AMERICAN WOODMARK CORP
Form 10-Q
August 28, 2015

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 July 31, 2015

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	54-1138147
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
3102 Shawnee Drive, Winchester, Virginia	22601
(Address of principal executive offices)	(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 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, 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	[X]
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 X

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

As of August 26, 2015, 16,257,028 shares of the Registrant's Common Stock were outstanding.

AMERICAN WOODMARK CORPORATION

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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)

	July 31, 2015	April 30, 2015
ASSETS		
Current Assets		
Cash and cash equivalents	$153,020	$149,541
Investments - certificates of deposit	37,750	35,500
Customer receivables, net	53,106	46,142
Inventories	37,004	35,988
Prepaid expenses and other	3,824	4,758
Deferred income taxes	10,587	9,566
Total Current Assets	295,291	281,495
Property, plant and equipment, net	94,387	85,516
Promotional displays, net	5,531	4,348
Deferred income taxes	23,553	23,821
Other assets	3,831	3,724
TOTAL ASSETS	$422,593	$398,904
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	$34,831	$34,288
Current maturities of long-term debt	1,511	1,457
Accrued compensation and related expenses	27,172	30,120
Accrued marketing expenses	8,000	6,471
Income taxes payable	7,492	1,791
Other accrued expenses	11,061	10,663
Total Current Liabilities	90,067	84,790
Long-term debt, less current maturities	21,287	21,498
Defined benefit pension liabilities	60,248	61,325
Other long-term liabilities	1,727	1,449
Shareholders' Equity		
Preferred stock, $1.00 par value; 2,000,000 shares authorized, none issued	—	—
Common stock, no par value; 40,000,000 shares authorized; issued and outstanding shares: at July 31, 2015: 16,263,209; at April 30, 2015: 16,079,671	155,576	150,001
Retained earnings	134,329	120,698
Accumulated other comprehensive loss - Defined benefit pension plans	(40,641)	(40,857)
Total Shareholders' Equity	249,264	229,842

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$422,593	$398,904

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 July 31, 2015	2014
Net sales	$231,198	$211,917
Cost of sales and distribution	181,025	174,803
Gross Profit	50,173	37,114
Selling and marketing expenses	15,719	15,515
General and administrative expenses	10,731	8,411
Restructuring charges, net	—	3
Operating Income	23,723	13,185
Interest expense	54	164
Other income	(52)	(33)
Income Before Income Taxes	23,721	13,054
Income tax expense	8,563	3,816
Net Income	$15,158	$9,238
Net Earnings Per Share		
Weighted Average Shares Outstanding		
Basic	16,180,860	15,532,103
Diluted	16,421,230	15,768,884
Net earnings per share		
Basic	$0.94	$0.59
Diluted	$0.92	$0.59

See notes to condensed consolidated financial statements.

AMERICAN WOODMARK CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)
(Unaudited)

	Three Months Ended July 31, 2015	2014
Net income	$15,158	$9,238
Other comprehensive income, net of tax:		
Change in pension benefits, net of deferred tax benefit of $(138) and $(84), respectively	216	132
Total Comprehensive Income	$15,374	$9,370

See notes to condensed consolidated financial statements.

AMERICAN WOODMARK CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(Unaudited)

	Three Months Ended July 31,	
	2015	2014
OPERATING ACTIVITIES		
Net income	$15,158	$9,238
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,558	3,683
Net loss on disposal of property, plant and equipment	9	9
Stock-based compensation expense	963	943
Deferred income taxes	1,388	597
Pension contributions in excess of expense	(723)	(587)
Tax benefit from stock-based compensation	(2,297)	(5)
Contributions of employer stock to employee benefit plan	1,761	2,159
Other non-cash items	(2,911)	(1,299)
Changes in operating assets and liabilities:		
Customer receivables	(7,141)	(5,128)
Inventories	(1,043)	(3,996)
Prepaid expenses and other assets	428	641
Accounts payable	543	2,419
Accrued compensation and related expenses	(2,948)	(3,551)
Income taxes payable	5,701	3,018
Other accrued expenses	2,571	1,126
Net Cash Provided by Operating Activities	15,017	9,267
INVESTING ACTIVITIES		
Payments to acquire property, plant and equipment	(11,133)	(2,477)
Proceeds from sales of property, plant and equipment	82	7
Investment in certificates of deposit, net	(2,250)	—
Investment in promotional displays	(1,994)	(802)
Net Cash Used by Investing Activities	(15,295)	(3,272)
FINANCING ACTIVITIES		
Payments of long-term debt	(370)	(282)
Proceeds from issuance of common stock	3,556	600
Repurchase of common stock	(1,768)	(4,064)
Notes receivable, net	42	167
Tax benefit from stock-based compensation	2,297	5
Net Cash Provided (Used) by Financing Activities	3,757	(3,574)
Net Increase in Cash and Cash Equivalents	3,479	2,421
Cash and Cash Equivalents, Beginning of Period	149,541	135,700
Cash and Cash Equivalents, End of Period	$153,020	$138,121

