

ARMSTRONG WORLD INDUSTRIES INC

Form 10-Q

April 29, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2019

OR

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

For the transition period from                      to

Commission File Number 1-2116

ARMSTRONG WORLD INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

Pennsylvania  
(State or other jurisdiction of

incorporation or organization)

23-0366390  
(I.R.S. Employer

Identification No.)

2500 Columbia Avenue, Lancaster, Pennsylvania 17603  
(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code (717) 397-0611

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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 time period that the 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 the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act:

Large accelerated filer	Accelerated filer	Non-accelerated filer
Smaller reporting company	Emerging growth company	

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

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

Number of shares of Armstrong World Industries, Inc.’s common stock outstanding as of April 24, 2019 – 48,959,255.

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

#### CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this Quarterly Report on Form 10-Q and the documents incorporated by reference herein may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Those forward-looking statements are subject to various risks and uncertainties and include all statements that are not historical statements of fact and those regarding our intent, belief or expectations, including, but not limited to, our expectations concerning our residential and commercial markets and their effect on our operating results; our expectations regarding the payment of dividends; and our ability to increase revenues, earnings and EBITDA (as such terms are defined by documents incorporated by reference herein). Words such as “anticipate,” “expect,” “intend,” “plan,” “target,” “project,” “predict,” “believe,” “may,” “will,” “would,” “could,” “should,” “seek,” “estimate” and similar expressions 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:

- economic conditions;
- construction activity;
- competition;
- key customers;
- customer consolidation;
- availability and costs of raw materials and energy;
- Worthington Armstrong Venture (“WAVE”), our joint venture with Worthington Industries, Inc;
- negative tax consequences;
- the announced sale of our Europe, Middle East and Africa (including Russia) (“EMEA”) and Pacific Rim businesses is subject to various risks and uncertainties and may not be completed in accordance with the expected plans or anticipated timeline, or at all, and will involve significant time and expense, which could disrupt or adversely affect our business;
- environmental matters;
- strategic transactions;
- covenants in our debt agreements;
- our indebtedness;
- our liquidity;
- claims, litigation and cybersecurity breaches;
- international operations;
- defined benefit plan obligations;
- the tax consequences of the separation of our flooring business from our ceilings business;
- intellectual property rights;
- costs savings and productivity initiatives;
- labor; and
- other risks detailed from time to time in our filings with the Securities and Exchange Commission (the “SEC”), press releases and other communications, including those set forth under “Risk Factors” included in our Annual Report on Form 10-K for the year ended December 31, 2018, as amended, and in the documents incorporated by reference herein and therein.

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 forward-looking statement is based.

## PART I - FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

Armstrong World Industries, Inc., and Subsidiaries

Condensed Consolidated Statements of Earnings and Comprehensive Income

(amounts in millions, except per share data)

Unaudited

	Three Months Ended March 31, 2019	Three Months Ended March 31, 2018
Net sales	\$ 242.1	\$ 227.3
Cost of goods sold	150.7	156.5
Gross profit	91.4	70.8
Selling, general and administrative expenses	55.6	37.5
Equity earnings from joint venture	(18.9 )	(16.3 )
Operating income	54.7	49.6
Interest expense	10.4	9.2
Other non-operating (income), net	(5.5 )	(9.0 )
Earnings from continuing operations before income taxes	49.8	49.4
Income tax expense	13.4	8.2
Earnings from continuing operations	36.4	41.2
Net earnings from discontinued operations, net of tax (benefit) expense of (\$0.1) and \$1.5	0.5	3.9
Gain (loss) from disposal of discontinued businesses, net of tax (benefit) of \$- and (\$0.4)	2.2	(17.3 )
Net gain (loss) from discontinued operations	2.7	(13.4 )
Net earnings	\$ 39.1	\$ 27.8
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustments	5.3	5.9
Derivative (loss) gain, net	(5.1 )	3.8
Pension and postretirement adjustments	2.8	1.8
Total other comprehensive income	3.0	11.5
Total comprehensive income	\$ 42.1	\$ 39.3
Earnings per share of common stock, continuing operations:		
Basic	\$ 0.75	\$ 0.78
Diluted	\$ 0.73	\$ 0.76
Earnings (loss) per share of common stock, discontinued operations:		
Basic	\$ 0.05	\$ (0.25 )
Diluted	\$ 0.05	\$ (0.25 )
Net earnings per share of common stock:		
Basic	\$ 0.80	\$ 0.53

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Diluted	\$ 0.78	\$ 0.51
Average number of common shares outstanding:		
Basic	48.7	53.0
Diluted	49.5	53.8

See accompanying notes to Condensed Consolidated Financial Statements beginning on page 8.

