

Armstrong Flooring, Inc.  
Form 4  
January 18, 2017

**FORM 4**

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

Check this box  
if no longer  
subject to  
Section 16.  
Form 4 or  
Form 5  
obligations  
may continue.  
See Instruction  
1(b).

**STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF  
SECURITIES**

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934,  
Section 17(a) of the Public Utility Holding Company Act of 1935 or Section  
30(h) of the Investment Company Act of 1940

## OMB APPROVAL

OMB  
Number: 3235-0287  
Expires: January 31,  
2005  
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burden hours per  
response... 0.5

(Print or Type Responses)

1. Name and Address of Reporting Person \*  
Maier Donald R.

(Last) (First) (Middle)

C/O ARMSTRONG FLOORING,  
INC., 2500 COLUMBIA  
AVENUE,P.O. BOX 3025

(Street)

LANCASTER, PA 17603

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading  
Symbol

Armstrong Flooring, Inc. [AFI]

3. Date of Earliest Transaction  
(Month/Day/Year)

01/17/2017

4. If Amendment, Date Original  
Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to  
Issuer

(Check all applicable)

☐ Director ☐ 10% Owner  
☒ Officer (give title below) ☐ Other (specify  
below)

President and CEO

6. Individual or Joint/Group Filing(Check  
Applicable Line)

☒ Form filed by One Reporting Person  
☐ Form filed by More than One Reporting  
Person

**Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned**

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)	5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Ownership (Instr. 4)
Common Stock	01/17/2017		M	(A) or (D) Amount 8,498 (1) Price \$ 19.91	19,061	D	
Common Stock	01/17/2017		F	(A) or (D) Amount 2,966 (2) Price \$ 19.91	16,095	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

**Persons who respond to the collection of  
information contained in this form are not  
required to respond unless the form  
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SEC 1474  
(9-02)

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**Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned**  
(e.g., puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)	5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)	8. Title and Amount of Underlying Securities (Instr. 3 and 4)
Restricted Stock Units	(3)	01/17/2017		M	8,498	01/17/2017 (4)	Common Stock	8,498

## Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Maier Donald R. C/O ARMSTRONG FLOORING, INC. 2500 COLUMBIA AVENUE,P.O. BOX 3025 LANCASTER, PA 17603	X		President and CEO	

## Signatures

/s/Christopher S. Parisi,  
Attorney-in-fact  
01/18/2017

Signature of Reporting Person

Date

## Explanation of Responses:

\* If the form is filed by more than one reporting person, see Instruction 4(b)(v).

\*\* Intentional misstatements or omissions of facts constitute Federal Criminal Violations. See 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

- (1) Reflects the conversion of previously granted restricted stock units into shares of Issuer's common stock in connection with the vesting of the restricted stock units. Each restricted stock unit represents a contingent right to receive one share of Issuer's common stock.
- (2) Represents the number of shares withheld by the Issuer to satisfy the Reporting Person's tax obligations upon the vesting of restricted stock awards granted to the Reporting Person.
- (3) Each restricted stock unit represents a contingent right to receive one share of the Issuer's common stock under the Issuer's long-term incentive plan.
- (4) Not applicable.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, see Instruction 6 for procedure.

Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. ze="1" noshade>Name and Address of Beneficial Owners(1)NumberPercent

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State of Wisconsin Investment Board(2)

8,042,600 10%

P.O. Box 7842

Madison, WI 53707

Trusts for the Benefit of the children of Fred S.L. Chan(3)

11,083,755 14%

Fred S.L. Chan(4)

21,464,897 26%

Didier Pietri(5)

809,436 1%

William Scharninghausen

\*

George M. Cain

\*

Herbert Chang(6)

18,000 \*

Michael S. Dubester

\*

Matthew K. Fong

80,974 \*

All executive officers and directors as a group (7 persons)

22,373,307 27%

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\* Less than 1% of the outstanding shares of the Company's Common Stock.

- (1) Unless otherwise indicated, the address for each beneficial owner is c/o Vialta, Inc., 48461 Fremont Boulevard, Fremont, CA 94538.
- (2) Based on a filing with the Securities Exchange Commission on February 14, 2003 indicating beneficial ownership as of December 31, 2002.
- (3) Includes shares held by trusts for the benefit of the children of Mr. and Mrs. Chan. Includes 8,800,000 shares held by Evershine XVI, L.P., an entity controlled by a trust for the benefit of Mr. Chan's children.
- (4) Includes 480,680 shares in which Mr. Chan has the right to acquire on or within 60 days of March 31, 2003 through the exercise of options. Includes 28,134 shares which Annie M. H. Chan, the spouse of Mr. Chan, has the right to acquire within 60 days of March 31, 2003 through exercise of options.
- (5) Includes 750,000 shares in which Mr. Pietri has the right to acquire on or within 60 days of March 31, 2003 through the exercise of options.
- (6) Includes 18,000 shares in which Mr. Chang has the right to acquire on or within 60 days of March 31, 2003 through the exercise of options.

