AMERICAN WOODMARK CORP
Form 10-Q
March 12, 2018

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 January 31, 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: 000-14798

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, a smaller reporting company, or an 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	[X]	Accelerated filer	[ ]
Non-accelerated filer	[ ] (Do not check if a smaller reporting company)	Smaller reporting company	[ ]
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 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 March 9, 2018, 17,503,330 shares of the Registrant's Common Stock were outstanding.

AMERICAN WOODMARK CORPORATION

FORM 10-Q

INDEX

PART I.	FINANCIAL INFORMATION	PAGE NUMBER
Item 1.	Financial Statements (unaudited)	
	Condensed Consolidated Balance Sheets--January 31, 2018 and April 30, 2017	4
	Condensed Consolidated Statements of Income--Three months ended January 31, 2018 and 2017; Nine months ended January 31, 2018 and 2017	5
	Condensed Consolidated Statements of Comprehensive Income--Three months ended January 31, 2018 and 2017; Nine months ended January 31, 2018 and 2017	6
	Condensed Consolidated Statements of Shareholders' Equity-- Nine months ended January 31, 2018 and 2017	7
	Condensed Consolidated Statements of Cash Flows--Nine months ended January 31, 2018 and 2017	8
	Notes to Condensed Consolidated Financial Statements--January 31, 2018	10-21
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	21-28
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	28
Item 4.	Controls and Procedures	28
PART II.	OTHER INFORMATION	
Item 1.	Legal Proceedings	28
Item 1A.	Risk Factors	28
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	36
Item 6.	Exhibits	38
SIGNATURES		40

3

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, 2018	April 30, 2017
ASSETS		
Current assets		
Cash and cash equivalents	$139,624	$176,978
Investments - certificates of deposit	8,000	51,750
Customer receivables, net	121,777	63,115
Inventories	108,003	42,859
Income tax receivable	27,353	—
Prepaid expenses and other	10,311	4,526
Total current assets	415,068	339,228
Property, plant and equipment, net	210,628	107,933
Investments - certificates of deposit	2,500	20,500
Customer relationship intangibles, net	270,194	—
Trademarks, net	9,722	—
Goodwill, net	765,743	—
Promotional displays, net	12,925	5,745
Deferred income taxes	—	18,047
Other assets	15,209	9,820
TOTAL ASSETS	$1,701,989	$501,273
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$65,052	$41,312
Current maturities of long-term debt	14,864	1,598
Accrued compensation and related expenses	46,712	36,162
Accrued marketing expenses	18,767	8,655
Other accrued expenses	37,301	13,770
Total current liabilities	182,696	101,497
Long-term debt, less current maturities	881,585	15,279
Deferred income taxes	63,569	—
Defined benefit pension liabilities	6,306	28,032
Other long-term liabilities	5,187	4,016
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 January 31, 2018: 17,503,330; at April 30, 2017: 16,232,775	360,586	168,835
Retained earnings	241,727	224,031
Accumulated other comprehensive loss - Defined benefit pension plans	(39,667)	(40,417)
Total shareholders' equity	562,646	352,449
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$1,701,989	$501,273

See notes to condensed consolidated financial statements.

4

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,	
	2018	2017	2018	2017
Net sales	$292,791	$249,285	$844,387	$771,511
Cost of sales and distribution	242,412	197,689	678,179	604,446
Gross Profit	50,379	51,596	166,208	167,065
Selling and marketing expenses	19,167	18,519	55,397	52,128
General and administrative expenses	23,492	11,476	41,442	33,083
Operating Income	7,720	21,601	69,369	81,854
Interest expense	4,498	447	4,603	776
Other income	(542)	(619)	(1,833)	(1,085)
Income Before Income Taxes	3,764	21,773	66,599	82,163
Income tax expense	1,768	7,220	22,567	28,312
Net Income	$1,996	$14,553	$44,032	$53,851
Weighted Average Shares Outstanding				
Basic	16,578,235	16,241,670	16,349,716	16,267,333
Diluted	16,690,760	16,381,223	16,461,509	16,400,842
Net earnings per share				
Basic	$0.12	$0.90	$2.69	$3.31
Diluted	$0.12	$0.89	$2.67	$3.28

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,	
	2018	2017	2018	2017
Net income	$1,996	$14,553	$44,032	$53,851
Other comprehensive income, net of tax:				
Change in pension benefits, net of deferred taxes of $(138) and $(173), and $(450) and $(518), for the three and nine months ended January 31, 2018 and 2017, respectively	262	270	750	810
Total Comprehensive Income	$2,258	$14,823	$44,782	$54,661

See notes to condensed consolidated financial statements.

