KIRKLAND'S, INC
Form 10-Q
September 13, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q
x Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended August 4, 2018

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: 000-49885

KIRKLAND’S, INC.
(Exact name of registrant as specified in its charter)

Tennessee	62-1287151
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

5310 Maryland Way	
Brentwood, Tennessee	37027
(Address of principal executive offices)	(Zip Code)

Registrant’s telephone number, including area code: (615) 872-4800

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 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, a smaller reporting company, or emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock, no par value - 15,662,989 shares outstanding as of September 4, 2018.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS
KIRKLAND'S, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)
(in thousands, except share data)

	August 4, 2018	February 3, 2018	July 29, 2017
ASSETS			
Current assets:			
Cash and cash equivalents	$35,359	$80,156	$48,694
Inventories, net [(1)]	95,466	81,255	71,283
Prepaid expenses and other current assets [(1)]	21,053	15,988	21,565
Total current assets	151,878	177,399	141,542
Property and equipment:			
Equipment	21,025	20,835	20,091
Furniture and fixtures	81,371	80,299	78,432
Leasehold improvements	124,133	119,272	112,435
Computer software and hardware	63,474	59,331	56,532
Projects in progress	12,637	7,685	6,400
Property and equipment, gross	302,640	287,422	273,890
Accumulated depreciation	(185,572)	(174,383)	(162,667)
Property and equipment, net	117,068	113,039	111,223
Deferred income taxes	1,344	2,216	1,022
Other assets	7,248	6,543	6,026
Total assets	$277,538	$299,197	$259,813
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	$42,849	$45,602	$29,166
Accounts payable to related party vendor	6,747	7,523	4,618
Income taxes payable	—	4,943	—
Accrued expenses	35,345	38,872	31,030
Total current liabilities	84,941	96,940	64,814
Deferred rent	53,080	53,303	53,384
Deferred income taxes	411	—	2,172
Other liabilities	9,049	8,193	9,674
Total liabilities	147,481	158,436	130,044
Shareholders' equity:			
Preferred stock, no par value, 10,000,000 shares authorized; no shares issued or outstanding at August 4, 2018, February 3, 2018, or July 29, 2017, respectively	—	—	—
Common stock, no par value; 100,000,000 shares authorized; 15,741,818; 15,977,239; and 16,011,169 shares issued and outstanding at August 4, 2018, February 3, 2018, and July 29, 2017, respectively	168,198	167,501	166,408
Accumulated deficit	(38,141)	(26,740)	(36,639)
Total shareholders' equity	130,057	140,761	129,769

Total liabilities and shareholders' equity	$277,538	$299,197	$259,813

[(1)] Refer to Note 1 for information about a reclassification of supplies inventory from inventories, net, to prepaid expenses and other current assets.

The accompanying notes are an integral part of these financial statements.

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KIRKLAND'S, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
(in thousands, except per share data)

	13-Week Period Ended		26-Week Period Ended	
	August 4, 2018	July 29, 2017	August 4, 2018	July 29, 2017
Net sales	$133,899	$131,683	$276,353	$264,524
Cost of sales [(1)]	86,765	80,593	172,330	160,980
Cost of sales related to merchandise purchased from related party vendor	10,336	11,004	21,913	20,610
Cost of sales	97,101	91,597	194,243	181,590
Gross profit	36,798	40,086	82,110	82,934
Operating expenses:				
Compensation and benefits	26,020	25,974	53,869	52,484
Other operating expenses	17,965	18,079	35,284	35,074
Depreciation (exclusive of depreciation included in cost of sales) [(1)]	1,774	1,729	3,538	3,350
Total operating expenses	45,759	45,782	92,691	90,908
Operating loss	(8,961)	(5,696)	(10,581)	(7,974)
Interest expense	66	65	131	126
Other income	(270)	(133)	(601)	(219)
Loss before income taxes	(8,757)	(5,628)	(10,111)	(7,881)
Income tax benefit	(2,042)	(1,856)	(2,514)	(2,674)
Net loss	$(6,715)	$(3,772)	$(7,597)	$(5,207)
Loss per share:				
Basic	$(0.43)	$(0.24)	$(0.48)	$(0.33)
Diluted	$(0.43)	$(0.24)	$(0.48)	$(0.33)
Weighted average shares outstanding:				
Basic	15,726	15,974	15,925	15,943
Diluted	15,726	15,974	15,925	15,943

[(1)] Refer to Note 1 for information about a reclassification of supply-chain and store-related depreciation expense to cost of sales.

The accompanying notes are an integral part of these financial statements.

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KIRKLAND'S, INC.
CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY (UNAUDITED)
(in thousands, except share data)

	Common Stock		Accumulated Deficit	Total Shareholders' Equity
	Shares	Amount		
Balance at February 3, 2018	15,977,239	$167,501	$ (26,740)	$ 140,761
Employee stock purchases	18,275	161	—	161
Exercise of stock options	167,526	23	—	23
Restricted stock issued	108,900	—	—	—
Net share settlement of stock options and restricted stock	(137,478)	(378)	—	(378)
Stock-based compensation expense	—	891	—	891
Repurchase and retirement of common stock	(392,644)	—	(3,804)	(3,804)
Net loss	—	—	(7,597)	(7,597)
Balance at August 4, 2018	15,741,818	$168,198	$ (38,141)	$ 130,057

The accompanying notes are an integral part of these financial statements.

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KIRKLAND’S, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(in thousands)

	26-Week Period Ended August 4, 2018
Cash flows from operating activities:	
Net loss	$(7,597)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation of property and equipment	14,390
Amortization of deferred rent	(5,056)
Amortization of debt issue costs	27
Loss on disposal of property and equipment	177
Stock-based compensation expense	891
Deferred income taxes	1,283
Changes in assets and liabilities:	
Inventories, net (1)	(14,211)
Prepaid expenses and other current assets (1)	(581)

Other noncurrent assets	(732)
Accounts payable	(3,067)
Accounts payable to related party vendor	(776)
Income taxes refundable	(9,427)
Accrued expenses and other current and noncurrent liabilities	2,162
Net cash used in operating activities	(22,517)
Cash flows from investing activities:	
Capital expenditures	(18,282)
Net cash used in investing activities	(18,282)
Cash flows from financing activities:	
Cash used in net share settlement of stock options and restricted stock	(378)
Proceeds received from employee stock option exercises	23
Employee stock purchases	161

Repurchase and retirement of common stock	(3,804)	11

ITEM 11. EXECUTIVE COMPENSATION

COMPENSATION DISCUSSION AND ANALYSIS

In this compensation discussion and analysis ("CD&A") section, we review the objectives and element
philosophy, as well as the Company's performance and compensation decisions in 2018 relating to our
("NEOs").

executive summary

Business Overview

We are a global leader in the design, innovation and manufacture of commercial and residential ceiling
solutions (primarily mineral fiber, fiberglass wool, wood and metal).

