ARMSTRONG WORLD INDUSTRIES INC
Form 10-Q
April 29, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2013

OR

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

For the transition period from _________ to _________

Commission File Number 1-2116

ARMSTRONG WORLD INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

Pennsylvania	**23-0366390**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

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

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

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 x 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 time period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the 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	x
Non-accelerated filer	¨	Smaller reporting company	¨

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

Number of shares of Armstrong World Industries, Inc. s common stock outstanding as of April 23, 2013 59,146,248.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this report 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; our expectations regarding the payment of dividends, and our ability to increase revenues, earnings and EBITDA (as such terms are defined by documents incorporated by reference herein). Words such as anticipate, expect, intend, plan, target, project, predict, believe, may, will, would, could 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 operations and future prospects or which could cause actual results to differ materially from our expectations include, but are not limited to:

global economic conditions including inflation, deflation, interest rates, availability of capital, consumer spending rates, energy availability and costs, and the effects of governmental initiatives to manage economic conditions;

the risk that downturns in construction activity could adversely affect our business and results of operations;

the risk that our indebtedness and degree of leverage could adversely affect our cash flow and our ability to operate our business, make payments on our indebtedness and declare dividends on our capital stock;

the possibility that a number of covenants contained in the agreements that govern our indebtedness, impose significant operating and financial restrictions on our business;

the possibility that our indebtedness may increase our vulnerability to negative unforeseen events;

the effect of our indebtedness on our liquidity;

our ability to generate sufficient cash flow from operations to fund our needs and remain in compliance with our debt covenants;

the risk that the availability of raw materials and energy decreases or that the costs of these materials increase and we are unable to pass along the increased costs;

the possibility that competition can reduce demand for our products or cause us to lower prices;

the risk that we may lose sales to one of our major customers;

the risk that the costs of construction and operation of our new manufacturing plants may exceed our projections;

the risk that adverse judgments in regulatory actions, product claims, environmental claims and other litigation may not be covered by insurance in all circumstances;

the risk that our intellectual property rights may not provide meaningful commercial protection for our products or brands;

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integration obstacles or costs associated with the pursuit or consummation of strategic transactions;

the risk that our restructuring actions and LEAN initiatives may not achieve expected savings in our operating costs or improve operating results;

the risk of changes in foreign currency exchange rates, interest rates and commodity prices;

changes in the political, regulatory and business environments of our international markets, including changes in trade regulations;

the risk that increased costs of labor, labor disputes, work stoppages or union organizing activity could delay or impede production and reduce sales and profits;

the risk that our decision to outsource our information technology infrastructure and certain finance and accounting functions will make us more dependent upon third parties;

the risk that our principal shareholders could significantly influence our management and our affairs;

the cost and difficulty of complying with increasing and evolving regulation; and

other risks detailed from time to time in our filings with the Securities and Exchange Commission (the SEC), press releases and other communications, including those set forth under Risk Factors included elsewhere in this Annual Report on Form 10-K and in the documents incorporated by reference.

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

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PART I   FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Armstrong World Industries, Inc., and Subsidiaries

Condensed Consolidated Statements of Earnings and Comprehensive Income

(amounts in millions, except per share data)

Unaudited

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
Net sales	$ 622.3	$ 636.0
Cost of goods sold	477.8	496.0
Gross profit	144.5	140.0
Selling, general and administrative expenses	112.7	110.7
Restructuring charges, net		0.2
Equity earnings from joint venture	(15.2)	(13.6)
Operating income	47.0	42.7
Interest expense	33.2	11.2
Other non-operating (income)	(1.3)	(0.8)
Earnings from continuing operations before income taxes	15.1	32.3
Income tax expense	11.9	13.3
Earnings from continuing operations	3.2	19.0
Net loss from discontinued operations, net of tax benefit of $ - and ($0.3)		(0.8)
Loss on sale of discontinued business, net of tax benefit of ($0.1) and $ -	(0.2)	
Net loss from discontinued operations	(0.2)	(0.8)
Net earnings	$ 3.0	$ 18.2
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustments	(6.2)	5.3
Derivative gain (loss)	4.3	(2.3)
Pension and postretirement adjustments	8.9	2.4
Total other comprehensive income	7.0	5.4
Total comprehensive income	$ 10.0	$ 23.6
Earnings per share of common stock, continuing operations:		
Basic	$ 0.05	$ 0.32
Diluted	$ 0.05	$ 0.32
Loss per share of common stock, discontinued operations:		

