Section 1: 8-K/A (FORM 8-K/A)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K/A

CURRENT REPORT
Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): December 29, 2017

American Woodmark Corporation

(Exact name of registrant as specified in its charter)

Virginia	**000-14798**	**54-1138147**
(State or other jurisdiction of incorporation)	**(Commission File Number)**	**(I.R.S. Employer Identification Number)**

3102 Shawnee Drive, Winchester, Virginia	**22601**
(Address of principal executive offices)	**(Zip Code)**

(540) 665-9100
(Registrant's telephone number, including area code)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (17 CFR 230.405) or Rule 12b-2 of the Securities Exchange Act of 1934 (17 CFR 240.12b-2).

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. ☐

On December 29, 2017, American Woodmark Corporation (the “Company”) completed the previously announced acquisition (the “Acquisition”) of RSI Home Products, Inc. (“RSI”) pursuant to the Agreement and Plan of Merger entered into by the Company, RSI, Alliance Merger Sub, Inc. and Ronald M. Simon, solely in his capacity as the Stockholder Representative, on November 30, 2017.

The Company filed a Current Report on Form 8-K on January 5, 2018 (the “Original Form 8-K”) announcing the completion of the Acquisition and providing the disclosure items required in Items 1.01, 2.01, 2.03, 3.02, 7.01 and 9.01 of Form 8-K.

This Current Report on Form 8-K/A is being filed with the SEC to amend and supplement the Original Form 8-K to provide the disclosures required by Item 9.01 of Form 8-K, including the required historical financial information of RSI and the required pro forma financial statements.

Except as otherwise provided herein, the other disclosures made in the Original Form 8-K remain unchanged.

Item 9.01 Financial Statements and Exhibits.

(a) Financial Statements of Business Acquired

The audited consolidated balance sheets of RSI as of December 31, 2016 and January 2, 2016, and the audited related consolidated statements of income, stockholders’ deficit and redeemable common stock and cash flows for each of the three fiscal years ended December 31, 2016, January 2, 2016 and January 3, 2015, together with the reports thereon of PricewaterhouseCoopers LLP, independent accountants, and RSM US LLP, independent auditors and accompanying notes of RSI are filed as Exhibit 99.1.

The unaudited condensed consolidated balance sheets of RSI as of September 30, 2017 and December 31, 2016, the condensed consolidated statements of income and cash flows for the nine months ended September 30, 2017 and October 1, 2016 and accompanying notes of RSI are filed as Exhibit 99.2.

(b) Pro Forma Financial Information

The unaudited pro forma condensed combined financial information of the Company as of October 31, 2017 and for the fiscal year ended April 30, 2017 and the six months ended October 31, 2017 and accompanying notes are filed as Exhibit 99.3.

(c) Not Applicable

(d) Exhibits

23.1*	Consent of PricewaterhouseCoopers LLP, independent accountants.
23.2*	Consent of RSM US LLP, independent auditors.
99.1*	Consolidated Financial Statements of RSI Home Products, Inc., together with reports thereon of PricewaterhouseCoopers LLP, independent auditors, and RSM US LLP, independent auditors and accompanying notes.
99.2*	Condensed Consolidated Financial Statements as of September 30, 2017 and for the nine months ended September 30, 2017 and October 1, 2016 and accompanying notes of RSI Home Products, Inc.
99.3*	Unaudited Pro Forma Combined Condensed Financial Information of the Company.

* Filed herewith

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

American Woodmark Corporation

By: /s/ M. Scott Culbreth
M. Scott Culbreth
Senior Vice President and
Chief Financial Officer

February 7, 2018

(Back To Top)

Section 2: EX-23.1 (EXHIBIT 23.1)

Exhibit 23.1

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-122438, 333-136867, 333-141621, 333-172059, 333-176902, 333-186266, 333-213222 and 333-214895) of American Woodmark Corporation of our report dated March 6, 2017, except with respect to our opinion on the consolidated financial statements insofar as it relates to the change in the accounting for deferred income taxes discussed in Note 1 as to which the date is January 28, 2018 relating to the financial statements of RSI Home Products, Inc., which appears in this Current Report on Form 8-K/A of American Woodmark Corporation.

/s/ PricewaterhouseCoopers LLP

Irvine, CA
February 7, 2018

(Back To Top)

Section 3: EX-23.2 (EXHIBIT 23.2)

Exhibit 23.2

Consent of Independent Auditor

We consent to the incorporation by reference in the Registration Statements (Nos. 333-122438, 333-136867, 333-141621, 333-172059, 333-176902, 333-186266, 333-213222 and 333-214895*)* on Form S-8 of American Woodmark Corporation of our report dated February 16, 2015, relating to the consolidated financial statements of RSI Home Products Inc., appearing in this Current Report on Form 8-K/A.

/s/ RSM US LLP

Irvine, California
February 7, 2018

(Back To Top)

Section 4: EX-99.1 (EXHIBIT 99.1)

Exhibit 99.1

Report of Independent Auditors

To the Board of Directors of RSI Home Products, Inc.

We have audited the accompanying consolidated financial statements of RSI Home Products, Inc. and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2016 and January 2, 2016, and the related consolidated statements of income, of stockholders' deficit and redeemable common stock, and of cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of RSI Home Products, Inc. and its subsidiaries as of December 31, 2016 and January 2, 2016, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, the Company changed the manner in which it accounts for debt issuance costs and the manner in which it accounts for deferred income taxes in 2016. Our opinion is not modified with respect to this matter.

/s/ PricewaterhouseCoopers LLP

Irvine, California

March 6, 2017, except for the change in the manner in which the Company accounts for deferred income taxes discussed in Note 1 to the consolidated financial statements, as to which the date is January 28, 2018

Independent Auditor’s Report

Board of Directors
RSI Home Products, Inc.
Anaheim, California

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of RSI Home Products, Inc. and its subsidiaries, which comprise the consolidated statements of income, stockholders’ deficit and redeemable common stock, and cash flows for the year ended January 3, 2015, and the related notes to the consolidated financial statements (collectively, the financial statements).

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the results of the operations and cash flows of RSI Home Products, Inc. and its subsidiaries for the year ended January 3, 2015 in accordance with accounting principles generally accepted in the United States of America.

/s/ RSM US LLP

Irvine, California
February 16, 2015

RSI HOME PRODUCTS, INC.

CONSOLIDATED BALANCE SHEETS

	December 31, 2016	January 2, 2016
ASSETS		
Current Assets		
Cash and cash equivalents	$ 49,293,000	$ 47,509,000
Acounts receivable, net of rebates and allowances of $8,856,000 in 2016 and $8,422,000 in 2015	61,894,000	64,103,000
Inventories	61,777,000	69,853,000
Prepaid income taxes	4,396,000	—
Prepaid expenses and other current assets	6,465,000	7,275,000
Total current assets	183,825,000	188,740,000
Property and equipment, net	61,790,000	44,749,000
Other assets	3,310,000	4,855,000
Intangible assets, net	11,746,000	13,745,000
Deferred income taxes	10,673,000	16,167,000
Total assets	$ 271,344,000	$ 268,256,000
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current Liabilities		
Accounts payable	$ 25,853,000	$ 24,378,000
Income taxes payable	—	950,000
Current portion of long-term debt	365,000	455,000
Other accrued liabilities	51,459,000	66,790,000
Total current liabilities	77,677,000	92,573,000
Senior secured notes	566,503,000	565,419,000
Long-term debt, net of current portion	525,000	541,000
Other non-current liabilities	6,273,000	5,481,000
Total liabilities	650,978,000	664,014,000
Commitments and contingencies (Notes 5, 8 and 9)		
Stockholders' Deficit		
Common stock — Class A Voting — par value $0.001, authorized:		
2016 and 2015 — 40,000,000 shares; issued and outstanding:		
2016 — 19,050,063 shares, 2015 — 16,512,091 shares	19,000	17,000
Common stock — Class B Voting — par value $0.001, authorized:		
2016 and 2015 — 25,000,000 shares; issued and outstanding:		
2016 - none, 2015 — 2,537,972 shares	—	3,000
Common stock — Class C Nonvoting — par value $0.001, authorized:		
2016 and 2015 — 25,000,000 shares; issued and outstanding:		
2016 - 251,980 shares, 2015 — 229,920 shares	—	—
Additional paid-in capital	67,515,000	66,995,000
Accumulated deficit	(447,168,000)	(462,773,000)
Total stockholders' deficit	(379,634,000)	(395,758,000)
Total liabilities and stockholders' deficit	$ 271,344,000	$ 268,256,000

See notes to consolidated financial statements

RSI HOME PRODUCTS, INC.

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended		
	December 31, 2016	January 2, 2016	January 3, 2015
Net sales	$ 598,094,000	$ 595,527,000	$ 540,033,000
Cost of sales	420,160,000	418,015,000	374,851,000
Gross profit	177,934,000	177,512,000	165,182,000
Selling, general and administrative (including stock-based compensation expense (benefit) of $(12,608,000), $37,353,000 and $11,403,000 in 2016, 2015 and 2014, respectively)	41,399,000	97,433,000	66,317,000
Operating income	136,535,000	80,079,000	98,865,000
Other expense (income)	334,000	(481,000)	552,000
Loss on extinguishment of debt	—	35,353,000	—
Interest expense, net	38,641,000	39,306,000	39,463,000
Income before income taxes	97,560,000	5,901,000	58,850,000
Provision for income taxes	31,955,000	1,521,000	19,737,000
Net income	$ 65,605,000	$ 4,380,000	$ 39,113,000

See notes to consolidated financial statements

RSI HOME PRODUCTS, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT AND REDEEMABLE COMMON STOCK

	Common Stock					
	Class A Voting Shares	Amount	Class B Voting Shares	Amount	Class C Non-Voting Shares	Amount
Balance, December 28, 2013	18,764,034	$ 19,000	—	$ —	—	$ —
Issuance of common stock	42,000	—	—	—	66,228	—
Remeasurement of redeemable Class C common stock	—	—	—	—	—	—
Reclassification of Class C common stock to permanent equity	—	—	—	—	131,000	—
Net income	—	—	—	—	—	—
Balance, January 3, 2015	18,806,034	19,000	—	—	197,228	—
Dividends	—	—	—	—	—	—
Conversion of common stock	(2,293,943)	(2,000)	2,537,972	3,000	(235,739)	—
Issuance of common stock	—	—	—	—	268,431	—
Net income	—	—	—	—	—	—
Balance, January 2, 2016	16,512,091	17,000	2,537,972	3,000	229,920	—
Dividends	—	—	—	—	—	—
Conversion of common stock	2,537,972	2,000	(2,537,972)	(3,000)	—	—
Issuance of common stock	—	—	—	—	22,060	—
Net income	—	—	—	—	—	—
Balance, December 31, 2016	19,050,063	$ 19,000	—	$ —	251,980	$ —

See notes to consolidated financial statements.

