ARMSTRONG WORLD INDUSTRIES INC
Form DEF 14A
April 25, 2012
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SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a)

of the Securities Exchange Act of 1934

Filed by the Registrant x Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement

x Definitive Proxy Statement

¨ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

¨ Definitive Additional Materials

¨ Soliciting Material Pursuant to §240.14a-12

ARMSTRONG WORLD INDUSTRIES, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than Registrant)

Payment of Filing Fee (check the appropriate box):

x No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

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(4) Proposed maximum aggregate value of transaction:

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¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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ARMSTRONG WORLD INDUSTRIES, INC.
2500 COLUMBIA AVE., LANCASTER, PA 17603
P.O. BOX 3001, LANCASTER, PA 17604

www.armstrong.com

Thomas M. Armstrong

Founder

1860

April 25, 2012

2012 ANNUAL MEETING OF SHAREHOLDERS

Dear Shareholder:

On behalf of the Board of Directors of Armstrong World Industries, Inc., it is my pleasure to invite you to attend the 2012 Annual Meeting of Shareholders of Armstrong World Industries, Inc. at 8:00 a.m. on Friday, June 22, 2012. The meeting will be held at our corporate offices at 2500 Columbia Avenue, Lancaster, Pennsylvania.

Whether or not you attend the meeting, we urge you to ensure that your shares are represented by voting through the Internet, by telephone, at the meeting, or by returning your vote by mail. On April 25, 2012, we mailed our shareholders a notice containing instructions on how to access our 2012 Proxy Statement and 2011 Annual Report and vote online. Please read the proxy materials and take a moment to vote.

Information concerning the matters to be acted upon at the meeting is provided in the accompanying Notice of Annual Meeting of Shareholders and Proxy Statement.

On behalf of your Board of Directors, thank you for your continued support of Armstrong.

Very truly yours,

James J. O Connor

Chairman of the Board

Armstrong World Industries, Inc.

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ARMSTRONG WORLD INDUSTRIES, INC.

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To Be Held on June 22, 2012

April 25, 2012

To the Shareholders of Armstrong World Industries, Inc.:

The 2012 Annual Meeting of Shareholders of Armstrong World Industries, Inc. (the Company) will be held on Friday, June 22, 2012, at 8:00 a.m. (local time), at the corporate offices of the Company at 2500 Columbia Avenue, Lancaster, Pennsylvania, for the following purposes:

1. To elect twelve (12) directors to serve until the next annual meeting of shareholders;

2. To ratify the selection of KPMG LLP as our independent registered public accounting firm for 2012; and

3. To transact any other business that may properly be raised at the meeting.

The close of business on April 9, 2012 is the record date for determining shareholders entitled to receive the notice of the meeting and attend and vote at the meeting. A list of shareholders entitled to vote at the meeting will be available for inspection during the meeting.

You are cordially invited to attend the meeting and vote. Whether or not you attend the meeting, we urge you to please ensure your shares are represented by voting through the Internet, by telephone or by signing, dating and returning a proxy card.

By order of the Board of Directors,

Mark A. Hershey

Senior Vice President, General Counsel

and Secretary

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE ANNUAL MEETING TO BE HELD ON JUNE 22, 2012: The Notice of Annual Meeting, this Proxy Statement and the Company s 2011 Annual Report are available at www.proxyvote.com.

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Armstrong World Industries, Inc.

2500 Columbia Avenue

Lancaster, Pennsylvania 17603

PROXY STATEMENT

Annual Meeting Information

This proxy statement contains information related to the Annual Meeting of Shareholders of Armstrong World Industries, Inc. (Annual Meeting) to be held on Friday, June 22, 2012, beginning at 8:00 a.m., at our corporate offices at 2500 Columbia Avenue, Lancaster, Pennsylvania. Directions to our corporate offices can be found on page 59. This proxy statement was prepared under the direction of the Company s Board of Directors (Board) to solicit your proxy for use at the Annual Meeting. It was made available to shareholders on or about April 25, 2012. When we refer to we , our , us and the Company in this Proxy Statement, we are referring to Armstrong World Industries, Inc.

Why did I receive a one-page notice in the mail regarding the Internet availability of proxy materials instead of a full set of proxy materials?

This year we have again utilized the Securities and Exchange Commission (SEC) rule allowing companies to furnish proxy materials to their shareholders over the Internet. We believe that this approach enables us to provide the materials to shareholders more quickly, while also reducing the impact of our Annual Meeting on the environment and the costs associated with printing and mailing.

How can I receive printed shareholder and proxy materials?

If you want to receive a paper copy of these materials, you must request one. There is no charge for requesting a copy. Please choose one of the following methods to make your request:

1) Internet: www.proxyvote.com
2) Telephone: 1-800-579-1639
3) E-Mail: sendmaterial@proxyvote.com (if requesting materials by e-mail, please send a blank e-mail with the information that is printed in the box marked by the arrow on the notice sent to you in the subject line).

Who is entitled to vote?

Each holder of record of our common shares, $0.01 par value per share (Common Shares), at the close of business on the record date, April 9, 2012 (Record Date), is entitled to one vote for each Common Share owned on each matter to be voted on. As of the Record Date, 58,764,938 Common Shares were issued and outstanding and entitled to vote at the Annual Meeting.

What am I voting on?

You are being asked to elect twelve nominees to serve on our Board and to ratify the appointment of our independent registered public accounting firm for 2012. The Board is not aware of any other matters to be presented for action at the meeting.

How does the Board recommend I vote on the proposals?

The Board recommends votes **FOR** the election of each of the nominees for director and **FOR** the ratification of the appointment of KPMG LLP as our independent registered public accounting firm for 2012.

How do I vote?

You may vote in any one of the following ways:

Internet go to www.proxyvote.com (the website listed on your meeting notice or proxy card) and follow the instructions;

1

Telephone use a touch tone phone to call 1-800-690-6903 (the telephone number on your meeting proxy card) and follow the instructions;

Mail sign and date a proxy card, and mail it back; or

Attend the meeting deliver your completed proxy card in person or complete a ballot at the meeting. However, if you hold your Common Shares through a bank or broker rather than directly with the Company, you must obtain a proxy from that firm and provide it at the meeting in order to vote at the meeting.

Regardless of how you choose to vote, your vote is important, and we urge you to vote promptly.

What must I do to attend the meeting in person?

If you wish to attend the meeting in person, you must have been a shareholder on the Record Date and you must present an admission ticket and photo identification. To request an admission ticket, please email or write the Office of the Corporate Secretary at AdmissionTicket@armstrong.com or Attention: C. L. Putt, Armstrong World Industries, Inc., P. O. Box 3001, Lancaster, PA 17604-3001. We must receive your request at least ten (10) business days prior to the meeting. If your Common Shares are held directly in an account with our transfer agent, American Stock Transfer & Trust Company, LLC (AST), your name will appear in our Record Date shareholder list. If your Common Shares are in the name of a broker, bank or other institution, you must provide evidence of your beneficial stock ownership on the Record Date.

How can I revoke my proxy?

Proxies are voted at the Annual Meeting. You may revoke your proxy at any time before it is voted, and your last vote is the vote that will be counted. If you are a shareholder of record on the Record Date and you returned a paper proxy card, you can write to the Company s Secretary at our corporate offices, 2500 Columbia Avenue Lancaster, Pennsylvania 17603, stating that you wish to revoke your proxy and that you need another proxy card. If you submitted your proxy by the Internet or by telephone, you can vote again over the Internet or by telephone. If you hold your Common Shares through a broker, bank or other nominee, you can revoke your proxy by contacting the broker, bank or other nominee and following its procedure for revocation. If you are a shareholder of record on the Record Date and you attend the Annual Meeting, you must request a revocation of your submitted proxy and vote by ballot to revoke your proxy. Your appearance alone at the Annual Meeting will not of itself constitute a revocation of your proxy.

How many votes can be cast by all shareholders?

58,764,938 votes, consisting of one vote for each outstanding Common Share outstanding on the Record Date.

What is the quorum requirement for the Annual Meeting?

A quorum of the holders of the outstanding Common Shares must be present for the Annual Meeting to be held. A quorum is the presence at the Annual Meeting, in person or represented by proxy, of shareholders entitled to cast at least a majority of the votes which all shareholders are entitled to cast on each matter to be acted on at the Annual Meeting. Abstentions and broker non-votes are counted as present and entitled to vote for purposes of determining a quorum. A broker non-vote occurs when a broker does not vote on a particular proposal because the broker does not have discretionary voting power with respect to the proposal and has not received voting instructions from the beneficial owner.

What if a quorum is not present at the Annual Meeting?

If the Annual Meeting cannot be organized because a quorum is not present, the shareholders present at the Annual Meeting will have the power, except as otherwise provided by statute, to adjourn the Annual Meeting to such time and place as they may determine. Those shareholders who attend or participate at such adjourned meeting, even if less than a quorum, shall nevertheless constitute a quorum for the purpose of electing directors.

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What vote is required to approve each item?

The director nominees will be elected by a plurality of the votes cast at the Annual Meeting. A plurality means that the nominees with the largest number of votes are elected as directors up to the maximum number of directors to be chosen at the Annual Meeting. The ratification of the appointment of KPMG LLP as our independent registered public accounting firm for 2012 requires the affirmative vote of a majority of the votes present and entitled to vote at the meeting to be approved. Any other matters that may be acted upon at the Annual Meeting will be determined by the affirmative vote of the holders of a majority of our Common Shares represented in person or by proxy at the Annual Meeting and entitled to vote on the matter.

How are votes, abstentions and broker non-votes counted?

Broker non-votes will be included in determining whether a quorum is present but will have no effect on the outcome of the matters to be voted upon at the Annual Meeting, including in connection with the election of directors. Abstentions are not considered a vote cast under Pennsylvania law. Under our bylaws (Bylaws), however, other than in connection with the election of directors, abstentions will have the effect of a negative vote with respect to matters to be voted upon at the Annual Meeting, including the ratification of KPMG LLP as our independent registered public accounting firm for 2012.

Who will count the votes and how much does it cost the Company?

We have engaged Broadridge Investor Communications Solutions, Inc. to tabulate the proxy votes and any votes cast in person, and to have one of its representatives serve as our Judge of Election for a fee of approximately $7,500 plus reasonable expenses for additional services.

What does it mean if I receive more than one proxy card or voting instructions?

It means that you have multiple accounts in which you own our Common Shares. Please vote all proxy cards/voting instructions from the Company to ensure that all your Common Shares are voted. However, you may want to contact your broker, bank or the Company s transfer agent to consolidate as many accounts as possible under a single name and address. Our transfer agent is AST. All communications concerning Common Shares you hold in your name, including address changes, name changes, requests to transfer and similar issues, can be handled by contacting them at American Stock Transfer & Trust Company, LLC, 6201 15th Avenue Brooklyn, NY 11219; or by email to info@amstock.com; or by phone 1-800-937-5449.

