or purchase and contain clauses for payment of real estate taxes and insurance. In most cases, management expects that in the normal course of business, leases will be renewed or replaced by other leases.

Minimum rent payments under operating leases are recognized on a straight-line basis over the term of the lease including any periods of free rent. Rent expense during 2010, 2009, and 2008 amounted to \$2,458, \$2,418, and \$2,473, respectively.

Future minimum payments by year and in the aggregate for operating leases having noncancelable lease terms in excess of one year are as follows:

| Year:           |                 |
|-----------------|-----------------|
| 2011            | \$ 2,586        |
| 2012            | 2,284           |
| 2013            | 2,179           |
| 2014            | 980             |
| 2015            | 318             |
| 2016 thereafter | <u>194</u>      |
| Total           | <u>\$ 8,541</u> |

#### Accumulated Other Comprehensive Income

The balances for accumulated other comprehensive income are as follows:

|   | 2010              | 2009           |
|---|-------------------|----------------|
| Foreign currency translation                        | \$ 3,000          | 5,452          |
| Change in pension plan                              | <u>(4,405)</u>    | <u>(3,845)</u> |
| Total accumulated other comprehensive income (loss) | <u>\$ (1,405)</u> | <u>1,607</u>   |

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## WORTHINGTON ARMSTRONG VENTURE

### Notes to Consolidated Financial Statements

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(in thousands)

#### Related Parties

Armstrong provides certain selling, promotional, and administrative processing services to the Company for which it receives reimbursement. Armstrong purchases grid products from the Company, which are then resold along with Armstrong inventory to the customer.

|                                | <u>2010</u> | <u>2009</u> | <u>2008</u> |
|--------------------------------|-------------|-------------|-------------|
| Services provided by Armstrong | \$ 15,158   | 14,194      | 16,143      |
| Sales to Armstrong             | 78,526      | 66,782      | 98,002      |

No amounts were owed to Armstrong as of December 31, 2010 or 2009. Armstrong owed the Company \$2,000 and \$4,101 for purchases of product for the same periods, respectively, which are included in accounts receivable.

Worthington provides certain administrative processing services, steel processing services, and insurance-related coverages to the Company for which it receives reimbursement.

|  | <u>2010</u> | <u>2009</u> | <u>2008</u> |
|--|-------------|-------------|-------------|
| Administrative services by Worthington                           | \$ 432      | 435         | 474         |
| Insurance-related coverage net premiums (refunds) by Worthington | 585         | 456         | (276)       |
| Steel processing services by Worthington                         | 1,619       | 1,536       | 2,215       |

The Company owed \$623 and \$634 to Worthington as of December 31, 2010 and 2009, respectively, which are included in accounts payable.

#### Legal Proceedings

The Company is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Company's consolidated financial position, results of operations, or liquidity.

#### Subsequent Events

Management has evaluated subsequent events through the date the annual consolidated financial statements were available to be issued, February 18, 2011.