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

FORM 10-Q

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

For the quarterly period ended September 30, 2019

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, Lancaster, PA
(Address of principal executive offices)

17604
(Zipcode)

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

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common Stock, \$0.0001 par value	AFI	New York Stock Exchange

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

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

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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

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

The Registrant had 21,500,208 shares of common stock, \$0.0001 par value, outstanding at October 31, 2019.

Armstrong Flooring, Inc.

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CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

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

- global economic conditions;
- competition;
- availability and costs of raw materials and energy;
- key customers;
- construction activity;
- costs savings and productivity initiatives;
- strategic transactions;
- information systems and transition services;
- personnel;
- intellectual property rights;
- international operations;
- labor;
- claims and litigation;
- liquidity;
- debt;
- debt covenants;
- outsourcing;
- environmental and regulatory matters; and
- other risks detailed from time to time in our filings with the Securities and Exchange Commission ("SEC"), press releases and other communications, including those set forth under "Risk Factors" included in our Annual Report on Form 10-K and in the documents incorporated by reference.

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

PART I: FINANCIAL INFORMATION

Item 1. Financial Statements

Armstrong Flooring, Inc. and Subsidiaries
Condensed Consolidated Statements of Operations (Unaudited)
(Dollars in millions, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net sales	\$ 165.6	\$ 208.9	\$ 485.0	\$ 574.4
Cost of goods sold	153.8	163.7	414.9	456.2
Gross profit	11.8	45.2	70.1	118.2
Selling, general and administrative expenses	40.0	40.8	110.2	119.0
Operating (loss) earnings	(28.2)	4.4	(40.1)	(0.8)
Interest expense	0.8	0.9	2.7	2.9
Other expense, net	0.7	0.9	1.2	2.2
(Loss) earnings from continuing operations before income taxes	(29.7)	2.6	(44.0)	(5.9)
Income tax (benefit)	—	(0.7)	(3.0)	(1.7)
Net (loss) earnings from continuing operations	\$ (29.7)	\$ 3.3	\$ (41.0)	\$ (4.2)
Earnings from discontinued operations, net of tax	—	4.6	—	12.2
(Loss) gain on disposal of discontinued operations, net of tax	(1.7)	—	7.6	—
Net (loss) earnings from discontinued operations	(1.7)	4.6	7.6	12.2
Net (loss) earnings	\$ (31.4)	\$ 7.9	\$ (33.4)	\$ 8.0
Basic (loss) earnings per share of common stock:				
Basic (loss) earnings per share of common stock from continuing operations	\$ (1.36)	\$ 0.13	\$ (1.65)	\$ (0.16)
Basic (loss) earnings per share of common stock from discontinued operations	(0.08)	0.18	0.31	0.47
Basic (loss) earnings per share of common stock	\$ (1.44)	\$ 0.31	\$ (1.34)	\$ 0.31
Diluted (loss) earnings per share of common stock:				
Diluted (loss) earnings per share of common stock from continuing operations	\$ (1.36)	\$ 0.13	\$ (1.65)	\$ (0.16)
Diluted (loss) earnings per share of common stock from discontinued operations	(0.08)	0.17	0.31	0.47
Diluted (loss) earnings per share of common stock	\$ (1.44)	\$ 0.30	\$ (1.34)	\$ 0.31

See accompanying notes to Condensed Consolidated Financial Statements.

Armstrong Flooring, Inc. and Subsidiaries
Condensed Consolidated Statements of Comprehensive Income (Loss) (Unaudited)
(Dollars in millions)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net (loss) earnings	\$ (31.4)	\$ 7.9	\$ (33.4)	\$ 8.0
Changes in other comprehensive income, net of tax:				
Foreign currency translation adjustments	(3.7)	(4.7)	(4.3)	(6.2)
Derivative gain (loss)	0.1	(0.6)	(0.7)	1.1
Pension and postretirement adjustments	1.9	0.7	3.7	5.3
Total other comprehensive (loss) income	(1.7)	(4.6)	(1.3)	0.2
Total comprehensive (loss) income	\$ (33.1)	\$ 3.3	\$ (34.7)	\$ 8.2

See accompanying notes to Condensed Consolidated Financial Statements.

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

	September 30, 2019 (Unaudited)	December 31, 2018
Assets		
Current assets:		
Cash and cash equivalents	\$ 66.6	\$ 173.8
Accounts and notes receivable, net	43.2	39.0
Inventories, net	111.5	139.5
Income tax receivable	0.9	0.6
Prepaid expenses and other current assets	9.9	18.0
Total current assets	232.1	370.9
Property, plant, and equipment, less accumulated depreciation and amortization of \$338.2 and \$318.8, respectively	281.2	296.1
Operating lease assets	6.9	—
Intangible assets, less accumulated amortization of \$17.3 and \$12.0, respectively	27.1	32.0
Deferred income taxes	5.5	5.6
Other noncurrent assets	2.5	3.6
Total assets	\$ 555.3	\$ 708.2
Liabilities and Stockholders' Equity		
Current liabilities:		
Short-term debt	\$ —	\$ 25.0
Current installments of long-term debt	4.0	3.7
Accounts payable and accrued expenses	104.7	141.4
Income tax payable	—	0.5
Total current liabilities	108.7	170.6
Long-term debt	68.1	70.6
Noncurrent operating lease liabilities	3.3	—
Postretirement benefit liabilities	51.9	55.7
Pension benefit liabilities	8.1	11.3
Other long-term liabilities	6.5	6.7
Noncurrent income taxes payable	0.2	0.2
Deferred income taxes	2.0	2.1
Total liabilities	248.8	317.2
Stockholders' equity:		
Common stock with par value \$.0001 per share: 100,000,000 shares authorized; 28,357,078 issued and 21,499,790 outstanding shares as of September 30, 2019 and 28,284,358 issued and 25,832,193 outstanding shares as of December 31, 2018	—	—
Preferred stock with par value \$.0001 per share: 15,000,000 shares authorized; none issued	—	—
Treasury stock, at cost, 6,857,288 shares as of September 30, 2019 and 2,452,165 shares as of December 31, 2018	(89.2)	(39.7)
Additional paid-in capital	678.3	678.6
Accumulated deficit	(219.7)	(186.3)
Accumulated other comprehensive (loss)	(62.9)	(61.6)
Total stockholders' equity	306.5	391.0
Total liabilities and stockholders' equity	\$ 555.3	\$ 708.2

See accompanying notes to Condensed Consolidated Financial Statements.

Armstrong Flooring, Inc. and Subsidiaries
Condensed Consolidated Statements of Stockholders' Equity (Unaudited)
(Dollars in millions)

	Common Stock		Treasury Stock		Additional Paid-in Capital	Accumulated Other Comprehensive (Loss)	(Accumulated Deficit)	Total Equity
	Shares	Amount	Shares	Amount				
December 31, 2018	25,832,193	\$ —	2,452,165	\$ (39.7)	\$ 678.6	\$ (61.6)	\$ (186.3)	\$ 391.0
Net (loss)	—	—	—	—	—	—	(16.7)	(16.7)
Stock-based employee compensation, net	53,908	—	(50,251)	0.9	(0.5)	—	—	0.4
Other comprehensive income	—	—	—	—	—	2.9	—	2.9
March 31, 2019	<u>25,886,101</u>	<u>\$ —</u>	<u>2,401,914</u>	<u>\$ (38.8)</u>	<u>\$ 678.1</u>	<u>\$ (58.7)</u>	<u>\$ (203.0)</u>	<u>\$ 377.6</u>
Net income	—	—	—	—	—	—	14.7	14.7
Repurchase of common stock	(4,504,504)	—	4,504,504	(51.3)	—	—	—	(51.3)
Stock-based employee compensation, net	93,305	—	(49,130)	0.9	0.1	—	—	1.0
Other comprehensive (loss)	—	—	—	—	—	(2.5)	—	(2.5)
June 30, 2019	<u>21,474,902</u>	<u>\$ —</u>	<u>6,857,288</u>	<u>\$ (89.2)</u>	<u>\$ 678.2</u>	<u>\$ (61.2)</u>	<u>\$ (188.3)</u>	<u>\$ 339.5</u>
Net (loss)	—	—	—	—	—	—	(31.4)	(31.4)
Stock-based employee compensation, net	24,888	—	—	—	0.1	—	—	0.1
Other comprehensive (loss)	—	—	—	—	—	(1.7)	—	(1.7)
September 30, 2019	<u>21,499,790</u>	<u>\$ —</u>	<u>6,857,288</u>	<u>\$ (89.2)</u>	<u>\$ 678.3</u>	<u>\$ (62.9)</u>	<u>\$ (219.7)</u>	<u>\$ 306.5</u>

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

See accompanying notes to Condensed Consolidated Financial Statements.