What should we do if multiple shareholders reside in our household, and we wish to change the copies of proxy materials that we receive?

Some banks, brokers, broker-dealers and other similar organizations acting as nominee record holders may be participating in the practice of householding proxy statements and annual reports. This means that only one copy of this proxy statement and the annual report may have been sent to multiple shareholders in your household. If you would prefer to receive separate copies of a proxy statement or annual report for other shareholders in your household, either now or in the future, please contact your bank, broker, broker-dealer or other similar organization serving as your nominee. Upon written or oral request to the attention of Investor Relations, 2500 Columbia Avenue Lancaster, Pennsylvania 17603, or via telephone to the Investor Relations department at 717-396-6354, we will promptly provide separate copies of the annual report and/or this proxy statement. Shareholders sharing an address who are receiving multiple copies of proxy statement or annual report and who wish to receive a single copy of such materials in the future will need to contact their bank, broker, broker-dealer or other similar organization serving as their nominee to request that only a single copy of each document be mailed to all shareholders at the shared address in the future.

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Who may solicit proxies on the Company s behalf?

Our directors, officers and employees may solicit proxies from our shareholders. These persons will not receive any additional compensation for these services. We will request that the Notice of Annual Meeting, this proxy statement, the proxy card, and related materials (if any), be forwarded to beneficial owners by banks, brokers and other persons for their reasonable out-of-pocket expenses in handling these materials. We will bear the costs of and expect to reimburse them for all such solicitations.

ITEM 1 ELECTION OF DIRECTORS

Director Information

In connection with the appointment of James C. Melville to the Board on February 24, 2012, the Board expanded the size of the Board from eleven to twelve directors. Accordingly, twelve directors will be elected at the Annual Meeting to serve until the next Annual Meeting and until their successors have been elected and qualified.

Pursuant to a Shareholders Agreement (Shareholders Agreement) between the Armstrong World Industries, Inc. Asbestos Personal Injury Settlement Trust (Trust) and Armor TPG Holdings LLC (Armor TPG) dated as of August 28, 2009, the Trust and Armor TPG agreed to take all necessary action to cause the Company s Board to include two persons nominated by the Trust and, subject to certain conditions, two persons nominated by Armor TPG. The directors selected by Armor TPG who are currently serving on the Board pursuant to the Shareholders Agreement are David Bonderman and Kevin R. Burns. On January 25, 2012, Mr. Bonderman informed the Board of his intention to not stand for reelection as a director when his term expires at this meeting. Under the terms of the Shareholders Agreement, Armor TPG has designated Jeffrey Liaw, currently a Board observer for Armor TPG, as Mr. Bonderman s replacement for nomination at this meeting. The directors selected by the Trust who are currently serving on the Board pursuant to this provision are Michael F. Johnston and Richard E. Wenz. The Trust also recommended two of the directors, Tao Huang and Larry S. McWilliams, for consideration and nomination by the Nominating and Governance Committee in 2010, but neither Mr. Huang nor Mr. McWilliams was the Trust s nominee under the Shareholders Agreement.

All nominees other than Jeffrey Liaw currently serve as directors. Information concerning the nominees is provided below:

Stan A. Askren

Age 51

Director since October 2008

Mr. Askren has been Chairman and Chief Executive Officer of HNI Corporation since 2004, and President since 2003. Previously, he was Executive Vice President with HNI Corporation from 2001-2003. HNI Corporation is the second largest office furniture manufacturer in the world and the nation s leading manufacturer and marketer of gas- and wood-burning fireplaces. Mr. Askren has also worked in several industries and previously held multiple executive management and general management positions with Emerson Electric, Thomson S.A. and HNI Corporation. Mr. Askren serves on the board of directors of the National Association of Manufacturers, and serves as President of the board of directors at each of the Business and Institutional Furniture Manufacturer s Association and the Iowa Business Council. He is also active in numerous local and civic organizations and their boards. Mr. Askren received a bachelor s degree from University of Northern Iowa, an MBA from Washington University and completed the Advanced Management Program at Harvard Business School. Mr. Askren brings public company senior management, manufacturing, sales and distribution expertise to our Board.

Kevin R. Burns

Age 48

Director since September 2009

Mr. Burns has been a Partner in the Operations Group of TPG Capital (TPG), a leading global investment firm with approximately $45 billion of capital under management across a family of funds which generally makes

significant investments in operating companies through acquisitions and restructurings across a broad range of industries throughout the United States, Europe and Asia, since 2003. In March 2008, Mr. Burns became the Partner in Charge of TPG s Manufacturing/Industry Sector. Prior to joining TPG, he served as Executive Vice President and Chief Materials Officer of Solectron Corporation from 1998 to 2003. Mr. Burns received a B.S. degree in Mechanical and Metallurgical Engineering (cum laude) from The University of Connecticut and received an MBA from the Wharton School of Business. Mr. Burns brings private investment firm experience and manufacturing operations and financial expertise to our Board.

Matthew J. Espe

Age 53

Director since August 2010

Mr. Espe has been our Chief Executive Officer and President since he joined the Company on July 29, 2010. Previously, Mr. Espe was Chairman and Chief Executive Officer of Ricoh Americas Corporation, a subsidiary of Ricoh Company, Ltd., a leading provider of document management solutions and services. Prior to that role, Mr. Espe was Chairman and Chief Executive Officer of IKON Office Solutions, Inc. (IKON), an office equipment distributor and services provider, which was acquired by Ricoh in 2008. Mr. Espe joined IKON in 2002. Prior to joining IKON, he was employed by General Electric for 22 years. Mr. Espe received a bachelor s degree from the University of Idaho and received an MBA from Whittier College. Mr. Espe currently also serves on the board of directors of Unisys Corporation. Mr. Espe s intimate knowledge of our Company, gained through his service as our Chief Executive Officer and President, enables him to provide our Board with important insights regarding our operations, strategic planning and senior management personnel matters. In addition, Mr. Espe s long tenure as chairman and chief executive officer at Ricoh Americas and IKON, and his senior executive experience at General Electric, offers management experience, leadership capabilities and business acumen to our Board.

James J. Gaffney

Age 71

Director since October 2006

From 1997 to 2003, Mr. Gaffney was a consultant to GS Capital Partners, II, LP, a private investment fund affiliated with Water Street Corporate Recovery Fund I, LP and Goldman, Sachs & Co., and other affiliated investment funds. From 1995 to 1997, Mr. Gaffney served as Chairman of the Board and Chief Executive Officer of General Aquatics, Inc., composed of companies involved in the manufacturing of swimming pool equipment and pool construction. Mr. Gaffney was President and Chief Executive Officer of KDI Corporation, a conglomerate with companies involved in swimming pool construction and manufactured products. Mr. Gaffney previously served on the boards of directors of World Color Press Inc. (f/k/a Quebecor World Inc.), a commercial printing company, from 2009 to 2010, at which time it was acquired, and C&D Technologies, Inc., a manufacturer of backup power systems, from December 2010 until January 2012, at which time the company went private. Mr. Gaffney presently serves as Chairman of the board of directors of Imperial Sugar Company and serves on the boards of directors of SCP Pool, Inc. and Beacon Roofing Supply, Inc. Mr. Gaffney received a bachelor s degree from St. John s University and received an MBA from the New York University Stern School of Business. Mr. Gaffney offers our Board broad business experience, ranging from investment fund consulting to manufacturing to corporate reorganizations.

Tao Huang

Age 49

Director since 2010

Mr. Huang was previously the Chief Operating Officer of Morningstar, Inc., a leading independent provider of investment research around the world, until his retirement in December 2010. Mr. Huang spent almost 20 years with Morningstar, taking on increasing levels of responsibility from his start as an entry level technical programmer. He was the Director of Technology in 1992 and was named as the Chief Technology Officer in 1996; he started Morningstar s International Operation in 1998, held the position of President of International Division until 2000; he was promoted as the Company s Chief Operating Officer in October 2000 and served in this position until his retirement. Mr. Huang led Morningstar initiatives enabling significant growth, both organically and through acquisition, and oversaw continuous improvements in the operations of the firm s core businesses. Mr. Huang earned a bachelor s degree from Hunan University, China. He received an MS degree from Marquette University and an MBA from the University of Chicago. Mr. Huang brings to our Board expertise developed from his experience in a data-intense and technology-driven organization managing growth and integration of acquisitions, as well as experience in international operations.

Michael F. Johnston

Age 64

Director since 2010

Mr. Johnston was previously with Visteon Corporation, an automotive components supplier, until 2008. At Visteon, he served as Chairman of the Board, Chief Executive Officer, President, and Chief Operating Officer at various times since 2000. Before joining Visteon, Mr. Johnston held various positions in the automotive and building services industry, including serving as President, North America/Asia Pacific for Johnson Controls Automotive Systems Group. Mr. Johnston has served as a member of the board of directors of Whirlpool Corporation, a leading manufacturer and marketer of major home appliances, since 2003, and Flowserve Corporation, a leading provider of flow control products and services for the global infrastructure markets, since 2007. Mr. Johnston is currently Chair of the corporate governance and nominating committee and Lead Director at Whirlpool and Chair of the corporate governance and nominating committee at Flowserve. Mr. Johnston received a bachelor s degree from the University of Massachusetts and received an MBA from Michigan State University. Mr. Johnston has over 25 years cumulative public company board experience, including his role as the Chairman of the board of a public company. Mr. Johnston offers our Board particular knowledge and experience in manufacturing and design, innovation, and engineering.

Jeffrey Liaw

Age 35

New Director Nominee

Mr. Liaw is a principal of TPG and is active in TPG s energy and industrial investing practice areas. Prior to joining TPG in 2005, Mr. Liaw was an associate at Bain Capital, a private equity investment firm, in its industrials practice. Mr. Liaw is a director of Energy Future Holdings Corp. (formerly TXU Corp.), a director and compensation committee member of Oncor Energy Delivery Company, a director of American Tire Distributors and a director and nominating and corporate governance committee member of Graphic Packaging Holding Company. Mr. Liaw has served as an observer of our Board on Armor TPG s behalf since 2009. Mr. Liaw received a bachelor s degree from The University of Texas at Austin and received an MBA from Harvard Business School, where he was a Baker Scholar and a Siebel Scholar. Mr. Liaw brings extensive experience working with a broad range of manufacturing companies to our Board. Mr. Liaw possesses intimate knowledge of the Company that he gained through his role as a Board observer for Armor TPG.

