ARMSTRONG WORLD INDUSTRIES INC
Form 10-Q
October 30, 2008

**Table of Contents**

**UNITED STATES**
**SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**
**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended September 30, 2008**

**OR**

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

**For the transition period from __________ to __________**

**ARMSTRONG WORLD INDUSTRIES, INC.**
(Exact name of registrant as specified in its charter)

| | | |
|---|---|---|
| Pennsylvania | 1-2116 | 23-0366390 |
| (State or other jurisdiction of incorporation or organization) | Commission file number | (I.R.S. Employer Identification No.) |

| | |
|---|---|
| P. O. Box 3001, Lancaster, Pennsylvania | 17604 |
| (Address of principal executive offices) | (Zip Code) |

Registrant s telephone number, including area code (717) 397-0611

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ Accelerated filer o Non-accelerated filer o Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

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

Number of shares of Armstrong World Industries, Inc. s common stock outstanding as of October 23, 2008 57,029,095

TABLE OF CONTENTS

**Table of Contents**

**Uncertainties Affecting Forward-Looking Statements**

Our disclosures here and in other public documents and comments contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act. Those statements provide our future expectations or forecasts, and can be identified by our use of words such as anticipate, estimate, expect, project, intend, plan, outlook, etc. in discussions of future operating or financial performance or the outcome of contingencies such as liabilities or legal proceedings, or our ability to pay any dividends or take any particular corporate action.

Any of our forward-looking statements may turn out to be wrong. Our actual future results, or our ability to pay any dividend or take any particular corporate action, may differ materially. Forward-looking statements involve risks and uncertainties (such as those discussed in the Risk Factors section below) because they relate to events and depend on circumstances that may or may not occur in the future. We undertake no obligation beyond what is required under applicable securities law to update any forward-looking statement.

**Risk Factors**

Our business, operations and financial condition are subject to various risks. These risks should be taken into account in evaluating any investment decision involving Armstrong. It is not possible to predict or identify all factors that could cause actual results to differ materially from expected and historical results. The following discussion is a summary of what we believe to be our most significant risk factors and is not a complete list of all risks and uncertainties that might affect our future results. These and other factors could cause our actual results to differ materially from those in forward-looking statements made in this report.

We try to reduce both the likelihood that these risks will affect our businesses and their potential impact. But, no matter how accurate our foresight, how well we evaluate risks, and how effective we are at mitigating them, it is still possible that one of these problems or some other issue could have serious consequences for us, up to and including a materially adverse effect. See related discussions in this document and our other SEC filings for more details and subsequent disclosures.

Claims, litigation and regulatory actions

While we strive to ensure that our products comply with applicable government regulatory standards and internal requirements, and that our products perform effectively and safely, customers from time to time could claim that our products do not meet contractual requirements, and users could be harmed by use or misuse of our products. This could give rise to breach of contract, warranty or recall claims, or claims for negligence, product liability, strict liability, personal injury or property damage. The building materials industry has been subject to claims relating to silicates, mold, PVC, formaldehyde, toxic fumes, fire-retardant properties and other issues, as well as for incidents of catastrophic loss, such as building fires. Product liability insurance coverage may not be available or adequate in all circumstances. In addition, claims may arise related to patent infringement, environmental liabilities, distributor terminations, commercial contracts, antitrust or competition law, employment law and employee benefits issues, and other regulatory matters. While we have in place processes and policies to mitigate these risks and to investigate and address such claims as they arise, we cannot predict the costs to defend or resolve such claims.

**Table of Contents**

Construction activity variability and the size of the market opportunity

Our businesses have greater sales opportunities when construction activity is strong and, conversely, have fewer opportunities when such activity declines. Construction activity tends to increase when economies are strong, interest rates are favorable, government spending is strong, and consumers are confident. When the economy is weak and access to credit is limited, customers, distributors and suppliers are at heightened risk of defaulting on their obligations. Since most of our sales are in the U.S., its economy is the most important for our business, but conditions in Europe, Canada and the Pacific Rim also are relevant.

Raw materials and sourced product issues

The cost and availability of raw materials, packaging materials, energy and sourced products are critical to our operations. For example, we use substantial quantities of natural gas, petroleum-based raw materials, hardwood lumber and mineral fiber in our manufacturing operations. The cost of some items has been volatile in recent years and availability has sometimes been tight. We source some materials from a limited number of suppliers, which, among other things, increases the risk of unavailability. Limited availability could cause us to reformulate products or to limit our production. The impact of increased costs is greatest where our ability to pass along increased costs through price increases on our products is limited, whether due to competitive pressures or other factors.