## Armstrong World Industries, Inc., and Subsidiaries

## Condensed Consolidated Balance Sheets

(amounts in millions, except share and per share data)

	Unaudited	
	March 31, 2019	December 31, 2018
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 273.8	\$ 325.7
Accounts and notes receivable, net	85.3	79.9
Inventories, net	72.1	61.2
Assets of discontinued operations	308.9	279.5
Income tax receivable	0.7	1.7
Other current assets	8.2	4.8
Total current assets	749.0	752.8
Property, plant, and equipment, less accumulated depreciation and amortization of		
\$421.8 and \$412.9, respectively	510.5	501.0
Lease right-of-use assets	28.8	-
Prepaid pension costs	59.5	52.8
Investment in joint venture	38.7	40.8
Goodwill and intangible assets, net	472.3	442.0
Deferred income taxes	19.0	14.8
Income taxes receivable	0.8	0.8
Other non-current assets	64.0	68.5
Total assets	\$ 1,942.6	\$ 1,873.5
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Current installments of long-term debt	\$ 62.5	\$ 55.0
Accounts payable and accrued expenses	390.9	383.3
Liabilities of discontinued operations	129.3	110.3
Income tax payable	7.2	0.9
Total current liabilities	589.9	549.5
Long-term debt, less current installments	749.7	764.8
Lease non-current liabilities	23.6	-
Postretirement benefit liabilities	57.6	58.8
Pension benefit liabilities	49.7	50.3
Other long-term liabilities	33.0	38.0
Income taxes payable	26.9	26.5
Deferred income taxes	131.9	124.4
Total non-current liabilities	1,072.4	1,062.8
Shareholders' equity:		
Common stock, \$0.01 par value per share, 200 million shares authorized, 61,717,806	0.6	0.6



shares issued and 48,640,635 shares outstanding as of March 31, 2019 and		
61,553,724, shares issued and 48,808,239 shares outstanding as of December 31, 2018		
Capital in excess of par value	553.3	547.4
Retained earnings	895.1	865.0
Treasury stock, at cost, 13,077,171 shares as of March 31, 2019 and 12,745,485		
shares as of December 31, 2018	(712.2 )	(692.2 )
Accumulated other comprehensive (loss)	(456.5 )	(459.6 )
Total shareholders' equity	280.3	261.2
Total liabilities and shareholders' equity	\$ 1,942.6	\$ 1,873.5

See accompanying notes to Condensed Consolidated Financial Statements beginning on page 8.

## Armstrong World Industries, Inc., and Subsidiaries

## Condensed Consolidated Statements of Shareholders' Equity

(amounts in millions, except share data)

Unaudited

## Three Months Ended March 31, 2019

	Common Stock Shares	Stock Amount	Additional Paid-In Capital	Retained Earnings	Treasury Shares	Stock Amount	Accumulated Other Comprehensive (Loss)	Total
Balance at beginning of period	48,808,239	\$ 0.6	\$ 547.4	\$ 865.0	12,745,485	\$(692.2)	\$ (459.6)	) \$261.2
Cumulative effect impact of ASU 2017-12 adoption				(0.1 )			0.1	-
Stock issuance, net	164,082							
Cash dividends - \$0.175 per common share				(8.9 )				(8.9 )
Share-based employee compensation			5.9					5.9
Net earnings				39.1				39.1
Other comprehensive income							3.0	3.0
Acquisition of treasury stock	(331,686 )				331,686	(20.0 )		(20.0 )
Balance at end of period	48,640,635	\$ 0.6	\$ 553.3	\$ 895.1	13,077,171	\$(712.2)	\$ (456.5)	) \$280.3

