Armstrong Flooring, Inc.
Form 10-K
March 06, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K
þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2016

OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission File Number 001-37589
ARMSTRONG FLOORING, INC.
(Exact name of Registrant as specified in its charter)

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

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

(717) 672-9611
(Registrant's telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Name of exchange on which registered |
|---|---|
| Common Stock, $0.0001 par value | New York Stock Exchange |

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No þ

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 þ No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that registrant was required to submit and post such files.) Yes þ No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer ¨ Accelerated filer ¨
Non-accelerated filer þ Smaller reporting company ¨
Indicate by check mark whether the Registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act).
Yes ¨ No þ

The aggregate market value of the Common Stock of Armstrong Flooring, Inc. held by non-affiliates based on the closing price ($16.95 per share) on the New York Stock Exchange (trading symbol AFI) as of June 30, 2016 was approximately $389.3 million. As of February 27, 2017 the number of shares outstanding of registrant's Common Stock was 27,929,606.

DOCUMENTS INCORPORATED BY REFERENCE

Certain sections of Armstrong Flooring, Inc.'s definitive Proxy Statement for use in connection with its 2017 annual meeting of stockholders, to be filed no later than May 1, 2017 (120 days after the last day of our 2016 fiscal year), are incorporated by reference into Part III of this Form 10-K Report where indicated.

Armstrong Flooring, Inc.

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CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

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

- global economic conditions;
- construction activity;
- competition;
- key customers;
- availability and costs of raw materials and energy;
- recent plant construction;
- international operations;
- intellectual property rights;
- costs savings and productivity initiatives;
- strategic transactions;
- labor;
- information systems;
- claims and litigation;
- defined-benefit plan obligations;
- liquidity;
- debt covenants;
- debt;
- negative tax consequences;
- outsourcing;
- environmental matters; and
- other risks detailed from time to time in our filings with the Securities and Exchange Commission ("SEC"), press releases and other communications, including those set forth under “Risk Factors” included elsewhere in this 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
Item 1. Business

Armstrong Flooring, Inc. ("AFI" or the "Company") is a Delaware corporation incorporated in 2015. When we refer to "AFI," "the Company," "we," "our," and "us" in this report, we are referring to Armstrong Flooring, Inc. and its consolidated subsidiaries.

We are a leading global producer of flooring products for use primarily in the construction and renovation of residential, commercial and institutional buildings. We design, manufacture, source and sell resilient and wood flooring products in North America and the Pacific Rim.
On April 1, 2016, we became an independent company as a result of the separation by Armstrong World Industries, Inc. ("AWI"), a Pennsylvania corporation, of its Resilient Flooring and Wood Flooring segments from its Building Products ("Ceiling") segment (the "Separation"). The Separation was effected by allocating the assets and liabilities related primarily to the Resilient Flooring and Wood Flooring segments to AFI and then distributing the common stock of AFI to AWI's shareholders (the "Distribution"). The Separation and Distribution (together, the "Spin-off") resulted in AFI and AWI becoming two independent, publicly traded companies, with AFI owning and operating the Resilient Flooring and Wood Flooring segments and AWI continuing to own and operate a ceilings business.
Reportable Segments

We operate two business segments—Resilient Flooring and Wood Flooring.
Resilient Flooring — Our Resilient Flooring segment designs, manufactures, sources and sells a broad range of floor coverings primarily for homes and commercial buildings under various brands, including the Armstrong brand. Manufactured products in this segment include vinyl sheet, vinyl tile, and luxury vinyl tile ("LVT") flooring. In addition, our Resilient Flooring segment sources and sells laminate flooring products, vinyl tile products, vinyl sheet products, LVT products, and linoleum products, as well as installation and maintenance materials and accessories. Resilient Flooring products are offered in a wide variety of designs, colors and installation options. We sell these products to independent wholesale flooring distributors, large home centers, retailers, flooring contractors and to the manufactured homes industry, and secured specifications for these products through architects, designers and end users. When market conditions and available capacity warrant, we also provide products on an original equipment manufacturer ("OEM") basis to other flooring companies.
Wood Flooring — Our Wood Flooring segment designs, manufactures, sources and sells branded hardwood flooring products, including the Armstrong and Bruce brands, for use in residential construction and renovation, with some commercial applications in stores, restaurants and high-end offices. The product offering includes pre-finished solid and engineered wood floors in various wood species, and dimensions, as well as related accessories. Our Wood Flooring products are generally sold to independent wholesale flooring distributors, large home centers, retailers, and flooring contractors, and through secured specifications with regional and national builders. When market conditions and available capacity warrant, we also provide products on an OEM basis to other flooring companies.

See Note 3 to the Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations in this Form 10-K for financial information on our segments.

Products and Markets

We hold leadership or significant market share positions in the product categories and markets in which we operate. We compete in the wood and resilient flooring market in North America and the Pacific Rim. The majority of our sales are in North America, where we serve both commercial and residential markets. In the Pacific Rim, we are principally focused on commercial markets. Virtually all of our Wood Flooring segment sales are in North America, as these products predominantly serve the residential market.

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The major markets in which we compete are:

North American Residential — Our Resilient Flooring and Wood Flooring segments sell products for use in single and multi-family housing. Homeowners, contractors, builders, and property management firms can choose from our innovative resilient and wood flooring products. We compete directly with other domestic and international suppliers of these products. Our flooring products also compete with carpet, stone and ceramic products, which we do not offer.

Our products are used in new home construction and existing home renovation work. Industry analysts estimate that existing home renovation (also known as replacement/remodel) work represents a majority of the total North American residential market opportunity. We monitor key U.S. statistics including existing home sales (a key indicator for renovation opportunity), housing starts, housing completions, home prices, interest rates and consumer confidence. We believe there is some longer-term correlation between these statistics and our revenue after reflecting a lag period of several months between a change in these indicators and our operating results. However, we believe that consumers' preferences for product type, style, color, availability and affordability also significantly affect our revenue. Further, changes in inventory levels and/or product focus at national home centers and independent wholesale flooring distributors can significantly affect our revenue.

North American Commercial — Our products, primarily resilient flooring, are used in commercial and institutional buildings. Our revenue opportunities come from new construction as well as renovation of existing buildings. Industry analysts estimate that renovation work represents the majority of the total North American commercial market opportunity. Most of our revenue comes from four major segments of commercial building – education, healthcare, retail and office. We monitor U.S. construction starts and follow project activity. Our revenue from new construction can lag behind construction starts by as much as twenty-four months given that the installation of flooring typically occurs later in the construction process. We also monitor office vacancy rates, architectural activity, GDP and general employment levels, which can indicate movement in renovation and new construction opportunities. We believe that these statistics, taking into account the time-lag effect, provide a reasonable indication of our future revenue opportunity from commercial renovation and new construction. We also believe that consumer preferences for product type, style, color, availability and affordability also significantly affect our revenue.

Outside of North America — We also serve commercial markets in the Pacific Rim region with over 80% of the sales in this region coming from China and Australia. The commercial segments we serve are similar to the North American market (office, education, retail, and healthcare). However there is a higher penetration of resilient flooring in the hospitality (retail) and office segments in China than we see in North America. For the countries where we have significant revenue, we monitor various national statistics (such as GDP) as well as construction data (starts and project-related information).

LVT Investment — LVT represents the fastest growing resilient flooring product category. Through the utilization of advanced printing and embossing technology, LVT enables attractive designs emulating wood and stone visuals combined with the durability associated with vinyl tile products. In addition, LVT offers a wide variety of installation options for the professional and do-it-yourself installer, with an enhanced ease of installation when compared to other products such as wood or ceramic tile, and this can be seen with the growing popularity of floating LVT floors. The largest market for LVT is North America. Historically, this market has been largely served by imported product manufactured in the Pacific Rim. We completed construction of an expansion to our Lancaster, Pennsylvania plant to add LVT manufacturing capacity.

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The following table provides an estimate of our segments' 2016 net sales, by major markets.

| | (Estimated percentages of individual segment's sales) | | | | | | |
|---|---|---|---|---|---|---|---|
| | North American Residential | | North American Commercial | | Outside of North America | | |
| | New | Renovation | New | Renovation | New | Renovation | Total |
| Resilient Flooring | 5% | 40% | 5% | 35% | 10% | 5% | 100% |
| Wood Flooring | 40% | 60% | — | — | — | — | 100% |

Management has estimated the above data as the end use of our products is not easily determinable.

Geographic Areas

See Note 3 to the Consolidated Financial Statements for additional financial information by geographic areas.

Customers

We use our reputation, capabilities, service and brand recognition to develop long-standing relationships with our customers. We principally sell products through independent wholesale flooring distributors, who re-sell our products to retailers, builders, contractors, installers and others. In the commercial sector, we also have important relationships with subcontractors' alliances, large architect and design firms, and major facility owners in our focus segments. In the North American retail channel, which sells to end-users in the residential and light commercial segments, we have important relationships with national home centers such as The Home Depot, Inc. and Lowe's Companies, Inc. In the North American residential sector, we also have important relationships with major home builders and retail buying groups. Additionally, when market conditions and available capacity warrant, we also provide product on an OEM basis to other flooring companies.

Approximately 55% of our consolidated net sales in 2016 are to distributors. Sales to large home centers account for approximately 25% of our consolidated sales in 2016. Our remaining sales are primarily to other retailers, end-use customers and contractors.

The Home Depot, Inc. and J.J. Haines and Company, Inc. each accounted for 10% or more of our total consolidated net sales in 2016.

Working Capital

We produce goods for inventory and sell on credit to our customers. Our distributors carry inventory as needed to meet local or rapid delivery requirements, which varies across our Wood Flooring and Resilient Flooring segments. We sell the vast majority of our products to select, pre-approved customers using customary trade terms that allow for payment in the future. These practices are typical within the industry. Due to the required drying time for green lumber within the manufacturing process, there is a lag of 5 to 6 months before price changes are reflected in our results of operations.

Competition

We face strong competition in all of our businesses. Principal attributes of competition include product performance, product styling, service and price. Competition in North America comes from both domestic and international manufacturers. Additionally, some of our products compete with alternative products or finishing solutions. Our resilient, laminate and wood flooring products compete with carpet, stone and ceramic products. There is excess industry capacity for certain products in some geographies, which tends to increase price competition. The following companies are our primary competitors:

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Beaulieu International Group, N.V., Boa-Franc, Inc., Congoleum Corporation, Forbo Holding AG, Gerflor Group, IVC Group, Krono Holding AG, Lauzon Ltd, LG Floors, Mannington Mills, Inc., Mercier Wood Flooring, Inc., Metroflor Corporation, Mirage Hardwood Floors (a division of Boa-Franc Inc.), Mohawk Industries, Inc., Mullican Flooring, L.P., Nora Systems GmbH, Pfleiderer AG, Shaw Industries, Inc., Somerset Hardwood Flooring, and Tarkett AG.