Consumer preference and competition

Our customers consider our products performance, product styling, customer service and price when deciding whether to purchase our products. Shifting consumer preference in our highly competitive markets, e.g. from residential vinyl products to other flooring products, styling preferences or inability to offer new competitive performance features could hurt our sales. For certain products, there is excess industry capacity in several geographic markets, which tends to increase price competition, as does competition from overseas competitors with lower cost structures.

International trade and operations

A significant portion of our products move in international trade, particularly among the U.S., Canada, Europe and Asia. Also, approximately 30% of our annual revenues are from operations outside the U.S. Our international trade is subject to currency exchange fluctuations, trade regulations, import duties, logistics costs and delays and other related risks. They are also subject to variable tax rates, credit risks in emerging markets, political risks, uncertain legal systems, restrictions on repatriating profits to the U.S. and loss of sales to local competitors following currency devaluations in countries where we import products for sale.

Challenges in executing operational restructuring actions

We look for ways to make our operations more efficient and effective. We reduce, move and expand our plants and operations as needed. Each action generally involves substantial planning and capital investment. We can err in planning and executing our actions, which could hurt our customer service and cause unplanned costs.

Labor contracts

Most of our manufacturing employees are represented by unions and are covered by collective bargaining or similar agreements that must be periodically renegotiated. Although we anticipate that we will reach new contracts as current ones expire, our negotiations may result in a significant increase in our costs. Failure to reach new contracts could lead to work stoppages, which could hurt production, revenues, profits and customer relations.

Dependence on key customers

Some of our businesses are dependent on a few key customers. For example, much of our North America revenue comes from sales to home center retailers including The Home Depot, Inc. and Lowe s Companies, Inc. We do not have long-term contracts with them. The loss of sales to one of these major customers, or changes in our business relationship with them, could hurt both our revenues and profits.

Table of Contents

# PART I FINANCIAL INFORMATION

## Item 1. Financial Statements

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

| | Three Months Ended September 30, 2008 | Three Months Ended September 30, 2007 | Nine Months Ended September 30, 2008 | Nine Months Ended September 30, 2007 |
|---|---|---|---|---|
| Net sales | $ 929.6 | $ 913.3 | $ 2,684.6 | $ 2,697.3 |
| Cost of goods sold | 717.9 | 684.1 | 2,061.8 | 2,033.1 |
| Gross profit | 211.7 | 229.2 | 622.8 | 664.2 |
| Selling, general and administrative expenses | 145.9 | 155.8 | 452.7 | 453.5 |
| Restructuring charges, net | | 0.1 | 0.8 | 0.2 |
| Equity earnings from joint ventures | (16.4) | (12.6) | (48.1) | (35.1) |
| Operating income | 82.2 | 85.9 | 217.4 | 245.6 |
| Interest expense | 7.5 | 13.8 | 23.7 | 44.6 |
| Other non-operating expense | 0.8 | 0.2 | 1.2 | 1.0 |
| Other non-operating (income) | (2.1) | (4.4) | (8.5) | (12.4) |
| Chapter 11 reorganization costs, net | | 0.2 | | 0.3 |
| Earnings from continuing operations before income taxes | 76.0 | 76.1 | 201.0 | 212.1 |
| Income tax expense | 36.9 | 27.7 | 94.4 | 80.3 |
| Earnings from continuing operations | 39.1 | 48.4 | 106.6 | 131.8 |
| (Loss) from discontinued operations, net of income tax of $0.0, $0.0, $0.4 and $0.3 | (0.2) | (0.3) | (0.1) | (6.1) |
| Net earnings | $ 38.9 | $ 48.1 | $ 106.5 | $ 125.7 |
| Earnings per share of common stock, continuing operations: | | | | |
| Basic | $ 0.69 | $ 0.86 | $ 1.89 | $ 2.36 |
| Diluted | $ 0.69 | $ 0.85 | $ 1.88 | $ 2.33 |
| (Loss) per share of common stock, discontinued operations: | | | | |
| Basic | $ | $ (0.01) | $ | $ (0.11) |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Diluted | $ | | $ | (0.01) | $ | | $ | (0.11) |
| | | | | | | | | |
| Net earnings per share of common stock: | | | | | | | | |
| Basic | $ | 0.69 | $ | 0.86 | $ | 1.89 | $ | 2.25 |
| Diluted | $ | 0.69 | $ | 0.85 | $ | 1.88 | $ | 2.22 |
| | | | | | | | | |
| Average number of common shares outstanding: | | | | | | | | |
| Basic | | 56.4 | | 56.2 | | 56.4 | | 55.9 |
| Diluted | | 56.7 | | 56.8 | | 56.6 | | 56.5 |

See accompanying notes to Condensed Consolidated Financial Statements beginning on page 9.