## Three Months Ended March 31, 2018

	Common Stock Shares	Stock Amount	Additional Paid-In Capital	Retained Earnings	Treasury Shares	Stock Amount	Accumulated Other Comprehensive (Loss)	Total
Balance at beginning of period	52,772,139	\$ 0.6	\$ 516.8	\$ 633.4	8,010,597	\$(385.6)	\$ (345.9)	) \$419.3
Cumulative effect impact of ASU 2018-02 adoption				54.3			(54.3 )	-
Stock issuance, net	591,584							
Share-based employee compensation			15.2					15.2
Net earnings				27.8			11.5	11.5

Other comprehensive  
income

Acquisition of treasury stock	(1,165,247 )				1,165,247	(70.0 )		(70.0 )
Balance at end of period	52,198,476	\$ 0.6	\$ 532.0	\$ 715.5	9,175,844	\$(455.6)	\$ (388.7 )	\$ 403.8

See accompanying notes to Condensed Consolidated Financial Statements beginning on page 8.

## Armstrong World Industries, Inc., and Subsidiaries

## Condensed Consolidated Statements of Cash Flows

(amounts in millions)

Unaudited

	Three Months Ended March 31,	
	2019	2018
Cash flows from operating activities:		
Net earnings	\$39.1	\$27.8
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	15.1	22.8
(Gain) loss on disposal of discontinued operations	(2.2 )	17.7
Deferred income taxes	5.0	1.5
Share-based compensation	1.8	2.6
Equity earnings from joint venture	(18.9 )	(16.3 )
U.S. pension (credit)	(1.9 )	(6.6 )
Other non-cash adjustments, net	0.2	(0.8 )
Changes in operating assets and liabilities:		
Receivables	3.5	22.5
Inventories	(11.4 )	(17.3 )
Other current assets	(1.1 )	(0.9 )
Lease right-of-use assets	3.2	-
Other non-current assets	(3.0 )	(0.6 )
Accounts payable and accrued expenses	(5.0 )	(26.4 )
Income taxes payable	5.3	5.9
Non-current lease liabilities	(3.6 )	-
Other long-term liabilities	(11.7 )	(4.6 )
Other, net	0.3	(1.3 )
Net cash provided by operating activities	14.7	26.0
Cash flows from investing activities:		
Purchases of property, plant and equipment	(14.8 )	(10.2 )
Return of investment from joint venture	19.7	16.0
Cash paid for acquisitions	(43.1 )	-
Other investing activities	0.2	-
Net cash (used for) provided by investing activities	(38.0 )	5.8
Cash flows from financing activities:		
Payments of long-term debt	(8.1 )	(8.1 )
Dividend paid	(8.5 )	-
Proceeds from exercised stock options	4.8	13.9
Payment for treasury stock acquired	(20.0 )	(70.0 )
Other financing activities	1.9	-
Net cash (used for) financing activities	(29.9 )	(64.2 )

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Effect of exchange rate changes on cash and cash equivalents	1.3	(0.3 )
Net (decrease) in cash and cash equivalents	(51.9 )	(32.7 )
Cash and cash equivalents at beginning of year	335.7	159.6
Cash and cash equivalents at end of period	283.8	126.9
Cash and cash equivalents at end of period of discontinued operations	10.0	10.0
Cash and cash equivalents at end of period of continuing operations	\$273.8	\$116.9
Supplemental Cash Flow Disclosures:		
Interest paid	\$10.8	\$7.7
Income tax payments, net	3.0	1.8
Amounts in accounts payable for capital expenditures	0.9	2.3

See accompanying notes to Condensed Consolidated Financial Statements beginning on page 8.

Armstrong World Industries, Inc., and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

(dollar amounts in millions, except share data)

NOTE 1. BUSINESS AND BASIS OF PRESENTATION

Armstrong World Industries, Inc. (“AWI”) is a Pennsylvania corporation incorporated in 1891. When we refer to “AWI,” the “Company,” “we,” “our” or “us” in these notes, we are referring to AWI and its subsidiaries.

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. These statements should therefore be read in conjunction with the Consolidated Financial Statements and notes that are included in the Form 10-K for the fiscal year ended December 31, 2018. 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 first quarter of 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 general economic conditions.

On March 4, 2019, we acquired the business and assets of Architectural Components Group, Inc. (“ACGI”), based in Marshfield, Missouri. ACGI is a manufacturer of custom wood ceilings and walls with one manufacturing facility. ACGI’s operations, and its assets and liabilities, are included as a component of our Architectural Specialties segment. See Note 4 for further information.

