
**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, 2016**

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

(State or other jurisdiction of incorporation or organization)

47-4303305

(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, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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 27,792,748 shares of common stock, \$0.0001 par value, outstanding at August 5, 2016.

Armstrong Flooring, Inc.

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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,	
	2016	2015	2016	2015
Net sales	\$ 323.7	\$ 326.6	\$ 608.1	\$ 586.0
Cost of goods sold	260.5	260.2	497.7	478.1
Gross profit	63.2	66.4	110.4	107.9
Selling, general and administrative expenses	51.4	51.8	103.2	96.7
Operating income	11.8	14.6	7.2	11.2
Interest expense	0.7	—	0.7	—
Other non-operating expense	1.9	0.1	2.2	0.1
Other non-operating income	0.2	—	0.4	0.2
Income from continuing operations before income taxes	9.4	14.5	4.7	11.3
Income tax expense	3.7	5.7	3.3	6.4
Income from continuing operations	5.7	8.8	1.4	4.9
Net (loss) gain on disposal of discontinued business, net of tax benefit (expense) of \$-, \$(0.1), \$1.8 and \$43.6	—	(0.2)	1.7	42.3
Net (loss) income from discontinued operations	—	(0.2)	1.7	42.3
Net income	5.7	8.6	3.1	47.2
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	(2.6)	1.4	(6.7)	(3.5)
Derivative loss	(0.1)	(1.2)	(1.9)	(0.3)
Postretirement adjustments	0.8	—	0.9	—
Total other comprehensive (loss) income	(1.9)	0.2	(7.7)	(3.8)
Total comprehensive income (loss)	\$ 3.8	\$ 8.8	\$ (4.6)	\$ 43.4
Per share data:				
Basic earnings (loss) per share of common stock:				
Basic earnings per share of common stock from continuing operations	\$ 0.21	\$ 0.32	\$ 0.05	\$ 0.18
Basic (loss) earnings per share of common stock from discontinued operations	—	(0.01)	0.06	1.52
Basic earnings per share of common stock	\$ 0.21	\$ 0.31	\$ 0.11	\$ 1.70
Diluted earnings (loss) per share of common stock:				
Diluted earnings per share of common stock from continuing operations	\$ 0.20	\$ 0.32	\$ 0.05	\$ 0.18
Diluted (loss) earnings per share of common stock from discontinued operations	—	(0.01)	0.06	1.52
Diluted earnings per share of common stock	\$ 0.20	\$ 0.31	\$ 0.11	\$ 1.70

See accompanying notes to condensed consolidated financial statements.

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

Assets	June 30, 2016 (Unaudited)	December 31, 2015
Current assets:		
Cash	\$ 101.6	\$ —
Accounts and notes receivable, net	111.8	72.2
Inventories, net	243.9	242.8
Deferred income taxes	—	3.0
Prepaid expenses and other current assets	27.6	31.7
Total current assets	484.9	349.7
Property, plant, and equipment, less accumulated depreciation and amortization of \$321.2 and \$311.1, respectively	441.9	434.5
Intangible assets, net	42.7	42.6
Deferred income taxes	14.0	23.5
Other non-current assets	2.6	13.1
Total assets	\$ 986.1	\$ 863.4
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued expenses	\$ 168.0	\$ 161.0
Income tax payable	4.7	—
Deferred income taxes	—	0.3
Total current liabilities	172.7	161.3
Long-term debt	100.0	10.0
Postretirement benefit liabilities	79.4	3.3
Pension benefit liabilities	28.5	—
Other long-term liabilities	8.5	12.4
Noncurrent income taxes payable	0.7	56.4
Deferred income taxes	—	2.1
Total noncurrent liabilities	217.1	84.2
Stockholders' equity:		
Common stock with par value \$.0001 per share: 100,000,000 shares authorized; 27,746,939 issued and outstanding	—	—
Preferred stock with par value \$.0001 per share: 15,000,000 shares authorized; none issued	—	—
Additional paid-in capital	650.5	—
Net Armstrong World Industries ("AWI") investment, prior to Separation	—	615.9
Retained earnings	5.7	—
Accumulated other comprehensive (loss) income	(59.9)	2.0
Total stockholders' equity	596.3	617.9
Total liabilities and stockholders' equity	\$ 986.1	\$ 863.4

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		Net AWI Investment	Additional Paid-in Capital	Accumulated Other Comprehensive (Loss) Income	Retained Earnings	Total Equity
	Shares	Amount					
December 31, 2015	—	\$ —	\$ 615.9	\$ —	\$ 2.0	\$ —	\$ 617.9
Net (loss) income			(2.6)		—	5.7	3.1
Net transfers from (to) AWI	—	—	85.1	—	(54.2)	—	30.9
Cash distribution paid to AWI	—	—	(50.0)	—	—	—	(50.0)
Reclassification of net parent investment to additional paid-in capital	—	—	(648.4)	648.4	—	—	—
Issuance of common stock at separation	27,738,779	—	—	—	—	—	—
Stock-based employee compensation, net	8,160	—	—	2.1	—	—	2.1
Other comprehensive loss	—	—	—	—	(7.7)	—	(7.7)
June 30, 2016	<u>27,746,939</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 650.5</u>	<u>\$ (59.9)</u>	<u>\$ 5.7</u>	<u>\$ 596.3</u>
December 31, 2014	—	\$ —	\$ 561.7	\$ —	\$ 13.7	\$ —	\$ 575.4
Net income	—	—	47.2	—	—	—	47.2
Net transfers from AWI	—	—	8.8	—	—	—	8.8
Other comprehensive loss	—	—	—	—	(3.8)	—	(3.8)
June 30, 2015	<u>—</u>	<u>\$ —</u>	<u>\$ 617.7</u>	<u>\$ —</u>	<u>\$ 9.9</u>	<u>\$ —</u>	<u>\$ 627.6</u>

See accompanying notes to condensed consolidated financial statements.

Armstrong Flooring, Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows (Unaudited)
(Dollars in millions)

	Six Months Ended June 30,	
	2016	2015
Cash flows from operating activities:		
Net income	\$ 3.1	\$ 47.2
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	22.2	18.7
Loss on disposal of discontinued operations	—	0.8
Deferred income taxes	(3.8)	(44.5)
Stock-based compensation	2.2	—
U.S. pension expense	2.2	—
Other non-cash adjustments, net	0.2	(0.1)
Changes in operating assets and liabilities:		
Receivables	(32.7)	(17.2)
Inventories	(1.2)	(16.1)
Accounts payable and accrued expenses	23.3	23.2
Income taxes payable	4.8	4.9
Other assets and liabilities	4.0	(1.9)
Net cash provided by operating activities	24.3	15.0
Cash flows from investing activities:		
Purchases of property, plant and equipment	(18.0)	(22.7)
Proceeds from the sale of assets	0.5	0.1
Other investing activities	0.2	0.2
Net cash used for investing activities	(17.3)	(22.4)
Cash flows from financing activities:		
Proceeds from revolving credit facility	100.0	—
Financing costs	(1.4)	—
Payments of long-term debt	(10.0)	—
Distribution paid to AWI	(50.0)	—
Net transfers from AWI	55.6	7.4
Net cash provided by financing activities	94.2	7.4
Effect of exchange rate changes on cash and cash equivalents	0.4	—
Net increase in cash and cash equivalents	101.6	—
Cash and cash equivalents at beginning of year	—	—
Cash and cash equivalents at end of period	\$ 101.6	\$ —
Supplemental Cash Flow Disclosure:		
Amounts in accounts payable for capital expenditures	\$ 3.5	\$ 13.7
Interest paid	0.5	—
Income taxes paid, net	0.5	—

See accompanying notes to condensed consolidated financial statements.

Armstrong Flooring, Inc. and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements

NOTE 1. BUSINESS AND BASIS OF PRESENTATION

Background

We are a leading global producer of flooring products for use primarily in the construction and renovation of residential, commercial and institutional buildings. We design, manufacture, source and sell resilient and wood flooring products in North America and the Pacific Rim.

On April 1, 2016, Armstrong Flooring, Inc. ("AFI") became an independent company as a result of the separation by Armstrong World Industries ("AWI"), a Pennsylvania corporation, of its Resilient Flooring and Wood Flooring segments from its Building Products ("Ceiling") segment (the "Separation"). The Separation was effected by allocating the assets and liabilities related primarily to the Resilient Flooring and Wood Flooring segments to AFI and then distributing the common stock of AFI to AWI's shareholders (the "Distribution"). The Separation and Distribution (together, the "Spin-off") resulted in AFI and AWI becoming two independent, publicly traded companies, with AFI owning and operating the Resilient Flooring and Wood Flooring segments and AWI continuing to own and operate a ceilings business. When we refer to "AFI," "the Company," "we," "our," and "us" in this report, we are referring to Armstrong Flooring, Inc., a Delaware corporation, and its consolidated subsidiaries unless the context requires otherwise.

Basis of Presentation

Prior to April 1, 2016, AFI operated as a part of AWI. The financial information for these periods was prepared on a combined basis from AWI's historical accounting records and is presented herein on a stand-alone basis as if the operations had been conducted independently of AWI. Beginning April 1, 2016, the financial information was prepared on a consolidated basis. The Condensed Consolidated Financial Statements of AFI presented are not indicative of our future performance, and do not necessarily reflect what our historical results of operations, financial position and cash flows would have been if we had operated as a separate, stand-alone entity during all reported periods.

For periods prior to April 1, 2016, AFI was comprised of certain stand-alone legal entities for which discrete financial information was available, as well as portions of legal entities for which discrete financial information was not available ("Shared Entities"). For the Shared Entities for which discrete financial information was not available, such as shared utilities, taxes, and other shared costs, allocation methodologies were applied to allocate amounts to AFI. The Condensed Consolidated Statements of Operations and Comprehensive Income for these periods include all revenues and costs attributable to AFI, including costs for facilities, functions and services used by AFI. The results of operations for those periods also include allocations of costs for administrative functions and services performed on behalf of AFI by centralized staff groups within AWI, AWI's general corporate expenses and certain pension and other retirement benefit costs for those periods. All of the allocations and estimates in the Condensed Consolidated Financial Statements are based on assumptions that AFI management believes are reasonable. These statements should be read in conjunction with the Combined Financial Statements and notes for the fiscal year ended December 31, 2015 (the "Combined Financial Statements") in our Information Statement, dated March 24, 2016 (the "Information Statement", filed as Exhibit 99.1 to our Current Report on Form 8-K dated March 24, 2016).

All charges and allocations of cost for facilities, functions and services performed by AWI prior to the Spin-off were deemed paid by AFI to AWI in cash, in the period in which the cost was recorded in the Condensed Consolidated Statements of Operations and Comprehensive Income (Loss). Prior to the Spin-off, transactions between AWI and AFI were accounted for through *Net AWI investment*.

Prior to the Spin-off, AFI's portion of current income taxes payable was deemed to have been remitted to AWI in the period the related tax expense was recorded. AFI's portion of current income taxes receivable was deemed to have been remitted to AFI by AWI in the period to which the receivable applies only to the extent that a refund of such taxes could have been recognized by AFI on a stand-alone basis under the law of the relevant taxing jurisdiction.

These Condensed Consolidated Financial Statements are prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP"). The statements include management estimates and

Armstrong Flooring, Inc. and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements

judgments, where appropriate. Management uses estimates to record many items including certain asset values, allowances for bad debts, inventory obsolescence and lower of cost or market charges, warranty reserves, workers compensation, general liability and environmental claims and income taxes. 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. 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. Operating results for the three and six months ended June 30, 2016 and 2015 included in this report are unaudited. 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 economic conditions between periods.

The accounting policies used in preparing the Condensed Consolidated Financial Statements are the same as those used in preparing the Combined Financial Statements for the year ended December 31, 2015 as disclosed in our information statement included in our Registration Statement (the "Information Statement").

All significant intercompany transactions within AFI have been eliminated from the Condensed Consolidated Financial Statements.

The impact of the separation activities on equity is reflected in *Net transfers (to)/ from AWI* on the Condensed Consolidated Statements of Stockholders' Equity. The components of *Net transfers (to)/ from AWI* on the Condensed Consolidated Statements of Stockholders' Equity and the related cash flow were as follows:

	June 30, 2016	
	Condensed Consolidated Statements of Stockholders' Equity	Condensed Consolidated Statements of Cash Flows - Financing Activities
<i>(Dollars in millions)</i>		
Net transfers from AWI for three months ended March 31, 2016	\$ 53.6	\$ 53.6
Net transfers (to) from AWI upon separation	(22.7)	9.0
Other activity concurrent with separation	—	(7.0)
	30.9	55.6
Cash distribution to AWI upon separation	(50.0)	(50.0)
Net transfers (to) from AWI	\$ (19.1)	\$ 5.6

Recently Adopted Accounting Standards

In November 2015, the FASB issued Accounting Standards Update ("ASU") 2015-17, "Balance Sheet Classification of Deferred Taxes." The guidance requires entities with a classified balance sheet to present all deferred tax assets and liabilities as noncurrent. The new guidance may be applied retrospectively or prospectively and is effective for annual reporting periods beginning after December 15, 2016, but early adoption is permitted. We adopted this standard effective April 1, 2016; the balance sheet as of December 31, 2015 was not retrospectively adjusted. Adoption of this standard did not impact our financial condition, results of operations or cash flows.

In March 2016, the FASB issued ASU 2016-09, "Improvements to Employee Share-Based Payment Accounting." The guidance simplifies accounting for share-based payments, most notably by requiring all excess tax benefits and tax deficiencies to be recorded as income tax benefits or expense on the statement of operations and by allowing entities to elect to recognize forfeitures of awards when they occur. The new guidance may be applied retrospectively or prospectively and is effective for annual reporting periods beginning after December 15, 2016, but early adoption is permitted. We adopted this guidance prospectively effective April 1, 2016. We elected to estimate forfeitures based on historical forfeiture activity, when appropriate depending on the number of award recipients. Adoption did not have a material impact on our financial condition, results of operations and cash flows.

Armstrong Flooring, Inc. and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements

Recently Issued Accounting Standards

In May 2014, the FASB issued ASU 2014-09 *"Revenue from Contracts with Customers."* The guidance requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to a customer. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. In August 2015, the FASB issued ASU 2015-14, *"Revenue from Contracts with Customers: Deferral of the Effective Date"* which defers the effective date for ASU 2014-09 by one year. In March 2016, the FASB issued ASU 2016-08, *"Principal versus Agent Considerations (Reporting Gross versus Net),"* which clarifies the implementation guidance in ASU 2014-09 relating to principal versus agent considerations. In April 2016, the FASB issued ASU 2016-10, *"Identifying Performance Obligations and Licensing,"* which clarifies guidance related to the impact of goods and services on a performance obligation and timing and pattern of recognition issues related to intellectual property contracts. In May 2016, the FASB issued ASU 2016-12, *"Narrow-Scope Improvements and Practical Expedients,"* which clarify certain narrow provisions of ASU 2014-09. These Accounting Standards Codification ("ASC") updates are effective for annual reporting periods beginning after December 15, 2017, but early adoption is permitted. We have not selected a transition method and are currently evaluating the impact these ASC updates will have on our financial condition, results of operations and cash flows.

In July 2015, the FASB issued ASU 2015-11, *"Simplifying the Measurement of Inventory."* The guidance requires that inventory that is measured on a first-in, first-out or average cost basis to be measured at lower of cost and net realizable value, as opposed to the lower of cost or market. For inventory that is measured under the last-in, first-out basis or the retail recovery method, there is no change to current measurement requirements. This new guidance must be applied prospectively and is effective for annual reporting periods beginning after December 15, 2016, but early adoption is permitted. We are currently evaluating the impact the adoption of this standard would have on our financial condition, results of operations and cash flows.

In January 2016, the FASB issued ASU 2016-01, *"Recognition and Measurement of Financial Assets and Financial Liabilities."* The guidance addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. Most notably, this new guidance requires equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. This new guidance is effective for annual reporting periods beginning after December 15, 2017. We are currently evaluating the impact the adoption of this standard would have on our financial condition, results of operations and cash flows.

In February 2016, the FASB issued ASU 2016-02, *"Leases."* The guidance amends accounting for leases, most notably by requiring a lessee to recognize the assets and liabilities that arise from a lease agreement. Specifically, this new guidance will require lessees to recognize a liability to make lease payments and a right-of-use asset representing its right to use the underlying asset for the lease term, with limited exceptions. The accounting applied by a lessor is largely unchanged from that applied under existing U.S. GAAP. This new guidance is effective for annual reporting periods beginning after December 15, 2018 and must be adopted under a modified retrospective basis. We are currently evaluating the impact the adoption of this standard would have on our financial condition, results of operations and cash flows.

In June 2016, the FASB issued ASU 2016-13, *"Measurement of Credit Losses on Financial Instruments."* The guidance requires immediate recognition of estimated credit losses that are expected to occur over the remaining life of many financial assets. This new guidance is effective for annual and interim periods in fiscal years beginning after December 15, 2019, but early adoption is permitted for annual and interim periods in fiscal years beginning after December 15, 2018. We are currently evaluating the impact the adoption of this standard would have on our financial condition, results of operations and cash flows.

Armstrong Flooring, Inc. and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements

NOTE 2. DISCONTINUED OPERATIONS

European Resilient Flooring

On December 4, 2014, AWI's Board of Directors approved the cessation of funding to its DLW subsidiary, which at the time was our European flooring business. As a result, DLW management filed for insolvency in Germany on December 11, 2014.

The DLW insolvency filing in December 2014 resulted in presenting DLW for all historical periods prior to the Separation as a discontinued operation. However, the insolvency filing did not meet the U.S. tax criteria to be considered disposed of until the first quarter of 2015. In determining the U.S tax impact of the disposition, the liabilities, including an unfunded pension liability of approximately \$115 million, were considered proceeds. However, pension deductions for tax purposes result only when the benefit payments are made. Accordingly, a deferred tax asset and non-cash income tax benefit of \$43.4 million was recorded in the first quarter of 2015 within discontinued operations for the tax benefit of the future pension deductions. AWI is solely responsible for any shortfall, and the beneficiary of any excess, at the closure of the DLW insolvency proceedings. Therefore, DLW is excluded from our balance sheets, results of operations and cash flows after the Spin-off.