RSI HOME PRODUCTS, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT AND REDEEMABLE COMMON STOCK

	Common Stock				
	Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Deficit	Redeemable Class C Nonvoting Shares	Amount
Balance, December 28, 2013	49,504,000	$(404,137,000)	$ (354,614,000)	56,000	$ 645,000
Issuance of common stock	1,962,000	—	1,962,000	75,000	979,000
Remeasurement of redeemable Class C common stock	(297,000)	—	(297,000)	—	297,000
Reclassification of Class C common stock to permanent equity	1,921,000	—	1,921,000	(131,000)	(1,921,000)
Net income	—	39,113,000	39,113,000	—	—
Balance, January 3, 2015	53,090,000	(365,024,000)	(311,915,000)	—	—
Dividends	—	(100,000,000)	(100,000,000)	—	—
Conversion of common stock	—	—	1,000	—	—
Issuance of common stock	13,905,000	(2,129,000)	11,776,000	—	—
Net income	—	4,380,000	4,380,000	—	—
Balance, January 2, 2016	66,995,000	(462,773,000)	(395,758,000)	—	—
Dividends	—	(50,000,000)	(50,000,000)	—	—
Conversion of common stock	—	—	(1,000)	—	—
Issuance of common stock	520,000	—	520,000	—	—
Net income	—	65,605,000	65,605,000	—	—
Balance, December 31, 2016	67,515,000	$(447,168,000)	$ (379,634,000)	—	$ —

See notes to consolidated financial statements.

RSI HOME PRODUCTS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended		
	December 31, 2016	January 2, 2016	January 3, 2015
Cash Flows From Operating Activities			
Net income	$ 65,605,000	$ 4,380,000	$ 39,113,000
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	11,818,000	10,133,000	10,133,000
Amortization of slotting fees	1,333,000	1,420,000	482,000
Amortization of intangible assets	1,999,000	2,101,000	2,406,000
Amortization of debt issuance costs	1,284,000	1,486,000	2,371,000
Write-off of prior debt issuance costs	—	325,000	—
Loss on extinguishment of debt	—	35,353,000	—
Stock-based compensation	(12,608,000)	37,353,000	11,403,000
Change in fair value of foreign currency hedge	334,000	(481,000)	552,000
Loss (gain) on disposal of property and equipment	53,000	62,000	(57,000)
Deferred taxes	5,493,000	(3,430,000)	(4,761,000)
Change in operating assets and liabilities:			
Accounts receivable	2,209,000	(6,832,000)	(11,295,000)
Inventories	8,076,000	(9,371,000)	(189,000)
Prepaid income taxes	(4,396,000)	—	—
Prepaid expenses and other current assets	645,000	2,556,000	(4,715,000)
Other assets	(1,338,000)	(3,966,000)	(211,000)
Income taxes payable	(950,000)	(1,187,000)	4,037,000
Accounts payable	1,474,000	10,097,000	2,414,000
Other accrued liabilities	(671,000)	(12,128,000)	2,077,000
Net cash provided by operating activities	80,360,000	67,871,000	53,760,000
Cash Flows From Investing Activities			
Capital expenditures — property and equipment	(28,339,000)	(19,756,000)	(11,873,000)
Proceeds from sale of property and equipment	12,000	595,000	1,205,000
Net cash used in investing activities	(28,327,000)	(19,161,000)	(10,668,000)
Cash Flows From Financing Activities			
Proceeds from senior secured notes	—	575,000,000	—
Repayment of senior secured notes	—	(525,000,000)	—
Payment of tender offer premium and call premium on senior secured notes	—	(28,299,000)	—
Payments on unsecured notes payable	(521,000)	(709,000)	(1,178,000)
Payments on bank term loan and financing	—	—	(182,000)
Debt issuance costs	—	(10,975,000)	—
Dividends	(50,000,000)	(100,000,000)	—
Issuance of common stock	272,000	600,000	2,372,000
Net cash (used in) provided by financing activities	(50,249,000)	(89,383,000)	1,012,000
Net increase (decrease) in cash	1,784,000	(40,673,000)	44,104,000
Cash and cash equivalents			
Beginning	47,509,000	88,182,000	44,078,000
Ending	$ 49,293,000	$ 47,509,000	$ 88,182,000
Supplemental Disclosures of Cash Flow Information			
Cash payments for:			
Interest	$ 37,765,000	$ 38,596,000	$ 36,529,000
Income taxes, net of refunds	$ 32,146,000	$ 7,027,000	$ 19,966,000
Supplemental Schedule of Noncash Investing and Financing Activities			
Equipment acquired under financing agreement	$ 262,000	$ —	$ 51,000
Notes payable issued on options exercised and canceled	$ 153,000	$ 359,000	$ 222,000
Net change to property and equipment through accrued expense	$ 323,000	$ 1,216,000	$ —

See notes to consolidated financial statements.

NOTE 1 NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of organization

RSI Home Products, Inc. ("RSI") was founded in 1989. RSI and its subsidiaries are collectively referred to herein as the "Company". RSI, through its wholly owned subsidiaries, is engaged primarily in the manufacture and distribution of stock and made-to-order bath and kitchen cabinets and cultured marble tops to national home centers, home builders, dealers and distributors throughout the United States and Canada.

Fiscal year

The Company operates on a 52 to 53 week fiscal year, with its year ending on the Saturday closest to December 31. The years ended December 31, 2016 and January 2, 2016 each contained 52 weeks. The year ended January 3, 2015 contained 53 weeks.

Basis of presentation and consolidation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The consolidated financial statements include the accounts of RSI and its wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

Use of estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and notes thereto. Actual results could differ from those estimates.

Revenue recognition

For sales to home centers, dealers and distributors, the Company records revenue when persuasive evidence of an arrangement exists, delivery has occurred, the price is fixed or determinable and collectability is reasonably assured. The Company recognizes revenue for home center customers when delivery has occurred and title and risk of loss has transferred. The Company performs the installation for its home builder customers and records revenue when the cabinets are installed. Revenue is recorded net of applicable provisions for discounts, sales incentives, returns, allowances and taxes. The Company provides certain sales incentives to its customers for co-op advertising, volume rebates, program slotting fees and discounted sales terms. The Company records these sales incentives as a reduction of revenue during the same period in which it records the related sales, and presents sales net of these allowances in the consolidated statements of income.

Debt issuance cost

Deferred debt issuance costs are amortized to interest expense over the life of the related indebtedness using the effective interest method. The net carrying value of unamortized debt issuance costs associated with the senior secured notes are recorded as a reduction to the corresponding indebtedness.

Cost of sales

Cost of sales includes all input costs associated with the manufacture and distribution of the Company's products including inbound freight costs and outbound shipping and handling costs, if applicable. In addition, the Company includes all depreciation and amortization associated with assets used to manufacture its products and make them saleable.

Cash and cash equivalents

Cash and cash equivalents include highly liquid investments with original maturities of three months or less when purchased.

Foreign currency

The financial statements of the Company's foreign subsidiaries are measured using the U.S. dollar as the functional currency. For subsidiaries with transactions that are denominated in a currency other than the functional currency, the remeasurement of assets and liabilities to the functional currency is included in determining net income. Remeasurement gains recorded to net income were $138,000 and $551,000 for the years ended December 31, 2016 and January 2, 2016, respectively. Remeasurement losses recorded to net income were insignificant for the year ended January 3, 2015.

Accounts receivable

Accounts receivable are carried at original invoice amount less estimates made for allowances, including doubtful receivables. Taking into consideration all relevant factors including actual sales activity for qualifying products, the Company also estimates and records allowances related to discounts and rebates granted to certain customers based on specific arrangements. Management determines the allowance for doubtful accounts by identifying troubled accounts and using historical experience applied to an aging of accounts. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when received.

Concentration of risks

Financial instruments that potentially subject the Company to concentrations of risk consist primarily of cash and cash equivalents, accounts receivable and foreign exchange forward contracts. The Company maintains its cash and cash equivalents with major financial institutions and such balances may, at times, exceed Federal Deposit Insurance Corporation insurance limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant risk on cash.

The Company does not require collateral to secure its accounts receivable. Two customers accounted for approximately 84% and 85% of outstanding accounts receivable as of December 31, 2016 and January 2, 2016, respectively, and 86%, 87% and 86% of net sales for the years ended December 31, 2016, January 2, 2016 and January 3, 2015, respectively.

Counterparties to the Company's foreign exchange forward contracts are major financial institutions. The Company is potentially exposed to credit loss in the event of nonperformance by these counterparties. The Company does not use derivative instruments for trading or speculative purposes.

Inventories

Inventories consist primarily of raw materials and finished goods, which are stated at the lower of cost or market. The Company uses standard cost to value inventory which approximates actual cost on a first-in, first out basis. The Company evaluates its inventory and, if necessary, records an adjustment for all slow-moving or obsolete inventory items.

Property and equipment and intangible assets, subject to amortization

Property and equipment is stated at cost less accumulated depreciation. Provision for depreciation is calculated using the straight-line method based upon the estimated useful lives of depreciable assets. Depreciation is discontinued when a property is identified as held-for-sale. Leasehold improvements are being amortized over the remaining lease term or estimated useful life of the asset, whichever is shorter. Displays represent costs incurred to promote the sale of the Company's products. The cost of maintenance and repair is charged to expense as incurred. The estimated useful lives of the property and equipment are as follows:

	Years
Buildings	18-20
Machinery and equipment	5-7
Data processing equipment and software	3-5
Forklifts and vehicles	5-7
Office furniture and equipment	7
Displays	2-5

Changes in circumstances, such as dramatic loss of market share or loss of a major customer, could result in the actual useful lives differing from initial estimates. In those cases where the Company determines that the useful life of a long-lived asset should be revised, the Company will amortize or depreciate the net book value over its revised remaining useful life.