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

	Nine Months Ended September 30,	
	2019	2018
Cash flows from operating activities:		
Net (loss) income	\$ (33.4)	\$ 8.0
Adjustments to reconcile net (loss) income to net cash (used for) provided by operating activities:		
Depreciation and amortization	35.2	42.3
Inventory write down	13.6	—
Deferred income taxes	(3.5)	1.5
Stock-based compensation	2.4	3.6
(Gain) loss on sale/disposal of discontinued operations	(7.6)	—
U.S. pension expense	4.2	5.1
Other non-cash adjustments, net	(0.2)	0.6
Changes in operating assets and liabilities:		
Receivables	(4.5)	(41.3)
Inventories	13.7	(31.7)
Accounts payable and accrued expenses	(22.0)	24.5
Income taxes payable and receivable	(0.2)	3.4
Other assets and liabilities	0.5	1.8
Net cash (used for) provided by operating activities	(1.8)	17.8
Cash flows from investing activities:		
Purchases of property, plant and equipment	(22.9)	(24.3)
Net payment related to the sale of discontinued operations	(1.9)	—
Other investing activities	—	0.1
Net cash used for investing activities	(24.8)	(24.2)
Cash flows from financing activities:		
Proceeds from revolving credit facility	—	57.0
Payments on revolving credit facility	(25.0)	(48.0)
Financing costs	(0.1)	—
Payments on long-term debt	(3.0)	—
Payments on capital lease	—	(0.2)
Purchases of treasury stock	(51.3)	(1.0)
Proceeds from exercised stock options	0.1	0.7
Value of shares withheld related to employee tax withholding	(0.8)	(0.6)
Net cash (used for) provided by financing activities	(80.1)	7.9
Effect of exchange rate changes on cash and cash equivalents	(0.5)	(1.1)
Net (decrease) increase in cash and cash equivalents	(107.2)	0.4
Cash and cash equivalents at beginning of year	173.8	39.0
Cash and cash equivalents at end of period	\$ 66.6	\$ 39.4
Cash and cash equivalents at end of period from discontinued operations	—	(3.2)
Cash and cash equivalents at end of period from continuing operations	\$ 66.6	\$ 42.6

Supplemental Cash Flow Disclosure:

Amounts in accounts payable for capital expenditures	\$	2.2	\$	5.2
Interest paid		2.5		2.3
Income taxes paid (refunded), net		1.2		(1.6)

See accompanying notes to Condensed Consolidated Financial Statements.

Armstrong Flooring, Inc. and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements
(Dollars in millions, except per share data)

NOTE 1. BUSINESS AND BASIS OF PRESENTATION

Background

Armstrong Flooring, Inc. ("AFI") is a leading global producer of resilient flooring products for use primarily in the construction and renovation of residential, commercial and institutional buildings. AFI designs, manufactures, sources and sells resilient flooring products in North America and the Pacific Rim. 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.

Discontinued Operations

On November 14, 2018, AFI entered into a Stock Purchase Agreement with Tarzan Holdco, Inc. ("TZI"), a Delaware corporation and an affiliate of American Industrial Partners ("AIP"), to sell its North American wood flooring business. On December 31, 2018, AIP completed the purchase of all of the issued and outstanding shares of Armstrong Wood Products, Inc. ("AWP"), a Delaware corporation, including its direct and indirect wholly owned subsidiaries.

Basis of Presentation

The historical results of operations and financial position of the North American wood flooring business are reported as discontinued operations in the Condensed Consolidated Statements of Operations. The historical information in the accompanying Notes to the Condensed Consolidated Financial Statements have been restated to reflect the effects of the sale of the North American wood flooring business. For further information on discontinued operations, see Note 5.

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 judgments, where appropriate. Management uses estimates to record many items including certain asset values, allowances for bad debts, inventory obsolescence, lower of cost or market or net realizable value 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 nine months ended September 30, 2019 and 2018 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.

Certain amounts in the prior year's Condensed Consolidated Financial Statements and related notes thereto have been recast to conform to the 2019 presentation. Otherwise, the accounting policies used in preparing the Condensed Consolidated Financial Statements in this Form 10-Q are the same as those used in preparing the Consolidated Financial Statements for the year ended December 31, 2018, except as noted below. These statements should therefore be read in conjunction with the Consolidated Financial Statements and notes that are included in the Annual Report on Form 10-K for the fiscal year ended December 31, 2018.

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

Recently Adopted Accounting Standards

On January 1, 2019, we adopted ASU 2016-02, "Leases." The guidance, and subsequent amendments issued, requires a lessee to recognize the assets and liabilities that arise from a lease agreement. Specifically, this new guidance requires

Armstrong Flooring, Inc. and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements
(Dollars in millions, except per share data)

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.

Adoption of the new standard resulted in the recording of lease assets and lease liabilities of \$9.2 million as of January 1, 2019.

	December 31, 2018	Impact from Adoption	January 1, 2019
Assets			
Operating lease assets	\$ —	\$ 8.6	\$ 8.6
Finance lease assets	—	0.6	0.6
Total lease assets	<u>\$ —</u>	<u>\$ 9.2</u>	<u>\$ 9.2</u>
Liabilities			
Current			
Operating	\$ —	\$ 3.5	\$ 3.5
Noncurrent			
Operating	—	5.1	5.1
Finance	—	0.6	0.6
Total lease liabilities	<u>\$ —</u>	<u>\$ 9.2</u>	<u>\$ 9.2</u>

See Note 10 to the Condensed Consolidated Financial Statements.

Recently Issued Accounting Standards

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. We believe that the most notable impact of this ASU will relate to our processes around the assessment of the adequacy of our allowance for doubtful accounts on trade account receivables.

In August 2018, the FASB issued ASU 2018-15, "Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract." The guidance aligns the requirements for capitalizing implementation costs in a cloud computing arrangement service contract with the requirements for capitalizing implementation costs incurred for an internal use software license. Capitalized implementation costs should be amortized over the term of the service agreement on a straight line basis and should be assessed for impairment in a manner similar to long-lived assets. This new guidance is effective for fiscal years beginning after December 15, 2019 for public companies. Early adoption is permitted. We do not believe there will be a material impact from the adoption of this standard on our financial condition, results of operations and cash flows.

Armstrong Flooring, Inc. and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements
(Dollars in millions, except per share data)

NOTE 2. REVENUE

We disaggregate revenue based on customer geography as geography represents the most appropriate depiction of how the nature, timing and uncertainty of revenues and cash flows are impacted by economic factors.

The following table presents our revenues disaggregated by geographic area based upon the location of the customer.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net sales				
United States	\$ 125.1	\$ 163.8	\$ 371.0	\$ 450.3
China	20.6	21.5	51.1	49.9
Canada	8.7	12.7	29.3	39.8
Other	11.2	10.9	33.6	34.4
Total net sales	<u>\$ 165.6</u>	<u>\$ 208.9</u>	<u>\$ 485.0</u>	<u>\$ 574.4</u>

NOTE 3. SEVERANCE EXPENSE

In the second quarter of 2019, we recorded \$2.9 million in selling, general and administrative ("SG&A") expenses for severance and related expenses to reflect the separation costs for our former President and Chief Executive Officer.

In the first quarter of 2018, we announced that we were changing our residential go-to-market strategy and empowering our distributors with the responsibilities of marketing, merchandising and direct sales representation. The new structure was designed to provide enhanced support and responsiveness to retailers. As a result of the reorganization, approximately 70 positions were eliminated, and the impacted employees received severance benefits. We recognized charges of \$3.1 million primarily in SG&A expenses.

NOTE 4. INCOME TAXES

The following table presents details related to our income taxes:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
(Loss) earnings from continuing operations before income taxes	\$ (29.7)	\$ 2.6	\$ (44.0)	\$ (5.9)
Income tax (benefit)	—	(0.7)	(3.0)	(1.7)
Effective tax rate	—%	(26.9)%	6.8%	28.8%

Pursuant to ASC 740, we are required to consider all items (including items recorded in discontinued operations and other comprehensive income) in determining the amount of tax benefit that results from a loss from continuing operations. As such, we recorded year to date income tax benefits of \$3.8 million as a result of the income included in discontinued operations and other comprehensive income. The remaining tax expense relates to the mix of income among tax jurisdictions.

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, Armstrong World Industries ("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

Armstrong Flooring, Inc. and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements
(Dollars in millions, except per share data)

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 2019 to our unrecognized tax benefits as of December 31, 2018.

As of September 30, 2019, we consider foreign unremitted earnings to be permanently reinvested.

NOTE 5. DISCONTINUED OPERATIONS

In December 2018, we completed the sale of our wood business to TZI. The proceeds from the sale were \$90.2 million, net of closing costs, transaction fees and taxes. The transaction was subject to a customary post-closing working capital adjustment process which resulted in us making a \$1.9 million payment to TZI in the third quarter of 2019.

The financial results of the wood business have been reclassified as discontinued operations for all periods presented. The Condensed Consolidated Statements of Cash Flows do not separately report the cash flows of the discontinued operation.

The following is a summary of the operating results of the wood business, which are included in discontinued operations.