The following is a summary of the operating results of DLW, which are reflected in these financial statements for periods prior to the Separation.

<i>(Dollars in millions)</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Loss on disposal of discontinued business before income tax	\$ —	\$ (0.1)	\$ (0.1)	\$ (1.3)
Income tax (expense) benefit	—	(0.1)	1.8	43.6
Net (loss) gain on disposal of discontinued business	\$ —	\$ (0.2)	\$ 1.7	\$ 42.3

NOTE 3. RELATIONSHIP WITH AWI AND RELATED ENTITIES

Allocation of general corporate and other expenses

These Condensed Consolidated Financial Statements include expense allocations for certain functions provided by AWI, including, but not limited to finance, legal, information technology, and human resources as well as pension expenses for periods prior to the Spin-off. In 2015, these expenses were allocated on the basis of direct usage when identifiable, with the remainder allocated on the basis of revenue, headcount, or other measures. Beginning in the first quarter of 2016, such expenses were incurred directly by our segments. No expenses were allocated to us after the Separation.

Armstrong Flooring, Inc. and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements

The presentation of these costs allocated to us by AWI in our Condensed Consolidated Statements of Operations and Comprehensive Income is as follows:

<i>(Dollars in millions)</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Expense (income), net:				
Cost of goods sold	\$ —	\$ 2.7	\$ —	\$ 5.0
Selling, general and administrative expenses	—	7.2	0.5	14.5
Other non-operating (income)	—	—	—	(0.2)
Other non-operating expense	—	—	0.3	—
Total	\$ —	\$ 9.9	\$ 0.8	\$ 19.3

On April 1, 2016, in connection with the completion of the Separation, we entered into several agreements with AWI that provided for the Separation and allocation between AFI and AWI of the assets, employees, liabilities and obligations of AWI and its subsidiaries attributable to periods prior to, at and after AFI's Separation. These agreements also govern the relationship between AFI and AWI subsequent to the completion of the Separation.

These agreements include a Transition Services Agreement, a Tax Matters Agreement, an Employee Matters Agreement, a Trademark License Agreement, a Transition Trademark Agreement and a Campus Lease Agreement.

Under the Transition Services Agreement, AFI and AWI will provide various services to each other including information technology, accounts payable, payroll, and other financial functions and administrative services.

The Tax Matters Agreement generally governs AFI's and AWI's respective rights, responsibilities and obligations after the separation and distribution with respect to tax liabilities and benefits, tax attributes, the preparation and filing of tax returns, the control of audits and other tax proceedings, and other matters regarding taxes for any tax period ending on or before the distribution date, as well as tax periods beginning after the distribution date. In addition, the tax matters agreement provides that AFI is liable for taxes incurred by AWI that may arise if AFI takes, or fails to take, certain actions that may result in the separation, the distribution or certain related transactions failing to qualify as tax-free for U.S. federal income tax purposes. AWI received an opinion from its tax counsel that the Separation qualified as a tax-free transaction for AWI and its shareholders.

The Employee Matters Agreement governs certain compensation and employee benefit obligations with respect to the current and former employees and non-employee directors of AFI and AWI. Pursuant to this agreement and in connection with the distribution, AWI transferred assets and liabilities from defined benefit pension and postretirement plans (the "Shared Plans") sponsored by AWI to AFI that relate to active AFI employees and certain former AFI employees to mirror plans established by AFI.

Pursuant to the Trademark License Agreement, AWI provided AFI with a perpetual, royalty-free license to use the "Armstrong" trade name and logo.

Pursuant to the Transition Trademark License agreement, AFI provided AWI with a five-year royalty-free license to utilize the "Inspiring Great Spaces" tagline, logo and related color scheme.

Under the Campus Lease Agreement, AFI leased certain portions of the AWI's campus for use as AFI's corporate headquarters. The campus lease agreement provides for an initial term of five years from April 1, 2016. Minimum annual rent expense is expected to be \$2.8 million for the remaining six months of 2016, \$5.6 million per annum for the years 2017 - 2020, and \$1.4 million in 2021, notwithstanding any renewals or additional charges.

Armstrong Flooring, Inc. and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements

NOTE 4. INCOME TAXES

<i>(Dollars in millions)</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Income from continuing operations before income taxes:	\$ 9.4	\$ 14.5	\$ 4.7	\$ 11.3
Income tax expense	3.7	5.7	3.3	6.4
Effective tax rate	39.4%	39.3%	70.2%	56.6%

The effective tax rate for the second quarter of 2016 was flat versus the comparable period of 2015. The effective tax rate for the first six months of 2016 was higher than the comparable period in 2015 primarily due to a higher rate impact of unbenefitted foreign losses as a result of lower pretax income.

Upon audit, taxing authorities may challenge all or part of an uncertain income tax position. While AFI has no history of tax audits on a stand-alone basis, AWI was routinely audited by U.S. federal, state and local, and non-U.S. taxing authorities. Accordingly, AFI regularly assesses the outcome of potential examinations in each of the taxing jurisdictions when determining the adequacy of the amount of unrecognized tax benefit recorded. We do not expect to record any material changes during 2016 to AFI's unrecognized tax benefits as of December 31, 2015.

As of June 30, 2016, we consider foreign unremitted earnings to be permanently reinvested.

NOTE 5. EARNINGS PER SHARE OF COMMON STOCK

The table below shows a reconciliation of the numerator and denominator for basic and diluted earnings per share calculations for the periods indicated.

<i>(Dollars in millions, except share data)</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Numerator				
Income from continuing operations	\$ 5.7	\$ 8.8	\$ 1.4	\$ 4.9
(Loss) income from discontinued operations	—	(0.2)	1.7	42.3
Net income	\$ 5.7	\$ 8.6	\$ 3.1	\$ 47.2
Denominator				
Weighted average number of common shares outstanding	27,743,714	27,738,779	27,740,817	27,738,779
Weighted average number of vested shares not yet issued	154,767	—	63,904	—
Weighted average number of common shares outstanding - Basic	27,898,481	27,738,779	27,804,721	27,738,779
Dilutive stock-based compensation awards outstanding	406,931	—	203,465	—
Weighted average number of common shares outstanding - Diluted	28,305,412	27,738,779	28,008,186	27,738,779

On April 1, 2016, AWI distributed 27,738,779 shares of AFI's common stock to AWI's shareholders. Basic and diluted earnings (loss) per common share for the three and six months ended June 30, 2015 were calculated using the shares distributed on April 1, 2016.

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Diluted earnings (loss) per share is calculated using net income (loss) available to common stockholders divided by diluted weighted-average shares of common shares outstanding during each period determined using the treasury stock method. Performance-based employee compensation awards are considered potentially dilutive in the initial period in which the performance conditions are met. Performance awards representing 924,579 shares of common stock were excluded from the computation of diluted earnings per share as the performance conditions have not yet been met. Options to purchase 391,353 shares of common stock were excluded from the computation of diluted earnings per share as the options were anti-dilutive.

NOTE 6. ACCOUNTS AND NOTES RECEIVABLE

<i>(Dollars in millions)</i>	June 30, 2016	December 31, 2015
Customer receivables	\$ 119.9	\$ 85.1
Customer notes	1.0	0.8
Miscellaneous receivables	9.5	4.1
Less: allowance for warranties, discounts, and losses	(18.6)	(17.8)
Accounts and notes receivable, net	<u>\$ 111.8</u>	<u>\$ 72.2</u>

Generally, we sell our products to select, pre-approved customers whose businesses are affected by changes in economic and market conditions. We consider these factors and the financial condition of each customer when establishing our allowance for losses from doubtful accounts.

Allowance for warranties represents expected reimbursements for cost associated with warranty repairs, the majority of which is provided to our independent distributors through a credit against accounts receivable from the distributor to AFI.

NOTE 7. PRODUCT WARRANTIES

The following table summarizes the activity for the accrual of product warranties for the six months ended June 30, 2016 and 2015:

<i>(Dollars in millions)</i>	Six Months Ended June 30,	
	2016	2015
Balance at beginning of period	\$ 7.3	\$ 7.7
Reductions for payments	(3.5)	(5.3)
Current year warranty accruals	3.7	5.3
Balance at end of period	<u>\$ 7.5</u>	<u>\$ 7.7</u>

NOTE 8. INVENTORIES

<i>(Dollars in millions)</i>	June 30, 2016	December 31, 2015
Finished goods	\$ 146.8	\$ 127.8
Goods in process	19.5	21.0
Raw materials and supplies	92.7	106.2
Less: LIFO and other reserves	(15.1)	(12.2)
Total inventories, net	<u>\$ 243.9</u>	<u>\$ 242.8</u>

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NOTE 9. INTANGIBLE ASSETS

The following table details amounts related to our intangible assets as of June 30, 2016 and December 31, 2015:

<i>(Dollars in millions)</i>	Estimated Useful Life	June 30, 2016		December 31, 2015	
		Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortizing intangible assets					
Land use rights	Various	\$ 5.3	\$ 0.6	\$ 5.4	\$ 0.6
Developed technology	15 years	5.3	1.3	4.9	1.1
Other	Various	0.2	0.2	0.2	0.2
Total		10.8	\$ 2.1	10.5	\$ 1.9
Non-amortizing intangible assets					
Trademarks and brand names	Indefinite	34.0		34.0	
Total intangible assets		\$ 44.8		\$ 44.5	

<i>(Dollars in millions)</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Amortization expense	\$ 0.1	\$ 0.2	\$ 0.2	\$ 0.3

NOTE 10. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

<i>(Dollars in millions)</i>	June 30, 2016	December 31, 2015
Payables, trade and other	\$ 128.6	\$ 117.7
Employment costs	23.3	24.9
Other payables	16.1	18.4
Accounts payable and accrued expenses	\$ 168.0	\$ 161.0

NOTE 11. DEBT

On April 1, 2016, AFI entered into a \$225.0 million asset-based revolving credit facility with a five-year maturity ("ABL Facility"). Concurrent with the closing of the ABL Facility, AFI borrowed \$100.0 million and used \$50.0 million of the proceeds to fund a cash distribution to AWI. Financing and other related costs incurred in connection with the ABL Facility of \$1.4 million are reflected in *Other Noncurrent Assets* in the Condensed Consolidated Balance Sheets and are amortized over the term of the ABL Facility. As of June 30, 2016, our ABL Facility provided for additional variable rate borrowings of up to \$123.2 million, net of \$1.8 million of letters of credit.

Due to its stated five-year maturity, this obligation is presented as a long-term obligation in our Condensed Consolidated Balance Sheets. However, AFI may repay this obligation at any time, without penalty.

Obligations under the ABL Facility are secured by qualifying accounts receivable, inventories, and select machinery and equipment of AFI's wholly owned domestic subsidiaries. The ABL Facility includes a \$50.0 million sublimit for the issuance of standby letters of credit. Borrowings under the ABL Facility bear interest at a rate equal to an adjusted base rate or the London Interbank Offered Rate ("LIBOR") plus an applicable margin, which varies according to average

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excess credit availability and was 1.50% at June 30, 2016. We are required to pay a commitment fee, payable quarterly in arrears, on the average daily unused amount of the ABL Facility, which varies according to utilization and is currently 0.25%. Outstanding letters of credit issued under the ABL Facility are subject to fees which are due quarterly in arrears based on an adjusted base rate.

Under the terms of the ABL Facility, we are required to maintain a fixed charge coverage ratio of at least 1.0. As of June 30, 2016, availability under the ABL Facility exceeded the required threshold and, as a result, this covenant was not applicable. In addition, the ABL Facility contains customary negative covenants, including those that restrict our ability to allow certain liens to attach to assets, make certain acquisitions and investments, incur certain additional indebtedness, make certain fundamental changes to our structure, make certain dispositions, change the nature of our business, and enter into certain other transactions or agreements.

As of December 31, 2015, outstanding long-term debt of \$10.0 million consisted of a tax-exempt industrial development bond, which was repaid during the first quarter of 2016 and was reflected within *Net Transfers (to)/from AWI*.

NOTE 12. FINANCIAL INSTRUMENTS

We do not hold or issue financial instruments for trading purposes. The estimated fair values of our financial instruments are as follows:

<i>(Dollars in millions)</i>	June 30, 2016		December 31, 2015	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Total debt	\$ (100.0)	\$ (100.0)	\$ (10.0)	\$ (10.0)
Foreign currency contracts, net	0.3	0.3	2.9	2.9

The carrying amounts of receivables, accounts payable and accrued expenses approximate estimated fair value due to the short-term maturity of these instruments. Total debt at June 30, 2016 consisted of the outstanding borrowings under the ABL Facility. Total debt at December 31, 2015 consisted of a \$10.0 million variable rate tax-exempt industrial development bond. The fair values of our net foreign currency contracts were estimated from market quotes which are considered to be Level 1 inputs and which were provided by a well-recognized national market data provider. We do not have any assets or liabilities that are valued using Level 2 or Level 3 (unobservable) inputs.

NOTE 13. DERIVATIVE FINANCIAL INSTRUMENTS

We are exposed to market risk from changes in foreign exchange rates that could impact our results of operations, cash flows and financial condition. We enter into derivative contracts, including contracts to hedge our foreign currency exchange rate exposures. Exposure to individual counterparties is controlled and derivative financial instruments are entered into with a diversified group of major financial institutions. Forward swap contracts are entered into for periods consistent with underlying exposure and do not constitute positions independent of those exposures. At inception, hedges designated as hedging instruments are formally documented as either (1) a hedge of a forecasted transaction or "cash flow" hedge, or (2) a hedge of the fair value of a recognized liability or asset or "fair value" hedge. Derivatives are formally assessed both at inception and at least quarterly thereafter, to ensure that derivatives used in hedging transactions are highly effective in offsetting changes in either the fair value or cash flows of the hedged item. If it is determined that a derivative ceases to be a highly effective hedge, or if the anticipated transaction is no longer probable of occurring, hedge accounting is discontinued, and any future mark-to-market adjustments are recognized in earnings. Derivative financial instruments are used as risk management tools and not for speculative trading purposes.

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Counterparty Risk

We only enter into derivative transactions with established counterparties having a credit rating of BBB or better. Counterparty credit default swap levels and credit ratings are monitored on a regular basis. All of our derivative transactions with counterparties are governed by master International Swap and Derivatives Association agreements (“ISDAs”) with netting arrangements. These agreements can limit exposure in situations where gain and loss positions are outstanding with a single counterparty. We neither post nor receive cash collateral with any counterparty for our derivative transactions. These ISDAs do not have any credit contingent features; however, a default under our ABL Facility would trigger a default under these agreements. Exposure to individual counterparties is controlled, and thus the risk of counterparty default is negligible.

Currency Rate Risk – Sales and Purchases

We manufacture and sell our products in a number of countries and, as a result, we are exposed to movements in foreign currency exchange rates. To a large extent, our global manufacturing and sales provide a natural hedge of foreign currency exchange rate movement, as foreign currency expenses generally offset foreign currency revenues. We manage our cash flow exposures on a net basis and use derivatives to hedge the majority of our unmatched foreign currency cash inflows and outflows. Before considering the impacts of any hedging, our major foreign currency exposures as of June 30, 2016, based on operating profits by currency, are to the Canadian dollar, Chinese renminbi and the Australian dollar.

We use foreign currency forward exchange contracts to reduce our exposure to the risk that the eventual net cash inflows and outflows resulting from the sale of products to foreign customers and purchases from foreign suppliers will be adversely affected by changes in exchange rates. These derivative instruments are used for forecasted transactions and are classified as cash flow hedges. These cash flow hedges are executed quarterly, generally up to 15 months forward. The notional amount of these hedges was \$16.8 million and \$34.9 million at June 30, 2016 and December 31, 2015, respectively. Gains and losses on these instruments are recorded in *Other comprehensive income (loss)*, to the extent effective, until the underlying transaction is recognized in earnings. The mark-to-market gains or losses on ineffective portions of hedges are recognized in *Selling, general and administrative expense*. The earnings impact of the ineffective portion of these hedges was not material for the three and six months ended June 30, 2016 and 2015.

Financial Statement Impacts

The following tables detail amounts related to our derivatives designated as hedging instruments as of June 30, 2016 and December 31, 2015. We had no derivative assets or liabilities that were not designated as hedging instruments at June 30, 2016 or December 31, 2015. The derivative asset and liability balances below are gross amounts; we have not netted assets with liabilities.

The following table summarizes our foreign exchange contracts outstanding:

(Dollars in millions)

Assets				Liabilities			
Fair Value		Fair Value		Fair Value		Fair Value	
Balance Sheet Location	June 30, 2016	December 31, 2015	Balance Sheet Location	June 30, 2016	December 31, 2015	December 31, 2015	2015
Prepaid expenses and other current assets	\$ 0.4	\$ 3.2	Accounts payable and accrued expenses	\$ 0.1	\$ 0.3		

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The following tables summarize the amount of gain (loss) recognized in Accumulated Other Comprehensive (Loss) Income ("AOCI") and the amounts reclassified from AOCI for the effective portion of foreign exchange contracts:

(Dollars in millions)

Recognized in AOCI			Reclassified from AOCI		
Three Months Ended June 30,			Three Months Ended June 30,		
2016	2015		2016	2015	
\$ —	\$ 0.1	Cost of goods sold	\$ (0.1)	\$ (0.3)	
0.1	(0.9)	Net sales	0.4	0.9	
<u>\$ 0.1</u>	<u>\$ (0.8)</u>	Total	<u>\$ 0.3</u>	<u>\$ 0.6</u>	

Six Months Ended June 30,			Six Months Ended June 30,		
2016	2015		2016	2015	
\$ (0.3)	\$ (0.5)	Cost of goods sold	\$ (0.2)	\$ (0.5)	
(1.0)	1.8	Net sales	1.4	2.1	
<u>\$ (1.3)</u>	<u>\$ 1.3</u>	Total	<u>\$ 1.2</u>	<u>\$ 1.6</u>	

As of June 30, 2016, the amount of existing gains in AOCI expected to be recognized in earnings over the next twelve months is \$0.3 million.

There was no gain or loss recognized in earnings for derivative instruments not designated as hedging instruments in the three or six months ended June 30, 2016 or 2015.