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-month period ended July 31, 2015 are not necessarily indicative of the results that may be expected for the fiscal year ending April 30, 2016. 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, 2015 filed with the U.S. Securities Exchange Commission (SEC).

Note B--New Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, “Revenue from Contracts with Customers (Topic 606).” ASU 2014-09 supersedes the revenue recognition requirements in “Accounting Standard Codification 605 - Revenue Recognition” and most industry-specific guidance. The standard requires that entities recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which a company expects to be entitled in exchange for those goods or services. ASU 2014-09 permits the use of either the retrospective or cumulative effect transition method. In August 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-14, “Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date.” ASU 2015-14 defers the effective date of ASU 2014-09 by one year to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that period. The Company is currently assessing the impact ASU 2014-09 and ASU 2015-14 will have on its financial position and results of operations.

Note C--Net Earnings Per Share

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

	Three Months Ended July 31,	
(in thousands, except per share amounts)	2015	2014
Numerator used in basic and diluted net earnings per common share:		
Net income	$15,158	$9,238
Denominator:		
Denominator for basic net earnings per common share - weighted-average shares	16,181	15,532
Effect of dilutive securities:		
Stock options and restricted stock units	240	237
Denominator for diluted net earnings per common share - weighted-average shares and assumed conversions	16,421	15,769
Net earnings per share		
Basic	$0.94	$0.59
Diluted	$0.92	$0.59

The Company repurchased a total of 30,555 and 130,000 shares of its common stock during the three-month periods ended July 31, 2015 and 2014, respectively. There were no potentially dilutive securities for the three-month period ended July 31, 2015, which were excluded from the calculation of net earnings per share. There were approximately 0.5 million shares of

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common stock which were excluded from the calculation of net earnings per share during the three-month period ended July 31, 2014, as the effect would be anti-dilutive.

Note D--Stock-Based Compensation

The Company has various stock-based compensation plans. During the three-months ended July 31, 2015, the Board of Directors of the Company approved grants of non-statutory stock options and service-based restricted stock units (RSUs) and performance-based RSUs to key employees. The employee non-statutory stock option grants totaled 30,700 shares of the Company's common stock with an exercise price of $57.11 per share. The options vest evenly over a three-year period and have a ten-year contractual term. The employee performance-based RSUs totaled 48,201 units and the employee service-based RSUs totaled 16,049 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 until the units vest. All of the Company's RSUs granted to employees cliff-vest three years from the grant date.

For the three-month periods ended July 31, 2015 and 2014, stock-based compensation expense was allocated as follows:

	Three Months Ended July 31,	
(in thousands)	2015	2014
Cost of sales and distribution	$158	$155
Selling and marketing expenses	280	256
General and administrative expenses	525	532
Stock-based compensation expense	$963	$943

During the three months ended July 31, 2015, the Board of Directors of the Company also approved grants of 7,616 cash-settled performance-based restricted stock tracking units (RSTUs) and 2,499 cash-settled service-based RSTUs for more junior level employees. Each performance-based RSTU entitles the recipient to receive a payment in cash equal to the fair market value of a share of the Company's 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 the Company's common stock as of the payment date if they remain continuously employed with the Company until the units vest. All of 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 $281 thousand and $49 thousand for the three-month periods ended July 31, 2015 and 2014, respectively, related to RSTUs. A liability for payment of the RSTUs is included in the Company's balance sheets in the amount of $701 thousand and $420 thousand as of July 31, 2015 and April 30, 2015, respectively.