Raw Materials

We purchase raw materials from numerous suppliers worldwide in the ordinary course of business. The principal raw materials used in each segment include the following:

| Business | Principal Raw Materials |
|---|---|
| Resilient Flooring | Polyvinylchloride ("PVC") resins and films, plasticizers, fiberglass and felt backings, limestone, pigments, inks and stabilizers |
| Wood Flooring | Hardwood lumber, veneer, coatings and stains |

We also purchase significant amounts of packaging materials and consume substantial amounts of energy, such as electricity and natural gas, and water.

In general, adequate supplies of raw materials are available to all of our businesses. However, availability can change for a number of reasons, including environmental conditions, laws and regulations, shifts in demand by other industries competing for the same materials, transportation disruptions and/or business decisions made by, or events that affect, our suppliers.

Prices for certain high usage raw materials can fluctuate dramatically. Cost increases for these materials can have a significant adverse impact on our manufacturing costs.

Sourced Products

Some of our products are sourced from third parties. Our primary sourced products include laminate, wood, vinyl sheet, and LVT, as well as installation and maintenance materials and accessories. We purchase some of our sourced products from suppliers that are located outside of the U.S., primarily Asia and Europe. Sales of sourced products represented approximately 20% of our total consolidated revenue in each of 2016, 2015 and 2014.

In general, adequate supplies of sourced products are available to all of our businesses. However, availability can change for a number of reasons, including environmental conditions, laws and regulations, shifts in demand by other industries competing for the same materials, transportation disruptions and/or business decisions made by, or events that affect, our suppliers.

Seasonality

Generally, our resilient and wood flooring sales in North America tend to be stronger in the second and third quarters of our fiscal year due to more favorable weather conditions, customer business cycles and education renovations typical during the summer months. We see similar patterns with respect to our sales in the Pacific Rim, though the timing of the Chinese New Year can affect buying behaviors.

Patent and Intellectual Property Rights

Patent protection is important to our business. Our competitive position has been enhanced by U.S. and foreign patents on products and processes developed or perfected within AFI, including those before and after our separation from

AWI, or obtained through acquisitions and licenses. In addition, we benefit from our trade secrets for certain products and processes.

Patent protection extends for varying periods according to the date of patent filing or grant and the legal term of a patent in the various countries where patent protection is obtained. The actual protection afforded by a patent, which can vary from country to country, depends upon the type of patent, the scope of its coverage and the availability of legal remedies. Although we consider that, in the aggregate, our patents, licenses and trade secrets constitute a valuable asset of material importance to our business, we do not regard any of our businesses as being materially dependent upon any single patent or trade secret, or any group of related patents or trade secrets.

We own or have a license to use certain trademarks, including, without limitation, Armstrong®, Alterna®, BBT®, BioBased Tile®, Bruce®, Diamond 10™, Dundee®, Excelon®, Imperial®, Initiator™, Inspiring Great Spaces®, Laurel™, Lock&Fold®, Luxe Plank®, Manchester®, Medintech®, Memories™, Natural Creations®, Plano®, Station Square™, StrataMax®, Timberline®, and Vivero™, which are important to our business because of their significant brand name recognition. Trademark protection continues in some countries as long as the mark is used, and continues in other countries as long as the mark is registered. Registrations are generally for fixed, but renewable, terms.

Employees

As of December 31, 2016, we had approximately 4,000 full-time and part-time employees worldwide. Approximately 45% of our 2,700 production and maintenance employees are represented by labor unions. As of March 6, 2017, approximately 10% of these 2,700 employees are working under contracts which expire in 2017. We believe that our relations with our employees are satisfactory.

Research and Development

Research and development (“R&D”) activities are important and necessary in helping us improve our products’ competitiveness. Principal R&D functions include the development and improvement of products and manufacturing processes. We spent $12.7 million in 2016, $11.4 million in 2015 and $10.8 million in 2014 on R&D activities worldwide.

Legal and Regulatory Proceedings

AFI’s 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.

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, distributors, relationships with competitors, employees and other matters. For example, we are currently a party to various litigation matters that involve product liability, tort liability and other claims under a wide range of allegations, including illness due to exposure to certain chemicals used in the workplace, or medical conditions arising from exposure to product ingredients or the presence of trace contaminants. In some cases, these allegations involve multiple defendants and relate to legacy products that we and other defendants purportedly manufactured or sold. We believe these claims and allegations to be without merit and intend to defend them vigorously. While complete assurance cannot be given to the outcome of these proceedings, we do not believe that any of these matters, individually or in the aggregate, will have a material adverse effect on our financial condition, liquidity or results of operations.

We have not experienced a material adverse effect upon our capital expenditures or competitive position as a result of environmental control legislation and regulations. There were no material liabilities recorded at December 31, 2016 for potential environmental liabilities, on a global basis, that we consider probable and for which a reasonable estimate of the probable liability could be made. See Note 23 to the Consolidated Financial Statements and Risk Factors in this Form 10-K for information regarding the possible effects that compliance with environmental laws and regulations may have on our businesses and operating results.

Website

We maintain a website at www.armstrongflooring.com. Information contained on our website is not incorporated into this document. Reference in this Form 10-K to our website is an inactive text reference only. Annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, all amendments to those reports and other information about us are available free of charge through this website as soon as reasonably practicable after the reports are electronically filed with the SEC. These materials are also available from the SEC's website at www.sec.gov.

Item 1A. Risk Factors

Worldwide economic conditions could have a material adverse impact on our financial condition, liquidity or results of operations.

Our business is influenced by conditions in domestic and foreign economies, including inflation, deflation, interest rates, availability and cost of capital, consumer spending rates, energy availability and the effects of governmental initiatives to manage economic conditions. Volatility in financial markets and the continued softness or further deterioration of national and global economic conditions could have a material adverse effect on our financial condition, liquidity or results of operations, including as follows:

- the financial stability of our customers or suppliers may be compromised, which could result in additional bad debts for us or non-performance by suppliers;
- commercial and residential consumers of our products may postpone spending in response to tighter credit, negative financial news and/or stagnation or further declines in income or asset values, which could have a material adverse impact on the demand for our product;
- the fair value of the investment funds underlying our defined-benefit pension plans may decline, which could result in negative plan investment performance and additional charges, and may involve significant cash contributions to such plans to meet obligations or regulatory requirements; and
- our asset impairment assessments and underlying valuation assumptions may change, which could result from changes to estimates of future sales and cash flows that may lead to substantial impairment charges.

Continued or sustained deterioration of economic conditions would likely exacerbate and prolong these adverse effects.

Our business is dependent on construction activity. Downturns in construction activity could adversely affect our financial condition, liquidity or results of operations.

Our business has greater sales opportunities when construction activity is strong and, conversely, has fewer opportunities when such activity declines. The cyclical nature of commercial and residential construction activity, including construction activity funded by the public sector, tends to be influenced by prevailing economic conditions, including the rate of growth in gross domestic product, prevailing interest rates, government spending patterns, business, investor and consumer confidence and other factors beyond our control. Prolonged downturns in construction activity could have a material adverse effect on our financial condition, liquidity or results of operations.

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Our markets are highly competitive. Competition can reduce demand for our products or cause us to lower prices. Failure to compete effectively by meeting consumer preferences and maintaining market share could adversely affect our results.

Our markets are highly competitive. Competition can reduce demand for our products, negatively affect our product sales mix or cause us to lower prices. Failure to compete effectively by meeting consumer preferences and maintaining market share could have a material adverse effect on our financial condition, liquidity or results of operations. Our customers consider our products' performance, product styling, customer service and price when deciding whether to purchase our products. Shifting consumer preference in our highly competitive markets, from residential resilient products to other flooring products, for example, whether for performance or styling preferences or our inability to develop and offer new competitive performance features, could have an adverse effect on our sales. In addition, excess industry capacity for certain products in several geographic markets could lead to industry consolidation and/or increased price competition. We are also subject to potential increased price competition from overseas competitors, which may have lower cost structures.

Sales fluctuations to and changes in our relationships with key customers could have a material adverse effect on our financial condition, liquidity or results of operations.

Some of our business lines and markets are dependent on a few key customers, including independent distributors. We generally do not enter into written or long-term agreements with our independent distributors. The loss, reduction, or fluctuation of sales to one of these major customers, or any adverse change in our business relationship with any one of them, could have a material adverse effect on our financial condition, liquidity or results of operations.

If the availability of raw materials or energy decreases, or the costs increase and we are unable to pass along increased costs, our financial condition, liquidity or results of operations could be adversely affected.

The availability and cost of raw materials, packaging materials, energy and sourced products are critical to our operations. For example, we use substantial quantities of natural gas, petroleum-based raw materials and hardwood lumber in our manufacturing operations. The cost of some of these items has been volatile in recent years and availability has been limited at times. We source some materials from a limited number of suppliers, which, among other things, increases the risk of unavailability. Limited availability could cause us to reformulate products or limit our production. Decreased access to raw materials and energy or significant increased cost to purchase these items and any corresponding inability to pass along such costs through price increases could have a material adverse effect on our financial condition, liquidity or results of operations.

We may not realize the expected benefits of our recent plant expansion project.

LVT growth is one of our key strategies. We recently completed the construction of an addition to our Lancaster, PA plant to enable us to manufacture LVT in North America. Our inability to achieve the expected competitive advantages and returns from this initiative could adversely affect our financial condition and results of operation.

We are subject to risks associated with our international operations in both established and emerging markets. Legislative, political, regulatory and economic volatility, as well as vulnerability to infrastructure and labor disruptions, could have an adverse effect on our financial condition, liquidity or results of operations.

A portion of our products move in international trade, with approximately 8% of our revenues from operations outside the United States and Canada in 2016. Our international trade is subject to currency exchange fluctuations, trade regulations, import duties, logistics costs, delays and other related risks. Our international operations are also subject to various tax rates, credit risks in emerging markets, political risks, uncertain legal systems, high costs in repatriating profits to the United States from some countries, and loss of sales to local competitors following currency devaluations in countries where we import products for sale.

In addition, our international growth strategy depends in part on our ability to expand our operations in certain emerging markets. However, some emerging markets have greater political and economic volatility and greater vulnerability to infrastructure and labor disruptions than established markets. In many countries outside of the United States, particularly in those with developing economies, it may be common for others to engage in business practices prohibited by laws and regulations applicable to us, such as the Foreign Corrupt Practices Act or similar local anti-corruption or anti-bribery laws, which generally prohibit companies and their employees, contractors or agents from making improper payments to government officials for the purpose of obtaining or retaining business. Failure to comply with these laws, as well as U.S. and foreign export and trading laws, could subject us to civil and criminal penalties. As we continue to expand our business globally, including in emerging markets, we may have difficulty anticipating and effectively managing these and other risks that our international operations may face, which may adversely affect our business outside the United States and our financial condition, liquidity or results of operations.

Our intellectual property rights may not provide meaningful commercial protection for our products or brands, which could adversely impact our financial condition, liquidity or results of operations.

We rely on our proprietary intellectual property, including numerous patents and registered trademarks, as well as our licensed intellectual property to market, promote and sell our products. We will monitor and protect against activities that might infringe, dilute, or otherwise harm our patents, trademarks and other intellectual property and rely on the patent, trademark and other laws of the United States and other countries. However, we may be unable to prevent third parties from using our intellectual property without our authorization. In addition, the laws of some non-United States jurisdictions, particularly those of certain emerging markets, will provide less protection for our proprietary rights than the laws of the United States and present greater risks of counterfeiting and other infringement. To the extent we cannot protect our intellectual property, unauthorized use and misuse of our intellectual property could harm our competitive position and have a material adverse effect on our financial condition, liquidity or results of operations.