Larry S. McWilliams

Age 56

Director since 2010

Since May 2011, Mr. McWilliams has been President and Chief Executive Officer of Keystone Foods, a producer of proteins. From April 2011 to June 2011, Mr. McWilliams served as Chief Operating Officer of Keystone Foods, and from May 2005 to October 2010, he served as a Senior Vice President at Campbell Soup Company and subsequently became the President of Campbell International, responsible for all of Campbell

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Soup s business in Europe, Latin America and Asia Pacific. Mr. McWilliams joined Campbell Soup in March 2001 as Senior Vice President Sales and Chief Customer Officer, overseeing the company s relationships with its global retail partners. In April 2003, he assumed the position of President North America Soup. He was named Senior Vice President and President Campbell USA in March 2004. Prior to Campbell Soup, he held positions at Coca-Cola from 1995 to 2001 and the Pillsbury Company from 1993 to 1995. Mr. McWilliams formerly served on the board of governors of St. Josephs University Food Marketing Council and the Grocery Manufacturers Association s Industry Affairs Council. Mr. McWilliams received a bachelor s degree from Texas A&M University. Mr. McWilliams has more than 25 years of experience at consumer products companies. Mr. McWilliams offers our Board leadership capabilities and experience as well as extensive knowledge of sales, marketing, customer service relationships, international markets and distribution channels.

James C. Melville

Age 60

Director since 2012

Mr. Melville is a member of the Minneapolis-based law firm of Kaplan, Strangis and Kaplan, P.A., where he has practiced in the corporate, governance, mergers and acquisitions, securities and financial areas since 1994. Prior to joining Kaplan, Strangis and Kaplan, P.A., he practiced with Dorsey and Whitney in their Minneapolis and London, England offices. Mr. Melville previously served as a member of the Board from September 2009 until July 2010, and presently serves as a member of the board of trustees of the William Mitchell College of Law and as a member of the board of directors of the Minnesota Orchestral Association. Mr. Melville served as an observer of our Board on the Trust s behalf from August 2010 until February 2012. Mr. Melville received a bachelor s degree and an MBA from the University of Minnesota and received a J.D. from the William Mitchell College of Law. Mr. Melville brings extensive knowledge of the law and corporate governance matters, international experience and financial acumen to our Board. He has also gained intimate knowledge of the Company through his prior service on the Board and his prior role as a Board observer for the Trust.

James J. O Connor

Age 75

Director since February 2007

Mr. O Connor is a Retired Chairman of the Board and Chief Executive Officer of Unicom Corporation. Mr. O Connor joined Commonwealth Edison Company in 1963, became President in 1977, a Director in 1978 and Chairman and Chief Executive in 1980. In 1994, he was also named Chairman and Chief Executive Officer of Unicom Corporation, which then became the parent company of Commonwealth Edison Company. He retired in 1998. Mr. O Connor currently serves on the board of directors of United Continental Holdings, Inc. and previously served on the boards of directors of Trizec Properties, Inc. (November 2003 to June 2006), Corning, Inc. (1984 to 2011) and Smurfit Stone Container Corporation (July 2010 to May 2011). Mr. O Connor received his bachelor s degree from the College of Holy Cross, an MBA from Harvard University and a J.D. from Georgetown Law School. Mr. O Connor has a broad business background, having served in senior executive positions with large companies and on the boards of companies as diverse as a utility company, an industrial manufacturing company and an airline. Mr. O Connor offers our Board extensive knowledge and expertise in leadership, management and in board practices of other major corporations.

John J. Roberts

Age 67

Director since September 2006

Mr. Roberts served as Global Managing Partner for PricewaterhouseCoopers LLP from 1998 until his retirement in June 2002. Mr. Roberts held numerous positions at Coopers & Lybrand LLP from 1967 until its merger with Pricewaterhouse LLP in 1998. From 1994 to 1998, Mr. Roberts served as one of three members of the Office of the Chairman of Coopers & Lybrand s United States operations. Prior to that time, Mr. Roberts held other positions at Coopers & Lybrand, including Deputy Vice Chairman, Vice Chairman and Managing Partner. While serving in various executive capacities at PricewaterhouseCoopers, Mr. Roberts performed and supervised audit, tax and business consultative services, and developed extensive expertise in public company audits and financial reporting matters. Mr. Roberts serves on the boards of directors and audit committees of Safeguard Scientifics, Inc., the Pennsylvania Real Estate Investment Trust, and Vonage Holdings Corporation. Mr. Roberts also serves on the compensation committees of Safeguard Scientifics, Inc. and Pennsylvania Real Estate Investment Trust. Mr. Roberts previously served on the board of directors of Sicor, Inc. from 2002 to 2004 and served as a director of our former holding company, Armstrong Holdings, Inc., from April 2003 to October 2006. Mr. Roberts received a bachelor s degree from Drexel University. Mr. Roberts brings an extensive public accounting background and financial expertise to our Board.

Richard E. Wenz

Age 62

Director since 2010

Mr. Wenz is a private investor. From 2002 to 2003, Mr. Wenz was the Chief Executive Officer of Jenny Craig International, a weight loss, weight management, and nutrition company. From 2000 to 2002 Mr. Wenz was an operating affiliate of DB Capital Partners. From 1997 to 2000, Mr. Wenz was President and Chief Operating Officer of Safety 1st, Inc. During 1995 and 1996, Mr. Wenz was the partner in charge of the Chicago office of The Lucas Group, a business strategy consulting firm. Prior to 1995, Mr. Wenz held senior executive positions with Professional Golf Corporation, Electrolux Corporation, The Regina Company and Wilson Sporting Goods Company. Mr. Wenz began his career in 1971 with Arthur Young & Co. (predecessor of Ernst & Young LLP) and left the firm as a partner in 1983. Mr. Wenz is a certified public accountant, and he currently serves on the boards of directors of Summer Infant Company (as Chair of the audit and compensation committees), Easton-Bell Sports, Inc. (as Chair of the audit committee) and Pet Supplies Plus (as Chair of the audit committee). Mr. Wenz was a director of The First Years, Inc. from 2004 to 2006, Radica Games, Inc. from 2004 to 2006, Hunter Fan, Inc. from 2002 to 2006, Strategic Partners, Inc. from 2004 to 2010 and Coach America, Inc. from 2008 to 2011. Mr. Wenz received a bachelor s degree from Northern Illinois University. Mr. Wenz brings extensive leadership and accomplishments in strategic and operational turnarounds to our Board.

THE BOARD OF DIRECTORS RECOMMENDS THAT SHAREHOLDERS VOTE FOR THE

ELECTION OF THE TWELVE NOMINEES IDENTIFIED ABOVE.

CORPORATE GOVERNANCE

Corporate Governance Principles and Other Corporate Governance Documents

Our Corporate Governance Principles include guidelines regarding the responsibilities, duties, service and qualifications of our Board, the determination of a director s independence and any conflict of interests, Board access to management and independent advisors, director compensation and stock ownership requirements, Board committees and other matters relating to corporate governance. They are available on the Company s website under Company Information and then Corporate Governance. http://www.armstrong.com/corporate/corporate-governance.html. Also available at the same location on our website are the charters of the Audit, Management Development and Compensation, and Nominating and Governance Committees of the Board, the Armstrong Code of Business Conduct and the Armstrong Code of Ethics for Financial Professionals. Our website is not part of this Proxy Statement and references to our website address in this Proxy Statement are intended to be inactive textual references only.

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BOARD OF DIRECTORS

Director Independence

The Board has affirmatively determined that all of our directors, with the exception of Mr. Espe, are independent within the meaning of the New York Stock Exchange (NYSE) listing standards and our Corporate Governance Principles. The Board has also determined that Mr. Liaw, a nominee who is not currently a director, is independent within the meaning of the NYSE listing standards and our Corporate Governance Principles. For purposes of evaluating the independence of directors, the Board considers all relevant facts and circumstances in making an independence determination, not merely from the standpoint of the director, but also from that of persons or organizations with which the director has an affiliation. To be considered independent, the Nominating and Governance Committee has established qualifications to assist in the determination that either meet or exceed the independence requirements of the NYSE. Under such qualifications, it is the policy of the Company that the Board may not consider a director independent if, notwithstanding such director meeting the minimum standards required by the NYSE, the director:

- has been an officer or employee of the Company within the past five years, with the exception of a director who has formerly served as an interim chief executive officer; or
- is an executive of another company where the Company s Chairman of the Board, Chief Executive Officer, or other senior executive officer serves on the Board of that company.

In addition, the Board considers the following factors in making an independence determination with respect to a particular director:

- whether the director has a material personal or business relationship with the Company apart from his or her directorship;
- whether the director consults with, is retained by, or receives anything of substantial value from the Company aside from compensation as a director, other than compensation received in connection with a director having served as an interim chief executive officer; or
- whether the director has an immediate family member or significant business interest with a material personal or business relationship with the Company.

In addition, our Amended and Restated Articles of Incorporation (Articles) place certain restrictions on the composition of the Board during the period beginning on October 2, 2006 until the Trust first ceases to be the Beneficial Owner (as defined in the Articles) of at least 20% of the outstanding Common Shares of the Company (Restricted Period). The Articles provide that, among other things, during the Restricted Period the Board shall present to the shareholders nominations of candidates for election to the Board (or recommend the election of such candidates as nominated by others) such that, and shall take such other corporate actions as may be reasonably required to provide that, to the best knowledge of the Board, if such candidates are elected by the shareholders, at least a majority of the members of the Board shall be Independent Directors. For purposes of the Articles, the term Independent Director means a director who (i) qualifies as an independent director within the meaning of the corporate governance listing standards from time to time adopted by the NYSE with respect to the composition of the board of directors of a listed company (without regard to any independence criteria applicable under such standards only to the members of a committee of the board of directors); and (ii) also satisfies the minimum requirements of director independence of Rule 10A-3(b)(1) under the Securities Exchange Act of 1934, as amended (Exchange Act), whether or not such director is a member of the audit committee. The Board uses this enhanced independence standard in determining which directors are eligible to serve on its three standing committees: Audit Committee; Management Development and Compensation Committee; and the Nominating and Governance Committee. Our Bylaws require that each of our three standing committees be comprised of Independent Directors , which has the same definition in the Bylaws as that in our Articles.

Based on the recommendation of the Nominating and Governance Committee and review of applicable standards, the Board determined that directors Askren, Gaffney, Huang, McWilliams, Melville, O Connor and

Roberts are independent under Armstrong s Articles and Bylaws, as such directors meet the independence criteria under both NYSE rules and Rule 10A-3(b)(1) under the Exchange Act. In making their determination of Mr. Melville s independence, the Nominating and Governance Committee and the Board considered (i) his prior service as a consultant to our Chairman of the Board and as an observer for the Trust, and (ii) the extent of services performed for the Trust by Mr. Melville s law firm.

The Committee and Board determined that directors Bonderman, Espe, Burns, Johnston and Wenz, and nominee Liaw, do not qualify as Independent Directors as such term is defined in the Articles and Bylaws, because such directors do not meet the enhanced independence criteria of Rule 10A-3(b)(1) under the Exchange Act.