### EXECUTIVE OFFICERS

Certain information about William Scharninghausen, an executive officer of the Company is set forth below. Information about Messrs. Chan and Pietri is set forth above in Proposal No. 1 Election of Directors.

*William M. Scharninghausen*, 46, has been Chief Financial Officer of the Company since October 2002. Prior to joining Vialta, he was the Chief Financial Officer of Diva Systems, Inc., a video on demand technology company, from January 1999 to September 2002. He also served as the Senior Vice President of Finance and Administration of Diva Systems, Inc. from June 1997 to September 2002. As part of Gemstar-TV Guide International, Inc.'s proposed purchase of Diva's assets, Diva filed a Chapter 11 bankruptcy petition and pre-negotiated plan of reorganization on May 29, 2002 in the Northern District of California.



**Table of Contents****EXECUTIVE COMPENSATION**

The following table sets forth the compensation earned by the Named Executive Officers: (1) the Company's Chief Executive Officer and (2) the Company's other executive officers for the fiscal year 2002.

**Summary Compensation Table**

Name and Principal Position	Fiscal Year	Annual Compensation			Long-Term Compensation	All Other Compensation(2)
		Salary	Bonus	Other Annual Compensation(1)	Awards Securities Underlying Options	
Fred S.L. Chan(3)	2002	\$248,000	\$	\$		\$950
Chairman of the Board of Directors	2001	248,000				966
	2000	248,000				966
Didier Pietri(4)	2002	\$300,000	\$100,000			\$950
President and Chief Executive Officer	2001	188,636			2,000,000	252
	2000					
William Scharninghausen(5)	2002	\$ 28,038			250,000	\$ 86
Chief Financial Officer	2001					
	2000					

- (1) In accordance with SEC rules, perquisites and personal benefits have been omitted because such benefits, if any, did not exceed the reporting thresholds under SEC rules.
- (2) Includes dollar value of premiums paid by the Company under the Company's group term life insurance policy and accidental death and dismemberment policy on behalf of the Names Executive Officers.
- (3) Mr. Chan was President of the Company from its inception through April 2001 and was its Chief Executive Officer from its inception through August 28, 2001.
- (4) Mr. Pietri joined the Company as President on April 30, 2001 and became Chief Executive Officer on August 29, 2001.
- (5) Mr. Scharninghausen joined the Company as Chief Financial Officer on October 16, 2002.

**OPTION GRANTS IN LAST FISCAL YEAR**

Name	Individual Grants		Exercise Price	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term	
	Number of Securities Underlying Options Granted	Percent of Total Options Granted to Employees in Fiscal Year			5%	10%
Fred S.L. Chan	0	0%				
Didier Pietri	0	0%				
William M. Scharninghausen(1)	250,000	28%	\$ 0.50	11/5/2012	\$ 226,250	\$ 287,500

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- (1) Options vest at a rate of 25% on each of the one and two year anniversary of grant and 1/48 on each one month anniversary thereafter.

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**AGGREGATE OPTIONS EXERCISES IN LAST FISCAL YEAR AND  
FISCAL YEAR-END VALUES**

The following table sets forth certain information concerning the exercise of options by each of the Named Executive Officers during fiscal year 2002, including the aggregate amount of gains on the date of exercise. In addition, the table includes the number of shares covered by both exercisable and unexercisable stock options as of December 31, 2002.

Name	Shares Acquired on Exercise	Value Realized	Number of Securities Underlying Unexercised Options at Fiscal Year End		Value of Unexercised In-The-Money Options at Fiscal Year-End(1)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Fred S.L. Chan	0	\$	456,055	1,241,325	\$ 141,377	\$ 109,811
Didier Pietri	0	\$	500,000	1,500,000	0	0
William M. Scharninghausen	0	\$	0	250,000	0	0

- (1) Valuation of these options is based on the closing bid price of \$0.31 per share, as quoted on the over the counter bulletin board on December 31, 2002.

**EMPLOYMENT AGREEMENTS**

Didier Pietri has an employment agreement, originally entered into on April 2001, with the Company pursuant to which he is entitled to receive an annual salary of \$300,000. In addition to basic compensation, Mr. Pietri was entitled to participation in employee benefit plans, stock option grants and a guaranteed bonus of \$100,000 after one year of service. In April 2002, this employment agreement was amended and extended for an additional year. Under the terms of the extension, the guaranteed bonus was reduced to \$75,000, and a discretionary bonus of \$75,000 was added. Any discretionary bonus must be paid before the expiration of the agreement. The Company, subject to the approval of the Compensation Committee, is currently negotiating a further extension of Mr. Pietri employment agreement.