AMERICAN WOODMARK CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(in thousands)
(Unaudited)

(in thousands, except share data)	COMMON STOCK SHARES	COMMON STOCK AMOUNT	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE LOSS	TOTAL SHAREHOLDERS' EQUITY
Balance, May 1, 2016	16,244,041	$163,290	$164,756	$(47,285)	$280,761
Net income	—	—	53,851	—	53,851
Other comprehensive loss, net of tax	—	—	—	810	810
Stock-based compensation	—	2,477	—	—	2,477
Exercise of stock-based compensation awards, net of amounts withheld for taxes	122,522	626	—	—	626
Stock repurchases	(178,118)	(1,483)	(11,924)	—	(13,407)
Employee benefit plan contributions	44,080	2,926	—	—	2,926
Balance, January 31, 2017	16,232,525	$167,836	$206,683	$(46,475)	$328,044
Balance, May 1, 2017	16,232,775	$168,835	$224,031	$(40,417)	$352,449
Net income	—	—	44,032	—	44,032
Other comprehensive loss, net of tax	—	—	—	750	750
Stock-based compensation	—	2,506	—	—	2,506
Exercise of stock-based compensation awards, net of amounts withheld for taxes	86,335	(1,494)	—	—	(1,494)
Stock issuance related to acquisition	1,457,568	189,849	—	—	189,849
Stock repurchases	(309,612)	(2,664)	(26,336)	—	(29,000)
Employee benefit plan contributions	36,264	3,554	—	—	3,554
Balance, January 31, 2018	17,503,330	$360,586	$241,727	$(39,667)	$562,646

See notes to condensed consolidated financial statements.

7

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

	Nine Months Ended January 31, 2018			2017		
OPERATING ACTIVITIES						
Net income	$	44,032		$	53,851	
Adjustments to reconcile net income to net cash provided by operating activities:						
Depreciation and amortization	21,662			13,719		
Net loss on disposal of property, plant and equipment	266			286		
Stock-based compensation expense	2,506			2,477		
Deferred income taxes	13,839			10,173		
Pension contributions in excess of expense	(20,526		)	(27,706		)
Contributions of employer stock to employee benefit plan	3,554			2,926		
Other non-cash items	(546		)	(429		)
Changes in operating assets and liabilities:						
Customer receivables	(3,577		)	(3,767		)
Income taxes receivables	(8,652		)	—		
Inventories	235			(2,571		)
Prepaid expenses and other assets	(6,639		)	(1,983		)
Accounts payable	(1,373		)	(2,110		)
Accrued compensation and related expenses	(4,495		)	2,598		
Other accrued expenses	8,595			4,200		
Net cash provided by operating activities	48,881			51,664		
INVESTING ACTIVITIES						
Payments to acquire property, plant and equipment	(31,198		)	(13,654		)

Proceeds from sales of property, plant and equipment	14		37	
Acquisition of business, net of cash acquired	(57,200	)	—	
Purchases of certificates of deposit	(25,000	)	(57,250	)
Maturities of certificates of deposit	86,750		23,000	
Investment in promotional displays	(1,721	)	(3,867	)
Net cash used by investing activities	(28,355	)	(51,734	)
FINANCING ACTIVITIES				
Payments of long-term debt	(21,397	)	(1,290	)
Proceeds from long-term debt	734		2,687	
Proceeds from issuance of common stock	1,286		2,359	
Repurchase of common stock	(29,000	)	(13,407	)
Notes receivable, net	—		208	
Withholding of employee taxes related to stock-based compensation	(2,779	)	(1,734	)
Debt issuance cost	(6,724	)	—	
Net cash used by financing activities	(57,880	)	(11,177	)
Net decrease in cash and cash equivalents	(37,354	)	(11,247	)
Cash and cash equivalents, beginning of period	176,978		174,463	
Cash and cash equivalents, end of period	$ 139,624		$ 163,216	