	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2018
Net sales	\$ 100.8	\$ 299.2
Cost of goods sold	85.3	254.6
Gross profit	15.5	44.6
Selling, general and administrative expenses	8.7	27.5
Operating earnings	6.8	17.1
Interest expense	—	—
Other expense, net	—	—
Earnings before income tax	6.8	17.1
Income tax expense	2.2	4.9
Net earnings from discontinued operations	\$ 4.6	\$ 12.2

	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2018
Depreciation and Amortization	\$ 2.9	\$ 8.8
Capital Expenditures	(1.7)	(5.4)

The following is a summary of the results related to the net (loss) gain on disposal of the wood business which is included in discontinued operations:

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	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2019
	2019	2019
(Loss) gain on disposal of discontinued operations before income tax	\$ (2.3)	10.3
Income tax (benefit) expense	(0.6)	2.7
Net (loss) gain on disposal of discontinued operations	\$ (1.7)	\$ 7.6

During the second quarter of 2019, we reached a resolution in our antidumping case resulting in a reversal of a previously recognized liability of \$11.4 million, which was reflected in gain on disposal of discontinued operations. See Note 15 for further information.

NOTE 6. EARNINGS (LOSS) PER SHARE OF COMMON STOCK

Earnings per share components may not add due to rounding.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Numerator				
Net (loss) earnings from continuing operations	\$ (29.7)	\$ 3.3	\$ (41.0)	\$ (4.2)
Net (loss) earnings from discontinued operations	(1.7)	4.6	7.6	12.2
Net (loss) earnings	\$ (31.4)	\$ 7.9	\$ (33.4)	\$ 8.0
Denominator				
Weighted average number of common shares outstanding	21,496,319	25,793,019	24,300,804	25,763,550
Weighted average number of vested shares not yet issued	401,402	202,761	552,198	182,091
Weighted average number of common shares outstanding - Basic	21,897,721	25,995,780	24,853,002	25,945,641
Dilutive impact of stock-based compensation plans	—	187,067	—	128,635
Weighted average number of common shares outstanding - Diluted	21,897,721	26,182,847	24,853,002	26,074,276

For the three and nine months ended September 30, 2018, the diluted earnings per share was calculated using net income available to common stockholders divided by the diluted weighted average number of common shares outstanding during the period, determined using the treasury stock method. For the three and nine months ended September 30, 2019 the diluted loss per share was calculated using basic common shares outstanding, as inclusion of potentially dilutive common shares would be anti-dilutive.

Performance-based employee compensation awards are considered potentially dilutive in the initial period in which the performance conditions are met.

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The following awards were excluded from the computation of diluted earnings (loss) per share:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Potentially dilutive common shares excluded from diluted computation, as inclusion would be anti-dilutive	753,898	111,556	535,111	514,910
Performance awards excluded from diluted computation, as performance conditions not met	330,392	1,003,486	394,632	1,021,883

NOTE 7. ACCOUNTS AND NOTES RECEIVABLE

The following table presents accounts and note receivables, net of allowances:

	September 30, 2019	December 31, 2018
Customer receivables	\$ 56.8	\$ 45.4
Miscellaneous receivables	4.3	6.2
Less: allowance for product claims, discounts, returns and losses	(17.9)	(12.6)
Total	\$ 43.2	\$ 39.0

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 product claims represents expected reimbursements for cost associated with warranty repairs and customer accommodation claims, the majority of which is provided to our independent distributors through a credit against accounts receivable from the distributor to AFL.

The following table summarizes the activity for the allowance for product claims:

	Nine Months Ended September 30,	
	2019	2018
Balance as of January 1	\$ (6.4)	\$ (5.6)
Cumulative effect of adoption of new revenue recognition standard as of January 1	—	(1.7)
Reductions for payments	5.2	5.6
Current year claim accruals	(7.5)	(4.6)
Balance as of September 30	\$ (8.7)	\$ (6.3)

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NOTE 8. INVENTORIES

The following table presents details related to our inventories, net:

	September 30, 2019	December 31, 2018
Finished goods	\$ 84.8	\$ 110.5
Goods in process	5.1	5.7
Raw materials and supplies	21.6	23.3
Total	<u>\$ 111.5</u>	<u>\$ 139.5</u>

On September 11, 2019, Michel S. Vermette was appointed Chief Executive Officer of the Company and initiated the implementation of a new multi-year inventory optimization plan, which includes focusing on critical products and standardizing procedures to enable better decision making. As a result, we recorded a non-cash inventory write down of \$13.6 million during the third quarter of 2019, primarily related to the write down of inventory in certain product categories to estimated liquidation value.

NOTE 9. PREPAID AND OTHER CURRENT ASSETS

The following table presents details related to our prepaid expenses and other current assets:

	September 30, 2019	December 31, 2018
Prepaid expenses	\$ 5.7	\$ 6.8
Merchandising materials	2.7	9.4
Other	1.5	1.8
Total	<u>\$ 9.9</u>	<u>\$ 18.0</u>

Merchandising materials of \$6.0 million were written off as obsolete in the third quarter of 2019 in connection with a decreased demand for residential displays following our go to market change in 2018.

NOTE 10. LEASES

We lease certain real estate (warehouse and office space), vehicles and equipment. For leases with an initial term of less than 13 months we recognize lease expense for these leases on a straight-line basis over the lease term. Leases with an initial term of thirteen months or more are recorded on the balance sheet. We consider all payments fixed unless there is a material impact to the balance sheet at any given time during the lease period.

Our leases have remaining lease terms of one month to ten years. Many leases include one or more options to renew, with renewal terms that can extend the lease term from one month to ten years or more. The exercise of lease renewal options is at our sole discretion. Certain leases also include options to purchase the leased property. The depreciable life of assets and leasehold improvements are limited by the expected lease term, unless there is a transfer of title or purchase option reasonably certain of exercise. Our lease agreements do not contain any material residual value guarantees or material restrictive covenants.

The FASB allows companies transition and practical expedient elections to simplify the transition of the new standard. We have elected the following:

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- We have elected to not restate comparative prior periods but instead recognize a cumulative effect adjustment to the opening balance of retained earnings in the period of adoption, if a difference existed between the initial lease liability and related right of use asset.
- We have elected to use the hindsight practical expedient with respect to determining the lease term allowing us to consider the actual outcome of lease renewals, termination options and purchase options, and in assessing impairment of right-of-use assets for existing leases.
- We have elected to combine lease and non-lease components as a single component and account for it as a lease for all asset classes with the exception of land and non-operating buildings. Lease and non-lease components of land and non-operating buildings are generally accounted for separately.
- We have elected to use a portfolio approach to determine the discount rate and defined portfolio based on the geographic location of the asset by country and duration of the lease.

The following table summarizes components of lease expense:

	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2019
Finance lease cost		
Amortization of right-of-use asset	\$ —	\$ 0.2
Operating lease cost	1.0	3.1
Short-term lease cost	0.4	1.0
Sublease income	(0.1)	(1.5)
Total lease cost	\$ 1.3	\$ 2.8

In the second quarter of 2019, we recognized \$0.9 million and \$1.6 million of sublease income and income from non-lease components, respectively, in SG&A expenses related to termination fees received from TZI due to the cancellation of a sublease before the end of the lease term.

The following table summarizes supplemental balance sheet information related to leases:

	Balance Sheet Classification	September 30, 2019
Assets		
Operating lease assets	Operating lease assets	\$ 6.9
Finance lease assets	Property, plant and equipment, less accumulated depreciation	0.5
Total lease assets		\$ 7.4
Liabilities		
Current		
Operating	Accounts payable and accrued expenses	\$ 3.6
Finance	Current installments of long-term debt	0.2
Noncurrent		
Operating	Noncurrent operating lease liabilities	3.3
Finance	Long-term debt	0.3
Total lease liabilities		\$ 7.4

The following table summarizes supplemental cash flow information related to leases:

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	Nine Months Ended September 30,	
	2019	
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	\$	3.1
Financing cash flows from finance leases	\$	0.2

The following table summarizes weighted average remaining lease term and weighted average discount rate:

	September 30, 2019	
	Weighted Average	
	Remaining Lease Term (Years)	Discount Rate
Operating leases	3.4	5.8%
Finance leases	2.7	5.4%

The following table provides future minimum payments at September 30, 2019, by year and in the aggregate, for leases having non-cancelable lease terms in excess of one year:

	Operating Leases		Finance Leases	
2019 (Remaining)	\$	1.1	\$	0.1
2020		3.6		0.2
2021		1.2		0.1
2022		0.3		0.1
2023		0.3		—
Thereafter		1.3		—
Total	\$	7.8	\$	0.5

In our 2018 Form 10-K we disclosed expected future minimum lease payments at December 31, 2018 of \$20.4 million. The adoption of ASC 842 reduced the expected future minimum lease payments by removing costs related to non-lease components of existing contracts and agreements no longer defined as operating leases by \$8.2 million and \$2.3 million, respectively.