Basic				($0.01)
Diluted				($0.01)
Net earnings per share of common stock:				
Basic	$	0.05	$	0.31
Diluted	$	0.05	$	0.31
Average number of common shares outstanding:				
Basic		59.2		58.6
Diluted		59.8		59.1
Dividend declared per common share			$	8.55

See accompanying notes to Condensed Consolidated Financial Statements beginning on page 9.

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Armstrong World Industries, Inc., and Subsidiaries

Condensed Consolidated Balance Sheets

(amounts in millions, except share data)

	Unaudited March 31, 2013	December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	$ 278.0	$ 336.4
Accounts and notes receivable, net	237.1	204.6
Inventories, net	395.3	369.8
Deferred income taxes	53.8	49.9
Income tax receivable	14.8	16.9
Other current assets	46.2	42.3
Total current assets	1,025.2	1,019.9
Property, plant, and equipment, less accumulated depreciation and amortization of $592.5 and $583.8, respectively	1,013.7	1,005.0
Prepaid pension costs	50.1	39.6
Investment in joint venture	134.0	133.5
Intangible assets, net	530.1	527.7
Deferred income taxes	35.7	35.1
Other noncurrent assets	80.9	93.5
Total assets	$ 2,869.7	$ 2,854.3
Liabilities and Shareholders Equity		
Current liabilities:		
Current installments of long-term debt	$ 4.8	$ 33.0
Accounts payable and accrued expenses	346.2	346.3
Income tax payable	2.6	4.1
Deferred income taxes	1.3	1.3
Total current liabilities	354.9	384.7
Long-term debt, less current installments	1,065.3	1,038.0
Postretirement benefit liabilities	245.5	248.5
Pension benefit liabilities	239.5	247.9
Other long-term liabilities	81.7	86.6
Income taxes payable	69.5	63.3
Deferred income taxes	78.5	66.2
Total noncurrent liabilities	1,780.0	1,750.5
Shareholders equity:		
Common stock, $0.01 par value per share, authorized 200 million shares; issued 59,146,248 shares in 2013 and 58,934,050 shares in 2012	0.6	0.6
Capital in excess of par value	1,082.5	1,076.8
Retained earnings	116.1	113.1
Accumulated other comprehensive (loss)	(464.4)	(471.4)
Total shareholders equity	734.8	719.1
Total liabilities and shareholders equity	$ 2,869.7	$ 2,854.3

See accompanying notes to Condensed Consolidated Financial Statements beginning on page 9.

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Armstrong World Industries, Inc., and Subsidiaries

Condensed Consolidated Statements of Shareholders Equity

(amounts in millions, except share data)

Unaudited

	Three Months Ended March 31, 2013					
	Common Stock		Additional Paid-In	Retained	Accumulated Other Comprehensive Income	
	Shares	Amount	Capital	Earnings	(Loss)	Total
Balance at beginning of period	58,934,050	$ 0.6	$ 1,076.8	$ 113.1	($471.4)	$ 719.1
Stock issuance	212,198					
Share-based employee compensation			5.7			5.7
Net earnings				3.0		3.0
Other comprehensive income					7.0	7.0
Balance at end of period	59,146,248	$ 0.6	$ 1,082.5	$ 116.1	($464.4)	$ 734.8

	Three Months Ended March 31, 2012					
	Common Stock		Additional Paid-In	Retained	Accumulated Other Comprehensive Income	
	Shares	Amount	Capital	Earnings	(Loss)	Total
Balance at beginning of period	58,424,691	$ 0.6	$ 1,467.5	$ 77.1	($415.0)	$ 1,130.2
Stock issuance	337,368					
Share-based employee compensation			11.4			11.4
Net earnings				18.2		18.2
Dividends declared				(95.3)		(95.3)
Dividends declared in excess of retained earnings			(412.9)			(412.9)
Other comprehensive income					5.4	5.4
Balance at end of period	58,762,059	$ 0.6	$ 1,066.0	$	($409.6)	$ 657.0

See accompanying notes to Condensed Consolidated Financial Statements beginning on page 9.