NOTE 14. PENSION AND OTHER POSTRETIREMENT BENEFIT PROGRAMS

For periods prior to April 1, 2016, certain of our North American employees participated in defined benefit pension and postretirement plans (the "Shared Plans") sponsored by AWI. In addition, prior to April 1, 2016, certain of our U.S. employees participated in a postretirement medical benefit plan sponsored by us (the "AFI Postretirement Plan"). The related net benefit plan obligations of the Shared Plans were not included in our Condensed Consolidated Balance Sheets as we did not sponsor the Shared Plans and had no rights or obligations related to the Shared Plans' assets or liabilities. Our Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) include Shared Plan expenses for our active and retired employees as well as an allocation of Shared Plan expenses associated with corporate personnel. The Shared Plan expenses presented in our Condensed Consolidated Financial Statements represent the allocation of plan costs to AFI and do not represent cash payments to AWI or to the Shared Plans.

Effective April 1, 2016 upon separation from AWI, AFI created defined benefit pension and postretirement plans which provide North American employees and retirees who previously participated in the Shared Plans the same defined benefit pension and postretirement benefits that had been previously been provided by AWI. As a result of the Separation, AFI assumed defined benefit pension plan assets of approximately \$350 million, defined benefit pension benefit obligations of approximately \$379 million, defined benefit postretirement benefit obligations of approximately \$87 million and accumulated other comprehensive income of approximately \$102 million. AFI also retained the AFI Postretirement Plan described above. Actuarial assumptions used for the AFI plans are the same as those used by AWI for the Shared Plans.

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The following table summarizes our pension and postretirement expense (income) for the three and six months ended June 30, 2016 and 2015.

<i>(Dollars in millions)</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
AFI Plans:				
Defined benefit pension, U.S.				
Service cost	\$ 1.5	\$ —	\$ 1.5	\$ —
Interest cost	3.9	—	3.9	—
Expected return on plan assets	(5.8)	—	(5.8)	—
Amortization of prior service cost	0.1	—	0.1	—
Amortization of net actuarial loss	2.5	—	2.5	—
Total, defined benefit pension, U.S.	\$ 2.2	\$ —	\$ 2.2	\$ —
Defined benefit pension, Canada				
Interest cost	\$ 0.2	\$ —	\$ 0.2	\$ —
Expected return on plan assets	(0.3)	—	(0.3)	—
Amortization of net actuarial loss	0.1	—	0.1	—
Total, defined benefit pension, Canada	\$ —	\$ —	\$ —	\$ —
Defined benefit postretirement, U.S.				
Service cost	\$ 0.1	\$ —	\$ 0.1	\$ —
Interest cost	0.8	0.1	0.9	0.1
Amortization of prior service cost	(0.1)	—	(0.1)	—
Amortization of net actuarial loss	(1.1)	—	(1.1)	—
Total defined benefit postretirement, U.S.	\$ (0.3)	\$ 0.1	\$ (0.2)	\$ 0.1
Shared Plans:				
Defined benefit pension, U.S.	\$ —	\$ 2.6	\$ 2.2	\$ 6.3
Defined benefit pension, Canada	—	0.2	0.1	0.2
Defined benefit postretirement, U.S.	—	0.2	(0.3)	0.3

NOTE 15. STOCK-BASED COMPENSATION

Prior to the Spin-off, AWI issued stock-based compensation awards to employees and directors that became employees or directors of AFI. These awards included employee stock options, employee and director restricted stock units ("RSUs"), and employee performance stock units ("PSUs"). Stock-based compensation expense in 2015 and until the Spin-off in 2016 was allocated to AFI based on direct allocation of expenses related to AFI employees and an allocation for employees that were providing services to both companies prior to the Spin-off.

In April 2016, AFI adopted the Armstrong Flooring, Inc. 2016 Long-Term Incentive Plan (the "2016 LTIP Plan") and the Armstrong Flooring, Inc. 2016 Directors' Stock Unit Plan (the "2016 Directors' Plan"), which collectively comprise a new compensation program which allows for the grant to certain employees and non-employee directors of AFI different forms of benefits, including performance stock awards ("PSAs"), PSUs, and RSUs. AFI's Board of Directors (the "Board") authorized 5,500,000 shares of common stock that may be issued pursuant to the 2016 LTIP Plan and 500,000 shares of common stock that may be issued pursuant to the 2016 Directors' Plan.

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New Awards:

On April 11, 2016, Management Development and Compensation Committee (the "Committee") of the Board granted the following awards under the 2016 LTIP Plan and the 2016 Directors Plan:

PSAs: The Committee granted long-term incentive awards in the form of PSAs to the Company's key executive employees. In total, five executives received these awards. The PSAs are shares of restricted Company common stock that vest based on the achievement of certain performance conditions. The performance condition for 75.0% of the awards is based on earnings before interest, taxes, depreciation and amortization ("EBITDA"). The performance condition for the remaining 25.0% of the awards is based on cumulative free cash flow, defined as cash flow from operations, less cash used in investing activities. The PSAs are also indexed to the achievement of specified levels of absolute total shareholder return. If the performance conditions are met, the awards vest at the conclusion of the performance period on December 31, 2018.

Compensation expense related to the PSAs was estimated using a grant date fair value based on the following assumptions:

Risk-free rate of return	0.8%
Expected volatility	36.2%
Dividend yield	—
Grant date stock price	\$ 13.51

PSUs: The CEO, as authorized by the Committee, granted long-term incentive awards in the form of PSUs to certain management employees of the Company. The PSUs are units representing shares of Company common stock which are converted to shares of Company common stock at the end of the performance period if the associated performance conditions are achieved. The performance condition for 75.0% of the awards is based on EBITDA. The performance condition for the remaining 25.0% of the awards is based on cumulative free cash flow, defined as cash flow from operations, less cash used in investing activities. If the performance conditions are met, the awards vest at the conclusion of the performance period on December 31, 2018.

RSUs: The CEO, as authorized by the Committee, granted long-term incentive awards in the form of RSUs to certain management employees of the Company. The RSUs are units representing shares of Company common stock which are converted to shares of Company common stock at the end of the performance period. There are no performance conditions associated with these awards. Vesting occurs on a graded schedule, with one third of the awards vesting at the end of one, two and three years from date of grant.

Director Awards: The Committee issued RSUs to its non-employee directors under the 2016 Directors' Plan. These awards vest in approximately one year, and any dividends paid prior to vesting are forfeitable if the award does not vest.

The number of and grant date fair value of each award type granted in April 2016 under the 2016 LTIP Plan and the 2016 Directors' Plan (collectively, the "2016 Grant") is shown in the following table:

Award Type	Number Granted (in thousands)	Grant Date Fair Value	Plan
PSA	703	\$ 12.44	2016 LTIP Plan
PSU	226	13.51	2016 LTIP Plan
RSU	117	13.51	2016 LTIP Plan
Director RSU	71	13.51	2016 Directors' Plan

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As of June 30, 2016, \$11.8 million of total unrecognized compensation expense related to the 2016 Grant is expected to be recognized over a weighted average period of 2.4 years.

Modified Awards:

Upon separation, in accordance with the Employee Matters Agreement between AFI and AWI, certain executives, employees and non-employee directors were entitled to receive equity compensation awards of AFI in replacement of previously outstanding awards granted prior to the Separation under various AWI stock incentive plans. These awards included stock options, PSUs, and RSUs. In connection with the Spin-off, these awards were converted into new AFI equity awards using a formula designed to preserve the intrinsic value of the awards immediately prior to the Spin-off on April 1, 2016. The modification did not result in a change to the value of the awards. Therefore, no additional compensation expense related to the award modification was recorded. The terms and conditions of the AWI awards were replicated and, as necessary, adjusted to ensure that the vesting schedule and economic value of the awards was unchanged by the conversion.

Stock Options: The following table summarizes information about AFI's modified stock options at June 30, 2016:

	Number of Shares	Weighted Average Exercise Price (per share)	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (dollars in millions)
Outstanding	681,085	\$ 12.89		
Exercisable	456,863	12.05	5.8 years	\$ 2.2

PSUs: The modified PSUs were initially issued with performance conditions based on AWI's results. At modification, two of the three years of performance had occurred. For the third year, which occurred after Separation, AWI performance was assumed to be at the Target level for purposes of award payout.

As of June 30, 2016, \$3.3 million of total unrecognized compensation expense related to our modified awards is expected to be recognized over a weighted average period of 1.5 years.

Total Awards:

Total stock-based compensation expense included in the Condensed Consolidated Statements of Operations and Comprehensive Income and the related tax effects are shown in the table below:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
<i>(Dollars in millions)</i>				
Stock-based compensation expense	\$ 2.2	\$ 1.7	\$ 3.0	\$ 3.5
Income tax benefit	0.8	0.6	1.1	1.3

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NOTE 16. ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME

The balance of each component of AOCI, net of tax is presented in the table below.

(Dollars in millions)

	June 30, 2016	December 31, 2015
Foreign currency translation adjustments	\$ 2.0	\$ 0.1
Derivative gain, net	0.2	2.3
Pension and postretirement adjustments	(62.1)	(0.4)
Accumulated other comprehensive income (loss)	<u>\$ (59.9)</u>	<u>\$ 2.0</u>

The following table summarizes the activity, by component, related to the change in AOCI for June 30, 2016 and December 31, 2015, net of tax:

(Dollars in millions)

	Foreign Currency Translation Adjustments	Derivative Gain (Loss)	Pension and Postretirement Adjustments	Total Accumulated Other Comprehensive Income (Loss)
Balance, December 31, 2015	\$ 0.1	\$ 2.3	\$ (0.4)	\$ 2.0
Net transfer from AWI	8.6	(0.2)	(62.6)	(54.2)
Other comprehensive income (loss) before reclassifications, net of tax expense of \$ -, \$0.2, \$ - and \$0.2	(6.7)	(1.1)	(0.1)	(7.9)
Amounts reclassified from accumulated other comprehensive income	—	(0.8)	1.0	0.2
Net current period other comprehensive income (loss)	(6.7)	(1.9)	0.9	(7.7)
Balance, June 30, 2016	<u>\$ 2.0</u>	<u>\$ 0.2</u>	<u>\$ (62.1)</u>	<u>\$ (59.9)</u>
Balance, December 31, 2014	\$ 12.2	\$ 1.7	\$ (0.2)	\$ 13.7
Other comprehensive income (loss) before reclassifications, net of tax expense of \$ -, \$-, \$ - and \$ -	(3.5)	1.3	—	(2.2)
Amounts reclassified from accumulated other comprehensive income	—	(1.6)	—	(1.6)
Net current period other comprehensive income (loss)	(3.5)	(0.3)	—	(3.8)
Balance, June 30, 2015	<u>\$ 8.7</u>	<u>\$ 1.4</u>	<u>\$ (0.2)</u>	<u>\$ 9.9</u>

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The amounts reclassified from AOCI and the affected line item of the Condensed Consolidated Statements of Operations and Comprehensive Income are presented in the table below:

<i>(Dollars in millions)</i>	Six Months Ended June 30,		Affected Line Item
	2016	2015	
Derivative Adjustments:			
Foreign exchange contracts - purchases	\$ 0.2	\$ 0.5	Cost of goods sold
Foreign exchange contracts - sales	(1.4)	(2.1)	Net sales
Total expense before tax	(1.2)	(1.6)	
Tax impact	0.4	—	Income tax expense
Total expense, net of tax	\$ (0.8)	\$ (1.6)	
Pension and Postretirement Adjustments:			
Amortization of net actuarial loss	\$ 0.6	\$ —	Cost of goods sold
Amortization of net actuarial loss	0.9	—	Selling, general and administrative expenses
Total expense before tax	1.5	—	
Tax impact	(0.5)	—	Income tax expense
Total expense, net of tax	1.0	—	
Total reclassifications for the period	\$ 0.2	\$ (1.6)	

NOTE 17. SEGMENT INFORMATION

Resilient Flooring — Our Resilient Flooring segment designs, manufactures, sources and sells a broad range of floor coverings primarily for homes and commercial buildings under various brands, including the Armstrong brand. Manufactured products in this segment include vinyl sheet, vinyl tile, and luxury vinyl tile (“LVT”) flooring. In addition, our Resilient Flooring segment sources and sells laminate flooring products, vinyl tile products, vinyl sheet products, LVT products, linoleum products, adhesives, as well as installation and maintenance materials and accessories. Resilient Flooring products are offered in a wide variety of designs, colors and installation options. We sell these products to independent wholesale flooring distributors, large home centers, retailers, contractors and to the manufactured homes industry, and secure specifications for these products through architects, designers and end users. When market conditions and available capacity warrant, we also provide products on an original equipment manufacturer (“OEM”) basis to other flooring companies.

Wood Flooring — Our Wood Flooring segment designs, manufactures, sources and sells branded hardwood flooring products, including the Armstrong and Bruce brands, for use in residential construction and renovation, with some commercial applications in stores, restaurants and high-end offices. The product offering includes pre-finished solid and engineered wood floors in various wood species, and dimensions, as well as related accessories. Virtually all of our Wood Flooring sales are in North America. Our Wood Flooring products are generally sold to independent wholesale flooring distributors, large home centers, retailers and flooring contractors, and specified by regional and national builders.

Segment operating income (loss) is the measure of segment profit or loss reviewed by our chief operating decision maker. The sum of the segments’ operating income (loss) equals the total combined operating income as reported on our Condensed Consolidated Statements of Operations and Comprehensive Income.

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<i>(Dollars in millions)</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net sales to external customers				
Resilient Flooring	\$ 194.7	\$ 199.9	\$ 358.6	\$ 356.7
Wood Flooring	129.0	126.7	249.5	229.3
Total net sales to external customers	\$ 323.7	\$ 326.6	\$ 608.1	\$ 586.0
Segment operating income (loss)				
Resilient Flooring	\$ 13.4	\$ 14.8	\$ 8.0	\$ 15.3
Wood Flooring	(1.6)	(0.2)	(0.8)	(4.1)
Total operating income	\$ 11.8	\$ 14.6	\$ 7.2	\$ 11.2

<i>(Dollars in millions)</i>	June 30, 2016		December 31, 2015	
Segment assets				
Resilient Flooring		\$ 525.9		\$ 539.5
Wood Flooring		341.0		323.9
Unallocated		119.2		—
Total assets		\$ 986.1		\$ 863.4

Unallocated assets primarily consist of cash and deferred income taxes.

NOTE 18. LITIGATION AND RELATED MATTERS

Environmental Matters

Environmental Compliance

Our manufacturing and research facilities are affected by various federal, state and local requirements relating to the discharge of materials and the protection of the environment. We make expenditures necessary for compliance with applicable environmental requirements at each of our operating facilities. These regulatory requirements continually change, therefore we cannot predict with certainty future expenditures associated with compliance with environmental requirements.

Environmental Sites

In connection with our current or legacy manufacturing operations, or those of former owners, we may from time to time become involved in the investigation, closure and/or remediation of existing or potential environmental contamination under the Comprehensive Environmental Response, Compensation and Liability Act, and state or international Superfund and similar type environmental laws. For those matters, we may have rights of contribution or reimbursement from other parties or coverage under applicable insurance policies, however, we cannot predict with certainty the future identification of or expenditure for any investigation, closure or remediation of any environmental site.

Summary of Financial Position

There were no material liabilities recorded at June 30, 2016 and December 31, 2015 for potential environmental liabilities that we consider probable and for which a reasonable estimate of the probable liability could be made.

Armstrong Flooring, Inc. and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements

Antidumping and Countervailing Duty Cases

In October 2010, a coalition of U.S. producers of multilayered wood flooring (not including AWI and its subsidiaries) filed petitions seeking antidumping duties (“AD”) and countervailing duties (“CVD”) with the United States Department of Commerce (“DOC”) and the United States International Trade Commission against imports of multilayered wood flooring from China. The AD and CVD petitions ultimately resulted in DOC issuing AD and CVD orders (the “Orders”) against multilayered wood flooring imported into the U.S. from China. These Orders and the associated additional duties they have imposed have been the subject of extensive litigation, both at DOC and in the U.S. courts.

We produce multilayered wood flooring domestically and import multilayered wood flooring from third party suppliers in China. Until October 2014, we also operated a plant in Kunshan, China (“Armstrong Kunshan”) that manufactured multilayered wood flooring for export to the U.S. As a result, we have been directly involved in the multilayered wood flooring-related litigation at DOC and in the U.S. courts. Our consistent view through the course of this matter has been, and remains, that our imports are neither dumped nor subsidized. In 2013, in the sole DOC investigation of AWI and its subsidiaries (as a mandatory respondent in connection with the first annual administrative review), Armstrong Kunshan received a final AD rate of 0.00% and a final CVD rate of 0.98%.

Litigation regarding this matter has continued in the U.S. courts. The most recent court decision, on July 6, 2015, upheld certain DOC calculations on remand. Armstrong Kunshan as well as other respondents have appealed the DOC’s original decision to apply an AD rate to AWI and its subsidiaries and other “separate rate” respondents in the original investigation (for which we received a final initial AD rate of 3.31%) to the Court of Appeals for the Federal Circuit.

DOC also continues to conduct annual administrative reviews of the AD and CVD final duty rates under the Orders. Armstrong Kunshan was not selected as a mandatory respondent for the second and third reviews and, therefore, was not subject to individual review, but we are subject to the rates applicable to importers that were not individually reviewed (the “separate rate” or “all other” respondents).

The second administrative review period covered imports of multilayered wood flooring made between December 1, 2012 and November 30, 2013 (AD) and between January 1, 2012 and December 31, 2012 (CVD). In July 2015, the DOC issued a final “all others” CVD rate of 0.99% and a 13.74% AD rate. The AD rate was determined solely on the basis of the AD duty rate assigned to the only mandatory respondent that did not receive a de minimis rate. DOC assigned these rates to all separate rate respondents that were not individually investigated, including Armstrong Kunshan. We, along with other respondents, have filed complaints against DOC challenging the rate in the U.S. Court of International Trade with a decision expected in 2016. If such rates are ultimately upheld after any court appeals are exhausted, the estimated additional liability to us for the relevant period is approximately \$4.5 million, which is recorded in *Accounts payable and accrued expenses*.