**Table of Contents**

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

| | Unaudited September 30, 2008 | December 31, 2007 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 315.0 | $ 514.3 |
| Accounts and notes receivable, net | 355.3 | 300.7 |
| Inventories, net | 554.7 | 543.5 |
| Deferred income taxes | 43.5 | 43.5 |
| Income tax receivable | 25.3 | 25.3 |
| Other current assets | 65.5 | 63.2 |
| Total current assets | 1,359.3 | 1,490.5 |
| Property, plant and equipment, less accumulated depreciation and amortization of $257.2 and $158.9, respectively | 957.6 | 1,012.8 |
| Prepaid pension costs | 758.1 | 708.0 |
| Investment in affiliates | 239.2 | 232.6 |
| Intangible assets, net | 675.4 | 686.5 |
| Deferred income taxes | 357.9 | 424.5 |
| Other noncurrent assets | 85.4 | 84.5 |
| Total assets | $ 4,432.9 | $ 4,639.4 |
| **Liabilities and Shareholders Equity** | | |
| Current liabilities: | | |
| Short-term debt | $ 4.7 | $ 3.9 |
| Current installments of long-term debt | 40.4 | 24.7 |
| Accounts payable and accrued expenses | 390.9 | 428.2 |
| Income tax payable | 8.0 | 0.5 |
| Deferred income taxes | 29.5 | 29.5 |
| Total current liabilities | 473.5 | 486.8 |
| Long-term debt, less current installments | 462.8 | 485.8 |
| Postretirement and postemployment benefit liabilities | 313.4 | 318.6 |
| Pension benefit liabilities | 201.4 | 205.5 |
| Other long-term liabilities | 66.3 | 67.8 |
| Income taxes payable | 162.5 | 159.4 |
| Deferred income taxes | 470.0 | 471.4 |
| Minority interest in subsidiaries | 6.9 | 6.9 |
| Total noncurrent liabilities | 1,683.3 | 1,715.4 |

| | | | | |
|---|---|---|---|---|
| Shareholders equity: | | | | |
| Common stock, $0.01 par value per share, authorized 200 million shares; issued 57,058,198 shares and 56,828,754 shares, respectively | | 0.6 | | 0.6 |
| Capital in excess of par value | | 2,022.0 | | 2,112.6 |
| Retained earnings | | 92.2 | | 147.5 |
| Accumulated other comprehensive income | | 161.3 | | 176.5 |
| Total shareholders equity | | 2,276.1 | | 2,437.2 |
| Total liabilities and shareholders equity | $ | 4,432.9 | $ | 4,639.4 |

See accompanying notes to Condensed Consolidated Financial Statements beginning on page 9.

**Table of Contents**

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

| | Nine Months Ended September 30, 2008 | | Nine Months Ended September 30, 2007 | |
|---|---|---|---|---|
| Common stock: | | | | |
| Balance at beginning of year and September 30 | $ 0.6 | | $ 0.6 | |
| Capital in excess of par value: | | | | |
| Balance at beginning of year | $ 2,112.6 | | $ 2,099.8 | |
| Share-based employee compensation | 4.8 | | 9.4 | |
| Dividends in excess of retained earnings | (95.4) | | | |
| Balance at September 30 | $ 2,022.0 | | $ 2,109.2 | |
| Retained earnings: | | | | |
| Balance at beginning of year | $ 147.5 | | $ 2.2 | |
| Net earnings for period | 106.5 | $ 106.5 | 125.7 | $ 125.7 |
| Dividends | (161.8) | | | |
| Balance at September 30 | $ 92.2 | | $ 127.9 | |
| Accumulated other comprehensive income: | | | | |
| Balance at beginning of year | $ 176.5 | | $ 62.1 | |
| Foreign currency translation adjustments | (14.5) | | 27.9 | |
| Derivative gain (loss), net | 1.3 | | (6.2) | |
| Pension and postretirement adjustments | (2.0) | | 0.5 | |
| Total other comprehensive (loss) income | (15.2) | (15.2) | 22.2 | 22.2 |
| Balance at September 30 | $ 161.3 | | $ 84.3 | |
| Comprehensive income | | $ 91.3 | | $ 147.9 |
| Total shareholders equity | $ 2,276.1 | | $ 2,322.0 | |

See accompanying notes to Condensed Consolidated Financial Statements beginning on page 9.