The following table provides reconciliation of future minimum lease payments and lease liability:

	September 30, 2019	
	Operating Leases	Finance Leases
Future minimum lease payments	\$ 7.8	\$ 0.5
Less: Unamortized interest	0.9	—
Total lease liability	\$ 6.9	\$ 0.5

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NOTE 11. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

The following table details amounts related to our accounts payable and accrued expenses:

	September 30, 2019	December 31, 2018
Payables, trade and other	\$ 72.1	\$ 99.5
Employment costs	14.4	25.0
Other accrued expenses	14.6	16.9
Current operating lease liabilities	3.6	—
Total	\$ 104.7	\$ 141.4

NOTE 12. PENSION AND OTHER POSTRETIREMENT BENEFIT PROGRAMS

The following table summarizes our pension and postretirement expense:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Defined-benefit pension, U.S.				
Service cost	\$ 0.7	\$ 1.0	\$ 2.0	\$ 2.9
Interest cost	3.7	3.7	11.2	11.0
Expected return on plan assets	(5.4)	(5.6)	(16.2)	(16.7)
Amortization of net actuarial loss	2.5	2.6	7.3	8.0
Total, defined-benefit pension, U.S.	\$ 1.5	\$ 1.7	\$ 4.3	\$ 5.2
Defined-benefit pension, Canada				
Interest cost	\$ 0.1	\$ 0.1	\$ 0.4	\$ 0.4
Expected return on plan assets	(0.2)	(0.2)	(0.5)	(0.6)
Amortization of net actuarial loss	0.2	0.1	0.3	0.2
Total, defined-benefit pension, Canada	\$ 0.1	\$ —	\$ 0.2	\$ —
Defined-benefit postretirement, U.S.				
Service cost	\$ 0.1	\$ 0.1	\$ 0.2	\$ 0.3
Interest cost	0.6	0.7	1.9	2.0
Amortization of net actuarial gains	(0.8)	(0.6)	(2.4)	(1.9)
Total, defined-benefit postretirement, U.S.	\$ (0.1)	\$ 0.2	\$ (0.3)	\$ 0.4

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NOTE 13. COMMON STOCK REPURCHASE PLAN

On March 6, 2017, we announced that our board of directors had approved a share repurchase program pursuant to which we were authorized to repurchase up to \$50.0 million of our outstanding shares of common stock. From inception of the share repurchase program through May 3, 2019, we repurchased approximately 2.5 million shares for a total cost of \$41.0 million, with an average price of \$16.23 per share. On May 3, 2019, we announced that our board of directors had authorized an increased share repurchase program for an additional \$50.0 million beyond the \$41.0 million already repurchased under the prior share repurchase program, effective immediately. Repurchases under the new program could be made through open market, block, and privately negotiated transactions, including Rule 10b5-1 plans, at times and in such amounts as management deemed appropriate, subject to market and business conditions, regulatory requirements and other factors.

On May 17, 2019, we announced the commencement of a modified "Dutch auction" self-tender offer to repurchase up to \$50.0 million in cash of shares of our common stock. As a result of the auction, on June 21, 2019 we purchased 4,504,504 shares of common stock at a purchase price of \$11.40 per share, for a total cost of \$51.3 million, including fees and expenses. After the completion of the tender offer, we have no remaining authorization to purchase further shares.

NOTE 14. ACCUMULATED OTHER COMPREHENSIVE (LOSS)

The following table summarizes the activity, by component, related to the change in AOCI.

	Foreign Currency Translation Adjustments	Derivative Adjustments	Pension and Postretirement Adjustments	Total Accumulated Other Comprehensive (Loss) Income
Balance, December 31, 2018	\$ 1.7	\$ 0.8	\$ (64.1)	\$ (61.6)
Other comprehensive (loss) before reclassifications, net of tax impact of \$-, \$0.2, (\$0.2) and \$-	(4.3)	(0.1)	(0.4)	(4.8)
Amounts reclassified from accumulated other comprehensive income	—	(0.6)	4.1	3.5
Net current period other comprehensive (loss) income	(4.3)	(0.7)	3.7	(1.3)
Balance, September 30, 2019	<u>\$ (2.6)</u>	<u>\$ 0.1</u>	<u>\$ (60.4)</u>	<u>\$ (62.9)</u>
Balance, December 31, 2017	\$ 7.7	\$ (1.0)	\$ (59.2)	\$ (52.5)
Cumulative effect of adoption of ASU 2018-02 as of January 1	—	0.1	(12.7)	(12.6)
Other comprehensive (loss) income before reclassifications, net of tax impact of \$-, (\$0.3), \$0.3, and \$-	(6.2)	0.7	0.3	(5.2)
Amounts reclassified from accumulated other comprehensive income	—	0.4	5.0	5.4
Net current period other comprehensive (loss) income	(6.2)	1.1	5.3	0.2
Balance, September 30, 2018	<u>\$ 1.5</u>	<u>\$ 0.2</u>	<u>\$ (66.6)</u>	<u>\$ (64.9)</u>

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

	Three Months Ended September 30,		Nine Months Ended September 30,		Affected Line Item
	2019	2018	2019	2018	
Derivative adjustments					
Foreign exchange contracts - purchases	\$ (0.1)	\$ (0.1)	\$ (0.3)	\$ —	Cost of goods sold
Foreign exchange contracts - sales	(0.1)	—	(0.3)	0.4	Net sales
Foreign exchange contracts - sales	—	—	—	0.1	Earnings from discontinued operations
Total (income) expense before tax	(0.2)	(0.1)	(0.6)	0.5	
Tax impact	—	—	—	(0.1)	Income tax (benefit)
Total (income) expense, net of tax	(0.2)	(0.1)	(0.6)	0.4	
Pension and postretirement adjustments					
Amortization of net actuarial loss	1.9	2.1	5.2	6.3	Other expense, net
Tax impact	(0.4)	(1.7)	(1.1)	(1.3)	Income tax (benefit)
Total expense, net of tax	1.5	0.4	4.1	5.0	
Total reclassifications for the period	<u>\$ 1.3</u>	<u>\$ 0.3</u>	<u>\$ 3.5</u>	<u>\$ 5.4</u>	

NOTE 15. 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.

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Summary of Financial Position

There were no material liabilities recorded as of September 30, 2019 and December 31, 2018 for potential environmental liabilities that we consider probable and for which a reasonable estimate of the probable liability could be made.

Antidumping and Countervailing Duty Cases

In October 2010, a coalition of U.S. producers of multilayered wood flooring (not including AWI and its subsidiaries) (“Petitioners”) 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. Our consistent view through the course of this matter has been, and remains, that our imports were neither dumped nor subsidized.

Until October 2014, AWI 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. Prior to the sale of our North American wood flooring business on December 31, 2018 (“Wood Sale”), we produced multilayered wood flooring domestically and imported multilayered wood flooring from third party suppliers in China. In connection with the Wood Sale, we retained the right to elect to defend and control the defense of the above matters, as well as the right to any related refunds or payments, and agreed to indemnify and hold the buyer from and against any and all duties, penalties, fines or other charges. Armstrong Kunshan was not sold as part of the Wood Sale but was sold to a separate buyer in December 2018.

We previously accrued for potential liability for imports of Armstrong Kunshan products made in the (i) second administrative review period (which 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), and (ii) third administrative review period (which 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)).

During the second quarter of 2019, we resolved our potential AD liability for the second and third administrative review periods outside of litigation pursuant to a settlement agreement with the Petitioners. As a result, the Petitioners did not appeal the Court of International Trade’s July 3, 2018 ruling ordering DOC to revoke the AD order with respect to Armstrong Kunshan. Accordingly, the revocation of the AD order with respect to Armstrong Kunshan has become final and DOC has instructed U.S. Customs and Border Protection (“CBP”) to liquidate, without imposition of AD duties, entries of subject merchandise produced and exported by Armstrong Kunshan. CBP began liquidating the Armstrong Kunshan entries without imposition of AD duties in May 2019, and we believe this process has been substantially completed.

There have been and there are expected to be subsequent administrative reviews for which we were not and are not expected to be subject; however, we are liable for other manufacturers’ applicable rates to the extent we were importer of record of products covered by the AD/CVD orders during such periods. While we accrue for potential AD/CVD liability for these periods, such amounts are and are expected to remain immaterial.

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

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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, results of operations, or cash flows.

NOTE 16. SUBSEQUENT EVENTS

In November 2019 we announced the planned shutdown of our commercial production line in our South Gate, California plant. Products currently produced on this line will be transitioned to our other U.S. plants, with an expected shutdown of this line on January 3, 2020. As a result of this shutdown, we expect to record accelerated depreciation on the production line assets of between \$5 million and \$10 million during the next quarter.

On November 1, 2019, we entered into a First Amendment to our Credit Agreement (the "Amendment"). The Amendment amends the Credit Agreement to, among other things, decrease the size of the Credit Facility to \$100 million, consisting of a \$75 million revolving facility and a \$25 million term loan facility (the "Amended Credit Facility"), and converts term loans outstanding in excess of \$25 million to revolver borrowings.

The Amendment also modified certain of the Credit Agreement financial covenants. Specifically, the Amended Credit Facility requires that we and our subsidiaries not:

- Permit the Consolidated Net Leverage Ratio (as defined in the Amendment) to be greater than: (i) 3.00 to 1.00 from the effective date of the Amendment to December 31, 2019, (ii) 3.75 to 1.00 from January 1, 2020 through March 31, 2020, (iii) 2.50 to 1.00 from April 1, 2020 through June 30, 2020, and (iv) 2.00 to 1.00 from July 1, 2020 and thereafter;
- Permit the Consolidated Fixed Charge Coverage Ratio (as defined in the Amendment at any time to be less than 1.25 to 1.00, provided that (i) the aggregate amount of all Capital Expenditures for the period ending September 30, 2019 will be deemed to be \$16.5 million for purposes of calculating the Consolidated Fixed Charge Coverage Ratio and (ii) the Consolidated Fixed Charge Coverage Ratio will not be tested for the periods ending December 31, 2019 and March 31, 2020; and
- Permit Consolidated EBITDA (as defined in the Amendment) to be less than (i) \$20 million for the period ending December 31, 2019 and (ii) \$15 million for the period ending March 31, 2020.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Our Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is provided in addition to the accompanying Condensed Consolidated Financial Statements and notes to assist readers in understanding our results of operations, financial condition, and cash flows. This interim MD&A should be read in conjunction with the MD&A in our Annual Report on Form 10-K for the fiscal year ended December 31, 2018.