The third administrative review period covered all multilayered wood flooring imports made between December 1, 2013 and November 30, 2014 (AD) and between January 1, 2013 and December 31, 2013 (CVD). On May 16, 2016 the DOC issued a final “all others” CVD rate of 1.38% and on July 13, 2016, DOC imposed a 17.37% “all others” AD rate. The AD rate was determined again solely on the basis of the AD duty rate assigned to the only mandatory respondent that did not receive a de minimis rate. DOC assigned these rates to all separate rate respondents that were not individually investigated, including Armstrong Kunshan. We plan to continue to defend our import practices and pursue our available legal rights and remedies, including litigation at DOC and in the U.S. courts. If such rates are ultimately upheld after any potential court appeals are exhausted, the estimated additional liability to us for the relevant period is approximately \$5.9 million, which is recorded in *Accounts payable and accrued expenses*.

AWI and Armstrong Kunshan will not be subject to review during the fourth administrative review period, however, we will be liable for other manufacturers’ applicable rates to the extent we were importer of record of products covered by the AD/CVD orders during this period. We are unable to estimate this liability at this time, but it could be material. We will accrue and make cash deposits for duties when we are the importer of record at the rates established by the DOC based on the third administrative review process.

Armstrong Flooring, Inc. and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements

Other Claims

We are involved in various lawsuits, claims, investigations and other legal matters from time to time that arise in the ordinary course of conducting business, including matters involving our products, intellectual property, relationships with suppliers, relationships with distributors, relationships with competitors, employees and other matters. For example, we are currently a party to various litigation matters that involve product liability, tort liability and other claims under a wide range of allegations, including illness due to exposure to certain chemicals used in the workplace, or medical conditions arising from exposure to product ingredients or the presence of trace contaminants. In some cases, these allegations involve multiple defendants and relate to legacy products that we and other defendants purportedly manufactured or sold. We believe these claims and allegations to be without merit and intend to defend them vigorously. For these matters, we also may have rights of contribution or reimbursement from other parties or coverage under applicable insurance policies.

While complete assurance cannot be given to the outcome of these proceedings, we do not believe that any of these matters, individually or in the aggregate, will have a material adverse effect on our financial condition, liquidity or results of operations.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Introduction

This discussion is provided as a supplement to the Condensed Consolidated Financial Statements and accompanying Notes included elsewhere herein to help provide an understanding of our financial condition, changes in financial condition, and results of operations.

Forward-looking Statements

The discussion and analysis presented below refers to and should be read in conjunction with the Combined Financial Statements, and the unaudited pro forma combined financial statements of AFI as of and for the year ended December 31, 2015, each in our Information Statement.

This section and other parts of this quarterly report on Form 10-Q contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that involve risks and uncertainties. Forward-looking statements provide current expectations of future events based on certain assumptions and include any statement that does not directly relate to an historical or current fact. These could include, but are not limited to, statements regarding business strategies, market potential, future financial performance and other matters. The words "believe," "expect," "anticipate," "project" and similar expressions, among others, generally identify "forward-looking statements," which speak only as of the date the statements were made. The matters discussed in these forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results to differ materially from those projected, anticipated or implied in the forward-looking statements. Where, in any forward-looking statement, an expectation or belief as to future results or events is expressed, such expectation or belief is based on the current plans and expectations of AFI management, expressed in good faith and believed to have a reasonable basis. However, there can be no assurance that these expectations or beliefs will result or be achieved or accomplished. Except as may be required by law, AFI undertakes no obligation to modify or revise any forward-looking statements to reflect events or circumstances occurring after the date of this quarterly report on Form 10-Q. 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,
- key customers,
- competition,
- availability and costs of raw materials and energy,
- our liquidity,
- environmental matters,
- international operations,
- strategic transactions,
- plant construction projects,
- negative tax consequences,
- claims and litigation,
- labor,
- our intellectual property rights,
- outsourcing,
- cost saving and productivity initiatives, and
- other risks detailed from time to time in our filings with the Securities and Exchange Commission (the "SEC"), press releases, and other communications.

Additionally, there may be other risks and uncertainties that we are unable to identify at this time or that we do not currently expect to have a material impact on our business. For further discussion of some of the important factors that could cause AFI's actual results to differ materially from those projected in any such forward-looking statements, see the Risk Factors discussion in our Information Statement.

Overview

AFI is a leading global producer of flooring products for use primarily in the construction and renovation of residential, commercial and institutional buildings. We design, manufacture, source and sell resilient and wood flooring products in North America and the Pacific Rim, with over 90% of our sales occurring in North America, based on the selling location. As of June 30, 2016, we operated 17 manufacturing plants in three countries, including 14 plants located throughout the U.S. We operate through two segments: Resilient Flooring and Wood Flooring.

Resilient Flooring

Our Resilient Flooring segment designs, manufactures, sources and sells a broad range of floor coverings primarily for homes and commercial buildings under various brands, including the Armstrong brand. Manufactured products in this segment include vinyl sheet, vinyl tile, and Luxury Vinyl Tile ("LVT") flooring. In addition, our Resilient Flooring segment sources and sells laminate flooring products, vinyl tile products, LVT, vinyl sheet products, linoleum products, adhesives, as well as installation and maintenance materials and accessories. Resilient Flooring products are offered in a wide variety of types, designs, colors and installation options. We sell these products to independent wholesale flooring distributors, large home centers, retailers, contractors and to the manufactured homes industry, and secure specifications for these products through architects, designers and end users. When market conditions and available capacity warrant, we also provide products on an original equipment manufacturer ("OEM") basis to other flooring companies.

Wood Flooring

Our Wood Flooring segment designs, manufactures, sources and sells branded and unbranded hardwood flooring products, including the Armstrong and Bruce brands, for use in residential construction and renovation, with some commercial applications in stores, restaurants and high-end offices. The product offering includes pre-finished solid and engineered wood floors in various wood species, and dimensions, as well as related accessories. Virtually all of our Wood Flooring sales are in North America. Our Wood Flooring products are generally sold to independent wholesale flooring distributors, large home centers, retailers and flooring contractors, and specified by regional and national builders.

Factors Affecting our Business

We closely monitor publicly available macroeconomic trend data that provides insight to commercial and residential market activity; this includes GDP growth indices, the Architecture Billings Index and the Consumer Confidence Index, as well as housing starts. The following factors and trends have affected our results or may affect our future results.

Revenues:

Resilient Flooring segment: Our business operates in a competitive environment across all our product categories, and excess capacity exists in much of the industry. Recently, we have seen efforts by various competitors to price aggressively as a means to gain market share, especially in competing for the business of larger customers or on major projects.

We are the largest producer of vinyl composition tile ("VCT"). The market for VCT, which is primarily used in commercial environments, is a mature market, and consumer trends have begun favoring alternate products. We expect that over time, the VCT category will represent a smaller portion of both the resilient market and our sales. While a

smaller component of our sales volume than VCT, similar market pressures exist for our vinyl sheet product category, which is primarily used in residential applications.

Luxury vinyl tile (“LVT”) is a relatively new product form in North America, and consumer interest has been high given its attractive visuals and durability. We expect market growth rates will continue to be in the double-digits, and accordingly, we have invested heavily in this product category, as have our competitors. We believe growth will come partially at the expense of other product categories in both the soft and hard surface flooring markets.

Wood Flooring segment: Our product offerings include both solid and engineered wood flooring products. We have continued to see increased penetration in the new construction and remodeling sectors for hardwood flooring, primarily related to engineered wood products.

Operating Expenses:

Resilient Flooring segment: We began producing LVT at our Lancaster, PA plant in the fourth quarter of 2015. As we ramp up production to expected operating levels, our initial unit costs will be higher than our expected steady-state costs. Additionally, we have seen a steady decline in the cost of our primary production materials over the past several quarters.

Wood Flooring segment: We purchase a significant amount of green lumber as an input into our hardwood flooring products. The market for lumber can be very volatile, and last year we saw significant, steady declines through the second and third quarters in the cost of lumber. This year, costs have begun to increase at a more measured rate.

Our results for periods prior to April 1, 2016 reflect our operating costs as a division of AWI. As we began operating as a separate public company on April 1, 2016, we expect our general and administrative expenses to continue to be higher than those incurred as a division of AWI.

Recent Developments

Separation and Distribution

On April 1, 2016, AWI, a Pennsylvania corporation, separated AWI’s Resilient Flooring and Wood Flooring segments from its Ceilings segment. The Separation was effected by allocating the assets and liabilities related primarily to the Resilient Flooring and Wood Flooring segments to AFI and then distributing the common stock of AFI to AWI’s shareholders. The Separation and Distribution resulted in AWI and AFI becoming two independent, publicly traded companies, with AFI owning and operating the Resilient Flooring and Wood Flooring segments and AWI continuing to own and operate a ceilings business. On the distribution date, each holder of AWI common stock received one share of AFI’s common stock for every two shares of AWI’s common stock held on the record date.

The Spin-off was completed pursuant to a separation and distribution agreement and several other agreements with AWI related to the Separation, including a Transition Services Agreement, a Tax Matters Agreement, an Employee Matters Agreement, a Trademark License Agreement, a Transition Trademark Agreement and a Campus Lease Agreement, each of which was filed with the SEC as an exhibit to our Current Report on Form 8-K on April 4, 2016. These agreements govern the relationship between AFI and AWI following the Separation and provide for the allocation of various assets, liabilities, rights and obligations. These agreements also include arrangements for transition services between AFI and AWI. For a discussion of each agreement, see the section entitled “Certain Relationships and Related Person Transactions — Agreements with AWI” in our Information Statement.

Our Registration Statement on Form 10 was declared effective by the SEC on March 15, 2016 and our common stock began “regular-way” trading on the New York Stock Exchange on April 4, 2016 under the symbol AFI.

Results of Operations

For the three months ended June 30, 2016, net sales decreased by \$2.9 million or 0.9% and operating income decreased by \$2.8 million. The decline in net sales reflected lower net sales for the Resilient Flooring segment, partially offset by higher net sales for the Wood Flooring segment. The decline in operating income primarily reflected the higher impact of new duty rates related to prior years' imports of multilayered wood flooring from China and lower net sales, partially offset by lower selling, general and administrative ("SG&A") expenses. See Note 18 of the Notes to Unaudited Condensed Consolidated Financial Statements for further information related to multilayered wood flooring duties.

For the six months ended June 30, 2016, net sales increased by \$22.1 million or 3.8% and operating income decreased by \$4.0 million. The increase in net sales primarily reflected higher volume in our Wood Flooring segment. In addition to the higher impact of new duty rates described above, the decline in operating income reflected higher SG&A expenses.

Below is a summary of comparative results of operations for the three and six months ended June 30, 2016 and 2015:

	Three Months Ended June 30,				Six Months Ended June 30,			
	2016	2015	Change \$	Change %	2016	2015	Change \$	Change %
<i>(Dollars in millions)</i>								
Net sales	\$ 323.7	\$ 326.6	\$ (2.9)	(0.9)%	\$ 608.1	\$ 586.0	\$ 22.1	3.8 %
Cost of goods sold	260.5	260.2	(0.3)	(0.1)%	497.7	478.1	(19.6)	(4.1)%
Gross profit	63.2	66.4	(3.2)	(4.8)%	110.4	107.9	2.5	2.3 %
Selling, general and administrative expenses	51.4	51.8	0.4	0.8 %	103.2	96.7	(6.5)	(6.7)%
Operating income	11.8	14.6	(2.8)	(19.2)%	7.2	11.2	(4.0)	(35.7)%
Interest expense	0.7	—	(0.7)		0.7	—	(0.7)	
Other non-operating expense	1.9	0.1	(1.8)		2.2	0.1	(2.1)	
Other non-operating income	0.2	—	0.2		0.4	0.2	0.2	
Income from continuing operations before income taxes	9.4	14.5	(5.1)		4.7	11.3	(6.6)	
Income tax expense	3.7	5.7	2.0		3.3	6.4	3.1	
Income from continuing operations	5.7	8.8	(3.1)		1.4	4.9	(3.5)	
Net (loss) gain on disposal of discontinued business, net of tax benefit (expense) of \$-, \$(0.3), \$1.8 and \$43.4	—	(0.2)	0.2		1.7	42.3	(40.6)	
Net (loss) income from discontinued operations	—	(0.2)	0.2		1.7	42.3	(40.6)	
Net income	\$ 5.7	\$ 8.6	\$ (2.9)		\$ 3.1	\$ 47.2	\$ (44.1)	

Three months ended June 30, 2016 compared to June 30, 2015**Net Sales**

Net sales by segment are shown in the table below:

<i>(Dollars in millions)</i>	Three Months Ended June 30,		Change (\$)	Change (%)	Percentage Point Change Due to			
	2016	2015			Price	Volume	Mix	Currency/Other
Resilient Flooring	\$ 194.7	\$ 199.9	\$ (5.2)	(2.6)%	(2.0)%	(1.5)%	1.5 %	(0.6)%
Wood Flooring	129.0	126.7	2.3	1.8 %	(2.5)%	6.6 %	(2.1)%	(0.2)%
Total	\$ 323.7	\$ 326.6	\$ (2.9)					

In our Resilient Flooring segment, net sales for the three months ended June 30, 2016 decreased in comparison with the three months ended June 30, 2015 due to lower price, lower volume, and the unfavorable effect of foreign currency, partially offset by favorable mix. Lower price reflected our efforts to maintain market share in response to continued pressure from increased competition. The volume decline reflected net inventory reductions by strategic retail customers relative to 2015 and lower net sales in the Pacific Rim region, partially offset by strong LVT product growth.

In our Wood Flooring segment, net sales for the three months ended June 30, 2016 increased on higher volume, partially offset by lower price and unfavorable mix. Higher volume and lower price resulted from targeted pricing actions with strategic retail customers. The volume increase also reflected recovery from our prior year service issues and engineered product capacity ramp up at our Somerset plant. Unfavorable mix reflected increased sales of lower-priced engineered wood products to a strategic retail customer.

Operating Income (Loss)

Operating income (loss) by segment is shown in the table below:

<i>(Dollars in millions)</i>	Three Months Ended June 30,		Change
	2016	2015	
Resilient Flooring	\$ 13.4	\$ 14.8	\$ (1.4)
Wood Flooring	(1.6)	(0.2)	(1.4)
Total	\$ 11.8	\$ 14.6	\$ (2.8)

In our Resilient Flooring segment, operating income for the three months ended June 30, 2016 decreased due to lower net sales as described above and continued ramp-up costs associated with our Lancaster, PA LVT operation, partially offset by favorable manufacturing costs at our other plants and lower SG&A expense. Lower SG&A expense primarily reflected timing of promotional activities.

In our Wood Flooring segment, the increase in operating loss for the three months ended June 30, 2016 reflected higher expense of \$1.9 million on new duty rates related to prior years' imports of multilayered wood flooring from China compared to the year ago period. Excluding the increase in duties, the segment results were up slightly on lower net input costs and productivity improvements.

Income tax expense: Income tax expense was \$3.7 million for the three months ended June 30, 2016 compared to \$5.7 million in the second quarter in 2015. The effective tax rate was 39.4% and 39.3% for the three months ended June 30, 2016 and 2015, respectively.

Six months ended June 30, 2016 compared to June 30, 2015

Net sales by segment are shown in the table below:

<i>(Dollars in millions)</i>	Six Months Ended June 30,		Change (\$)	Change (%)	Percentage Point Change Due to			
	2016	2015			Price	Volume	Mix	Currency/Other
Resilient Flooring	\$ 358.6	\$ 356.7	\$ 1.9	0.5%	(1.7)%	1.3%	1.9 %	(1.0)%
Wood Flooring	249.5	229.3	20.2	8.8%	(3.4)%	14.3%	(1.7)%	(0.4)%
Total	\$ 608.1	\$ 586.0	\$ 22.1					

In our Resilient Flooring segment, net sales for the six months ended June 30, 2016 increased compared to the six months ended June 30, 2015 due to favorable mix and higher volume, partially offset by lower price and the unfavorable effect of foreign currency. Lower price reflected our efforts to maintain market share in response to continued pressure from increased competition and targeted pricing actions with strategic retail customers. Both favorable mix and higher volume were driven by strong LVT growth, partially offset by lower volume and unfavorable mix in other product categories.

In our Wood Flooring segment, net sales for the six months ended June 30, 2016 increased on significantly higher volume, partially offset by lower prices and unfavorable mix. The hardwood market, particularly engineered wood products, continued to see increased penetration in the new construction and remodeling sectors. Higher volume also reflected inventory build by strategic retail customers. In addition, volume was aided by targeted pricing actions and recovery from engineered wood product production issues, which began in the first quarter of 2015. Unfavorable mix reflected increased sales of lower-priced engineered wood products to a strategic retail customer.

Operating Income (Loss)

<i>(Dollars in millions)</i>	Six Months Ended June 30,			Change
	2016	2015		
Resilient Flooring	\$ 8.0	\$ 15.3	\$	(7.3)
Wood Flooring	(0.8)	(4.1)		3.3
Total	\$ 7.2	\$ 11.2	\$	(4.0)

In our Resilient Flooring segment, operating income for the six months ended June 30, 2016 decreased compared to the six months ended June 30, 2015 primarily due to continued ramp-up costs associated with our Lancaster, PA LVT operation and the negative margin impact from lower price, partially offset by lower input costs.

In our Wood Flooring segment, the results for the six months ended June 30, 2016 reflected higher expense of \$2.4 million on new duty rates related to prior years' imports of multilayered wood flooring from China compared to the year ago period. Excluding the increased duties, the segment results increased due to lower net input costs and productivity improvements partially offset by higher SG&A expense.

Income tax expense: For the six months ended June 30, 2016, income tax expense was \$3.3 million compared to income tax expense of \$6.4 million for the six months ended June 30, 2015. The effective tax rates were 70.2% and 56.6% for the six months ended June 30, 2016 and 2015, respectively. The effective tax rate for the first six months

of 2016 was higher than the comparable period in 2015 primarily due to a higher rate impact of unbenefitted foreign losses due to lower pretax income.

Discontinued operations: For the six months ended June 30, 2015, discontinued operations included a non-cash income tax benefit of \$43.4 million which reflected future pension deductions related to our discontinued operations. See Note 2 of the Notes to Unaudited Condensed Consolidated Financial Statements.