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Armstrong World Industries, Inc., and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(amounts in millions)

Unaudited

	Three Months Ended March 31, 2013	2012
Cash flows from operating activities:		
Net earnings	$ 3.0	$ 18.2
Adjustments to reconcile net earnings to net cash used for operating activities:		
Depreciation and amortization	25.4	34.2
Write off of debt financing costs	18.9	
Fixed asset impairment		4.6
Deferred income taxes	2.4	5.8
Share-based compensation	5.1	4.2
Equity earnings from joint venture	(15.2)	(13.6)
U.S. pension credit	(0.5)	(3.1)
Restructuring charges, net		0.2
Restructuring payments	(0.1)	(1.4)
Changes in operating assets and liabilities:		
Receivables	(35.2)	(35.1)
Inventories	(29.6)	(11.8)
Other current assets	(3.5)	(14.2)
Other noncurrent assets	(6.0)	0.9
Accounts payable and accrued expenses	16.5	(21.3)
Income taxes payable	6.7	6.6
Other long-term liabilities	(5.2)	(11.7)
Other, net	3.3	4.6
Net cash (used for) operating activities	(14.0)	(32.9)
Cash flows from investing activities:		
Purchases of property, plant and equipment	(52.3)	(34.4)
Restricted cash		1.3
Return of investment from joint venture	14.9	17.6
Proceeds from (payment of) company owned life insurance, net	0.1	(0.2)
Net cash (used for) investing activities	(37.3)	(15.7)
Cash flows from financing activities:		
Payments on revolving credit facility and other debt		(1.4)
Proceeds from long-term debt	1,025.0	251.9
Payments of long-term debt	(1,026.0)	(1.5)
Financing costs	(7.2)	(7.6)
Special dividends paid	(0.7)	(0.1)
Proceeds from exercised stock options	2.7	8.3
Net cash (used for) provided by financing activities	(6.2)	249.6
Effect of exchange rate changes on cash and cash equivalents	(0.9)	1.7

Net (decrease) increase in cash and cash equivalents	(58.4)	202.7
Cash and cash equivalents at beginning of year	336.4	480.6
Cash and cash equivalents at end of period	$ 278.0	$ 683.3
Supplemental Cash Flow Disclosures:		
Interest paid	$ 11.1	$ 9.5
Income taxes paid (refunded), net	2.6	(0.5)
Amounts in accounts payable for capital expenditures	14.9	12.0

See accompanying notes to Condensed Consolidated Financial Statements beginning on page 9.

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Armstrong World Industries, Inc., and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

(dollar amounts in millions)

NOTE 1. BUSINESS AND BASIS OF PRESENTATION

Armstrong World Industries, Inc. (AWI) is a Pennsylvania corporation incorporated in 1891. When we refer to we , our and us in these notes, w are referring to AWI and its subsidiaries. We use the term AWI when we are referring solely to Armstrong World Industries, Inc.

In December 2000, AWI filed a voluntary petition for relief (the Filing) under Chapter 11 of the U.S. Bankruptcy Code (the Bankruptcy Code) in the United States Bankruptcy Court for the District of Delaware (the Bankruptcy Court) in order to use the court-supervised reorganization process to achieve a resolution of AWI s asbestos-related liability. On October 2, 2006, AWI s court-approved plan of reorganization (POR) became effective and AWI emerged from Chapter 11. All claims in AWI s Chapter 11 case have been resolved and closed.

On October 2, 2006, the Armstrong World Industries, Inc. Asbestos Personal Injury Settlement Trust (Asbestos PI Trust) was created to address AWI s personal injury (including wrongful death) asbestos-related liability. All present and future asbestos-related personal injury claims against AWI, including contribution claims of co-defendants but excluding certain foreign claims against subsidiaries, arising directly or indirectly out of AWI s pre-Filing use of, or other activities involving, asbestos are channeled to the Asbestos PI Trust.

