AMERICAN WOODMARK CORP
Form 10-Q
August 30, 2016

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, 2016

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 [X]	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 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 29, 2016, 16,305,945 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)

	July 31, 2016	April 30, 2016
ASSETS		
Current Assets		
Cash and cash equivalents	$162,563	$174,463
Investments - certificates of deposit	56,750	25,750
Customer receivables, net	57,580	55,813
Inventories	39,954	39,319
Prepaid expenses and other	5,726	6,864
Total Current Assets	322,573	302,209
Property, plant and equipment, net	100,354	99,332
Investments - certificates of deposit	22,250	18,250
Promotional displays, net	5,857	5,377
Deferred income taxes	30,431	32,574
Other assets	8,781	8,618
TOTAL ASSETS	$490,246	$466,360
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	$38,921	$35,011
Current maturities of long-term debt	1,597	1,574
Accrued compensation and related expenses	28,125	35,389
Accrued marketing expenses	9,122	8,075
Income taxes payable	7,198	—
Other accrued expenses	11,816	12,264
Total Current Liabilities	96,779	92,313
Long-term debt, less current maturities	22,773	22,145
Defined benefit pension liabilities	65,530	67,131
Other long-term liabilities	3,468	4,010
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, 2016: 16,311,445; at April 30, 2016: 16,244,041	166,802	163,290
Retained earnings	181,909	164,756
Accumulated other comprehensive loss -		
Defined benefit pension plans	(47,015)	(47,285)
Total Shareholders' Equity	301,696	280,761

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$490,246	$466,360

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,	
	2016	2015
Net sales	$258,150	$231,198
Cost of sales and distribution	198,833	181,025
Gross Profit	59,317	50,173
Selling and marketing expenses	16,463	15,719
General and administrative expenses	10,932	10,731
Operating Income	31,922	23,723
Interest expense	159	54
Other income	(197)	(52)
Income Before Income Taxes	31,960	23,721
Income tax expense	10,299	8,563
Net Income	$21,661	$15,158
Net Earnings Per Share		
Weighted Average Shares Outstanding		
Basic	16,264,380	16,180,860
Diluted	16,380,983	16,421,230
Net earnings per share		
Basic	$1.33	$0.94
Diluted	$1.32	$0.92

See notes to condensed consolidated financial statements.

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

	Three Months Ended July 31,	
	2016	2015
Net income	$21,661	$15,158
Other comprehensive income, net of tax:		
Change in pension benefits, net of deferred tax benefit of $(173) and $(138), respectively	270	216
Total Comprehensive Income	$21,931	$15,374

See notes to condensed consolidated financial statements.

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

	Three Months Ended July 31, 2016			2015		
OPERATING ACTIVITIES						
Net income	$	21,661		$	15,158	
Adjustments to reconcile net income to net cash provided by operating activities:						
Depreciation and amortization	4,497			3,558		
Net loss on disposal of property, plant and equipment	136			9		
Stock-based compensation expense	846			963		
Deferred income taxes	1,896			1,388		
Pension contributions in excess of expense	(1,159		)	(723		)
Tax benefit from stock-based compensation	—			(2,297		)
Contributions of employer stock to employee benefit plan	2,926			1,761		
Other non-cash items	(152		)	(273		)
Changes in operating assets and liabilities:						
Customer receivables	(1,907		)	(7,141		)
Inventories	(720		)	(1,043		)
Prepaid expenses and other assets	617			428		
Accounts payable	3,910			543		
Accrued compensation and related expenses	(7,264		)	(2,948		)
Income taxes payable	7,198			5,701		
Other accrued expenses	462			2,571		
Net Cash Provided by Operating Activities	32,947			17,655		
INVESTING ACTIVITIES						
	(4,227		)	(11,133		)

Payments to acquire property, plant and equipment		
Proceeds from sales of property, plant and equipment	9	82
Purchases of certificates of deposit	(42,500)	(8,000)
Maturities of certificates of deposit	7,500	5,750
Investment in promotional displays	(1,353)	(1,994)
Net Cash Used by Investing Activities	(40,571)	(15,295)
FINANCING ACTIVITIES		
Payments of long-term debt	(426)	(370)
Proceeds from long-term debt	750	—
Proceeds from issuance of common stock	2,020	3,556
Repurchase of common stock	(5,100)	(1,768)
Notes receivable, net	167	42
Withholding of employee taxes related to stock-based compensation	(1,687)	(2,638)
Tax benefit from stock-based compensation	—	2,297
Net Cash (Used) Provided by Financing Activities	(4,276)	1,119
Net (Decrease) Increase in Cash and Cash Equivalents	(11,900)	3,479
Cash and Cash Equivalents, Beginning of Period	174,463	149,541
Cash and Cash Equivalents, End of Period	$ 162,563	$ 153,020

See notes to condensed consolidated financial statements.

