

Armstrong Flooring, Inc.  
Form 10-Q  
November 06, 2018

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2018

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

Commission File Number 001-37589

ARMSTRONG FLOORING, INC.

(Exact name of Registrant as specified in its charter)

Delaware 47-4303305  
(State or other jurisdiction of incorporation or organization) (I.R.S. employer Identification number)

2500 Columbia Avenue, PO Box 3025, Lancaster, Pennsylvania 17604  
(Address of principal executive offices)

(717) 672-9611  
(Registrant's telephone number, including area code).

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 ☐ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that registrant was required to submit such files.) Yes ☐ No ☐

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

Large accelerated filer ☐ Accelerated filer ☐

Non-accelerated filer ☐ Smaller reporting company ☐

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the Registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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Indicate by check mark whether the Registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act).  
Yes ☐ No ☒

The Registrant had 25,827,609 shares of common stock, \$0.0001 par value, outstanding at October 31, 2018.

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Armstrong Flooring, Inc.

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CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

Certain statements in this Quarterly Report on Form 10-Q ("Form 10-Q") and the documents incorporated by reference may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Those forward-looking statements are subject to various risks and uncertainties and include all statements that are not historical statements of fact and those regarding our intent, belief or expectations, including, but not limited to, our expectations concerning our commercial and residential markets and their effect on our operating results, and our ability to increase revenues, earnings and earnings before interest, taxes, depreciation and amortization. Words such as "anticipate," "expect," "intend," "plan," "target," "project," "predict," "believe," "may," "will," "should," "seek," "estimate" and similar expressions are intended to identify such forward-looking statements. These statements are based on management's current expectations and beliefs and are subject to a number of factors that could lead to actual results materially different from those described in the forward-looking statements. Although we believe that the assumptions underlying the forward-looking statements are reasonable, we can give no assurance that our expectations will be attained. Factors that could have a material adverse effect on our financial condition, liquidity, results of operations or future prospects or which could cause actual results to differ materially from our expectations include, but are not limited to:

- global economic conditions;
- competition;
- availability and costs of raw materials and energy;
- key customers;
- construction activity;
- cost savings and productivity initiatives;
- strategic transactions;
- information systems;
- intellectual property rights;
- international operations;
- labor;
- claims and litigation;
- liquidity;
- debt;
- debt covenants;
- personnel;
- outsourcing;
- environmental and regulatory matters; and

other risks detailed from time to time in our filings with the Securities and Exchange Commission ("SEC"), press releases and other communications, including those set forth under "Risk Factors" included in our Annual Report on Form 10-K and in the documents incorporated by reference.

Such forward-looking statements speak only as of the date they are made. We expressly disclaim any obligation to release publicly any updates or revisions to any forward-looking statements to reflect any change in our expectations with regard thereto or change in events, conditions or circumstances on which any statement is based.

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## PART I: FINANCIAL INFORMATION

## Item 1. Financial Statements

## Armstrong Flooring, Inc. and Subsidiaries

## Condensed Consolidated Statements of Operations (Unaudited)

(Dollars in millions, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net sales	\$309.7	\$308.5	\$873.6	\$871.0
Cost of goods sold	249.1	276.2	710.9	732.9
Gross profit	60.6	32.3	162.7	138.1
Selling, general and administrative expenses	49.5	49.0	146.5	152.1
Intangible asset impairment	—	12.5	—	12.5
Operating income (loss)	11.1	(29.2 )	16.2	(26.5 )
Interest expense	0.9	0.8	2.8	2.0
Other expense, net	0.9	1.0	2.2	3.4
Income (loss) before income taxes	9.3	(31.0 )	11.2	(31.9 )
Income tax expense (benefit)	1.4	(12.3 )	3.2	(10.8 )
Net income (loss)	\$7.9	\$(18.7 )	\$8.0	\$(21.1 )
Basic earnings (loss) per share of common stock	\$0.31	\$(0.70 )	\$0.31	\$(0.76 )
Diluted earnings (loss) per share of common stock	\$0.30	\$(0.70 )	\$0.31	\$(0.76 )

See accompanying notes to Condensed Consolidated Financial Statements.