Intangible assets include customer relationships, trademarks/trade names and a favorable lease. These assets are being amortized on a straight-line basis over their estimated useful lives, as follows:

	Years
Customer relationships	13
Trademark/Trade name	13
Favorable lease	7

The Company reviews long-lived assets for impairment when events or changes in circumstances indicate that their related carrying amounts may not be recoverable. Long-lived assets evaluated for impairment are grouped with other assets to the lowest level for which identifiable cash flows are largely independent of the cash flows of other groups of assets and liabilities. If the sum of the projected undiscounted cash flows (excluding interest charges) is less than the carrying value of the assets, the assets will be written down to the estimated fair value and such loss is recognized in the period in which the determination is made.

Advertising expense

Advertising expense primarily consists of trade show costs and point-of-purchase merchandising brochures and materials. The Company includes these costs in selling, general and administrative expenses as incurred. Advertising expenses for the years ended December 31, 2016, January 2, 2016 and January 3, 2015 were $2,109,000, $1,414,000 and $1,053,000, respectively.

Customer program costs

The Company incurs various costs associated with new product programs awarded by its customers, including costs to obtain favorable product placement ("slotting fees") and to promote the sale of its products ("displays").

The Company capitalizes slotting fees, provided the payments are supported by a time based arrangement with the retailer, and amortizes the associated payments over the appropriate term of the arrangement not to exceed 36 months. During the years ended December 31, 2016, January 2, 2016 and January 3, 2015, the Company incurred costs for slotting fees of $222,000, $4,000,000 and $30,000, respectively. The amortization of slotting fees is treated as a reduction of net sales. The total amortization of slotting fees for the years ended December 31, 2016, January 2, 2016 and January 3, 2015 was $1,333,000, $1,420,000 and $482,000, respectively. The unamortized costs of $1,556,000 and $2,889,000 as of December 31, 2016 and January 2, 2016, respectively, are reported in other assets in the consolidated balance sheets.

During the years ended December 31, 2016, January 2, 2016 and January 3, 2015, the Company incurred costs for displays of $7,732,000, $4,330,000 and $1,115,000, respectively. The unamortized costs of displays of $9,785,000 and $4,171,000 as of December 31, 2016 and January 2, 2016, respectively, are reported in property and equipment in the consolidated balance sheets. The depreciation of displays is included in selling, general and administrative expenses. The total depreciation of displays for the years ended December 31, 2016, January 2, 2016 and January 3, 2015 was $2,118,000, $1,398,000 and $1,235,000, respectively.

Income taxes

Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards. Deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

The Company recognizes tax liabilities when, despite the Company's belief that its tax return positions are supportable, the Company believes that certain positions may not be fully sustained upon review by tax authorities. Benefits from tax positions are measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon settlement. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will impact income tax expense in the period in which such determination is made.

The Company recognizes interest and penalties related to unrecognized tax benefits within the provision for income taxes line in the consolidated statements of income. Accrued interest and penalties are included with the related tax liability in other non-current liabilities in the consolidated balance sheets.

Stock-based compensation

The Company uses the intrinsic value method in measuring stock-based liability awards. Intrinsic value is the amount by which the fair value of the underlying stock exceeds the exercise price of the option. Currently, there is no active market for the Company's common shares and fair value is determined by the Company with the assistance of external valuation experts. Stock-based compensation is amortized over the vesting period of the award. Since the Company has a past practice of settling its vested stock options predominantly in cash and unsecured promissory notes, the Company accounts for its option plan using liability accounting. The related liability is adjusted to represent the intrinsic value of vested awards at each balance sheet date. Changes in the fair value of the Company's stock from one measurement date to the next will affect the carrying value of the previously reported liability. Since the Company utilizes the intrinsic value method and grants options with an exercise price at or above fair value at the time of issuance, there is no intrinsic value on the grant date.

Although the Company has a practice of settling stock options predominantly in cash and unsecured promissory notes, the current stock option plan does not require the Company to do so. In situations where the Company elects to settle options, the settlement amounts have been calculated using a non-contractual formulaic approach. Settlements and the calculated formulaic value are mutually agreed upon between the option holder and the Company. The calculated formulaic value has historically been lower than the intrinsic value of the settled awards. If all the fully vested stock options as of December 31, 2016 were settled in cash and unsecured promissory notes, the total payment before any tax benefit would be $19,222,000.

Fair value of financial instruments

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. Assets and liabilities that are measured at fair value are reported using a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy maximizes the use of observable inputs and minimizes the use of unobservable inputs.

The three levels of inputs used to measure fair value are as follows:

- ***Level 1:*** Inputs to the valuation are unadjusted quoted prices in active markets for identical assets or liabilities.
- ***Level 2:*** Inputs to the valuation may include quoted prices for similar assets and liabilities in active or inactive markets, and inputs other than quoted prices, such as interest rates and yield curves, that are observable for the asset or liability for substantially the full term of the financial instrument.
- ***Level 3:*** Inputs to the valuation are unobservable and significant to the fair value measurement. Level 3 inputs shall be used to measure fair value only to the extent that observable inputs are not available.

The estimated fair values of the Company’s short-term financial instruments, including cash and cash equivalents, accounts receivable and accounts payable arising in the ordinary course of business, approximate their individual carrying amounts due to the relatively short period of time between their origination and expected realization. The foreign exchange forward contracts were marked to market and therefore represented fair value. The fair values of these contracts are determined based on inputs that are readily available in public markets or can be derived from information available in publicly quoted markets. This valuation methodology is considered level 2 in the fair value hierarchy. For liabilities such as long-term debt not accounted for at fair value and without quoted market prices, fair value was based upon borrowing rates available to the Company for bank loans with the same remaining maturities and similar terms and collateral requirements. As such, the fair value of long-term debt approximated its carrying value.

The fair value of the Company’s senior secured notes is estimated based upon the quoted market prices for the same issue if available, or similar issues. This valuation methodology is considered level 2 in the fair value hierarchy. The carrying amount and estimated fair value of the senior secured notes as of December 31, 2016 was $575,000,000 and $603,750,000, respectively. The carrying amount and estimated fair value of the senior secured notes as of January 2, 2016 was $575,000,000 and $593,688,000, respectively.

The following table sets forth the fair value of the Company’s assets and liabilities measured at fair value on a recurring basis as of December 31, 2016 and January 2, 2016 based on the three-tier fair value hierarchy:

	Level 1	Level 2	Level 3	Total
December 31, 2016				
Foreign exchange forward contracts	$ —	$404,000	$ —	$404,000
January 2, 2016				
Foreign exchange forward contracts	$ —	$ 71,000	$ —	$ 71,000

Derivatives and hedging

Forward contracts

In the normal course of business the Company is subject to risk from adverse fluctuations in foreign exchange rates. The Company manages these risks through the use of derivative financial instruments, primarily foreign exchange forward contracts.

The Company recognizes its outstanding derivative financial instruments in the consolidated balance sheets at their fair values. The Company does not designate these instruments as accounting hedges. The changes in the fair value of these instruments are recorded in other expense (income) in the consolidated statements of income.

At December 31, 2016, the Company held contracts maturing from January 2017 to June 2017 to purchase 197.0 million Mexican pesos at exchange rates ranging from 20.6 to 21.2 Mexican pesos to the U.S. dollar. At January 2, 2016, the Company held contracts maturing from January 2016 to March 2016 to purchase 102.0 million Mexican pesos at exchange rates ranging from 17.2 to 17.3 Mexican pesos to the U.S. dollar. The Company recorded the fair value of these contracts of $404,000 and $71,000 at December 31, 2016 and January 2, 2016, respectively, in other accrued liabilities in the consolidated balance sheets.

Recently issued accounting pronouncements

New accounting pronouncements adopted

On August 27, 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2014-15, "*Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*", which requires management to assess a company's ability to continue as a going concern and to provide related footnote disclosures in certain circumstances. Before this new standard, there was minimal guidance in U.S. GAAP specific to going concern. Under the new standard, disclosures are required when conditions give rise to substantial doubt about a company's ability to continue as a going concern within one year from the financial statement issuance date. The new standard applies to all companies and is effective for the annual period ending after December 15, 2016, and all annual and interim periods thereafter. Accordingly, the Company adopted this new standard in 2016.

In April 2015, the FASB issued Accounting Standards Update ASU No. 2015-03, "*Interest — Imputation of Interest (Subtopic 835-30) — Simplifying the Presentation of Debt Issuance Costs*" ("ASU 2015-03"). In June 2015, the FASB issued ASU No. 2015-15, "*Interest — Imputation of Interest (Subtopic 835-30) — Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements — Amendments to SEC Paragraphs Pursuant to Staff Announcement at June 18, 2015 EITF Meeting*" ("ASU 2015-15"). ASU 2015-03 and ASU 2015-15 require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of the related debt liability. During the year ended December 31, 2016, the Company retrospectively adopted these new standards, resulting in a reclassification of $9,581,000 of debt issuance costs as of January 2, 2016.

In November 2015, the FASB issued ASU No. 2015-17, "*Balance Sheet Classification of Deferred Taxes (Topic 740)*" ("ASU 2015-17"), which requires that deferred tax assets and liabilities be presented as non-current in the balance sheet. ASU 2015-17 is effective for annual reporting periods beginning after December 15, 2016 (and interim periods within those fiscal years) with early adoption permitted. The Company adopted ASU 2015-17 at the beginning of fiscal 2017 on a retrospective basis. Accordingly, we reclassified $12,902,000 and $18,157,000 from current assets to non-current assets as of December 31, 2016 and January 2, 2016, respectively and $2,229,000 and $1,990,000 from non-current liabilities to non-current assets as of December 31, 2016 and January 2, 2016, respectively.