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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, 2016 are not necessarily indicative of the results that may be expected for the fiscal year ending April 30, 2017. 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, 2016 filed with the U.S. Securities and Exchange Commission ("SEC").

Note B--New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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 FASB issued 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.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)." Among other things, ASU 2016-02 requires lessees to recognize most leases on-balance sheet, which will increase reported assets and liabilities. Lessor accounting remains substantially similar to current U.S. GAAP. ASU 2016-02 supersedes "Topic 840 - Leases." ASU 2016-02 is effective for public companies for annual and interim periods in fiscal years beginning after December 15, 2018. ASU 2016-02 mandates a modified retrospective transition method for all entities. The Company is currently assessing the impact that ASU 2016-02 will have on its consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, "Compensation - Stock Compensation (Topic 718): Improvements to Employee Shares-Based Payment Accounting." ASU 2016-09 is intended to improve the accounting for share-based payment transactions as part of the FASB's simplification initiative. ASU 2016-09 changes several aspects of the accounting for share-based payment award transactions, including: (1) accounting for income taxes; (2) classification of excess tax benefits on the statement of cash flows; (3) forfeitures; (4) minimum statutory tax withholding requirements; and (5) classification of employee taxes paid on the statement of cash flows when an employer withholds shares for tax-withholding purposes. ASU 2016-09 is effective for fiscal years beginning after December 15, 2016, and interim periods within those years for public companies. The Company early adopted this standard as of May 1, 2016. As a result, during the first quarter it recognized the excess tax benefit of $0.9 million as income tax expense on the condensed consolidated statements of income (adopted prospectively). The adoption did not impact the existing classification of the awards. Excess tax benefits from stock based compensation is now classified in net income in the statement of cash flows instead of being separately stated in financing activities for the three months ended July 31, 2016 (adopted prospectively). Additionally, the Company reclassified $2.6 million of employee withholding taxes paid from operating activities into financing activities in the statement of cash flows for the three months ended July 31, 2015, as required by ASU 2016-09 (adopted retrospectively). The adoption of the standard resulted in an increase of $0.06 in basic and diluted earnings per common share for the three months ended July 31, 2016. Following the adoption of the new standard, the Company elected to continue estimating the number of awards expected to be forfeited and adjust its estimate on an ongoing basis.

In April 2015, the FASB issued ASU 2015-03, “Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs.” The Company retrospectively adopted this standard on April 30, 2016, which resulted in the reclassification of approximately $0.3 million of debt issuance costs from other assets to long-term debt as of April 30, 2016. Adoption of the new guidance did not impact the Company's shareholder's equity, results of operations or statements of cash flows.

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)	2016	2015
Numerator used in basic and diluted net earnings per common share:		
Net income	$21,661	$15,158
Denominator:		
Denominator for basic net earnings per common share - weighted-average shares	16,264	16,181
Effect of dilutive securities:		
Stock options and restricted stock units	117	240
Denominator for diluted net earnings per common share - weighted-average shares and assumed conversions	16,381	16,421
Net earnings per share		
Basic	$1.33	$0.94
Diluted	$1.32	$0.92

The Company repurchased a total of 72,400 and 30,555 shares of its common stock during the three-month periods ended July 31, 2016 and 2015, respectively. There were no potentially dilutive securities for the three-month periods ended July 31, 2016 and 2015, which were excluded from the calculation of net earnings per share.