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

| | Nine Months Ended September 30 2008 | 2007 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net earnings | $ 106.5 | $ 125.7 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | |
| Depreciation and amortization | 113.4 | 100.9 |
| Deferred income taxes | 66.7 | 66.3 |
| Share-based compensation | 4.8 | 9.4 |
| Equity earnings from affiliates, net | (48.1) | (35.1) |
| Distributions from equity affiliates | 41.5 | 104.0 |
| Cash effect of hedging activities | 0.6 | (1.7) |
| Changes in operating assets and liabilities: | | |
| Receivables | (59.8) | (26.6) |
| Inventories | (17.6) | (2.6) |
| Other current assets | (1.1) | (12.2) |
| Other noncurrent assets | (50.5) | (45.2) |
| Accounts payable and accrued expenses | (26.4) | 11.4 |
| Income taxes payable/receivable, net | 9.9 | 30.7 |
| Other long-term liabilities | (12.1) | (17.0) |
| Cash distributed under the POR | (2.9) | (14.4) |
| Other, net | 3.3 | 4.1 |
| Net cash provided by operating activities | 128.2 | 297.7 |
| Cash flow from investing activities: | | |
| Purchases of property, plant and equipment and computer software | (55.3) | (60.3) |
| Acquisitions | (0.8) | (5.2) |
| Divestitures | | 53.4 |
| Proceeds from the sale of assets | 0.4 | 2.4 |
| Net cash (used for) investing activities | (55.7) | (9.7) |
| Cash flows from financing activities: | | |
| Increase in short-term debt, net | 0.8 | 1.3 |
| Issuance of long-term debt | 5.4 | |
| Payments of long-term debt | (13.3) | (304.7) |
| Financing costs | (2.6) | |
| Dividend to minority interest | | (1.2) |
| Special dividend paid | (256.4) | |
| Net cash (used for) financing activities | (266.1) | (304.6) |

| | | |
|---|---|---|
| Effect of exchange rate changes on cash and cash equivalents | (5.7) | 14.9 |
| Net (decrease) in cash and cash equivalents | (199.3) | (1.7) |
| Cash and cash equivalents at beginning of year | 514.3 | 263.8 |
| Cash and cash equivalents at end of period | $ 315.0 | $ 262.1 |

See accompanying notes to Condensed Consolidated Financial Statements beginning on page 9.

**Table of Contents**

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

NOTE 1. BUSINESS AND BASIS OF PRESENTATION

Armstrong World Industries, Inc. ( AWI ) is a Pennsylvania corporation incorporated in 1891. When we refer to we , our and us in this report, we are referring to AWI and its subsidiaries.

The accounting policies used in preparing the Condensed Consolidated Financial Statements in this Form 10-Q are the same as those used in preparing the Consolidated Financial Statements for the year ended December 31, 2007. These statements should therefore be read in conjunction with the Consolidated Financial Statements and notes that are included in the Form 10-K for the fiscal year ended December 31, 2007. In the opinion of management, all adjustments of a normal recurring nature have been included to provide a fair statement of the results for the reporting periods presented. Quarterly results are not necessarily indicative of annual earnings, primarily due to the different level of sales in each quarter of the year and the possibility of changes in general economic conditions.

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

Our policy is to record distributions from equity investments using the equity in earnings method and report returns on investments as cash flows from operating activities. Accordingly, Distributions from equity affiliates in the 2007 Condensed Consolidated Statements of Cash Flows was reclassified from cash flows from investing activities to cash flows from operating activities. The amount reclassified was $104.0 million in the nine months ended September 30, 2007. In addition, certain amounts in the Condensed Consolidated Statements of Earnings were reclassified from selling, general and administrative expenses to cost of goods sold. The amount reclassified was $0.6 million in the three months ended September 30, 2007 and $1.7 million in the nine months ended September 30, 2007. We also reclassified $10.5 million in the December 31, 2007 Condensed Consolidated Balance Sheet from Accounts payable and accrued expenses to Accounts and notes, receivable, net. This reclassification also resulted in a reclassification of $0.1 million in the 2007 Condensed Consolidated Statement of Cash Flows from changes in accounts payable and accrued expenses to changes in receivables.

In September 2006, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements ( FAS 157 ), which establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. FAS 157 is generally effective for fiscal years beginning after November 15, 2007. However, the effective date for certain non-financial assets and liabilities was deferred to fiscal years beginning after November 15, 2008. We adopted the required provisions of FAS 157 on January 1, 2008. There was no material impact from adopting FAS 157.

In March 2007, the FASB ratified Emerging Issues Task Force Issue No. 06-10 Accounting for Collateral Assignment Split-Dollar Life Insurance Agreements ( EITF 06-10 ). EITF 06-10 provides guidance for determining a liability as well as recognition and measurement of the associated asset on the basis of the terms of the collateral assignment agreement. We adopted EITF 06-10 on January 1, 2008. There was no material impact from adopting EITF 06-10.

**Table of Contents**

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

Operating results for the third quarter and first nine months of 2008 and the corresponding periods of 2007 included in this report are unaudited. However, these Condensed Consolidated Financial Statements have been reviewed by an independent registered public accounting firm in accordance with standards of the Public Company Accounting Oversight Board (United States) for a limited review of interim financial information.