Our fiscal year 2018 key performance highlights included:

- Adjusted EBITDA*: Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization ("EBIT
continuing operations basis, a 10.7% improvement over 2017. The core value drivers of our business e
namely increases in sales volume and average unit value ("AUV") plus lower selling, general and adm
- Consolidated Net Sales: Net sales increased 9.1% over 2017. The increase was driven by higher AUV
in which both mix and like-for-like pricing were positive, and higher volume growth in the Architectur
- Free Cash Flow ("FCF")*: $236 million of FCF, defined as cash flow from operations minus cash flow
exceeded the high end of our guidance range of $145 million, a 61% improvement over 2017.
- Adjusted Earnings Per Share ("EPS")*: Adjusted EPS of $3.66, an improvement of 21% over 2017.
- Business Development: In May 2018, we acquired Plasterform, Inc., based in Ontario, Canada, a manu
ceilings, walls, facades, columns and moldings. In August 2018, we acquired Steel Ceilings, Inc., base
manufacturer of aluminum and stainless metal ceilings that include architectural, radiant and security s
- Share Repurchases: In 2018, we repurchased 4.7 million shares of our Common Stock or 9% of our ou
ongoing program for a total cost of $306.5 million, or an average price of $64.74 per share.
- Dividends: On November 6, 2018, we announced a dividend program under which the company inten
cash dividend of $0.175 per share ($0.70 per share on an annualized basis) to shareholders. We paid o
program in December 2018.
- Footprint Optimization: We closed our St. Helens, Oregon mineral fiber manufacturing facility during
opened a distribution facility in Phoenix, Arizona to enhance service to our regional customers.
- International Business Divesture: In 2017, we announced the sale of our businesses and operations in
Africa (including Russia) and the Pacific Rim (the "International Business"), including the correspondi
the Worthington Armstrong Venture ("WAVE") in which we hold a fifty percent (50%) interest, to Kn
("Knauf"). In 2018, we entered into an amendment with Knauf under which we received $330 million
an unconditioned basis. We expect the transaction to close in the first half of 2019.

Please also see our Company's Consolidated Financial Statements in our Annual Report on Form 10-K
25, 2019.

*The Company uses these non-GAAP adjusted measures in managing the business and believes the adj
comparisons of operating performance between periods. Adjusted EBITDA and Adjusted EPS exclude
restructuring and related costs, impairments, U.S. pension plan credit/expense, environmental insuranc
certain other non-recurring extraordinary gains and losses outside of the normal course of our business
excludes U.S. pension plan impact in the non-GAAP results as it represents the actuarial net periodic b
all periods presented, the Company was not required and did not make cash contributions to the U.S. R
guidelines established by the Pension Benefit Guaranty Corporation. FCF is defined as cash from opera
from WAVE, our joint venture with Worthington Industries, Inc., less expenditures for property and eq
remove the impact of cash used or proceeds received for acquisitions and divestitures. Please refer to A
these non-GAAP financial measures to our results as reported under accounting principles generally ac

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2019 Priorities

Fiscal year 2019 key priorities include:

- Revenue: Driving revenue growth by leveraging our existing capabilities and focusing on broader ceili opportunity.
- Adjusted EBITDA: Achieving EBITDA growth through sales gains, manufacturing productivity, incre and second year restructuring savings announced in 2017.
- Capabilities: Enhancing our manufacturing and commercial capabilities and expanding our commercia broader market opportunities, through ongoing digitalization and other efficiency initiatives.
- International: Completing the sale of our International Business to Knauf.
- Operational Efficiency: Continuing to pursue productivity, efficiency and working capital improvemen operations.
- Capital Allocation: Allocating capital to high return opportunities while optimizing FCF and paying a r
- Acquisitions: Expanding into adjacencies in our Architectural Specialties segment. On March 5, 2019 Components Group, Inc. (ACGI), an industry leader in custom wood ceilings and walls.

2018 Compensation Highlights

During 2018, our Compensation Committee reviewed our compensation plans and generally continued programs established in prior years. As in prior years, our plans are designed to directly link compensa improvement in Company performance.

- Annual Incentive Plan ("AIP"): Our 2018 AIP continued to place specific emphasis on revenue and E Company results. These measures align to key elements of our operating plan and financial goals, inc manufacturing productivity and competitive SG&A expense, and are strong indicators of our overall c
- Long-Term Incentive Program ("LTIP"): Our 2018 LTIP grants continued to be comprised of perforn ("PSU"), with performance metrics based on absolute total shareholder return ("Absolute TSR") and c time-based restricted stock units to our executive officers in 2018. Our Compensation Committee sele in our LTIP because it believes Absolute TSR most directly captures shareholder value creation, while with the flexibility and levers needed to drive meaningful performance improvement. Our Compensat a performance metric in the LTIP because it believes FCF growth is an indicator of value-creating acti period. The grants, intended to compensate for long term value creation, have a three-year performanc with substantial payout upside for breakout performance and a payout scale that includes meaningful p features, and others as described in more detail in this CD&A are all designed to strongly align the inte shareholders, and to provide strong incentives for performance and growth consistent with our strategi

Named Executive Officers

The Company's named executive officers for the fiscal year ended December 31, 2018 were:

Victor D. Grizzle	President and CEO
Brian L. MacNeal	Senior Vice President and CFO
Charles M. Chiappone	Senior Vice President, Ceiling & Wall Solutions(1)
Mark A. Hershey	Senior Vice President, General Counsel & Chief Compliance Officer

Ellen R. Romano Senior Vice President, Human Resources

David S. Cookson Senior Vice President, Americas(1)

(1) In connection with the retirement of Mr. Cookson as of July 1st, 2018, Mr. Chiappone was appointed
Ceiling & Wall Solutions, effective April 1, 2018

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Shareholder Engagement

In 2018, we continued to engage with our shareholders to seek their perspectives on corporate governar program, sustainability and other matters. We conducted formal outreach over the course of the year wi approximately 26% of our outstanding shares at the time of outreach. These discussions were conducte Vice President, General Counsel & Chief Compliance Officer and Ellen Romano our Senior Vice Presi complemented our regular quarterly informal outreach initiatives led by our dedicated Investor Relation these discussions were shared with the Compensation Committee and our Nominating and Governance were productive and focused primarily on PSU metrics, Board succession planning and sustainability i 2018 nonbinding advisory vote on our executive compensation program result of 94% approval reflects our compensation program design.

Our Executive Compensation Philosophy, Objectives, Elements and Characteristics

Compensation Philosophy and Objectives

Our long-term success and growth depend on highly capable leaders with appropriate experience and sl volatile and challenging market environment. Our executive compensation program is designed to attra high-quality leaders. In developing and maintaining this program, the Compensation Committee focuse objectives:

- Aligning executive interests with shareholder interests.
- Creating a strong link between pay and performance by placing a significant portion of compensation ' against pre-established goals.
- Structuring sufficiently competitive compensation packages to enable access to high-quality executives environment.

