

AMERICAN WOODMARK CORP

Form 10-Q

February 28, 2014

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended January 31, 2014

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: 000-14798

American Woodmark Corporation

(Exact name of registrant as specified in its charter)

Virginia

(State or other jurisdiction of
incorporation or organization)

54-1138147

(I.R.S. Employer Identification No.)

3102 Shawnee Drive,

Winchester, Virginia

(Address of principal executive
offices)

22601

(Zip Code)

(540) 665-9100

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last
report)

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

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required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically 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 ☒ 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.

Large accelerated filer

Accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company)

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 ☒

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

As of February 25, 2014, 15,540,389 shares of the Registrant's Common Stock were outstanding.

AMERICAN WOODMARK CORPORATION

FORM 10-Q

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

AMERICAN WOODMARK CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share data)

(Unaudited)

	January 31, 2014	April 30, 2013
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 126,053	\$ 96,971
Customer receivables, net	48,107	39,044
Inventories	29,671	29,338
Prepaid expenses and other	3,309	3,084
Deferred income taxes	7,736	9,481
Total Current Assets	214,876	177,918
Property, plant and equipment, net	73,480	74,064
Promotional displays, net	5,914	5,811
Deferred income taxes	26,480	29,262
Other assets	7,114	6,938
TOTAL ASSETS	\$ 327,864	\$ 293,993

LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities		
Accounts payable	\$ 24,919	\$ 23,306
Current maturities of long-term debt	1,436	1,155
Accrued compensation and related expenses	22,144	26,213
Accrued marketing expenses	12,734	10,159
Other accrued expenses	10,058	8,275
Total Current Liabilities	71,291	69,108
Long-term debt, less current maturities	23,311	23,594
Defined benefit pension liabilities	51,258	53,696
Other long-term liabilities	1,470	1,400

Shareholders' Equity

Preferred stock, \$1.00 par value; 2,000,000 shares authorized, none issued	0	0
Common stock, no par value; 40,000,000 shares authorized; issued and outstanding shares: at January 31, 2014: 15,527,722;		

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at April 30, 2013: 14,822,580	126,160	107,165
Retained earnings	86,007	71,180
Accumulated other comprehensive loss -		
Defined benefit pension plans	(31,633)	(32,150)
Total Shareholders' Equity	180,534	146,195
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 327,864	\$ 293,993

See notes to condensed consolidated financial statements.

AMERICAN WOODMARK CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except share and per share data)

(Unaudited)

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2014	2013	2014	2013
Net sales	\$ 169,033	\$ 151,346	\$ 537,660	\$ 459,358
Cost of sales and distribution	143,032	127,839	445,670	389,014
Gross Profit	26,001	23,507	91,990	70,344
Selling and marketing expenses	14,287	13,083	44,638	42,576
General and administrative expenses	6,564	6,714	22,555	18,977
Restructuring charges, net	48	118	161	979
Insurance proceeds	0	0	(94)	(399)
Operating Income	5,102	3,592	24,730	8,211
Interest expense	182	157	554	474
Other income	(33)	(41)	(90)	(125)
Income Before Income Taxes	4,953	3,476	24,266	7,862
Income tax expense	2,052	1,419	9,439	3,294
Net Income	\$ 2,901	\$ 2,057	\$ 14,827	\$ 4,568
Net Earnings Per Share				
Weighted Average Shares Outstanding				
Basic	15,475,683	14,581,573	15,218,558	14,498,483
Diluted	15,827,666	14,904,524	15,595,342	14,719,441
Net earnings per share				
Basic	\$ 0.19	\$ 0.14	\$ 0.97	\$ 0.32
Diluted	\$ 0.18	\$ 0.14	\$ 0.95	\$ 0.31

See notes to condensed consolidated financial statements.

AMERICAN WOODMARK CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

(Unaudited)

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2014	2013	2014	2013
Net income	\$ 2,901	\$ 2,057	\$ 14,827	\$ 4,568
Other comprehensive income, net of tax:				
Change in pension benefits, net of deferred tax of \$(110) and \$(90), and \$(330) and \$(270), for the three and nine months ended January 31, 2014 and 2013, respectively	172	142	517	423
Total Comprehensive Income	\$ 3,073	\$ 2,199	\$ 15,344	\$ 4,991

See notes to condensed consolidated financial statements.