Our cost saving initiatives may not achieve expected savings in our operating costs or improved operating results.

We aggressively look for ways to make our operations more efficient and effective. We reduce, move and expand our plants and operations as needed. Such actions involve substantial planning, often require capital investments and may result in charges for fixed asset impairments or obsolescence and substantial severance costs. Our ability to achieve cost savings and other benefits within expected time frames is subject to many estimates and assumptions. These estimates and assumptions are subject to significant economic, competitive and other uncertainties, some of which are beyond our control. If these estimates and assumptions are incorrect, if we experience delays, or if other unforeseen events occur, our financial condition, liquidity or results of operations could be materially and adversely affected.

We may pursue strategic transactions that could create risks and present unforeseen integration obstacles or costs, any of which could materially adversely affect our financial condition, liquidity or results of operations.

We have evaluated, and expect to continue to evaluate, potential strategic transactions as opportunities arise. We routinely engage in discussions with third parties regarding potential transactions, including joint ventures, which could be significant. Any such strategic transaction involves a number of risks, including potential disruption of our ongoing business and distraction of management, difficulty with integrating or separating personnel and business operations and infrastructure, and increasing or decreasing the scope, geographic diversity and complexity of our operations. Strategic transactions could involve payment by us of a substantial amount of cash, assumption of liabilities and indemnification obligations, regulatory requirements, incurrence of a substantial amount of debt or issuance of a substantial amount of equity. Certain strategic opportunities may not result in the consummation of a transaction or may fail to realize the intended benefits and synergies. If we fail to consummate and integrate our strategic transactions in a timely and cost-effective manner, our financial condition, liquidity or results of operations could be materially and adversely affected.

Increased costs of labor, labor disputes, work stoppages or union organizing activity could delay or impede production and could have a material adverse effect on our financial condition, liquidity or results of operations.

Increased costs of U.S. and international labor, including the costs of employee benefits plans, labor disputes, work stoppages or union organizing activity could delay or impede production and have a material adverse effect on our financial condition, liquidity or results of operations. As the majority of our manufacturing employees are represented by unions and covered by collective bargaining or similar agreements, we often incur costs attributable to periodic renegotiation of those agreements, which may be difficult to project. We are also subject to the risk that strikes or other conflicts with organized personnel may arise or that we may become the subject of union organizing activity at our facilities that do not currently have union representation. Prolonged negotiations, conflicts or related activities could also lead to costly work stoppages and loss of productivity.

Disruptions to or failures of our various information systems could have an adverse effect on our business.

We rely heavily on our information systems to operate our business activities, including, among other things, purchasing, distribution, inventory management, processing, shipping and receiving, billing and collection, financial reporting and record keeping. We also rely on our computer hardware, software and network for the storage, delivery and transmission of data to our sales and distribution systems, and certain of our production processes are managed and conducted by computer. Any interruption, whether caused by human error, natural disasters, power loss, computer viruses, system conversion, intentional acts of vandalism, various forms of cybercrimes including and not limited to hacking, intrusions, malware or otherwise, could disrupt our normal operations. There can be no assurance that we can effectively carry out our disaster recovery plan to handle the failure of our information systems, or that we will be able to restore our operational capacity within sufficient time to avoid material disruption to our business. The occurrence of any of these events could cause unanticipated disruptions in service, decreased customer service and customer satisfaction, harm to our reputation and loss or misappropriation of sensitive information, which could result in loss of customers, increased operating expenses and financial losses. Any such events could in turn have a material adverse effect on our business, financial condition, results of operations, and prospects.

Adverse judgments in regulatory actions, product claims, environmental claims and other litigation could be costly. Insurance coverage may not be available or adequate in all circumstances.

In the ordinary course of business, we are subject to various claims and litigation. Any such claims, whether with or without merit, could be time consuming and expensive to defend and could divert management’s attention and resources. While we will strive to ensure that our products comply with applicable government regulatory standards and internal requirements, and that our products perform effectively and safely, customers from time to time could claim that our products do not meet warranty or contractual requirements, and users could claim to be harmed by use or misuse of our products. These claims could give rise to breach of contract, warranty or recall claims, or claims for negligence, product liability, strict liability, personal injury or property damage. They could also result in negative publicity.

In addition, claims and investigations may arise related to patent infringement, distributor relationships, commercial contracts, antitrust or competition law requirements, employment matters, employee benefits issues, and other compliance and regulatory matters, including anti-corruption and anti-bribery matters. For example, we are currently a party to various litigation matters that involve product liability, tort liability and other claims under a wide range of allegations, including illness due to exposure to certain chemicals used in the workplace, or medical conditions arising from exposure to product ingredients or the presence of trace contaminants. In some cases, these allegations involve multiple defendants and relate to legacy products that we and other defendants purportedly manufactured or sold. While we have processes and policies designed to mitigate these risks and to investigate and address such claims as they arise, we will not be able to predict or, in some cases, control the costs to defend or resolve such claims.

We currently maintain insurance against some, but not all, of these potential claims. In the future, we may not be able to maintain insurance at commercially acceptable premium levels. In addition, the levels of insurance we maintain may not be adequate to fully cover any and all losses or liabilities. If any significant judgment or claim is not fully insured or indemnified against, it could have a material adverse impact. We cannot assure that the outcome of all current or future litigation will not have a material adverse effect on our financial condition, liquidity or results of operations.

Significant changes in factors and assumptions used to measure our defined benefit plan obligations, actual investment returns on pension assets and other factors could negatively impact our operating results and cash flows.

We maintain pension and postretirement plans throughout North America, with the most significant plans located in the U.S. The recognition of costs and liabilities associated with these plans for financial reporting purposes is affected by assumptions made by management and used by actuaries engaged by us to calculate the benefit obligations and the expenses recognized for these plans.

The inputs used in developing the required estimates are calculated using a number of assumptions, which represent management's best estimate of the future. The assumptions that have the most significant impact on reported results are the discount rate, the estimated long-term return on plan assets for the funded plans, and mortality rates and, for postretirement plans, the estimated inflation in health care costs. These assumptions are generally updated annually.

We require a significant amount of liquidity to fund our operations.

Our liquidity needs vary throughout the year. If our business experiences materially negative unforeseen events, we may be unable to generate sufficient cash flow from operations to fund our needs or maintain sufficient liquidity to operate and remain in compliance with our debt covenants, which could result in reduced or delayed planned capital expenditures and other investments and adversely affect our financial condition or results of operations.

Our credit agreement contains a number of covenants that impose significant operating and financial restrictions, including restrictions on our ability to engage in activities that may be in our best long-term interests.

Our $225 million senior secured asset-based revolving credit facility (the "ABL Facility") and the underlying credit agreement that governs our indebtedness includes covenants that, among other things, may impose significant operating and financial restrictions, including restrictions on our ability to engage in activities that may be in our best long-term interests. These covenants may restrict our ability to:

- incur additional indebtedness;
- pay dividends on our capital stock or redeem, repurchase or retire our capital stock or indebtedness;
- make investments, loans, advances and acquisitions;
- engage in transactions with our affiliates;
- sell assets, including capital stock of our subsidiaries;
- consolidate or merge;
- create liens;
- change the nature of our business; and
- enter into sale and lease back transactions.

Under the terms of the ABL Facility, we are required to maintain a specified fixed charge coverage ratio if our borrowings exceed certain levels. Our ability to meet these ratios could be affected by events beyond our control, and we cannot assure that we will meet them. A breach of any of the restrictive covenants or ratios would result in a default under the ABL Facility. If any such default occurs, the lenders under the ABL Facility may be able to elect to declare all outstanding borrowings under our facilities, together with accrued interest and other fees, to be immediately due and payable, or enforce their security interest. The lenders may also have the right in these circumstances to terminate commitments to provide further borrowings.

Our indebtedness may adversely affect our cash flow and our ability to operate our business, make payments on our indebtedness and declare dividends on our capital stock.

Our level of indebtedness and degree of leverage could:

- make it more difficult for us to satisfy our obligations with respect to our indebtedness;
- make us more vulnerable to adverse changes in general economic, industry and competitive conditions and adverse changes in government regulation;
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- place us at a competitive disadvantage compared to our competitors that are less leveraged and, therefore, more able to take advantage of opportunities that our leverage prevents us from exploiting;
- limit our ability to refinance existing indebtedness or borrow additional amounts for working capital, capital expenditures, acquisitions, debt service requirements, execution of our business strategy or other purposes;
- restrict our ability to pay dividends on our capital stock; and
- adversely affect our credit ratings.

We may also incur additional indebtedness, which could exacerbate the risks described above. In addition, to the extent that our indebtedness bears interest at floating rates, our sensitivity to interest rate fluctuations will increase.

Any of the above listed factors could materially adversely affect our financial condition, liquidity or results of operations.

Negative tax consequences can have an unanticipated effect on our financial results.

We are subject to the tax laws of the many jurisdictions in which we operate. The tax laws are complex, and the manner in which they apply to our operations and results is sometimes open to interpretation. Because our income tax expense for any period depends heavily on the mix of income derived from the various taxing jurisdictions, our income tax expense and reported net income may fluctuate significantly, and may be materially different than forecasted or experienced in the past. Our financial condition, liquidity, results of operations or tax liability could be adversely affected by changes in the effective tax rate as a result of a change in the mix of earnings in countries with differing statutory tax rates, changes in our overall profitability, changes in tax legislation and rates, changes in the amount of earnings permanently reinvested offshore, the results of examinations of previously filed tax returns, and ongoing assessments of our tax exposures.

Our financial condition, liquidity, results of operations or tax liability could also be adversely affected by changes in the valuation of deferred tax assets and liabilities, as well as changes in tax legislation.

We outsource our information technology infrastructure and certain finance and accounting functions, which makes us more dependent upon third parties.

In an effort to make our finance, accounting and information technology (“IT”), functions more efficient, increase related capabilities, as well as generate cost savings, we outsource certain finance and accounting functions and a significant portion of our IT infrastructure to separate third party service providers. As a result, we rely on third parties to ensure that our related needs are sufficiently met. This reliance subjects us to risks arising from the loss of control over certain processes, changes in pricing that may affect our operating results, and potentially, termination of provisions of these services by our suppliers. A failure of our service providers to perform may have a material adverse effect on our financial condition, liquidity or results of operations.

We may be subject to liability under and may make substantial future expenditures to comply with environmental laws and regulations, which could materially adversely affect our financial condition, liquidity or results of operations.

We are involved with environmental investigation and remediation activities for which our ultimate liability may exceed the currently estimated and accrued amounts. It is possible that we could become subject to additional environmental matters and corresponding liabilities in the future. See Note 23 to the Consolidated Financial Statements for further information related to environmental matters.

Our industry has been subject to claims relating to raw materials. We have not received any significant claims involving our raw materials or our product performance; however, product liability insurance coverage may not be available or adequate in all circumstances to cover claims that may arise in the future.