In August 2009, Armor TPG Holdings LLC (TPG) and the Asbestos PI Trust entered into agreements whereby TPG purchased 7,000,000 shares of AWI common stock from the Asbestos PI Trust and acquired an economic interest in an additional 1,039,777 shares from the Asbestos PI Trust. The Asbestos PI Trust and TPG together hold more than 50% of AWI s outstanding shares and have a shareholders agreement, pursuant to which they agree to vote their shares together on certain matters. During the fourth quarter of 2012, the Asbestos PI Trust and TPG together sold 5,980,000 of their shares in a secondary public offering. We did not sell any shares and did not receive any proceeds from the offering, and the total number of common shares outstanding did not change as a result of the offering.

In September 2012, we entered into a definitive agreement to sell our cabinets business for $27 million. The sale was completed in October 2012. The transaction is subject to working capital adjustments which are expected to be completed in the second quarter of 2013. The financial results of the cabinets business, which have previously been shown as a separate reporting segment, have been reclassified as discontinued operations for all periods presented. See Note 3 to the Condensed Consolidated Financial Statements for additional financial information related to discontinued operations. The Notes to Condensed Consolidated Financial Statements in this Form 10-Q have been recast to reflect continuing operations, unless otherwise noted.

The accounting policies used in preparing the Condensed Consolidated Financial Statements in this Form 10-Q are the same as those used in preparing the Consolidated Financial Statements for the year ended December 31, 2012. These statements should therefore be read in conjunction with the Consolidated Financial Statements and notes that are included in the Form 10-K for the fiscal year ended December 31, 2012. In the opinion of management, all adjustments of a normal recurring nature have been included to provide a fair statement of the results for the reporting periods presented. Quarterly results are not necessarily indicative of annual earnings, primarily due to the different level of sales in each quarter of the year and the possibility of changes in general economic conditions.

Certain amounts in the prior year s Condensed Consolidated Financial Statements have been recast to conform to the 2013 presentation.

These Condensed Consolidated Financial Statements are prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP). The statements include management estimates and judgments, where appropriate. Management utilizes estimates to record many items including certain asset values, allowances for bad debts, inventory obsolescence and lower of cost or market charges, warranty, workers compensation, general liability and environmental claims and income taxes. When preparing an estimate, management determines the amount based upon the consideration of relevant information. Management may confer with outside parties, including outside counsel. Actual results may differ from these estimates.

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Armstrong World Industries, Inc., and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

(dollar amounts in millions)

In February 2013, the Financial Accounting Standards Board (FASB) issued new guidance that is now part of Accounting Standards Codification (ASC) 220: *Comprehensive Income Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income* . The new guidance requires an entity to disclose in a single location the effects of reclassifications out of accumulated other comprehensive income (AOCI). For items reclassified out of AOCI and into net income in their entirety, entities must disclose the effect of the reclassification on each affected net income item. For AOCI reclassification items that are not reclassified in their entirety into net income, entities must provide a cross reference to other required U.S. GAAP disclosures. The standard does not change the items which must be reported in other comprehensive income. These provisions are to be applied prospectively and were effective for us January 1, 2013. There was no impact on our financial condition, results of operations or cash flows as a result of the adoption of this guidance.

The FASB also recently issued new guidance that limits the scope of instruments subject to Accounting Standards Update (ASU) 2011-11: *Balance sheet Disclosures about Offsetting Assets and Liabilities* originally issued in December 2011. The new guidance limits the scope of this ASU to derivatives, repurchase and reverse repurchase agreements, and securities borrowing and lending agreements subject to master netting arrangements or similar agreements. This guidance is to be applied retrospectively and was effective for us beginning January 1, 2013. Since this guidance impacts presentation only, it had no effect on our financial condition, results of operations or cash flows.

Operating results for the first quarter of 2013 and 2012 included in this report are unaudited. However, these Condensed Consolidated Financial Statements have been reviewed by an independent registered public accounting firm in accordance with standards of the Public Company Accounting Oversight Board (United States) for a limited review of interim financial information.