In March 2016, the FASB issued ASU No. 2016-09, "*Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*" ("ASU 2016-09"), which provides for improvements to employee share-based payment accounting. ASU 2016-09 simplifies several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. ASU 2016-09 is effective for annual reporting periods beginning after December 15, 2016 (and interim periods within those fiscal years). Early adoption is permitted. The Company adopted ASU 2016-09 at the beginning of fiscal 2017. The adoption did not have a material impact on the consolidated financial statements.

New accounting pronouncements not yet adopted

In May 2014, the FASB issued ASU No. 2014-09, "*Revenue From Contracts with Customers (Topic 606)*" ("ASU 2014-09"), which requires that a company recognizes revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. ASU 2014-09 was originally effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2016. In August 2015, the FASB issued ASU No. 2015-14, "*Revenue from Contracts with Customers (Topic 606): Deferral of Effective Date*", which defers the effective date of ASU 2014-09 by one year. ASU 2014-09 is now effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2017. In 2016, the SEC provided specific guidance for public business entities that otherwise would not meet the definition of a public business entity except for inclusion of its financial statements in another entity's filing with the Commission. Such public business entities may apply ASU No. 2014-09 for annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019. Therefore, the Company does not plan on adopting ASU 2014-09 until fiscal 2019. The Company has not yet completed an assessment of the impact of this standard on the consolidated financial statements.

In July 2015, the FASB issued ASU No. 2015-11, *"Inventory (Topic 330): Simplifying the Measurement of Inventory"* ("ASU 2015-11"). Upon adoption by an entity, ASU 2015-11 will simplify the subsequent measurement of inventory by replacing the current lower of cost or market test with a lower of cost or net realizable value test. The new guidance applies only to inventories for which cost is determined by methods other than last-in-first-out (LIFO) and the retail inventory method. For inventory within the scope of ASU 2015-11, entities will be required to compare the cost of inventory to only one measure, its net realizable value, and not the three measures required by current guidance ("market," "subject to a floor," and a "ceiling"). When evidence exists that the net realizable value of inventory is less than its cost (due to damage, physical deterioration, obsolescence, changes in price levels or other causes), entities will recognize the difference as a loss in earnings in the period in which it occurs. ASU 2015-11 is effective for public entities for fiscal years beginning after December 15, 2016, and interim periods within the year of adoption. Early adoption is permitted. The Company adopted ASU 2015-11 prospectively at the beginning of fiscal 2017. The adoption did not have a material impact on the consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, "*Leases (Topic 842)*" ("ASU 2016-02"), which supersedes the lease requirements in Accounting Standards Codification Topic 840, *Leases*. ASU 2016-02 requires lessees to recognize assets and liabilities on the balance sheet for most leases and provide enhanced disclosures. Leases will continue to be classified as either finance or operating. ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2018 (and interim periods within those fiscal years). In 2016, the SEC provided specific guidance for public business entities that otherwise would not meet the definition of a public business entity except for inclusion of its financial statements in another entity's filing with the Commission. Such public business entities may apply ASU No. 2016-02 for annual reporting periods beginning after December 15, 2019, and interim reporting periods within annual reporting periods beginning after December 15, 2019. Therefore, the Company does not plan on adopting ASU 2016-02 until fiscal 2020. The new standard must be adopted using a modified retrospective transition, requiring application at the beginning of the earliest comparative period presented. The Company has not yet completed an assessment of the impact of this standard on the consolidated financial statements.

NOTE 2 INVENTORIES

Inventories consisted of the following as of:

	December 31, 2016	January 2, 2016
Raw materials	$ 46,352,000	$ 50,777,000
Finished goods	15,425,000	19,076,000
	$ 61,777,000	$ 69,853,000

NOTE 3 PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following as of:

	December 31, 2016	January 2, 2016
Buildings	$ 2,840,000	$ 2,678,000
Land	940,000	940,000
Machinery and equipment	129,489,000	113,554,000
Data processing equipment and software	20,396,000	18,654,000
Displays	12,937,000	7,830,000
Forklifts and vehicles	11,767,000	10,921,000
Office furniture and equipment	3,035,000	2,612,000
Leasehold improvements	6,790,000	6,130,000
	188,194,000	163,319,000
Less accumulated depreciation and amortizati	126,404,000	118,570,000
Net	61,790,000	$ 44,749,000

Depreciation expense for the years ended December 31, 2016, January 2, 2016 and January 3, 2015 was $11,818,000, $10,133,000 and $10,133,000, respectively.

NOTE 4 INTANGIBLE ASSETS, NET

Intangible assets consisted of the following as of:

	December 31, 2016		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Customer relationships	$ 20,785,000	$ 10,792,000	$ 9,993,000
Trademark/Trade name	3,581,000	1,859,000	1,722,000
Favorable lease	873,000	842,000	31,000
	$ 25,239,000	$ 13,493,000	$ 11,746,000

	January 2, 2016		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Customer relationships	$ 20,785,000	$ 9,193,000	$ 11,592,000
Trademark/Trade name	3,581,000	1,584,000	1,997,000
Favorable lease	873,000	717,000	156,000
	$ 25,239,000	$ 11,494,000	$ 13,745,000

The remaining weighted-average life of amortizing intangibles as of December 31, 2016 was 6 years.

Amortization expense for the years ended December 31, 2016, January 2, 2016 and January 3, 2015 related to intangible assets was $1,999,000, $2,101,000 and $2,406,000, respectively.

Estimated amortization related to the remaining intangible assets at December 31, 2016 is as follows:

Fiscal Years Ending	Amount
2017	$ 1,905,000
2018	1,874,000
2019	1,874,000
2020	1,874,000
2021	1,874,000
Thereafter	2,345,000
	$ 11,746,000

NOTE 5 OTHER ACCRUED LIABILITIES

Other accrued liabilities consisted of the following as of:

	December 31, 2016	January 2, 2016
Stock-based liability awards	$ 19,907,000	$ 33,082,000
Accrued compensation	9,667,000	11,584,000
Accrued interest	10,993,000	11,365,000
Other accrued expenses	10,892,000	10,759,000
	$ 51,459,000	$ 66,790,000

Accrued compensation consists of earned but unpaid payroll, incentive compensation and vacation.

Other accrued expenses consist primarily of amounts accrued for self-insurance for workers' compensation and medical insurance, capital expenditures and consulting agreements.

The Company is partially self-insured related to workers' compensation claims up to $500,000 per claim for its employees in the United States. As of December 31, 2016 and January 2, 2016, approximately $2,231,000 and $2,600,000, respectively, has been provided for reported but unresolved workers' compensation claims, and the reserve is included in the consolidated balance sheets. Total expense for workers' compensation, including insurance premiums, net of refunds received, was approximately $1,678,000, $2,180,000 and $1,214,000 for the years ended December 31, 2016, January 2, 2016 and January 3, 2015, respectively.

The Company is self-insured for up to $250,000 per claim under its medical benefit programs in the United States. This amount increased from $200,000 effective January 1, 2016. Total expense under the program for the years ended December 31, 2016, January 2, 2016 and January 3, 2015 was $5,924,000, $6,918,000 and

$4,749,000, respectively. The Company provides for a reserve for actual unpaid claims and an estimate of claims incurred but not reported. At December 31, 2016 and January 2, 2016, $632,000 and $732,000, respectively, had been provided for future costs and is included in the consolidated balance sheets.

NOTE 6 LINES OF CREDIT AND LONG-TERM DEBT

Long-term debt consisted of the following as of:

	December 31, 2016	January 2, 2016
$575 million senior secured notes	$ 575,000,000	$ 575,000,000
Unsecured notes payable(a)	670,000	996,000
Other	220,000	—
Less unamortized debt issuance costs	(8,497,000)	(9,581,000)
	567,393,000	566,415,000
Less current portion	365,000	455,000
Net	$ 567,028,000	$ 565,960,000

(a) Notes due to former and current employees for the cancellation and subsequent settlement of vested stock options. The five year notes bear interest at rates ranging from 1.01% to 1.97% per annum and are due in annual installments of principal and interest on their respective anniversary dates, with final payments of all notes due through June 30, 2021. All are unsecured and subordinated to the credit facilities.

As of December 31, 2016, aggregate maturities of long-term debt, excluding unamortized debt issuance costs, were as follows:

Fiscal Years Ending	Amount
2017	$ 365,000
2018	192,000
2019	171,000
2020	104,000
2021	52,000
Thereafter	575,006,000
	$ 575,890,000

$575 Million Senior Secured Notes

On March 16, 2015, the Company issued $575,000,000 of senior secured second lien notes due 2023 (the “2023 Notes”) with major financial institutions as initial purchasers (1) to repay the existing senior secured second lien notes due in 2018 (the “2018 Notes”), including accrued and unpaid interest, a tender offer premium and a call premium, and (2) for general corporate purposes. The 2023 Notes bear interest at 6.5% per annum and mature on March 15, 2023. Interest on the 2023 Notes is payable semi-annually, in cash in arrears, on March 15 and September 15 of each year, commencing September 15, 2015. The 2023 Notes are subject to redemption, at the option of the Company, in whole or in part, at any time on or after March 15, 2018, at various redemption prices plus accrued and unpaid interest to the redemption dates. The 2023 Notes are fully and unconditionally guaranteed by each of the Company’s wholly-owned domestic subsidiaries, subject to certain exceptions.

The Company incurred $35,353,000 in expense related to the early extinguishment of debt as a result of the prepayment of the 2018 Notes, which included a tender offer premium of $26,597,000, a call premium of $1,702,000 and the write-off of $7,054,000 in unamortized deferred debt issuance costs.

The 2023 Notes contain customary covenants, including covenants that limit or restrict the Company's ability to incur debt, pay dividends, repurchase or make other distributions in respect to its capital stock, make other restricted payments, create liens, sell assets, engage in transactions with affiliates, consolidate or merge into other companies, or convey, transfer or lease to other companies.

$75 Million Credit Facility

On February 22, 2013, the Company entered into an agreement with three financial institutions (collectively, the "Lenders") whereby the Lenders provided a revolving credit facility to the Company for a total of $75,000,000 (the "Credit Facility"). The Credit Facility also includes a letter of credit commitment from the lenders. Advances under the Credit Facility bear interest at selected variable rates, as defined, plus a margin based on the Company's financial position. The principal amount of the revolving loans shall be repaid on the maturity date. The credit arrangement is secured by substantially all assets of the Company and expires on August 22, 2017.

