

Armstrong Flooring, Inc.
Form 10-Q
August 07, 2017

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 June 30, 2017

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that registrant was required to submit and post 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. (Check one):
Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company) Emerging growth company

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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. "

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 27,085,479 shares of common stock, \$0.0001 par value, outstanding at July 31, 2017.

Armstrong Flooring, Inc.

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When we refer to “AFI,” “we,” “our” and “us”, we are referring to Armstrong Flooring, Inc. and its subsidiaries. When we refer to “AWI,” we are referring to Armstrong World Industries, Inc. and its subsidiaries.

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 residential and commercial markets and their effect on our operating results, and our ability to increase revenues, earnings and EBITDA (as such terms are defined by documents incorporated by reference herein). Words such as “anticipate,” “expect,” “intend,” “plan,” “target,” “project,” “predict,” “believe,” “will,” “would,” “could,” “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;
- construction activity;
- competition;
- key customers;
- availability and costs of raw materials and energy;
- recent plant construction;
- international operations;
- intellectual property rights;
- cost saving and productivity initiatives;
- strategic transactions;
- labor;
- information systems;
- claims and litigation;
- defined-benefit plan obligations;
- liquidity;
- debt covenants;
- debt;
- negative tax consequences;
- outsourcing;
- environmental matters; and

other risks detailed from time to time in our filings with the Securities and Exchange Commission (the "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.

PART I: FINANCIAL INFORMATION

Item 1. Financial Statements

Armstrong Flooring, Inc. and Subsidiaries

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

(Dollars in millions, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net sales	\$297.3	\$323.7	\$562.5	\$608.1
Cost of goods sold	240.2	258.5	458.3	493.0
Gross profit	57.1	65.2	104.2	115.1
Selling, general and administrative expenses	47.2	51.4	103.9	103.2
Operating income	9.9	13.8	0.3	11.9
Interest expense	0.7	0.7	1.2	0.7
Other expense, net	0.2	1.7	—	1.8
Income (loss) from continuing operations before income taxes	9.0	11.4	(0.9)	9.4
Income tax expense	3.6	4.4	1.5	4.9
Income (loss) from continuing operations	5.4	7.0	(2.4)	4.5
Gain on disposal of discontinued operations, net of tax	—	—	—	1.7
Net income (loss)	5.4	7.0	(2.4)	6.2
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	1.9	(2.6)	3.4	(6.7)
Derivatives loss	(0.5)	(0.1)	(0.9)	(1.9)
Pension and postretirement adjustments	1.2	0.8	2.4	0.9
Total other comprehensive income (loss)	2.6	(1.9)	4.9	(7.7)
Total comprehensive income (loss)	\$8.0	\$5.1	\$2.5	\$(1.5)
Basic earnings (loss) per share of common stock:				
Basic earnings (loss) per share of common stock from continuing operations	\$0.20	\$0.25	\$(0.08)	\$0.16
Basic earnings per share of common stock from discontinued operations	—	—	—	0.06
Basic earnings (loss) per share of common stock	\$0.20	\$0.25	\$(0.08)	\$0.22
Diluted earnings (loss) per share of common stock:				
Diluted earnings (loss) per share of common stock from continuing operations	\$0.20	\$0.25	\$(0.08)	\$0.16
Diluted earnings per share of common stock from discontinued operations	—	—	—	0.06
Diluted earnings (loss) per share of common stock	\$0.20	\$0.25	\$(0.08)	\$0.22

See accompanying notes to Condensed Consolidated Financial Statements.

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

	June 30, 2017	December 31, 2016
	(Unaudited)	
Assets		
Current assets:		
Cash	\$ 39.3	\$ 30.6
Accounts and notes receivable, net	94.2	76.0
Inventories, net	280.5	272.1
Income tax receivable	4.5	2.4
Prepaid expenses and other current assets	25.0	23.8
Total current assets	443.5	404.9
Property, plant, and equipment, less accumulated depreciation and amortization of \$359.6 and \$336.8, respectively	442.3	445.2
Prepaid pension costs	1.0	0.2
Intangible assets, net	76.1	42.6
Deferred income taxes	4.6	4.5
Other noncurrent assets	6.3	7.0
Total assets	\$ 973.8	\$ 904.4
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued expenses	\$ 168.6	\$ 163.0
Income tax payable	0.7	0.4
Total current liabilities	169.3	163.4
Long-term debt	91.1	21.2
Postretirement benefit liabilities	73.2	75.5
Pension benefit liabilities	1.5	1.6
Other long-term liabilities	8.5	9.1
Noncurrent income taxes payable	1.8	1.7
Deferred income taxes	16.4	8.4
Total liabilities	361.8	280.9
Stockholders' equity:		
Common stock with par value \$.0001 per share: 100,000,000 shares authorized; 28,158,656 issued and 27,381,646 outstanding shares as of June 30, 2017 and 27,895,671 issued and outstanding shares as of December 31, 2016	—	—
Preferred stock with par value \$.0001 per share: 15,000,000 shares authorized; none issued	—	—
Treasury stock, at cost, 777,010 shares as of June 30, 2017	(14.3))
Additional paid-in capital	673.6	673.3
Retained earnings	7.6	10.0
Accumulated other comprehensive loss	(54.9)) (59.8)
Total stockholders' equity	612.0	623.5
Total liabilities and stockholders' equity	\$ 973.8	\$ 904.4

See accompanying notes to Condensed Consolidated Financial Statements.

Armstrong Flooring, Inc. and Subsidiaries

Condensed Consolidated Statements of Stockholders' Equity (Unaudited)

(Dollars in millions)

	Common Stock		Treasury Stock		Net	Additional	Accumulated	Retained	Total
	Shares	Amount	Shares	Amount	AWI	Paid-in	Other	Earnings	Equity
					Investment	Capital	Comprehensive		
							(Loss)		
							Income		
December 31, 2016	27,895,671	\$ —	\$—	\$—	\$ —	\$ 673.3	\$ (59.8)	\$ 10.0	\$ 623.5
Net (loss)	—	—	—	—	—	—	—	(2.4)	(2.4)
Repurchase of common stock	(783,618)	—	783,618	(14.4)	—	—	—	—	(14.4)
Stock-based compensation, net	269,593	—	(6,608)	0.1	—	1.8	—	—	1.9
Net transfers to AWI	—	—	—	—	(1.5)	—	—	—	(1.5)
Reclassification of net parent investment to additional paid-in capital	—	—	—	—	1.5	(1.5)	—	—	—
Other comprehensive income	—	—	—	—	—	—	4.9	—	4.9
June 30, 2017	27,381,646	\$ -777,010	\$ (14.3)	\$ —	\$ —	\$ 673.6	\$ (54.9)	\$ 7.6	\$ 612.0