Overview

Armstrong Flooring, Inc. ("AFI" or the "Company") is a leading global producer of resilient flooring products for use primarily in the construction and renovation of residential, commercial and institutional buildings. We design, manufacture, source and sell flooring products primarily in North America and the Pacific Rim. As of September 30, 2019, we operated 8 manufacturing plants in three countries. We operate 6 manufacturing plants located throughout the United States (California, Illinois, Mississippi, Oklahoma, and Pennsylvania) and one plant each in China and Australia.

Recent Event

On November 14, 2018, we entered into a Stock Purchase Agreement with Tarzan Holdco Inc., ("TZI"), an affiliate of American Industrial Partners ("AIP"), to sell our North American wood flooring business. On December 31, 2018, AIP completed the purchase of all of the issued and outstanding shares of Armstrong Wood Products, Inc., a Delaware Corporation ("AWP"), including its direct and indirect wholly owned subsidiaries. We received proceeds of \$90.2 million, net of closing costs, transaction fees and taxes. The transaction was subject to a customary post-closing working capital adjustment process, which resulted in a payment to TZI of \$1.9 million in the third quarter of 2019. The historical financial results of the North American wood flooring business have been reflected in our Condensed Consolidated Financial Statements as a discontinued operation for all periods presented.

Employees

As of September 30, 2019 and December 31, 2018, we had approximately 1,700 and 1,800, respectively, full-time and part-time employees worldwide. During the first nine months of 2019, approximately 100 employees transferred to TZI as a result of the end of transition arrangements.

On July 2, 2019, we declared a lockout of the United Steelworkers Local 285 employees at our plant located in Lancaster, Pennsylvania. The lockout, which resulted from the lack of a new ratified contract to replace the previous labor contract that expired on October 9, 2017, involved approximately 150 employees. We reached agreement on a new labor contract in August 2019 and the impacted employees have returned to work. We continued to operate the plant during the lockout.

Factors Affecting Our Business

Net Sales

Overview

Demand for our products is influenced by economic conditions. We closely monitor publicly available macroeconomic trend data that provide insight to commercial and residential market activity; this includes Gross Domestic Product growth indices, the Architecture Billings Index and the Consumer Confidence Index, as well as housing starts and existing home sales.

Demand for our products is also influenced by consumer preferences. In addition, our channel partners raise or lower their inventory levels according to their expectations of market demand and consumer preferences, which directly affects our sales.

Markets

We compete in both the commercial and residential markets in North America and primarily the commercial market in the Pacific Rim. Our business operates in a competitive environment across all our product categories, and excess capacity exists in much of the industry. We continue to see efforts by various competitors to price aggressively as a means to gain market share.

We have experienced a decline in demand for our traditional resilient products, particularly vinyl sheet products used in residential applications. The decline in vinyl sheet is driven by consumer trends, which have continued to favor alternate products, including luxury vinyl tile ("LVT") products.

The flooring market continues to experience LVT growth. Given its attractive visuals and performance characteristics, LVT growth has exceeded that of the overall flooring market. We believe LVT growth has and will continue to come partially at the expense of other product categories in both the soft and hard surface flooring markets, with the largest impacts on the AFI portfolio within the vinyl sheet and vinyl composition tile ("VCT") categories. We are the largest producer of VCT.

Operating Expenses

We source certain products from China. Tariff increases drive inflation on these sourced products. Raw material costs have stabilized. Productivity improvements at our manufacturing plants will continue to drive benefits in operating results.

Tariffs

The U.S. government announced a tariff of 10% on certain flooring products imported to the U.S. from China, effective on September 24, 2018 with an additional 15% effective on May 10, 2019. In order to partially offset the impact, we implemented price increases that went into effect in the fourth quarter of 2018, and additional price increases that went into effect in the second quarter of 2019 on select impacted products.

Results of Operations

Condensed Consolidated Results from Continuing Operations

Below is a summary of comparative results of operations for the three and nine months ended September 30, 2019 and 2018:

(Dollars in millions)	Three Months Ended September 30,				Nine Months Ended September 30,			
	2019	2018	Change		2019	2018	Change	
			\$	%			\$	%
Net sales	\$ 165.6	\$ 208.9	\$ (43.3)	(20.7)%	\$ 485.0	\$ 574.4	\$ (89.4)	(15.6)%
Cost of goods sold	153.8	163.7	(9.9)	(6.0)%	414.9	456.2	(41.3)	(9.1)%
Gross profit	11.8	45.2	(33.4)	(73.9)%	70.1	118.2	(48.1)	(40.7)%
Selling, general and administrative expenses	40.0	40.8	(0.8)	(2.0)%	110.2	119.0	(8.8)	(7.4)%
Operating (loss) earnings	(28.2)	4.4	(32.6)	NM*	(40.1)	(0.8)	(39.3)	NM*
Interest expense	0.8	0.9	(0.1)		2.7	2.9	(0.2)	
Other expense, net	0.7	0.9	(0.2)		1.2	2.2	(1.0)	
(Loss) earnings from continuing operations before income taxes	(29.7)	2.6	(32.3)		(44.0)	(5.9)	(38.1)	
Income tax (benefit)	—	(0.7)	0.7		(3.0)	(1.7)	(1.3)	
Net (loss) earnings from continuing operations	(29.7)	3.3	(33.0)		(41.0)	(4.2)	(36.8)	
Earnings from discontinued operations, net of tax	—	4.6	(4.6)		—	12.2	(12.2)	
(Loss) gain on disposal of discontinued operations, net of tax	(1.7)	—	(1.7)		7.6	—	7.6	
Net (loss) earnings from discontinued operations	(1.7)	4.6	(6.3)		7.6	12.2	(4.6)	
Net (loss) earnings	\$ (31.4)	\$ 7.9	\$ (39.3)		\$ (33.4)	\$ 8.0	\$ (41.4)	

NM*: not meaningful

Three months ended September 30, 2019 compared to September 30, 2018**Net Sales**

Net sales by percentage point change are shown in the table below:

(Dollars in millions)	Three Months Ended September 30,		Change		Percentage Point Change Due to			
	2019	2018	\$	%	Price	Volume	Mix	Currency
	\$ 165.6	\$ 208.9	\$ (43.3)	(20.7)%	(0.5)	(14.9)	(4.4)	(0.9)

Net sales for the three months ended September 30, 2019 decreased compared to the three months ended September 30, 2018 primarily due to unfavorable volume. Unfavorable volume reflected relative changes in distributor inventory levels compared to the prior year due to significant customer purchases in the distribution channel ahead of U.S. tariffs and weaker performance by several of our distributors. Volume was also lower due to share loss in some categories within the distribution channel. Unfavorable mix was driven by lower relative LVT sales, which was impacted by high distributor stocking in 2018 ahead of tariff increases.

Operating (Loss) Earnings

Operating results for the three months ended September 30, 2019 decreased compared to the three months ended September 30, 2018. 2019 results were impacted by a \$13.6 million inventory write down in connection with a change in leadership strategy (see Note 8 to the Condensed Consolidated Financial Statements) and a \$6.0 million write off of merchandising materials in connection with a decreased demand of residential displays following our go to market change. In addition, operating results were unfavorably impacted by the margin impact of lower net sales in 2019.

Discontinued Operations: For the three months ended September 30, 2019, a \$1.7 million loss on disposal of discontinued operations was primarily related to the working capital adjustment.

Income Tax Benefit: There was no income tax expense for the three months ended September 30, 2019 compared to income tax benefit of \$0.7 million for the three months ended September 30, 2018. The change in effective rates was primarily driven by the mix of income among tax jurisdictions and the effects of unbenefitted losses.

Nine months ended September 30, 2019 compared to September 30, 2018**Net Sales**

Net sales by percentage point change are shown in the table below:

(Dollars in millions)	Nine Months Ended September 30,		Change		Percentage Point Change Due to			
	2019	2018	\$	%	Price	Volume	Mix	Currency
	\$ 485.0	\$ 574.4	\$ (89.4)	(15.6)%	0.4	(12.0)	(2.5)	(1.5)

Net sales for the nine months ended September 30, 2019 decreased compared to the nine months ended September 30, 2018 primarily due to unfavorable volume. Unfavorable volume reflected relative changes in distributor inventory levels compared to the prior year due to significant customer purchases in the distribution channel ahead of U.S. tariffs, decline in traditional categories and weaker performance by several of our distributors. Volume was also lower due to share loss in some categories within the distribution channel. Unfavorable mix was driven by lower relative LVT sales, which was impacted by high distributor stocking in 2018 ahead of tariff increases.