The Board has further determined that each of the members of the Audit Committee, Management Development and Compensation Committee and Nominating and Governance Committee are independent within the meaning of the NYSE listing standards and the enhanced standards required by our Articles and Bylaws as described above.

Board s Role in Risk Management Oversight

The Board oversees risk management. Board committees, which meet regularly and report to the full Board, have significant roles in implementing the risk oversight function. Company management is charged with managing risk through robust internal policies and controls.

The Company has maintained an enterprise risk management program since 2005. Risk management is an integral part of the Company s business strategy. The current program represents a company-wide effort led by management with oversight from our Board. Management s role is to identify, mitigate, guide and review the efforts of our business units, consider whether the residual risks are acceptable, and approve plans to deal with serious risks. The Board s role in risk management is to oversee the process and improve or guide management s decisions. Specifically, the Board oversees the Company s:

- processes to identify matters that create risk to achieving our business plans;
- processes to assess the likelihood and impact of such risks in order to prioritize them;
- identification of major risks and how we define major ;
- identification of primary risk mitigation owners;
- mitigation of major risks, and our view of the resulting residual risk; and
- monitoring of major risks.

Under the direction of a cross-functional steering committee composed primarily of senior corporate leaders, Company management provides its feedback on business unit risks during periodic business reviews and annual strategic planning discussions. The enterprise risk management steering committee periodically meets with designated risk mitigation owners and assesses control measures. In addition, the committee regularly reevaluates the appropriateness of risk assessments and priorities. This process includes identifying risks that could prevent achievement of business goals or plans. The internal audit group uses the resulting information to determine whether its audit plan needs to be adjusted. In addition to quarterly reviews of business risks in connection with the Company s periodic disclosures, the Board reviews, on an annual basis, summary reports that assess the strategic, operational, infrastructure and external risks facing the Company to be certain the Company develops and maintains comprehensive risk management policies and procedures to assess, mitigate and monitor risks.

Although the full Board oversees the Company s risk management function and processes, particularly with respect to the overall business, each Board committee, consistent with its charter, assists the Board in fulfilling its responsibility by coordinating the review of certain risks that are particularly within its purview. For example, the Audit Committee considers risks associated with overall financial reporting, legal compliance and disclosure

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processes. Audit Committee responsibilities include monitoring the integrity of our internal control processes and assessing management s steps to manage and report such risk exposures. The Audit Committee considers risk in quarterly and annual reviews of financial statements.

In connection with its role of overseeing the Company s compensation and benefit practices, the Management Development and Compensation Committee (the Compensation Committee) reviews with management, on an annual basis, the Company s compensation policies and practices to assess potential material risks which could result from the design and structure of the Company s compensation programs. The Compensation Committee s assessment is also supplemented by analysis from its independent compensation consultant. At the conclusion of its most recent review in October 2011, the Compensation Committee determined that the Company s compensation programs are designed and administered with the appropriate balance of risk and reward and do not encourage executives to take unnecessary risks. In arriving at this conclusion, the Compensation Committee considered the following program attributes:

- The balance between short- and long-term incentives;
- Consideration of an executive s qualitative and quantitative performance in determining compensation payouts, including minimum and maximum performance thresholds, and maximum award payouts;
- Use of varied equity compensation awards that provide a balance of incentives;
- Incentive compensation with a stock component where value is best realized through long-term appreciation of shareholder value;
- Incentive compensation awards that are paid or vest over an extended period;
- A long-term incentive plan that permits the Company to require a participant to forfeit unsettled benefits due to gross misconduct or engaging in a business determined to be competitive with the Company or substantially injurious to the Company s business interests for a period of up to two years following a participant s termination; and
- A Company-wide compliance program applicable and accessible to every employee, which includes an external, confidential ethics line for reporting compliance-related concerns.

The Nominating and Governance Committee is responsible for establishing the overall philosophy for corporate governance and recommending changes to enhance the Board s performance and development. The Nominating and Governance Committee annually reviews the Code of Business Conduct, as well as other Company policies with significant risk implications, such as Conflicts of Interest and Protection of Company Information.

Board Leadership Structure

Our Bylaws and Corporate Governance Principles provide the Board with the flexibility to determine what leadership structure works best for us, including whether the same individual should serve as both as our Chairman and our Chief Executive Officer. In February 2010, the Board determined to split the positions of Chairman and Chief Executive Officer. At that time, James J. O Connor, who had been independent Lead Director from February 2008 through February 2010, was named Chairman and continues to serve in that capacity. The split of these positions allows Matthew J. Espe, our Chief Executive Officer, to focus on managing the business, while Mr. O Connor, as Chairman, oversees the Board s functions. The Board will continue to evaluate its leadership and governance structure within the context of the specific needs of the business, current Board composition, and in consideration of the best interests of Company shareholders.

Responsibilities of the Chairman include recruiting new Board members, overseeing the evaluation and compensation of the CEO, ensuring an appropriate succession plan, overseeing independent evaluation of risk, coordinating Board meeting schedules and agenda, chairing and leading the discussions at the meetings, and

overseeing the annual performance evaluations of the Board, its committees and its individual members. The Chairman ensures information provided by management to the Board is sufficient for the Board to fulfill its duties and communicates with other directors on key issues and concerns outside of regularly scheduled meetings. The Chairman is also responsible for ensuring the effective functioning of the committees through appropriate delegation to, and membership of, the committees. Finally, the Chairman provides effective leadership for our independent directors to facilitate the independent oversight required by our Bylaws and Corporate Governance Principles, including by ensuring that:

- a majority of our directors are independent;

- all of the members of the Audit Committee, Compensation Committee and Nominating and Governance Committee are independent directors; and

- the Board meets at regularly scheduled executive sessions, outside of the presence of management and those directors not deemed to be Independent Directors (as defined in our Articles and Bylaws) by the Board. Mr. O Connor, our Chairman of the Board, presides at these sessions. In addition, each of the Board s three standing committees regularly meet at similar executive sessions at which the respective committee Chairs preside.

Communication with the Board

Any person who wishes to communicate with the Board, nonemployee directors as a group, or individual directors, including the Chairman, may direct a written communication to the attention of the Corporate Secretary at the Company s corporate offices at 2500 Columbia Avenue, Lancaster, Pennsylvania 17603. The Corporate Secretary will forward these communications to the intended recipient director(s). You may also send general messages to directors by email to directors@armstrong.com. If you wish to send an email message to the Nominating and Governance Committee, including a recommendation regarding a prospective director, please send the message to the CorpGovernance@armstrong.com. The Corporate Secretary will forward these messages to the appropriate director(s).

Board Meetings and Committees

The Board met seven times during 2011. There are three standing committees of the Board: the Audit Committee; the Compensation Committee; and the Nominating and Governance Committee, each described below. In addition, all Board members meet separately on a regular basis to discuss strategic matters at meetings of a Strategy Committee. The Strategy Committee met five times during 2011.

Each committee has a charter and consists solely of independent directors who meet applicable independence standards required by the NYSE, the SEC, and the Internal Revenue Service, and under the Company s Articles and Bylaws. Each committee reports to the Board regularly and evaluates the effectiveness of its performance annually. The membership of each Committee is determined by the Board on the recommendation of the Nominating and Governance Committee. The Company s Corporate Governance Principles provide that (i) directors who are currently fully employed should not serve on more than two other corporate boards and (ii) other directors should not serve on more than four other corporate boards. John J. Roberts currently serves on the audit committees of three public companies other than Armstrong, which was approved by the Board.

All director nominees who served on the Board during 2011 participated in at least 75% of all meetings of the Board and meetings of the Committees on which they served. Board members are expected to attend annual meetings. All but one of the director nominees who served on the Board during 2011 attended the 2011 Annual Meeting of Shareholders.

Pursuant to the Shareholders Agreement, Armor TPG and the Trust have observers (Observers) who attend meetings of the Board and committees and are permitted to join in discussion but do not have the right to vote. Mr. Melville, from August 2010 until his appointment to the Board in February 2012, served as an Observer for

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the Trust. Mr. Liaw has served as an Observer for Armor TPG since 2009. The Board and committees hold executive sessions both with and without Observers. All Armor TPG Observers are subject to a Confidentiality Agreement between the Company and TPG dated November 4, 2009. All Trust Observers are subject to a Confidentiality Agreement between the Company and the Trustees effective as of September 7, 2006.

2011 Committee Membership and Meetings

Name	Audit	Management Development and Compensation	Nominating and Corporate Governance
Mr. Askren		X(Chair)	
Mr. Bonderman			
Mr. Burns			
Mr. Espe			
Mr. Gaffney		X	X(Chair)
Mr. Huang	X		
Mr. Johnston			
Mr. McWilliams	X	X	
Mr. O Connor			X
Mr. Roberts	X (Chair)		X
Mr. Wenz			
2011 Meetings	6	7	8

Audit Committee and Audit Committee Expert. The Audit Committee met six times during 2011. The members of the Audit Committee are John J. Roberts (Chair and Audit Committee Financial Expert), Tao Huang and Larry S. McWilliams. Under its charter, the Audit Committee:

- oversees (i) auditing and accounting matters, including the selection, supervision and compensation of the Company s independent registered public accounting firm and other independent auditors, (ii) the scope of the annual audits, non-audit services performed by the Company s independent registered public accounting firm, and (iii) the Company s accounting practices and internal accounting controls;

- has sole authority to engage, retain and dismiss the independent registered public accounting firm;

- reviews and discusses with management and our independent registered public accounting firm the annual audited financial statements and quarterly financial statements included in our SEC filings;

- assists the Board in monitoring the integrity of the Company s financial statements and the independent registered public accounting firm s qualifications, independence and performance;

- considers risks associated with overall financial reporting, legal compliance and disclosure processes; and

- supervises and reviews the effectiveness of the Company s internal audit and legal compliance functions and compliance by the Company with legal and regulatory requirements.

Each member of the Audit Committee meets the NYSE and SEC financial literacy requirements. The Board has determined that at least one member of the Committee, John J. Roberts, qualifies as an Audit Committee Financial Expert as defined in the Exchange Act. Additionally, as noted above, the Board has determined that all members of the Audit Committee are independent under the listing standards of the NYSE and within the meaning of the applicable SEC rule pertaining to Audit Committees (Rule 10A-3 under the Exchange Act). The Board, after considering the circumstances of Mr. Roberts service on three other public company audit committees, determined that such simultaneous service does not impact his ability to effective serve on the Audit Committee. The Audit Committee regularly meets independently with the Company s internal and independent auditors, with the leaders of the Company s compliance function, and with management.