Compensation Elements

In 2018, we executed our compensation philosophy through a combination of: (a) fixed compensation, benefits and (iii) limited perquisites; and (b) performance-based compensation, including (i) cash incen Incentive Plan, and (ii) grants of PSUs under our 2016 Long-Term Incentive Plan (our omnibus equity

Type	Compensation Elements	Form and Objective	Further Information	K
Fixed	Base Salary	• Delivered in cash • Provides reasonable, market competitive fixed pay delivered to each NEO, and reflects his or her role, responsibility, individual performance and contribution to the Company • Generally set at market median	• 2018 Base Salary changes for our NEOs	• a 1
	Benefits	• Standard range of health, welfare, and retirement benefits generally similar to those provided to other salaried employees, except that executives: • are eligible to receive enhanced Company-paid long-term disability benefits; and • are eligible for non-qualified retirement benefits		
	Limited Perquisites	• Limited perquisites or personal benefits • Personal financial counseling at a cost generally less than $4,500 per NEO • Executive physicals at a cost generally less than $5,000 per NEO • Executive long-term disability at a cost generally less than $5,000 per NEO		
Performance-Based	Annual Incentive Plan (AIP)	• Delivered in cash • Provides an annual incentive opportunity for achieving financial results based on performance goals tied to our annual operating plan • Drives selected target metric performance	• AIP was based on revenue and EBITDA	• fo ta

	• Payouts are tied to Company and individual performance, including leadership behaviors • Target opportunity generally set at market median		
Long-Term Incentive Program (LTIP)	• Delivered in 100% PSUs for 2018 • Drives and promotes long- term value-creation for our shareholders, and fosters retention, by rewarding execution and achievement of goals linked to our longer term strategic initiatives and stock performance • Target opportunity generally set at market median • In 2018, our Compensation Committee awarded 3-year PSUs tied to Absolute TSR and FCF.	• LTI performance goals were based on FCF and Absolute TSR	• a 7

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Compensation Characteristics

At the direction of our Compensation Committee, we subscribe to a "pay-for-performance" philosophy
maintains the following attributes:

- Compensation at Risk — A significant amount of each NEO's target total direct compensation ("TDC"
and long-term incentive compensation, depends on the Company and the NEO achieving specific, perf
NEOs' short- and long-term incentive compensation is, therefore, "at risk" as the value is tied to the ac
measures that the Company considers to be important drivers of shareholder value.
- Multiple and Appropriate Performance Metrics — We use multiple performance measures to avoid hav
overly weighted toward the performance result of a single metric. In 2018, we used FCF and Absolute
performance metrics to maintain a focus on longer-term results that help drive shareholder value. We u
our metrics in our AIP. These measures align to key elements of our operating plan and financial goals
manufacturing productivity, competitive sales and general and administrative expense. Each of these m
our overall operating performance.
- Emphasis on Long-Term Incentive and Annual Incentive Compensation — Short- and long-term incen
significant percentage of TDC. Incentive compensation helps drive performance and aligns the interest
NEOs) with those of shareholders. By tying a significant portion of TDC to long-term incentives over a
longer-term perspectives regarding Company performance.
- Recoupment — We may recoup certain stock-based and cash awards distributed under our 2016 Long-
Incentive Plan, including to our NEOs, in the event of an accounting restatement due to material nonco
reporting requirement under the securities laws; or certain misconduct causing significant financial or r
Company.
- Prohibition on Derivative Transactions — Our insider trading policy prohibits derivative transactions i
including trading in puts, calls, covered calls, or other derivative products involving our securities; prol
transaction with respect to our securities; and prohibits holding company securities in a margin accoun
collateral for a loan.
- Stock Ownership Guidelines — Our NEOs are subject to stock ownership guidelines, which help to pro
and align interests with those of our long-term shareholders. The required ownership multiple is six tim
CEO and three times annual base pay for all other NEOs.
- Linear and Capped Incentive Compensation Payouts — The Compensation Committee establishes fina
used to plot a payout formula for annual and long-term incentive compensation to avoid an over-empha
making. The maximum payout for the annual incentive compensation is 200% of target. Long-term inc
at 275% of target for Messrs. Grizzle, MacNeal and Chiappone and 225% of target for Mr. Hershey an
- Change in Control ("CIC") Double Trigger — Our CIC agreements include double trigger vesting prov
change in control.
- No Tax Gross-Ups — We do not have plans or agreements that provide tax gross-ups to our NEOs und
Revenue Code.
- Holding Requirements — Post-vesting holding requirements apply for amounts payable above target in
performance-based equity grants for Messrs. Grizzle, MacNeal and Chiappone.

The following table illustrates how our executive compensation elements align with our compensation

Executive Compensation Element	Attract Talented Employees	Align Management and	Pay for Performance	M Re M

		Shareholder Interests		
Base Salary	√			√
Annual Incentive Plan (AIP)	√	√	√	√
Long-Term Incentive Program (LTIP)	√	√	√	√

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HOW WE MAKE COMPENSATION DECISIONS

Our Compensation Committee is responsible for executive compensation program design and the decis
NEOs specifically, and broadly, as these programs apply to other senior leaders and participating emplo
Committee solicits input from the independent members of the Board, the CEO, other members of man
compensation consultant to assist with its responsibilities. The following summarizes the roles of each
executive compensation decision-making process.

Roles of Key Participants

Compensation Committee	• Sets the philosophy and principles that guide the executive compens
	• Oversees the design of our executive compensation program in the c competitive practices, the legal and regulatory landscape, and governa
	• Reviews and approves short- and long-term incentive compensation goals and the reward consequences for delivering above or below targ
	• Reviews and approves corporate goals and individual objectives rele CEO, evaluates the CEO's performance relative to those goals and obj compensation to be ratified by the independent directors based on the
	• Oversees the evaluation of the other executive officers and approves collaboration with the CEO.
Independent Members of the Board	• Participate in the performance assessment process for the CEO; and
	• Review decisions regarding CEO compensation, including base salar CEO.
Committee Consultant – Willis Towers Watson	• Provides analysis, advice and recommendations with regard to execu

	• Attends Compensation Committee meetings, as requested, and comm the Compensation Committee Chair and other Committee members; ar
	• Advises the Compensation Committee on market trends, regulatory i they may impact our executive compensation programs.
CEO	• Provides input to the Compensation Committee on senior executive p recommendations.

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Independent Compensation Consultant

In July 2018, the Compensation Committee renewed its engagement of Willis Towers Watson as its inc
executive compensation matters.