Operating Loss

Operating results for the nine months ended September 30, 2019 declined compared to the nine months ended September 30, 2018. 2019 results were impacted by lower net sales, a \$13.6 million inventory write down in connection with a change in leadership strategy (see Note 8 to the Condensed Consolidated Financial Statements) and a \$6.0 million write off of merchandising materials in connection with a decreased demand of residential displays following our go to market change.

Discontinued Operations: For the nine months ended September 30, 2019, a \$7.6 million gain on disposal of discontinued operations was realized primarily due to the resolution of our antidumping case. See Note 15 to the Condensed Consolidated Financial Statements for additional information.

Income Tax Benefit: Income tax benefit was \$3.0 million for the nine months ended September 30, 2019 compared to income tax benefit of \$1.7 million for the nine months ended September 30, 2018. The effective tax rate for the nine months ended September 30, 2019 of 6.8% compared to the rate of 28.8% for the same period of 2018. The change in effective rates was primarily driven by the mix of income among tax jurisdictions and the effects of unbenefitted losses.

Liquidity and Capital Resources

In March 2017, our board of directors authorized a share repurchase program of \$50.0 million. The authorization of the repurchase program was aligned with our goal to increase the efficiency of our capital structure over time while preserving sufficient liquidity to invest in growth projects and other value-accretive opportunities. From the inception of the program through May 3, 2019, we repurchased 2.5 million shares under the program for a total cost of \$41.0 million.

On May 3, 2019, we announced that our board of directors had authorized an increased share repurchase program for an additional \$50.0 million beyond the \$41.0 million already repurchased under the existing share repurchase program, effective immediately. The authorization to purchase additional shares under the repurchase program was aligned with our goal to return a portion of the net sale proceeds from the wood flooring business, which closed on December 31, 2018.

On May 17, 2019, we announced the commencement of a modified "Dutch auction" self-tender offer to repurchase up to \$50.0 million in cash of shares of our common stock. As a result of the auction, on June 21, 2019 we purchased

Management's Discussion and Analysis of Financial Condition and Results of Operations

4,504,504 shares of common stock at a purchase price of \$11.40 per share, for a total cost of \$51.3 million, including fees and expenses. After the completion of the tender offer, we have no remaining authorization to purchase further shares.

Any shares not used to fulfill employee stock award obligations are held in treasury.

Our primary sources of liquidity are, and we anticipate that they will continue to be, cash generated from operations and borrowings under our secured credit facility described below. We believe these sources are sufficient to fund our capital needs, planned capital expenditures and to meet our interest and other contractual obligations in the near term, as well as any further share repurchases. Our liquidity needs for operations vary throughout the year with the majority of our cash flows typically generated in the second and third quarters. We believe the absence of cash flow from discontinued operations will not materially impact our future liquidity and capital resources.

Cash and cash equivalents totaled \$66.6 million as of September 30, 2019, of which \$50.2 million was held in the U.S.

Cash Flows

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

<i>(Dollars in millions)</i>	Nine Months Ended September 30,	
	2019	2018
Cash (used for) provided by operating activities	\$ (1.8)	\$ 17.8
Cash (used for) investing activities	(24.8)	(24.2)
Cash (used for) provided by financing activities	(80.1)	7.9

Operating activities

Operating activities for the nine months ended September 30, 2019 used \$1.8 million. Cash was provided by earnings exclusive of net non-cash expenses, primarily depreciation and amortization and inventory impairment, but was more than offset by cash used by changes in working capital, primarily accounts payable and accrued expenses, partially offset by inventory. Operating activities for the nine months ended September 30, 2018 provided \$17.8 million of cash. Cash was generated from earnings exclusive of net non-cash expenses, primarily depreciation and amortization, partially offset by changes in working capital.

Investing activities

Net cash used for investing activities of \$24.8 million and \$24.2 million for the nine months ended September 30, 2019 and 2018, respectively, primarily reflected purchases of property, plant and equipment.

Financing activities

Net cash used for financing activities for the nine months ended September 30, 2019 was \$80.1 million. Cash used primarily reflected purchases of treasury stock and repayment of our revolving credit facility. Cash provided in the nine months ended September 30, 2018 was \$7.9 million, and primarily reflected net proceeds of debt.

Debt

On December 31, 2018, we entered into a credit agreement (the "Credit Agreement"). The Credit Agreement provides us with a \$150.0 million secured credit facility (the "Credit Facility"), consisting of a \$75.0 million revolving facility and a \$75.0 million term loan facility. The revolving facility includes a \$25.0 million sublimit for the issuance of letters of credit and a \$15.0 million sublimit for swing line loans. The Credit Facility is scheduled to mature on December 31,

2023. The Credit Agreement provides for an uncommitted accordion feature that allows us to request an increase in the revolving facility or the term loan facility in an aggregate amount not to exceed \$25.0 million.

As of September 30, 2019, the interest rate on the Credit Facility was determined to be 3.5435%. We are required to pay a commitment fee, payable quarterly in arrears, on the average daily unused amount of the revolving Credit Facility, which varies according to the net leverage ratio and was 0.15% as of September 30, 2019. Outstanding letters of credit issued under the Credit Facility are subject to fees which are due quarterly in arrears based on the applicable margin described above plus a fronting fee of 0.125%. As of September 30, 2019, the total rate for letters of credit was 1.625%.

As of September 30, 2019, total borrowings outstanding under our Credit Facility were \$72.1 million under Term Loan A, while outstanding letters of credit were \$3.9 million. We had no borrowings outstanding under the revolving portion of the Credit Facility.

Borrowings under the Term Loan A portion of the Credit Facility are segregated on our Condensed Consolidated Balance Sheet with \$67.8 million net of fees shown as a long-term obligation and \$3.7 million presented as a short-term obligation due to quarterly principal repayment installments.

All obligations under the Credit Agreement are guaranteed by each of our wholly owned domestic subsidiaries that individually, or together with its subsidiaries, has assets of more than \$1.0 million. All obligations under the Credit Agreement, and guarantees of those obligations, are secured by all of the present and future assets of the Company and the guarantors, subject to certain exceptions and exclusions as set forth in the Credit Agreement and other security and collateral documents.

On November 1, 2019, we entered into a First Amendment to the Credit Agreement (the "Amendment"). The Amendment amends the Credit Agreement to, among other things, decrease the size of the Credit Facility to \$100.0 million, consisting of a \$75.0 million revolving facility and a \$25.0 million term loan facility (the "Amended Credit Facility"), and converts term loans outstanding in excess of \$25.0 million to revolver borrowings.

Our foreign subsidiaries had available lines of credit totaling \$10.4 million; there were no borrowings under these lines of credit as of September 30, 2019.

Debt Covenants

The Credit Agreement requires us to comply with certain financial covenants calculated for the Company and its subsidiaries on a consolidated basis. Specifically, the Credit Agreement requires that we and our subsidiaries not:

- Permit the Consolidated Net Leverage Ratio (as defined in the Credit Agreement) at any time to be greater than 3.00 to 1.00;
- and
- Permit the Consolidated Fixed Charge Coverage Ratio (as defined in the Credit Agreement) at any time to be less than 1.25 to 1.00.

The Credit Agreement also contains customary affirmative covenants and events of default, including a cross-default provision in respect of any other indebtedness that has an aggregate principal amount exceeding \$15.0 million.

The Amendment modified certain of the Credit Agreement covenants, including the financial covenants, applicable to us and our subsidiaries. Specifically, the Amended Credit Facility requires that we and our subsidiaries not:

- Permit the Consolidated Net Leverage Ratio (as defined in the Amendment) to be greater than: (i) 3.00 to 1.00 from the effective date of the Amendment to December 31, 2019, (ii) 3.75 to 1.00 from January 1, 2020 through March 31, 2020, (iii) 2.50 to 1.00 from April 1, 2020 through June 30, 2020, and (iv) 2.00 to 1.00 from July 1, 2020 and thereafter;
- Permit the Consolidated Fixed Charge Coverage Ratio (as defined in the Amendment) at any time to be less than 1.25 to 1.00, provided that (i) the aggregate amount of all Capital Expenditures for the period ending September 30, 2019 will be deemed to be \$16.5 million for purposes of calculating the Consolidated Fixed

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- Charge Coverage Ratio and (ii) the Consolidated Fixed Charge Coverage Ratio will not be tested for the periods ending December 31, 2019 and March 31, 2020; and Permit Consolidated EBITDA (as defined in the Amendment) to be less than (i) \$20.0 million for the period ending December 31, 2019 and (ii) \$15.0 million for the period ending March 31, 2020.

As of September 30, 2019, we were in compliance with these covenants.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

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. Quantitative and Qualitative 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 2018 Annual Report on Form 10-K.

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, as amended (the "Exchange Act"), is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. 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.

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(e) and 15d-15(e) of the Exchange Act. Our CEO and CFO concluded that as of September 30, 2019 these disclosure controls and procedures are effective at the reasonable assurance level described above.

Change in Internal Controls over Financial Reporting

As of September 11, 2019, Michel S. Vermette assumed the position of President and CEO, previously held by interim CEO, Larry S. McWilliams.