8

Supplemental cash flow information:		
Non-cash investing and financing activities:		
Long-term debt related to funding acquisition	$300,000	$—
Stock issuance in connection with acquisition	$189,849	$—
Property, plant and equipment	$4,687	$—
Net other assets and liabilities related to acquisition	$6,154	$—
Cash paid during the period for:		
Interest	$272	$435
Income taxes	$17,920	$19,966

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 nine-month period ended January 31, 2018 are not necessarily indicative of the results that may be expected for the fiscal year ending April 30, 2018. 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, 2017 filed with the U.S. Securities and Exchange Commission (“SEC”). On December 29, 2017, the Company successfully completed the acquisition of RSI Home Products, Inc. and subsidiaries (“RSI”). As a result of the RSI acquisition, the financial results of the Company for the three- and nine-month periods ended January 31, 2018 include the results of operation of RSI and its subsidiaries since the date of acquisition.

Inventory: Inventories are stated at lower of cost or market. Inventory costs are determined by the last-in, first-out (LIFO) method and for certain subsidiaries by the first-in, first-out (FIFO) method.

The LIFO cost reserve is determined in the aggregate for inventory and is applied as a reduction to inventories determined on the FIFO method. FIFO inventory cost approximates replacement cost.

Use of Estimates: The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during each reporting period. Examples of estimates include the allocation of fair value to assets acquired and liabilities assumed in acquisitions, pension obligations, useful lives of property and equipment and recoverability of goodwill and other intangible assets. Actual results could differ from those estimates.

Goodwill and Other Intangible Assets: Goodwill represents the excess of purchase price over the net amount of identifiable assets acquired and liabilities assumed in a business combination measured at fair value. The Company does not amortize goodwill but evaluates for impairment annually, or whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

When testing goodwill for impairment, an entity has the option first to assess qualitative factors to determine whether events and circumstances indicate that it is more likely than not that goodwill is impaired. If after such assessment an entity concludes that the asset is not impaired, then the entity is not required to take further action. However, if an entity concludes otherwise, then it is required to determine the fair value of the asset using a quantitative impairment test, and if impaired, the associated assets must be written down to fair value. There were no impairment charges related to goodwill for the three- and nine-month periods ended January 31, 2018 and 2017.

The Company amortizes the cost of other intangible assets over their estimated useful lives, which range up to six years, unless such lives are deemed indefinite. There were no impairment charges related to other intangible assets for the three- and nine-month periods ended January 31, 2018 and 2017.

Note B--New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (the 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 does not expect the adoption of ASU 2014-09 and ASU 2015-14 to have a material impact on results of operations, cash flows and financial position. The Company is continuing to evaluate the impact of ASU 2014-09 primarily to determine the transition method to utilize at adoption and the additional disclosures required.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)." 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 2017, the FASB issued ASU No. 2017-07, "Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost." ASU 2017-07 requires an employer to disaggregate the service cost component from the other components of net benefit (income) cost. The other components of net benefit (income) cost are required to be presented in the income statement separately from the service cost component and outside of operating income. The amendments also allow only the service cost component of net benefit (income) cost to be eligible for capitalization. The amendments in this ASU are effective for fiscal years beginning after December 15, 2017. The amendments in this ASU should be applied (1) retrospectively for the presentation of the service cost component and the other components of net periodic pension (income) cost and net periodic postretirement benefit (income) cost on the income statement, and (2) prospectively, on and after the effective date, for the capitalization of the service cost component of net periodic pension (income) cost and net periodic postretirement benefit (income) cost in assets. The Company believes this guidance will not have a material impact on its results of operations, cash flows and financial position.

In February 2018, the FASB issued ASU No. 2018-02, "Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income." ASU 2018-02 allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from
the Tax Cuts and Jobs Act. The amendments in this ASU are effective for annual and interim periods in fiscal years beginning after December 15, 2018. The Company is currently assessing the impact that ASU 2018-02 will have on its consolidated financial statements.