Willis Towers Watson also serves as our Pension Plan Actuary in Canada (an arrangement that has bee
prior to Willis Towers Watson becoming the Compensation Committee's consultant). Typical actuary
purchase select compensation and HR survey data from the firm. Willis Towers Watson does not perfo
Company. At the request of the Compensation Committee, in addition to providing general executive c
Towers Watson performed the following services during 2018:

- advised on the design considerations with respect to the 2018 short- and long-term incentive programs between short- and long-term performance and pay;
- advised the Compensation Committee on the composition of a revised peer group;
- advised the Compensation Committee on setting the CEO's compensation; and
- provided an update on current compensation trends, market practices and relevant executive compensa

The Compensation Committee determined the work of Willis Towers Watson did not raise any conflict
this assessment, the Compensation Committee considered the independence factors enumerated in Rule
Act and corresponding rules of NYSE, including the fact that Willis Towers Watson provided limited c
fees received from us as a percentage of Willis Towers Watson's total revenue, policies and procedures
Watson to prevent conflicts of interest, and whether the individual Willis Towers Watson advisors to th
own any shares of Common Stock or have any business or personal relationships with members of the
our executive officers.

After considering all of the factors required by the NYSE rules and all other factors relevant to Willis T
the Compensation Committee has determined Willis Towers Watson is independent.

Use of Competitive Data

In setting NEO compensation, the Compensation Committee considers independent survey data, peer c
wealth accumulation analyses and related benchmark information.

Annual Compensation Benchmarking

Annually, the Compensation Committee reviews all components of NEO compensation compared to C
below).

In general, we target NEO pay to be at or near the 50th percentile of our defined Competitive Market, b
target based on an individual's performance or internal equity with peers situated at similar levels, or to
business knowledge and leadership needed to achieve our strategic objectives.

The principal sources of market data include the following ("Competitive Market"):

- Survey data (all NEOs), including surveys by AonHewitt and Willis Towers Watson
- Peer Group data (CEO and CFO) ("Peer Group")

Consideration of 2018 Advisory Shareholder Vote on Executive Compensation

At our 2017 annual meeting, our shareholders expressed a preference that advisory votes on executive c
Accordingly, the Board implemented an annual advisory vote on executive compensation until the next
of shareholder votes on the compensation of executives. That vote is scheduled to occur at the 2023 ann
advisory shareholder vote on executive compensation took place at the 2018 annual meeting.

Our Board and Compensation Committee appreciate and value the views of our shareholders with resp
compensation program. The results of the 2018 favorable (94%) advisory vote on executive compensat
Compensation Committee that shareholders agree our executive compensation programs have been eff
stated compensation philosophy and objectives in a manner consistent with shareholder preference.

The Compensation Committee recognizes executive pay practices and notions of sound governance pri
While no specific changes were implemented as a result of the vote, the Compensation Committee inte
attention to ongoing trends and invites our shareholders to communicate any concerns or opinions on e
Compensation Committee or the Board. Please refer to "COMMUNICATION WITH THE BOARD" f
communication with the Compensation Committee of the Board.

Peer Group

The Compensation Committee uses compensation data compiled from a group of peer companies base
criteria, including business model comparability, company size measured by revenue (approximately o
Company's revenue) and market capitalization, global presence and investor capital.

In 2018, our Compensation Committee reviewed our compensation Peer Group and removed Ply Gem,
Building Systems, Inc. In addition, the Committee removed AO Smith Corp and Louisiana-Pacific Co
exceeded our range of 1/2 - 2.0x, and replaced them with Eagle Materials and NCI Building Systems.

Our current compensation Peer Group consists of the following 17 manufacturing companies:

Allegion PLC	Herman Miller Inc.	PH Glatfelter Inc.
Apogee Enterprises, Inc	Interface, Inc.	Quanex Building Pro
Eagle Materials Inc.	Knoll, Inc.	Simpson Manufactur
Ferro Corporation	Kraton Performance Polymers Inc.	
Gibraltar Industries, Inc.	Masonite International Corporation	
Griffon Corporation	NCI Building Systems, Inc.	
HB Fuller Co.	OMNOVA Solutions Inc.	

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Tally Sheets and Wealth Accumulation Analyses

The Compensation Committee uses tally sheets and wealth accumulation analyses when evaluating con
each NEO.

- Tally sheets provide historic information on each executive's equity and non-equity compensation, and potential payments upon termination of employment.
- Wealth accumulation analysis assesses the total Company-specific wealth that could be earned by each assumptions.

Compensation Mix

To facilitate the link between NEO pay and Company performance, a significant amount of TDC is per

In 2018, 83% of our CEO's target TDC and 62% of the average target TDC of our other NEOs was per following chart shows the 2018 compensation mix, consisting of base salary, performance-based AIP, a

Mr. Grizzle Base, 22% AIP, 22% LTI, 56% All Other NEOs Base, 40% AIP, 22% LTI, 39%

2018 COMPENSATION DESIGN AND OUTCOMES

Base Salary

In 2018, the Compensation Committee reviewed base salaries of our NEOs after consideration of the co base salary compared to the Competitive Market. Pay increases were effective April 1, 2018.

The table below represents the base salary rate as of December 31. This information differs from the Su ("SCT"), which reflects the total base salary received for the year.

Name	2017 Salary $	2018 Salary $	Change in Base Salary	
Victor D. Grizzle	725,000	750,000	3.4	%
Brian L. MacNeal	411,750	425,000	3.2	%
Charles M. Chiappone[(1)]	370,980	420,000	13.0	%
Mark A. Hershey	405,000	419,000	3.5	%
Ellen R. Romano	312,000	320,000	2.5	%

(1) Upon Mr. Cookson announcing his retirement as Senior Vice President Americas, Mr. Chiappone v President, Ceiling and Wall Solutions effective April 1, 2018. Mr. Chiappone's salary increase refle his promotion.

Annual Incentive Plan Awards

AIP awards provide an annual incentive opportunity for achieving financial results based on performan annual operating plan.

Each NEO's target AIP opportunity (expressed as a percent of base salary) is based on role responsibili
internal positions and the external Competitive Market. Actual payout varies based upon actual busines
performance target, as well as individual performance.

For 2018, AIP awards were determined based on the following formula, measures and weightings all su
Compensation Committee.

2018 AIP Design

Base Salary $	x	Target AIP Opportunity %	=	Target AIP $	x	Company Performance %	x	Individual P

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2018 Target AIP Opportunity

2018 target AIP opportunities (expressed as a percentage of actual base earnings) for NEOs are set fort
exception of Mr. Chiappone, who was promoted to his new role effective April 1, 2018, there were no
percentages from 2017.

Name	Target AIP % Opportunity	Target AIP $
Victor D. Grizzle	100%	743,750
Brian L. MacNeal	60%	253,012
Charles M. Chiappone(1)	50% / 60%	235,373
Mark A. Hershey	60%	249,381
Ellen R. Romano	55%	175,160
David S. Cookson(2)	60%	93,756

(1) Mr. Chiappone's target increased from 50% to 60% upon his promotion to Senior Vice President Ce
effective April 1, 2018

(2) Mr. Cookson received a pro-rated AIP bonus for the period of January 1, 2018 through June 30, 201
Company July 1, 2018.