Liquidity and Capital Resources

Our primary sources of liquidity are, and we anticipate that they will continue to be, cash generated from operations and borrowings under our ABL Facility, described below. We believe these sources are sufficient to fund our planned capital expenditures and to meet our interest and other contractual obligations in the near term.

Prior to the Separation, deemed transfers of cash to and from AWI's cash management system were reflected in *Net AWI investment* in the historical combined financial statements. Accordingly, we had no cash or cash equivalents on our Condensed Consolidated Balance Sheets for periods prior to the Spin-off. Our liquidity needs for operations vary throughout the year with the majority of our cash flows generated in the second and third quarters.

AFI does not intend to pay cash dividends on its common stock for the foreseeable future. Instead, AFI currently intends to reinvest any future available earnings and cash flow into the business. The payment of cash dividends, if any, on our common stock will rest solely within the discretion of the Board and will depend, among other things, upon AFI's earnings, capital requirements, financial condition, legal requirements, regulatory constraints, covenants associated with certain of AFI's debt service obligations, industry practice, and other relevant factors as determined by the Board.

Cash and cash equivalents totaled \$101.6 million as of June 30, 2016 of which \$85.5 million was held in the U.S.

Cash Flows

The table below shows our cash provided by (used for) operating, investing and financing activities:

<i>(Dollars in millions)</i>	Six Months Ended June 30,	
	2016	2015
Cash provided by operating activities	\$ 24.3	\$ 15.0
Cash used for investing activities	(17.3)	(22.4)
Cash provided by financing activities	94.2	7.4

Cash provided by operating activities

Operating activities for the six months ended June 30, 2016 and 2015 generated \$24.3 million and \$15.0 million of cash, respectively. Cash was generated through earnings exclusive of net non-cash activity, primarily depreciation and amortization and deferred income taxes, partially offset by changes in working capital.

Cash used for investing activities

Net cash used for investing activities was \$17.3 million and \$22.4 million for the six months ended June 30, 2016 and 2015 respectively, primarily reflecting purchases of property, plant and equipment. During the six months ended June 30, 2015, purchases of property, plant and equipment included significant expenditures related to the expansion of our Lancaster, PA resilient flooring plant to include the manufacture of LVT.

Cash provided by financing activities

Net cash provided by financing activities was \$94.2 million and \$7.4 million for the six months ended June 30, 2016 and 2015, respectively. Cash provided in the first six months of 2016 primarily reflected proceeds from debt and net transfers from AWI, partially offset by the payment of a distribution to AWI at Separation. Cash provided in the first six months of 2015 represented net transfers from AWI.

Debt

On April 1, 2016, AFI entered into a \$225 million asset-based revolving credit facility with a five-year maturity (“ABL Facility”) and borrowed \$100 million under the ABL Facility. AFI used \$50 million of the proceeds to fund a cash distribution to AWI. We intend to use the remaining proceeds for basic operating liquidity. As of June 30, 2016, our ABL Facility provided for additional variable rate borrowings of up to \$123.2 million, net of \$1.8 million of letters of credit.

Due to its stated five-year maturity, this obligation is presented as a long-term obligation in our Condensed Consolidated Balance Sheets. However, AFI may repay this obligation at any time, without penalty.

Obligations under the ABL Facility are secured by qualifying accounts receivable, inventories, and select machinery and equipment of AFI’s wholly owned domestic subsidiaries. The ABL Facility includes a \$50.0 million sublimit for the issuance of standby letters of credit. Borrowings under the ABL Facility bear interest at a rate equal to an adjusted base rate or LIBOR plus an applicable margin, which varies according to average excess credit availability and is currently 1.50%. We are required to pay a commitment fee, payable quarterly in arrears, on the average daily unused amount of the ABL Facility, which varies according to utilization and is currently 0.25%. Outstanding letters of credit issued under the ABL Facility are subject to fees which will be due quarterly in arrears based on an adjusted base rate.

As of December 31, 2015, outstanding long-term debt of \$10.0 million consisted of a variable rate tax-exempt industrial development bond that financed the construction of a Wood Flooring plant in Somerset, Kentucky, which was repaid during the first quarter of 2016.

Debt Covenants

The only material financial covenant in the ABL Facility is a fixed charge coverage ratio. As of June 30, 2016, availability under the ABL Facility exceeded the minimum required threshold and, as a result, this covenant is not applicable. In addition, the ABL Facility contains customary negative covenants, including those that restrict our ability to allow certain liens to attach to assets, make certain acquisitions and investments, incur certain additional indebtedness, make certain fundamental changes to our structure, make certain dispositions, change the nature of our business, and enter into certain other transactions or agreements.

Off-Balance Sheet Arrangements

No disclosures are required pursuant to Item 303(a)(4) of Regulation S-K.

Contractual Obligations

Our contractual obligations at June 30, 2016 did not significantly change from the contractual obligations previously disclosed at December 31, 2015, except for the obligations summarized below:

ABL Facility: On April 1, 2016, AFI entered into a \$225.0 million ABL Facility, which matures on April 1, 2021. Concurrent with the closing of the ABL Facility, AFI borrowed \$100.0 million. Principal amounts are repayable at maturity.

Borrowings under the ABL Facility bear interest at a rate equal to an adjusted base rate or LIBOR plus an applicable margin, which varies according to average excess credit availability and is currently 1.50%. Interest on outstanding borrowings is payable monthly. Interest payments on our outstanding borrowings under the ABL as of June 30, 2016 are expected to be \$1.2 million for the remainder of 2016, \$2.8 million per annum for each of the years 2017 - 2020, and \$0.8 million thereafter.

Campus Lease: Under the Campus Lease Agreement, AFI leased certain portions of the AWI's campus for use as AFI's corporate headquarters. The campus lease agreement provides for an initial term of five years which began on April 1, 2016. Minimum rent expense is expected to be approximately \$2.8 million for the remaining six months of 2016, \$5.6 million per annum for the years 2017 - 2020, and \$1.4 million in 2021, notwithstanding any renewals or additional charges.

Recent Accounting Pronouncements

See Note 1 to the Condensed Consolidated Financial Statements for a discussion of recent accounting pronouncements, including accounting pronouncements that are effective in future periods.

ITEM 3. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

For information regarding our exposure to certain market risks, see "Quantitative and Qualitative Disclosures About Market Risk" in the Management's Discussion and Analysis of Financial Condition and Results of Operations section of our Information Statement.

We are subject to interest rate market risk in connection with our ABL Facility. As of June 30, 2016, our ABL Facility provided variable rate borrowings of up to \$223.2 million, net of \$1.8 million of letters of credit. Our ABL Facility bears interest at a variable rate based on LIBOR or a base rate plus an applicable margin. An assumed 25 basis point change in interest rates would change interest expense on our ABL Facility by \$0.6 million if fully drawn and outstanding for the entire year.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company maintains a system of disclosure controls and procedures to give reasonable assurance that information required to be disclosed in the Company's reports filed or submitted under the Securities Exchange Act of 1934 (Exchange Act) is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. These controls and procedures also give reasonable assurance that information required to be disclosed in such reports is accumulated and communicated to management to allow timely decisions regarding required disclosures.

As of June 30, 2016, the company's Chief Executive Officer (the "CEO") and Chief Financial Officer (the "CFO"), together with management, conducted an evaluation of the effectiveness of the company's disclosure controls and procedures pursuant to Rules 13a-15(f) and 15d-15(f) of the Exchange Act. Based on that evaluation, the CEO and CFO concluded that these disclosure controls and procedures are effective at the reasonable assurance level described above.

Change in Internal Controls over Financial Reporting

Prior to the Separation, the Company relied on the controls and resources of AWI for internal control over financial reporting. On April 1, 2016, in connection with the Separation and Distribution, the Company and AWI entered into a Transition Services Agreement (the "TSA"), under which, on an interim and transitional basis, AWI will provide various services to the Company. In addition, and as a result of the Spin-Off, planned staffing changes resulted in the transition of responsibilities to certain individuals responsible for executing internal controls. At Separation, we adopted AWI's policies and are reviewing and revising them as needed to reflect our status as a separate company.

No other material change in our internal control over financial reporting occurred during the fiscal quarter ended June 30, 2016 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II: OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

See Note 18 to the Condensed Consolidated Financial Statements included elsewhere in this report, which is incorporated herein by reference.

ITEM 1A. RISK FACTORS

There have been no material changes in the Company's risk factors discussed in Part I, Item 1A, Risk Factors in our Information Statement.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Not applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

On June 29, 2016, Mr. Richard E. Wenz, a member of the Board and Chair of the Audit Committee (the "Committee"), passed away suddenly following a short illness. The Board has selected Mr. Jeffrey Liaw, a current Board and Committee member, to serve as Chair of the Committee. The Board has also selected Mr. Michael F. Johnston, a current Board member, to serve on the Committee.

ITEM 6. EXHIBITS

The list of exhibits in the Exhibit Index to this report is incorporated herein by reference.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**Armstrong Flooring, Inc.
(Registrant)**

Date: August 12, 2016

By: /s/ John W. Thompson

John W. Thompson
Senior Vice President and Chief Financial Officer
(As Duly Authorized Officer and Principal Financial Officer)

Date: August 12, 2016

By: /s/ Kimberly Z. Boscan

Kimberly Z. Boscan
Vice President and Controller
(As Duly Authorized Officer and Principal Accounting Officer)

EXHIBIT INDEX

Exhibit Number	Description
2.1	Separation and Distribution Agreement by and between Armstrong Flooring, Inc., and AFI Intermediate Co. (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K, as filed with the U.S. Securities and Exchange Commission on April 4, 2016).
3.1	Amended and Restated Certificate of Incorporation of Armstrong Flooring, Inc. dated March 30, 2016 (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, as filed with the U.S. Securities and Exchange Commission on April 4, 2016).
3.2	Amended and Restated Bylaws of Armstrong Flooring, Inc. dated March 30, 2016 (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K, as filed with the U.S. Securities and Exchange Commission on April 4, 2016).
10.1	Transition Services Agreement, dated as of April 1, 2016, by and between Armstrong World Industries, Inc. and Armstrong Flooring, Inc. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, as filed with the U.S. Securities and Exchange Commission on April 4, 2016).
10.2	Tax Matters Agreement, dated as of April 1, 2016, by and between Armstrong World Industries, Inc. and Armstrong Flooring, Inc. (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, as filed with the U.S. Securities and Exchange Commission on April 4, 2016).
10.3	Employee Matters Agreement, dated as of April 1, 2016, by and between Armstrong World Industries, Inc. and Armstrong Flooring, Inc. (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K, as filed with the U.S. Securities and Exchange Commission on April 4, 2016).
10.4	Trademark License Agreement, dated as of April 1, 2016, by and between Armstrong World Industries, Inc. and Armstrong Flooring, Inc. (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K, as filed with the U.S. Securities and Exchange Commission on April 4, 2016).
10.5	Transition Trademark License Agreement, dated as of April 1, 2016, by and between Armstrong World Industries, Inc. and Armstrong Flooring, Inc. (incorporated by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K, as filed with the U.S. Securities and Exchange Commission on April 4, 2016).
10.6	Campus Lease Agreement, dated as of April 1, 2016, by and between Armstrong World Industries, Inc. and Armstrong Flooring, Inc. (incorporated by reference to Exhibit 10.6 to the Company's Current Report on Form 8-K, as filed with the U.S. Securities and Exchange Commission on April 4, 2016).
10.7	Credit Agreement, dated as of April 1, 2016, among Armstrong Flooring, Inc. and Armstrong Hardwood Flooring Company, as Borrowers, certain subsidiaries of Armstrong Flooring, Inc. identified therein, as the Guarantors, Bank of America, N.A., as Administrative Agent and Collateral Agent, the other lenders party thereto, JPMorgan Chase Bank, N.A. and SunTrust Robinson Humphrey, Inc., as Co-Syndication Agents, and Bank of America, N.A., JPMorgan Chase Bank, N.A. and SunTrust Robinson Humphrey, Inc. as Joint Lead Arrangers and Joint Book Managers (incorporated by reference to Exhibit 10.7 to the Company's Current Report on Form 8-K, as filed with the U.S. Securities and Exchange Commission on April 4, 2016).

- 10.8 Armstrong Flooring, Inc. 2016 Long-Term Incentive Plan (incorporated herein by reference to Exhibit 4.3 to the Registration Statement on Form S-8 filed by Armstrong Flooring, Inc. with the SEC on April 1, 2016).*
- 10.9 Form of 2016 Long-Term Performance - Based Restricted Stock Grant - Tier 1 Executive - Free Cash Flow.*†
- 10.10 Form of 2016 Long-Term Performance - Based Restricted Stock Grant - Tier 1 Executive - EBITDA.*†
- 10.11 Form of 2016 Long-Term Performance - Based Restricted Stock Grant - Free Cash Flow (incorporated by reference to Exhibit 10.11 to the Company's Current Report on Form 10-Q, as filed with the U.S Securities and Exchange Commission on May 9, 2016). *
- 10.12 Form of 2016 Long-Term Performance - Based Restricted Stock Grant - EBITDA(incorporated by reference to Exhibit 10.12 to the Company's Current Report on Form 10-Q, as filed with the U.S Securities and Exchange Commission on May 9, 2016).
- 10.13 Form of 2016 Long-Term Performance - Based Restricted Stock Grant - Non U.S. (China) - Free Cash Flow - Payable in Cash.(incorporated by reference to Exhibit 10.13 to the Company's Current Report on Form 10-Q, as filed with the U.S Securities and Exchange Commission on May 9, 2016).
- 10.14 Form of 2016 Long-Term Performance - Based Restricted Stock Grant - Non U.S. (China) - EBITDA - Payable in Cash (incorporated by reference to Exhibit 10.14 to the Company's Current Report on Form 10-Q, as filed with the U.S Securities and Exchange Commission on May 9, 2016). *
- 10.15 Form of 2016 Long-Term Time - Based Restricted Stock Grant - U.S. and Non-U.S. (incorporated by reference to Exhibit 10.15 to the Company's Current Report on Form 10-Q, as filed with the U.S Securities and Exchange Commission on May 9, 2016). *
- 10.16 Form of 2016 Long-Term Time - Based Restricted Stock Grant - Non-U.S. (China) - Payable in Cash(incorporated by reference to Exhibit 10.16 to the Company's Current Report on Form 10-Q, as filed with the U.S Securities and Exchange Commission on May 9, 2016). *
- 10.17 Armstrong Flooring, Inc. 2016 Directors Stock Unit Plan (incorporated herein by reference to Exhibit 4.4 to the Registration Statement on Form S-8 filed by Armstrong Flooring, Inc. with the SEC on April 1, 2016).*
- 10.18 Form of Director Stock Unit Grant Agreement (incorporated by reference to Exhibit 10.18 to the Company's Current Report on Form 10-Q, as filed with the U.S Securities and Exchange Commission on May 9, 2016).*
- 10.19 Armstrong Flooring, Inc. Nonqualified Deferred Compensation Plan (incorporated by reference to Exhibit 10.10 to the Company's Current Report on Form 8-K, as filed with the U.S. Securities and Exchange Commission on April 4, 2016).*
- 10.20 Retirement Benefit Equity Plan of Armstrong Flooring, Inc. (incorporated by reference to Exhibit 10.11 to the Company's Current Report on Form 8-K, as filed with the U.S. Securities and Exchange Commission on April 4, 2016).*

10.21	Change in Control Severance Agreement with Donald R. Maier, dated as of November 17, 2014 (incorporated by reference to Exhibit 10.1 to Armstrong World Industries, Inc.'s Current Report on Form 8-K filed with the U.S. Securities and Exchange Commission on November 18, 2014).*
10.22	Form of Change in Control Severance Agreement with David S. Schulz (incorporated by reference to Exhibit 10.2 to Armstrong World Industries, Inc.'s Quarterly Report on Form 10-Q filed with the U.S. Securities and Exchange Commission on October 29, 2015).*
10.23	Form of Indemnification Agreement with Directors and Officers†
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.†
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.†
32.1	Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.†
32.2	Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.†
101.INS	XBRL Instance Document†
101.SCH	XBRL Taxonomy Extension Schema Document†
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document†
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document†
101.LAB	XBRL Taxonomy Extension Label Linkbase Document†
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document†

* Management Contract or Compensatory Plan.

† Filed herewith.

EXHIBIT 10.9**2016 Long-Term Performance-Based Restricted Stock Grant
Performance Goals Based on Cumulative Free Cash Flow**

ARMSTRONG FLOORING, INC.
2500 Columbia Ave., P.O. Box 3025
Lancaster, PA 17604
717.672.9611

Company Confidential

First Name Middle Name Last Name

I am pleased to inform you that the Company's Management Development and Compensation Committee granted you the following:

Date of Grant: _____

Target Performance Shares ("Target Award"): _____

Maximum Performance Shares ("Maximum Award"):

[Insert number of shares equal to 300% of Target Award]

Performance Period ("Performance Period"):

April 1, 2016 through December 31, 2018

This award recognizes the importance of your role in achieving the Company's long-term strategy and is subject to the terms of the 2016 Long-Term Incentive Plan and the award agreement. The award agreement consists of this grant letter with the Performance Goals attached as Exhibit A and the Terms and Conditions attached as Exhibit B.

The Performance Shares will be earned by achieving Performance Goals based on Cumulative Free Cash Flow and Absolute Annualized Total Stockholder Return ("Absolute TSR"), subject to your continued employment as described in the Terms and Conditions. The Committee has established the Performance Goals set forth on Exhibit A, which allow you to earn up to the Maximum Award.

To the extent the Performance Goals are achieved and you satisfy the employment requirements, the earned Performance Shares will vest in accordance with the vesting terms set forth in the Terms and Conditions. The Company will withhold shares to satisfy your tax obligations unless you provide a payment to cover the tax withholding obligation.

If the Company pays cash dividends while you hold the Performance Shares before vesting, the dividends on shares attributable to the Performance Shares will accrue in a non-interest bearing bookkeeping account. You will receive a cash payment equal to the accrued dividends at the end of the Performance Period, adjusted for the number of Performance Shares that become earned and vested.