NOTE 2. CHAPTER 11 REORGANIZATION

On December 6, 2000, AWI filed a voluntary petition for relief (the Filing ) under Chapter 11 of the U.S. Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware in order to use the court-supervised reorganization process to achieve a resolution of AWI s asbestos-related liability. Also filing under Chapter 11 were two of AWI s wholly-owned subsidiaries, Nitram Liquidators, Inc. ( Nitram ) and Desseaux Corporation of North America, Inc. ( Desseaux ).

On October 2, 2006 (the Effective Date ), AWI s plan of reorganization ( POR ) became effective, and AWI emerged from Chapter 11. The POR excludes AWI s Nitram and Desseaux subsidiaries, neither of which is material to Armstrong and which pursued separate resolutions of their Chapter 11 cases (see below).

Resolution of Disputed Claims

All claims in AWI s Chapter 11 case that remained open as of the end of 2007 have been resolved and closed. In February 2008 AWI made a final distribution to general unsecured creditors of AWI under the POR. Distributions were not made for creditors who did not provide required information to AWI. These remaining claimants had until October 24, 2008 to provide the needed information. Some distributions remained unclaimed and, accordingly, AWI will recognize a pre-tax gain of approximately $0.9 million in the fourth quarter of 2008. The Bankruptcy Court closed the estate on September 2, 2008.

Resolution of Nitram and Desseaux Cases

In September 2007, Nitram and Desseaux proposed a joint plan of liquidation to the Bankruptcy Court. On December 17, 2007, the Bankruptcy Court approved the Joint Amended Plan of Liquidation (the Joint Plan ). The Joint Plan became effective December 28, 2007. Armstrong contributed $0.2 million to the estate of Nitram and Desseaux in 2007. Armstrong and its subsidiaries subordinated their claims to those of other unsecured creditors under the Joint Plan and will receive no distribution from the bankruptcy estate in this case.

Claimants alleging personal injury claims under the Joint Plan are allowed to proceed only against the pre-existing insurance coverage assets of Nitram and will not share in any distribution of general assets.

Deadlines under the Joint Plan for claimants to file claims based on rejected executory contracts or unexpired leases, for administrative claims and for final fee applications passed in January 2008. An initial distribution to unsecured creditors was made in the first quarter of 2008. The Bankruptcy Court closed both estates on August 26, 2008, and a final distribution was made in these cases on September 22, 2008. Nitram and Desseaux will be dissolved.

**Table of Contents**

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

Reversal of POR-Related Contingent Liability

The POR stipulated that any money received from insurance companies post-emergence for certain environmental matters was owed to the unsecured creditors if the money was received prior to the final distribution being made to the general unsecured creditors. At emergence, we had a $2.1 million receivable for expected insurance recoveries. We also recorded a $2.1 million liability to reflect the POR s requirement to pay any received money to the creditors. Since emergence, we have not received any environmental-related money from the insurance companies. With the final distribution made in the first quarter of 2008, we no longer owe any recoveries to the creditors. Accordingly, the $2.1 million liability was reversed in the first quarter of 2008 as a reduction of selling, general and administrative expense. See Note 18 for further discussion of the $2.1 million receivable.

Review of Strategic Alternatives

On February 15, 2007, we announced that we had initiated a review of our strategic alternatives. On February 29, 2008, we announced that we have completed the strategic review process after extensive evaluation of alternatives, including a possible sale of our individual businesses and the entire company. The Board of Directors concluded that it is in the best interest of Armstrong and its shareholders to continue to execute our strategic operating plan under our current structure as a publicly traded company.

NOTE 3. SEGMENT RESULTS

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| Net sales to external customers | 2008 | 2007 | 2008 | 2007 |
| Resilient Flooring | $ 336.9 | $ 327.9 | $ 973.5 | $ 941.4 |
| Wood Flooring | 171.0 | 191.9 | 500.1 | 602.8 |
| Building Products | 374.1 | 334.8 | 1,070.4 | 970.8 |
| Cabinets | 47.6 | 58.7 | 140.6 | 182.3 |
| | | | 6) | |

What improvements did you make? In addition to a Superior Offer, we added a $350mm reverse break-up fee and removed the

burdensome force the vote
obligation that NYSE Euronext agreed to with Deutsche Börse. Furthermore, we only require approval by
holders of a majority of the outstanding NASDAQ OMX and ICE shares, unlike the DB / NYSE transaction which is conditioned on approval
by the holders of at least 75% of the outstanding DB shares.
Without the benefit of a dialog with the NYSE Euronext Board, NASDAQ OMX and ICE presented a fair and balanced Merger Agreement based largely on the existing Deutsche Börse agreement. The companies remain open to discussing and addressing any legitimate concerns NYSE has on execution and negotiating a merger agreement that is acceptable to each of our companies