Note C-- Acquisition of RSI Home Products, Inc. (the "RSI Acquisition")

On November 30, 2017, American Woodmark, Alliance Merger Sub, Inc. ("Merger Sub"), RSI Home Products, Inc. ("RSI") and Ronald M. Simon, as the RSI stockholder representative, entered into a merger agreement (the merger agreement"), pursuant to which the parties agreed to merge Merger Sub with and into RSI pursuant to the terms and subject to the conditions set forth in the Merger Agreement, with RSI continuing as the surviving corporation and as a wholly owned subsidiary of American Woodmark. On December 29, 2017 (the "Acquisition Date"), the Company consummated the RSI Acquisition pursuant to the terms of the Merger Agreement. As a result of the merger of Merger Sub with and into RSI, Merger Sub’s separate corporate existence ceased, and RSI continued as the surviving corporation and a wholly owned subsidiary of American Woodmark. RSI is a leading manufacturer of kitchen and bath cabinetry and home organization products. The acquisition is expected to enable the Company to make further progress in implementing its business strategy of increasing operational efficiency to drive enhanced profitability, leveraging differentiated service platforms to grow revenue, and continuing to deepen relationships within its existing customer base.

In connection with the RSI Acquisition, on December 29, 2017, the Company entered into a credit agreement (the "Credit Agreement") with a syndicate of lenders and Wells Fargo Bank, National Association ("Wells Fargo"), as administrative agent, providing for a $100 million, 5-year revolving loan facility with a $25 million sub-facility for the issuance of letters of credit (the “Revolving Facility”), a $250 million, 5-year initial term loan facility (the "Initial Term Loan") and a $250 million delayed draw term loan facility (the "Delayed Draw Term Loan" and, together with the Revolving Facility and the Initial Term Loan, the "Credit Facilities") (See Note M--Loans Payable and Long-Term Debt for further details). American Woodmark used the full proceeds of the Initial Term Loan and approximately $50 million in loans under the Revolving Facility, together with cash on its balance sheet, to fund the cash portion of the RSI Acquisition consideration and its transaction fees and expenses.

At the closing of the RSI Acquisition, American Woodmark assumed approximately $589 million (including accrued interest) of RSI’s indebtedness consisting largely of RSI’s 6½% Senior Secured Second Lien Notes due 2023 (the "RSI Notes"). (See Note M--Loans Payable and Long-Term Debt).

Preliminary Allocation of Purchase Price to Assets Acquired and Liabilities Assumed

As consideration for the RSI Acquisition, American Woodmark paid total accounting consideration of $553.2 million including (i) cash consideration of $363.3 million, net of cash acquired, and (ii) 1,457,568 newly issued shares of American Woodmark common stock valued at $189.8 million based on $130.25 per share, which was the closing stock price on the Acquisition Date. The consideration paid is subject to a working capital adjustment by which the consideration will be adjusted upward or downward depending on whether the amount of working capital delivered at the Acquisition Date exceeds or is less than a target amount. The working capital adjustment has not yet been finalized and the accounting consideration does not reflect any adjustment to the estimated working capital reflected in the consideration paid at the Acquisition Date.

The Company accounted for the acquisition of RSI as a business combination, which requires the Company to record the assets acquired and liabilities assumed at fair value. The amount by which the purchase price exceeds the fair value of net assets acquired is recorded as goodwill. The Company has commenced the appraisals necessary to assess the fair values of the tangible and intangible assets acquired and liabilities assumed and the amount of goodwill to be recognized as of the Acquisition Date. The amounts recorded for certain assets and liabilities are preliminary in nature and are subject to adjustment as additional information is obtained about the facts and circumstances that existed as of the Acquisition Date. The final determination of the fair values of certain assets and liabilities will be completed within the measurement period of up to one year from the Acquisition Date permitted under GAAP. The final values may also result in changes to depreciation and amortization expense related to certain assets such as buildings, equipment and intangible assets. Any potential adjustments made could be material in relation to the preliminary values presented in the table below.

The following table summarizes the allocation of the preliminary purchase price as of the Acquisition Date, which is based on the accounting consideration of $553.2 million, to the estimated fair value of assets acquired and liabilities assumed (in thousands):

Goodwill	$765,743
Customer relationship intangibles	274,000
Property, plant and equipment	87,064
Inventories	66,293
Customer receivables	54,649
Income taxes receivable	18,450
Trademarks	10,000
Prepaid expenses and other	4,571
Leasehold interests	151
Total identifiable assets and goodwill acquired	1,280,921
Debt	602,313
Deferred income taxes	67,478
Accrued expenses	29,777
Accounts payable	25,113
Notes payable	2,988
Income taxes payable	49
Total liabilities assumed	727,718
Total accounting consideration	$553,203