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Armstrong Flooring, Inc. and Subsidiaries

Condensed Consolidated Statements of Comprehensive Income (Loss) (Unaudited)

(Dollars in millions)

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
Net income (loss)	\$7.9	\$(18.7)	\$8.0	\$(21.1)
Changes in other comprehensive (loss) income, net of tax:				
Foreign currency translation adjustments	(4.7 )	2.3	(6.2 )	5.7
Derivative (loss) gain	(0.6 )	(0.6 )	1.1	(1.5 )
Pension and postretirement adjustments	0.7	(2.6 )	5.3	(0.2 )
Total other comprehensive (loss) income	(4.6 )	(0.9 )	0.2	4.0
Total comprehensive income (loss)	\$3.3	\$(19.6)	\$8.2	\$(17.1)

See accompanying notes to Condensed Consolidated Financial Statements.

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Armstrong Flooring, Inc. and Subsidiaries  
Condensed Consolidated Balance Sheets  
(Dollars in millions, except par value)

	September 30, 2018 (Unaudited)	December 31, 2017
Assets		
Current assets:		
Cash	\$ 39.4	\$ 39.0
Accounts and notes receivable, net	115.9	79.7
Inventories, net	266.6	236.0
Income tax receivable	0.9	3.8
Prepaid expenses and other current assets	22.5	31.8
Total current assets	445.3	390.3
Property, plant, and equipment, less accumulated depreciation and amortization of \$425.4 and \$399.3, respectively	398.9	418.1
Intangible assets, less accumulated amortization of \$11.8 and \$6.4, respectively	55.4	60.4
Deferred income taxes	3.3	3.4
Other noncurrent assets	7.8	7.3
Total assets	\$ 910.7	\$ 879.5
Liabilities and Stockholders' Equity		
Current liabilities:		
Current installments of long-term debt	\$ 0.2	\$ —
Accounts payable and accrued expenses	169.8	150.2
Income tax payable	1.0	0.8
Total current liabilities	171.0	151.0
Long-term debt	94.6	86.0
Postretirement benefit liabilities	68.7	72.7
Pension benefit liabilities	2.6	5.7
Noncurrent income taxes payable	0.3	0.3
Deferred income taxes	7.2	4.4
Other long-term liabilities	9.5	9.4
Total liabilities	353.9	329.5
Stockholders' equity:		
Common stock with par value \$.0001 per share: 100,000,000 shares authorized; 28,279,187 issued and 25,827,022 outstanding shares as of September 30, 2018 and 28,183,218 issued and 25,734,222 outstanding shares as of December 31, 2017	—	—
Preferred stock with par value \$.0001 per share: 15,000,000 shares authorized; none issued	—	—
Treasury stock, at cost, 2,452,165 shares as of September 30, 2018 and 2,448,996 shares as of December 31, 2017	(39.7	) (39.9
Additional paid-in capital	676.7	674.2
Accumulated deficit	(15.3	) (31.8
Accumulated other comprehensive loss	(64.9	) (52.5
Total stockholders' equity	556.8	550.0
Total liabilities and stockholders' equity	\$ 910.7	\$ 879.5

See accompanying notes to Condensed Consolidated Financial Statements.