8
DB s Additional Synergies Are Not Credible
NYSE Euronext investors should be highly skeptical that after two years of exploratory merger discussions, including more than six months dedicated to finalizing the transaction, NYSE Euronext has suddenly found a reported 100 million in additional synergies
This

increase
appears
not
to
be
a
matter
of
sharpening
a
pencil,
but
an
unexplained
shift
in
strategy
The discovery that initial synergies were understated by one-third comes after receiving a Superior Proposal from NASDAQ OMX and ICE that achieves greater synergies
If there are additional synergies to be found after the merger economics have been agreed, then it has to come at the expense of NYSE Euronext stockholders because there has been no increase in the price they are being offered
NYSE
Euronext
should
describe
these
newly-found
synergies
in
detail
in
order
to
support
the
credibility
of
these
revised estimates, particularly in light of commitments to retain two technology platforms and two headquarters
Increasingly it appears that NYSE Euronext is more focused on protecting the transaction than its stockholders
NASDAQ OMX and ICE have described in detail our proven and focused long-term strategy from which stockholders would benefit and our companies demonstrated outperformance relative to their proposed strategy of creating a financial supermarket
We look forward to having the same opportunity when the NYSE Euronext Board agrees to due diligence

9
Key Points for NYX Stakeholders to Consider
What NYSE Euronext Will Tell You
What NYSE Euronext Will Tell You
The Reality
The Reality
NASDAQ / ICE

PROPOSAL FACES
UNACCEPTABLE
ANTITRUST RISKS

NASDAQ OMX / ICE proposal recognizes the global nature of competition for listings and trading and the dramatic increase in off-exchange trading

A combined NASDAQ OMX / NYSE will create a global listing franchise that can attract issuers from around the world, create deeper and more liquid markets, improve transparency, increase market access and connectivity, enhance effectiveness of regulation and create a better advocate for issuers on regulatory matters

The U.S. listings business is tightly regulated by the SEC

Listing location is independent of where a stock actually trades

HSR review of NASDAQ OMX and ICE proposal is underway and NASDAQ OMX has received and is responding to a Second Request for information in connection with NASDAQ OMX s filing

The DB proposal will be subject to a lengthy and extensive regulatory and competition review due to combined Euronext / Liffe market position in European derivatives and provides no protection for NYSE Euronext stockholders in the event that DB fails to receive regulatory approval

Unlike the DB proposal, NASDAQ OMX / ICE proposal includes a $350mm reverse breakup fee in the event of a failure to obtain required antitrust or competition approval

The NASDAQ OMX / ICE proposal will not survive review by antitrust regulators

antitrust issues regarding U.S. listings cannot be overcome

Potential European competition issues with DB proposal will be easily resolved

Distinguishing Between NYSE Euronext s Stated Myths vs. the Reality

REVERSE BREAKUP
FEE IS ILLUSORY

The reverse breakup fee is illusory as the fee would merely offset NYSE Euronext s termination fee paid to DB

NASDAQ OMX and ICE will pay the termination fee to DB provided for in the business combination agreement and the reverse breakup fee of $350mm will be an incremental fee to NYSE Euronext stakeholders if antitrust and competition approvals were not obtained

10
Key Points for NYX Stakeholders to Consider
DB PROPOSAL
DELIVERS GREATER
LONG-TERM
STAKEHOLDER
VALUE

NASDAQ OMX / ICE proposal offers far greater long-term
value
from
synergy
opportunities

$740mm
of
anticipated
synergies vs. DB proposal of $533mm (revised to $728mm)
NYSE Euronext and DB management have been unable to
realize stated synergies in past acquisitions
NYSE Euronext and DB s poor integration and execution have
resulted in meaningful value destruction for shareholders with
over $2.5bn of write-downs since 2008
NASDAQ OMX / ICE proposal creates two global exchanges
under proven and specialized management teams with strong
track records of achieving synergies and integrating
acquisitions
NASDAQ OMX and ICE have superior track records of
creating
stakeholder
value

both
have
delivered
double-digit
earnings growth over the past 3 years while NYSE Euronext s
and DB s businesses have declined
Size
and
being
a
diversified
conglomerate
does
not
ensure
success or an increase in shareholder value
NYSE acquired Euronext for $10bn -
the same value DB is
offering for both NYSE and Euronext
Merger-of-equals structure gives stakeholders
exposure to the strongest global exchange group
The DB proposal delivers greater capital efficiency
savings to the market participants
DB and NYSE Euronext have a strong track record of
delivering on synergies and efficiently integrating
acquisitions