Management Development and Compensation Committee. The Compensation Committee met seven times during 2011. The members of the Compensation Committee are Stan A. Askren (Chair), James J. Gaffney and Larry S. McWilliams. Under its charter, the Committee:

- oversees the design of our executive compensation and benefit programs and employment practices;
- administers and makes recommendations regarding our incentive and equity compensation plans;
- reviews and approves corporate goals and individual objectives relevant to the compensation of the Chief Executive Officer and evaluates the Chief Executive Officer s performance relative to those goals and objectives, and recommends Chief Executive Officer compensation to the independent directors based on the evaluation;
- oversees the evaluation of the other executive officers and establishes their compensation levels in collaboration with the Chief Executive Officer;
- reviews incentive compensation to confirm that such compensation does not encourage unnecessary risk-taking; and
- monitors senior management succession planning.

The Committee also considers the executive compensation recommendations and comparative data provided by F.W. Cook & Company (Cook & Company), a compensation consultant engaged directly by the Committee. We have engaged Cook & Company to provide similar services with respect to our non-executive officers and nonemployee directors. Cook & Company does not provide any other services to us. See Compensation Discussion and Analysis for additional information regarding the services provided by Cook & Company.

Nominating and Governance Committee. The Nominating and Governance Committee met eight times during 2011. The members of the Nominating and Governance Committee are James J. Gaffney (Chair), James J. O Connor and John J. Roberts. Under its charter, the Committee:

- monitors the independence of nonemployee directors;
- reviews and evaluates director candidates and makes recommendations to the Board concerning nominees for election as Board members;
- establishes criteria for the selection of candidates to serve on the Board;
- recommends directors for appointment to Board committees;
- makes recommendations to the Board regarding corporate governance matters;
- reviews and makes recommendations to the Board regarding the compensation of nonemployee directors;

- oversees the Company s director education and orientation programs; and

- coordinates an annual evaluation of the performance of the Board and each committee.

During 2011, the Nominating and Governance Committee engaged Cook & Company to review the compensation program for non-employee directors, including the 2008 Directors Stock Unit Plan, as amended (Directors Stock Unit Plan).

When evaluating recommendations for director nominees, the Nominating and Governance Committee will consider individuals with skills, experience, expertise and backgrounds that complement those of our current directors. Typically, the Nominating and Governance Committee places significant emphasis on the following aspects of each potential director s qualifications:

- individual director qualities the personal characteristics that each director should have (such as integrity, independence, diligence, business acumen, collegiality) for the Board to perform effectively as a team; and

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specific background skills, experience and competencies the talents and insights (preferably aligned with Company business and strategy) that should be present when the entire Board meets, with each individual director contributing in one or more areas.

The Nominating and Governance Committee considers alignment with corporate business and strategy to be critical to creating a Board that adds value for the shareholders and management team. While the Board does not have a formal diversity policy with respect to director nominations, it believes that a Board composed of individuals with diverse attributes and backgrounds enhances the quality of the board s deliberations and decisions. The Board has an expansive view of diversity, going beyond the traditional concepts of race, gender and national origin. The Board believes that diversity of viewpoints, educational backgrounds, and differences of professional experiences and expertise represented on the Board evidences diversity in many respects. This Board believes that this diversity, coupled with the personal and professional ethics, integrity and values of all of the directors, results in a Board that can guide the Company with thoughtful and sound business judgment.

The Nominating and Governance Committee will consider director candidates nominated by shareholders. The procedures for recommending candidates are posted at www.armstrong.com/corporatena/article9748.html under About Armstrong and Corporate Governance. Shareholders who wish to suggest individuals for service on the Board are requested to review the following documents posted on this site: Process for Evaluation of Director Candidates, Director Responsibilities and Qualifications, and Position Description for an Armstrong Director. Shareholders should write to the Corporate Secretary at the Company s corporate offices at 2500 Columbia Avenue, Lancaster, Pennsylvania 17603 and supply the following information:

- the full name, address, education and professional experience of the proposed nominee and a statement explaining why this person would be a good director for Armstrong;
- the consent of the proposed nominee to be considered and to serve, if elected;
- the proposed nominee s own self-assessment of qualifications and independence under SEC, NYSE rules and our Corporate Governance Principles; and
- the number of Armstrong Common Shares held by both the proposed nominee, and by the person(s) supporting the proposed nominee.

When evaluating the candidacy of nominees proposed by shareholders, including the Company s majority shareholder, the Committee also considers the number of shares owned by the nominating shareholder as well as each nominee s responses to the Company s Prospective Director Questionnaire, the presence or absence of any conflicts of interest, and background information. There have been no changes to the procedure by which shareholders may recommend nominees to the Board within the past year.

Compensation Committee Interlocks and Insider Participation

The current members of the Compensation Committee are Messrs. Askren, Gaffney and McWilliams. None of the members of the Compensation Committee has ever been an officer or employee of the Company or its subsidiaries, or had any relationship with the Company since the beginning of 2011 that requires disclosure under applicable SEC regulations.

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CODES OF ETHICS

We have adopted a Code of Business Conduct that applies to all employees, executives and directors, specifically including our Chief Executive Officer, our Chief Financial Officer and our Controller. We have also adopted a Code of Ethics for Financial Professionals (together with the Code of Business Conduct, the Codes of Ethics) that applies to all professionals in our finance and accounting functions worldwide, including our Chief Financial Officer and our Controller.

The Codes of Ethics are intended to deter wrongdoing and to promote:

- honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
- full, fair, accurate, timely and understandable public disclosures;
- compliance with applicable governmental laws, rules and regulations;
- the prompt internal reporting of violations of the Codes of Ethics; and
- accountability for compliance with the Codes of Ethics.

The Codes of Ethics are available at http://www.armstrong.com/corporate/corporate-governance.html and in print free of charge. Any waiver of the Company s Code of Business Conduct, particularly its conflicts-of-interest provisions, which may be proposed to apply to any director or executive officer also must be reviewed in advance by the Nominating and Governance Committee, which would be responsible for making a recommendation to the Board for approval or disapproval. The Board s decision on any such matter would be disclosed publicly in compliance with applicable legal standards and the rules of the NYSE. There were no waivers or exemptions from the Code of Business Conduct in 2011 applicable to any director or executive officer.

COMPENSATION OF DIRECTORS

In establishing director compensation, including the overall value of compensation and the mix of cash and equity, the Board analyzes competitive market data and any underlying director compensation trends generally, and against those of similarly-sized companies in comparable industries. The Board is compensated through a combination of annual retainers and equity grants in the form of stock units. The Board believes that this level of compensation supports the Company s ability to attract directors with suitable backgrounds and experiences. A director who is an officer or employee of the Company or its subsidiaries is not compensated for service on the Board or on any committee of the Board. At the request of Messrs. Bonderman and Burns, and as approved by the Board, neither receives compensation for services as director. Similarly, it is expected that Mr. Liaw will not receive compensation for his services as a director should he be elected to the Board at the Annual Meeting.

During 2011, the Board amended the compensation program for non-employee directors, including the Directors Stock Unit Plan, per the recommendation of the Nominating and Governance Committee, who was advised by its compensation consultant, Cook & Company.

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The table below shows the components of director compensation for 2011.

Director Compensation Table 2011

Name (a)	Fees Earned or Paid in Cash ($)[1] (b)	Stock Awards ($)[2] (c)	Option Awards ($)[3] (d)	Non-Equity Incentive Plan Compensation ($) (e)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)[4] (f)	All Other Compensation ($)[5] (g)	Total ($) (h)
S. Askren	97,500	100,000				0	197,500
J. Gaffney	87,500	100,000				0	187,500
T. Huang	77,500	100,000				0	177,500
M. Johnston	77,500	100,000				0	177,500
L. McWilliams	77,500	100,000				0	177,500
J. O Connor	165,000	195,000				0	360,000
J. Roberts	97,500	100,000				0	197,500
R. Wenz	77,500	100,000				3,750	181,250

(1) *Annual Retainers*. Following an amendment to the Board compensation program in June 2011, for the period beginning on June 24, 2011 and ending June 22, 2012, the Company pays its non-management directors an annual cash retainer for Board service in the amount of $85,000 and its non-executive Chairman of the Board an additional annual cash retainer of $95,000. Prior to the amendment and for the period beginning January 1, 2011 and ending June 30, 2011, these amounts were $70,000 and 80,000, respectively. In addition, the Company pays an annual retainer to the chairperson of each of the committees as follows: Audit, $20,000, Compensation $20,000; and Nominating and Governance, $10,000. These amounts were not affected by the amendment described above. The Company pays no committee membership or meeting attendance fees. Cash payments are made quarterly in arrears. Cash payments may be pro-rated by the Board to correspond to the period of time served by the director between such director s election and the next annual meeting of the shareholders.

(2) *Stock Awards*. For the period beginning on June 24, 2011 and ending June 22, 2012, the Company pays its non-management directors an annual equity retainer for Board service in the amount of $100,000, which is paid in stock units under the Directors Stock Unit Plan. The Company also pays its non-executive Chairman of the Board an additional annual equity retainer of $95,000. All directors named in the table above, except Mr. O Connor, received 2,300 stock units in 2011 as their annual equity retainer. Mr. O Connor received 4,448 stock units for his annual equity retainer. The stock units were awarded under the Directors Stock Unit Plan. Each stock unit represents the right to receive a share of stock and dividend equivalents when the director ends his service on the Board. The stock unit grants are typically granted annually on the first business day following the first regular Board meeting following the annual meeting of shareholders, but stock unit grants may be pro-rated by the Board to correspond to the period of time to be served by the director between such director s election and the next annual meeting of the shareholders. The stock units vest on the one-year anniversary of the award or, if earlier, the date of a change in control event, contingent upon the director s continued service through such date. Vested stock units granted prior to June 2011 are deliverable on the earlier of six months following the termination of the director s service on the Board or a change in control event, as defined in the Director Stock Unit Plan. All stock units, whether or not vested, are forfeited if the director is removed for cause, and unvested units are subject to forfeiture if the director terminates service for any reason prior to vesting. The grant date fair value of each director s annual award of 2,300 stock units was approximately $100,000, except for Mr. O Connor, whose grant date fair value for 4,448 stock units was approximately $195,000. For the number of stock units credited to each director s account as of December 31, 2011, see SECURITIES OWNERSHIP OF CERTAIN BENEFICIAL OWNERS, MANAGEMENT AND DIRECTORS.

(3) The directors do not receive stock options as part of their compensation for service on our Board.

(4) There is no plan or arrangement for directors to defer the compensation that they receive as part of their compensation for service on our Board.

(5) Mr. Wenz received special assignment fees in connection with his visits to two of our plant facilities.

Stock Ownership Guidelines

In accordance with our Corporate Governance Principles, each director must acquire and then hold until six months following the end of his service, phantom units and/or Common Shares equal in value to three times the director s annual retainer at the time he joined the Board. Directors endeavor to reach that level of ownership within five years of joining the Board. With the exception of Directors Espe, Huang, Johnston, McWilliams and Wenz, who were each elected to the Board in 2010, and Mr. Melville, who served on our Board from 2009 to 2010 and was appointed to our Board in February 2012, all of the current directors have already achieved this ownership requirement. As provided in our Corporate Governance Principles, such stock ownership requirement is not applicable to Messrs. Bonderman and Burns and will not apply to Mr. Liaw, should he be elected at the Annual Meeting who, while not holding shares individually, nevertheless are deemed to have an equity interest by virtue of their positions with Armor TPG who, together with the Trust, holds more than 63% of our outstanding Common Shares.