Employment Events

The following chart is a summary of the provisions which apply to this award in connection with termination of employment. The following is only a summary, and in the event of termination of employment, the award will be governed by the Terms and Conditions.

Event	Provisions
Voluntary Resignation Termination for Cause	All Performance Shares and accrued dividends are forfeited.
Involuntary Termination Without Cause	If termination occurs after 10 months following the Date of Grant, then to the extent that the Performance Goals are achieved, Performance Shares and accrued dividends are earned pro-rata, based on the period of employment; otherwise the Performance Shares and accrued dividends are forfeited.
Death Long-Term Disability	To the extent that the Performance Goals are achieved, Performance Shares and accrued dividends are earned pro-rata, based on the period of employment.

<p>After a Change in Control: Involuntary Termination Without Cause Death Long-Term Disability</p>	<p>Performance Shares calculated upon the Change in Control and accrued dividends are earned as described in <u>Exhibit A</u>.</p>
<p>In the event of any inconsistency between the foregoing summary and the Terms and Conditions or the 2016 Long-Term Incentive Plan, the Terms and Conditions or the 2016 Long-Term Incentive Plan, as applicable, will govern. Capitalized terms used but not defined in this grant letter will have the meanings set forth in the 2016 Long-Term Incentive Plan or the Terms and Conditions, as applicable.</p> <p>Please contact [REDACTED] ([REDACTED]) if you have questions.</p> <p>Sincerely,</p> <p>Donald R. Maier President and Chief Executive Officer</p> <p><i>The information contained in this letter is confidential and any discussion, distribution or use of this information is prohibited.</i></p>	

Exhibit A
Performance Goals

Cumulative Free Cash Flow: Cumulative Free Cash Flow is defined as cash flow from operations, less cash used in investing activities, as determined by the Committee.

Cumulative Free Cash Flow Performance Scale		
Performance Level		Payout
Below 2.127% of Target Performance		0%
2.127% of Target Performance		50%
Target Performance		100%
291.489% of Target Performance or greater		200%

Adjustment to Cumulative Free Cash Flow Performance Goal based on Absolute Annualized Total Shareholder Return :

Absolute Annualized Total Shareholder Return (“**Absolute TSR**”) is a modifier of the Performance Goal. The Cumulative Free Cash Flow performance results shall be adjusted as described below to determine the actual number of Performance Shares that are earned based on attainment of the Cumulative Free Cash Flow and Absolute TSR Performance Goals.

Absolute TSR tracks the appreciation in share price of the Company Stock, including dividends, and is annualized for the Performance Period, as determined by the Committee. Specifically, Absolute TSR is calculated based on the following formula:

$$\frac{\text{Ending Share Price} + \text{Aggregate Dividends}}{\text{Starting Share Price}}^{(1/2.75)} - 1$$

For purposes of the Absolute TSR calculation:

- “Ending Share Price” means the volume weighted average closing price of the Company Stock for the highest consecutive 30 trading days in the 60 trading day period beginning with and immediately following January 2, 2019.
- “Aggregate Dividends” means a cumulative number of shares of Company Stock assuming same day reinvestment in Company Stock on the ex-dividend date of the dividends paid on a share of Company Stock during the Performance Period.
- “Starting Share Price” means the volume weighted average closing price of the Company Stock for the 30 trading days beginning with and immediately following April 4, 2016.

Absolute TSR		
Performance Level		Modifier
66.66% of Target Performance or below		50%
83.33% of Target Performance		75%
Target Performance		100%
166.66% of Target Performance		125%
250% of Target Performance or greater		150%

The modifier shall be applied as of the end of the Performance Period, after the Cumulative Free Cash Flow and Absolute TSR performance results have been determined. Notwithstanding the foregoing, in no event may the number of Performance Shares earned exceed the Maximum Award.

Terms for Performance Goals:

Threshold level performance must be achieved in order to earn any Performance Shares for the Cumulative Free Cash Flow Performance Goals. If actual performance is between performance levels, the number of Performance Shares earned with respect to the Performance Goal will be interpolated on a straight line basis for pro-rata achievement for performance at or between performance levels. If the Performance Goals would produce fractional shares, the number of Performance Shares earned shall be rounded up to the nearest whole share, but not in excess of the Maximum Award.

Change in Control:

If a Change in Control occurs during the Performance Period or prior to the end of the 60 trading day period following the end of the Performance Period, the number of Performance Shares earned will be based on the Cumulative Free Cash Flow performance results through the date of the Change in Control (or through December 31, 2018, if earlier), and then modified based on Absolute TSR through the date of the Change in Control, as follows:

- The number of Performance Shares earned with respect to the Cumulative Free Cash Flow Performance Goal will be based on actual Cumulative Free Cash Flow through the date of the Change in Control (or through December 31, 2018, if earlier) relative to the 2016, 2017 and 2018 portions of the total Cumulative Free Cash Flow target, as determined by the Committee before the Change in Control in its sole discretion. Cumulative Free Cash Flow through the date of the Change in Control (or through December 31, 2018, if earlier) shall be compared to the annual and quarterly targets for the period through the date of the Change in Control.
- Absolute TSR will be calculated using the per-share sales price in the Change in Control as the Ending Share Price and as if the Change in Control date were the end of the Performance Period, as determined by the Committee before the Change in Control in its sole discretion.

The Committee reserves discretion to provide for accelerated vesting of the earned Performance Shares at a higher performance level pursuant to Section 14(b) of the Plan.

EXHIBIT B

ARMSTRONG FLOORING, INC. 2016 LONG-TERM INCENTIVE PLAN

PERFORMANCE-BASED RESTRICTED STOCK GRANT TERMS AND CONDITIONS

1. Grant.
 - (a) Subject to the terms set forth below, Armstrong Flooring, Inc. (the "Company") has granted to the designated employee (the "Grantee") an award of performance-based restricted stock (the "Performance Shares") as specified in the 2016 Long-Term Performance-Based Restricted Stock Grant Letters to which these Grant Conditions relate (the "Grant Letters"). Each Grant Letter specifies a Target Award and the Maximum Award granted as of the Date of Grant, subject to restrictions as set forth herein. The "Date of Grant" is April 11, 2016. The Performance Shares are shares of common stock of the Company ("Company Stock").
 - (b) The Performance Shares shall be earned and vested if and to the extent that the Cumulative Free Cash Flow, Cumulative EBITDA and Absolute TSR performance goals set forth in the Grant Letters (the "Performance Goals"), employment conditions and other terms of these Grant Conditions are met. The "Performance Period" for which the attainment of the Performance Goals will be measured is the period beginning April 1, 2016 and ending December 31, 2018.
 - (c) These Terms and Conditions (the "Grant Conditions") are part of the Grant Letters. This grant is made under the Armstrong Flooring, Inc. 2016 Long-Term Incentive Plan (the "Plan"). Any terms not defined herein shall have the meanings set forth in the Plan.
 2. Performance Goals; Vesting.
 - (a) The Grantee shall earn and vest in a number of Performance Shares based on the attainment of the Performance Goals for the Performance Period, provided that the Grantee continues to be employed by the Company or its subsidiaries or affiliates (collectively the "Employer") through the Vesting Date (as defined below). The Performance Goals shall be earned based on attainment of the Performance Goals as determined by the Management Development and Compensation Committee of the Company (the "Committee"), and the Performance Shares shall vest to the extent the Performance Goals are earned as determined by the Committee, provided that the Grantee is employed by the Employer on the Vesting Date.
 - (b) After the end of the Performance Period, the Committee will determine whether and to what extent the Performance Goals have been met and will certify the amount, if any, earned with respect to the Performance Shares. The Grantee can earn up to the Maximum Award based on attainment of the Performance Goals, as set forth in the Grant Letters.
 - (c) The "Vesting Date" is (i) if no Change in Control occurs, the date on which the Committee certifies whether and to what extent the applicable Performance Goals have been met or (ii) in the event of a Change in Control, the vesting date described in Section 2(d) below. The Committee will certify attainment of the Performance Goals between April 1, 2019 and April 30, 2019 (or an earlier date in 2019 as determined by the Committee), except as provided in Section 2(d) with respect to a Change in Control.
 - (d) If a Change in Control occurs prior to the end of the Performance Period or prior to the end of the 60 trading day period following the end of the Performance Period, the amount earned with respect to the Performance Shares shall be determined by the Committee as of the date of the Change in Control, as described in the Grant Letters. If the Change in Control occurs on or before December 31, 2018, the earned Performance Shares will vest on December 31, 2018, subject to the Grantee's continued employment through December 31, 2018. If the Change in Control occurs during the 60 trading day period following the end of the Performance Period, the earned Performance Shares will vest on the date of the Change in Control, subject to the Grantee's continued employment through the date of the Change in Control. Notwithstanding the foregoing, if the Performance Shares are not assumed by, or replaced by substantially identical grants by, the successor company in the Change in Control, the earned Performance Shares shall vest as of the date of the Change in Control.
 - (e) No Performance Shares shall vest prior to the Committee's certification of achievement of the Performance Goals, and to the extent that the Performance Goals are not attained, the Performance Shares shall be immediately forfeited and shall cease to be outstanding as of the date of the Committee's determination.
 - (f) When the Performance Shares vest, the earned and vested Performance Shares shall cease to be subject to the restrictions of these Grant Conditions, other than the holding requirements of Section 7 below.
 3. Restrictions on Assignment Before Vesting. During the period before the Performance Shares vest, the Performance Shares may not be assigned, transferred, pledged or otherwise disposed of by the Grantee, other
-

than by will or the laws of descent and distribution. Any attempt to assign, transfer, pledge, subject to Performance Shares to any other security interest or otherwise dispose of the Performance Shares other than by will or the laws of descent and distribution, and the levy of any execution, attachment or similar process upon the Performance Shares, shall be null, void and without effect.

4. Termination of Employment.

(a) *General Rule.* Except as described below, if the Grantee ceases to be employed by the Employer prior to the Vesting Date, the Performance Shares shall be forfeited as of the termination date and shall cease to be outstanding.

(b) *Involuntary Termination before a Change in Control.* If, before a Change in Control and after ten months following the Date of Grant but prior to the Vesting Date, the Grantee ceases to be employed by the Employer on account of Involuntary Termination (as defined below), the Grantee shall earn and vest in a pro-rated portion of the outstanding Performance Shares based on the extent to which the Performance Goals are achieved for the Performance Period. The amount earned and vested shall be determined after the end of the Performance Period as described in Section 2. In the event of a subsequent Change in Control prior to the end of the Performance Period or prior to the end of the 60 trading day period following the end of the Performance Period, the amount achieved for the Performance Period shall be determined as of the Change in Control date as described in the Grant Letters and the earned Performance Shares shall vest on a pro-rata basis as of the date of the Change in Control. The pro-rated portion shall be determined by multiplying the number of Performance Shares earned based on attainment of the Performance Goals by a fraction, the numerator of which is the number of months that elapsed during the period beginning on April 1, 2016 through the Grantee's termination date, and the denominator of which is 33. A partial month after the month of grant shall count as a full month for purposes of this calculation.

(c) *Death or Long-Term Disability before a Change in Control.* If, before a Change in Control, the Grantee ceases to be employed by the Employer prior to the Vesting Date on account of death or Long-Term Disability (as defined below), the Grantee shall earn and vest in a pro-rated portion of the outstanding Performance Shares based on the extent to which the Performance Goals are achieved for the Performance Period. The amount earned and vested shall be determined after the end of the Performance Period as described in Section 2. In the event of a subsequent Change in Control prior to the end of the Performance Period or prior to the end of the 60 trading day period following the end of the Performance Period, the amount achieved for the Performance Period shall be determined as of the Change in Control date as described in the Grant Letters and the earned Performance Shares shall vest on a pro-rata basis as of the date of the Change in Control. The pro-rated portion shall be determined by multiplying the number of Performance Shares earned based on attainment of the Performance Goals by a fraction, the numerator of which is the number of months that elapsed during the period beginning on April 1, 2016 through the Grantee's termination date and the denominator of which is 33. A partial month after the month of grant shall count as a full month for purposes of this calculation.

(d) *Involuntary Termination, Death and Long-Term Disability on or after a Change in Control.* If the Grantee's employment terminates on account of Involuntary Termination, death or Long-Term Disability on or after a Change in Control and prior to the Vesting Date, the Grantee shall vest in the Performance Shares earned as of the Change in Control date as described in the Grant Letters. If the Grantee has a Change in Control Severance Agreement with the Company ("Change in Control Agreement"), on and after a Change in Control, the term "Involuntary Termination" shall have the meaning given a termination by the Company without Cause as defined in the Change in Control Agreement, and shall include without limitation a termination for Good Reason as defined in the Change in Control Agreement. The Grantee agrees that, subject to the immediately preceding sentence, if and to the extent that these Grant Conditions conflict with the terms of the Change in Control Agreement or any employment agreement between the Company and the Grantee, these Grant Conditions shall supersede the provisions of the Change in Control Agreement and employment agreement applicable to vesting of performance units on and after a Change in Control, notwithstanding anything in the Change in Control Agreement or employment agreement to the contrary.

5. Definitions. For purposes of these Grant Conditions and the Grant Letters:

(a) "Cause" shall mean any of the following, as determined in the sole discretion of the Employer: (i) commission of a felony or a crime involving moral turpitude; (ii) fraud, dishonesty, misrepresentation, theft or misappropriation of funds with respect to the Employer; (iii) violation of the Employer's Code of Conduct or employment policies, as in effect from time to time; (iv) breach of any written noncompetition, confidentiality or nonsolicitation covenant of the Grantee with respect to the Employer; or (v) gross negligence or misconduct in the performance of the Grantee's duties with the Employer.

(b) "Involuntary Termination" shall mean the Employer's termination of the Grantee's employment other than for Cause.

(c) "Long-Term Disability" shall mean the Grantee is receiving long-term disability benefits under the Employer's long-term disability plan.

6. Dividends. Dividends paid on Performance Shares shall be payable subject to the same Performance Goals, vesting terms and other conditions as the Performance Shares to which they relate. Dividends paid on Performance Shares before vesting shall be retained by the Company in a non-interest bearing bookkeeping account for the Grantee. No interest will be credited to any such account. If and to the extent that the underlying Performance Shares are forfeited, all related dividends shall also be forfeited. Earned and vested dividends shall be paid in cash in 2019 or, if earlier, upon termination of employment as described in Section 4(d) or upon a Change in Control if and as required by Section 4(b) or (c), as applicable, at the same time and subject to the same terms as the underlying Performance Shares vest; provided that if a Change in Control occurs that does not meet the requirements of a "change in the ownership or effective control or the ownership of a substantial portion of the assets" under section 409A of the Code ("409A CIC") or, with respect to Section 4(d), if the Grantee's termination of employment under Section 4(d) does not occur within two years after a 409A CIC, the earned and vested dividends shall be paid in 2019, if required by Section 409A.
 7. Holding Requirement. Any Performance Shares that are earned in excess of the applicable Target Award must be held by the Grantee for one year following the Vesting Date (the "Holding Period") and may not be assigned, transferred, pledged or otherwise disposed of by the Grantee, other than by will or the laws of descent and distribution, during the Holding Period. However, if the Grantee's employment with the Employer terminates for any reason, or a Change in Control occurs, the holding requirement of this Section 7 shall lapse as of the date of the Grantee's termination of employment or the Change in Control, as applicable.
 8. Stock Power; Stock Certificates. The Committee may require the Grantee to deliver a duly signed stock power, endorsed in blank, relating to the Performance Shares. Stock certificates representing the Performance Shares may be issued by the Company and held until the Performance Shares vest, the Company may hold non-certificated shares until the Performance Shares vest, or the Company may register the shares by book-entry. If certificates are issued, each certificate for a Performance Share shall contain a legend giving appropriate notice of the restrictions in the grant. The Grantee shall be entitled to have the legend removed when the Performance Shares vest. The obligation of the Company to remove the legend on the certificates representing the vested Performance Shares upon vesting shall be subject to all applicable laws, rules, and regulations and such approvals by governmental agencies as may be deemed appropriately to comply with relevant securities laws and regulations.
 9. No Right to Continued Employment. The grant of Performance Shares shall not confer upon the Grantee any right to continued employment with the Employer or interfere with the right of the Employer to terminate the Grantee's employment at any time.
 10. Incorporation of Plan by Reference. The Grant Letters and these Grant Conditions are made pursuant to the terms of the Plan, the terms of which are incorporated herein by reference, and shall in all respects be interpreted in accordance therewith. The decisions of the Committee shall be conclusive upon any question arising hereunder. The Grantee's receipt of the Performance Shares constitutes the Grantee's acknowledgment that all decisions and determinations of the Committee with respect to the Plan, the Grant Letters, these Grant Conditions, and the Performance Shares shall be final and binding on the Grantee and any other person claiming an interest in the Performance Shares.
 11. Withholding Taxes. The Employer shall have the right to deduct from all payments made hereunder and from other compensation an amount equal to the federal (including FICA), state, local and foreign taxes required by law to be withheld with respect to the Performance Shares. The Employer will withhold shares of Company Stock hereunder to satisfy the tax withholding obligation, unless the Grantee provides a payment to the Employer to cover such Taxes, in accordance with procedures established by the Committee. The share withholding amount shall not exceed the Grantee's minimum applicable tax withholding amount.
 12. Company Policies. All amounts payable under the Grant Letters and these Grant Conditions shall be subject to any applicable clawback or recoupment policies, share trading policies and other policies that may be implemented by the Company's Board of Directors from time to time.
 13. Assignment. The Grant Letters and these Grant Conditions shall bind and inure to the benefit of the successors and assignees of the Company. The Grantee may not sell, assign, transfer, pledge or otherwise dispose of the Performance Shares, except to a successor grantee in the event of the Grantee's death.
 14. Section 409A. The Grant Letters and these Grant Conditions are intended to be exempt from section 409A of the Code. Notwithstanding the foregoing, if the Performance Shares or related dividends constitute "nonqualified deferred compensation" within the meaning of section 409A of the Code, vested Performance Shares and related dividends shall be settled on the earliest date that would be permitted under section 409A of the Code without incurring penalty or accelerated taxes thereunder, consistent with Section 20(h) of the Plan.
 15. Successors. The provisions of the Grant Letters and these Grant Conditions shall extend to any business that becomes a successor to the Company or its subsidiaries or affiliates on account of a merger, consolidation, sale of assets, spinoff or similar transaction with respect to any business of the Company or its subsidiaries or affiliates with which the Grantee is employed, and if this grant continues in effect after such corporate event, references to the "Company or its subsidiaries or affiliates" or the "Employer" in the Grant Letters and these Grant
-

Conditions shall include the successor business and its affiliates, as appropriate. In that event, the Company may make such modifications to the Grant Letters and these Grant Conditions as it deems appropriate to reflect the corporate event.