The fair value of the assets acquired and liabilities assumed were preliminarily determined using income, market and cost valuation methodologies. The fair value of debt acquired was determined using Level 1 inputs as quoted prices in active markets for identical liabilities were available. The fair value measurements were estimated using significant inputs that are not observable in the market and thus represent a Level 3 measurement as defined in Accounting

Standards Codification (ASC) 820. The income approach was primarily used to value the customer relationship intangibles and trademarks. The income approach determines value for an asset or liability based on the present value of cash flows projected to be generated over the remaining economic life of the asset or liability being measured. Both the amount and the duration of the cash flows are considered from a market participant perspective. Our estimates of market participant net cash flows considered historical and projected product pricing, operational performance including company specific synergies, product life cycles, material and labor pricing, and other relevant customer, contractual and market factors. The net cash flows are discounted to present value using a discount rate that reflects the relative risk of achieving the cash flow and the time value of money. The market approach is a valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable assets, liabilities, or a group of assets or liabilities. The cost approach estimates value by determining the current cost of replacing an asset with another of equivalent economic utility. The cost to replace a given asset reflects the estimated reproduction or replacement cost for the property, less an allowance for loss in value due to depreciation. The cost and market approaches were used to value inventory, while the cost approach was the primary approach used to value property, plant and equipment.

The preliminary purchase price allocation resulted in the recognition of $765.7 million of goodwill, which is not expected to be amortizable for tax purposes. The goodwill recognized is attributable to expected revenue synergies generated by the integration of the Company's products with RSI's, cost synergies resulting from purchasing and manufacturing activities, and intangible assets that do not qualify for separate recognition, such as the assembled workforce of RSI.

Customer receivables were recorded at the contractual amounts due of $54.7 million, less an allowance for doubtful accounts of $0.1 million, which approximates their fair value.

Determining the fair value of assets acquired and liabilities assumed requires the exercise of significant judgment, including the amount and timing of expected future cash flows, long-term growth rates and discount rates. The cash flows employed in the valuation are based on the Company's best estimates of future sales, earnings and cash flows after considering factors such as general market conditions, expected future customer orders, contracts with suppliers, labor costs, changes in working capital, long term business plans and recent operating performance. Use of different estimates and judgments could yield different results.

Impact to Financial Results for the Nine Months Ended January 31, 2018

RSI's financial results have been included in our consolidated financial results for the period from the Acquisition Date to January 31, 2018. As a result, our consolidated financial results for the nine months ended January 31, 2018 do not reflect a full nine months of RSI results. From December 29, 2017 to January 31, 2018, RSI generated net sales of approximately $38.6 million and an operating loss of approximately $4.9 million, inclusive of intangible amortization and adjustments to account for the acquisition, including a $6.3 million charge to cost of sales as a result of the step up of inventory as of the Acquisition Date to fair value.

The Company incurred approximately $10.2 million of transaction costs associated with the RSI Acquisition during the nine months ended January 31, 2018 that the Company expensed as incurred. These costs are included in general and administrative expenses on the Consolidated Statements of Income.

Supplemental Pro Forma Financial Information (unaudited)

The following table presents summarized unaudited pro forma financial information as if RSI had been included in the Company's financial results for the entire nine months ended January 31, 2018 and 2017:

	Nine months ended January 31,	
(in thousands)	2018	2017
Net Sales	$1,207,775	$1,213,604
Net Income (1)	$45,812	$71,945
Net earnings per share - basic	$2.60	$4.06
Net earnings per share - diluted	$2.58	$4.03

(1) Includes stock compensation expense of $17.5 million and $2.6 million for the nine months ended January 31, 2018 and 2017, respectively, calculated under the intrinsic value method in measuring stock-based liability awards related to stock-based grants made by RSI prior to the RSI Acquisition.