On August 16, 2018, we acquired the business and assets of Steel Ceilings, Inc. (“Steel Ceilings”), based in Johnstown, Ohio. Steel Ceilings is a manufacturer of aluminum and stainless metal ceilings that include architectural, radiant and security solutions with one manufacturing facility. Steel Ceilings’ operations, and its assets and liabilities, are included as a component of our Architectural Specialties segment. See Note 4 for further information.

On May 31, 2018, we acquired the business and assets of Plasterform, Inc. (“Plasterform”), based in Mississauga, Ontario, Canada. Plasterform is a manufacturer of architectural cast ceilings, walls, facades, columns and moldings with one manufacturing facility. Plasterform’s operations, and its assets and liabilities, are included as a component of our Architectural Specialties segment. See Note 4 for further information.

On November 17, 2017, we entered into a Share Purchase Agreement (the “Purchase Agreement”) with Knauf International GmbH (“Knauf”), to sell certain subsidiaries comprising our business in Europe, the Middle East and Africa (including Russia) (“EMEA”) and the Pacific Rim, including the corresponding businesses and operations conducted by Worthington Armstrong Venture (“WAVE”), our joint venture with Worthington Industries, Inc. (“Worthington”) in which AWI holds a 50% interest. The Purchase Agreement provides that the consideration to be paid by Knauf in connection with the sale is \$330.0 million in cash, inclusive of amounts due to WAVE, subject to certain adjustments as provided in the Purchase Agreement, including adjustments based on the economic impact of any required regulatory remedies and a working capital adjustment.

On July 18, 2018, we entered into an amendment to the Purchase Agreement, pursuant to which Knauf agreed to irrevocably and unconditionally pay AWI (i) \$250 million on August 1, 2018, and (ii) \$80 million on September 15, 2018, if, prior to such date (A) any competition condition has not been satisfied, or (B) the closing has not yet occurred. The amendment also provided for the reduction (from a maximum of \$35 million to a maximum of \$20 million) of potential adjustments to the purchase price consideration for the transaction based on the impact of

remedies required to satisfy competition conditions. We received both the \$250 million payment and the \$80 million payment from Knauf in the third quarter of 2018. Following receipt of these payments, we remitted \$70 million to WAVE in partial consideration of the purchase price payable in respect of the business and operations of WAVE under the transaction. WAVE subsequently paid each of AWI and Worthington a dividend of \$35 million. We also recorded a \$22.4 million payable to WAVE, which is reflected within Accounts Payable and Accrued Expenses. The total consideration payable by AWI to WAVE will be determined following closing in connection with the calculation of the adjustments contemplated by the Purchase Agreement.

The transaction was notified for merger control clearance in the European Union ("EU"), Bosnia and Herzegovina, Macedonia, Montenegro, Russia and Serbia, and was cleared unconditionally in Montenegro (February 2018), Serbia (February 2018), Russia (March 2018), Macedonia (July 2018) and Bosnia and Herzegovina (August 2018). On December 7, 2018, the European Commission granted conditional clearance of the transaction, subject to certain commitments intended to address concerns regarding the overlap between the activities of AWI and Knauf, including the divestment by Knauf to a third party of certain mineral fiber and grid businesses and operations in Austria, Estonia, Germany, Ireland, Italy, Latvia, Lithuania, Portugal, Spain, Turkey and the United Kingdom ("UK"). This includes our sales operations in each of the relevant countries, as well as our production facilities, and those of WAVE, located in Team Valley, UK. The terms of the sale of the divestment business by Knauf and the identity of the purchaser are subject to the approval of the European Commission.

Armstrong World Industries, Inc., and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

(dollar amounts in millions, except share data)

Upon or prior to closing, we expect to enter into (i) a Transition Services Agreement with Knauf for its benefit and the benefit of the buyer of the divestment business under which we will provide certain transition technology and information technology services for a limited period of time following closing, (ii) an intellectual property License Agreement with Knauf for its benefit and the benefit of the buyer of the divestment business under which we will license certain patents, trademarks and know-how for their use in certain licensed territories, and (iii) a Supply Agreement with each of Knauf and the buyer of the divestment business under which the parties may continue to purchase certain products from each other following closing. WAVE will enter into similar agreements with Knauf and/or the buyer of the divestment business for such purposes.

