AMERICAN WOODMARK CORP
Form 10-Q
December 06, 2006
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended October 31, 2006

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 0-14798

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, and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Large Accelerated Filer ¨ Accelerated Filer x Non-Accelerated Filer ¨

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

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

Common Stock, no par value	**15,660,516 shares outstanding**
Class	as of December 5, 2006

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AMERICAN WOODMARK CORPORATION

FORM 10-Q

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PART I. FINANCIAL INFORMATION

Item 1.

AMERICAN WOODMARK CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

(Unaudited)

	October 31, 2006	April 30, 2006
ASSETS		
Current Assets		
Cash and cash equivalents	$ 68,566	$ 47,955
Customer receivables, net	48,775	53,514
Inventories	60,912	68,522
Prepaid expenses and other	2,963	2,018
Deferred income taxes	8,323	11,590
Total Current Assets	189,539	183,599
Property, plant, and equipment, net	168,114	175,384
Promotional displays, net	16,552	16,698
Other assets	660	806
Intangible pension asset	1,056	1,056
	$ 375,921	$ 377,543
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities		
Accounts payable	$ 26,346	$ 34,329
Accrued compensation and related expenses	34,351	30,949
Current maturities of long-term debt	1,209	1,456
Accrued marketing expenses	10,119	6,296
Other accrued expenses	6,728	10,043
Total Current Liabilities	78,753	83,073
Long-term debt, less current maturities	27,454	27,761
Deferred income taxes	13,124	16,886
Long-term pension liabilities	4,233	4,233
Other long-term liabilities	3,620	3,929
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 15,603,499 shares at October 31, 2006; 15,958,496 shares at April 30, 2006	66,196	53,195
Retained earnings	188,142	194,071
Accumulated other comprehensive loss		
Minimum pension liability	(5,601)	(5,601)

Unrealized loss on derivative contracts		(4)
Total accumulated other comprehensive loss	(5,601)	(5,605)
Total Shareholders Equity	248,737	241,661
	$ 375,921	$ 377,543

See accompanying condensed notes to condensed consolidated financial statements

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AMERICAN WOODMARK CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except share data)

(Unaudited)

	Three Months Ended October 31		Six Months Ended October 31	
	2006	2005	2006	2005
Net sales	$ 210,818	$ 214,535	$ 433,570	$ 430,099
Cost of sales and distribution	167,955	180,808	341,596	359,482
Gross Profit	42,863	33,727	91,974	70,617
Selling and marketing expenses	17,906	18,115	35,830	35,928
General and administrative expenses	10,554	5,709	20,560	12,635
Operating Income	14,403	9,903	35,584	22,054
Interest expense	255	259	507	513
Other income	(671)	(311)	(1,376)	(574)
Income Before Income Taxes	14,819	9,955	36,453	22,115
Income tax expense	5,631	3,783	13,852	8,488
Net Income	$ 9,188	$ 6,172	$ 22,601	$ 13,627
Earnings Per Share				
Weighted average shares outstanding				
Basic	15,767,695	16,435,844	15,869,006	16,417,119
Diluted	15,981,527	16,793,367	16,126,993	16,758,552
Net income per share				
Basic	$ 0.58	$ 0.38	$ 1.42	$ 0.83
Diluted	$ 0.57	$ 0.37	$ 1.40	$ 0.81
Cash dividends per share	$ 0.06	$ 0.03	$ 0.09	$ 0.06

See accompanying condensed notes to condensed consolidated financial statements

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AMERICAN WOODMARK CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited)