MANAGEMENT

Listed below are the names, ages and positions held by each of our executive officers.

Name	Age	Position
Matthew J. Espe	53	Chief Executive Officer and President
Victor D. Grizzle	50	Executive Vice President and CEO, Armstrong Building Products
Mark A. Hershey	42	Senior Vice President, General Counsel, Chief Compliance Officer and Secretary
Thomas M. Kane	51	Senior Vice President, Human Resources and Government Relations
Donald R. Maier	48	Senior Vice President, Global Operations Excellence
Thomas B. Mangas	44	Senior Vice President and Chief Financial Officer
Stephen F. McNamara	45	Vice President and Controller
Frank J. Ready	50	Executive Vice President and CEO, Armstrong Floor Products

Matthew J. Espe

Biographical information for Mr. Espe, our Chief Executive Officer and President, appears under Item 1 Election of Directors on page 5.

Victor D. Grizzle

Mr. Grizzle has served as our Executive Vice President and CEO, Armstrong Building Products since January 2011. Prior to joining us, Mr. Grizzle served as Group President of Global Structures, Coatings and Tubing for Valmont Industries, a global leader of infrastructure support structures for utility, telecom and lighting markets, and manufacturer of mechanized irrigation equipment for large scale farming, from 2005. From 2004 to 2005, Mr. Grizzle was President of the Commercial Power Division of EaglePicher Corporation, a diversified manufacturer and marketer of advanced technology and industrial products for space, defense, automotive, filtration, pharmaceutical, environmental and commercial applications. From 1988 to 2004, he spent 16 years at General Electric in a variety of leadership and management roles. Mr. Grizzle earned a Bachelor of Science in Mechanical Engineering from California Polytechnic University.

Mark A. Hershey

Mr. Hershey has served as our Senior Vice President, General Counsel and Secretary since July 2011, and Chief Compliance Officer since February 2012. Prior to joining us, Mr. Hershey was Senior Vice President, General Counsel, Chief Compliance Officer and Secretary for Ricoh Americas Corp., a subsidiary of Ricoh Company Ltd., a global manufacturer and leader in digital office equipment, software and solutions and successor to IKON Office Solutions, Inc. from 2005 to 2011. From 1999 to 2004, he served at IKON as Vice President Transactional Law from 2004 to 2005, and Senior Counsel. Prior to joining IKON, Mr. Hershey was an associate in the Corporate Department of Stradley, Ronon, Stevens and Young, LLP in Philadelphia, PA. Mr. Hershey earned a bachelor s degree in Finance from The Pennsylvania State University and a J.D. degree from Villanova University.

Thomas M. Kane

Mr. Kane has been our Senior Vice President, Human Resources and Government Relations since August 2010; and served as our Chief Compliance Officer from February 2011 to February 2012. Prior to joining us, Mr. Kane served as Global Vice President, HR for Black & Decker Power Tools, a manufacturer of power and hand tools, from 2002 to 2010. From 1999 to 2002, he served as Global HR leader for GE Specialty Materials in Waterford, N.Y., a large manufacturer of silicone products. Mr. Kane earned a bachelor s degree in Economics and Science from the State University of New York at Oneonta and an MBA from the State University of New York at Binghamton.

Donald R. Maier

Mr. Maier has served as our Senior Vice President, Global Operations Excellence since January 2010. Prior to joining us, from 2008 to 2010, Mr. Maier was employed by TPG and served as an operational consultant for certain of its portfolio companies, including as Director of Operational Excellence of Freescale Semiconductors, a leading global producer of imbedded micro-controllers, from March 2008 to November 2009. Mr. Maier previously served as Senior Vice President North America from 2005 to 2008 for Hill-Rom, a leading global producer of health care equipment, technology and workflow IT systems. Mr. Maier earned a bachelor s degree in Industrial Systems Engineering from The Ohio State University and his MBA, with a concentration in Marketing, from Xavier University.

Thomas B. Mangas

Mr. Mangas has served as our Senior Vice President and Chief Financial Officer since February 2010. Prior to joining us, Mr. Mangas served as Vice President and Chief Financial Officer of Beauty & Grooming Business of the Procter & Gamble Company, a global manufacturer and provider of a wide variety of consumer goods. Mr. Mangas previously served as General Manager and Chief Financial Officer of the Fabric Care Global Business Unit of P&G from 2005 to 2008 and Director and Chief Financial Officer of P&G Tüketim Mallari A.S. from 2003 to 2005. Mr. Mangas earned his bachelor s degree in Economics and History from the University of Virginia, where he was elected to the Phi Beta Kappa honorary society.

Stephen F. McNamara

Mr. McNamara has served as our Vice President and Controller since July 2008. Previously, Mr. McNamara served as our Director, Internal Audit from November 2005 to July 2008, our Assistant Controller from October 2001 to November 2005 and our Manager of External Reporting from May 1999 to October 2001. Prior to joining us in 1999, Mr. McNamara was Assistant Controller with Hunt Corporation, a former international art and office supply company. Mr. McNamara earned a bachelor s degree in accounting from Villanova University.

Frank J. Ready

Mr. Ready has served as our Executive Vice President and Chief Executive Officer, Armstrong Floor Products since January 2010. Previously, Mr. Ready served as our Executive Vice President and Chief Executive Officer

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North American Flooring Products from April 2008 to January 2010, President and Chief Executive Officer, North American Flooring Operations from June 2004 to April 2008, Senior Vice President, Sales and Marketing from July 2003 to June 2004, Senior Vice President, Operations from December 2002 to July 2003, and Senior Vice President, Marketing from June 2000 to December 2002. Mr. Ready earned a bachelor s degree in Business Administration from Franklin & Marshall College.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS,

MANAGEMENT AND DIRECTORS

Certain Beneficial Owners

The following table sets forth, as of April 9, 2012, each person or entity known to us that may be deemed to have beneficial ownership of more than 5% of our outstanding Common Shares. Beneficial ownership is determined in accordance with applicable rules of the SEC.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class Outstanding
Armstrong World Industries, Inc. Asbestos Personal Injury Settlement Trust c/o Kevin E. Irwin Keating Muething & Klekamp PLL One East Fourth Street, Suite 1400 Cincinnati, OH 45202	37,470,500[(1)]	63.76%
TPG Funds c/o TPG Global, LLC 301 Commerce Street, Suite 3300 Fort Worth, TX 76102	37,470,500[(2)]	63.76%
Fidelity Management and Research Company c/o Scott C. Goebel 82 Devonshire Street Boston, MA 02109	8,015,954[(3)]	13.64%

(1) This information is based on a Schedule 13D filed on August 11, 2009, by Edward E. Steiner, Anne M. Ferazzi, Harry Huge and Richard Neville on behalf of the Trust. Pursuant to a Purchase and Sale Agreement, dated as of August 10, 2009, among the Trust, TPG Partners V, L.P., a Delaware limited liability company (Partners V) and TPG Partners VI, L.P., a Delaware limited liability company (Partners VI), the Trust sold 7,000,000 shares of Common Shares to Armor TPG Holdings LLC, a Delaware limited liability company (Armor TPG). As a result of the Shareholders Agreement, the Trust and TPG may be deemed to be members of a group and to beneficially own the other member s Common Shares. The Trust may be deemed to have shared dispositive power over 37,470,500 shares.

(2)

Includes 7,489,020 Common Shares (the Armor Shares) directly held by Armor TPG and 29,981,480 Common Shares, (the Trust Shares and together with the Armor Shares, the TPG Shares) directly held by the Trust. The membership interests of Armor TPG are, collectively, beneficially owned by Partners V, TPG FOF V-A, LP, a Delaware limited partnership (FOF V-A), TPG FOF V-B, LP, a Delaware limited partnership (FOF V-B), Partners VI and TPG FOF VI SPV, LP, a Delaware limited partnership (together with Partners V, FOF V-A, FOF V-B and Partners VI, the TPG Funds). The general partner of Partners V, FOF V-A and FOF V-B is TPG GenPar V, L.P., a Delaware limited partnership, whose general partner is TPG GenPar V Advisors, LLC, a Delaware limited liability company, whose sole member is TPG Holdings I, L.P., a Delaware limited partnership (Holdings I), whose general partner is TPG Holdings IA, LLC, a Delaware limited liability company, whose sole member is TPG Group Holdings (SBS), L.P., a Delaware limited partnership, whose general partner is TPG Group Holdings (SBS) Advisors, Inc., a Delaware

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Corporation (Group Advisors). The general partner of Partners VI is TPG GenPar VI, L.P., a Delaware limited partnership whose general partner is TPG GenPar VI Advisors, LLC, a Delaware limited liability company, whose sole member is Holdings I. The general partner of FOF VI is TPG Advisors VI, Inc., a Delaware corporation (Advisors VI). Because of the relationship between Armor TPG, Advisors VI and Group Advisors, Advisors VI and Group Advisors, Advisors VI and Group Advisors may be deemed to beneficially own the Armor Shares. Because of the Shareholders Agreement, Advisors VI and Group Advisors may be deemed to beneficially own the Trust Shares. David Bonderman and James G. Coulter are directors, officers and sole shareholders of each of TPG Advisors VI and Group Advisors and may therefore be deemed to beneficially own the TPG Shares. Messrs. Bonderman and Coulter disclaim beneficial ownership of the TPG Shares, except to the extent of their pecuniary interest therein. Mr. Bonderman is also a director of Armstrong World Industries, Inc. The address of Advisors VI, Group Advisors and Messrs. Bonderman and Coulter is c/o TPG Global, LLC, 301 Commerce Street, Suite 3300, Fort Worth, Texas 76102.

(3) This information is based on a Schedule 13G Amendment No. 3 filed on February 14, 2012, by Scott C. Goebel on behalf of FMR LLC, Edward C. Johnson 3d and Fidelity Management and Research Company. Fidelity Management & Research Company (Fidelity), a wholly-owned subsidiary of FMR, LLC and an investment advisor registered under Section 203 of the Investment Advisors Act of 1940, is the beneficial owner of 7,604,707 of the shares as a result of acting as investment advisor to various investment companies registered under Section 8 of the Investment Company Act of 1940. Edward C. Johnson 3d and FMR LLC, through its control of Fidelity and the funds, each has sole power to dispose of the 7,604,707 shares owned by the funds.

Management and Directors

The following table sets forth, as of April 9, 2012 the amount of Common Shares beneficially owned by all directors and director nominees, the Company s currently serving named executive officers as identified in the COMPENSATION DISCUSSION AND ANALYSIS section on page 24 and all directors and executive officers as a group in accordance with SEC Rules.