**Table of Contents****PERFORMANCE GRAPH**

The graph below compares the cumulative total stockholder return on the Common Stock of the Company from the first day of trading of the Company's Common Stock after the Company's spin-off from ESS Technology, Inc. (August 21, 2001) to December 31, 2002 with the cumulative total return on the NASDAQ Stock Market Index and the Dow Jones Consumer Electronics Industry Index (assuming the investment of \$100 in the Company's Common Stock and in each of the indexes on the date of the Company's initial public offering, and reinvestment of all dividends). The stock price performance on the following graph is not necessarily indicative of future stock price performance.

The information provided in the Performance Graph contained in the Proxy Statement the Company filed for the prior fiscal year included information for the NASDAQ Stock Market Index and the Dow Jones Consumer Electronics Industry Index that was not adjusted for stock splits and did not assume the reinvestment of dividends. The information for both indices in the following Performance Graph has been adjusted for stock splits and assumes the reinvestment of dividends.

**Stock Price Performance**

**August 23 (Inception), 2001    December 31, 2002**

The following description data are supplied in accordance with Rule 304(d) of Regulation S-T:

	<b>Vialta, Inc.</b>	<b>NASDAQ Composite</b>	<b>Dow Jones Consumer Electronics Index</b>
<b>Date</b>	<b>Investment Value</b>	<b>Investment Value</b>	<b>Investment Value</b>
8/23/01	\$ 100.00	\$ 100.00	\$ 100.00
12/31/01	\$ 263.83	\$ 105.90	\$ 112.12
12/31/02	\$ 64.89	\$ 73.21	\$ 127.59

Notwithstanding anything to the contrary set forth in any of the Company's previous filings under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, that might incorporate future filings, including this Proxy Statement, in whole or in part, the following and the Performance Graph in this proxy shall not be incorporated by reference into any such filing.



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**REPORT OF THE AUDIT COMMITTEE**

The Company's management has the primary responsibility for the integrity of the Company's financial information. The Company's independent accountants are responsible for conducting independent audits of the Company's financial statements in accordance with generally accepted auditing standards and expressing an opinion on the financial statements based on those audits. The Audit Committee nominates the independent accountants for approval by the Board and is responsible for overseeing the conduct of the above activities by management and such accountants.

As part of its responsibility, the Audit Committee has met with the Company's independent accountants to review and discuss the adequacy of the Company's internal control system, financial reporting procedures and other matters required to be discussed by the Statement of Auditor Standards 61 such as the independent accountant's judgments as to the quality of the financial statements, changes in the accounting policies and sensitive accounting estimates. The Audit Committee has reviewed and discussed the audited financial statements with management and the Company's independent accountants. The Audit Committee reviewed the general scope of the Company's annual audit and fees charged by the independent accountants and reviewed and monitored the performance of non-audit services by the Company's accountants. The Audit Committee has received the written disclosures and the letter from the independent accountants required by Independent Standards Board Standard No. 1 and has discussed with the independent accountants that firm's independence.

Based upon these reviews and discussions, the Audit Committee recommended to the Board that the audited financial statement be included in the Company's annual report on Form 10-K for the year ended December 31, 2002.

AUDIT COMMITTEE

/s/ MATT FONG

/s/ HERBERT CHANG

**REPORT OF THE COMPENSATION COMMITTEE ON EXECUTIVE COMPENSATION**

**General**

The Committee acts on behalf of the Board to examine and implement the general compensation policy of the Company for all executive officers and such other employees of the Company as the Board of Directors may deem appropriate. The Committee reviews the general compensation policy applicable to the Chief Executive Officer ( CEO ) and other executive officers on an annual basis. The Committee administers the Company's incentive and equity plans, including the 1999 Stock Incentive Plan, the 2000 Directors Stock Option Plan and the 2001 Nonstatutory Stock Option Plan.

The Company's policy in compensating its executive officers is intended to attract, motivate and retain these executives. Consistent with this policy, key executives are eligible to receive, in addition to their base salaries, stock option grants under the 1999 Stock Incentive Plan in amounts determined by the Board of Directors based on recommendations by the Compensation Committee. Stock options have value for these executives only if the price of the Company's stock increases above the fair market value on the grant date and the executive remains in the Company's employ for the period required for the shares to vest. Additional incentive compensation is also considered by the Committee based on individual performance and the achievement of short term goals.

The base salary, incentive compensation and stock option grants of the executive officers are determined in part by the Committee reviewing data on prevailing compensation practices in technology companies with

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whom the Company competes for executive talent and by their evaluating such information in connection with the Company's corporate goals. To this end, the Committee attempts to compare the compensation of the Company's CEO and other executive officers with the compensation practices of comparable companies to determine base salary, target bonuses and target total cash compensation.

### **Compensation of Executive Officers**

During the fiscal year that ended on December 31, 2002, the Company's executive compensation program was comprised of the following key components: base salary, annual bonus, and equity-based incentives.

*Base Salary.* The Company sets the base salaries of its executives at levels believed to be consistent with comparably sized companies engaged in similar industries.