NOTE 2. SEGMENT RESULTS

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
Net sales to external customers		
Building Products	$ 292.8	$ 303.1
Resilient Flooring	214.8	227.3
Wood Flooring	114.7	105.6
Total net sales to external customers	$ 622.3	$ 636.0

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
Segment operating income (loss)		
Building Products	$ 59.3	$ 43.3
Resilient Flooring	6.4	10.7
Wood Flooring	0.5	2.5
Unallocated Corporate (expense)	(19.2)	(13.8)
Total consolidated operating income	$ 47.0	$ 42.7

Three Months Ended
March 31,

	2013	2012
Total consolidated operating income	$ 47.0	$ 42.7
Interest expense	33.2	11.2
Other non-operating income	(1.3)	(0.8)
Earnings from continuing operations before income taxes	$ 15.1	$ 32.3

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Armstrong World Industries, Inc., and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

(dollar amounts in millions)

	March 31, 2013	December 31, 2012
Segment assets		
Building Products	$ 1,000.2	$ 975.1
Resilient Flooring	651.5	617.6
Wood Flooring	343.2	326.4
Unallocated Corporate	874.8	935.2
Total consolidated assets	$ 2,869.7	$ 2,854.3

Impairment testing of our tangible assets occurs whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable.

In March 2012, we made the decision to permanently close a previously idled ceiling tile plant in Mobile, AL. As a result, during the first quarter of 2012 we recorded accelerated depreciation of $9.3 million for machinery and equipment and a $4.6 million impairment charge for buildings in cost of goods sold. The preliminary fair values were determined by management estimates and an independent valuation based on information available at that time (considered Level 2 inputs in the fair value hierarchy).

NOTE 3. DISCONTINUED OPERATIONS

In September 2012, we entered into a definitive agreement to sell our cabinets business to American Industrial Partners (AIP) for $27 million in cash. During the third quarter, we recorded an impairment charge of $17.5 million on the cabinets assets to reflect the expected proceeds from the sale. The sale was completed in October 2012. The transaction is subject to working capital adjustments which are expected to be completed in the second quarter of 2013.

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

The following is a summary of the operating results of the cabinets business, (previously shown as the Cabinets reporting segment), which are included in discontinued operations.

	Three Months Ended March 31, 2013	2012
Net Sales		$ 32.0
(Loss) before income tax	($0.3)	($1.1)
Income tax benefit	0.1	0.3
Net (loss) from discontinued operations	($0.2)	($0.8)

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Armstrong World Industries, Inc., and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

(dollar amounts in millions)

NOTE 4. ACCOUNTS AND NOTES RECEIVABLE

	March 31, 2013	December 31, 2012
Customer receivables	$ 262.5	$ 228.1
Customer notes	3.1	4.5
Miscellaneous receivables	7.3	7.6
Less allowance for warranties, discounts and losses	(35.8)	(35.6)
Accounts and notes receivable, net	$ 237.1	$ 204.6

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

NOTE 5. INVENTORIES

	March 31, 2013	December 31, 2012
Finished goods	$ 281.9	$ 265.9
Goods in process	21.4	27.6
Raw materials and supplies	128.6	107.8
Less LIFO and other reserves	(36.6)	(31.5)
Total inventories, net	$ 395.3	$ 369.8

NOTE 6. OTHER CURRENT ASSETS

	March 31, 2013	December 31, 2012
Prepaid expenses	$ 39.5	$ 39.0
Assets held for sale		1.8
Fair value of derivative assets	0.6	0.3
Other	6.1	1.2
Total other current assets	$ 46.2	$ 42.3

NOTE 7. EQUITY INVESTMENT

Investment in joint venture at March 31, 2013 reflected our 50% equity interest in our Worthington Armstrong Venture (WAVE) joint venture with Worthington Industries, Inc. Condensed income statement data for WAVE is summarized below:

	Three Months Ended March 31,	
	2013	2012
Net sales	$ 91.9	$ 90.8
Gross profit	43.3	40.2
Net earnings	33.8	30.6

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Armstrong World Industries, Inc., and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

(dollar amounts in millions)

NOTE 8. INTANGIBLE ASSETS

The following table details amounts related to our intangible assets as of March 31, 2013 and December 31, 2012.

		March 31, 2013		December 31, 2012	
	Estimated Useful Life	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortizing intangible assets					
Customer relationships	20 years	$ 165.4	$ 53.9	$ 165.4	$ 51.9
Developed technology	15 years	82.0			