	Six Months Ended October 31	
	2006	2005
Operating Activities		
Net income	$ 22,601	$ 13,627
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	18,037	18,268
Net loss on disposal of property, plant, and equipment	49	42
Stock based compensation expense	3,156	
Deferred income taxes	(496)	(1,128)
Excess tax benefits from stock-based compensation	(292)	
Tax benefit from stock options exercised	2,591	417
Other non-cash items	507	1,734
Changes in operating assets and liabilities:		
Customer receivables	4,978	6,478
Inventories	7,167	(5,979)
Prepaid expenses and other current assets	(945)	(1,900)
Accounts payable	(7,983)	(1,734)
Accrued compensation and related expenses	3,402	581
Other accrued expenses	507	675
Other	(577)	(775)
Net Cash Provided by Operating Activities	52,702	30,306
Investing Activities		
Payments to acquire property, plant, and equipment	(4,357)	(9,578)
Proceeds from sales of property, plant, and equipment	2	3
Investment in promotional displays	(6,198)	(7,354)
Net Cash Used by Investing Activities	(10,553)	(16,929)
Financing Activities		
Payments of long-term debt	(553)	(416)
Proceeds from issuance of common stock	9,927	2,467
Repurchases of common stock	(29,773)	(973)
Payment of dividends	(1,431)	(985)
Excess tax benefits from stock-based compensation	292	
Net Cash (Used) Provided by Financing Activities	(21,538)	93
Net Increase In Cash And Cash Equivalents	20,611	13,470
Cash And Cash Equivalents, Beginning of Period	47,955	24,406
Cash And Cash Equivalents, End of Period	$ 68,566	$ 37,876

See accompanying condensed notes to condensed consolidated financial statements

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AMERICAN WOODMARK CORPORATION

NOTES TO 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 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. generally accepted accounting principles 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. Certain prior amounts have been reclassified to conform to the current period presentation. Operating results for the six month period ended October 31, 2006 are not necessarily indicative of the results that may be expected for the year ended April 30, 2007. The unaudited condensed financial statements should be read in conjunction with the consolidated financial statements and footnotes thereto included in the Company s Annual Report on Form 10-K for the year ended April 30, 2006.

NOTE B NEW ACCOUNTING PRONOUNCEMENTS

In July 2006, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 48, Accounting for Uncertain Tax Positions, (FIN48). FIN 48 clarifies how uncertainty in income taxes should be accounted for in a company s financial statements in accordance with Statement of Financial Accounting Standards (SFAS) No. 109, Accounting for Income Taxes. It prescribes a recognition threshold and measurement attribute for the recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition and classification of tax positions, accounting for interest and penalties, accounting for tax positions in interim periods, and disclosure and transition requirements. FIN 48 will be effective for fiscal years beginning after December 15, 2006. The Company is currently evaluating the expected impact of the provisions of FIN 48 on its results of operations and its financial position.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS No. 157). SFAS No. 157 establishes a common definition for fair value to be applied to GAAP guidance requiring use of fair value, establishes a framework for measuring fair value, and expands disclosure about such fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the expected impact of the provisions of SFAS 157 on its results of operations and its financial position.

In September 2006, the FASB issued SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans (SFAS 158). SFAS 158 amends SFAS 87, Employers Accounting for Pension (SFAS 87), SFAS 88, Employers Accounting for Settlements and Curtailments of Defined Benefit Plans and for Benefits and for Termination Benefits (SFAS 88), and SFAS 132R, Employers Disclosures about Pensions and Other Postretirement Benefits. Effective for fiscal years ending after December 15, 2006, SFAS 158 requires balance sheet recognition of the funded status for all pension and postretirement benefit plans. The impact of adoption will be recorded as an adjustment of other accumulated comprehensive income. Subsequent changes in funded status will be recognized as a component of other comprehensive income to the extent they have not yet been recognized as a component of net periodic benefit cost pursuant to SFAS 87 or SFAS 88. The Company is currently evaluating the impact of adopting SFAS No. 158 on its financial statements.

In September 2006, the SEC staff issued Staff Accounting Bulletin No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements (SAB 108). SAB 108 establishes an approach that requires quantification of financial statement misstatements based on the effects of the misstatements on each of the Company s financial statements and the related financial statement disclosures. SAB 108 is effective for the Company s fiscal year ending April 30, 2007. The Company is currently evaluating the impact of SAB 108 on its financial position and results of operations.