Note D--Stock-Based Compensation

The Company has various stock-based compensation plans. During the three-months ended July 31, 2016, the Board of Directors of the Company approved grants of service-based restricted stock units ("RSUs") and performance-based RSUs to key employees. The employee performance-based RSUs totaled 36,058 units and the employee service-based RSUs totaled 19,442 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, 2016 and 2015, stock-based compensation expense was allocated as follows:

	Three Months Ended July 31,	
(in thousands)	2016	2015
Cost of sales and distribution	$154	$158
Selling and marketing expenses	257	280
General and administrative expenses	435	525
Stock-based compensation expense	$846	$963

During the three months ended July 31, 2016, the Board of Directors of the Company also approved grants of 5,136 cash-settled performance-based restricted stock tracking units ("RSTUs") and 2,804 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 $51 thousand and $281 thousand for the three-month periods ended July 31, 2016 and 2015, respectively, related to RSTUs. A liability for payment of the RSTUs is included in the Company's balance sheets in the amount of $745 thousand and $1.2 million as of July 31, 2016 and April 30, 2016, respectively.

Note E--Customer Receivables

The components of customer receivables were:

(in thousands)	July 31, 2016	April 30, 2016
Gross customer receivables	$60,500	$58,593
Less:		
Allowance for doubtful accounts	(210)	(171)
Allowance for returns and discounts	(2,710)	(2,609)
Net customer receivables	$57,580	$55,813

Note F--Inventories

The components of inventories were:

(in thousands)	July 31, 2016	April 30, 2016
Raw materials	$18,138	$17,634
Work-in-process	18,834	18,414
Finished goods	17,186	17,475
Total FIFO inventories	54,158	53,523
Reserve to adjust inventories to LIFO value	(14,204)	(14,204)
Total LIFO inventories	$39,954	$39,319

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.

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The following is a reconciliation of the Company's warranty liability, which is included in other accrued expenses on the balance sheet:

(in thousands)	Three Months Ended July 31, 2016	2015
Beginning balance at May 1	$2,926	$2,643
Accrual	4,420	3,756
Settlements	(4,334)	(3,522)
Ending balance at July 31	$3,012	$2,877

Note H--Cash Flow

Supplemental disclosures of cash flow information:

(in thousands)	Three Months Ended July 31, 2016	2015
Cash paid during the period for:		
Interest	$144	$121
Income taxes	$357	$1,622

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, 2016 and 2015:

(in thousands)	Three Months Ended July 31, 2016	2015
Interest cost	$1,443	$1,754
Expected return on plan assets	(2,020)	(2,036)
Recognized net actuarial loss	443	353
Net periodic pension (benefit) cost	$(134)	$71

The Company expects to contribute $27.3 million to its pension plans in fiscal 2017, which represents both required and discretionary funding. On August 25, 2016, the Board of Directors of the Company approved up to $20 million of discretionary funding which is included in the total expected contributions for the year. As of July 31, 2016, $1.0 million of contributions had been made. The Company made contributions of $5.0 million to its pension plans in fiscal 2016.

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, 2016 and April 30, 2016 at fair value on a recurring basis (in thousands):

	Fair Value Measurements As of July 31, 2016		
	Level 1	Level 2	Level 3
ASSETS:			
Money market funds	$ 50,002	$ —	$ —
Mutual funds	1,030	—	—
Certificates of deposit	79,250	—	—
Total assets at fair value	$ 130,282	$ —	$ —

	As of April 30, 2016		
	Level 1	Level 2	Level 3
ASSETS:			
Money market funds	$ 30,490	$ —	$ —
Mutual funds	998	—	—
Certificates of deposit	47,500	—	—
Total assets at fair value	$ 78,988	$ —	$ —

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 (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, 2016, including as follows: (1) the Company's ratio of total liabilities to tangible net worth at July 31, 2016 was 0.6 to 1.0; and (2) the Company's ratio of cash flow to fixed charges for its most recent four quarters was 4.3 to 1.0.

Note L--Income Taxes

The Company's effective income tax rate for the three month period ended July 31, 2016 was 32.2%, compared with 36.1% in the comparable period of the prior fiscal year. The effective tax rate in fiscal 2017 was favorably impacted by a $0.9 million tax benefit related to the early adoption of ASU 2016-09, the new accounting guidance relating to stock-based compensation, an adjustment to the pension deferred tax asset balance, and more favorable permanent tax differences.

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 that were deemed to be either probable or reasonably possible was not material as of July 31, 2016.

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, 2016.

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
contained in this report, including elsewhere in "Management's Discussion and Analysis of Financial Condition and Results of