*Equity-Based Incentive Compensation.* Stock options are an important component of the total compensation of executives. The Company believes that stock options align the interests of each executive with those of the stockholders. They also provide executives a significant, long-term interest in the Company's success and help retain key executives in a competitive market for executive talent. The Company's 1999 Equity Incentive Plan authorizes the Committee to grant stock options to executives. The number of shares owned by, or subject to options held by, each executive officer is periodically reviewed and additional awards are considered based upon past performance of the executive and the relative holdings of other executives in the Company. The option grants generally utilize four-year vesting periods to encourage executives to continue contributing to the Company, and they expire not later than ten years from the date of grant.

### **Compensation of the Chief Executive Officer**

The Company's CEO's compensation plans include the same elements and performance measures as the plans of the Company's other executive officers. The Compensation Committee evaluates the performance of the Company's CEO, sets his base compensation and determines bonuses and awards stock or option grants, if any.

Mr. Pietri joined the Company in April of 2001 and the Company entered into a one-year employment agreement with him. In determining the terms of his agreement, the Compensation Committee considered a number of factors and criteria including, Mr. Pietri's depth of experience, his past accomplishments with other companies, his vision and leadership abilities, and the future needs of the Company. In making its compensation decisions with Mr. Pietri, the Compensation Committee also considered the need to retain Mr. Pietri and decided to award him a bonus at the end of one full year's service. Based on his successes to date, the Company decided to advance this bonus in January 2002. In April 2002, Mr. Pietri's employment agreement with the Company was amended and extended for an additional year. Under the terms of the extension, the guaranteed bonus was reduced to \$75,000, and a discretionary bonus of \$75,000 was added to the agreement. The guaranteed bonus of \$75,000 was paid in January 2003, and the discretionary bonus of \$75,000 was paid in April 2003. The Compensation Committee exercised its discretion and judgment based on the above factors, and no specific formula was applied to determine the weight of any factor.

### **Deductibility of Executive Compensation**

The Compensation Committee has considered the impact of Section 162(m) of the Code, which disallows a deduction for any publicly held corporation for individual compensation exceeding \$1 million in any taxable year for the CEO and four other most highly compensated executive officers, unless such compensation meets the requirements for the performance-based exception to the general rule. Since the cash compensation paid by the Company to each of its executive officers is expected to be below \$1 million, the Compensation Committee believes that this section will not affect the tax deductions available to the

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Company. It will be the Compensation Committee's policy to qualify, to the extent reasonable, the executive officers' compensation for deductibility under applicable tax law.

**COMPENSATION COMMITTEE**

/s/ MATT FONG

/s/ HERBERT CHANG

**COMPENSATION COMMITTEE INTERLOCKS  
AND INSIDER PARTICIPATION**

Fred Chan, who is the Chairman of the Company, participated in deliberations of the Company's Board of Directors concerning executive officer compensation. Matthew Fong, who was an employee of the Company through January 2003, and Didier Pietri, who remains an officer of the Company, also participated in deliberations of the Company's Board of Directors concerning executive officer compensation.

Vialta employs Fred S.L. Chan's brother as its Senior Director of IT and one of his sons as its Director of Product Marketing and Design. The salary and benefits provided to these individuals for fiscal 2002 was \$105,000 and \$88,000, respectively. Another of Mr. Chan's sons is employed as a Marketing Coordinator and received salary and benefits during the last fiscal year that did not exceed \$60,000.

No Compensation Committee interlocks existed during 2002.

**CERTAIN RELATIONSHIPS AND CERTAIN TRANSACTIONS**

Vialta employs Fred S.L. Chan's brother as its Senior Director of IT and one of his sons as its Director of Product Marketing and Design. The salary and benefits provided to these individuals for fiscal 2002 was \$105,000 and \$88,000, respectively, and they also received the Company's standard employee benefits package. Another of Mr. Chan's sons is employed as a Marketing Coordinator and received salary and benefits during the last fiscal year that did not exceed \$60,000.

Mr. Chan is Chairman of the Board of ESS Technology, Inc., and owns approximately 20.6% of the outstanding common stock of ESS. Prior to its spin-off in August 2001, Vialta was a subsidiary of ESS. Vialta leases its corporate headquarters and purchases component parts from ESS. The companies are also parties to an Administrative and Management Services Agreement. During 2002, Vialta made payments to ESS of \$1,852,000 under the lease, \$1,403,000 for component parts, \$201,000 for administrative and management services, \$27,000 for services received in fiscal 2001, and received payments from ESS of \$223,000 for administrative and management services, \$77,000 for product sales and \$124,000 for services rendered in fiscal 2001. Vialta believes it paid fair market value for the lease based on a review of lease rental rates in its area and believes the prices it was charged for parts is equivalent to those charged by ESS to other manufacturers.

**SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16 of the Securities Exchange Act of 1934, as amended, requires the Company's directors and officers, and persons who own more than 10% of the Company's Common Stock to file initial reports of ownership and reports of changes in ownership. Such persons are required by SEC regulation to furnish the Company with copies of all Section 16(a) forms that they file. Based solely on its review of the copies of such forms furnished to the Company and written representations from the executive officers and directors, the Company believes that all transactions required to be reported pursuant to Section 16(a) for the year ended December 31, 2002 were reported on a timely basis with the exception of Mr. Chan, who filed two reports in April 2003 for 223,816 shares acquired from ESS Technology's second distribution in November 2002; Mr. Pietri, who filed a report in February for 15,000 shares acquired open market transactions in December 2002 and a report filed in April 2003 for 17 shares acquired from ESS Technology's second distribution in

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November 2002; Mr. Chang, who filed a report in February 2003 for options granted in June 2002; Mr. Fong, who filed a form in February 2003 for options granted in November 2002, and Mr. Scharninghausen, who filed a form in November 2002 for options granted in November 2002.

**HOUSEHOLDING INFORMATION**

Some banks, brokers and other nominees are participating in the practice of householding proxy statements and annual reports. This means that only one Proxy Statement and set of accompanying materials is being delivered to multiple security holders sharing an address. We will deliver, promptly upon written or oral request, a separate copy of the Proxy Statement and accompanying materials to a security holder at a shared address to which a single copy of the documents was delivered. A security holder who wishes to receive a separate copy of the Proxy Statement and accompanying materials now or in the future, or security holders sharing an address who are receiving multiple copies of proxy materials and wish to receive a single copy of such materials, should submit a written request to Director of Finance, Vialta, Inc., 48461 Fremont Boulevard, Fremont, CA 94538 or call 510-870-3068.

**OTHER BUSINESS**

The Board does not presently intend to bring any other business before the Annual Meeting, and, so far as is known to the Board, no matters are to be brought before the Annual Meeting except as specified in the Notice of the Annual Meeting. As to any business that may properly come before the Annual Meeting, however, it is intended that proxies, in the form enclosed, will be voted in respect thereof in accordance with the judgment of the persons voting such proxies.

**Whether or not you expect to attend the Meeting, please complete, date, sign and promptly return the accompanying Proxy in the enclosed postage paid envelope so that your shares may be represented at the meeting.**

BY ORDER OF THE BOARD OF DIRECTORS

WILLIAM M. SCHARNINGHAUSEN

*Chief Financial Officer*

Dated: April 30, 2003

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**Appendix A**

**VIALTA, INC.**

**AMENDED AND RESTATED**

**2000 DIRECTORS STOCK OPTION PLAN**

1. *Purpose.* This Amended and Restated 2000 Directors Stock Option Plan (the *Plan* ) is established to provide equity incentives for nonemployee members of the Board of Directors of Vialta, Inc. (the *Company* ), who are described in Section 6.1 below, by granting such persons options to purchase shares of stock of the Company.

1. *Adoption and Stockholder Approval.* This Plan was adopted by the Board of Directors of the Company (the *Board* ) effective as of February 17, 2000 and was amended and restated effective as of April 30, 2003 (the *Amendment Effective Date* ). This Plan shall be approved by the stockholders of the Company, consistent with applicable laws, within twelve (12) months after the Amendment Effective Date. Options ( *Options* ) granted under this Plan before the Amendment Effective Date but after February 17, 2000 shall remain in full force and effect in accordance with the terms and provisions of the Plan as in effect prior to the Amendment Effective Date. In the event that stockholder approval is not obtained within the time period provided herein, this Plan and all Options granted hereunder shall be subject to the terms of the Plan as in effect prior to the Amendment Effective Date. No Option that is issued as a result of any increase in the number of shares authorized to be issued under this Plan shall be exercised prior to the time such increase has been approved by the stockholders of the Company and all such Options granted pursuant to such increase shall similarly terminate if such stockholder approval is not obtained.

2. *Types of Options and Shares.* Options granted under this Plan shall be nonqualified stock options ( *NQSOs* ). The shares of stock that may be purchased upon exercise of Options granted under this Plan (the *Shares* ) are shares of the Common Stock of the Company.

3. *Number of Shares.* The maximum number of Shares that may be issued pursuant to Options granted under this Plan (the *Maximum Number* ) is 600,000 Shares, subject to adjustment as provided in this Plan. If any Option is terminated for any reason without being exercised in whole or in part, the Shares thereby released from such Option shall be available for purchase under other Options subsequently granted under this Plan. At all times during the term of this Plan, the Company shall reserve and keep available such number of Shares as shall be required to satisfy the requirements of outstanding Options granted under this Plan; *provided, however*, that if the aggregate number of Shares subject to outstanding Options granted under this Plan plus the aggregate number of Shares previously issued by the Company pursuant to the exercise of Options granted under this Plan equals or exceeds the Maximum Number of Shares, then notwithstanding anything herein to the contrary, no further Options may be granted under this Plan until the Maximum Number is increased or the aggregate number of Shares subject to outstanding Options granted under this Plan plus the aggregate number of Shares previously issued by the Company pursuant to the exercise of Options granted under this Plan is less than the Maximum Number.