NOTE C COMPREHENSIVE INCOME

The Company s comprehensive income was $9.2 million and $22.6 million for the three months and six months ended October 31, 2006, respectively, and $6.2 million and $13.8 million for the three months and six months ended October 31, 2005, respectively.

The Company s interest rate swap agreement expired May 31, 2006.

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NOTE D EARNINGS PER SHARE

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

(in thousands, except per share amounts)	Three Months Ended October 31		Six Months Ended October 31	
	2006	2005	2006	2005
Numerator used for both basic and dilutive earnings per share:				
Net income	$ 9,188	$ 6,172	$ 22,601	$ 13,627
Denominator:				
Denominator for basic earnings per share-weighted average shares	15,768	16,436	15,869	16,417
Effect of dilutive securities:				
Stock Options	214	357	258	341
Denominator for diluted earnings per share-weighted average shares and assumed conversions	15,982	16,793	16,127	16,758
Net income per share				
Basic	$ 0.58	$ 0.38	$ 1.42	$ 0.83
Diluted	$ 0.57	$ 0.37	$ 1.40	$ 0.81

NOTE E STOCK-BASED COMPENSATION

General

Effective May 1, 2006, the Company adopted the provisions of Statement of Financial Accounting Standard (SFAS) No. 123R, Share-Based Payment (SFAS 123R) using the modified prospective transition method. Under this transition method, stock-based compensation expense recognized for share-based awards for the three months and six months ended October 31, 2006 includes: (a) compensation expense for all stock-based compensation awards granted prior to, but not yet vested as of, May 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123, and (b) compensation expense for all stock-based compensation awards granted subsequent to April 30, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS 123R. In accordance with the modified prospective transition method, results for the prior period have not been restated. Prior to the adoption of SFAS 123R, the Company recognized stock-based compensation expense in accordance with Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees (APB 25) and related Interpretations, as permitted by SFAS 123.

At October 31, 2006, the Company had stock-based compensation plans as more particularly described below. The total compensation expense related to stock-based awards granted under these plans for the three months and six months ended October 31, 2006, reflecting the impact of the implementation of the modified prospective transition method in accordance with SFAS 123R, was $1.6 million and $3.1 million, respectively. Effective May 1, 2006 and subsequent thereto, the Company recognizes stock-based compensation costs net of a forfeiture rate for only those shares expected to vest on a straight-line basis over the requisite service period of the award. The Company estimated the forfeiture rate for options granted during the first six months of fiscal 2007 based on its historical experience.

Prior to the adoption of SFAS 123R, the Company presented all tax benefits related to deductions resulting from the exercise of stock options as operating activities in the consolidated statement of cash flows. SFAS 123R requires that cash flows resulting from tax benefits attributable to tax deductions in excess of the compensation expense recognized for those options (excess tax benefits) be classified as financing cash flows. As a result, the Company classified $292,000 of excess tax benefits as financing cash flows for the six months ended October 31, 2006. The total income tax benefit recognized in the condensed consolidated statement of operations for share-based awards for the three months and six months ended October 31, 2006 (in accordance with the provisions of SFAS 123R) was $619,000 and $1,999,000, respectively. During the three months and six months ended October 31, 2005 (in accordance with the provisions of APB 25) the total income tax benefit recognized was $562,000 and $1,061,000, respectively.