We continue to work closely with Knauf towards closing and expect the transaction to close during the second quarter of 2019. The EMEA and Pacific Rim segment historical financial results have been reflected in AWI's Condensed Consolidated Financial Statements as discontinued operations for all periods presented.

These Condensed Consolidated Financial Statements are prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP"). The statements include management estimates and judgments, where appropriate. Management utilizes estimates to record many items including certain asset values, allowances for bad debts, inventory obsolescence and lower of cost and 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.

Recently Adopted Accounting Standards

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, "Leases," which amends accounting for leases, most notably by requiring a lessee to recognize the assets and liabilities that arise from a lease agreement. Specifically, this new guidance requires lessees to recognize a liability to make lease payments and a right-of-use ("ROU") asset representing its right to use the underlying asset for the lease term, with limited exceptions.

In January 2018, FASB issued ASU 2018-01, "Land Easement Practical Expedient for Transition to Topic 842," which permits an entity to elect an optional transition practical expedient to not evaluate under Topic 842 land easements that exist at transition or expired before the adoption of Topic 842 and that were not previously accounted for as leases under Topic 840. In July 2018, FASB issued ASU 2018-10, "Codification improvements to Topic 842, Leases," which affects narrow aspects of the guidance issued in the amendments in Update 2016-02. In July 2018, FASB also issued ASU 2018-11, "Targeted Improvements," which allows companies to adopt ASC Topic 842 without revising comparative period reporting or disclosures and provides an optional practical expedient for lessors to not separate lease and non-lease components of a contract when certain criteria are met.

Effective January 1, 2019, we adopted these standards using the modified retrospective transition method and have applied all practical expedients related to leases existing at the date of initial application. Upon adoption, the most significant change was to the Condensed Consolidated Balance Sheet related to the recognition of new ROU assets and lease liabilities on a continuing operations basis. We have recognized ROU assets and lease liabilities of \$28.8 million, based on the present value of the future minimum rental payments for existing operating leases. We have no



leases that classify as financing arrangements. As required by the lease ASC updates, we have expanded our disclosure of leases. See Note 9 for additional information.

In August 2017, the FASB issued ASU 2017-12, “Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities,” which amends the financial reporting of hedging relationships in order to better portray the economic results of an entity’s risk management activities in its financial statements. In addition, the guidance simplifies the application of current hedge accounting guidance. Effective January 1, 2019, we adopted the guidance, which had no material impact on our financial condition, results of operations or cash flows.

In June 2018, the FASB issued ASU 2018-07, “Improvements to Nonemployee Share-Based Payment Accounting,” which simplifies the aspects of accounting for non–employee share-based payment transactions resulting from expanding the scope of ASC Topic 718, Compensation – Stock Compensation, to include share-based payment transactions for acquiring goods and services from non-employees. Effective January 1, 2019, we adopted this standard using the modified retrospective transition method. Our adoption of this standard had no material impact on our financial condition, results of operations or cash flows.

## Armstrong World Industries, Inc., and Subsidiaries

## Notes to Condensed Consolidated Financial Statements (unaudited)

(dollar amounts in millions, except share data)

## Recently Issued Accounting Standards

In August 2018, the FASB issued ASU 2018-14, “Disclosure Framework – Changes to the Disclosure Requirements for Defined Benefit Plans” which amends ASC 715-20, Compensation – Retirement Benefits – Defined Benefit Plans. The ASU modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. The disclosure requirements to be removed include the amounts in accumulated other comprehensive income expected to be recognized in net periodic benefit costs over the next fiscal year, the amount and timing of plan assets expected to be returned to the employer and the effect of a one percentage point change in assumed health care cost trend rates on the aggregate service cost and benefit obligation for postretirement health care benefits. The new disclosure requirements include the interest crediting rates for cash balance plans, and an explanation of significant gains and losses related to changes in benefit obligations. This guidance is effective for fiscal years ending after December 15, 2020. We are currently evaluating the impact the adoption of this standard will have on our financial condition, results of operations and cash flows.