NASDAQ OMX / ICE proposal may offer higher short-
term value but will result in significantly lower long-
term value for stakeholders
Distinguishing Between NYSE Euronext s Stated Myths vs. the Reality
What NYSE Euronext Will Tell You
What NYSE Euronext Will Tell You
The Reality
The Reality
SYNERGIES
EXPECTED IN NYX /
DB COMBINATION
ARE CONSERVATIVE
After sharpening their pencils , NYSE and DB found 100
million in additional synergies. Total synergies could
reach approximately 500mm ($728mm) compared with
$740mm in the NASDAQ OMX/ICE proposal
NYSE and DB have historically failed to achieve targeted
synergy levels and implementation timing
DB failed to integrate the ISE technology platform 3 years
following the transaction
NYSE failed to realize over $100mm in promised synergies in
the Euronext acquisition
NASDAQ OMX and ICE management teams have proven
track records of achieving synergies and integrating
acquisitions
Any additional synergies now discovered represent lost value
for NYX stockholders with no change in merger economics

11
Key Points for NYX Stakeholders to Consider
Distinguishing Between NYSE Euronext s Stated Myths vs. the Reality
What NYSE Euronext Will Tell You
What NYSE Euronext Will Tell You
The Reality
The Reality

NASDAQ OMX / ICE
PROPOSAL IS
STRATEGICALLY
UNATTRACTIVE AND
LACKING IN
BUSINESS LOGIC

NASDAQ OMX / ICE proposal creates two nimble entrepreneurial global exchanges run by two best-in-class operators in cash equities and derivatives that are better positioned to compete globally and adapt to rapidly changing industry dynamics

NASDAQ OMX / ICE proposal unlocks greater value and provides stakeholders with exposure to two leading pure play exchanges and over 60% exposure to the high growth derivatives sector, while the DB proposal offers exposure to a single exchange that will likely receive a conglomerate discount

A combined DB / NYSE Euronext will be an inefficient, bureaucratic supermarket exchange model with an entrenched management team

Combination with DB is consistent with NYSE Euronext s long-term strategy

Breaking up NYSE Euronext into its pieces will destroy value and create an unattractive portfolio of businesses

Globally diversified exchanges are more competitive and provide superior value for stakeholders

NASDAQ OMX would be highly concentrated in cash equities which is becoming a low-growth, low-margin business

NYSE EURONEXT IS
NOT FOR SALE

The proposed DB transaction is not a sale of the NYSE Euronext but rather a merger-of-equals

The NASDAQ OMX / ICE proposal is a takeover that undervalues the pieces of the company

The DB / NYSE transaction is a low-premium takeover (only a 10% premium to unaffected share price at announcement)

DB will control the Board and each Board Committee; DB CEO will be responsible for group strategy and global relationship management; DB President will become Deputy CEO and President of the combined entity; DB CFO will become CFO of the combined entity

If NYSE s different businesses are undervalued as claimed, then NYSE has grossly mismanaged its businesses and has failed to pursue a strategy that increases shareholder value

12
Key Points for NYX Stakeholders to Consider
NASDAQ OMX / ICE
PROPOSAL WILL
RESULT IN
UNACCEPTABLE JOB
LOSSES

The NASDAQ OMX / ICE proposal destroys the
invaluable
human
capital
at
NYSE
Euronext
NASDAQ OMX will close the NYSE floor
The majority of synergies in the NASDAQ OMX / ICE
proposal will be realized through job losses in New
York
NASDAQ OMX is committed to preserving the NYSE floor
Consistent with the cultures at NASDAQ OMX and ICE, as well
as in prior transactions, NYSE Euronext employees will be
evaluated based on a pure meritocracy as this serves the best
interests of the combined business and ultimately creates
shareholder value
The majority of synergies will be derived from eliminating
redundant
technologies
and
systems
-
not
employees
DB has stated that job losses will be minimal in Germany
which leaves the U.S. as the primary venue for down-sizing in
order to achieve the announced synergy targets
Distinguishing Between NYSE Euronext s Stated Myths vs. the Reality
What NYSE Euronext Will Tell You
What NYSE Euronext Will Tell You
The Reality
The Reality
U.S. IS NOT AT RISK
OF LOSING ITS
COMPETITIVENESS IN
THE GLOBAL
MARKETS
The U.S. equities market is currently efficient and
successfully competing on a global basis
Developing global capabilities are more important
than building an American stronghold
From 1995 to 2010, listings on U.S. exchanges shrank by 38%
from 8,000 to 5,000 while listings on non-U.S. exchanges grew
by 74% from 23,000 to 40,000
Since 2006, only 9 of the 100 largest IPOs listed in the U.S.
A combined NASDAQ OMX / NYSE will strengthen the U.S.
market while increasing its global competitiveness
A combined NASDAQ OMX / NYSE will ensure that the U.S.
remains a relevant financial center and a focus of U.S. capital