AMERICAN WOODMARK CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited)

	Nine Months Ended January 31,	
	2014	2013
OPERATING ACTIVITIES		
Net income	\$ 14,827	\$ 4,568
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	10,859	10,967
Net (gain) loss on disposal of property, plant and equipment	(1)	107
Gain on sales of assets held for sale	0	(481)
Gain on insurance recoveries	(94)	(399)
Stock-based compensation expense	2,518	2,648
Deferred income taxes	4,427	2,994
Pension contributions in excess of expense	(1,591)	(4,360)
Tax benefit from stock-based compensation	(480)	(331)
Other non-cash items	982	325
Changes in operating assets and liabilities:		
Customer receivables	(9,051)	(8,552)
Inventories	(839)	(5,689)
Prepaid expenses and other assets	(805)	(835)
Accounts payable	1,613	3,449
Accrued compensation and related expenses	(4,069)	419
Other accrued expenses	5,248	(2,593)
Net Cash Provided by Operating Activities	23,544	2,237
INVESTING ACTIVITIES		
Payments to acquire property, plant and equipment	(5,553)	(7,667)
Proceeds from sales of property, plant and equipment	65	75
Proceeds from insurance recoveries	94	399
Proceeds from sales of assets held for sale	0	6,447
Investment in promotional displays	(2,883)	(3,426)
Net Cash Used by Investing Activities	(8,277)	(4,172)
FINANCING ACTIVITIES		
Payments of long-term debt	(1,056)	(830)
Proceeds from issuance of common stock	14,391	1,818
Tax benefit from stock-based compensation	480	331
Net Cash Provided by Financing Activities	13,815	1,319
Net Increase (Decrease) in Cash and Cash Equivalents	29,082	(616)
Cash and Cash Equivalents, Beginning of Period	96,971	66,620

Cash and Cash Equivalents, End of Period	\$ 126,053	\$ 66,004
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See notes to condensed consolidated financial statements.

AMERICAN WOODMARK CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE A--BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete consolidated financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three- and nine-month periods ended January 31, 2014 are not necessarily indicative of the results that may be expected for the fiscal year ending April 30, 2014. The unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes in the Company's Annual Report on Form 10-K for the fiscal year ended April 30, 2013 filed with the U.S. Securities Exchange Commission (SEC).

NOTE B--NEW ACCOUNTING PRONOUNCEMENTS

In February 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2013-02, "Comprehensive Income (Topic 220): Reporting Amounts Reclassified Out of Accumulated Other Comprehensive Income," which requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. The ASU does not change the current requirements for reporting net income or other comprehensive income in financial statements. The Company adopted this guidance effective May 1, 2013 with no significant impact on the Company's results of operations or financial position.

NOTE C--NET EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted net earnings per share:

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(in thousands, except per share amounts)	Three Months Ended		Nine Months Ended	
	January 31, 2014	2013	January 31, 2014	2013
Numerator used in basic and diluted net earnings per common share:				
Net income	\$ 2,901	\$ 2,057	\$ 14,827	\$ 4,568
Denominator:				
Denominator for basic net earnings per common share - weighted-average shares	15,476	14,582	15,219	14,498
Effect of dilutive securities:				
Stock options and restricted stock units	352	323	376	221
Denominator for diluted net earnings per common share - weighted-average shares and assumed conversions	15,828	14,905	15,595	14,719
Net earnings per share				
Basic	\$ 0.19	\$ 0.14	\$ 0.97	\$ 0.32
Diluted	\$ 0.18	\$ 0.14	\$ 0.95	\$ 0.31

Potentially dilutive securities of 0.0 million and 0.7 million shares for the three-month periods ended January 31, 2014 and 2013, respectively, and 0.1 million and 1.3 million shares for the nine-month periods ended January 31, 2014 and 2013, respectively, were excluded from the calculation of net earnings per share, as the effect would be anti-dilutive.

NOTE D--STOCK-BASED COMPENSATION

The Company has various stock-based compensation plans. During the quarter ended January 31, 2014, the Company did not grant any stock-based compensation awards to employees or non-employee directors. During the nine months ended January 31, 2014, the Board of Directors of the Company approved grants of non-statutory stock options and performance-based restricted stock units (RSUs) to key employees and grants of service-based restricted stock units to key employees and non-employee directors. The employee non-statutory stock option grants totaled 60,500 shares of the Company's common stock with an exercise price of \$36.74 per share. The options vest evenly over a three-year period and have a ten-year contractual term. The employee performance-based RSUs totaled 75,600 units and the employee and non-employee director service-based RSUs totaled 36,400 units. The performance-based RSUs entitle the recipients to receive one share of the Company's common stock per unit granted if applicable performance conditions are met and the recipient remains continuously employed with the Company until the units vest. The service-based RSUs entitle the recipients to receive one share of the Company's common stock per unit granted if they remain continuously employed with the Company, or on the Board, until the units vest. All of the Company's RSUs granted to employees cliff-vest three years from the grant date. The service-based RSUs granted to non-employee directors vest daily through the end of a two-year vesting period as long as the recipient continuously remains a member of the Board.