In addition, our operations are subject to various domestic and foreign environmental, health, and safety laws and regulations. These laws and regulations not only govern our current operations and products, but also impose potential liability on us for our past operations. Our costs to comply with these laws and regulations may increase as these requirements become more stringent in the future, and these increased costs may materially adversely affect our financial condition, liquidity or results of operations.

Risks Related to the Separation

We may be unable to achieve some or all of the benefits that we expected to achieve from our separation from AWI.

As an independent, publicly-traded company, we continue to, among other things, focus our financial and operational resources on our specific business, growth profile and strategic priorities, design and implement corporate strategies and policies targeted to our operational focus and strategic priorities, guide our processes and infrastructure to focus on our core strengths, implement and maintain a capital structure designed to meet our specific needs and more effectively respond to industry dynamics, all of which are benefits we expected to achieve from our separation. However, we may be unable to fully achieve some or all of these benefits. If we fail to achieve some or all of the benefits that we expected to achieve as an independent company, or do not achieve them in the time we expected, our business, financial condition and results of operations could be materially and adversely affected.

If the Separation and Distribution fails to qualify as a tax-free transaction for U.S. federal income tax purposes, then we could be subject to significant tax liability or tax indemnity obligations.

AWI received an opinion of AWI's tax counsel, Skadden, Arps, Slate, Meagher & Flom LLP, on the basis of certain facts, representations, covenants and assumptions set forth in such opinion, substantially to the effect that, for U.S. federal income tax purposes, the Separation and Distribution should qualify as a transaction that generally is tax-free to AWI and AWI's shareholders, for U.S. federal income tax purposes, under Sections 355 and 368(a)(1)(D) of the Internal Revenue Code.

Notwithstanding the tax opinion, the Internal Revenue Service ("IRS") could determine on audit that the Distribution should be treated as a taxable transaction if it determines that any of the facts, assumptions, representations or covenants set forth in the tax opinion is not correct or has been violated, or that the Distribution should be taxable for other reasons, including as a result of a significant change in stock or asset ownership after the Distribution, or if the IRS were to disagree with the conclusions of the tax opinion. If the Distribution is ultimately determined to be taxable, the Distribution could be treated as a taxable dividend to shareholders for U.S. federal income tax purposes, and shareholders could incur significant U.S. federal income tax liability. In addition, AWI and/or we could incur significant U.S. federal income tax liabilities or tax indemnification obligations, whether under applicable law or the

Tax Matters Agreement that we entered into with AWI, if it is ultimately determined that certain related transactions undertaken in anticipation of the Distribution are taxable.

We agreed to numerous restrictions to preserve the tax-free treatment of the separation transactions in the U.S., which may reduce our strategic and operating flexibility.

To preserve the tax-free treatment to AWI of the Separation and the Distribution, under the Tax Matters Agreement that we entered into with AWI, we may be restricted from taking any action that prevents the Distribution and related transactions from being tax-free for U.S. federal income tax purposes. Under the Tax Matters Agreement, for the two-year period following the Distribution, we are prohibited, except in certain circumstances, from, among other things:

- entering into any transaction resulting in the acquisition of 35% or more of our stock or substantially all of our assets, whether by merger or otherwise;
- merging, consolidating, or liquidating;
- issuing equity securities beyond certain thresholds;
- repurchasing our capital stock; and
- ceasing to actively conduct our business.

These restrictions may limit our ability to pursue certain strategic transactions or other transactions that we may believe to be in the best interests of our stockholders or that might increase the value of our business. In addition, under the Tax Matters Agreement, we are required to indemnify AWI against liabilities resulting from certain actions taken after the Distribution that cause the Distribution to be taxable for U.S. federal income tax purposes, even if we did not participate in or otherwise facilitate such actions.

We may fail to perform under various transaction agreements that we executed as part of the Separation or we may fail to have necessary systems and services in place when certain of the transaction agreements expire.

In connection with the Separation, we entered into a Separation and Distribution Agreement with AWI and also entered into various other agreements, including a Transition Services Agreement, a Tax Matters Agreement, an Employee Matters Agreement, a Campus Lease Agreement and Trademark License Agreements. We rely on AWI to satisfy its performance and payment obligations under these agreements. If AWI is unable to satisfy its obligations under these agreements, including its indemnification obligations, we could incur operational difficulties or losses. If we do not have our own systems and services in place, or if we do not have agreements with other providers of these services once certain transaction agreements expire, we may not be able to operate our business effectively and our profitability may decline. We are in the process of creating our own, or engaging third parties to provide, systems and services to replace many of the systems and services that AWI currently provides to us. We, however, may not be successful in implementing these systems and services or in transitioning data from AWI’s systems to our own.

We will be required to satisfy certain indemnification obligations to AWI or may not be able to collect on indemnification rights from AWI.

Under the terms of the Separation and Distribution, we will indemnify AWI from and after the Separation and Distribution with respect to (i) all debts, liabilities and obligations allocated or transferred to us in connection with the Separation and Distribution (including our failure to pay, perform or otherwise promptly discharge any such debts, liabilities or obligations after the separation and distribution), (ii) any misstatement or omission of a material fact in our Information Statement, dated March 24, 2016, resulting in a misleading statement, (iii) any breach by us of the Separation and Distribution Agreement, the Transition Services Agreement, the Employee Matters Agreement, the Tax Matters Agreement, the Campus Lease Agreement or the Trademark License Agreements and (iv) our ownership and operation of our business. We are not aware of any existing indemnification obligations at this time, but any such indemnification obligations that may arise could be significant. Under the terms of the Separation and Distribution agreement, AWI will indemnify us from and after the Separation and Distribution with respect to (i) all debts, liabilities and obligations allocated to AWI after the Separation and Distribution (including its failure to pay, perform or otherwise promptly discharge any such debts, liabilities or obligations after the Separation and Distribution), (ii) any breach by AWI of the Separation and Distribution Agreement, the Transition Services Agreement, the Employee Matters Agreement, the Tax

Matters Agreement, the Campus Lease Agreement or the Trademark License Agreements and (iii) AWI's ownership and operation of its business. Our and AWI's ability to satisfy these indemnities, if called upon to do so, will depend upon our and AWI's future financial strength. If we are required to indemnify AWI, or if we are not able to collect on indemnification rights from AWI, our financial condition, liquidity or results of operations could be materially and adversely affected. We cannot determine whether we will have to indemnify AWI, or if AWI will have to indemnify us, for any substantial obligations after the Distribution.

Risks Related to our Common Stock

A stockholder's percentage of ownership in us may be diluted in the future.

A stockholder's percentage ownership in us may be diluted because of equity issuances for acquisitions, capital market transactions or otherwise, including, without limitation, equity awards that we may be granting to our directors, officers and employees. Such issuances may have a dilutive effect on our earnings per share, which could adversely affect the market price of our common stock.

In addition, our amended and restated certificate of incorporation authorizes us to issue, without the approval of our stockholders, one or more classes or series of preferred stock having such designation, powers, preferences and relative, participating, optional and other special rights, including preferences over our common stock with respect to dividends and distributions, as our board of directors generally may determine. The terms of one or more classes or series of preferred stock could dilute the voting power or reduce the value of our common stock. For example, we could grant the holders of preferred stock the right to elect some number of our directors in all events or on the happening of specified events or to veto specified transactions. Similarly, the repurchase or redemption rights or liquidation preferences we could assign to holders of preferred stock could affect the residual value of our common stock.

Certain provisions in our amended and restated certificate of incorporation and bylaws, and of Delaware law, may prevent or delay an acquisition of our company, which could decrease the trading price of our common stock.

Our amended and restated certificate of incorporation and amended and restated bylaws contain, and Delaware law contains, provisions that are intended to deter coercive takeover practices and inadequate takeover bids by making such practices or bids unacceptably expensive to the bidder and to encourage prospective acquirers to negotiate with our board of directors rather than to attempt a hostile takeover. These provisions include, among others:

- the inability of our stockholders to call a special meeting;
- rules regarding how stockholders may present proposals or nominate directors for election at stockholder meetings;
- the right of our board to issue preferred stock without stockholder approval;
- the initial division of our board of directors into three classes of directors, with each class serving a staggered three-year term, and this classified board provision could have the effect of making the replacement of incumbent directors more time consuming and difficult until we have phased out our staggered board;
- a provision that directors serving on a classified board may be removed by stockholders only for cause; and
- the ability of our directors, and not stockholders, to fill vacancies on our board of directors.

In addition, because we are subject to Section 203 of the General Corporation Law of the State of Delaware (the "DGCL"), this provision could also delay or prevent a change in control that stockholders may favor. Section 203 provides that, subject to limited exceptions, persons that acquire, or are affiliated with a person that acquires, more than 15% of the outstanding voting stock of a Delaware corporation shall not engage in any business combination with that corporation, including by merger, consolidation or acquisitions of additional shares, for a three-year period following the date on which that person or its affiliates becomes the holder of more than 15% of the corporation's outstanding voting stock.

We believe these provisions will protect our stockholders from coercive or otherwise unfair takeover tactics by requiring potential acquirers to negotiate with our board of directors and by providing our board of directors with more time to assess any acquisition proposal. These provisions are not intended to make us immune from takeovers. However, these provisions will apply even if the offer may be considered beneficial by some stockholders and the provisions could delay or prevent an acquisition that our board of directors determines is not in the best interests of AFI and its stockholders. These provisions may also prevent or discourage attempts to remove and replace incumbent directors.

In addition, an acquisition or further issuance of our stock could trigger the application of Section 355(e) of the Internal Revenue Code. Under the Tax Matters Agreement, AFI would be required to indemnify AWI for the resulting tax, and this indemnity obligation might discourage, delay or prevent a change in control that stockholders may consider favorable.

## Item 1B. Unresolved Staff Comments

None.

## Item 2. Properties

Our world headquarters is in Lancaster, Pennsylvania. We entered into a lease agreement with AWI under which we lease certain portions of their current headquarters as our corporate headquarters. See Note 22 to the Consolidated Financial Statements for a discussion of the terms of the Campus Lease Agreement.

We produce and market our flooring products and services throughout the world, operating 17 manufacturing plants in three countries. One of our plants is leased and the remaining 16 are owned. We operate 14 plants located throughout the United States.

| Business Segment | Number of Plants | Location of Principal Facilities |
|---|---|---|
| Resilient Flooring | 9 | U.S. (California, Illinois, Mississippi, Oklahoma, and Pennsylvania), China and Australia |
| Wood Flooring | 8 | U.S. (Arkansas, Kentucky, Mississippi, Missouri, Pennsylvania, Tennessee and West Virginia) |

Our sales and administrative offices are leased and/or owned worldwide, and leased facilities are utilized to supplement our owned warehousing facilities.

Production capacity and the extent of utilization of our facilities are difficult to quantify with certainty. In any one facility, utilization of our capacity varies periodically depending upon demand for the product that is being manufactured. We believe our facilities are adequate and suitable to support the business. Additional incremental investments in plant facilities are made as appropriate to balance capacity with anticipated demand, improve quality and service, and reduce costs.