No other changes in our internal control over financial reporting occurred during the fiscal quarter ended September 30, 2019 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 15 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 2018 Annual Report on Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**(c) Issuer Purchases of Equity Securities**

The following table includes information about our stock repurchases from July 1, 2019 to September 30, 2019:

Period	Total Number of Shares Purchased ¹	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that may yet be Purchased under the Plans or Programs
July 1 - 31, 2019	12,169	\$ 9.99	—	—
August 1 - 31, 2019	1,666	\$ 7.70	—	—
September 1 - 30, 2019	349	\$ 6.45	—	—
Total	14,184		—	—

¹ Shares reacquired through the withholding of shares to pay employee tax obligations upon the exercise of options or vesting of restricted units granted under our long-term incentive plans and those previously granted under AWT's long-term incentive plans, which were converted to AFI units on April 1, 2016.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

The following exhibits are filed as part of this Quarterly Report on Form 10-Q:

Exhibit Number	Description
10.1	Separation and Release Agreement
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 - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL 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†
†	Filed herewith.
*	Furnished herewith.

SIGNATURES

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: November 5, 2019

By: /s/ Douglas B. Bingham

Douglas B. Bingham
Senior Vice President, Chief Financial Officer and Treasurer
(As Duly Authorized Officer and Principal Financial Officer)

Date: November 5, 2019

By: /s/ Tracy L. Marines

Tracy L. Marines
Vice President and Controller
(As Duly Authorized Officer and Principal Accounting Officer)

SEPARATION AGREEMENT AND RELEASE

THIS SEPARATION AGREEMENT AND RELEASE (this “Agreement”) is entered into on October 18, 2019, by and between Armstrong Flooring, Inc., a Delaware corporation (the “Company”) and Dominic C. Rice (“Executive”). The Company and Executive may be referred to herein individually as a “Party” and collectively as the “Parties.”

WITNESSETH:

WHEREAS, the Company notified the Executive of its intent to eliminate (the “Position Elimination”) Executive’s position as Chief Product Officer, Senior Vice President, Global Operations, effective, and resulting in Executive’s separation from the Company, on October 18, 2019 (the “Separation Date”); and

WHEREAS, the Executive is a Participant in the Company’s Severance Pay Plan for Executive Employees (the “Severance Plan”); and

WHEREAS, the Position Elimination qualifies the Executive, pursuant to Section 2.01(a) of the Severance Plan, to receive the benefits applicable to Executive under Section 3(c) of the Severance Plan, subject to the conditions set forth in the Severance Plan, including without limitation those set forth in Section 3.02 and 3.03; and

WHEREAS, the Parties wish to enter into the arrangement set forth exclusively in this Agreement.

NOW, THEREFORE, in consideration of the premises and the releases, representations, covenants and obligations herein contained, the Company and Executive, intending to be legally bound, hereby agree as follows:

1. **Resignation.** In connection with the Position Elimination, Executive hereby irrevocably resigns from all positions he holds with the Company and its subsidiaries, effective as of the Separation Date, and agrees to execute any additional documents required by the Company to effectuate such resignations.

2. **Payments and Benefits.** Provided that this Agreement becomes effective pursuant to its terms and Executive remains in compliance with this Agreement at all times and executes the Supplemental Release of Claims attached hereto as Appendix A (the “Supplemental Release”) on or within twenty-one (21) days following the Separation Date and does not timely revoke his consent to the Supplemental Release, the Company shall pay Executive the benefits applicable to Executive under the Severance Plan (see Exhibit A), in the manner and time provided for in the Severance Plan. Executive shall also be entitled to any pro rata vesting of his outstanding

performance- and time-based restricted stock units (see Exhibit B) pursuant to and in accordance with the terms and conditions of the applicable underlying grant agreement.

3. **No Other Payments or Benefits.** Executive acknowledges and agrees that he has received all payments and benefits to which he is entitled from the Company and is not entitled to any other compensation, benefits, or payments from the Company or any other Company Parties (as defined in Section 7(a) below).

4. **Return of Property.** Executive agrees that within five (5) business days of the Separation Date, he will deliver, without retaining any copies, all documents and other material in Executive's possession relating, directly or indirectly, to any Confidential Information (as defined in Section 5 below) or other information of the Company, or confidential or other information regarding third parties, learned as an employee of the Company including, but not limited to, any and all documents, contracts, agreements, plans, books, notes, passwords, including electronically stored data and any copies of the foregoing, as well as all materials or equipment supplied by the Company, such as credit cards, laptop or other computer equipment. Executive represents that the Company has returned to him all personal effects which were located at the Company's premises.

5. **Confidentiality and Confidential Information.**

(a) Executive represents that he has held, and Executive agrees that he will at all times hold, in the strictest confidence and has not and will not make any unauthorized disclosure, directly or indirectly, of any Confidential Information, or confidential information regarding third parties, or make any use thereof, directly or indirectly, except in working for the Company. Executive assigns to the Company any rights he may have or have acquired in such Confidential Information and recognizes that all such information shall be the sole property of the Company and its successors or assigns.

(b) "Confidential Information" means and includes any and all information regarding the Company and its subsidiaries and affiliates that is not generally known or available to the public, including but not limited to: information regarding past, current and prospective customers and investors and business affiliates, employees, contractors, and the industry not generally known to the public; strategies, methods, books, records, and documents; technical information concerning products, equipment, services and processes; procurement procedures, pricing, and pricing techniques; including contact names, services provided, pricing, type and amount of services used, financial and sales data; trading methodologies and terms; communications information; evaluations, opinions and interpretations of information and data; marketing and merchandising techniques; electronic databases; models; specifications; computer programs; contracts; bids or proposals; technologies and methods; training methods and processes; organizational structure; personnel information; payments or rates paid to consultants or other

service providers; and other such confidential or proprietary information. Executive acknowledges that the Company's business is highly competitive, that this Confidential Information constitutes a valuable, special and unique asset used by the Company in its business, and that protection of such Confidential Information against unauthorized disclosure and use is of critical importance to the Company. Confidential Information shall not include information that (i) was already in Executive's possession prior to disclosure by the Company but not developed by Executive; (ii) was independently developed by Executive without reference to the Company's Confidential Information; (iii) is obtained from a third party who is not prohibited from transmitting the information to Executive by a contractual, legal or fiduciary obligation to the Company; or (iv) is or becomes generally available to the public other than as a result of disclosure by Executive.

6. **Permitted Disclosures.** Pursuant to 18 U.S.C. § 1833(b), Executive will not be held criminally or civilly liable under any Federal or State trade secret law for the disclosure of a trade secret of the Company that (i) is made (A) in confidence to a Federal, State, or local government official, either directly or indirectly, or to his attorney and (B) solely for the purpose of reporting or investigating a suspected violation of law; or (ii) is made in a complaint or other document that is filed under seal in a lawsuit or other proceeding. If Executive files a lawsuit for retaliation by the Company for reporting a suspected violation of law, Executive may disclose the trade secret to his attorney and use the trade secret information in the court proceeding, if Executive (i) files any document containing the trade secret under seal, and (ii) does not disclose the trade secret, except pursuant to court order. Nothing in this Agreement is intended to conflict with 18 U.S.C. § 1833(b) or create liability for disclosures of trade secrets that are expressly allowed by such section. Further, nothing in this Agreement or any other agreement that Executive has with the Company shall prohibit or restrict Executive from making any voluntary disclosure of information or documents concerning possible violations of law to, or seek a whistleblower award from, any governmental agency or legislative body, or any self-regulatory organization, in each case, without advance notice to the Company.

7. **Release.**

(a) Executive hereby releases, discharges and forever acquits the Company, and its affiliates and subsidiaries and the past, present and future stockholders, members, partners, directors, managers, employees, agents, attorneys, heirs, legal representatives, successors and assigns of the foregoing, in their personal and representative capacities (individually, "Company Party," and collectively, the "Company Parties"), from liability for, and hereby waives, any and all claims, charges, liabilities, causes of action, rights, complaints, sums of money, suits, debts, covenants, contracts, agreements, promises, benefits, obligations, damages, demands or liabilities of every nature, kind and description, in law, equity or otherwise, whether known or unknown, suspected or unsuspected (collectively, "Claims") which Executive or Executive's heirs, executors, administrators, spouse, relatives, successors or assigns ever had, now has or may hereafter claim

to have by reason of any matter, cause or thing whatsoever: (i) arising from the beginning of time through the date upon which Executive signs this Agreement including, but not limited to (A) any such Claims relating in any way to Executive's employment relationship with the Company or any other Company Parties, and (B) any such Claims arising under any federal, state, local or foreign statute or regulation, including, without limitation, Title VII of the Civil Rights Act of 1964, the Americans with Disabilities Act of 1990, the Employee Retirement Income Security Act of 1974 and any other federal, state, local or foreign law (statutory, regulatory or otherwise) that may be legally waived and released; (ii) relating to wrongful employment termination; or (iii) arising under or relating to any policy, agreement, understanding or promise, written or oral, formal or informal, between the Company or any of the other Company Parties and Executive, including, without limitation, the Amended and Restated Change in Control Severance Agreement between Executive and the Company, effective December 1, 2017 ("Change in Control Agreement"), the Company's Severance Pay Plan for Executive Employees and any incentive compensation plan or stock option plan with any Company Party; provided, however, that nothing in this Release shall release or impair any rights that cannot be waived under applicable law, rights under Section 2 of this Agreement, rights to vested benefits under the Company's 401(k) plan and group health plan, or any rights to indemnification under the Company's Certificate of Incorporation, By-laws, Director & Officer liability insurance coverage or the Indemnification Agreement by and between the Company and Executive, effective March 30, 2016 (the "Excluded Claims").