Name	Common Stock	Common Stock Restricted[1][2]	Stock Options Exercisable within 60 Days	Total Beneficial Ownership
Stan A. Askren	0	0	0	0[3]
David Bonderman	37,470,500	0	0	37,470,500[4]
Kevin R. Burns	0	0	0	0[5]
Matthew J. Espe	6,867	0	132,985	139,852
James J. Gaffney	0	0	0	0[6]
Victor D. Grizzle	11,365	3,908	12,603	27,876
Tao Huang	0	0	0	0[7]
Michael F. Johnston	0	0	0	0[7]
Jeffrey Liaw	0	0	0	0[8]
Donald R. Maier	16,659	6,474	41,808	64,941
Thomas B. Mangas	11,119	13,334	88,121	112,574
Larry S. McWilliams	0	0	0	0[7]
James C. Melville	4,229	0	0	4,229
James J. O Connor	7,000	0	0	7,000
Frank J. Ready	30,468	12,500	245,281	288,249
John J. Roberts	0	0	0	0[6]
Richard E. Wenz	0	0	0	0[7]
Directors and Named Executive Officers as a group (17 persons)	37,558,207	36,216[9]	520,798	38,115,221

(1) Does not include vested restricted stock units (Vested Director Restricted Stock Units) granted to non-employee directors as part of their annual retainer for Board service that are not acquirable by the director within 60 days of April 9, 2012 under the terms of the Directors Stock Unit Plan. See Directors Aggregate Ownership table below for further information regarding Vested Director Restricted Stock Units, including amounts held by each director.

(2) Messrs. Grizzle, Maier, Mangas, and Ready have voting power with respect to their unvested restricted stock represented in this column.

(3) Excludes 14,724 Vested Director Restricted Stock Units. See Directors Aggregate Ownership table below for further information.

(4) Mr. Bonderman is a TPG Founding Partner. Mr. Bonderman is a director, officer and shareholder of Group Advisors and may therefore be deemed to beneficially own the TPG Shares. Mr. Bonderman disclaims beneficial ownership of the TPG Shares, except to the extent of his pecuniary interest therein. The address of Mr. Bonderman is c/o TPG Global, LLC, 301 Commerce Street, Suite 3300, Fort Worth, Texas 76102.

(5) Mr. Burns is a TPG Partner. Mr. Burns has no voting or investment power over and disclaims beneficial ownership of the TPG Shares. The address of Mr. Burns is c/o TPG Global, LLC, 301 Commerce Street, Suite 3300, Fort Worth, Texas 76102.

(6) Excludes 8,724 Vested Restricted Stock Units and 10,308 phantom stock units held pursuant to the 2006 Phantom Stock Unit Plan for nonemployee directors. See Directors Aggregate Ownership table below for further information.

(7) Excludes 8,042 Vested Director Restricted Stock Units. See Directors Aggregate Ownership table below for further information.

(8) Mr. Liaw is a TPG Principal. Mr. Liaw has no voting or investment power over and disclaims beneficial ownership of the TPG Shares. The address of Mr. Liaw is c/o TPG Global, LLC, 301 Commerce Street, Suite 3300, Fort Worth, Texas 76102.

(9) Excludes a total of 84,879 Vested Director Restricted Stock Units. See Directors Aggregate Ownership table below for further information.

Directors Aggregate Equity Ownership

The following table sets forth, as of April 9, 2012, for each non-employee director or non-employee director nominee, the amount of (i) Common Shares beneficially owned; (ii) Vested Director Restricted Stock Units held but not acquirable within 60 days of April 9, 2012; (iii) Unvested Restricted Stock Units held but not acquirable within 60 days of April 9, 2012; and (iv) Phantom Stock Units held. Under the terms of the Directors Stock Unit Plan, the Restricted Stock Units granted to each director as part of his retainer for Board service are not acquirable by the director until (i) for those restricted stock units granted prior to June 2011, six (6) months following the termination of his Board service, and, (ii) for those Restricted Stock Units granted during and after June 2011, at the time of the termination of his Board service. At the request of Messrs. Bonderman and Burns, and as approved by the Board, neither receives compensation for services as director. Similarly, it is expected that Mr. Liaw will not receive compensation for his services as a director should he be elected to the Board at the Annual Meeting.

Name	Common Shares	Vested Director Restricted Stock Units	Unvested Restricted Stock Units(1)	Phantom Stock Units	Total
Stan A. Askren	0	14,724	2,300	0	17,024
David Bonderman	37,470,500	0	0	0	37,470,500(2)
Kevin R. Burns	0	0	0	0	0(3)
James J. Gaffney	0	8,724	2,300	10,038	21,062
Tao Huang	0	8,042	2,300	0	10,342
Michael F. Johnston	0	8,042	2,300	0	10,342
Jeffrey Liaw	0	0	0	0	0(4)
Larry S. McWilliams	0	8,042	2,300	0	10,342
James C. Melville	4,229	0	662(5)	0	4,891

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Name	Common Shares	Vested Restricted Stock Units	Unvested Restricted Stock Units[1]	Phantom Stock Units	Total
James J. O Connor	7,000	20,539	4,448	0	31,987
John J. Roberts	0	8,724	2,300	10,038	21,062
Richard E. Wenz	0	8,042	2,300	0	10,342
Total	37,481,729	84,879	21,210	20,076	37,607,894

(1) Under the terms of the Directors Stock Unit Plan, restricted stock units vest on the first anniversary of the grant date. The restricted stock units listed in this column will vest on June 27, 2012.

(2) Mr. Bonderman is a TPG Founding Partner. Mr. Bonderman is a director, officer and shareholder of Group Advisors and may therefore be deemed to beneficially own the TPG Shares. Mr. Bonderman disclaims beneficial ownership of the TPG Shares, except to the extent of his pecuniary interest therein. The address of Mr. Bonderman is c/o TPG Global, LLC, 301 Commerce Street, Suite 3300, Fort Worth, Texas 76102.

(3) Mr. Burns is a TPG Partner. Mr. Burns has no voting or investment power over and disclaims beneficial ownership of the TPG Shares. The address of Mr. Burns is c/o TPG Global, LLC, 301 Commerce Street, Suite 3300, Fort Worth, Texas 76102.

(4) Mr. Liaw is a TPG Principal. Mr. Liaw has no voting or investment power over and disclaims beneficial ownership of the TPG Shares. The address of Mr. Liaw is c/o TPG Global, LLC, 301 Commerce Street, Suite 3300, Fort Worth, Texas 76102.

(5) Mr. Melville received a pro-rated grant of restricted stock units, as provided for under the Directors Stock Unit Plan, on February 28, 2012, in connection with his appointment to the Board on February 24, 2012.

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COMPENSATION DISCUSSION AND ANALYSIS

EXECUTIVE SUMMARY

Introduction

This compensation discussion and analysis (CD&A) provides a detailed description of our executive compensation philosophy and programs, the compensation decisions the Management Development and Compensation Committee (the Compensation Committee) made under those programs and the factors considered in making those decisions. This CD&A focuses on the compensation of our Chief Executive Officer (CEO), Chief Financial Officer (CFO) and our three most highly-compensated executive officers other than the CEO and CFO (together with the CEO and CFO, the Named Executive Officers or NEOs). Our 2011 Named Executive Officers were:

***Matthew J. Espe**, Chief Executive Officer and President*

Mr. Espe has served as our CEO since he joined us in July 2010;

***Thomas B. Mangas**, Senior Vice President and Chief Financial Officer*

Mr. Mangas has served as our CFO since he joined us in February 2010;

***Frank J. Ready**, Executive Vice President and Chief Executive Officer, Armstrong Floor Products*

Mr. Ready joined us in 1983 and has served as our global Armstrong Floor Products leader since March 2010;

***Victor D. Grizzle**, Executive Vice President and Chief Executive Officer, Armstrong Building Products*

Mr. Grizzle has served as our global Armstrong Building Products leader since he joined us in January 2011; and

***Donald R. Maier**, Senior Vice President, Global Operations Excellence*

Mr. Maier has served as our Global Operations leader since he joined us in January 2010.

Our compensation programs are designed to attract and retain talented employees and align their compensation with the long-term interests of shareholders by increasing the proportion of performance-based compensation as responsibility increases and tying significant portions of pay to longer-term performance.

2011 Compensation Decisions

During 2011, the Compensation Committee, in collaboration with its compensation consultant, Cook & Company, a nationally recognized and independent executive compensation advisory firm, and management, evaluated executive compensation best practices and made several key changes to our compensation programs in direct response to the ongoing needs of our business and current global strategies. These changes were aimed at reinforcing an appropriate balance between compensation risk and reward, and include:

- redesigning our annual cash bonus plan, the Management Achievement Plan (MAP), to incorporate financial performance measures that reward management for achieving significant growth in earnings and managing cash flow; in doing so, awards under our MAP are directly aligned to the achievement of our operating plan and are distinct from our long-term incentive measures;

- redesigning our long-term incentive equity program (LTIP) to expand our performance restricted awards to include a three-year performance period measured on the effective use of capital; in doing so, awards under our LTIP are directly aligned with the achievement of our strategic plan; and revising the compensation peer group used to benchmark the compensation of our NEOs to ensure that the composition of the peer group is consistent with market practice and appropriate for our size and industry.

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In determining fiscal 2011 compensation for each of our NEOs, the Compensation Committee evaluated and considered several key factors: competitive benchmark data; the executive s performance, including the performance of the executive s business unit or functional areas; and the executive s demonstrated leadership. The Compensation Committee sought to compensate each NEO in a manner that would appropriately recognize his experience, skills and contributions toward the attainment of short- and long-term objectives. The Compensation Committee also considered the Company s fiscal 2011 results, particularly noting the following significant areas of financial achievement:

EBITDA: We achieved full-year adjusted Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA) of $377 million, up $74 million, or 24%, from 2010 despite no meaningful improvement in our markets. All business units contributed to this result with significant contributions from our Wood Flooring division;

Free Cash Flow: We achieved $170 million in Free Cash Flow (FCF) (net cash provided by operating activities less capital expenditures) as a result of significant cash earnings growth, and a $50 million special dividend paid to us by our WAVE joint venture. The improvement in FCF more than offset increased capital expenditures as we build our three plants in China and a mineral wool plant in the United States, and increased interest rates resulting from our 2010 dividend recapitalization and cash restructuring payments;

Net Sales: Our net sales of $2.86 billion were up $90 million, or 3%, from 2010. The increase resulted primarily from price and mix, as global volumes were roughly flat. 2011 marked the first time in the last three years that volumes had not declined year over year; and

Return on Investment: We improved our Return on Invested Capital (ROIC) to 7.4%, including restructuring and cost reduction charges of $36 million. This result marked our highest ROIC since our emergence from bankruptcy in 2006, and exceeded our prior, post-emergence high of 6.4% achieved in 2007.