## Item 3. Legal Proceedings

We are involved in various claims and legal actions arising in the ordinary course of business. In the opinion of our management, the ultimate disposition of these matters will not have a material adverse effect on our consolidated financial position, results of operations or cash flows.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

AFI's common shares trade on the New York Stock Exchange under the ticker symbol "AFI." As of February 27, 2017, there were approximately 231 holders of record of AFI's common stock.

The figures below represent the high and low intra-day sale prices for our common stock for each quarter starting April 4, 2016, the date on which our common shares began regular-way trading on the New York Stock Exchange.

| | 2016 | | | |
|---|---|---|---|---|
| | Second | Third | Fourth | Total Year |
| Price range of common stock - high | $19.95 | $20.85 | $21.00 | $21.00 |
| Price range of common stock - low | $11.77 | $16.48 | $15.48 | $11.77 |

There were no dividends declared during 2016.

AFI does not presently have a plan to pay cash dividends on its common stock. Payment of cash dividends, if any, on our common stock will rest solely within the discretion of our board of directors and will depend, among other things, upon AFI's earnings, capital requirements, financial condition, legal requirements, regulatory constraints, covenants associated with certain of AFI's debt service obligations, industry practice, and other relevant factors as determined by our board of directors.

Issuer Purchases of Equity Securities

The following table includes information about our stock repurchases from April 1, 2016 to December 31, 2016:

| 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 [2] | Maximum Number of Shares that may yet be Purchased under the Plans or Programs |
|---|---|---|---|---|
| April 1 - 30, 2016 | 1,917 | $14.56 | — | — |
| May 1 - 31, 2016 | 470 | $14.56 | — | — |
| June 1 - 30, 2016 | — | — | — | — |
| July 1 - 31, 2016 | — | — | — | — |
| August 1 - 31, 2016 | 1,817 | $19.56 | — | — |
| September 1 - 30, 2016 | 613 | $18.64 | — | — |
| October 1 - 31, 2016 | 10,892 | $17.85 | — | — |
| November 1 - 30, 2016 | — | — | — | — |
| December 1 - 31, 2016 | 13,978 | $19.81 | — | — |
| Total | 29,687 | | — | — |

[1] Shares reacquired through the withholding of shares to pay employee tax obligations upon the exercise of options or vesting of restricted shares previously granted under AWI, which were converted to AFI shares on April 1, 2016.

[2] The Company did not have a share buy-back program in 2016.

For more information regarding securities authorized for issuance under our equity compensation plans, see Note 17 to the Consolidated Financial Statements included in this Form 10-K.

Item 6. Selected Financial Data

The following selected historical consolidated financial data should be read in conjunction with our audited Consolidated Financial Statements, the accompanying notes and Management's Discussion and Analysis of Financial Condition and Results of Operations included in this Form 10-K. The Consolidated Financial Statements for periods prior to the Separation include the historical results of operations, assets and liabilities of the legal entities that are considered to comprise AFI and may not be indicative of results had we actually been a separate stand-alone entity during such periods, nor are they necessarily indicative of our future results of operations, financial position and cash flows.

Amounts have been adjusted to retrospectively apply our change in accounting policy discussed in Note 2 to the Consolidated Financial Statements included in this Form 10-K.

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| (Dollars in millions, except per share data) | 2016 | 2015 | 2014 | 2013 | 2012 |
| Income statement data | | | | | |
| Net sales | $1,193.2 | $1,188.7 | $1,220.4 | $1,262.8 | $1,209.8 |
| Operating income (loss) | 18.9 | (14.0) | 21.8 | 63.5 | 88.5 |
| Income (loss) from continuing operations | 7.5 | (10.3) | 9.5 | 40.8 | 54.8 |
| Per common share - basic [1] | $0.27 | $(0.37) | $0.34 | $1.47 | $1.98 |
| Per common share - diluted [1] | 0.27 | (0.37) | 0.34 | 1.47 | 1.98 |
| Dividends declared per share of common stock | — | — | — | — | — |
| Balance sheet data (end of period) | | | | | |
| Total assets | $904.4 | $870.6 | $858.0 | $1,022.4 | $965.4 |
| Long-term debt | 21.2 | 10.0 | 10.0 | 10.0 | 10.0 |

[1] For 2012-2015, basic and diluted earnings (loss) per share were calculated based on 27,738,779 shares of AFI common stock distributed on April 1, 2016.

## Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

### Overview

AFI is a leading global producer of flooring products for use primarily in the construction and renovation of residential, commercial and institutional buildings. We design, manufacture, source and sell resilient and wood flooring products in North America and the Pacific Rim, with over 90% of our sales occurring in North America, based on the selling location. As of December 31, 2016, we operated 17 manufacturing plants in three countries, including 14 plants located throughout the U.S. We operate through two segments: Resilient Flooring and Wood Flooring.

### Separation and Distribution

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

The Spin-off was completed pursuant to a Separation and Distribution Agreement and several other agreements with AWI related to the Separation, including a Transition Services Agreement, a Tax Matters Agreement, an Employee Matters Agreement, a Trademark License Agreement, a Transition Trademark Agreement and a Campus Lease Agreement, each of which was filed with the SEC as an exhibit to our Current Report on Form 8-K on April 4, 2016. These agreements govern the relationship between AFI and AWI following the Separation and provide for the allocation of various assets, liabilities, rights and obligations. These agreements also include arrangements for transition services between AFI and AWI. For a discussion of each agreement, see the section entitled “Certain Relationships and Related Person Transactions — Agreements with AWI” in our Information Statement, dated March 24, 2016.

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

### Factors Affecting Our Business

#### Net Sales

##### Overview

Demand for our product is influenced on economic conditions. We closely monitor publicly available macroeconomic trend data that provides insight to commercial and residential market activity; this includes GDP growth indices, the Architecture Billings Index and the Consumer Confidence Index, as well as housing starts and existing home sales. In the U.S., we noted weakness in the healthcare and education markets and improvement in the retail and office markets during 2016. U.S. residential markets continued to show improvement in both builder activity and renovation activity.

Demand for our products is also influenced by consumer preferences. During 2016, we noted continued growth in the demand for luxury vinyl tile ("LVT") in conjunction with continued decline in the traditional resilient product categories of vinyl composition tile ("VCT") and vinyl sheet. We also noted growth in the hardwood flooring market, particularly within the engineered wood flooring product category. In addition, our channel partners will raise or lower their inventory positions of our product according to their expectations of market demand and consumer preferences, which will directly affect our sales.

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

Segments

Resilient Flooring segment — In our Resilient Flooring segment, we compete in both the residential and commercial 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 are the largest producer of VCT. The market for VCT, which is primarily used in commercial environments, is mature, and consumer trends have begun favoring alternate products. We expect that over time, the VCT category will represent a smaller portion of both the resilient market and our sales. While a smaller component of our sales volume than VCT, similar market pressures exist for our vinyl sheet product categories, which are primarily used in residential applications.

LVT is a relatively new product form in North America, and consumer interest has been high given its attractive visuals and performance characteristics. We expect LVT growth to continue to exceed the overall flooring market and, accordingly, we have invested heavily in this product category, as have our competitors. The future growth in LVT is expected to be most significant in the rigid core products, which we currently source from third-party manufacturers. 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 VCT and vinyl sheet categories.

Wood Flooring segment — Our product offerings include both solid and engineered wood flooring products. We have continued to see increased penetration in the new construction and remodeling sectors for hardwood flooring. We have also experienced continued competition from imported products, primarily engineered wood floors, resulting in price, volume and mix pressure.

Operating Expenses

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

Resilient Flooring segment — We experienced declines in the cost of our primary production materials and sourced product costs for most of 2016. Raw material prices started to rise during the fourth quarter of 2016 along with freight and basic energy costs impacting both our manufacturing and sourced finished product costs. We began producing LVT at our Lancaster, PA plant in the fourth quarter of 2015; as we ramp up production to expected operating levels, our unit costs are expected to decline before reaching a steady-state level.

Wood Flooring segment — We purchase a significant amount of green lumber as an input into our hardwood flooring products. The market for lumber has historically been volatile. For example, we experienced significant declines in lumber costs in 2015 which have begun to reverse in 2016. Due to the required drying time for green lumber within the manufacturing process, there is a lag of 5 to 6 months before such price changes are reflected in our results of operations.

Change in Accounting Principle

During the fourth quarter of 2016, we changed the method of accounting for our Wood Flooring inventories from the last-in, first-out ("LIFO") method to the first-in, first-out ("FIFO") method. Comparative financial statements of prior periods have been adjusted to apply the new method retrospectively. See Note 2 to the Consolidated Financial Statements included in this Form 10-K for further discussion of this change.

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

Results of Operations

2016 Compared to 2015

Consolidated Results from Continuing Operations

| | Year Ended December 31, | | | |
|---|---|---|---|---|
| | | | Change | |
| (Dollars in millions) | 2016 | 2015 | $ | % |
| Net sales | $1,193.2 | $1,188.7 | $4.5 | 0.4 % |
| Cost of goods sold | 963.1 | 993.0 | (29.9) | (3.0)% |
| Gross profit | 230.1 | 195.7 | 34.4 | 17.5 % |
| Selling, general and administrative expenses | 211.2 | 209.7 | 1.5 | 0.7 % |
| Operating income (loss) | 18.9 | (14.0) | 32.9 | NM |
| Interest expense | 1.5 | — | 1.5 | |
| Other expense, net | 5.8 | 3.6 | 2.2 | |
| Income (loss) from continuing operations before income taxes | 11.6 | (17.6) | 29.2 | |
| Income tax expense (benefit) | 4.1 | (7.3) | 11.4 | |
| Income (loss) from continuing operations | 7.5 | (10.3) | 17.8 | |
| Gain on disposal of discontinued operations, net of tax | 1.7 | 39.9 | (38.2) | |
| Net income | $9.2 | $29.6 | $(20.4) | |

______________

NM: not meaningful

For the year ended December 31, 2016, net sales increased by $4.5 million, or 0.4%, and operating income increased by $32.9 million. Excluding the unfavorable impact of foreign exchange, the increase in net sales reflected higher sales in our Wood Flooring segment. The increase in operating income primarily reflected lower raw material costs in our Wood Flooring segment, which resulted from lower purchase prices of lumber for products sold in 2016. The increase in operating income was partially offset by the higher impact from new duty rates related to prior years' imports of multilayered wood flooring from China of $2.6 million, and higher SG&A expenses, including $1.7 million of severance expenses. See Notes 11 and 23 to the Consolidated Financial Statements for further information related to severance expenses and multilayered wood flooring duties, respectively.