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## Armstrong Flooring, Inc. and Subsidiaries

## Condensed Consolidated Statements of Stockholders' Equity (Unaudited)

(Dollars in millions)

	Common Stock		Treasury Stock		Additional	Accumulated	(Accumulated)	Total
	Shares	Amount	Shares	Amount	Paid-in Capital	Other Comprehensive (Loss)	Deficit	Equity
December 31, 2017	25,734,222	\$ —	2,448,996	\$(39.9)	\$ 674.2	\$ (52.5)	\$ (31.8)	\$ 550.0
Cumulative effect of adoption of ASC 606 new revenue recognition standard as of January 1	—	—	—	—	—	—	(4.1)	(4.1)
Cumulative effect of adoption of ASU 2018-02 related to tax reform as of January 1	—	—	—	—	—	(12.6)	12.6	—
Net loss	—	—	—	—	—	—	(10.4)	(10.4)
Repurchase of common stock	(69,353)	—	69,353	(1.0)	—	—	—	(1.0)
Stock-based employee compensation, net	77,258	—	(52,486)	1.0	(0.1)	—	—	0.9
Other comprehensive income	—	—	—	—	—	7.6	—	7.6
March 31, 2018	25,742,127	\$ —	2,465,863	\$(39.9)	\$ 674.1	\$ (57.5)	\$ (33.7)	\$ 543.0
Net income	—	—	—	—	—	—	10.5	10.5
Stock-based employee compensation, net	29,313	—	(13,698)	0.2	0.9	—	—	1.1
Other comprehensive (loss)	—	—	—	—	—	(2.8)	—	(2.8)
June 30, 2018	25,771,440	\$ —	2,452,165	\$(39.7)	\$ 675.0	\$ (60.3)	\$ (23.2)	\$ 551.8
Net income	—	—	—	—	—	—	7.9	7.9
Stock-based employee compensation, net	55,582	—	—	—	1.7	—	—	1.7
Other comprehensive (loss)	—	—	—	—	—	(4.6)	—	(4.6)
September 30, 2018	25,827,022	\$ —	2,452,165	\$(39.7)	\$ 676.7	\$ (64.9)	\$ (15.3)	\$ 556.8

See accompanying notes to Condensed Consolidated Financial Statements.

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## Armstrong Flooring, Inc. and Subsidiaries

## Condensed Consolidated Statements of Stockholders' Equity (Unaudited)

(Dollars in millions)

	Common Stock		Treasury Stock		Net	Additional	Accumulated	Accumulated	Total
	Shares	Amount	Shares	Amount	AWI Investment	Paid-in Capital	Other Comprehensive (Loss)	Deficit) Retained Earnings	Equity
December 31, 2016	27,895,671	\$ —	\$ —	\$ —	\$ —	\$ 673.3	\$ (59.8 )	\$ 10.0	\$ 623.5
Net (loss)	—	—	—	—	—	—	—	(7.8 )	(7.8 )
Repurchase of common stock	(267,212 )	—	267,212	(4.9 )	—	—	—	—	(4.9 )
Stock-based employee compensation, net	201,750	—	—	—	—	1.1	—	—	1.1
Net transfers to AWI	—	—	—	—	(1.3 )	—	—	—	(1.3 )
Reclassification of net parent investment to additional paid-in capital	—	—	—	—	1.3	(1.3 )	—	—	—
Other comprehensive income	—	—	—	—	—	—	2.3	—	2.3
March 31, 2017	27,830,209	\$ —	267,212	\$ (4.9 )	\$ —	\$ 673.1	\$ (57.5 )	\$ 2.2	\$ 612.9
Net income	—	—	—	—	—	—	—	5.4	5.4
Repurchase of common stock	(516,406 )	—	516,406	(9.5 )	—	—	—	—	(9.5 )
Stock-based employee compensation, net	67,843	—	(6,608 )	0.1	—	0.7	—	—	0.8
Net transfers to AWI	—	—	—	—	(0.2 )	—	—	—	(0.2 )
Reclassification of net parent investment to additional paid-in capital	—	—	—	—	0.2	(0.2 )	—	—	—
Other comprehensive income	—	—	—	—	—	—	2.6	—	2.6
June 30, 2017	27,381,646	\$ —	777,010	\$ (14.3 )	\$ —	\$ 673.6	\$ (54.9 )	\$ 7.6	