The unaudited supplemental pro forma financial data above assumes the RSI Acquisition occurred on May 1, 2016 and has been calculated after applying the Company’s accounting policies and adjusting the historical results of RSI with pro forma adjustments, net of a statutory tax rate of 34.4% and 40.4% for the nine months ended January 31, 2018 and 2017, respectively. Significant pro forma adjustments include the recognition of additional amortization expense related to acquired intangible assets (net of historical amortization expense of RSI), additional interest expense related to the Initial Term Loan used to finance the acquisition, and elimination of the inventory fair value step-up expense and transaction related expenses which are non-recurring in nature. These adjustments assume the application of fair value adjustments to intangibles and that the $300.0 million borrowed under the Credit Agreement occurred on May 1, 2016 and are as follows: amortization expense, net of tax, of $20.0 million and $20.5 million for the nine months ended January 31, 2018 and 2017, respectively; interest expense, net of tax, (including amortization expense related to $6.7 million of debt issuance costs, which are being amortized over a period of 5 years) of $3.0 million and $3.3 million for the nine months ended January 31, 2018 and 2017, respectively. The following amounts have been excluded: inventory fair value step-up expense, net of tax, of $4.1 million for the nine months ended January 31, 2018; and transaction expenses add-back, net of tax, of $6.9 million and $0.5 million for the nine months ended January 31, 2018 and 2017.

The unaudited supplemental pro forma financial information does not reflect the realization of any expected ongoing cost or revenue synergies relating to the integration of the two companies. Further, the pro forma data should not be considered indicative of the results that would have occurred if the RSI Acquisition, related financing, and associated issuance of Senior Notes (defined herein) and repurchase or redemption of the RSI Notes had been actually consummated on May 1, 2016, nor are they indicative of future results (See Note R--Subsequent Events).

Note D--Net Earnings Per Share

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

	Three Months Ended January 31,		Nine Months Ended January 31,	
(in thousands, except per share amounts)	2018	2017	2018	2017
Numerator used in basic and diluted net earnings per common share:				
Net income	$1,996	$14,553	$44,032	$53,851
Denominator:				
Denominator for basic net earnings per common share - weighted-average shares	16,578	16,242	16,350	16,267
Effect of dilutive securities:				
Stock options and restricted stock units	113	140	112	134
Denominator for diluted net earnings per common share - weighted-average shares and assumed conversions	16,691	16,381	16,462	16,401
Net earnings per share				
Basic	$0.12	$0.90	$2.69	$3.31
Diluted	$0.12	$0.89	$2.67	$3.28

The Company repurchased a total of 58,371 and 38,318 shares of its common stock during the three-month periods ended January 31, 2018 and 2017, respectively, and 309,612 and 178,118 shares of its common stock during the nine-month periods ended January 31, 2018 and 2017, respectively. There were no potentially dilutive securities for the three- and nine-month periods ended January 31, 2018 and 2017, which were excluded from the calculation of net earnings per diluted share.

Note E--Stock-Based Compensation

The Company has various stock-based compensation plans. During the quarter ended January 31, 2018, the Company did not grant any stock-based compensation awards to employees or non-employee directors. During the nine-months ended January 31, 2018, the Board of Directors of the Company approved grants of service-based RSUs and performance-based RSUs to key employees and non-employee directors. The employee performance-based RSUs totaled 33,080 units and the employee and non-employee director service-based RSUs totaled 22,250 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, for non-employee directors, serving on the Board of Directors) until the units vest. All of the Company's RSUs granted to employees cliff-vest three years from the grant date.

For the three- and nine-month periods ended January 31, 2018 and 2017, stock-based compensation expense was allocated as follows:

	Three Months Ended January 31,		Nine Months Ended January 31,	
(in thousands)	2018	2017	2018	2017
Cost of sales and distribution	$256	$160	$777	$468
Selling and marketing (income) expenses	183	253	385	755
General and administrative expenses	458	414	1,344	1,254
Stock-based compensation expense	$897	$827	$2,506	$2,477

During the nine months ended January 31, 2018, the Company also approved grants of 4,496 cash-settled performance-based restricted stock tracking units ("RSTUs") and 2,519 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 approximately $0.6 million and $0.1 million for the three-month periods ended January 31, 2018 and 2017, respectively, and approximately $1.0 million and $0.3 million for the nine-month periods ended January 31, 2018 and 2017, respectively. A liability for payment of the RSTUs is included in the Company's balance sheets in the amount of $1.6 million and $1.5 million as of January 31, 2018 and April 30, 2017, respectively.