Segment Results

Net Sales

Net sales by segment are shown in the table below:

| | Year Ended December 31, | | Change | | Percentage Point Change Due to | | | |
|---|---|---|---|---|---|---|---|---|
| (Dollars in millions) | 2016 | 2015 | $ | % | Price | Volume | Mix | Currency |
| Resilient Flooring | $707.1 | $713.3 | $(6.2) | (0.9)% | (1.9) | (0.6) | 2.4 | (0.8) |
| Wood Flooring | 486.1 | 475.4 | 10.7 | 2.3 % | (2.6) | 6.3 | (1.2) | (0.2) |
| Total | $1,193.2 | $1,188.7 | $4.5 | 0.4 % | (2.2) | 2.2 | 1.0 | (0.6) |

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In our Resilient Flooring segment, excluding the unfavorable effect of foreign currency, our net sales for the year ended December 31, 2016 were essentially flat compared to the year ended December 31, 2015 with favorable mix offset by lower price and volume. Favorable mix primarily reflected growth from our LVT products, partially offset by unfavorable mix in other product categories. We experienced continued competitive pressure and lower prices across our product categories. Lower volume reflected weakness in both residential and commercial markets for the traditional product categories of vinyl tile and resilient sheet.

In our Wood Flooring segment, net sales for the year ended December 31, 2016 increased compared to the year ended December 31, 2015 on higher volume, partially offset by lower price and unfavorable mix. The hardwood flooring market saw increased penetration in the new construction and remodeling sectors. Higher volume also reflected inventory build by large retail customers. Lower price reflected competitive pricing pressure. Unfavorable mix primarily reflected increased sales of lower-priced engineered wood products.

Operating Income (Loss)

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

| | Year Ended December 31, | | |
|---|---|---|---|
| (Dollars in millions) | 2016 | 2015 | Change |
| Resilient Flooring | $15.1 | $11.2 | $ 3.9 |
| Wood Flooring | 3.8 | (25.2 ) | 29.0 |
| Total | $18.9 | $(14.0) | $ 32.9 |

In our Resilient Flooring segment, operating income for the year ended December 31, 2016 increased compared to the year ended December 31, 2015 as a result of lower input and manufacturing costs and lower SG&A expenses, partially offset by the negative margin impact of price and mix and the continued ramp-up costs associated with our Lancaster, PA LVT operation.

In our Wood Flooring segment, operating income for the year ended December 31, 2016 increased compared to the year ended December 31, 2015 on higher net sales and gross margin. Higher gross margin primarily reflected lower input costs, which were driven by lower prices of lumber purchased late in 2015 and early 2016 on products sold in 2016. Higher SG&A expenses were a partial offset. Lower input costs were net of expenses from new duty rates related to prior years' imports of multilayered wood flooring from China, which increased $2.6 million compared to prior year.

Other expense, net: Other expense, net of $5.8 million and $3.6 million for the years ended December 31, 2016 and 2015, respectively, primarily reflected the translation of unhedged cross-currency intercompany loans.

Income tax expense: For the year ended December 31, 2016, income tax expense was $4.1 million compared to an income tax benefit of $7.3 million for the year ended December 31, 2015. The effective tax rates were 35.3% and 41.5% for the years ended December 31, 2016 and 2015, respectively. The effective tax rate for 2016 was lower than the comparable period in 2015 primarily due to geographic distribution of earnings, lower unbenefitted foreign losses and an increase in a domestic production activities deduction.

Discontinued operations: For the years ended December 31, 2016 and 2015, discontinued operations of $1.7 million and $39.9 million, respectively, reflected non-cash tax benefits for our former European resilient flooring business related to pension expense deductions. See Note 4 to the Consolidated Financial Statements.

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2015 Compared to 2014

Consolidated Results from Continuing Operations

| | Year Ended December 31, | | | |
|---|---|---|---|---|
| | | | Change | |
| (Dollars in millions) | 2015 | 2014 | $ | % |
| Net sales | $1,188.7 | $1,220.4 | $(31.7) | (2.6)% |
| Cost of goods sold | 993.0 | 1,010.7 | (17.7) | (1.8)% |
| Gross profit | 195.7 | 209.7 | (14.0) | (6.7)% |
| Selling, general and administrative expenses | 209.7 | 177.1 | 32.6 | 18.5 % |
| Intangible asset impairments | — | 10.8 | (10.8) | NM |
| Operating income (loss) | (14.0) | 21.8 | (35.8) | NM |
| Other expense, net | 3.6 | 4.4 | (0.8) | |
| Income (loss) from continuing operations before income taxes | (17.6) | 17.4 | (35.0) | |
| Income tax expense (benefit) | (7.3) | 7.9 | (15.2) | |
| Income (loss) from continuing operations | (10.3) | 9.5 | (19.8) | |
| Net (loss) from discontinued operations, net of tax | — | (25.5) | 25.5 | |
| Gain (loss) on disposal of discontinued operations, net of tax | 39.9 | (14.5) | 54.4 | |
| Net income (loss) | $29.6 | $(30.5) | $60.1 | |

NM: not meaningful

For the year ended December 31, 2015, net sales decreased $31.7 million, or 2.6%, and operating results decreased by $35.8 million. Excluding the unfavorable impact from foreign exchange, the decrease in net sales reflected lower net sales of our Wood Flooring segment. The decline in operating results reflected higher SG&A and the negative margin impact from lower net sales, partially offset by lower input and manufacturing costs. The comparison was also impacted by a $10.0 million non-cash impairment charge recorded in 2014 to reduce the carrying value of our Bruce trademark to its estimated fair value.

Segment Results

Net Sales

Net sales by segment are shown in the table below:

| | Year Ended December 31, | | Change | | Percentage Point Change Due to | | | |
|---|---|---|---|---|---|---|---|---|
| (Dollars in millions) | 2015 | 2014 | $ | % | Price | Volume | Mix | Currency |
| Resilient Flooring | $713.3 | $712.3 | $1.0 | 0.1 % | (1.0) | 4.2 | (1.4) | (1.7) |
| Wood Flooring | 475.4 | 508.1 | (32.7) | (6.4)% | (2.2) | (5.6) | 2.5 | (1.1) |
| Total | $1,188.7 | $1,220.4 | $(31.7) | (2.6)% | (1.5) | 0.2 | 0.2 | (1.5) |

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In our Resilient Flooring segment, excluding the unfavorable effect of foreign currency exchange, our net sales for the year ended December 31, 2015 increased compared to the year ended December 31, 2014 due to higher volume partially offset by unfavorable mix and price. Higher volume was experienced in both the residential and commercial product platforms and also benefited from competitive product availability issues.

In our Wood Flooring segment, excluding the unfavorable effect of foreign currency exchange, our net sales for the year ended December 31, 2015 decreased compared to the year ended December 31, 2014 due to lower volume and unfavorable price, partially offset by favorable mix. Lower volume reflected market share losses as a result of capacity issues for our engineered wood products and prior year price and mix optimization actions.

Operating Income (Loss)

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

| | Year Ended December 31, | | |
|---|---|---|---|
| (Dollars in millions) | 2015 | 2014 | Change |
| Resilient Flooring | $11.2 | $39.0 | $(27.8) |
| Wood Flooring | (25.2) | (17.2) | (8.0) |
| Total | $(14.0) | $21.8 | $(35.8) |

In our Resilient Flooring segment, operating income decreased primarily due to higher SG&A expenses and unfavorable price and mix, partially offset by lower manufacturing and input costs and the margin impact of higher volume. The increase in SG&A expenses was primarily related to promotional spending to support go-to-market initiatives and higher employee compensation and benefits. The comparison was also impacted by approximately $6.0 million of charges in 2014 associated with the closure of our Thomastown, Australia resilient flooring plant and by a $2.0 million gain on the sale of the plant in 2015.

In our Wood Flooring segment, the increase in operating loss was driven by the margin impact of lower sales, higher raw material costs, and higher SG&A expenses. Higher raw material costs reflected higher prices of lumber purchased in 2014 and sold as product in 2015, partially offset by lower prices on lumber purchased in 2015 and sold as product in 2015. The comparison was also impacted by $4.0 million of multilayered wood flooring import duties recorded in 2015. Additionally, 2014 included approximately $9.0 million of severance, idle equipment and other charges associated with the closure of our Kunshan, China engineered wood flooring plant, $3.0 million of other idle equipment charges and a non-cash impairment charge of $10.0 million to reduce the carrying value of a Wood Flooring trademark to its estimated fair value.

Other expense, net: Other expense, net of $3.6 million and $4.4 million for the years ended December 31, 2015 and 2014, respectively, primarily reflected the translation of unhedged cross-currency intercompany loans.

Income tax expense: For the year ended December 31, 2015, the income tax benefit was $7.3 million compared to an income tax expense of $7.9 million for the year ended December 31, 2014. The effective tax rate was 41.5% compared to a rate of 45.4% for the years ended December 31, 2015 and 2014, respectively. The effective tax rate for 2015 was lower than 2014 primarily due to geographic distribution of income and lower unbenefitted foreign losses.

Discontinued operations: Net earnings from discontinued operations for the year ended December 31, 2015 primarily reflected a non-cash tax benefit related to pension expense deductions for our former European resilient flooring business. Net earnings from discontinued operations for the year ended December 31, 2014 primarily reflected losses from and upon disposal of our former European resilient flooring business and a cabinets business. See Note 4 to the Consolidated Financial Statements.



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## Liquidity and Capital Resources

Our primary sources of liquidity are, and we anticipate that they will continue to be, cash generated from operations and borrowings under our asset-based revolving credit facility with a five-year maturity ("ABL Facility"), described below. We believe these sources are sufficient to fund our working capital needs, planned capital expenditures and to meet our interest and other contractual obligations in the near term. Our liquidity needs for operations vary throughout the year with the majority of our cash flows generated in the second and third quarters.

Prior to the Separation, deemed transfers of cash to and from AWI's cash management system were reflected in Net AWI investment in the historical combined financial statements.

Cash and cash equivalents totaled $30.6 million as of December 31, 2016 of which $9.0 million was held in the U.S.

### Cash Flows

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

| | Year Ended December 31, | | |
|---|---|---|---|
| (Dollars in millions) | 2016 | 2015 | 2014 |
| Cash provided by operating activities | $54.0 | $52.6 | $13.2 |
| Cash used for investing activities | (36.9 ) | (58.3 ) | (78.7 ) |
| Cash provided by financing activities | 14.5 | 5.7 | 42.6 |

### Operating activities

Operating activities for 2016 provided $54.0 million of cash. Cash was generated through earnings exclusive of non-cash expenses, primarily depreciation and amortization, partially offset by increased working capital. Increased working capital primarily reflected net changes in inventories and accounts payable and accrued expenses.

Operating activities for 2015 provided $52.6 million of cash. Cash was generated through earnings exclusive of non-cash expenses, primarily depreciation and amortization and deferred income taxes, and by decreased working capital. Decreased working capital primarily reflected changes in accounts payable and accrued expenses and inventories.

Operating activities for 2014 provided $13.2 million of cash. Cash was generated through earnings exclusive of non-cash expenses, primarily depreciation and amortization, deferred income taxes and impairment, partially offset by increases in income taxes payable and working capital. Increased working capital reflected changes in inventories, accounts receivable and accounts payable and accrued expenses.

### Investing activities

Net cash used for investing activities of $36.9 million, $58.3 million and $78.7 million for the years ended December 31, 2016, 2015 and 2014, respectively, was primarily due to purchases of property, plant and equipment. Purchases of property, plant and equipment in 2015 and 2014 include significant expenditures related to the expansion of our Lancaster, PA resilient flooring plant to include the manufacture of LVT.