2018 AIP Performance Metrics

The Compensation Committee again selected revenue and EBITDA as our 2018 AIP performance metr
alignment with shareholders and reflect key measures of value creation. Revenue is weighted 25% and

These measures align to key elements of our operating plan and financial goals, including enhanced rev
productivity and competitive sales, general and administrative expense, and they are strong indicators
performance.

For purposes of the 2018 AIP, the Compensation Committee defined: (i) revenue to be gross sales minu
allowances and minus intercompany sales, and (ii) EBITDA to be operating income plus depreciation a
pension impact, subject to certain exceptions. The definitions of these metrics did not change from the

The 2018 revenue target of $953 million and EBITDA target of $357 million were both directly tied to

Our Compensation Committee established the following performance ranges and associated payout ran
Company's performance was converted to a corresponding payout factor on a straight line basis betwee
between Target and Maximum. AIP payout factors are capped at 200%.

Target $ (in millions)	Payout

				Performance as % of Target				
	Threshold	Target	Maximum	Threshold	Target	Maximum	Threshold	Target
Revenue	912.0	953.0	1,000.0	96%	100 %	105 %	50%	100 %
EBITDA	322.3	357.0	392.0	90%	100 %	110 %	50%	100 %

2018 Individual Performance

The Board and the Compensation Committee considered individual performance when finalizing AIP a
NEOs and approved an individual increased performance adjustment for Mr. Chiappone of 15%. In 20
articulated and executed a clear strategy for achieving 9% year-over-year revenue growth, industry-lea
mineral fiber and WAVE, and completing the Plasterform and Steel Ceilings Inc. acquisitions. No othe
due to performance.

2018 Performance and Payout Factors

Our 2018 revenue performance was 103% of plan resulting in a 153% payout, and our EBITDA perfor
with a corresponding 93% payout. These results yielded a combined payout factor of 108% for the NE

Further details are shown in the table below:

	2018	2018		
	Target	Actual	Performance	Payout
Measure	$M	$M	%	%
Revenue	953.0	978.0	103%	153%
EBITDA	357.0	352.0	99%	93%

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2018 Final AIP Awards

The Compensation Committee determined the final 2018 AIP payouts by multiplying each NEO's targ
weighted payout factors as outlined below.

Name	Target AIP $	Payout Factor	2018 Final AIP Award $
Victor D. Grizzle	743,750	108 %	803,250
Brian L. MacNeal	253,012	108 %	273,260
Charles M. Chiappone[(1)]	235,373	108 %	292,340
Mark A. Hershey	249,381	108 %	269,340
Ellen R. Romano	175,160	108 %	189,180
David S. Cookson	93,756	108 %	101,260

(1) Mr. Chiappone received a 115% individual performance modifier, which resulted in an increased pa

Long-Term Incentive Program Awards

The goal of our LTIP is to provide equity-based long-term incentive awards that link management inte
focus management on our long-term performance.

In determining the LTIP award opportunity for the CEO and other NEOs, our Board and Compensatio
of factors, including the Competitive Market, internal equity and cost (dilution and accounting cost), as
accumulation analyses.

LTIP awards for a given year are typically made two business days following the release of our financ
year. This allows sufficient time for the market to absorb the announcement of earnings and current ye

The 2018 LTIP grants consisted of awards differentiated between two leadership tiers. The Compensat
the most senior executive tier, namely Messrs. Grizzle, MacNeal and Chiappone to vest based on achie
of the award) and FCF (25% of the award). The Compensation Committee granted PSUs to Mr. Hershe
based on achievement of Absolute TSR (25% of the award) and FCF (75% of the award), consistent wi

Messrs. Grizzle, MacNeal and Chiappone have post-vesting holding requirements for amounts payable
performance-based equity grants. If earned, the above target shares must be held for one year following

2018 LTI Performance Metrics and Weighting

The number of shares eligible to vest under the 2018 LTI awards is based on the achievement of applic
relative to Absolute TSR and FCF targets during the performance period (January 1, 2018 to Decembe
to compensate for long term value creation, have a three-year performance period to allow a reasonable
challenging targets with substantial payout upside for breakout performance and a payout scale that de

hurdles. The PSUs for Messrs. Grizzle, MacNeal and Chiappone (Tier I) can vest 25% of target at thres
target at maximum performance and the PSUs for Mr. Hershey and Ms. Romano (Tier II) can vest at 50
performance to 225% of target at maximum performance. There is no payout below threshold performa

Absolute TSR tracks the appreciation in share price of the Company's Common Stock, including divid
performance period. The ending share price for the Absolute TSR calculation will be based on the volu
price of the Company stock for the highest consecutive 30 trading days in the 60- trading-day-period be
following January 2, 2021. The starting price was based on the volume-weighted average of the highes
the subsequent 60-trading- day-period closing price of the Company stock for the highest 30 trading da
January 2, 2018 – resulting in $62.18 per share.

	Annualized TSR Target	Ending Share Price	Incentive Payout Tier I (75% weighting)	Tier II (25% wei
Performance to TSR Target				
50%	5.25%	$72.50	0%	50%
75%	7.9%	$78.11	25%	75%
83%	8.7%	$79.86	50%	83%
100%	10.5%	$83.90	100%	100%
167%	17.5%	$100.87	200%	200%
250%	26.3%	$125.27	300%	300%

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Cumulative FCF is defined as cash flow from operations less cash used in investing activities.

		Incentive Payout	
		Tier I	Tier II
Performance to FCF Target	FCF $(M)	(25% weighting)	(75% weightin
80%	$546	25%	50%
100%	$682	100%	100%
113%	$771	150%	150%
118%	$805	175%	175%
125%	$853	200%	200%

2018 Target LTI

The Compensation Committee annually determines the LTI target opportunity (expressed as a percent o responsibility, alignment with similar positions internally and the external Competitive Market, as well wealth accumulation analyses.

After a review of the Competitive Market data provided by Willis Towers Watson, the Compensation C Grizzle's target LTIP opportunity in 2018 to $3,100,000. This adjustment to Mr. Grizzle's LTIP value TDC. Mr. MacNeal's LTIP opportunity increased to 110% from 100% of base salary to align to marke LTIP opportunity increased to 100% from 75% of base salary upon his promotion. No other LTIP targ

The respective target percentages for annual LTIP grants to our NEOs in 2018 and the resulting Grant I the table below.

Name	2018 LTIP Target as % of Base Salary	2018 LTI Annual Target Value ($)(1)
Victor D. Grizzle	413%	3,100,000
Brian L. MacNeal	110%	452,900
Charles M. Chiappone	100%	370,900
Mark A. Hershey	125%	506,300
Ellen R. Romano	100%	312,600
David S. Cookson(2)	75%	278,500

(1) Amounts represent the grant date fair value for the long-term incentive equity award granted in Feb the Financial Accounting Standards Board's Accounting Standards Codification Topic 718, or ASC 718, the grant date fair value is calculated using the closing market price of our shares of Common

the grant (February 27, 2018).
(2) Mr. Cookson forfeited his award upon his retirement on July 1, 2018.