On March 16, 2015, the Company amended and restated the Credit Facility, to among other things, extend the maturity date to March 16, 2020.

The Credit Facility contains customary covenants, including covenants that limit or restrict the Company's ability to incur debt, create liens, consolidate or merge into other companies, sell or lease assets, pay or prepay subordinated debt, engage in sale and leaseback transactions, pay dividends, repurchase or make other distributions in respect to its capital stock and engage in transactions with affiliates. The Credit Facility also requires the Company to maintain certain minimum financial ratios and other financial measures. As of December 31, 2016 and January 2, 2016, there were no outstanding loan balances under this facility.

As of December 31, 2016 and January 2, 2016, the Company had $3,725,000 of outstanding letters of credit related to its self-insured workers' compensation program (see Note 5).

As of December 31, 2016, the Company was compliant with all of its debt covenants.

For the year ended January 2, 2016, the Company incurred $10,975,000 of debt issuance costs in connection with the issuance of the 2023 Notes and the amendment and restatement of the Credit Facility. The unamortized balance of $9,581,000 as of January 2, 2016 was reclassified from other assets to senior secured notes on the consolidated balance sheets. Amortization expense of debt issuance costs was $1,284,000, $1,486,000 and $2,371,000 for the years ended December 31, 2016, January 2, 2016 and January 3, 2015, respectively, and is included in interest expense in the consolidated statements of income.

Net interest expense including amortization of debt issuance costs was $38,641,000, $39,306,000 and $39,463,000 for the years ended December 31, 2016, January 2, 2016 and January 3, 2015, respectively. Interest expense for the year ended January 2, 2016 included a write-off of unamortized deferred debt issuance costs of $325,000 related to the amendment and restatement of the Credit Facility.

NOTE 7 INCOME TAXES

The provision for income taxes consists of the following components:

	2016	2015	2014
Current Provision			
Federal	$ 21,871,000	$ 3,756,000	$ 20,689,000
State	3,860,000	655,000	3,164,000
Foreign	731,000	540,000	763,000
Total current	26,462,000	4,951,000	24,616,000
Deferred Provision			
Federal	5,196,000	(2,927,000)	(4,032,000)
State	509,000	(468,000)	(641,000)
Foreign	(212,000)	(35,000)	(206,000)
Total deferred	5,493,000	(3,430,000)	(4,879,000)
Total provision for income taxes	$ 31,955,000	$ 1,521,000	$ 19,737,000

Taxes based on income differ from the amount obtained by applying the statutory federal income tax rate to income before taxes as follows:

	2016	2015	2014
Computed provision for taxes based on income at the federal statutory rate	$ 34,146,000	$ 2,065,000	$ 20,597,000
State income taxes, net of federal income tax benefit	2,839,000	122,000	1,640,000
Domestic manufacturing deduction	(2,532,000)	(495,000)	(2,087,000)
Tax credits and other	(2,498,000)	(171,000)	(413,000)
	$ 31,955,000	$ 1,521,000	$ 19,737,000

Components of the Company's deferred tax assets and liabilities are as follows:

	2016	2015
Deferred tax assets		
Inventory uniform capitalization adjustment	$ 819,000	$ 1,143,000
Inventory reserves	181,000	180,000
Vacation accrual	813,000	745,000
Workers' compensation	877,000	925,000
State income taxes	342,000	144,000
Stock-based compensation	7,823,000	13,001,000
Bonus and commission accrual	248,000	688,000
Other reserves	1,039,000	860,000
Intangible amortization	1,497,000	1,498,000
Accrued expenses and other	1,354,000	1,453,000
Deferred rent	1,768,000	1,041,000
Foreign tax credt	254,000	—
Business development costs and displays	112,000	—
Total deferred tax assets	17,127,000	21,678,000
Deferred tax liabilities		
Property and equipment	6,116,000	5,115,000
Prepaid supplies and other	338,000	332,000
Slotting fees and displays	—	64,000
Total deferred tax liabilities	6,454,000	5,511,000
Net deferred tax assets	$ 10,673,000	$ 16,167,000

The Company evaluates the realizability of its deferred tax assets and assesses the need for a valuation allowance on an ongoing basis. In evaluating its deferred tax assets, the Company considers whether it is more likely than not that the deferred income tax assets will be realized. The ultimate realization of deferred tax assets depends upon generating sufficient future taxable income prior to the expiration of the tax attributes. This assessment requires significant judgment. Given the merits of objectively verifiable evidence, including a history of income for both GAAP accounting and income taxes, the Company has determined that there is no need for a valuation allowance as of December 31, 2016 and January 2, 2016.

The following table summarizes the activity related to the Company's unrecognized tax benefits for the fiscal years ended:

	2016	2015
Unrecognized tax benefits, beginning balance	$ 2,456,000	$ 3,592,000
Gross increases (decreases)-tax positions in prior period	18,000	(61,000)
Gross increases-tax positions in current period	81,000	—
Lapse of statute of limitations	(1,256,000)	(1,075,000)
Unrecognized tax benefits, ending balance	$ 1,299,000	$ 2,456,000

The Company recognizes interest and/or penalties related to income tax matters in income tax expense. As of December 31, 2016 and January 2, 2016, the Company had approximately $319,000 and $641,000, respectively, of accrued interest and penalties related to uncertain tax positions.

The Company believes that it is reasonably possible that approximately $647,000 of its unrecognized tax benefits may be recognized by the end of its next fiscal year as a result of a lapse of the statute of limitations.

The tax years ended December 28, 2013 to December 31, 2016 remain open to examination by the major taxing jurisdictions to which the Company is subject. The Company has received notice from the State of North Carolina that they will conduct an examination of the tax years 2013, 2014 and 2015. The Company does not believe that unrecognized tax benefits as of December 31, 2016 will significantly increase or decrease within the next 12 months.

NOTE 8 COMMITMENTS AND CONTINGENCIES

Operating leases

The Company leases certain facilities under operating lease agreements, which expire on various dates through August 2029 and require minimum annual rentals ranging from $1,000 to $446,000 per month. Certain of these leases provide for rent escalations and renewal options. For leases with stated rent escalations, the Company recognizes rent expense ratably over the lease term. The difference between the ratable rent expense and the amount paid is included in other non-current liabilities in the consolidated balance sheets. The majority of these leases obligate the Company to pay costs of maintenance, utilities and property taxes.

Minimum future rental payments under operating leases at December 31, 2016 are as follows:

Fiscal Years Ending	Amount
2017	$ 14,066,000
2018	13,852,000
2019	12,847,000
2020	13,098,000
2021	10,650,000
Thereafter	40,721,000
	$ 105,234,000

Rent expense for the years ended December 31, 2016, January 2, 2016 and January 3, 2015 was $13,582,000, $12,037,000 and $11,492,000, respectively.

Legal matters

The Company is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse impact on the Company's financial position, results of operations or cash flows. As of December 31, 2016, there was no litigation or contingency with at least a reasonable possibility of a material loss.

NOTE 9 RETIREMENT PLANS

The Company has a defined-contribution 401(k) profit sharing plan ("401(k) plan") for all non-union employees. Employees are eligible to contribute to the 401(k) plan 60 days after starting employment. Under the 401(k) plan, employees may contribute up to 60 percent of their compensation, subject to an annual contribution limit prescribed by the Internal Revenue Service. The Company has elected to make safe harbor matching contributions of up to four percent of each participant's eligible compensation. The Company's safe harbor contributions vest immediately. The Company incurred matching contribution expense for the years ended December 31, 2016, January 2, 2016 and January 3, 2015 of $1,381,000, $1,004,000 and $1,306,000, respectively.

NOTE 10 STOCKHOLDERS' DEFICIT

On May 22, 2015, the Company amended and restated its certificate of incorporation which authorizes the respective classes and shares of corporate stock as follows:

Shares

The total number of shares of all classes of stock which the Company has authority to issue is 100,000,000, of which 90,000,000 shares are Common Stock, consisting of 40,000,000 shares of Class A Voting Common Stock, par value $0.001 per share ("Class A Common Stock"), 25,000,000 shares of Class B Voting Common Stock, par value $0.001 per share ("Class B Common Stock"), 25,000,000 shares of Class C Non-Voting Common Stock, par value $0.001 per share ("Class C Common Stock" together with the Class A Common Stock and the Class B Common Stock, the "Common Stock"), and 10,000,000 shares of Preferred Stock, par value $0.001 per share ("Preferred Stock").

Preferred Stock

The shares of Preferred Stock may be issued from time to time in one or more series. The Board of Directors ("the Board") is expressly authorized to fix and determine by resolution or resolutions the number of shares of each series of Preferred Stock and the designation thereof, and the voting and other powers, preferences and relative, participating, optional or other special rights.

Common Stock

The rights, preferences, privileges and restrictions granted to and imposed on the Common Stock are as follows:

Relative Rights

Except as any provision of law or any provision in the Eighth Amended and Restated Certificate of Incorporation may otherwise provide, each share of Common Stock, without distinction as to class, shall have the same rights, privileges, interests and attributes, and shall be subject to the same limitations, as every other share of Common Stock.

Voting

Each holder of shares of Class A Common Stock shall be entitled to notice of and to attend all special and annual meetings of the stockholders of the Company and to cast one vote for each outstanding share of Class A Common Stock so held upon any matter or thing (including, without limitation, the election of one or more directors) properly considered and acted upon by the stockholders.

Each holder of shares of Class B Common Stock shall be entitled to notice of and to attend all special and annual meetings of the stockholders of the Company and to cast one vote for each outstanding share of Class B Common Stock so held upon any matter or thing (including, without limitation, the election of one or more directors) properly considered and acted upon by the stockholders.

Except as required by law, holders of shares of Class C Common Stock shall not be entitled to vote on any matter submitted to a vote of the stockholders of the Company.

Dividends

Except as to the Special Dividend, as defined in the Eighth Amended and Restated Certificate of Incorporation, in the aggregate amount of $50,000,000, all dividends payable on the Common Stock in cash, property or shares of capital stock shall be payable to all holders of Common Stock, without distinction as to class. Holders of Class B Common Stock shall not be entitled to receive any Special Dividend payable in cash or property to holders of Class A Common Stock and Class C Common Stock.