4. *Administration.* This Plan shall be administered by the Board or by a committee of not less than two members of the Board appointed to administer this Plan (the *Committee* ). As used in this Plan, references to the Committee shall mean either such Committee or the Board if no Committee has been established. The interpretation by the Committee of any of the provisions of this Plan or any Option granted under this Plan shall be final and binding upon the Company and all persons having an interest in any Option or any Shares purchased pursuant to an Option.

5. *Eligibility and Award Formula.*

5.1 *Eligibility.* Options may be granted only to directors of the Company who are not employees of the Company or any Parent, Subsidiary or Affiliate of the Company, as those terms are defined in Section 17 below.

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5.2 *Initial Grant.* Each Optionee who on or after January 1, 2003 becomes a member of the Board or a non-employee member of the Board will automatically be granted an Option for 20,000 Shares (the *Initial Grant* ). Initial Grants shall be made on the date such Optionee first becomes a member of the Board.

5.3 *Succeeding Grants.* On each anniversary of the Initial Grant, or, in the case of an Optionee who did not receive an Initial Grant, on each anniversary of the most recent prior grant date of an option to such Optionee, if the Optionee is still a member of the Board and has served continuously as a member of the Board since such date, the Optionee will automatically be granted an Option for 20,000 Shares (a *Succeeding Grant* ); provided, however, that in no event shall any Optionee be granted Options to purchase more than 100,000 Shares under this Plan.

6. *Terms and Conditions of Options.* Subject to the following and to Section 6 above:

6.1 *Form of Option Grant.* Each Option granted under this Plan shall be evidenced by a written Stock Option Grant ( *Grant* ) in such form (which need not be the same for each Optionee) as the Committee shall from time to time approve, which Grant shall comply with and be subject to the terms and conditions of this Plan.

6.2 *Vesting.* Options granted under this Plan shall be exercisable as they vest. The date an Optionee receives an Initial Grant or a Succeeding Grant is referred to in this Plan as the *Start Date* for such Option.

(a) *Initial Grants.* Each Option that is an Initial Grant will vest as to twenty-five percent (25%) of the Shares upon each of the first four (4) successive anniversaries of the Start Date for such Initial Grant, so long as the Optionee continuously remains a director of the Company.

(b) *Succeeding Grants.* Each Succeeding Grant will vest as to twenty-five percent (25%) of the Shares upon each of the first four (4) successive anniversaries of the Start Date for such Succeeding Grant, so long as the Optionee continuously remains a director of the Company.

6.3 *Exercise Price.* The exercise price of an Option shall be the Fair Market Value (as defined in Section 17) of the Shares, at the time that the Option is granted.

6.4 *Termination of Option.* Except as provided below in this Section, each Option shall expire ten (10) years after its Start Date (the *Expiration Date* ). The Option shall cease to vest if the Optionee ceases to be a member of the Board. The date on which the Optionee ceases to be a member of the Board shall be referred to as the *Termination Date*. An Option may be exercised after the Termination Date only as set forth below:

(a) *Termination Generally.* If the Optionee ceases to be a member of the Board for any reason except death or disability, then each Option then held by such Optionee, to the extent (and only to the extent) that it would have been exercisable by the Optionee on the Termination Date, may be exercised by the Optionee within seven (7) months after the Termination Date, but in no event later than the Expiration Date.

(b) *Death or Disability.* If the Optionee ceases to be a member of the Board because of the death of the Optionee or the disability of the Optionee within the meaning of Section 22(c)(3) of the Internal Revenue Code of 1986, as amended (the *Code* ), then each Option then held by such Optionee, to the extent (and only to the extent) that it would have been exercisable by the Optionee on the Termination Date, may be exercised by the Optionee (or the Optionee's legal representative) within twelve (12) months after the Termination Date, but in no event later than the Expiration Date.

7. *Exercise of Options.*

7.1 *Notice.* Options may be exercised only by delivery to the Company of an exercise agreement in a form approved by the Committee stating the number of Shares being purchased, the restrictions imposed on the Shares and such representations and agreements regarding the Optionee's investment

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intent and access to information as may be required by the Company to comply with applicable securities laws, together with payment in full of the exercise price for the number of Shares being purchased.

7.2 *Payment.* Payment for Shares purchased upon exercise of an Option may be made (a) in cash or by check; (b) by surrender of shares of Common Stock of the Company that have been owned by the Optionee for more than six (6) months (and which have been paid for within the meaning of Rule 144 promulgated under the Securities Act of 1933, as amended (the *Securities Act* ) and, if such shares were purchased from the Company by use of a promissory note, such note has been fully paid with respect to such shares) or were obtained by the Optionee in the open public market, having a Fair Market Value equal to the exercise price of the Option; (c) by waiver of compensation due or accrued to the Optionee for services rendered; (d) provided that a public market for the Company's stock exists, through a same day sale commitment from the Optionee and a broker-dealer that is a member of the National Association of Securities Dealers (an *NASD Dealer* ) whereby the Optionee irrevocably elects to exercise the Option and to sell a portion of the Shares so purchased to pay for the exercise price and whereby the NASD Dealer irrevocably commits upon receipt of such Shares to forward the exercise price directly to the Company; (e) provided that a public market for the Company's stock exists, through a same day sale commitment from the Optionee and a NASD Dealer whereby the Optionee irrevocably elects to exercise the Option and to pledge the Shares so purchased to the NASD Dealer in a margin account as security for a loan from the NASD Dealer in the amount of the exercise price, and whereby the NASD Dealer irrevocably commits upon receipt of such Shares to forward the exercise price directly to the Company; or (f) by any combination of the foregoing.