Payout of 2016-2018 Performance Restricted Stock Units

The performance for PSUs awarded in 2016 for the 2016 – 2018 performance period was determined o were based on Absolute TSR and FCF over the performance period. The Compensation Committee gra executive tier, namely Messrs. Grizzle, MacNeal, Chiappone and Cookson to vest based on achievemer award) and FCF (25% of the award). The Compensation Committee granted PSUs to Mr. Hershey and achievement of Absolute TSR (25% of the award) and FCF (75% of the award).

Based upon performance during the measurement period, the Absolute TSR achievement for the 2016 - a calculated price of $73.94. This exceeded our 12% annualized TSR target resulting in a 236% payou the TSR PSUs was $41.31. The adjusted cumulative FCF was $507M for the performance period, exce $403M. The Committee approved a payout factor of 175%. Based on the metrics and the certified Abs PSUs for Messrs. Grizzle, MacNeal, Chiappone and Cookson vested at 221% of target and the PSUs fo vested at 190% of target. For Messrs. Grizzle, MacNeal and Chiappone, PSUs distributed in excess of following the vesting date.

Name	2016 PSU Shares Granted	2016 PSU Payout Factor	2016 PSU Final Share Payout
Victor D. Grizzle	125,779	221%	277,658
Brian L. MacNeal	26,953	221%	59,500
Charles M. Chiappone	19,140	221%	42,252
Mark A. Hershey	12,130	190%	23,078
Ellen R. Romano	7,308	190%	13,904
David S. Cookson	15,902	221%	35,104

2018 Total Direct Compensation

The table below summarizes TDC paid or awarded to our current NEOs during 2018. This table is not i the SCT or Grants of Plan-Based Awards Table (‘‘GPBAT’’). Base salary reflects the total salary paid awards for 2018 are reflected in the SCT and GPBAT. LTIP awards represent an incentive for future pe compensation, and are “at risk” of forfeiture.

Name	2018 Salary $	2018 Final AIP $	2018 LTIP $ (1)	TDC $
Victor D. Grizzle	743,750	803,250	3,100,000	4,647,000
Brian L. MacNeal	421,687	273,260	452,900	1,147,847
Charles M. Chiappone	407,745	292,340	370,900	1,070,985
Mark A. Hershey	415,635	269,340	506,300	1,191,275
Ellen R. Romano	318,472	189,180	312,600	820,252

(1)

Amounts represent the aggregate grant date fair value for LTIP equity awards granted in 2018, as ca
Accounting Standards Board's Accounting Standards Codification ASC Topic 718. Under ASC Top
is calculated using the closing market price of our Common Stock on the date of the grant.

2018 Additional Compensation

The Compensation committee approved a one-time special cash bonus of $280,000 on October 25, 201
was paid to Mr. Hershey in recognition of his leadership and performance in connection with certain si
pending sale of our International Businesses to Knauf, as well as environmental litigation matters. The
our AIP.

2019 Compensation Program Design

For 2019, the Compensation Committee reviewed the design of our executive compensation program a
metrics for both our AIP and our LTIP.

ADDITIONAL INFORMATION REGARDING OUR COMPENSATION PROGRAMS

Qualified and Non-Qualified Defined Benefit Pension Plans

Mr. Cookson and Ms. Romano were the only NEOs who participated in the Company's qualified defin
Retirement Income Plan ("RIP"), which was closed to newly hired salaried employees after January 1,
frozen for all salaried employees on December 31, 2017.

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A non-qualified defined benefit pension plan, the Retirement Benefit Equity Plan ("RBEP"), pays bene
RIP due to statutory limits. This plan was also closed to newly hired salaried employees after January 1
were frozen on December 31, 2017.

Qualified Defined Contribution Savings Plan and Non-qualified Deferred Compensation Plan

The Company maintains a 401(k) plan. For salaried employees, we provide a 401(k) match of 100% o
contributions and a 50% match on the next 4% of employee contributions for a maximum company ma
in this program.

The Company offers an unfunded, nonqualified deferred compensation plan, the Armstrong Nonqualifi
Plan, to restore Company contributions that would be lost due to Internal Revenue Code limits on comp
account under the Company's tax-qualified 401(k) plan and to allow participants to voluntarily elect to
future date.

Participants in the Armstrong Nonqualified Deferred Compensation Plan receive a Company match ide
match up to a maximum contribution of 6% of eligible earnings. All NEOs are eligible to participate ir

Separation Arrangements

Each NEO has a separation agreement with the Company. These agreements are designed to:

- assure continuity of executive management during the evaluation and execution of any transaction that
changes to employment;
- reduce risk to the Company and provide shareholder alignment by keeping executives neutral to job los
may result in termination of employment;
- ensure executive management is able to objectively evaluate any transaction and act in the best interest
design and execution of such a transaction; and
- define transition support and terms in the event of not-for-cause termination.

Payments upon Termination of Employment

Our separation arrangements provide for executive entitlement to certain cash severance benefits if the
terminated by the Company without Cause or by the executive for Good Reason (as such terms are defi
agreement). Under the separation agreements that apply in absence of a change in control the severance
times in the case of Mr. Grizzle) the executive's then-current annual base salary plus target annual ince
payable in a lump sum, and (ii) a pro-rated annual incentive bonus based on actual performance for the
the time that bonuses are paid to employees of the Company generally.

Under each executive's separation agreement, the executive is entitled to receive severance payments u
without Cause or termination for Good Reason within two years following a change in control ("CIC")
CIC if the termination is in connection with a potential CIC. In a CIC the severance is equal to (i) two t
Mr. Grizzle) the executive's then-current annual base salary plus target annual incentive under the AIP
sum, and (ii) a pro-rated annual incentive bonus based on actual performance for the year of terminatio
bonuses are paid to employees of the Company generally.

None of the separation agreements provide for tax gross-ups under Sections 280G and 4999 of the Inter
information regarding our NEO separation arrangements, please refer to the "Potential Payments upon
Control" section.

Stock Ownership Guidelines

The Compensation Committee maintains stock ownership guidelines for our NEOs to ensure that our N
value creation tied to stock price appreciation. Ownership requirements and progress toward their achie
as part of the compensation planning process. A significant percentage of each NEO's compensation is
appreciation. The guidelines require retention of 100% of net shares acquired upon any vesting or exerc
ownership guidelines are met.

The stock ownership guidelines for our NEOs are calculated as a fixed number of shares using a requir
executive's annualized base salary as of a certain date, and the stock price as of a fixed date. The requir
times annual base pay for our CEO and is three times annual base pay for our other NEOs.

For purposes of the stock ownership guidelines, we include direct ownership of shares and stock units h
options are included to the extent they are "in-the-money." PSUs are not included in determining wheth
ownership levels.