Liquidation

In the event of any liquidation, the holders of the Common Stock and holders of any class or series of stock entitled to participate therewith, in whole or in part, as to the distribution of assets in such event, shall become entitled to participate, pro-rata, in the distribution of any assets of the Company remaining after the Company shall have paid, or provided for payment of, all debts and liabilities of the Company and after the Company shall have paid, or set aside for payment, to the holders of any class of stock having preference over the Common Stock, in the event of any liquidation, the full preferential amounts, if any, to which they are entitled.

Transaction with BIC Investors, LLC

On May 27, 2015 (the “Closing Date”), the Company and its stockholders (the “Stockholders”) entered into a stock purchase agreement (the “Agreement”) with BIC Investors, LLC (“BIC”).

The Agreement provided, subject to its terms and conditions, for the Stockholders to sell to BIC 2,293,943 shares of Class A Common Stock and 235,739 shares of Class C Common Stock (the “Purchased Shares”). Holders of vested Class C stock options exercised 253,671 options and participated in this transaction, resulting in additional non-cash stock-based compensation expense of $9,115,000 to settle the liability awards. Pursuant to the Eighth Amended and Restated Certificate of Incorporation, the Purchased Shares were automatically converted to 2,537,972 shares of Class B Common Stock immediately prior to the transfer and delivery to BIC. The Aggregate Purchase Price was $130,000,000.

In connection with the BIC transaction, the Company entered into an investor rights agreement with BIC. This agreement included a provision that provided BIC the right, if a qualified Initial Public Offering was not consummated by the sixth anniversary of the transaction in 2021, to request the Company to initiate a sale process of the Company or at the Board’s discretion to repurchase the BIC stock holdings at fair value. As the potential repurchase feature is within the full control of the Board, the Company has accounted for the BIC investment as permanent equity.

Conversion of Common Stock

All issued and outstanding shares of Class B Common Stock shall automatically be converted into the same number of shares of Class A Common Stock on the earlier to occur of (i) payment of the Special Dividend, and (ii) an initial public offering of Common Stock. In the case of clause (i), immediately upon such payment and, in the case of clause (ii), immediately prior to such initial public offering.

During 2016 the Company paid the $50,000,000 Special Dividend and all issued and outstanding shares of Class B Common Stock were converted to Class A Common Stock.

Redemption

At December 28, 2013, Class C Common Stock contained a mandatory redemption feature in the event that the employee stockholder’s employment with the Company was to terminate, and these shares were recorded at the redemption price. Effective June 25, 2014, holders of Class C Common Stock irrevocably amended and restated their Stockholders’ Agreements to eliminate the mandatory redemption feature contained in such agreements with respect to the Class C Common Stock and instead provide the Company the option to purchase some or all of the employee stockholder’s Class C Common Stock upon the termination of such holder’s employment. As a result, 131,000 shares of Class C Common Stock were remeasured to fair value as of June 25, 2014 and reclassified from temporary equity to permanent equity at the carrying amount of $1,921,000.

Stock Option Plans

As of December 31, 2016, the Company had one stock-based compensation plan, the 2013 Stock Incentive Plan, which replaced the 1995 Stock Option Plan and the 2002 Non-Employee Director Stock Plan.

2013 Stock Incentive Plan

The 2013 Stock Incentive Plan (the "2013 Plan" or the "Plan") was effective October 1, 2013 and replaced all other stock option and/or award plans of the Company. The terms of any grants made under a prior plan shall continue to be governed by the terms of the plan under which the grant was made. The Plan is administered by the Board and the Board may designate a committee to operate and administer the Plan. The Plan covers employees and directors of the Company or any affiliate, and consultants and advisors who render bona fide services to the Company unrelated to the offer or sale of securities. The Plan authorizes grants of options to purchase up to 10,000,000 shares of authorized and unissued Class A Common Stock or shares of Class A Common Stock held in treasury less any shares outstanding under the previous stock incentive plans, subject to capitalization adjustments. Grants under the Plan may be in the form of non-qualified stock options, incentive stock options, stock appreciation rights, restricted stock units or a combination thereof, at the discretion of the Board. Under the Plan, options generally vest over five years and expire ten years from the grant date.

All options must be priced at least equal to 100% of the fair market value of the shares on the date the option is granted. The Company has historically utilized a stock valuation methodology for the granting of options (establishing an exercise price) using an approach that determines the Company's enterprise value using a multiple of EBITDA and subtracting outstanding debt and adding excess cash to arrive at equity value, and then dividing by the number of outstanding common shares, common share equivalents and exercisable option shares.

1995 Stock Option Plan

The 1995 Stock Option Plan, as amended on August 2, 2000 and February 19, 2002 ("1995 Plan") was administered by the Board. The Company's Board could grant nonqualified stock options to officers, key employees and directors. The 1995 Plan authorized grants of options to purchase up to 10,000,000 shares of authorized but unissued Class C Common Stock. Stock options were granted with an exercise price equal to or greater than the stock's fair market value (as determined by the Board) at the date of grant. Stock options were exercisable beginning two years after the grant date with respect to 40% of the total number of shares, and 20% on each of the three succeeding years. Stock options granted under the 1995 Plan have a term of ten years from the date of grant.

This plan was replaced by the 2013 Stock Incentive Plan effective October 1, 2013. However, the terms of the grants already made under this plan continue to be governed by the 1995 Plan.

A summary of the shares reserved for options outstanding and available for grant under each plan as of December 31, 2016 is as follows:

	Options Originally Authorized (000's)	Options Outstanding (000's)	Options Available for Grant (000's)
1995 Nonqualified Stock Option Plan	10,000	1,927	—
2013 Stock Incentive Plan (replaces previous stock option plans)	10,000	2,272(a)	7,728

(a) The 2013 Stock Incentive Plan replaces prior stock option plans and the current outstanding options include the option grants for the 1995 Plan.

Stock option activity for the years ended December 31, 2016, January 2, 2016 and January 3, 2015 are as follows:

2013 Stock Incentive Plan (excludes options granted under 1995 Incentive Plan)	Options (000's)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)
Outstanding at December 28, 2013	1,025	$ 23.82	9.79
Granted	5	23.82	—
Exercised	—	—	—
Cancelled	—	—	—
Forfeited/expired	—	—	—
Outstanding at January 3, 2015	1,030	$ 23.82	8.78
Granted	200	25.23	—
Exercised	—	—	—
Cancelled	—	—	—
Forfeited/expired	—	—	—
Outstanding at January 2, 2016	1,230	$ 21.18	8.04
Granted	25	29.75	—
Exercised	—	—	—
Cancelled	—	—	—
Forfeited/expired	(910)	20.68	—
Outstanding at December 31, 2016	345	$ 20.14	7.84
Options exercisable at December 31, 2016	77	$ 15.57	6.80
Vested and expected to vest at December 31, 2016	199	$ 19.17	7.62

1995 Stock Incentive Plan	Options (000's)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)
Outstanding at December 28, 2013	3,061	$ 9.29	5.50
Granted	—	—	—
Exercised	(140)	9.71	—
Cancelled	(115)	9.32	—
Forfeited/expired	(294)	11.57	—
Outstanding at January 3, 2015	2,512	$ 9.00	4.46
Granted	—	—	—
Exercised	(310)	8.67	—
Cancelled	(88)	9.27	—
Forfeited/expired	(74)	12.88	—
Outstanding at January 2, 2016	2,040	$ 8.27	3.72
Granted	—	—	—
Exercised	(22)	9.31	—
Cancelled	(69)	10.66	—
Forfeited/expired	(22)	7.68	—
Outstanding at December 31, 2016	1,927	$ 5.16	2.92
Options exercisable at December 31, 2016	1,823	$ 5.20	2.72
Vested and expected to vest at December 31, 2016	1,870	$ 5.18	2.81

The aggregate intrinsic value of the options exercisable and options vested and expected to vest at December 31, 2016 was $24,597,000 and $26,001,000, respectively.

During the years ended December 31, 2016, January 2, 2016 and January 3, 2015, the Company canceled options for 69,256, 88,092 and 115,450 shares of common stock, respectively, from current and former employees. The cancellation values represent a formulaic amount agreed upon between the option holder and the Company. The agreed value paid by the Company for the cancellation of the option grants was paid out in cash and subordinated promissory notes, with consideration totaling $361,000, $582,000 and $375,000, during the years ended December 31, 2016, January 2, 2016 and January 3, 2015, respectively (see Note 6).

For the year ended December 31, 2016, the Company paid a dividend of $2.98 per share, totaling $50,000,000 to holders of Class A Common and Class C Common Stock. The Board authorized an equitable adjustment for option holders in the form of a reduction of the exercise price for all outstanding stock options. This resulted in additional stock-based compensation expense of $6,843,000.

For the year ended January 2, 2016, the Company paid a cash dividend of $5.26 per share, totaling $100,000,000 to holders of Class A Common Stock and Class C Common Stock. The Board authorized an equitable adjustment for option holders in the form of a reduction of the exercise price for unvested stock options and a cash bonus to vested option holders. This resulted in additional stock-based compensation expense of $17,889,000.

At December 31, 2016, there was $1,478,000 of total unrecognized compensation cost related to unvested stock options granted under the plans. This cost is expected to be recognized over a weighted-average period of 2.06 years. Because the options are accounted for as liability awards, future compensation cost will vary with changes in the fair value of the underlying common stock and forfeiture rates.

Stock-based compensation expense (expense reversal) is included in selling, general and administrative expense in the accompanying consolidated statements of income and totaled $(12,608,000), $37,353,000 and

$11,403,000 for each of the years ended December 31, 2016, January 2, 2016 and January 3, 2015, respectively. The total income tax (provision) benefit recognized in the consolidated statements of income for stock-based compensation arrangements was $(4,765,000), $13,843,000 and $4,309,000 for each of the years ended December 31, 2016, January 2, 2016 and January 3, 2015, respectively.