### Financing activities

Net cash provided by financing activities was $14.5 million, $5.7 million and $42.6 million for the years ended December 31, 2016, 2015 and 2014, respectively. Cash provided in 2016 primarily reflected proceeds from debt, net of payments, and transfers from AWI, net of the distribution paid at Separation. Cash provided in 2015 and 2014 represented net transfers from AWI.

Debt

On April 1, 2016, AFI entered into a $225.0 million ABL Facility and borrowed $100.0 million under the ABL Facility. AFI used $50.0 million of the proceeds to fund a cash distribution to AWI. As of December 31, 2016, the debt outstanding under the ABL Facility was $20.0 million and outstanding letters of credit were $1.8 million.

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

Obligations under the ABL Facility are secured by qualifying accounts receivable, inventories, and select machinery and equipment of AFI’s wholly-owned domestic subsidiaries. The ABL Facility includes a $50.0 million sublimit for the issuance of standby letters of credit. Borrowings under the ABL Facility bear interest at a rate equal to an adjusted base rate or the London Interbank Offered Rate (“LIBOR”) plus an applicable margin, which varies according to average excess credit availability and is currently 1.25%. We are required to pay a commitment fee, payable quarterly in arrears, on the average daily unused amount of the ABL Facility, which varies according to utilization and is currently 0.375%. Outstanding letters of credit issued under the ABL Facility are subject to fees which will be due quarterly in arrears based on an adjusted base rate.

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

Debt Covenants

The only material financial covenant in the ABL Facility is a fixed charge coverage ratio. As of December 31, 2016, availability under the ABL Facility exceeded the minimum required threshold and, as a result, this covenant is not applicable. In addition, the ABL Facility contains customary negative covenants, including those that restrict our ability to allow certain liens to attach to assets, make certain acquisitions and investments, incur certain additional indebtedness, pay dividends on our capital stock or redeem, repurchase or retire our capital stock or indebtedness, make certain fundamental changes to our structure, make certain dispositions, change the nature of our business, and enter into certain other transactions or agreements.

Contractual Obligations

As part of our normal operations, we enter into numerous contractual obligations that require specific payments during the term of the various agreements. The following table includes amounts under contractual obligations existing as of December 31, 2016. Only known payments that are dependent solely on the passage of time are included. Obligations under contracts that contain minimum payment amounts are shown at the minimum payment amount. Contracts that contain variable payment structures without minimum payments are excluded. Purchase orders that are entered into in the normal course of business are also excluded because they are generally cancelable and not legally binding. Amounts are presented below based upon the currently scheduled payment terms. Actual future payments may differ from the amounts presented below due to changes in payment terms or events affecting the payments.

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| (Dollars in millions) | 2017 | 2018 | 2019 | 2020 | 2021 | Thereafter | Total |
|---|---|---|---|---|---|---|---|
| Long-term debt | $0.2 | $0.2 | $0.2 | $0.2 | $20.3 | $ 0.1 | $21.2 |
| Scheduled interest and fee payments [1] | 1.3 | 1.3 | 1.3 | 1.3 | 0.3 | — | 5.5 |
| Operating lease obligations [2] | 8.2 | 7.7 | 7.3 | 6.8 | 2.4 | 1.6 | 34.0 |
| Unconditional purchase obligations [3] | 14.5 | 9.7 | 4.1 | 0.8 | 0.1 | — | 29.2 |
| Pension contributions [4] | 0.2 | — | — | — | — | — | 0.2 |
| Total contractual obligations | $24.4 | $18.9 | $12.9 | $9.1 | $23.1 | $ 1.7 | $90.1 |

(1) For debt with variable interest rates, we projected future interest payments based on market interest rates and the balance outstanding as of December 31, 2016.
(2) Lease obligations include the minimum payments due under existing agreements with non-cancelable lease terms in excess of one year.
(3) Unconditional purchase obligations include (a) purchase contracts whereby we must make guaranteed minimum payments of a specified amount regardless of how little material is actually purchased (“take or pay” contracts) and (b) service agreements. Unconditional purchase obligations exclude contracts entered into during the normal course of business that are non-cancelable and have fixed per unit fees, but where the monthly commitment varies based on usage.
(4) Pension contributions include estimated contributions for our defined-benefit pension plans. We are not presenting estimated payments in the table above beyond 2017 as funding can vary significantly from year to year based upon changes in the fair value of plan assets, funding regulations and actuarial assumptions.

The table does not include $5.0 million of unrecognized tax benefits under ASC 740 "Income Taxes." Due to the uncertainty relating to these positions, we are unable to reasonably estimate the ultimate amount or timing of the settlement of these issues. See Note 12 to the Consolidated Financial Statements for more information.

This table excludes obligations related to postretirement benefits since we voluntarily provide these benefits. The amount of benefit payments we made in 2016 was $6.7 million. See Note 15 to the Consolidated Financial Statements for additional information regarding future expected cash payments for postretirement benefits.

We are party to supply agreements, some of which require the purchase of inventory remaining at the supplier upon termination of the agreement. The last such agreement will expire in 2018. Had these agreements terminated at December 31, 2016, we would have been obligated to purchase approximately $5.6 million of inventory. Historically, due to production planning, we have not had to purchase material amounts of product at the end of similar contracts. Accordingly, no liability has been recorded for these guarantees.

Letters of credit are issued to third party suppliers, insurance and financial institutions and typically can only be drawn upon in the event of our failure to pay our obligations to the beneficiary. This table summarizes the commitments we have available in the U.S. for use as of December 31, 2016. Letters of credit are currently arranged through AFI’s ABL Facility.

| (Dollars in millions) | 2017 | 2018 | 2019 | 2020 | 2021 | Thereafter | Total |
|---|---|---|---|---|---|---|---|
| Other Commercial Commitments | | | | | | | |
| Letters of credit | $ 1.8 | — | — | — | — | — | $ 1.8 |

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Off-Balance Sheet Arrangements

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

Critical Accounting Estimates

In preparing our consolidated financial statements in accordance with U.S. generally accepted accounting principles ("GAAP"), we are required to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. We evaluate our estimates and assumptions on an ongoing basis, using relevant internal and external information. We believe that our estimates and assumptions are reasonable. However, actual results may differ from what was estimated and could have a significant impact on the financial statements.

We have identified the following as our critical accounting estimates. We have discussed these critical accounting estimates with our Audit Committee.

U.S. Pension and Postretirement Benefit Costs — We maintain pension and postretirement plans throughout North America, with the most significant plans located in the U.S. Our defined-benefit pension and postretirement benefit costs are developed from actuarial valuations. These valuations are calculated using a number of assumptions, which represent management's best estimate of the future. The assumptions that have the most significant impact on reported results are the discount rate, the estimated long-term return on plan assets, mortality rates, and the estimated inflation in health care costs. These assumptions are generally updated annually.

The discount rate is used to determine retirement plan liabilities and to determine the interest cost component of net periodic pension and postretirement cost. Management utilizes the Aon Hewitt AA only above median yield curve, which is a hypothetical AA yield curve comprised of a series of annualized individual discount rates, as the primary basis for determining the discount rate. As of December 31, 2016, we assumed discount rates of 4.30% for the U.S. defined-benefit pension plans. As of December 31, 2016, we assumed a discount rate of 4.05% for the U.S. postretirement plans. The effects of any change in discount rate will be amortized into earnings as described below. Absent any other changes, a one-quarter percentage point decrease in the discount rates for the U.S. pension and postretirement plans would decrease 2017 operating income by $1.4 million and a one-quarter percentage point increase in the discount rates would increase 2017 operating income by $1.3 million.

We manage two U.S. defined-benefit pension plans, a qualified funded plan and a nonqualified unfunded plan. For the qualified funded plan, the expected long-term return on plan assets represents a long-term view of the future estimated investment return on plan assets. This estimate is determined based on the target allocation of plan assets among asset classes and input from investment professionals on the expected performance of the asset classes over 10 to 30 years. Historical asset returns are monitored and considered when we develop our expected long-term return on plan assets. An incremental component is added for the expected return from active management based on historical information. These forecasted gross returns are reduced by estimated management fees and expenses. The actual gain on plan assets achieved for 2016 was 3.42%. The difference between the actual and expected rate of return on plan assets will be amortized into earnings as described below.

The expected long-term return on plan assets used in determining our 2016 U.S. pension cost was 6.75%. We have assumed a return on plan assets during 2017 of 6.10%. The 2017 expected return on assets was calculated in a manner consistent with 2016. A one-quarter percentage point increase or decrease in the 2017 assumption would increase or decrease 2017 operating income by approximately $0.9 million.

We use the Society of Actuaries RP-2014 Generational Mortality Table with MP-2016 generational projection scales.

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The estimated inflation in health care costs represents a 5-10 year view of the expected inflation in our postretirement health care costs. We separately estimate expected health care cost increases for pre-65 retirees and post-65 retirees due to the influence of Medicare coverage at age 65, as illustrated below:

| | Assumptions | |
|---|---|---|
| | Post 65 | Pre 65 |
| 2016 | 9.0 - 11.8% | 7.5% |
| 2017 | 8.0 - 9.3% | 7.2% |

As of December 31, 2016, health care cost increases are estimated to decrease ratably until 2025, after which they are estimated to be constant at 4.5%. A one percentage point increase or decrease in the assumed health care cost trend rate would change 2017 operating income by $0.4 million.

Actual results that differ from our various pension and postretirement plan estimates are captured as actuarial gains/losses. When certain thresholds are met, the gains and losses are amortized into future earnings over the expected remaining service period of plan participants, which is approximately eight years for our U.S. pension plans and eleven years for our U.S. postretirement plans. Changes in assumptions could have significant effects on earnings in future years.

See Note 15 to the Consolidated Financial Statements for additional information.

Impairments of Intangible and Tangible Assets — Our non-amortizable intangible assets are primarily trademarks and brand names, with Bruce representing the primary asset, all of which are integral to our corporate identity and expected to contribute indefinitely to our corporate cash flows. Accordingly, they have been assigned an indefinite life. We conduct our annual impairment test for non-amortizable intangible assets during the fourth quarter, although we would conduct interim impairment tests if events or circumstances indicated potential impairment.

The principal assumptions used in our impairment tests for non-amortizable intangible assets include revenue growth rate, discount rate and royalty rate. Revenue growth rates are derived from those used in our operating plan and strategic planning processes. The discount rate assumption is calculated based upon an estimated weighted average cost of capital which we believe reflects the overall level of inherent risk and the rate of return a market participant would expect to achieve. Methodologies used for valuing our non-amortizable intangible assets did not change from prior periods.

We review long-lived asset groups, which include amortizable intangible and tangible assets, for impairment when indicators of impairment exist, such as operating losses and/or negative cash flows. If an evaluation of the undiscounted future cash flows generated by the asset indicates impairment, the asset is written down to its estimated fair value, which is based on its discounted future cash flows. The principal assumption used in these impairment tests is future cash flows, which are derived from those used in our operating plan and strategic planning processes.

The revenue and cash flow estimates used in applying our impairment tests are based on management’s analysis of information available at the time of the impairment test. Actual results lower than the estimate could lead to significant future impairments. If future testing indicates that fair values have declined below carrying value, our financial condition and results of operations would be affected.