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” which amends ASC 350-40 Intangibles – Goodwill and Other – Internal-Use Software. The ASU requires implementation costs incurred by customers in cloud computing arrangements to be deferred and recognized over the term of the arrangement, if these costs were capitalized by the customer in a software licensing arrangement. This guidance is effective for fiscal years beginning after December 15, 2019. We are currently evaluating the impact the adoption of this standard will have on our financial condition, results of operations and cash flows.

## NOTE 2. SEGMENT RESULTS

	Three Months Ended March 31, 2019    2018	
Net sales		
Mineral Fiber	\$196.7	\$190.7
Architectural Specialties	45.4	36.6
Total net sales	\$242.1	\$227.3

Three  
Months  
Ended  
March 31,  
2019    2018

Segment operating income (loss)		
Mineral Fiber	\$47.6	\$43.7
Architectural Specialties	9.2	8.3
Unallocated Corporate	(2.1 )	(2.4 )
Total consolidated operating income	\$54.7	\$49.6

	Three Months Ended March 31,	
	2019	2018
Total consolidated operating income	\$54.7	\$49.6
Interest expense	10.4	9.2
Other non-operating (income), net	(5.5 )	(9.0 )
Earnings from continuing operations before income taxes	\$49.8	\$49.4

	March	
	31, 2019	December 31, 2018
Segment assets		
Mineral Fiber	\$1,118.0	\$ 1,096.1
Architectural Specialties	147.2	84.7
Unallocated Corporate	368.5	413.2
Total consolidated assets	\$1,633.7	\$ 1,594.0

Armstrong World Industries, Inc., and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

(dollar amounts in millions, except share data)

In connection with the closing of our St. Helens, Oregon Mineral Fiber manufacturing facility in the second quarter of 2018, we recorded \$7.7 million in cost of goods sold related to accelerated depreciation of property, plant and equipment in the first quarter of 2018.

NOTE 3. REVENUE

Revenue Recognition

We recognize revenue upon transfer of control of our products to the customer, which typically occurs upon shipment. Our main performance obligation to our customers is the delivery of products in accordance with purchase orders. Each purchase order defines the transaction price for the products purchased under the arrangement. Direct sales to building materials distributors, home centers, direct customers, and retailers represent the majority of our sales. Our standard sales terms are Free On Board (“FOB”) shipping point. We have some sales terms that are FOB destination. At the point of shipment, the customer is required to pay under normal sales terms. Our normal payment terms in most cases are 45 days or less and our sales arrangements do not have any material financing components. In addition, our customer arrangements do not produce contract assets or liabilities that are material to our consolidated financial statements. Within our Architectural Specialties segment, the majority of revenues are project driven, which includes a minority of revenues derived from the sale of customer specified customized products that have no alternative use to us. The manufacturing cycle for these custom products is short.

Incremental costs to fulfill our customer arrangements are expensed as incurred, as the amortization period is less than one year.

Our products are sold with normal and customary return provisions. We provide limited warranties for defects in materials or factory workmanship, sagging and warping, and certain other manufacturing defects. Warranties are not sold separately to customers. Our product warranties place certain requirements on the purchaser, including installation and maintenance in accordance with our written instructions. In addition to our warranty program, under certain limited circumstances, we will occasionally and at our sole discretion, provide a customer accommodation repair or replacement. Warranty repairs and replacements are most commonly made by professional installers employed by or affiliated with our independent distributors. Reimbursement for costs associated with warranty repairs are provided to our independent distributors through a credit against accounts receivable from the distributor to us. Sales returns and warranty claims have historically not been material and do not constitute separate performance obligations.

We often enter into agreements with our customers to offer incentive programs, primarily volume rebates and promotions. The majority of our rebates are designated as a percentage of annual customer purchases. We estimate the amount of rebate based on actual sales for the period and accrue for the projected incentive programs costs. We record the costs of the rebate accruals as a reduction to our revenue. In addition, other sales discounts, including early pay promotions, are deducted immediately from the sales invoice.

#### Shipping and Handling

We account for product shipping and handling costs as fulfillment activities and present the associated costs in costs of goods sold in the period in which we sell our product.