NOTE 11 SUBSEQUENT EVENTS

The Company has evaluated all events or transactions that occurred after the balance sheet date of December 31, 2016 through March 6, 2017, the date the consolidated financial statements were available to be issued, and has determined that no subsequent events require disclosure in the consolidated financial statements.

NOTE 12 SUBSEQUENT EVENTS (Unaudited)

On November 30, 2017, American Woodmark Corporation ("Woodmark") and the Company entered into an Agreement and Plan of Merger. On December 29, 2017, Woodmark consummated the previously announced acquisition of the Company. At the closing of the Acquisition, Woodmark assumed the Company's indebtedness consisting primarily of the Company's privately placed 6.5% Senior Secured Second Lien Notes due 2023 issued in March 2015.

On December 22, 2017, the Tax Cuts and Jobs Act ("The Act"), was signed into law by President Trump. The Act includes a number of provisions, including the lowering of the U.S. corporate tax rate from 35 percent to 21 percent, effective January 1, 2018 and the establishment of a territorial-style system for taxing foreign-source income of domestic multinational corporations. The Company is in the process of quantifying the tax impacts of The Act. As a result of The Act, the Company expects there will be one-time adjustments for the re-measurement of deferred tax assets (liabilities) and the deemed repatriation tax on the unremitted foreign earnings and profits. The Company is in the process of quantifying the impact of the Act.

(Back To Top)

Section 5: EX-99.2 (EXHIBIT 99.2)

Exhibit 99.2

RSI HOME PRODUCTS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	September 30, 2017	December 31, 2016
ASSETS		
Current Assets		
Cash and cash equivalents	$ 80,941,000	$ 49,293,000
Acounts receivable, net of rebates and allowances of $10,752,000 in 2017 and $8,856,000 in 2016	50,815,000	61,894,000
Inventories	63,601,000	61,777,000
Prepaid income taxes	1,476,000	4,396,000
Prepaid expenses and other current assets	9,019,000	6,465,000
Total current assets	205,852,000	183,825,000
Property and equipment, net	61,288,000	61,790,000
Other assets	2,192,000	3,310,000
Intangible assets, net	10,308,000	11,746,000
Deferred income taxes	10,797,000	10,673,000
Total assets	$ 290,437,000	$ 271,344,000
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current Liabilities		
Accounts payable	$ 25,290,000	$ 25,853,000
Current portion of long-term debt	685,000	365,000
Other accrued liabilities	35,250,000	51,459,000
Total current liabilities	61,225,000	77,677,000
Senior secured notes	567,365,000	566,503,000
Long-term debt, net of current portion	2,334,000	525,000
Other non-current liabilities	6,080,000	6,273,000
Total liabilities	637,004,000	650,978,000
Commitments and contingencies (Note 8)		
Stockholders' Deficit		
Common stock — Class A Voting — par value $0.001, authorized:		
2017 and 2016 — 40,000,000 shares; issued and outstanding:		
2017 — 19,050,063 shares, 2016 — 19,050,063 shares	19,000	19,000

Common stock — Class C Nonvoting — par value $0.001, authorized: 2017 and 2016 — 25,000,000 shares; issued and outstanding: 2017—251,980 shares, 2016 — 251,980 shares	—	—
Additional paid-in capital	67,515,000	67,515,000
Accumulated deficit	(414,101,000)	(447,168,000)
Total stockholders' deficit	(346,567,000)	(379,634,000)
Total liabilities and stockholders' deficit	$ 290,437,000	$ 271,344,000

See notes to condensed consolidated financial statements.

RSI HOME PRODUCTS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Nine Months Ended	
	September 30, 2017	October 1, 2016
Net sales	$ 428,478,000	$ 457,546,000
Cost of sales	304,520,000	322,368,000
Gross profit	123,958,000	135,178,000
Selling, general and administrative (including stock-based compensation benefit of $(780,000) and $(14,881,000) in 2017 and 2016, respectively)	45,340,000	26,580,000
Operating income	78,618,000	108,598,000
Other (income) expense	(1,429,000)	278,000
Interest expense, net	29,207,000	29,248,000
Income before income taxes	50,840,000	79,072,000
Provision for income taxes	17,773,000	27,320,000
Net income	$ 33,067,000	$ 51,752,000

See notes to condensed consolidated financial statements.

RSI HOME PRODUCTS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended	
	September 30, 2017	**October 1, 2016**
Cash Flows From Operating Activities		
Net income	$ 33,067,000	$ 51,752,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	10,015,000	8,517,000
Amortization of slotting fees	1,000,000	1,000,000
Amortization of intangible assets	1,438,000	1,499,000
Amortization of debt issuance costs	1,010,000	956,000
Stock-based compensation	(780,000)	(14,881,000)
Change in fair value of foreign currency hedge	(1,429,000)	278,000
(Gain) loss on disposal of property and equipment	(11,000)	53,000
Deferred taxes	(124,000)	(10,000)
Change in operating assets and liabilities:		
Accounts receivable	11,079,000	1,593,000
Inventories	(1,824,000)	6,362,000
Prepaid expenses and other current assets	(3,701,000)	146,000
Other assets	(1,430,000)	(1,345,000)
Income taxes payable	2,920,000	2,046,000
Accounts payable	(563,000)	2,781,000
Other accrued liabilities	(7,727,000)	(6,610,000)
Net cash provided by operating activities	42,940,000	54,137,000
Cash Flows From Investing Activities		
Capital expenditures — property and equipment	(11,153,000)	(21,890,000)
Proceeds from sale of property and equipment	111,000	12,000
Net cash used in investing activities	(11,042,000)	(21,878,000)
Cash Flows From Financing Activities		
Payments on unsecured notes payable	(250,000)	(372,000)
Issuance of common stock	—	50,000
Net cash used in financing activities	(250,000)	(322,000)
Net increase in cash	31,648,000	31,937,000
Cash and cash equivalents		
Beginning	49,293,000	47,509,000
Ending	$ 80,941,000	$ 79,446,000
Supplemental Schedule of Noncash Investing and Financing Activities		
Equipment acquired under financing agreement	$ —	$ 262,000
Notes payable issued on options exercised and canceled	$ 2,473,000	$ 153,000

See notes to condensed consolidated financial statements.

NOTE1 NATURE OF ORGANIZATION AND BASIS OF PRESENTATION

RSI Home Products, Inc. (“RSI”) was founded in 1989. RSI and its subsidiaries are collectively referred to herein as the “Company”. RSI, through its wholly owned subsidiaries, is engaged primarily in the manufacture and distribution of stock and made-to-order bath and kitchen cabinets and cultured marble tops to national home centers, home builders, dealers and distributors throughout the United States and Canada.

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. 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 statement have been included. Operating results for the nine months ended September 30, 2017 are not necessarily indicative of the results that may be expected for the fiscal year ending December 30, 2017. The unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statement and notes for the fiscal year ended December 31, 2016.

NOTE 2 RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

New accounting pronouncements adopted

In July 2015, the FASB issued ASU No. 2015-11, *“Inventory (Topic 330): Simplifying the Measurement of Inventory”* (“ASU 2015-11”). Upon adoption by an entity, ASU 2015-11 will simplify the subsequent measurement of inventory by replacing the current lower of cost or market test with a lower of cost or net realizable value test. The new guidance applies only to inventories for which cost is determined by methods other than last-in-first-out (LIFO) and the retail inventory method. For inventory within the scope of ASU 2015-11, entities will be required to compare the cost of inventory to only one measure, its net realizable value, and not the three measures required by current guidance (“market,” “subject to a floor,” and a “ceiling”). When evidence exists that the net realizable value of inventory is less than its cost (due to damage, physical deterioration, obsolescence, changes in price levels or other causes), entities will recognize the difference as a loss in earnings in the period in which it occurs. ASU 2015-11 is effective for public entities for fiscal years beginning after December 15, 2016, and interim periods within the year of adoption. Early adoption is permitted. The Company adopted the provisions of ASU 2015-11 prospectively at the beginning of fiscal 2017. The adoption did not have a material impact on the consolidated financial statements.

In November 2015, the FASB issued ASU No. 2015-17, “*Balance Sheet Classification of Deferred Taxes (Topic 740)*” (“ASU 2015-17”), which requires that deferred tax assets and liabilities be presented as non-current in the balance sheet. ASU 2015-17 is effective for annual reporting periods beginning after December 15, 2016 (and interim periods within those fiscal years) with early adoption permitted. The Company adopted ASU 2015-17 at the beginning of fiscal 2017 on a retrospective basis. Accordingly, we reclassified $12,902,000 from current assets to non-current assets and $2,229,000 from non-current liabilities to non-current assets as of December 31, 2016.

In March 2016, the FASB issued ASU No. 2016-09, “*Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*” (“ASU 2016-09”), which provides for improvements to employee share-based payment accounting. ASU 2016-09 simplifies several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. ASU 2016-09 is effective for annual reporting periods beginning after December 15, 2016 (and interim periods within those fiscal years). Early adoption is permitted. The Company adopted ASU 2016-09 at the beginning of fiscal 2017. The adoption did not have a material impact on the consolidated financial statements.

New accounting pronouncements, not yet adopted

In May 2014, the FASB issued ASU No. 2014-09, "*Revenue From Contracts with Customers (Topic 606)*" ("ASU 2014-09"), which requires that a company recognizes revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. ASU 2014-09 was originally effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2016. In August 2015, the FASB issued ASU No. 2015-14, "*Revenue from Contracts with Customers (Topic 606): Deferral of Effective Date*", which defers the effective date of ASU 2014-09 by one year. ASU 2014-09 is now effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2017. In 2016, the SEC provided specific guidance for public business entities that otherwise would not meet the definition of a public business entity except for inclusion of its financial statements in another entity's filing with the Commission. Such public business entities may apply ASU No. 2014-09 for annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019. Therefore, the Company does not plan on adopting ASU 2014-09 until fiscal 2019. The Company has not yet completed an assessment of the impact of this standard on the consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, "*Leases (Topic 842)*" ("ASU 2016-02"), which supersedes the lease requirements in Accounting Standards Codification Topic 840, *Leases*. ASU 2016-02 requires lessees to recognize assets and liabilities on the balance sheet for most leases and provide enhanced disclosures. Leases will continue to be classified as either finance or operating. ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2018 (and interim periods within those fiscal years). In 2016, the SEC provided specific guidance for public business entities that otherwise would not meet the definition of a public business entity except for inclusion of its financial statements in another entity's filing with the Commission. Such public business entities may apply ASU No. 2016-02 for annual reporting periods beginning after December 15, 2019, and interim reporting periods within annual reporting periods beginning after December 15, 2019. Therefore, the Company does not plan on adopting ASU 2016-02 until fiscal 2020. The new standard must be adopted using a modified retrospective transition, requiring application at the beginning of the earliest comparative period presented. The Company has not yet completed an assessment of the impact of this standard on the consolidated financial statements.