16. Governing Law. The validity, construction, interpretation and effect of the Grant Letters and these Grant Conditions shall be governed by, and determined in accordance with, the applicable laws of the State of Delaware, excluding any conflicts or choice of law rule or principle.

* * *

2016 Long-Term Performance-Based Restricted Stock Grant Performance Goals Based on Cumulative EBITDA

ARMSTRONG FLOORING, INC.
2500 Columbia Ave., P.O. Box 3025
Lancaster, PA 17604
717.672.9611

Company Confidential

First Name Middle Name Last Name

I am pleased to inform you that the Company's Management Development and Compensation Committee granted you the following:

Date of Grant: _____
 Target Performance Shares ("Target Award"): _____
 Maximum Performance Shares ("Maximum Award"): **[Insert number of shares equal to 300% of Target Award]**
 Performance Period ("Performance Period"): April 1, 2016 through December 31, 2018

This award recognizes the importance of your role in achieving the Company's long-term strategy and is subject to the terms of the 2016 Long-Term Incentive Plan and the award agreement. The award agreement consists of this grant letter with the Performance Goals attached as Exhibit A and the Terms and Conditions attached as Exhibit B.

The Performance Shares will be earned by achieving Performance Goals based on Cumulative EBITDA and Absolute Annualized Total Stockholder Return ("Absolute TSR"), subject to your continued employment as described in the Terms and Conditions. The Committee has established the Performance Goals set forth on Exhibit A, which allow you to earn up to the Maximum Award.

To the extent the Performance Goals are achieved and you satisfy the employment requirements, the earned Performance Shares will vest in accordance with the vesting terms set forth in the Terms and Conditions. The Company will withhold shares to satisfy your tax obligations unless you provide a payment to cover the tax withholding obligation.

If the Company pays cash dividends while you hold the Performance Shares before vesting, the dividends on shares attributable to the Performance Shares will accrue in a non-interest bearing bookkeeping account. You will receive a cash payment equal to the accrued dividends at the end of the Performance Period, adjusted for the number of Performance Shares that become earned and vested.

Employment Events

The following chart is a summary of the provisions which apply to this award in connection with termination of employment. The following is only a summary, and in the event of termination of employment, the award will be governed by the Terms and Conditions.

Event	Provisions
Voluntary Resignation Termination for Cause	All Performance Shares and accrued dividends are forfeited.
Involuntary Termination Without Cause	If termination occurs after 10 months following the Date of Grant, then to the extent that the Performance Goals are achieved, Performance Shares and accrued dividends are earned pro-rata, based on the period of employment; otherwise the Performance Shares and accrued dividends are forfeited.
Death Long-Term Disability	To the extent that the Performance Goals are achieved, Performance Shares and accrued dividends are earned pro-rata, based on the period of employment.

After a Change in Control: Involuntary Termination Without Cause Death Long-Term Disability	Performance Shares calculated upon the Change in Control and accrued dividends are earned as described in <u>Exhibit A</u> .
<p>In the event of any inconsistency between the foregoing summary and the Terms and Conditions or the 2016 Long-Term Incentive Plan, the Terms and Conditions or the 2016 Long-Term Incentive Plan, as applicable, will govern. Capitalized terms used but not defined in this grant letter will have the meanings set forth in the 2016 Long-Term Incentive Plan or the Terms and Conditions, as applicable. As described in the Terms and Conditions, if and to the extent that the terms of this award agreement conflict with the terms of a change in control agreement or employment agreement between you and the Company, the terms of this award agreement shall supersede the terms of the change in control agreement or employment agreement.</p> <p>Please contact [REDACTED] ([REDACTED]) if you have questions.</p> <p>Sincerely,</p> <p>Donald R. Maier President and Chief Executive Officer</p> <p><i>The information contained in this letter is confidential and any discussion, distribution or use of this information is prohibited.</i></p>	

EXHIBIT B

ARMSTRONG FLOORING, INC. 2016 LONG-TERM INCENTIVE PLAN

PERFORMANCE-BASED RESTRICTED STOCK GRANT TERMS AND CONDITIONS

1. Grant.

(a) Subject to the terms set forth below, Armstrong Flooring, Inc. (the "Company") has granted to the designated employee (the "Grantee") an award of performance-based restricted stock (the "Performance Shares") as specified in the 2016 Long-Term Performance-Based Restricted Stock Grant Letters to which these Grant Conditions relate (the "Grant Letters"). Each Grant Letter specifies a Target Award and the Maximum Award granted as of the Date of Grant, subject to restrictions as set forth herein. The "Date of Grant" is April 11, 2016. The Performance Shares are shares of common stock of the Company ("Company Stock").

(b) The Performance Shares shall be earned and vested if and to the extent that the Cumulative Free Cash Flow, Cumulative EBITDA and Absolute TSR performance goals set forth in the Grant Letters (the "Performance Goals"), employment conditions and other terms of these Grant Conditions are met. The "Performance Period" for which the attainment of the Performance Goals will be measured is the period beginning April 1, 2016 and ending December 31, 2018.

(c) These Terms and Conditions (the "Grant Conditions") are part of the Grant Letters. This grant is made under the Armstrong Flooring, Inc. 2016 Long-Term Incentive Plan (the "Plan"). Any terms not defined herein shall have the meanings set forth in the Plan.

2. Performance Goals; Vesting.

(a) The Grantee shall earn and vest in a number of Performance Shares based on the attainment of the Performance Goals for the Performance Period, provided that the Grantee continues to be employed by the Company or its subsidiaries or affiliates (collectively the "Employer") through the Vesting Date (as defined below). The Performance Goals shall be earned based on attainment of the Performance Goals as determined by the Management Development and Compensation Committee of the Company (the "Committee"), and the Performance Shares shall vest to the extent the Performance Goals are earned as determined by the Committee, provided that the Grantee is employed by the Employer on the Vesting Date.

(b) After the end of the Performance Period, the Committee will determine whether and to what extent the Performance Goals have been met and will certify the amount, if any, earned with respect to the Performance Shares. The Grantee can earn up to the Maximum Award based on attainment of the Performance Goals, as set forth in the Grant Letters.

(c) The "Vesting Date" is (i) if no Change in Control occurs, the date on which the Committee certifies whether and to what extent the applicable Performance Goals have been met or (ii) in the event of a Change in Control, the vesting date described in Section 2(d) below. The Committee will certify attainment of the Performance Goals between April 1, 2019 and April 30, 2019 (or an earlier date in 2019 as determined by the Committee), except as provided in Section 2(d) with respect to a Change in Control.

(d) If a Change in Control occurs prior to the end of the Performance Period or prior to the end of the 60 trading day period following the end of the Performance Period, the amount earned with respect to the Performance Shares shall be determined by the Committee as of the date of the Change in Control, as described in the Grant Letters. If the Change in Control occurs on or before December 31, 2018, the earned Performance Shares will vest on December 31, 2018, subject to the Grantee's continued employment through December 31, 2018. If the Change in Control occurs during the 60 trading day period following the end of the Performance Period, the earned Performance Shares will vest on the date of the Change in Control, subject to the Grantee's continued employment through the date of the Change in Control. Notwithstanding the foregoing, if the Performance Shares are not assumed by, or replaced by substantially identical grants by, the successor company in the Change in Control, the earned Performance Shares shall vest as of the date of the Change in Control.

(e) No Performance Shares shall vest prior to the Committee's certification of achievement of the Performance Goals, and to the extent that the Performance Goals are not attained, the Performance Shares shall be immediately forfeited and shall cease to be outstanding as of the date of the Committee's determination.

(f) When the Performance Shares vest, the earned and vested Performance Shares shall cease to be subject to the restrictions of these Grant Conditions, other than the holding requirements of Section 7 below.

3. Restrictions on Assignment Before Vesting. During the period before the Performance Shares vest, the Performance Shares may not be assigned, transferred, pledged or otherwise disposed of by the Grantee, other than by will or the laws of descent and distribution. Any attempt to assign, transfer, pledge, subject to Performance

Shares to any other security interest or otherwise dispose of the Performance Shares other than by will or the laws of descent and distribution, and the levy of any execution, attachment or similar process upon the Performance Shares, shall be null, void and without effect.

4. Termination of Employment.

(a) General Rule. Except as described below, if the Grantee ceases to be employed by the Employer prior to the Vesting Date, the Performance Shares shall be forfeited as of the termination date and shall cease to be outstanding.

(b) Involuntary Termination before a Change in Control. If, before a Change in Control and after ten months following the Date of Grant but prior to the Vesting Date, the Grantee ceases to be employed by the Employer on account of Involuntary Termination (as defined below), the Grantee shall earn and vest in a pro-rated portion of the outstanding Performance Shares based on the extent to which the Performance Goals are achieved for the Performance Period. The amount earned and vested shall be determined after the end of the Performance Period as described in Section 2. In the event of a subsequent Change in Control prior to the end of the Performance Period or prior to the end of the 60 trading day period following the end of the Performance Period, the amount achieved for the Performance Period shall be determined as of the Change in Control date as described in the Grant Letters and the earned Performance Shares shall vest on a pro-rata basis as of the date of the Change in Control. The pro-rated portion shall be determined by multiplying the number of Performance Shares earned based on attainment of the Performance Goals by a fraction, the numerator of which is the number of months that elapsed during the period beginning on April 1, 2016 through the Grantee's termination date, and the denominator of which is 33. A partial month after the month of grant shall count as a full month for purposes of this calculation.

(c) Death or Long-Term Disability before a Change in Control. If, before a Change in Control, the Grantee ceases to be employed by the Employer prior to the Vesting Date on account of death or Long-Term Disability (as defined below), the Grantee shall earn and vest in a pro-rated portion of the outstanding Performance Shares based on the extent to which the Performance Goals are achieved for the Performance Period. The amount earned and vested shall be determined after the end of the Performance Period as described in Section 2. In the event of a subsequent Change in Control prior to the end of the Performance Period or prior to the end of the 60 trading day period following the end of the Performance Period, the amount achieved for the Performance Period shall be determined as of the Change in Control date as described in the Grant Letters and the earned Performance Shares shall vest on a pro-rata basis as of the date of the Change in Control. The pro-rated portion shall be determined by multiplying the number of Performance Shares earned based on attainment of the Performance Goals by a fraction, the numerator of which is the number of months that elapsed during the period beginning on April 1, 2016 through the Grantee's termination date and the denominator of which is 33. A partial month after the month of grant shall count as a full month for purposes of this calculation.

(d) Involuntary Termination, Death and Long-Term Disability on or after a Change in Control. If the Grantee's employment terminates on account of Involuntary Termination, death or Long-Term Disability on or after a Change in Control and prior to the Vesting Date, the Grantee shall vest in the Performance Shares earned as of the Change in Control date as described in the Grant Letters. If the Grantee has a Change in Control Severance Agreement with the Company ("Change in Control Agreement"), on and after a Change in Control, the term "Involuntary Termination" shall have the meaning given a termination by the Company without Cause as defined in the Change in Control Agreement, and shall include without limitation a termination for Good Reason as defined in the Change in Control Agreement. The Grantee agrees that, subject to the immediately preceding sentence, if and to the extent that these Grant Conditions conflict with the terms of the Change in Control Agreement or any employment agreement between the Company and the Grantee, these Grant Conditions shall supersede the provisions of the Change in Control Agreement and employment agreement applicable to vesting of performance units on and after a Change in Control, notwithstanding anything in the Change in Control Agreement or employment agreement to the contrary.

5. Definitions. For purposes of these Grant Conditions and the Grant Letters:

(a) "Cause" shall mean any of the following, as determined in the sole discretion of the Employer: (i) commission of a felony or a crime involving moral turpitude; (ii) fraud, dishonesty, misrepresentation, theft or misappropriation of funds with respect to the Employer; (iii) violation of the Employer's Code of Conduct or employment policies, as in effect from time to time; (iv) breach of any written noncompetition, confidentiality or nonsolicitation covenant of the Grantee with respect to the Employer; or (v) gross negligence or misconduct in the performance of the Grantee's duties with the Employer.

(b) "Involuntary Termination" shall mean the Employer's termination of the Grantee's employment other than for Cause.

(c) "Long-Term Disability" shall mean the Grantee is receiving long-term disability benefits under the Employer's long-term disability plan.

6. Dividends. Dividends paid on Performance Shares shall be payable subject to the same Performance Goals, vesting terms and other conditions as the Performance Shares to which they relate. Dividends paid on

Performance Shares before vesting shall be retained by the Company in a non-interest bearing bookkeeping account for the Grantee. No interest will be credited to any such account. If and to the extent that the underlying Performance Shares are forfeited, all related dividends shall also be forfeited. Earned and vested dividends shall be paid in cash in 2019 or, if earlier, upon termination of employment as described in Section 4(d) or upon a Change in Control if and as required by Section 4(b) or (c), as applicable, at the same time and subject to the same terms as the underlying Performance Shares vest; provided that if a Change in Control occurs that does not meet the requirements of a "change in the ownership or effective control or the ownership of a substantial portion of the assets" under section 409A of the Code ("409A CIC") or, with respect to Section 4(d), if the Grantee's termination of employment under Section 4(d) does not occur within two years after a 409A CIC, the earned and vested dividends shall be paid in 2019, if required by Section 409A.

7. Holding Requirement. Any Performance Shares that are earned in excess of the applicable Target Award must be held by the Grantee for one year following the Vesting Date (the "Holding Period") and may not be assigned, transferred, pledged or otherwise disposed of by the Grantee, other than by will or the laws of descent and distribution, during the Holding Period. However, if the Grantee's employment with the Employer terminates for any reason, or a Change in Control occurs, the holding requirement of this Section 7 shall lapse as of the date of the Grantee's termination of employment or the Change in Control, as applicable.

8. Stock Power; Stock Certificates. The Committee may require the Grantee to deliver a duly signed stock power, endorsed in blank, relating to the Performance Shares. Stock certificates representing the Performance Shares may be issued by the Company and held until the Performance Shares vest, the Company may hold non-certificated shares until the Performance Shares vest, or the Company may register the shares by book-entry. If certificates are issued, each certificate for a Performance Share shall contain a legend giving appropriate notice of the restrictions in the grant. The Grantee shall be entitled to have the legend removed when the Performance Shares vest. The obligation of the Company to remove the legend on the certificates representing the vested Performance Shares upon vesting shall be subject to all applicable laws, rules, and regulations and such approvals by governmental agencies as may be deemed appropriately to comply with relevant securities laws and regulations.

9. No Right to Continued Employment. The grant of Performance Shares shall not confer upon the Grantee any right to continued employment with the Employer or interfere with the right of the Employer to terminate the Grantee's employment at any time.

10. Incorporation of Plan by Reference. The Grant Letters and these Grant Conditions are made pursuant to the terms of the Plan, the terms of which are incorporated herein by reference, and shall in all respects be interpreted in accordance therewith. The decisions of the Committee shall be conclusive upon any question arising hereunder. The Grantee's receipt of the Performance Shares constitutes the Grantee's acknowledgment that all decisions and determinations of the Committee with respect to the Plan, the Grant Letters, these Grant Conditions, and the Performance Shares shall be final and binding on the Grantee and any other person claiming an interest in the Performance Shares.

11. Withholding Taxes. The Employer shall have the right to deduct from all payments made hereunder and from other compensation an amount equal to the federal (including FICA), state, local and foreign taxes required by law to be withheld with respect to the Performance Shares. The Employer will withhold shares of Company Stock hereunder to satisfy the tax withholding obligation, unless the Grantee provides a payment to the Employer to cover such Taxes, in accordance with procedures established by the Committee. The share withholding amount shall not exceed the Grantee's minimum applicable tax withholding amount.

12. Company Policies. All amounts payable under the Grant Letters and these Grant Conditions shall be subject to any applicable clawback or recoupment policies, share trading policies and other policies that may be implemented by the Company's Board of Directors from time to time.

13. Assignment. The Grant Letters and these Grant Conditions shall bind and inure to the benefit of the successors and assignees of the Company. The Grantee may not sell, assign, transfer, pledge or otherwise dispose of the Performance Shares, except to a successor grantee in the event of the Grantee's death.

14. Section 409A. The Grant Letters and these Grant Conditions are intended to be exempt from section 409A of the Code. Notwithstanding the foregoing, if the Performance Shares or related dividends constitute "nonqualified deferred compensation" within the meaning of section 409A of the Code, vested Performance Shares and related dividends shall be settled on the earliest date that would be permitted under section 409A of the Code without incurring penalty or accelerated taxes thereunder, consistent with Section 20(h) of the Plan.

15. Successors. The provisions of the Grant Letters and these Grant Conditions shall extend to any business that becomes a successor to the Company or its subsidiaries or affiliates on account of a merger, consolidation, sale of assets, spinoff or similar transaction with respect to any business of the Company or its subsidiaries or affiliates with which the Grantee is employed, and if this grant continues in effect after such corporate event, references to the "Company or its subsidiaries or affiliates" or the "Employer" in the Grant Letters and these Grant Conditions shall include the successor business and its affiliates, as appropriate. In that event, the Company may

make such modifications to the Grant Letters and these Grant Conditions as it deems appropriate to reflect the corporate event.

16. Governing Law. The validity, construction, interpretation and effect of the Grant Letters and these Grant Conditions shall be governed by, and determined in accordance with, the applicable laws of the State of Delaware, excluding any conflicts or choice of law rule or principle.

* * *

Exhibit A
Performance Goals

Cumulative EBITDA: Cumulative EBITDA is defined as (i) operating income, plus (ii) depreciation and amortization, plus (iii) non-cash pension expense, as determined by the Committee.