7.3 *Withholding Taxes.* Prior to issuance of the Shares upon exercise of an Option, the Optionee shall pay or make adequate provision for any federal or state withholding obligations of the Company, if applicable.

7.4 *Limitations on Exercise.* Notwithstanding the exercise periods set forth in the Grant, exercise of an Option shall always be subject to the following limitations:

(a) An Option shall not be exercisable until such time as this Plan (or, in the case of Options granted pursuant to an amendment increasing the number of shares that may be issued pursuant to this Plan, such amendment) has been approved by the stockholders of the Company in accordance with Section 15 hereof.

(b) An Option shall not be exercisable unless such exercise is in compliance with the Securities Act and all applicable state securities laws, as they are in effect on the date of exercise.

(c) The Committee may specify a reasonable minimum number of Shares that may be purchased upon any exercise of an Option, provided that such minimum number will not prevent the Optionee from exercising the full number of Shares as to which the Option is then exercisable.

8. *Nontransferability of Options.* During the lifetime of the Optionee, an Option shall be exercisable only by the Optionee or by the Optionee's guardian or legal representative, unless otherwise permitted by the Committee. No Option may be sold, pledged, assigned, hypothecated, transferred or disposed of in any manner other than by will or by the laws of descent and distribution.

9. *Privileges of Stock Ownership.* No Optionee shall have any of the rights of a stockholder with respect to any Shares subject to an Option until the Option has been validly exercised. No adjustment shall be made for dividends or distributions or other rights for which the record date is prior to the date of exercise, except as provided in this Plan. The Company shall provide to each Optionee a copy of the annual financial statements of the Company, at such time after the close of each fiscal year of the Company as they are released by the Company to its stockholders.

10. *Adjustment of Option Shares.* In the event that the number of outstanding shares of Common Stock of the Company is changed by a stock dividend, stock split, reverse stock split, combination, reclassification or similar change in the capital structure of the Company without consideration, the number of Shares available under this Plan, the size of the Initial Grant and Succeeding Grant described in Section 6,

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and the number of Shares subject to outstanding Options and the exercise price per share of such outstanding Options shall be proportionately adjusted, subject to any required action by the Board or stockholders of the Company and compliance with applicable securities laws; *provided, however*, that no fractional shares shall be issued upon exercise of any Option and any resulting fractions of a Share shall be rounded up to the nearest whole Share.

11. *No Obligation to Continue as Director.* Nothing in this Plan or any Option granted under this Plan shall confer on any Optionee any right to continue as a director of the Company.

12. *Compliance With Laws.* The grant of Options and the issuance of Shares upon exercise of any Option shall be subject to and conditioned upon compliance with all applicable requirements of law, including without limitation compliance with the Securities Act, compliance with all other applicable state securities laws and compliance with the requirements of any stock exchange or national market system on which the Shares may be listed. The Company shall be under no obligation to register the Shares with the SEC or to effect compliance with the registration or qualification requirement of any state securities laws, stock exchange or national market system.

13. *Acceleration of Options.* In the event of (a) a dissolution or liquidation of the Company, (b) a merger or consolidation in which the Company is not the surviving corporation (other than a merger or consolidation with a wholly-owned subsidiary, a reincorporation of the Company in a different jurisdiction, or other transaction in which there is no substantial change in the stockholders of the Company or their relative stock holdings and the Options granted under this Plan are assumed or replaced by the successor corporation, which assumption will be binding on all Optionees), (c) a merger in which the Company is the surviving corporation but after which the stockholders of the Company (other than any stockholder which merges (or which owns or controls another corporation which merge) with the Company in such merger) cease to own their shares or other equity interests in the Company, (d) the sale of substantially all of the assets of the Company, or (e) any other transaction which qualifies as a corporate transaction under Section 424 of the Code wherein the stockholders of the Company give up all of their equity interests in the Company (*except* for the acquisition, sale or transfer of all or substantially all of the outstanding shares of the Company from or by the stockholders of the Company), the vesting of all options granted pursuant to this Plan will accelerate and the options will become exercisable in full as of the date 10 days prior to the consummation of such event and if such options are not exercised prior to the consummation of the corporate transaction, they shall terminate in accordance with the provisions of this Plan, unless the acquiring or successor corporation (or parent corporation thereof) assumes the Company's rights and obligations under the outstanding Options or substitutes for outstanding Options substantially equivalent options for such corporation's stock.