Note E--Customer Receivables

The components of customer receivables were:

(in thousands)	July 31, 2015	April 30, 2015
Gross customer receivables	$55,796	$48,655
Less:		

Allowance for doubtful accounts	(203)	(173)
Allowance for returns and discounts	(2,487)	(2,340)
Net customer receivables	$53,106	$46,142

Note F--Inventories

The components of inventories were:

(in thousands)	July 31, 2015	April 30, 2015
Raw materials	$17,530	$17,199
Work-in-process	18,296	18,095
Finished goods	15,451	14,797
Total FIFO inventories	51,277	50,091
Reserve to adjust inventories to LIFO value	(14,273)	(14,103)
Total LIFO inventories	$37,004	$35,988

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, which is included in other accrued expenses on the balance sheet:

	Three Months Ended July 31,	
(in thousands)	2015	2014
Beginning balance at May 1	$2,643	$1,910
Accrual	3,756	3,938
Settlements	(3,522)	(3,362)
Ending balance at July 31	$2,877	$2,486

Note H--Cash Flow

Supplemental disclosures of cash flow information:

	Three Months Ended July 31,	
(in thousands)	2015	2014
Cash paid during the period for:		
Interest	$121	$144
Income taxes	$1,622	$196

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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 (benefit) cost consisted of the following for the three-month periods ended July 31, 2015 and 2014:

	Three Months Ended July 31,	
(in thousands)	2015	2014
Interest cost	$1,754	$1,617
Expected return on plan assets	(2,036)	(1,917)
Recognized net actuarial loss	353	216
Net periodic pension (benefit) cost	$71	$(84)

The Company expects to contribute $5.0 million to its pension plans in fiscal 2016, which represents both required and discretionary funding. As of July 31, 2015, $0.8 million of contributions had been made. The Company made contributions of $4.3 million to its pension plans in fiscal 2015.

Note J--Fair Value Measurements

The Company utilizes the hierarchy of fair value measurements to classify certain of its assets and liabilities based upon the following definitions:
Level 1- Investments with quoted prices in active markets for identical assets or liabilities. The Company's cash equivalents are invested in money market funds, mutual funds and certificates of deposit. The Company's mutual fund investment assets represent contributions made and invested on behalf of the Company's executive officers in a supplementary employee retirement plan.

Level 2- Investments with observable inputs other than Level 1 prices, such as: quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. The Company has no Level 2 assets or liabilities.

Level 3- Investments with unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. The Company has no Level 3 assets or liabilities.

The following table summarizes the fair values of assets that are recorded in the Company's unaudited condensed consolidated financial statements as of July 31, 2015 and April 30, 2015 at fair value on a recurring basis (in thousands):

	Fair Value Measurements As of July 31, 2015 Level 1	Level 2	Level 3
ASSETS:			
Money market funds	$30,481	$—	$—
Mutual funds	1,045	—	—
Certificates of deposit	38,500	—	—
Total assets at fair value	$70,026	$—	$—

	As of April 30, 2015 Level 1	Level 2	Level 3
ASSETS:			
Money market funds	$30,480	$—	$—
Mutual funds	1,048	—	—
Certificates of deposit	38,000	—	—
Total assets at fair value	$69,528	$—	$—

Note K--Loans Payable and Long-Term Debt

The Company's outstanding indebtedness and other obligations to Wells Fargo are unsecured. Under the terms of its revolving credit facility, the Company must also (1) maintain at the end of each fiscal quarter a ratio of total liabilities to tangible net worth of not greater than 1.4 to 1.0; (2) maintain at the end of each fiscal quarter a ratio of cash flow to fixed charges of not less than 1.5 to 1.0 measured on a rolling four-quarter basis; and (3) comply with other customary affirmative and negative covenants. The Company was in compliance with all covenants specified in the credit facility as of July 31, 2015, including as follows: (1) the Company's ratio of total liabilities to tangible net worth at July 31, 2015 was 0.7 to 1.0; and (2) cash flow to fixed charges for its most recent four quarters was 3.20 to 1.0.

Note L--Income Taxes

The Company's effective income tax rate for the three month period ended July 31, 2015 was 36.1%, compared with 29.2%, in the comparable period of the prior fiscal year. The higher effective tax rate in fiscal 2016 was the result of a federal research and experimentation tax credit for fiscal years 2011 through 2014 of $1.1 million being recorded in the first quarter of fiscal 2015.