Note F--Customer Receivables

The components of customer receivables were:

	January 31,	April 30,
(in thousands)	2018	2017
Gross customer receivables	$127,339	$66,373
Less:		
Allowance for doubtful accounts	(280)	(148)
Allowance for returns and discounts	(5,282)	(3,110)
Net customer receivables	$121,777	$63,115

Note G--Inventories

The components of inventories were:

15

(in thousands)	January 31, 2018	April 30, 2017
Raw materials	$49,503	$18,230
Work-in-process	40,330	18,704
Finished goods	31,617	19,372
Total FIFO inventories	121,450	56,306
Reserve to adjust inventories to LIFO value	(13,447)	(13,447)
Total inventories	$108,003	$42,859

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 H--Property, Plant and Equipment

The components of property, plant and equipment were:

(in thousands)	January 31 2018	April 30 2017
Land	$4,751	$3,581
Buildings and improvements	93,902	81,172
Buildings and improvements - capital leases	11,203	11,202
Machinery and equipment	268,063	187,836
Machinery and equipment - capital leases	29,918	29,378
Construction in progress	28,600	10,838
	436,437	324,007
Less accumulated amortization and depreciation	(225,809)	(216,074)
Total	$210,628	$107,933

Amortization and depreciation expense on property, plant and equipment amounted to $12.9 million and $10.5 million for the nine months ended January 31, 2018 and 2017, respectively. Accumulated amortization on capital leases included in the above table amounted to $30.0 million and $29.7 million as of January 31, 2018 and April 30, 2017, respectively.

Note I--Intangibles

The components of intangible assets were:

(in thousands)	Weighted Average Amortization Period	Amortization Method	Cost	Accumulated Amortization	Net Carrying Amount
Customer relationships	6 years	Straight-line	$274,000	$ 3,806	$270,194
Trademarks	3 years	Straight-line	10,000	278	9,722
Intangible assets, net				$ 4,084	$279,916

Amortization expense for the nine months ended January 31, 2018 was $4.1 million. Based on the carrying amounts of amortizable intangible assets noted above, estimated amortization expense for the next five 12-month periods beginning in January 31, 2018 is $49.0 million, $49.0 million, $48.7 million, $45.7 million and $45.7 million, respectively.

Note J--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:

	Nine Months Ended January 31,	
(in thousands)	2018	2017
Beginning balance at May 1	$3,262	$2,926
Acquisition	119	—
Accrual	14,943	13,460
Settlements	(14,760)	(13,376)
Ending balance at January 31	$3,564	$3,010

Note K--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- and nine-month periods ended January 31, 2018 and 2017:

	Three Months Ended January 31,		Nine Months Ended January 31,	
(in thousands)	2018	2017	2018	2017
Interest cost	$1,431	$1,443	$4,295	$4,329
Expected return on plan assets	(2,234)	(2,019)	(6,702)	(6,059)
Recognized net actuarial loss	401	442	1,201	1,328
Net periodic pension benefit	$(402)	$(134)	$(1,206)	$(402)

The Company contributed a total of $19.3 million to its pension plans in the first nine months of fiscal 2018, which represents both required and discretionary funding, and does not expect to contribute any additional funds during the remainder of fiscal 2018. On August 24, 2017, the Board of Directors of the Company approved up to $13.6 million of discretionary funding which is included in the total contributions for the year. The Company made contributions of $27.3 million to its pension plans in fiscal 2017.

Note L--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.

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.

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's financial instruments include cash and cash equivalents valued at cost, which approximates fair value, due to the short-term maturities of these instruments. Money market funds, mutual funds and certificates of deposits are carried at fair value in the financial statements. For these investments, the fair value was estimated based on quoted prices categorized as a Level 1 valuation. 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.

The fair values of the Company's RSI Notes were determined using Level 2 inputs based the conditional call and tender offer described further in Note R, which approximates the carrying value recorded in connection with the RSI Acquisition. The carrying values of the Credit Facilities approximated fair value because the interest rates vary with market interest rates.

The following table summarizes the fair values of assets that are recorded in the Company’s unaudited condensed consolidated financial statements as of January 31, 2018 and April 30, 2017 at fair value on a recurring basis (in thousands):

	Fair Value Measurements As of January 31, 2018		
	Level 1	Level 2	Level 3
ASSETS:			
Certificates of deposit	$ 10,500	$ —	$ —
Mutual funds			