#### Disaggregation of Revenues

Our Mineral Fiber and Architectural Specialties operating segments both manufacture and sell ceiling systems (primarily mineral fiber, fiberglass wool, metal, and wood) throughout the Americas. We disaggregate revenue based on our product based segments and major customer grouping as these categories represent the most appropriate depiction of how the nature, amount, and timing of revenues and cash flows are affected by economic factors. Net sales by major customer group are as follows:

Distributors – represents net sales to building materials distributors, who re-sell our products to contractors, subcontractors’ alliances, large architect and design firms, and major facility owners. Geographically, this category includes sales throughout the U.S., Canada, and Latin America.

Home centers – represents net sales to home centers such as Lowe’s Companies, Inc. and The Home Depot, Inc.

Direct customers – represents net sales sold directly to contractors, subcontractors’ alliances, large architect and design firms, and major facility owners. Only sales to U.S. customers are reported within this customer group.

Armstrong World Industries, Inc., and Subsidiaries

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(dollar amounts in millions, except share data)

Retailers and other – represents net sales to independent retailers and certain national account customers, including wholesalers who re-sell our products to dealers who service builders, contractors and consumers. Geographically, this category includes sales throughout the U.S., Canada, and Latin America.

The following tables provide net sales by major customer group within the Mineral Fiber and Architectural Specialties segments for the three months ended March 31, 2019 and 2018:

	Three months ended	
	March 31,	
Mineral Fiber	2019	2018
Distributors	\$144.6	\$137.7
Home centers	23.1	24.0
Direct customers	14.1	13.7
Retailers and other	14.9	15.3
Total	\$196.7	\$190.7

	Three months ended	
	March 31,	
Architectural Specialties	2019	2018
Distributors	\$31.5	\$28.4
Direct customers	13.1	7.9
Retailers and other	0.8	0.3
Total	\$45.4	\$36.6

NOTE 4. ACQUISITION AND DISCONTINUED OPERATIONS

ACQUISITION OF ACGI

On March 4, 2019, we acquired the business and assets of ACGI. The \$43.1 million purchase price, which is subject to customary working capital adjustments, was allocated to the tangible and intangible assets acquired and the liabilities assumed based on their estimated fair values, with the remaining unallocated amount recorded as

goodwill. The total fair value of tangible assets acquired, less liabilities assumed, was \$9.9 million. The total fair value of identifiable intangible assets acquired was \$12.0 million, mostly comprised of amortizable customer relationships of \$7.4 million and amortizable tradenames of \$2.8 million, resulting in \$21.2 million of goodwill. All of the acquired goodwill is deductible for tax purposes. These amounts are subject to adjustment as our purchase accounting analysis is completed.

#### ACQUISITION OF STEEL CEILINGS

On August 16, 2018, we acquired the business and assets of Steel Ceilings. The \$12.3 million purchase price was allocated to the assets acquired and the liabilities assumed based on their estimated fair values, with the remaining amount recorded as goodwill. In October 2018, we sold certain assets related to an acquired product line to WAVE for \$2.0 million. The total fair value of tangible assets acquired, less liabilities assumed, was \$4.4 million. The total fair value of identifiable intangible assets acquired was mostly comprised of amortizable customer relationships of \$1.4 million and tradenames of \$1.3 million, resulting in \$3.2 million of goodwill. All of the acquired goodwill is deductible for tax purposes.

#### ACQUISITION OF PLASTERFORM

On May 31, 2018, we acquired the business and assets of Plasterform. The \$11.9 million purchase price was allocated to the assets acquired and the liabilities assumed based on their estimated fair values, with the remaining amount recorded as goodwill. The total fair value of tangible assets acquired, less liabilities assumed, was \$2.2 million. The total fair value of identifiable intangible assets acquired, comprised of amortizable customer relationships, was \$4.8 million, resulting in \$4.9 million of goodwill. All of the acquired goodwill is deductible for tax purposes.

#### EMEA AND PACIFIC RIM BUSINESSES

On November 17, 2017, we agreed to sell certain subsidiaries comprising our businesses in EMEA and the Pacific Rim to Knauf.