For the three- and nine-month periods ended January 31, 2014 and 2013, stock-based compensation expense was allocated as follows:

	Three Months Ended January 31,		Nine Months Ended January 31,	
(in thousands)	2014	2013	2014	2013
Cost of sales and distribution	\$ 131	\$ 159	\$ 373	\$ 467
Selling and marketing expenses	211	224	592	654
General and administrative expenses	446	504	1,553	1,527
Stock-based compensation expense	\$ 788	\$ 887	\$ 2,518	\$ 2,648

During the nine months ended January 31, 2014, the Board of Directors of the Company also approved grants of 9,486 cash-settled performance-based restricted stock tracking units (RSTUs) and 3,264 cash-settled service-based RSTUs for more junior level employees who previously received RSU grants under the Company's shareholder approved plan. Each performance-based RSTU entitles the recipient to receive a payment in cash equal to the fair market value of a share of our common stock as of the payment date if applicable performance conditions are met and the recipient remains continuously employed with the Company until the units vest. The service-based RSTUs entitle the recipients to receive a payment in cash equal to the fair market value of a share of our common stock as of the

payment date if they remain continuously employed with the Company until the units vest. The RSTUs cliff-vest three years from the grant date. Since the RSTUs will be settled in cash, the grant date fair value of these awards is recorded as a liability until the date of payment. The fair value of each cash-settled RSTU award is remeasured at the end of each reporting period and the liability is adjusted, and related expense recorded, based on the new fair value. The Company recognized expense of \$26 thousand and \$67 thousand related to RSTUs for the three- and nine-month periods ended January 31, 2014, respectively.

NOTE E--CUSTOMER RECEIVABLES

The components of customer receivables were:

	January 31, 2014	April 30, 2013
(in thousands)		
Gross customer receivables	\$ 50,448	\$ 41,397
Less:		
Allowance for doubtful accounts	(153)	(148)
Allowance for returns and discounts	(2,188)	(2,205)
Net customer receivables	\$ 48,107	\$ 39,044

NOTE F--INVENTORIES

The components of inventories were:

	January 31, 2014	April 30, 2013
(in thousands)		
Raw materials	\$ 12,797	\$ 11,823
Work-in-process	16,770	17,170
Finished goods	11,087	11,318
Total FIFO inventories	40,654	40,311
Reserve to adjust inventories to LIFO value	(10,983)	(10,973)
Total LIFO inventories	\$ 29,671	\$ 29,338

Interim LIFO calculations are based on management's estimates of expected year-end inventory levels and costs. Since these items are estimated, interim results are subject to the final year-end LIFO inventory valuation.

NOTE G--PRODUCT WARRANTY

The Company estimates outstanding warranty costs based on the historical relationship between warranty claims and revenues. The warranty accrual is reviewed monthly to verify that it properly reflects the remaining obligation based on the anticipated expenditures over the balance of the obligation period. Adjustments are made when actual warranty claim experience differs from estimates. Warranty claims are generally made within two months of the original shipment date.

The following is a reconciliation of the Company's warranty liability:

	Nine Months Ended	
	January 31,	
(in thousands)	2014	2013
Beginning balance at May 1	\$ 1,795	\$ 1,885
Accrual	8,447	6,959
Settlements	(8,607)	(7,168)
Ending balance at January 31	\$ 1,635	\$ 1,676

NOTE H--CASH FLOW

Supplemental disclosures of cash flow information:

(in thousands)	Nine Months Ended January 31,	
	2014	2013
Cash paid during the period for:		
Interest	\$ 502	\$ 451
Income taxes	\$ 3,978	\$ 268

NOTE I--PENSION BENEFITS

Effective April 30, 2012, the Company froze all future benefit accruals under the Company's hourly and salary defined-benefit pension plans.

Net periodic pension cost consisted of the following for the three months and nine months ended January 31, 2014 and 2013:

(in thousands)	Three Months Ended January 31, 2014	Nine Months Ended January 31, 2013
	2013	2013