Notwithstanding the foregoing achievements and the 24% EBITDA increase over 2010, we did not achieve the 2011 EBITDA MAP financial target payout. The EBITDA shortfall, however, was partially offset by FCF performance, which was earned at the maximum payout for achieving the 2011 MAP FCF financial target. Accordingly, MAP payments to our NEOs ranged from 101% to 109% of an individual s target award based on the business unit and individual achievements for each NEO. In addition, despite the fact that 2011 marked our highest ROIC since our emergence from bankruptcy, we did not achieve the target ROIC for the first year of a three-year cumulative ROIC target for the 2011 2013 LTIP performance period. Although the potential exists for our NEOs to achieve or exceed the three-year ROIC target, performance in years two and three of the three-year performance period will need to exceed the targeted levels of ROIC contained in our strategic plan in order for our NEOs to earn targeted levels of performance-based equity under the 2011 LTIP awards.

COMPENSATION GOVERNANCE

Board and Compensation Committee

Our Board, through its Compensation Committee, designs our compensation programs to motivate our executives to lead us toward achieving short- and long-term financial and strategic goals. The Compensation Committee consists of three independent members of the Board and acts pursuant to a charter that has been approved by the Board and which is reviewed by the Compensation Committee annually. Approval of CEO compensation is reserved for the non-employee members of the Board. The Compensation Committee has responsibility for reviewing and approving compensation decisions for all of the NEOs.

Compensation Consultant

The Compensation Committee retains Cook & Company as its consultant to provide analysis, advice and recommendations with regard to executive compensation. The Compensation Committee also authorizes Cook & Company to share with, request and receive from management specified information in order to prepare for and

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respond to Compensation Committee meetings and requests. Cook & Company does not work with our management without the Compensation Committee s knowledge and approval. Other than occasional immaterial assistance to our Human Resources staff in furtherance of Cook & Company s duties to the Compensation Committee, Cook & Company does not perform any other services for us. As described in COMPENSATION OF DIRECTORS on pages 16 and 17, Cook & Company assisted the Board s Nominating and Governance Committee in connection with its assessment of non-employee director compensation in 2011.

At the request of the Compensation Committee, in addition to providing general compensation advice, Cook & Company performed the following services during 2011:

- recommended changes to our MAP and LTIP programs to align with our human resources objectives and business strategy, with such changes being subsequently approved by our shareholders at our 2011 Annual Shareholder meeting;
- assessed our compensation peer group and recommended changes that were subsequently adopted by the Compensation Committee;
- reviewed management s assessment of executive officer compensation and opportunity relative to market;
- reviewed management s Say on Pay recommendations in preparation for our 2011 Annual Shareholder meeting;
- reviewed our approach to compensation risk assessment; and
- provided an update on marketplace practices and relevant executive compensation legislation.

CEO

Our CEO submits recommendations to the Compensation Committee regarding cash and equity compensation, performance goals and overall compensation levels for his direct reports. Acting independently, the Compensation Committee then exercises its discretion in determining and approving actual awards to these employees.

Management

Our Senior Vice President of Human Resources attends all Compensation Committee meetings and supports the Compensation Committee with its various compensation responsibilities. Our CEO routinely attends Compensation Committee meetings, and at various times throughout the year, is joined by our CFO, in order to provide information and updates regarding the Company s performance against strategic and financial objectives. The Compensation Committee receives input and recommendations from our Senior Vice President of Human Resources regarding cash and equity compensation plus performance goals and compensation for our CEO prior to making its independent determination and recommendation to the Board regarding CEO compensation.

COMPENSATION OBJECTIVES, ELEMENTS, CHARACTERISTICS AND PROCESS

Objectives

In developing our executive compensation program, the Compensation Committee focuses on four key objectives:

- attracting and retaining talented employees globally by offering competitive compensation packages;

aligning the interests of management with shareholders by ensuring that management does well only when shareholders do well;

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paying for performance by paying more when financial and individual results meet or exceed established goals and paying less when goals are not met; and

further aligning shareholders and management s interests, and retaining management by tying a portion of compensation to the long-term performance of the Company.

Elements and Characteristics

Our executive compensation program is comprised of the following three elements:

Element	***Characteristics***
Base Salary	Fixed cash component
Provides a base level of compensation for performing and assuming the executive s duties and leadership responsibility.	Reviewed annually by the Compensation Committee
Annual Bonus (MAP)	Shareholder-approved plan
Provides an annual incentive for achieving financial results based on performance goals tied to our annual operating plan.	Paid in cash, based on goal attainment
	Goals established annually based on annual operating plan
	Awards tied to Company, business unit and individual performance, including leadership behaviors
Long-term Incentive Compensation (LTIP)	Shareholder-approved plan
Drives and promotes the long-term goals of our shareholders, and fosters retention, by rewarding execution and achievement of goals that are linked to our longer term strategic initiatives.	Equity awards
	Various forms
	-Stock options (service-based vesting)
	-Stock awards (performance-based vesting)

Performance-based awards tied to Company financial performance measured over a three-year performance period

Alignment of Compensation and Objectives

The following table illustrates how our executive compensation elements align with our compensation objectives:

Executive Compensation Element	Attract Talented Employees	Align Management and Shareholder Interests	Pay for Performance	Motivate and Retain Management
Base Salary	Ö		Ö	
Annual Bonus (MAP)	Ö	Ö	Ö	Ö
Long-Term Incentive (LTIP)	Ö	Ö	Ö	Ö

Tax Deductibility of Compensation

The design of our annual short- and long-term incentive plans, including awards under our MAP and grants of equity under our LTIP, are intended to qualify cash and certain stock incentives as performance-based compensation under Section 162(m) of the Internal Revenue Code.

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SIGNIFICANT COMPENSATION DECISIONS IN 2011

MAP and LTIP Redesign

The Compensation Committee, in conjunction with management and Cook & Company, assessed and redesigned our MAP and LTIP programs during 2011 to ensure that our incentive programs effectively align with our global strategic priorities.

The Compensation Committee established the following goals for the assessment:

- align MAP and LTIP incentives closely with the annual operating and three-year strategic plans established by the Board;
- establish ambitious objectives to provide meaningful short- and long-term incentives to management;
- develop specific and measurable performance goals that are focused on positioning the Company for long-term growth; and
- maintain consistency between incentive compensation opportunities and the overall philosophy of the executive compensation program established by the Compensation Committee.

MAP Redesign

Our MAP applies to senior and middle managers (employees with base salaries of approximately $120,000 and higher) and rewards leaders for achieving annual financial goals consistent with our operating plan. A target award is established equal to a percentage of each participant s annual base salary. As a guide in setting the percentages, the Company considers the median award opportunity levels at comparable companies, adjusted for differences in company size. The process used for establishing the target award opportunities for our executive officers is explained more fully in NEOs Benchmarking Results on page 33.

Cash incentives to our NEOs under the MAP are intended to be qualified performance-based compensation for purposes of Rule 162(m). As discussed below, at the beginning of a performance period, the Compensation Committee establishes a performance matrix that sets the maximum amount that may be paid and an expected level of compensation opportunity under the MAP to each of our NEOs at various levels of financial performance. The Compensation Committee has the discretion, at the end of the performance period, to pay MAP incentive amounts to our NEOs that are less than the maximum Section 162(m) payouts, and typically expects to exercise that discretion. The Compensation Committee also has the discretion to pay out less than the expected level of compensation opportunity to a NEO under the MAP. In determining whether and to what extent to exercise discretion to approve payments that are less than the maximum 162(m) payout, or less than the expected level of compensation opportunity, the Compensation Committee gives primary consideration to the annual incentive amount that would be payable to the NEO based upon the application of the Expected Payout as a % of Target Bonus column in the performance matrix shown below and considers other factors such as individual performance, the Company s performance compared to competitors, external business conditions and the achievement of personal and strategic goals. MAP participants are told to plan on receiving no more than the expected level of compensation opportunity.

Operating income had been the primary performance measure used for MAP during the past ten years. We also used this measure as the basis for performance-based awards under our LTIP. The Compensation Committee determined the financial measures to be used for MAP should differ from those used for LTIP in order to provide a greater balance between the two incentive plans and reduce potential compensation risk. The Compensation Committee also determined that the MAP should use no more than two measures to provide clarity to participants, and should closely align with the three key elements of our business strategy:

- win in core markets, namely North America and Western Europe;

reduce costs in mature markets to fund growth in emerging markets; and

grow in emerging markets, namely China, Russia, India and Brazil.

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The Compensation Committee evaluated several financial measures and determined the two most suitable measures for MAP for 2011 were EBITDA and FCF. Both measures directly align to key elements of our operating plan and would effectively measure management s execution of the plan. The following table reflects how the use of EBITDA and FCF aligns to several key financial performance indicators associated with our operating plan:

MAP Financial Measure	Key Financial Performance Indicators
EBITDA	Improved revenues
	Improved manufacturing productivity through use of cost saving LEAN initiatives
	Efficient materials and energy usage
	Improved selling, general and administrative cost structures
Free Cash Flow	Effective cash utilization
	Efficient working capital management

The Compensation Committee determined the MAP opportunity for Messrs. Espe, Mangas and Maier would be measured using a weighting of 80% corporate EBITDA and 20% corporate FCF, and the MAP opportunity for Messrs. Ready and Grizzle would be measured using a weighting of 70% for their respective worldwide business unit s EBITDA, 10% corporate EBITDA and 20% corporate FCF. The Compensation Committee believed that this weighting placed the appropriate focus on EBITDA versus FCF and provided an effective line of sight for each of the NEOs. These weightings also provided a consistent level of alignment across the senior leadership team by having a portion of each NEO s bonus opportunity tied to achievement of corporate EBITDA and FCF.

The Compensation Committee established individual EBITDA payout opportunity schedules for the Company s corporate, worldwide floor products and ceilings businesses and a corporate FCF payout opportunity schedule. In developing the payout opportunity schedules, the Compensation Committee considered the amount of required year over year improvement in EBITDA, the degree of difficulty and probability of achieving the various EBITDA and FCF performance levels and the percent of incremental revenue to be split between the employees and shareholders. The following table outlines the approved threshold, target and maximum payouts, and associated financial goals for the payout opportunity schedules for our NEOs.

2011 MAP Payout Opportunity Schedules

	Financial Goal ($M)	% Achievement of Financial Target	Maximum Payout as a % of Target Bonus	Expected Payout as a % of Target Bonus
Corporate EBITDA				
Threshold Payout	$ 349.7	80%	70%	50%
Target Payout	$ 427.0	100%	135%	115%
Maximum Payout	$ 473.3	114%	200%	200%
Worldwide Floor Products EBITDA				
Threshold Payout	$ 84.5	56%	70%	50%
Target Payout	$ 149.5	100%	135%	115%
Maximum Payout	$ 167.2	115%	200%	200%