There were no impairment charges in 2016 or 2015.

In 2014, we recorded a non-cash impairment charge of $10.0 million to reduce the carrying amount of our Bruce trademark to its estimated fair value based on the results of our annual impairment test. The fair value was negatively affected by lower expected sales and profits due to the competitive environment in the U.S. residential housing market. Continued competitive pressure beyond our expectations could lead to future material impairments of the Wood Flooring intangible assets.

In 2014, we recorded an impairment charge of $11.9 million on the tangible assets of the European resilient flooring business as a result of disappointing operating results. This charge is reflected within Discontinued Operations as we deconsolidated the business in the fourth quarter of 2014. See Note 4 to the Consolidated Financial Statements for further information.

In 2014, we decided to close our resilient flooring plant in Thomastown, Australia and our engineered wood flooring plant in Kunshan, China. During 2014, we recorded $2.2 million in cost of goods sold for accelerated depreciation due to the closure of the Thomastown, Australia plant. We sold the Thomastown, Australia facility in January 2015. During 2014, we also recorded $4.0 million in cost of goods sold for accelerated depreciation due to the closure of the Kunshan, China plant.

During 2014, we disposed of certain idle equipment at five of our wood flooring manufacturing facilities and as a result we recorded a $4.4 million impairment charge in cost of goods sold.

We cannot predict the occurrence of certain events that might lead to material impairment charges in the future. Such events may include, but are not limited to, the impact of economic environments, particularly related to the commercial and residential construction industries, material adverse changes in relationships with significant customers, or strategic decisions made in response to economic and competitive conditions.

See Notes 3 and 9 to the Consolidated Financial Statements for additional information.

Income Taxes — For purposes of our Consolidated Financial Statements, for the periods prior to April 1, 2016, we recorded income tax expense and deferred tax balances as if we filed separate tax returns on a stand-alone basis apart from AWI, which we refer to as the “separate return method.” The separate return method applies the accounting guidance for income taxes to the standalone financial statements as if we were a separate taxpayer and a stand-alone enterprise for the periods presented. The calculation of the provision for income taxes, deferred tax assets and liabilities, valuation allowances against deferred tax assets, and accruals for uncertain tax positions on a separate return basis requires a considerable amount of judgment and use of both estimates and allocations. As a stand-alone entity, our deferred taxes and effective tax rate may differ from those in the historical periods.

Our effective tax rate is primarily determined based on our pre-tax income and the statutory income tax rates in the jurisdictions in which we operate. The effective tax rate also reflects the tax impacts of items treated differently for tax purposes than for financial reporting purposes. Some of these differences are permanent, such as expenses that are not deductible in our tax returns, and some differences are temporary, reversing over time, such as depreciation expense. These temporary differences create deferred income tax assets and liabilities. Deferred income tax assets are also recorded for net operating loss (“NOL”).

Deferred income tax assets and liabilities are recognized by applying enacted tax rates to temporary differences that exist as of the balance sheet date. We reduce the carrying amounts of deferred tax assets by a valuation allowance if, based on the available evidence, it is more likely than not that such assets will not be realized. The need to establish valuation allowances for deferred tax assets is assessed quarterly.

In assessing the requirement for, and amount of, a valuation allowance in accordance with the more likely than not standard, we give appropriate consideration to all positive and negative evidence related to the realization of the deferred tax assets. This assessment considers, among other matters, the nature, frequency and severity of current and cumulative losses, forecasts of future profitability and foreign source income (“FSI”), the duration of statutory carryforward periods, and our experience with operating loss and tax credit carryforward expirations. A history of cumulative losses is a significant piece of negative evidence used in our assessment. If a history of cumulative losses is incurred for a tax jurisdiction, forecasts of future profitability are not used as positive evidence related to the realization of the deferred tax assets in the assessment.

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As further described in Note 12 to the Consolidated Financial Statements, our Consolidated Balance Sheet as of December 31, 2016 includes net deferred income tax assets of $62.7 million. Included in this amount are deferred federal income tax assets for postretirement and postemployment benefits of $33.0 million, foreign NOL deferred tax assets of $20.0 million, and state NOL deferred income tax assets of $6.9 million. We have established valuation allowances in the amount of $28.2 million consisting of $23.3 million for foreign deferred tax assets, primarily foreign operating loss carryovers, and $4.9 million for state deferred tax assets. While we have considered future taxable income in assessing the need for the valuation allowances based on our best available projections, if these estimates and assumptions change in the future or if actual results differ from our projections, we may be required to adjust our valuation allowances accordingly. Such adjustments could be material to our Consolidated Financial Statements.

Inherent in determining our effective tax rate are judgments regarding business plans and expectations about future operations. These judgments include the amount and geographic mix of future taxable income, the amount of FSI, limitations on usage of NOL carryforwards, the impact of ongoing or potential tax audits, earnings repatriation plans, and other future tax consequences.

We estimate we will need to generate future U.S. taxable income of approximately $177.0 million for state income tax purposes during the respective realization periods (ranging from 2017 to 2036) in order to fully realize the net deferred income tax assets.

Our ability to utilize deferred tax assets may be impacted by certain future events, such as changes in tax legislation and insufficient future taxable income prior to expiration of certain deferred tax assets.

We recognize the tax benefits of an uncertain tax position if those benefits are more likely than not to be sustained based on existing tax law. Additionally, we establish a reserve for tax positions that are more likely than not to be sustained based on existing tax law, but uncertain in the ultimate benefit to be sustained upon examination by the relevant taxing authorities. Unrecognized tax benefits are subsequently recognized at the time the more likely than not recognition threshold is met, the tax matter is effectively settled or the statute of limitations for the relevant taxing authority to examine and challenge the tax position has expired, whichever is earlier.

See Note 12 to the Consolidated Financial Statements for additional information.

Stock-based Compensation — We issue stock-based compensation to certain employees and non-employee directors in different forms of benefits, including performance stock awards ("PSAs"), performance stock units ("PSUs"), and restricted stock units ("RSUs"). The following table summarizes the methods and inputs used to value the grants issued in 2016:

| | PSAs | | PSUs | RSUs |
|---|---|---|---|---|
| Method | Monte-Carlo simulation | | Company stock price on grant date | Company stock price on grant date |
| Assumptions | | | | |
| Risk-free rate of return [1] | 0.8 | % | | |
| Expected volatility [2] | 36.2 | % | | |
| Dividend yield [3] | — | | | |
| Grant date stock price [4] | $13.51 | | $ 13.51 | $ 13.51 |

(1) Based upon the yield of the zero-coupon U.S. Treasury bill with a remaining term of 2.96 years as of April 11, 2016.
(2) Based on peer volatility since, as of the valuation date, we did not have a sufficient number of trading days to rely on our own trading history.
(3) Based on our dividend policy at grant date.
(4) Based on the closing stock price on the valuation date.

Stock-based compensation is recognized only for those awards that are ultimately expected to vest, and we have applied an estimated forfeiture rate to unvested awards for the purpose of calculating compensation cost. These estimates will be revised in future periods if actual forfeitures differ from the estimates. The use of performance conditions requires us to estimate three-year performance targets. Changes in forfeiture and performance estimates impact compensation cost in the period in which the change in estimate occurs. If actual results are not consistent with our estimates or assumptions, we may be exposed to changes in stock-based compensation expense that could be material.

See Note 17 to the Consolidated Financial Statements for additional information.

Accounting Pronouncements Effective in Future Periods

See Note 2 to the Consolidated Financial Statements for a description of recent accounting pronouncements including the dates, or expected dates, of adoption, and effects, or expected effects, on our disclosures, results of operations, and financial condition.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Market Risk

We are exposed to market risk from changes in foreign currency exchange rates that could impact our results of operations, cash flows and financial condition. We enter into derivative contracts, including contracts to hedge our foreign currency exchange rate exposures. Forward swap contracts are entered into for periods consistent with underlying exposure and do not constitute positions independent of those exposures. Derivative financial instruments are used as risk management tools and not for speculative trading purposes. In addition, derivative financial instruments are entered into with a diversified group of major financial institutions in order to manage exposure to potential nonperformance on such instruments. Developments in the capital markets are regularly monitored.

We are subject to interest rate market risk in connection with our ABL Facility. As of December 31, 2016, our ABL Facility provided variable rate borrowings of up to $223.2 million, net of $1.8 million of letters of credit. Our ABL Facility bears interest at a variable rate based on LIBOR or a base rate plus an applicable margin. An assumed 25 basis point change in interest rates would change interest expense on our ABL Facility by $0.6 million if fully drawn and outstanding for the entire year.

Counterparty Risk

We only enter into derivative transactions with established counterparties having a credit rating of BBB or better, and counterparty credit default swap levels and credit ratings are monitored on a regular basis, thus reducing the risk of counterparty default. All of our derivative transactions with counterparties are governed by master International Swap and Derivatives Association, Inc. agreements (“ISDAs”) with netting arrangements. These agreements can limit our exposure in situations where we have gain and loss positions outstanding with a single counterparty. We neither post nor receive cash collateral with any counterparty for our derivative transactions. As of December 31, 2016, we had no cash collateral posted or received for any of our derivative transactions. These ISDAs do not have credit contingent features; however a default under our ABL Facility would trigger a default under these agreements.

Exchange Rate Sensitivity

We manufacture and sell our products in a number of countries and, as a result, we are exposed to movements in foreign currency exchange rates. To a large extent, our global manufacturing and sales provide a natural hedge of foreign currency exchange rate movement, as foreign currency expenses generally offset foreign currency revenues. AFI enters into foreign currency forward exchange contracts to reduce its remaining exposure. At December 31, 2016, our major foreign currency exposures are to the Canadian Dollar, the Chinese Renminbi, and the Australian Dollar. A 10% strengthening of all currencies against the U.S. dollar compared to December 31, 2016 levels would increase our forecasted 2017 earnings before income taxes by approximately $2.4 million, including the impact of current foreign currency forward exchange contracts.

The table below details our outstanding currency instruments as of December 31, 2016, all of which mature in 2017.

| (Dollars in millions) | |
|---|---|
| On Balance Sheet Foreign Exchange Related Derivatives | |
| Notional amounts | $55.4 |
| Assets at fair value, net | 1.6 |

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Item 8. Financial Statements

The following consolidated financial statements are filed as part of this Annual Report on Form 10-K:

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Armstrong Flooring, Inc.:

We have audited the accompanying consolidated balance sheets of Armstrong Flooring, Inc. and subsidiaries (the Company) as of December 31, 2016 and 2015, and the related consolidated statements of operations and comprehensive income (loss), stockholders' equity, and cash flows for each of the years in the three year period ended December 31, 2016. In connection with our audits of the consolidated financial statements, we also have audited the financial statement schedule of valuation and qualifying reserves. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Armstrong Flooring, Inc. and subsidiaries as of December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the years in the three year period ended December 31, 2016, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 2 to the consolidated financial statements, Armstrong Flooring, Inc. and subsidiaries has changed their method of accounting for certain inventories.

/s/ KPMG LLP

Philadelphia, Pennsylvania
March 6, 2017