Cumulative EBITDA Performance Scale		
Performance Level		Payout
Below 80% of Target Performance		0%
80% of Target Performance		50%
Target Performance		100%
150% of Target Performance or greater		200%

Adjustment to Cumulative EBITDA Performance Goal based on Absolute Annualized Total Shareholder Return :

Absolute Annualized Total Shareholder Return (“**Absolute TSR**”) is a modifier of the Performance Goal. The Cumulative EBITDA performance results shall be adjusted as described below to determine the actual number of Performance Shares that are earned based on attainment of the Cumulative EBITDA and Absolute TSR Performance Goals.

Absolute TSR tracks the appreciation in share price of the Company Stock, including dividends, and is annualized for the Performance Period, as determined by the Committee. Specifically, Absolute TSR is calculated based on the following formula:

$$\frac{\text{Ending Share Price} + \text{Aggregate Dividends}}{\text{Starting Share Price}}^{(1/2.75)} \quad -1$$

For purposes of the Absolute TSR calculation:

- “Ending Share Price” means the volume weighted average closing price of the Company Stock for the highest consecutive 30 trading days in the 60 trading day period beginning with and immediately following January 2, 2019.
- “Aggregate Dividends” means a cumulative number of shares of Company Stock assuming same day reinvestment in Company Stock on the ex-dividend date of the dividends paid on a share of Company Stock during the Performance Period.
- “Starting Share Price” means the volume weighted average closing price of the Company Stock for the 30 trading days beginning with and immediately following April 4, 2016.

Absolute TSR		
Performance Level		Modifier
66.66% of Target Performance or below		50%
83.33% of Target Performance		75%
Target Performance		100%
166.66% of Target Performance		125%
250% of Target Performance or greater		150%

The modifier shall be applied as of the end of the Performance Period, after the Cumulative EBITDA and Absolute TSR performance results have been determined. Notwithstanding the foregoing, in no event may the number of Performance Shares earned exceed the Maximum Award.

Terms for Performance Goals:

Threshold level performance must be achieved in order to earn any Performance Shares for the Cumulative EBITDA Performance Goals. If actual performance is between performance levels, the number of Performance Shares earned with respect to the Performance Goal will be interpolated on a straight line basis for pro-rata achievement for performance at or between performance levels. If the Performance Goals would produce fractional shares, the number of Performance Shares earned shall be rounded up to the nearest whole share, but not in excess of the Maximum Award.

Change in Control:

If a Change in Control occurs during the Performance Period or prior to the end of the 60 trading day period following the end of the Performance Period, the number of Performance Shares earned will be based on the Cumulative EBITDA performance results through the date of the Change in Control (or through December 31, 2018, if earlier), and then modified based on Absolute TSR through the date of the Change in Control, as follows:

- The number of Performance Shares earned with respect to the Cumulative EBITDA Performance Goal will be based on Cumulative EBITDA through the date of the Change in Control (or through December 31, 2018, if earlier) relative to the 2016, 2017 and 2018 portions of the total Cumulative EBITDA target, as determined by the Committee before the Change in Control in its sole discretion. Cumulative EBITDA through the date of the Change in Control (or through December 31, 2018, if earlier) shall be compared to the annual and quarterly targets for the period through the date of the Change in Control.
- Absolute TSR will be calculated using the per-share sales price in the Change in Control as the Ending Share Price and as if the Change in Control date were the end of the Performance Period, as determined by the Committee before the Change in Control in its sole discretion.

The Committee reserves discretion to provide for accelerated vesting of the earned Performance Shares at a higher performance level pursuant to Section 14(b) of the Plan.

FORM OF
INDEMNIFICATION AGREEMENT

AGREEMENT, effective as of March 30, 2016, between Armstrong Flooring, Inc., a Delaware corporation (the "Company"), and [] (the "Indemnitee").

WHEREAS, it is essential to the Company to retain and attract as directors and officers the most capable persons available;

WHEREAS, Indemnitee is a director or officer of the Company;

WHEREAS, both the Company and Indemnitee recognize the risk of litigation and other claims being asserted against directors and officers of public companies in the current environment;

WHEREAS, the Amended and Restated Certificate of Incorporation of the Company (as amended from time to time, the "Certificate") and the Amended and Restated By-laws of the Company (as amended from time to time, the "By-laws") require the Company to indemnify and advance expenses to its directors and officers to the fullest extent permitted by law and Indemnitee has agreed to serve as a director or officer of the Company in part in reliance on the Certificate and the By-laws; and

WHEREAS, in recognition of Indemnitee's need for substantial protection against personal liability in order to enhance Indemnitee's continued service to the Company in an effective manner, and Indemnitee's reliance on the Certificate and the By-laws, and in part to provide Indemnitee with specific contractual assurance that the protection promised by the Certificate and the By-laws will be available to Indemnitee, the Company wishes to provide in this Agreement for the indemnification of and the advancing of expenses to Indemnitee to the fullest extent (whether partial or complete) permitted by law and as set forth in this Agreement, and, to the extent insurance is maintained, for the continued coverage of Indemnitee under the Company's directors' and officers' liability insurance policies.

NOW, THEREFORE, in consideration of the premises and of Indemnitee continuing to serve the Company directly or, at its request, another enterprise, and intending to be legally bound hereby, the parties hereto agree as follows:

1. Certain Definitions. In addition to terms defined elsewhere herein, the following terms have the following meanings when used in this agreement:

(a) Change in Control: shall be deemed to have occurred if (i) any "person" (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended), other than a trustee or other fiduciary holding securities under an employee benefit plan of the Company or a corporation owned directly or indirectly by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company, is or becomes the "beneficial owner" (as defined in Rule 13d-3 under said Act), directly or indirectly, of securities of the Company representing 20% or more of the total voting power represented by the Company's then outstanding Voting Securities, or (ii) during any period of two consecutive years, individuals who at the beginning of such period constitute the Board of Directors of the Company and any new director whose election by the Board of Directors or nomination for election by the Company's stockholders was approved by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors at the beginning of the period or whose election or nomination for election was previously so approved, cease for any reason to constitute a majority thereof, or (iii) the stockholders of the Company approve a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the Voting Securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into Voting Securities of the surviving entity) at least 80% of the total voting power represented by the Voting Securities of the Company or such surviving entity outstanding immediately after such merger or consolidation, or the stockholders of the Company approve a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of (in one transaction or a series of transactions) all or substantially all of the Company's assets.

(b) Claim: any threatened, pending or completed action, suit or proceeding, or any inquiry or investigation,

whether instituted by the Company or any other party, that Indemnitee in good faith believes might lead to the institution of any such action, suit or proceeding, whether civil, criminal, administrative, investigative or other.

(c) Expenses: include attorneys' fees and all other costs, expenses and obligations paid or incurred in connection with investigating, defending, being a witness in or participating in (including on appeal), or preparing to defend, be a witness in or participate in, any Claim relating to any Indemnifiable Event.

(d) Indemnifiable Event: any event or occurrence related to the fact that Indemnitee is or was a director, officer, employee, agent or fiduciary of the Company, or is or was serving at the request of the Company as a director, officer, employee, trustee, agent or fiduciary of another corporation, partnership, joint venture, employee benefit plan, trust or other enterprise, or by reason of anything done or not done by Indemnitee in any such capacity.

(e) Independent Legal Counsel: an attorney or firm of attorneys, selected in accordance with the provisions of Section 3, who shall not have otherwise performed services for the Company or Indemnitee within the last five years (other than with respect to matters concerning the rights of Indemnitee under this Agreement, or of other indemnitees under similar indemnity agreements).

(g) Reviewing Party: any appropriate person or body consisting of a member or members of the Company's Board of Directors or any other person or body appointed by the Board who is not a party to the particular Claim for which Indemnitee is seeking indemnification, or Independent Legal Counsel.

(h) Voting Securities: any securities of the Company which vote generally in the election of directors.

2. Basic Indemnification Arrangement.

(a) In the event Indemnitee was, is or becomes a party to or witness or other participant in, or is threatened to be made a party to or witness or other participant in, a Claim by reason of (or arising in part out of) an Indemnifiable Event, the Company shall indemnify Indemnitee to the fullest extent permitted by law as soon as practicable but in any event no later than thirty days after written demand is presented to the Company, against any and all Expenses, judgments, fines, penalties and amounts paid in settlement (including all interest, assessments and other charges paid or payable in connection with or in respect of such Expenses, judgments, fines, penalties or amounts paid in settlement) of such Claim. If so requested by Indemnitee, the Company shall advance (within two business days of such request) any and all Expenses to Indemnitee (an "Expense Advance").

(b) Notwithstanding the foregoing, (i) the obligations of the Company under Section 2(a) shall be subject to the condition that the Reviewing Party shall not have determined (in a written opinion, in any case in which the Independent Legal Counsel referred to in Section 3 hereof is involved) that Indemnitee would not be permitted to be indemnified under applicable law, and (ii) the obligation of the Company to make an Expense Advance pursuant to Section 2(a) shall be subject to the condition that, if, when and to the extent that the Reviewing Party determines that Indemnitee would not be permitted to be so indemnified under applicable law, the Company shall be entitled to be reimbursed by Indemnitee (who hereby agrees to reimburse the Company) for all such amounts theretofore paid; provided, however, that if Indemnitee has commenced or thereafter commences legal proceedings in a court of competent jurisdiction to secure a determination that Indemnitee should be indemnified under applicable law, any determination made by the Reviewing Party that Indemnitee would not be permitted to be indemnified under applicable law shall not be binding and Indemnitee shall not be required to reimburse the Company for any Expense Advance until a final judicial determination is made with respect thereto (as to which all rights of appeal therefrom have been exhausted or lapsed). If there has not been a Change in Control, the Reviewing Party shall be selected by the Board of Directors, and if there has been such a Change in Control (other than a Change in Control which has been approved by a majority of the Company's Board of Directors who were directors immediately prior to such Change in Control), the Reviewing Party shall be the Independent Legal Counsel referred to in Section 3 hereof. If there has been no determination by the Reviewing Party or if the Reviewing Party determines that Indemnitee substantively would not be permitted to be indemnified in whole or in part under applicable law, Indemnitee shall have the right to commence litigation in any court in the State of Delaware having subject matter jurisdiction thereof and in which venue is proper seeking an initial determination by the court or challenging any such determination by the Reviewing Party or any aspect thereof, including the legal or factual bases therefor, and the Company hereby consents to service of process and to appear in any such proceeding. Any determination by the Reviewing Party otherwise shall be conclusive and binding on the Company and Indemnitee.

3. Change in Control. The Company agrees that if there is a Change in Control of the Company (other than a Change in Control which has been approved by a majority of the Company's Board of Directors who were directors immediately prior to such Change in Control), then with respect to all matters thereafter arising concerning the rights of Indemnitee to indemnity

payments and Expense Advances under this Agreement or any other agreement, the Certificate or the By-laws relating to Claims for Indemnifiable Events, the Company shall seek legal advice only from Independent Legal Counsel selected by Indemnitee and approved by the Company (which approval shall not be unreasonably withheld). Such counsel, among other things, shall render its written opinion to the Company and Indemnitee as to whether and to what extent Indemnitee would be permitted to be indemnified under applicable law. The Company agrees to pay the reasonable fees of the Independent Legal Counsel referred to above and to indemnify fully such counsel against any and all expenses (including attorneys' fees), claims, liabilities and damages arising out of or relating to this Agreement or its engagement pursuant hereto.

4. Indemnification for Additional Expenses. The Company shall indemnify Indemnitee against any and all expenses (including attorneys' fees) and, if requested by Indemnitee, shall (within two business days of such request) advance such expenses to Indemnitee, which are incurred by Indemnitee in connection with any action brought by Indemnitee for (i) indemnification or advance payment of Expenses by the Company under this Agreement, the Certificate or the By-laws relating to Claims for Indemnifiable Events and/or (ii) recovery under any directors' and officers' liability insurance policies maintained by the Company, to the fullest extent permitted by law, regardless of whether Indemnitee ultimately is determined to be entitled to such indemnification, advance expense payment or insurance recovery, as the case may be.
 5. Partial Indemnity, Etc. If Indemnitee is entitled under any provision of this Agreement to indemnification by the Company for some or a portion of the Expenses, judgments, fines, penalties and amounts paid in settlement of a Claim but not, however, for all of the total amount thereof, the Company shall nevertheless indemnify Indemnitee for the portion thereof to which Indemnitee is entitled. Moreover, notwithstanding any other provision of this Agreement, to the extent that Indemnitee has been successful on the merits or otherwise in defense of any or all Claims relating in whole or in part to an Indemnifiable Event or in defense of any issue or matter therein, including dismissal without prejudice, Indemnitee shall be indemnified against all Expenses incurred in connection therewith.
 6. Burden of Proof. In connection with any determination by the Reviewing Party or otherwise as to whether Indemnitee is entitled to be indemnified hereunder the burden of proof shall be on the Company to establish that Indemnitee is not so entitled.
 7. No Presumptions. For purposes of this Agreement, the termination of any claim, action, suit or proceeding, by judgment, order, settlement (whether with or without court approval) or conviction, or upon a plea of nolo contendere, or its equivalent, shall not create a presumption that Indemnitee did not meet any particular standard of conduct or have any particular belief or that a court has determined that indemnification is not permitted by applicable law. In addition, neither the failure of the Reviewing Party to have made a determination as to whether Indemnitee has met any particular standard of conduct or had any particular belief, nor an actual determination by the Reviewing Party that Indemnitee has not met such standard of conduct or did not have such belief, prior to the commencement of legal proceedings by Indemnitee to secure a judicial determination that Indemnitee should be indemnified under applicable law shall be a defense to Indemnitee's claim or create a presumption that Indemnitee has not met any particular standard of conduct or did not have any particular belief.
 8. Nonexclusivity, Etc. The rights of Indemnitee hereunder shall be in addition to any other rights Indemnitee may have under the Certificate, the By-laws, the Delaware General Corporation Law or otherwise. To the extent that a change in the Delaware General Corporation Law (whether by statute or judicial decision) permits greater indemnification by agreement than would be afforded currently under the Certificate, the By-laws and this Agreement, it is the intent of the parties hereto that Indemnitee shall enjoy by this Agreement the greater benefits so afforded by such change.
 9. Liability Insurance. To the extent the Company maintains an insurance policy or policies providing directors' and officers' liability insurance, Indemnitee shall be covered by such policy or policies, in accordance with its or their terms, to the maximum extent of the coverage available for any Company director or officer.
 10. Period of Limitations. No legal action shall be brought and no cause of action shall be asserted by or in the right of the Company against Indemnitee, Indemnitee's spouse, heirs, executors or personal or legal representatives after the expiration of two years from the date of accrual of such cause of action, and any claim or cause of action of the Company shall be extinguished and deemed released unless asserted by the timely filing of a legal action within such two-year period; provided, however, that if any shorter period of limitations is otherwise applicable to any such cause of action such shorter period shall govern.
 11. Amendments, Etc. No supplement, modification or amendment of this Agreement shall be binding unless executed in writing by both of the parties hereto. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provisions hereof (whether or not similar) nor shall such waiver constitute a continuing waiver.
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12. Subrogation. In the event of payment under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of Indemnitee, who shall execute all papers required and shall do everything that may be necessary to secure such rights, including the execution of such documents necessary to enable the Company effectively to bring suit to enforce such rights.

13. No Duplication of Payments. The Company shall not be liable under this Agreement to make any payment in connection with any Claim made against Indemnitee to the extent Indemnitee has otherwise actually received payment (under any insurance policy, By-law or otherwise) of the amounts otherwise indemnifiable hereunder.

14. Binding Effect, Etc. This Agreement shall be binding upon and inure to the benefit of and be enforceable by the parties hereto and their respective successors and assigns, including any direct or indirect successor by purchase, merger, consolidation or otherwise to all or substantially all of the business and/or assets of the Company, spouses, heirs, executors and personal and legal representatives. This Agreement shall continue in effect regardless of whether Indemnitee continues to serve as an officer or director of the Company or of any other enterprise at the Company's request.

15. Severability. The provisions of this Agreement shall be severable in the event that any of the provisions hereof (including any provision within a single section, paragraph or sentence) are held by a court of competent jurisdiction to be invalid, void or otherwise unenforceable in any respect, and the validity and enforceability of any such provision in every other respect and of the remaining provisions hereof shall not be in any way impaired and shall remain enforceable to the fullest extent permitted by law.

16. Governing Law. This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of Delaware applicable to contracts made and to be performed in such state without giving effect to the principles of conflicts of laws.

[signature page follows]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement this [_____] day of [____], 2016.

ARMSTRONG FLOORING, INC.

By: _____
Name:
Title:

[Indemnitee]

CERTIFICATIONS
Pursuant to Rule 13a-14(a) Under the Securities Exchange Act of 1934, As Amended

I, Donald R. Maier, certify that:

1. I have reviewed this report on Form 10-Q of Armstrong Flooring, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) [paragraph omitted in accordance with the Exchange Act Rule 13a-14(a)];
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 12, 2016

By: /s/ Donald R. Maier

Donald R. Maier
President and Chief Executive Officer
(Principal Executive Officer)

CERTIFICATIONS
Pursuant to Rule 13a-14(a) Under the Securities Exchange Act of 1934, As Amended

I, John W. Thompson, certify that:

1. I have reviewed this report on Form 10-Q of Armstrong Flooring, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) [paragraph omitted in accordance with the Exchange Act Rule 13a-14(a)];
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 12, 2016

By: /s/ John W. Thompson

John W. Thompson
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

**Certification of CEO Pursuant to
18 U.S.C. Section 1350,
As Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report on Form 10-Q for the period ended June 30, 2016 of Armstrong Flooring, Inc. (the "Company") as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Donald R. Maier, as Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that to his knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Donald R. Maier

Donald R. Maier
Chief Executive Officer
(Principal Executive Officer)
August 12, 2016

**Certification of CFO Pursuant to
18 U.S.C. Section 1350,
As Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report on Form 10-Q for the period ended June 30, 2016 of Armstrong Flooring, Inc. (the "Company") as filed with the Securities and Exchange Commission on the date hereof (the "Report"), John W. Thompson, as Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ John W. Thompson

John W. Thompson
Chief Financial Officer
(Principal Financial Officer)
August 12, 2016