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The pro forma table below illustrates the effect on net income and earnings per share as if the Company had applied the fair value recognition provisions of SFAS 123, as amended by SFAS 148, Accounting for Stock-Based Compensation- Transition and Disclosure , to all stock-based employee compensation for the three months and six months ended October 31, 2005:

	Three Months Ended October 31, 2005	Six Months Ended October 31, 2005
Net income, as reported	$ 6,172	$ 13,627
Add:		
Share-based compensation expense included in reported income, net of taxes		
Deduct:		
Total share-based employee compensation expense determined under the fair value method, net of taxes	(876)	(1,650)
Net income, pro forma	$ 5,296	$ 11,977
Net income per common share:		
Basic - as reported	$ 0.38	$ 0.83
Basic - pro forma	$ 0.32	$ 0.73
Diluted - as reported	$ 0.37	$ 0.81
Diluted - pro forma	$ 0.32	$ 0.71

Stock Option Plans

At October 31, 2006 the Company had stock option awards outstanding under five different plans: (1) a 1999 stock option plan for employees, (2) a 2004 stock incentive plan for employees, (3) a 2000 stock option plan for non-employee directors, (4) a 2005 stock option plan for non-employee directors, and (5) 2006 Non-Employee Directors Equity Ownership Plan. Stock options granted and outstanding under each of the plans vest evenly over a three-year period and have a 4 to 10 year contractual term. The exercise price of all stock options granted is equal to the fair market value of the Company s common stock on the option grant date. No new grants will be made under the 2000 and 2005 plan for non-employee directors. As of October 31, 2006, 1,935,021 shares of common stock remain available for issuance under the 1999 stock option plan for employees, the 2004 stock incentive plan for employees, the 2005 stock option plan for non-employee directors, and 2006 Non-Employee Directors Equity Ownership Plan.

Methodology Assumptions

As part of its SFAS 123R adoption, the Company examined its historical pattern of option exercises in an effort to determine if there were any discernable activity patterns based on certain employee and non-employee director groups. From this analysis, the Company identified two employee groups and one non-employee director group. The Company uses the Black-Scholes option-pricing model to value the Company s stock options for each of the three groups. Using this option-pricing model, the fair value of each stock option award is estimated on the date of grant. The fair value of the Company s stock option awards, which are subject to pro-rata vesting over three years, is expensed on a straight-line basis over the vesting period of the stock options. The expected volatility assumption is based on the historical volatility of the Company s stock over a term at least equal to the expected term of the option granted. The expected term of stock option awards granted is derived from the Company s historical exercise experience and represents the period of time that stock option awards granted are expected to be outstanding for each of the three identified groups. The expected term assumption incorporates the contractual term of an option grant, which is generally ten years for employees and four years to ten years for non-employee directors, as well as the vesting period of an award. The risk-free interest rate is based on the implied yield on a U.S. Treasury constant maturity with a remaining term equal to the expected term of the option granted.

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The weighted average assumptions and valuation of the Company s stock options for the three months and six months ended October 31, 2006 and October 31, 2005 were as follows:

	Three Months Ended October 31		Six Months Ended October 31	
	2006	2005	2006	2005
Weighted average fair value of grants	$ 15.24	$ 12.62	$ 14.40	$ 14.50
Expected volatility	44.44%	37.60%	42.96%	49.67%
Expected term in years	6	4	5	6
Risk-free interest rate	4.77%	4.03%	4.98%	3.89%
Expected dividend yield	0.73%	0.33%	0.41%	0.41%

Stock Based Compensation Activity

The following table presents a summary of the Company s stock options activity for the six months ended October 31, 2006 (remaining contractual term (in years) and exercise prices are weighted averages):

	Number of Options	Remaining Contractual Term	Exercise Price	Aggregate Intrinsic Value (in thousands)
Outstanding, beginning of period	2,034,211	6.7	$ 24.96	$ 18,859
Granted	565,150	8.2	33.16	2,166
Exercised	(496,533)		17.30	8,468
Cancelled or expired	(78,001)		30.39	515
Outstanding at end of period	2,024,827	6.9	$ 28.89	$ 16,638
Vested and expected to vest in the future at October 31, 2006	1,969,801	7.4	$ 28.85	$ 16,315
Exercisable at October 31, 2006	1,043,892	6.1	$ 26.03	$ 11,438
Available for grant at October 31, 2006	1,935,021			

The aggregate intrinsic value in the table above represents the total pretax intrinsic value (the difference between the Company s closing stock price on the last trading day of the second quarter of fiscal 2007 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on October 31, 2006. This amount changes based on the fair market value of the Company s common stock. Total intrinsic value of options exercised for the six months ended October 31, 2006 (based on the difference between the Company s stock price on the respective exercise date and the respective exercise price, multiplied by the number of respective options exercised) was $8.5 million. The total fair value of options vested during the six months ended October 31, 2006 was $5.3 million.