(b) Executive further acknowledges and agrees that, except with respect to Excluded Claims, the Company Parties have fully satisfied any and all obligations whatsoever owed to him arising out of his employment with the Company or any other Company Party, and that no further payments or benefits are owed to him by the Company or any other Company Party.

8. **Restrictive Covenants.** Executive acknowledges and agrees that the restrictive covenants and agreements set forth in Section 8 of the Change in Control Agreement and any other written restrictive covenant agreements in effect with the Company are incorporated herein by reference and fully made a part hereof for all purposes and remain in full force and effect.

9. **No Admission.** Nothing herein shall be deemed to constitute an admission of wrongdoing by Executive or any of the Company Parties. Neither this Agreement nor any of its terms may be used as an admission or introduced as evidence as to any issue of law or fact in any proceeding, suit or action, other than an action to enforce this Agreement.

10. **Counterparts.** This Agreement may be executed in counterparts, and each counterpart, when so executed and delivered, shall be deemed to be an original and both counterparts, taken together, shall constitute one and the same Agreement. A faxed or .pdf-ed signature shall operate the same as an original signature.

11. **Successors and Assigns.** This Agreement shall inure to the benefit of and be binding upon the Company and any successor organization which shall succeed to the Company by acquisition, merger, consolidation or operation of law, or by acquisition of assets of the Company and any assigns. Executive may not assign this Agreement, except with respect to the rights provided under Section 2 of this Agreement, which shall inure to the benefit of Executive's heirs, executors and administrators.

12. **Severability; Blue-Penciling.** The provisions of this Agreement are severable and the invalidity of any one or more provisions shall not affect the validity of any other provision. In the event that a court of competent jurisdiction shall determine that any provision of this Agreement or the application thereof is unenforceable in whole or in part because of the scope thereof, the Parties hereto agree that said court in making such determination shall have the power to reduce the scope of such provision to the extent necessary to make it enforceable, and that this Agreement in its reduced form shall be valid and enforceable to the full extent permitted by law.

13. **Governing Law.** This Agreement will be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania, without regard to any conflict of law principles thereof that would give rise to the application of the laws of any other jurisdiction.

14. **Entire Agreement/No Oral Modifications.** This Agreement constitutes the entire agreement between Executive and any of the Company Parties with respect to the subject matter hereof and supersedes all prior negotiations, representations, arrangements or agreements relating thereto, whether written or oral, including but not limited to the Change in Control Agreement, provided, however, that Section 8 of the Change in Control Agreement shall remain in effect. Executive represents that in executing this Agreement, Executive has not relied on any representation or statement not set forth herein. No amendment or modification of this Agreement shall be valid or binding on the Parties unless in writing and signed by both Parties.

[signature page follows]

IN WITNESS WHEREOF, the Parties have signed this Agreement as of the date first above written.

Armstrong Flooring, Inc.

Dominic C. Rice

By: /s/ John C. Bassett
John C. Bassett
Senior Vice President, Human Resources

/s/ Dominic C. Rice
Dominic C. Rice

APPENDIX A

SUPPLEMENTAL RELEASE OF CLAIMS

1. Release.

(a) For good and valuable consideration, including the Company's provision of a certain payment to Executive in accordance with Section 2(c) of the Separation Agreement and Release, dated October __, 2019 (the "Separation Agreement"), Executive releases, discharges and forever acquits the Company, and its affiliates and subsidiaries and the past, present and future stockholders, members, partners, directors, managers, employees, agents, attorneys, heirs, legal representatives, successors and assigns of the foregoing, in their personal and representative capacities (individually, "Company Party," and collectively, the "Company Parties"), from liability for, and hereby waives, any and all claims, charges, liabilities, causes of action, rights, complaints, sums of money, suits, debts, covenants, contracts, agreements, promises, benefits, obligations, damages, demands or liabilities of every nature, kind and description, in law, equity or otherwise, whether known or unknown, suspected or unsuspected (collectively, "Claims") which Executive or Executive's heirs, executors, administrators, spouse, relatives, successors or assigns ever had, now has or may hereafter claim to have by reason of any matter, cause or thing whatsoever: (i) arising from the beginning of time through the date upon which Executive signs this Agreement including, but not limited to (A) any such Claims relating in any way to Executive's employment relationship with the Company or any other Company Parties, and (B) any such Claims arising under any federal, state, local or foreign statute or regulation, including, without limitation, the Age Discrimination in Employment Act of 1967, as amended by the Older Workers Benefit Protection Act (the "ADEA"), Title VII of the Civil Rights Act of 1964, the Americans with Disabilities Act of 1990, the Employee Retirement Income Security Act of 1974 and any other federal, state, local or foreign law (statutory, regulatory or otherwise) that may be legally waived and released; (ii) relating to wrongful employment termination; or (iii) arising under or relating to any policy, agreement, understanding or promise, written or oral, formal or informal, between the Company or any of the other Company Parties and Executive, including, without limitation, the Amended and Restated Change in Control Severance Agreement between Executive and the Company, effective December 1, 2017, the Company's Severance Pay Plan for Executive Employees and any incentive compensation plan or stock option plan with any Company Party; provided, however, that nothing in this Supplemental Release shall release or impair any rights that cannot be waived under applicable law, rights under Section 2 of the Separation Agreement, rights to vested benefits under the Company's 401(k) plan and group health plan, or any rights to indemnification under the Company's Certificate of Incorporation, By-laws, Director & Officer liability insurance coverage or the Indemnification Agreement by and between the Company and Executive, effective March 30, 2016 (the "Excluded Claims").

(b) Executive further acknowledges and agrees that, except with respect to Excluded Claims, the Company Parties have fully satisfied any and all obligations whatsoever owed to him arising out of his employment with the Company or any other Company Party, and that no further payments or benefits are owed to him by the Company or any other Company Party.

2. Review and Revocation Period.

(a) Executive acknowledges that (i) the Company and/or its successor has advised Executive to consult with an attorney of Executive's own choosing before signing this Supplemental Release, (ii) Executive has been given the opportunity to seek the advice of counsel, (iii) Executive has carefully read and fully understands all of the provisions of this Supplemental Release, (iv) the release provided herein specifically applies to any rights or claims Executive may have against the Company Parties pursuant to the ADEA, (v) Executive is entering into this Supplemental Release knowingly, freely and voluntarily in exchange for good and valuable consideration to which Executive is not otherwise entitled, including the payment set forth in Section 2(c) of the Separation Agreement, and (vi) Executive has the full power, capacity and authority to enter into this Supplemental Release.

(b) Executive understands and agrees that Executive has twenty-one (21) days following Executive's receipt of this Supplemental Release to review this Supplemental Release and its terms and to reflect upon them and consider whether Executive wants to sign it, although Executive may sign it sooner. Executive understands and agrees that Executive may accept this Supplemental Release by signing and returning it within the applicable time frame to Christopher Parisi, Senior Vice President, General Counsel, Secretary and Chief Compliance Officer, Armstrong Flooring, Inc. at 2500 Columbia Avenue, P.O. Box 3025, Lancaster, Pennsylvania 17604 or by e-mail at csparisi@armstrongflooring.com.

(c) Notwithstanding the initial effectiveness of this Supplemental Release, Executive may revoke the execution and delivery (and therefore the effectiveness) of this Supplemental Release within the seven day period beginning on the date Executive delivers the re-execution to the Company (such seven day period being referred to herein as the "Release Revocation Period"). To be effective, such revocation must be in writing signed by Executive and must be delivered to Company before 11:59 p.m., Eastern Standard time, on the last day of the Release Revocation Period.

(d) In the event of such revocation by Executive, this Supplemental Release shall be of no force or effect, and Executive shall not have any rights and the Company shall not have any obligations under Section 2(c) of the Separation Agreement. Provided that Executive does not revoke his consent to this Supplemental Release within the Release Revocation

Period, this Supplemental Release shall become effective on the eighth (8th) calendar day after the date upon which he executes this Supplemental Release (the "Supplemental Release Effective Date").

Dominic C. Rice

Date: _____

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

I, Michel S. Vermette, 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - 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: November 5, 2019

By: /s/ Michel S. Vermette

Michel S. Vermette
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, Douglas B. Bingham, 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - 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: November 5, 2019

By: /s/ Douglas B. Bingham

Douglas B. Bingham
Senior Vice President, Chief Financial Officer and Treasurer
(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 September 30, 2019 of Armstrong Flooring, Inc. (the "Company") as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Michel S. Vermette, President and 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/ Michel S. Vermette

Michel S. Vermette
President and Chief Executive Officer
(Principal Executive Officer)
November 5, 2019

**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 September 30, 2019 of Armstrong Flooring, Inc. (the "Company") as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Douglas B. Bingham, 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/ Douglas B. Bingham

Douglas B. Bingham
Senior Vice President, Chief Financial Officer and Treasurer
(Principal Financial Officer)
November 5, 2019