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(dollar amounts in millions, except share data)

Each quarter we compare the anticipated sales proceeds from Knauf to the carrying value of EMEA and Pacific Rim net assets. We record an estimated loss if the carrying value exceeds the anticipated sales proceeds. Net gains can only be recorded to the extent of previous estimated losses. In 2017, we recorded an estimated loss of \$74.0 million, which included \$51.4 million of unfavorable Accumulated Other Comprehensive Income (“AOCI”) adjustments. In 2018, we recorded an estimated loss of \$19.3 million, which included \$25.5 million of unfavorable AOCI adjustments. During the three months ended March 31, 2019, we recorded a net gain of \$2.2 million, which included \$9.1 million of favorable AOCI adjustments. These AOCI adjustments related primarily to accumulated foreign currency translation amounts that will be subsequently reclassified to earnings from discontinued operations upon sale of our EMEA and Pacific Rim businesses.

See Note 1 for further discussion of the divestiture status.

## FLOORING BUSINESSES

### Separation and Distribution of AFI

On April 1, 2016, we completed our separation of Armstrong Flooring, Inc. (“AFI”) by allocating the assets and liabilities related primarily to our Resilient and Wood Flooring segments to AFI and then distributing the common stock of AFI to our shareholders at a ratio of one share of AFI common stock for every two shares of AWI common stock.

In connection with the separation and distribution of AFI, we entered into several agreements with AFI that, together with a plan of division, provide for the separation and allocation between AWI and AFI of the flooring assets, employees, liabilities and obligations of AWI and its subsidiaries attributable to periods prior to, at and after AFI’s separation from AWI, and govern the relationship between AWI and AFI subsequent to the completion of the separation and distribution. These agreements include a Tax Matters Agreement, an Employee Matters Agreement, a Trademark License Agreement, a Transition Trademark License Agreement and a Campus Lease Agreement.

### European Resilient Flooring

On December 4, 2014, our Board of Directors approved the cessation of funding to our DLW subsidiary, which at that time was our European flooring business.

### Summarized Financial Information of Discontinued Operations

The following tables detail the businesses and line items that comprise discontinued operations on the Condensed Consolidated Statements of Earnings and Comprehensive Income.

EMEA and  
Pacific

Rim  
Businesses



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Three months ended March 31, 2019:	
Net sales	\$ 96.9
Cost of goods sold	75.7
Gross profit	21.2
Selling, general and administrative expenses	20.8
Operating income	0.4
Earnings from discontinued operations before income tax	0.4
Income tax (benefit)	(0.1 )
Net earnings from discontinued operations, net of tax	\$ 0.5
Gain from disposal of discontinued businesses, before income tax	\$ 2.2
Income tax expense	-
Gain from disposal of discontinued businesses, net of tax	\$ 2.2
Net earnings from discontinued operations	\$ 2.7

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Armstrong World Industries, Inc., and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

(dollar amounts in millions, except share data)

	EMEA and Pacific Rim Businesses	Flooring Businesses	Total
Three months ended March 31, 2018:			
Net sales	\$ 104.4	\$ -	\$104.4
Cost of goods sold	77.8	-	77.8
Gross profit	26.6	-	26.6
Selling, general and administrative expenses	22.0	-	22.0
Operating income	4.6	-	4.6
Interest expense	0.4	-	0.4
Other non-operating (income), net	(1.2 )	-	(1.2 )
Earnings from discontinued operations before income tax	5.4	-	5.4
Income tax expense	1.5	-	1.5
Net earnings from discontinued operations, net of tax	\$ 3.9	\$ -	\$3.9
Loss from disposal of discontinued businesses, before income tax	\$ (17.7 )	\$ -	\$(17.7 )
Income tax (benefit)	-	(0.4 )	(0.4 )
Loss from disposal of discontinued business, net of tax	\$ (17.7 )	\$ 0.4	\$(17.3 )
Net loss from discontinued operations	\$ (13.8 )	\$ 0.4	\$(13.4 )

The following is a summary of the carrying amount of major classes of assets and liabilities classified as assets and liabilities of discontinued operations as of March 31, 2019 and December 31, 2018 related to our EMEA and Pacific Rim businesses.

	March 31, 2019	December 31, 2018
Assets		
Current assets:		
Cash and cash equivalents	\$10.0	\$ 10.0
Accounts and notes receivable, net	47.3	56.2
Inventories, net	65.3	59.8
Income tax receivable	4.2	1.8
Other current assets	10.3	8.2
Total current assets discontinued operations	137.1	136.0
Property, plant, and equipment, less accumulated depreciation and amortization <sup>(1) (2)</sup>		