14. *Amendment or Termination of Plan.* The Committee may at any time terminate or amend this Plan (but may not terminate or amend the terms of any outstanding option without the consent of the Optionee); *provided*, however, that the Committee shall not, without the approval of the stockholders of the Company, increase the total number of Shares available under this Plan (except by operation of the provisions of Sections 4 and 11 above) or adopt any other amendment that would require stockholder approval under any applicable law, regulation or rule. In any case, no amendment of this Plan may adversely affect any then outstanding Options or any unexercised portions thereof without the written consent of the Optionee.

15. *Term of Plan.* Options may be granted pursuant to this Plan from time to time within a period of ten (10) years from the date this Plan is adopted by the Board.

16. *Certain Definitions.* As used in this Plan, the following terms shall have the following meanings:

16.1 *Affiliate* means any corporation that directly, or indirectly through one or more intermediaries, controls or is controlled by, or is under common control with, another corporation, where control (including the terms controlled by and under common control with) means the possession, direct or indirect, of the power to cause the direction of the management and policies of the corporation, whether through the ownership of voting securities, by contract or otherwise.

16.2 *Fair Market Value* shall mean as of any date, the value of a share of the Company's Common Stock determined by the Board in its sole discretion, exercised in good faith; *provided, however*,



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that where there is a public market for the Common Stock, the Fair Market Value per share shall be the average of the closing bid and asked prices of the Common Stock on the last trading day prior to the date of determination as reported in *The Wall Street Journal* (or, if not so reported, as otherwise reported by the Nasdaq Stock Market) or, in the event the Common Stock is listed on a stock exchange or on the Nasdaq National Market, the Fair Market Value per share shall be the closing price on the exchange or on the Nasdaq National Market on the last trading date prior to the date of determination as reported in *The Wall Street Journal*; *provided, however*, that notwithstanding the foregoing, with respect to the Initial Grants that are granted on the Expiration Date, the Fair Market Value shall mean the price per share at which shares of the Company's Common Stock are initially offered for sale to the public by the Company's underwriters in the initial public offering of the Company's Common Stock pursuant to a registration statement filed with the SEC under the Securities Act.

16.3 *Parent* means any corporation (other than the Company) in an unbroken chain of corporations ending with the Company if, at the time of the granting of the Option, each of such corporations other than the Company owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

16.4 *Subsidiary* means any corporation (other than the Company) in an unbroken chain of corporations beginning with the Company if, at the time of granting of the Option, each of the corporations other than the last corporation in the unbroken chain owns stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

A-5

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## 2003 ANNUAL MEETING OF STOCKHOLDERS

(Continued and to be signed on reverse side)

<b>Address Change/Comments (Mark the corresponding box on the reverse side)</b>	

**Fold and detach here.**

# Edgar Filing: Armstrong Flooring, Inc. - Form 4

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THIS PROXY, WHEN PROPERLY EXECUTED, WILL BE VOTED IN THE MANNER DIRECTED HEREIN  
BY THE UNDERSIGNED STOCKHOLDER(S)

Mark Here  
for Address  
Change or  
Comments  
**PLEASE SEE  
REVERSE SIDE**

The Board of Directors unanimously recommends a vote FOR all nominees for directors and Proposals 2 and 3.

		FOR all nominees listed below (except as indicated)	WITHHOLD			
		AUTHORITY		FOR	AGAINST	ABSTAIN
1.	Election of the six directors nominated by the Board of Directors.	<input type="radio"/>	<input type="radio"/>	ITEM 2-	To approve the Amended and Restated 2000 Directors Stock Options Plan.	<input type="radio"/> <input type="radio"/> <input type="radio"/>
01	Fred S.L.	04	Herbert Chang	ITEM 3-	To ratify the appointment of PricewaterhouseCoopers LLP as independent accountants of the Company for the fiscal year ending December 31, 2003.	<input type="radio"/> <input type="radio"/> <input type="radio"/>
02	Chan	05	Michael S. Dubester			
03	Didier Pietri	06	Matthew K. Fong			
	George M. Cain					
(To withhold authority to vote for any individual nominee or nominees write such nominee's or nominees' name in the space provided below)				and, in their discretion, the proxies are authorized to vote on such other business as may properly come before the meeting or any adjournment thereof.		

PLEASE MARK, SIGN, DATE  
AND RETURN THE PROXY  
CARD USING THE  
ENCLOSED ENVELOPE.

Signature \_\_\_\_\_ Signature \_\_\_\_\_ Date \_\_\_\_\_

Please sign exactly as name appears hereon. Where shares are held by joint tenants, both should sign. When signing as attorney, executor, administrator, trustee, or guardian, please give full title as such. If a corporation, please sign in full corporate name by President or other authorized officer. If a partnership, please sign in partnership by authorized person.

Fold and detach here.