Note M--Other Information

The Company is involved in suits and claims in the normal course of business, including without limitation product liability and general liability claims, and claims pending before the Equal Employment Opportunity Commission. On at least a quarterly basis, the Company consults with its legal counsel to ascertain the reasonable likelihood that such claims may result in a loss. As required by FASB Accounting Standards Codification Topic 450, "Contingencies" (ASC 450), the Company categorizes the various suits and claims into three categories according to their likelihood for resulting in potential loss: those that are probable, those that are reasonably possible, and those that are deemed to be remote. Where losses are deemed to be probable and estimable, accruals are made. Where losses are deemed to be reasonably possible, a range of loss estimates is determined and considered for disclosure. In determining these loss range estimates, the Company considers known values of similar claims and consults with independent counsel.

The Company believes that the aggregate range of loss stemming from the various suits and asserted and unasserted claims which were deemed to be either probable or reasonably possible was not material as of July 31, 2015.

Item 2.
Management’s Discussion and Analysis of Financial Condition
and Results of Operations

The following discussion should be read in conjunction with our unaudited condensed consolidated financial statements and the related notes, both of which are included in Part I, Item 1 of this report. The Company’s critical accounting policies are included in the Company’s Annual Report on Form 10-K for the fiscal year ended April 30, 2015.

Forward-Looking Statements

This report contains statements concerning the Company’s expectations, plans, objectives, future financial performance, and other statements that are not historical facts. These statements may be “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. In most cases, the reader can identify forward-looking statements by words such as “anticipate,” “estimate,” “forecast,” “expect,” “believe,” “should,” “could,” “wou “plan,” “may,” "intend," "estimate," "prospect," "goal," "will," "predict," "potential" or other similar words. Forward-looking statements contained in this report, including elsewhere in Management’s Discussion and Analysis of Financial Condition and Results of Operations, are based on current expectations and our actual results may differ materially from those projected in any forward-looking statements. In addition, the Company participates in an industry that is subject to rapidly changing conditions and there are numerous factors that could cause the Company to experience a decline in sales and/or earnings or deterioration in financial condition. Factors that could cause actual results to differ materially from those in forward-looking statements made in this report include but are not limited to:

- general economic or business conditions and instability in the financial and credit markets, including their potential impact on our (i) sales and operating costs and access to financing, and (ii) customers and suppliers and their ability to obtain financing or generate the cash necessary to conduct their respective businesses;
- the cyclical nature of the Company’s industry, which is particularly sensitive to changes in consumer confidence, the amount of consumers’ income available for discretionary purchases, and the availability and terms of consumer credit;
- economic weakness in a specific channel of distribution;
- the loss of sales from specific customers due to their loss of market share, bankruptcy or switching to a competitor;
- risks associated with domestic manufacturing operations and suppliers, including fluctuations in capacity utilization and the prices and availability of key raw materials as well as fuel, transportation, warehousing and labor costs and environmental compliance and remediation costs;
- the need to respond to price or product initiatives launched by a competitor;
- the Company’s ability to successfully implement initiatives related to increasing market share, new products, maintaining and increasing its sales force and new product displays; and
- sales growth at a rate that outpaces the Company’s ability to install new capacity or a sales decline that requires reduction or realignment of the Company’s manufacturing capacity.

Additional information concerning factors that could cause actual results to differ materially from those in forward-looking statements is contained in this report, including elsewhere in Management’s Discussion and Analysis of Financial Condition and Results of Operations, and also in the Company's most recent Annual Report on Form 10-K for the fiscal year ended April 30, 2015, filed with the SEC, including under Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” Item 1A, "Risk Factors," and Item 7A, "Quantitative and Qualitative Disclosures about Market Risk." While the Company believes that these risks are manageable and will not adversely impact the long-term performance of the Company, these risks could, under certain circumstances, have a material adverse impact on its operating results and financial condition.

Any forward-looking statement that the Company makes speaks only as of the date of this report. The Company undertakes no obligation to publicly update or revise any forward-looking statements or cautionary factors, as a result of new information, future events or otherwise, except as required by law.

Overview