As of October 31, 2006, there was $12.3 million of total unrecognized compensation expense related to unvested stock options granted under the Company s share-based compensation plans. That expense is expected to be recognized over a weighted average period of 1.9 years.

Cash received from option exercises for the six months ended Ocrober 31, 2006 was an aggregate of $8.6 million. The actual tax benefit realized for the tax deduction from option exercises of stock option awards totaled $3.2 million for the six months ended October 31, 2006.

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For the three-month and six-month period ended October 31, 2006, stock-based compensation expense was allocated as follows (in thousands):

	Three Months Ended October 31, 2006	Six Months Ended October 31, 2006
Cost of sales and distribution	$ 307	$ 633
Selling and marketing expenses	305	623
General and administrative expenses	1,016	1,900
Stock-based compensation expense, before income taxes	1,628	3,156
Less:		
Income tax benefit	619	1,199
Total stock-based compensation expense, net of taxes	$ 1,009	$ 1,957

NOTE F CUSTOMER RECEIVABLES

The components of customer receivables were:

(in thousands)	October 31, 2006	April 30, 2006
Gross customer receivables	$ 55,105	$ 60,769
Less:		
Allowance for doubtful accounts	(1,476)	(1,096)
Allowances for returns and discounts	(4,854)	(6,159)
Net customer receivables	$ 48,775	$ 53,514

NOTE G INVENTORIES

The components of inventories were:

(in thousands)	October 31, 2006	April 30, 2006

Raw materials	$ 18,553	$ 20,081
Work-in-process	42,749	42,762
Finished goods	13,112	18,138
Total FIFO inventories	$ 74,414	$ 80,981
Reserve to adjust inventories to LIFO value	(13,502)	(12,459)
Total LIFO inventories	$ 60,912	$ 68,522

As a result of LIFO inventory liquidations, cost of sales reflected approximately $140,000 less expense year-to-date for fiscal 2007 than would have been recorded in a current cost environment. An actual valuation of inventory under the LIFO method is made only at the end of each year based on the inventory levels and costs at that time. Accordingly, 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.

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NOTE H 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 three months of the original shipment date.

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

	Six Months Ended October 31,	
(in thousands)	**2006**	**2005**
Beginning balance at May 1	$ 5,387	$ 4,952
Accrual	9,247	14,863
Settlements	(10,534)	(14,847)
Ending balance at October 31	$ 4,100	$ 4,968

NOTE I CASH FLOW

Supplemental disclosures of cash flow information:

	Six Months Ended October 31,	
(in thousands)	**2006**	**2005**
Cash paid during the period for:		
Interest	$ 956	$ 469
Income taxes	$ 12,834	$ 10,551

NOTE J PENSION BENEFITS

Net periodic pension cost consisted of the following for the three months and six months ended October 31, 2006 and 2005.

	Three Months Ended October 31		Six Months Ended October 31	
(in thousands)	2006	2005	2006	2005
Service cost	$ 1,235	$ 1,340	$ 2,471	$ 2,680
Interest cost	1,083	1,005	2,166	2,009
Expected return on plan assets	(1,074)	(853)	(2,149)	(1,705)
Amortization of net loss	217	488	434	975
Amortization of prior service cost	36	32	72	65
Net periodic pension cost	$ 1,497	$ 2,012	$ 2,994	$ 4,024