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The stock ownership guidelines require achievement of the ownership multiple within five years from c
the role for the NEOs.

The Compensation Committee last reviewed the NEOs' progress toward meeting the stock ownership r
As of the date of the review, Messrs. Grizzle, Hershey and Ms. Romano had met their ownership requi

Restrictive Covenants

Each NEO has a restrictive covenants agreement as part of their separation agreement. The agreements

- For 12 months following a termination the NEO shall not, directly for the NEO or any third party, bec activity which is directly in competition with any services or products sold by, or any business or activ Company or any of its affiliates
- For 24 months following a termination, the NEO shall not solicit any person who was a customer of th affiliates during the period of the NEO's employment hereunder, or solicit potential customers who ar leads developed during the course of employment with the Company, or otherwise divert or attempt to the Company or any of its affiliates; and
- The NEO shall not, directly for the NEO or any third party, solicit, induce, recruit or cause another pe Company or any of its affiliates to terminate such employee's employment for the purposes of joining employed with any business or activity which is in competition with any services or products sold, or engaged in, by the Company or any of its affiliates.

Recoupment Policy

In 2019, our Compensation Committee amended our 2016 Long-Term Incentive Plan to expand the sco
recoupment provision. Under the amended plan, the Compensation Committee has the ability to exerci
recoup settled or unsettled stock-based and cash awards from a plan participant in the following events

- an accounting restatement of the Company's financial statements that is required due to material nonc reporting requirements under the securities laws and GAAP;
- the participant is involved in (i) the commission of a felony or a crime involving moral turpitude; (ii) f misrepresentation, theft or misappropriation of funds; (iii) a violation of our Code of Conduct or empl negligence or willful, deliberate or gross misconduct, that results in significant financial or reputationa
- during the participant's employment or the one-year period thereafter, the participant engages in busin Company or substantially injurious to the Company's business interests;
- during the participant's employment or the two-year period thereafter, the participant solicits the Com or
- the participant breaches any written noncompetition, confidentiality or non-solicitation covenant with

All of our NEOs are subject to the above recoupment terms of the plan.

Prohibition on Hedging and Derivative Trading

All members of our Board and senior management, including our NEOs and certain other employees, a
transaction involving Company securities with our General Counsel's office prior to entering into such

By policy, we prohibit derivative transactions in our Company securities, including:

- Trading in puts, calls, covered calls, or other derivative products involving Company securities.
- Engaging in any hedging transaction with respect to Company securities.
- Holding Company securities in a margin account or pledging Company securities as collateral for a loa

We permit senior management to use stock trading plans that comply with Rule 10b5-1 of the Exchang
to our pre-approval, and the ability to enter into such plans remains subject to policy prohibitions on tra
material non-public information.

Assessment and Management of Risk

We monitor the risks associated with our compensation program on an ongoing basis. In addition, we a
formal assessments on a periodic basis. At the conclusion of the most recent analysis (conducted in 201
programs and associated risks, it was the assessment of the Compensation Committee that our compens
and operated with an appropriate balance of risk and reward and, by their design, do not encourage exe
excessive, or inappropriate risks and do not create risks reasonably likely to have a material adverse eff

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Tax Deductibility of Compensation

Section 162(m) of the Internal Revenue Code imposes a $1 million limit on the amount a public compa
compensation paid to certain of the Company’s highest paid officers.

For 2018, the executive officers to whom the Section 162(m) deduction limit applies included the Com
and Chief Financial Officer, the next three most highly compensated executive officers, and any such “

The Compensation Committee considers both tax and accounting treatment in establishing our compen
Compensation Committee retains discretion to authorize compensation arrangements that are not fully
appropriate.

COMPENSATION COMMITTEE REPORT

The Management Development and Compensation Committee (MDCC) of our Board has reviewed and Discussion and Analysis required by Item 402(b) of Regulation S-K with our management. Based on th MDCC recommended to the Board that the Compensation Discussion and Analysis be included in this

Submitted by the Management Development and Compensation Committee

Stan A. Askren, Chair

James C. Melville

Gregory P. Spivy

Cherryl T. Thomas

This report shall not be deemed to be "soliciting material" or to be "filed" with the SEC, nor incorporat filing under the Securities Act of 1933 or the Exchange Act, except to the extent that the Company spec reference therein.

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2018 SUMMARY COMPENSATION TABLE

The table below sets forth the total compensation for our NEOs during fiscal 2018, 2017 and 2016.

Name and Principal Position	Year	Salary ($)	Bonus[3] ($)	Stock Awards[1] ($)	Option Awards[1] ($)	Non-Equity Incentive Plan Compensation[2] ($)	Change in Pension Va & Nonqual Deferred Compensat Earnings[4] ($)
Victor D. Grizzle	2018	743,750	—	3,100,000	—	803,250	—
President and Chief	2017	718,750	—	2,300,000	—	567,820	—
Executive Officer	2016	650,050	—	5,250,000	—	754,930	—
Brian L. MacNeal	2018	421,688	—	452,900	—	273,260	—
Senior Vice President and Chief	2017	402,563	—	375,000	—	190,820	—
Financial Officer	2016	347,875	—	1,125,000	—	238,400	—
Charles M. Chiappone	2018	407,745	—	370,900	—	292,340	—
Senior Vice President, Ceiling Solutions	2017	366,985	—	266,300	—	144,960	—
Mark A. Hershey	2018	415,635	280,000	506,300	—	269,340	—
Senior Vice President, General Counsel and	2017	418,200	—	506,300	—	252,940	—
Chief Compliance Officer	2016	415,675	671,550	1,071,300	—	304,280	—
Ellen R. Romano	2018	318,473	—	312,600	—	189,180	
Senior Vice President,	2017	310,723	—	305,000	—	143,560	559,893
Human Resources	2016	310,750	492,000	680,000	—	208,520	581,273
David S. Cookson	2018	187,513	—	278,500	—	101,260	
Senior Vice President,	2017	368,615	—	270,400	—	136,390	615,964
Americas	2016	371,315	—	811,200	—	211,650	375,379

(1) The amounts reflect the aggregate grant date fair value of stock units granted in the fiscal year ASC Topic 718. Under ASC Topic 718, the grant date fair value is calculated using the closin of Common Stock ($59.10) on the date of grant (February 27, 2018). The 2018 LTIP awards target and maximum payouts for the PSUs are as follows: target of $3,100,000 and maximum target of $452,900 and maximum of $1,245,475 for Mr. MacNeal, target of $370,900 and ma Chiappone (maximums are 275% of target); target of $506,300 and maximum of $1,139,175 $312,600 and maximum of $703,350 for Ms. Romano (maximums are 225% of target).

(2) The 2018 amounts disclosed are the awards under the 2018 AIP.