formation

13
Key Points for NYX Stakeholders to Consider
NASDAQ OMX DOES
NOT HAVE ENOUGH
COMMITTED
FINANCING IN THE
EVENT OF A

DOWNGRADE
NASDAQ OMX  s post-transaction capital structure will
result in a downgrade of its credit rating which will
trigger the repayment of the assumed NYSE Euronext
debt
NASDAQ OMX will be unable to fund the additional
financing requirement
NASDAQ OMX has received fully committed financing from a
syndicate of banks including Bank of America, Nordea Bank
AB (publ), Skandinaviska Enskilda Banken AB (publ) and UBS
Investment Bank
NASDAQ OMX can obtain the necessary financing in the
event of a downgrade since pro forma leverage levels would
remain unchanged
NASDAQ OMX is committed to a prudent use of leverage to
finance the transaction and is focused on maintaining its
investment grade rating
Distinguishing Between NYSE Euronext  s Stated Myths vs. the Reality
What NYSE Euronext Will Tell You
What NYSE Euronext Will Tell You
The Reality
The Reality
NASDAQ OMX WILL
BE HIGHLY LEVERED
WITH NO STRATEGIC
FLEXIBILITY
The NASDAQ OMX / ICE proposal will burden the
new company with high levels of debt
Levered NASDAQ OMX will be strategically limited
and unable to compete going forward due to high debt
burden
NASDAQ OMX and ICE are committed to a prudent use of
leverage
NASDAQ OMX is focused on maintaining its investment-grade
credit rating and expects to reach its target leverage ratio of
2.5x within 18 months of closing
NASDAQ OMX has a strong track record of achieving
synergies much faster than expected and using excess cash
flow to pay down debt ahead of schedule

14
Key Points for NYX Stakeholders to Consider
Distinguishing Between NYSE Euronext s Stated Myths vs. the Reality
What NYSE Euronext Will Tell You
What NYSE Euronext Will Tell You
The Reality
The Reality

NASDAQ OMX / ICE PROPOSAL IGNORES TAX LEAKAGE FROM BREAKUP OF BUSINESS

NASDAQ OMX / ICE PROPOSAL WILL NOT BE TAX-FREE TO STAKEHOLDERS

The NASDAQ OMX / ICE proposal will result in a taxable transaction to NYX stakeholders

NASDAQ OMX and ICE expect their proposal can be structured as a tax-free transaction to NYSE Euronext stakeholders with respect to the stock consideration to be issued, subject to due diligence and the co-operation of NYSE Euronext

The NASDAQ OMX / ICE proposal will result in a significant taxable event to the pro forma businesses that will destroy shareholder value

NASDAQ OMX and ICE have studied publicly available information regarding the NYSE/Euronext combination in 2007 and do not anticipate a significant tax cost associated with the separation of the European derivatives business in the proposed transaction, subject to confirmation through due diligence

Further, the DB/NYSE Euronext Combination Agreement contemplates a restructuring of the European businesses from U.S. to European ownership which may face similar tax issues and thus, may reflect their own view that any tax leakage is not prohibitive

15
Key Provisions in the DB / NYX Agreement Favor DB
ANTITRUST REVERSE
BREAK FEE
COMPETING BID AND
FAILURE TO PERFORM
FORCE THE VOTE

EXECUTION RISK

The following conditions to DB / NYSE transaction create execution risks that do not impact the proposed NASDAQ OMX/ ICE transaction, and therefore introduce additional deal uncertainly not present in the NASDAQ OMX/ICE transaction:

The DB / NYSE transaction is conditioned on approval, in the form of tendering into an exchange offer, by the holders of at least 75% of the outstanding DB shares. In contrast, the NASDAQ OMX/ICE transaction only requires approval by holders of a majority of the outstanding NASDAQ OMX and ICE shares

The DB / NYSE transaction is conditioned on there not being any circumstances relating to NYSE Euronext that, according to the assessment of an independent expert, has or have resulted in, or would reasonably be expected to result in, a decrease in the consolidated net revenues of NYSE Euronext of at least $300,000,000 in the 2011 financial year and/or 2012 financial year, to the extent the decrease is recurrent. There is no similar condition in the NASDAQ OMX/ICE proposal

In the event that the DB / NYSE transaction is unable to close as a result of a failure to obtain antitrust or competition approvals, DB can walk away from the transaction without having to compensate NYSE Euronext. In contrast, NASDAQ OMX and ICE will share a $350 million reverse break-up fee if their transaction does not close as a result of a failure to obtain antitrust or competition approvals

The DB / NYSE agreement does not provide for a termination fee to NYSE Euronext in the event that DB receives an acquisition proposal and then breaches the agreement, thus creating a backdoor way to get out of the transaction without paying a breakup fee. The NASDAQ OMX/ICE proposal does not give NASDAQ OMX or ICE this loophole

The DB / NYSE agreement requires NYSE Euronext to take the DB / NYSE transaction to a stockholder vote even if NYSE receives a superior proposal that it would prefer and even if it changes its recommendation