(3) Mr. Hershey received a one-time special cash bonus of $280,000 on October 25, 2018. The bonus v
leadership and performance in connection with certain significant projects. The special bonus was s
amounts payable under retention agreements that were entered in 2015 and were contingent on the s
AFI. The retention payments were made upon the successful execution of the separation in April 20

(4) For 2018, the change in pension value decreased from last year due to the higher discount rate for bo
Cookson. The values were ($205,437) for Ms. Romano and ($158,545) for Mr. Cookson.

(5) The amounts shown in the "All Other Compensation" column include: (i) Company matching contri
Investment 401(k) Plan and to the NQDCP; (ii) premiums for long-term disability insurance; (iii) ter
(severance); (iv) relocation expenses; and (v) personal benefits ("perquisites") consisting of medical
planning expense reimbursements to the extent the total perquisite value is $10,000 or greater per in
total value of all such perquisites did not reach $10,000.

(6) The following table provides the detail for the amounts reported in the All Other Compensation for

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and	Perquisites and Other Benefits ($)	Company Match Savings Plan Contributions ($)	Executive Long-Term Disability ($)	All Other Compensat ($)
Victor D. Grizzle		83,319	--	83,319
Brian L. MacNeal		31,523	--	31,523
Charles M. Chiappone		18,500	--	18,500
Mark A. Hershey		42,377	1,830	44,207
Ellen R. Romano		32,329	1,830	34,159
David S. Cookson		12,087	915	13,002

CEO Pay Ratio

Our philosophy is to pay our employees competitively with similar positions in the applicable labor ma globally, whether it be an executive level position or hourly job. As such, we typically benchmark by p market every year, and adjust compensation to match the applicable market. By doing so, we believe w workforce. The compensation we paid to the median employee identified below was benchmarked in ac verify competitive compensation.

There has been no change in the company's employee population or employee compensation arrangem significant change in the pay ratio disclosure. Further, there has been no change in the circumstances o median employee in 2017. Accordingly, the pay ratio calculation has been made using the 2018 compe employee identified in 2017.

As a result of rules the SEC adopted under the Dodd-Frank Act, we are providing the following disclos total compensation of our CEO to the annual total compensation of our median employee. For the year

- the annual total compensation of our median employee was reasonably estimated to be $80,607,
- the annual total compensation of our CEO was $4,730,319; and
- based on this information, the ratio of the annual total compensation of the CEO to that of the median 59:1

We identified our median employee using a multistep process that is permitted under the SEC rules. W taxable earnings paid to each of our employees during 2017, which we gathered from payroll data. The in countries outside the U.S. where the headcount is less than approximately 35, as allowed under the d rules. The total numbers of U.S. employees and non-U.S. employees were 2,146 and 1,754, respectivel such exclusions and for purposes of calculating such exclusions.

Countries and number of employees excluded (162):

Mexico – 3	Brazil – 4	Australia – 38	Hong Kong - 10
Taiwan – 1	Indonesia – 2	Malaysia – 1	Philippines – 2

Singapore – 1	Thailand – 1	Vietnam – 2	Czech Republic – 35
United Arab Emirates – 10	Italy – 6	Spain – 5	Portugal - 1
Ireland – 2	Turkey – 2	Netherlands - 35	Kazakhstan - 1

We annualized the total taxable compensation paid to those employees who commenced work with us d
not work for us the entire calendar year. Using this annual taxable compensation data, we identified the
compensation was closest to the median. We then calculated the total annual compensation of the medi
as we calculate total annual compensation for our CEO in the Summary Compensation Table.

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GRANTS OF PLAN-BASED AWARDS

The table below shows information on AIP awards and PSUs granted to each NEO in 2018. There is no
fair value of PSU/RSU awards will be realized by the executive.

Name		Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards Threshold ($)	Target ($)	Maximum ($)	Estimated Future Payouts Under Equity Incentive Plan Awards Threshold (#)	Target (#)	Maximum (#)	All Other Stock Awards: Number of Shares of Stock or Units (#)	All Opt Aw Nur Sec Unc Lyi (#)
Victor D. Grizzle	(1)	N/A	371,875	743,750	1,487,500					
	(2)	2/27/2018				13,114	52,454	144,249		
Brian L. MacNeal	(1)	N/A	126,506	253,013	506,025					
	(2)	2/27/2018				1,916	7,664	21,076		
Charles M. Chiappone	(1)	N/A	117,686	235,373	470,745					
	(2)	2/27/2018				1,569	6,276	17,259		
Mark A. Hershey	(1)	N/A	124,691	249,381	498,762					
	(2)	2/27/2018				4,284	8,567	19,276		
Ellen R. Romano	(1)	N/A	87,580	175,160	350,320					
	(2)	2/27/2018				2,645	5,290	11,903		
David S. Cookson	(1)	N/A	46,878	93,756	187,513					
	(2)(3)	2/27/2018				1,178	4,713	12,961		

(1) The amounts shown represent the 2018 AIP threshold, target and maximum opportunity for
included in the Non-Equity Incentive Plan Compensation column of the SCT.

(2) In 2018, the Company's LTI program for NEOs included PSUs that have a three-year performance
and FCF; participants earn up to 275% of target for Messrs. Grizzle, MacNeal, Chiappone and Cook
for Mr. Hershey and Ms. Romano if the Company achieves the established performance goals. Any
shares underlying PSUs will be accrued in a non-interest bearing account and paid when the restricti
lapse.

(3) Upon Mr. Cookson's retirement on July 1, 2018, he forfeited his 2018 PSU grant.

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OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

The table below shows the number of shares covered by exercisable and unexercisable stock options, a
held by each NEO on December 31, 2018. Market or payout values in the table below are based on the
Common Stock on that date, $58.21. Equity awards held by NEOs at the time of the 2016 separation of
adjusted to reflect such separation, consistent with equity awards held by other Company employees, a
outstanding adjusted awards as of December 31, 2018.

		Option Awards				Stock Awards	
Name	Grant Date	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable[1]	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Valu of Shares or Units of Stoc That Have N Vested ($)
Victor D. Grizzle	1/17/2011	19,158		32.03	01/17/21		
	3/2/2011	31,200		31.15	03/02/21		
	2/28/2012	31,348		37.83	02/28/22		
	2/20/2013	25,689		45.32	02/20/23		
	2/25/2014	22,914		47.17	02/25/24		
	4/11/2016						
	2/28/2017						
	2/27/2018						
Brian L. MacNeal	6/24/2014	3,740		49.96	06/24/24		
	4/11/2016						
	2/28/2017						
	2/27/2018						
Charles M. Chiappone	2/28/2012	2,307		37.83	02/28/22		
	2/20/2013	3,781		45.32	02/20/23		
	2/25/2014	5,904		47.17	02/25/24		

	4/11/2016						
	2/28/2017						
	2/27/2018						
Mark A. Hershey	2/20/2013	17,539	45.32	02/20/23			
	2/25/2014	16,184	47.17	02/25/24			
	4/11/2016				9,025	(1)	525,345
	4/11/2016						
	2/28/2017						
	2/27/2018						
Ellen R. Romano	4/11/2016						