NOTE3 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. Assets and liabilities that are measured at fair value are reported using a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy maximizes the use of observable inputs and minimizes the use of unobservable inputs.

The three levels of inputs used to measure fair value are as follows:

- ***Level 1:*** Inputs to the valuation are unadjusted quoted prices in active markets for identical assets or liabilities.
- ***Level 2:*** Inputs to the valuation may include quoted prices for similar assets and liabilities in active or inactive markets, and inputs other than quoted prices, such as interest rates and yield curves, that are observable for the asset or liability for substantially the full term of the financial instrument.
- ***Level 3:*** Inputs to the valuation are unobservable and significant to the fair value measurement. Level 3 inputs shall be used to measure fair value only to the extent that observable inputs are not available.

The estimated fair values of the Company's short-term financial instruments, including cash and cash equivalents, accounts receivable and accounts payable arising in the ordinary course of business, approximate their individual carrying amounts due to the relatively short period of time between their origination and expected realization. The foreign exchange forward contracts were marked to market and therefore represented fair value. The fair values of these contracts are determined based on inputs that are readily available in public markets or can be derived from information available in publicly quoted markets. This valuation methodology is considered level 2 in the fair value hierarchy. For liabilities such as long-term debt not accounted for at fair value and without quoted market prices, fair value was based upon borrowing rates available to the Company for bank loans with the same remaining maturities and similar terms and collateral requirements. As such, the fair value of long-term debt approximated its carrying value.

The fair value of the Company's senior secured notes is estimated based upon the quoted market prices for the same issue if available, or similar issues. This valuation methodology is considered level 2 in the fair value hierarchy. The carrying amount and estimated fair value of the senior secured notes as of September 30, 2017 was $575,000,000 and $606,625,000, respectively. The carrying amount and estimated fair value of the senior secured notes as of December 31, 2016 was $575,000,000 and $603,750,000, respectively.

The following table sets forth the fair value of the Company's assets and liabilities measured at fair value on a recurring basis as of September 30, 2017 and December 31, 2016 based on the three-tier fair value hierarchy:

	Level 1	Level 2	Level 3	Total
September 30, 2017				
Foreign exchange forward contracts	$ —	$1,025,000	$ —	$1,025,000
December 31, 2016				
Foreign exchange forward contracts	$ —	$ (404,000)	$ —	$ (404,000)

NOTE 4 DERIVATIVES AND HEDGING

Forward contracts

In the normal course of business the Company is subject to risk from adverse fluctuations in foreign exchange rates. The Company manages these risks through the use of derivative financial instruments, primarily foreign exchange forward contracts.

The Company recognizes its outstanding derivative financial instruments in the condensed consolidated balance sheets at their fair values. The Company does not designate these instruments as accounting hedges. The changes in the fair value of these instruments are recorded in other (income) expense in the condensed consolidated statements of income.

At September 30, 2017, the Company held contracts maturing from October 2017 to December 2017 to purchase 103.0 million Mexican pesos at exchange rates ranging from 18.3 to 18.5 Mexican pesos to the U.S. dollar. At December 31, 2016, the Company held contracts maturing from January 2017 to June 2017 to purchase 197.0 million Mexican pesos at exchange rates ranging from 20.6 to 21.2 Mexican pesos to the U.S. dollar. The Company recorded the fair value of these contracts of $1,025,000 and $(404,000) at September 30, 2017 and December 31, 2016, respectively, in other assets and other accrued liabilities in the condensed consolidated balance sheets.

NOTE 5 INVENTORIES

Inventories consisted of the following as of:

	September 30, 2017	December 31, 2016
Raw materials	$ 48,819,000	$ 46,352,000
Finished goods	14,782,000	15,425,000
	$ 63,601,000	$ 61,777,000

NOTE 6 OTHER ACCRUED LIABILITIES

Other accrued liabilities consisted of the following as of:

	September 30, 2017	December 31, 2016
Stock-based liability awards	$ 14,576,000	$ 19,907,000
Accrued compensation	11,753,000	9,667,000
Accrued interest	1,674,000	10,993,000
Other accrued expenses	7,247,000	10,892,000
	$ 35,250,000	$ 51,459,000

Accrued compensation consists of earned but unpaid payroll, incentive compensation and vacation.

Other accrued expenses consist primarily of amounts accrued for self-insurance for workers' compensation and medical insurance, capital expenditures and consulting agreements.

The Company is partially self-insured related to workers' compensation claims up to $500,000 per claim for its employees in the United States. As of September 30, 2017 and December 31, 2016, approximately $2,386,000 and $2,231,000, respectively, has been provided for reported but unresolved workers' compensation claims, and the reserve is included in the condensed consolidated balance sheets. Total expense for workers' compensation, including insurance premiums, net of refunds received, was approximately $1,363,000 and $1,622,000 for the nine months ended September 30, 2017 and October 1, 2016, respectively.

The Company is self-insured for up to $250,000 per claim under its medical benefit programs in the United States. Total expense under the program for the nine months ended September 30, 2017 and October 1, 2016 was $5,589,000 and $4,293,000, respectively. The Company provides for a reserve for actual unpaid claims and an estimate of claims incurred but not reported. At September 30, 2017 and December 31, 2016, $702,000 and $632,000, respectively, had been provided for future costs and is included in the condensed consolidated balance sheets.

NOTE 7 LINES OF CREDIT AND LONG-TERM DEBT

Long-term debt consisted of the following as of:

	September 30, 2017	December 31, 2016
Senior secured notes	$ 575,000,000	$ 575,000,000
Unsecured notes payable(a)	2,827,000	670,000
Other	192,000	220,000
Less unamortized debt issuance costs	(7,635,000)	(8,497,000)
	570,384,000	567,393,000
Less current portion	685,000	365,000
Net	$ 569,699,000	$ 567,028,000

(a) Notes due to former and current employees for the cancellation and subsequent settlement of vested stock options. The five year notes bear interest at rates ranging from 1.01% to 2.12% per annum and are due in annual installments of principal and interest on their respective anniversary dates, with final payments of all notes due through June 30, 2022. All are unsecured and subordinated to the credit facilities.

As of September 30, 2017 and December 31, 2016, aggregate maturities of long-term debt, excluding unamortized debt issuance costs, were as follows:

Years Ending	September 30, 2017	December 31, 2016
2017	$ 137,000	$ 365,000
2018	667,000	192,000
2019	647,000	171,000
2020	580,000	104,000
2021	528,000	52,000
Thereafter	575,460,000	575,006,000
	$ 578,019,000	$ 575,890,000

Senior Secured Notes

On March 16, 2015, the Company issued $575,000,000 of senior secured second lien notes due 2023 (the "2023 Notes") with major financial institutions as initial purchasers (1) to repay the existing senior secured second lien notes due in 2018 (the "2018 Notes"), including accrued and unpaid interest, a tender offer premium and a call premium, and (2) for general corporate purposes. The 2023 Notes bear interest at 6.5% per annum and mature on March 15, 2023. Interest on the 2023 Notes is payable semi-annually, in cash in arrears, on March 15 and September 15 of each year, commencing September 15, 2015. The 2023 Notes are subject to redemption, at the option of the Company, in whole or in part, at any time on or after March 15, 2018, at various redemption prices plus accrued and unpaid interest to the redemption dates. The 2023 Notes are fully and unconditionally guaranteed by each of the Company's wholly-owned domestic subsidiaries, subject to certain exceptions.

The 2023 Notes contain customary covenants, including covenants that limit or restrict the Company's ability to incur debt, pay dividends, repurchase or make other distributions in respect to its capital stock, make other restricted payments, create liens, sell assets, engage in transactions with affiliates, consolidate or merge into other companies, or convey, transfer or lease to other companies.

$75 Million Credit Facility

On February 22, 2013, the Company entered into an agreement with three financial institutions (collectively, the “Lenders”) whereby the Lenders provided a revolving credit facility to the Company for a total of $75,000,000 (the “Credit Facility”). The Credit Facility also includes a letter of credit commitment from the lenders. Advances under the Credit Facility bear interest at selected variable rates, as defined, plus a margin based on the Company’s financial position. The principal amount of the revolving loans shall be repaid on the maturity date. The credit arrangement is secured by substantially all assets of the Company and expires on August 22, 2017.

On March 16, 2015, the Company amended and restated the Credit Facility, to among other things, extend the maturity date to March 16, 2020.

The Credit Facility contains customary covenants, including covenants that limit or restrict the Company’s ability to incur debt, create liens, consolidate or merge into other companies, sell or lease assets, pay or prepay subordinated debt, engage in sale and leaseback transactions, pay dividends, repurchase or make other distributions in respect to its capital stock and engage in transactions with affiliates. The Credit Facility also requires the Company to maintain certain minimum financial ratios and other financial measures. As of September 30, 2017 and December 31, 2016, there were no outstanding loan balances under this facility.

As of September 30, 2017 and December 31, 2016, the Company had $3,725,000 of outstanding letters of credit related to its self-insured workers’ compensation program (see Note 6).

As of September 30, 2017 and December 31, 2016, the Company was compliant with all of its debt covenants.

Amortization expense of debt issuance costs was $1,009,000 and $956,000 for the nine months ended September 30, 2017 and October 1, 2016, respectively, and is included in interest expense in the condensed consolidated statements of income.

NOTE 8 COMMITMENTS AND CONTINGENCIES

Operating leases

The Company leases certain facilities under operating lease agreements, which expire on various dates through August 2029 and require minimum annual rentals ranging from $1,000 to $446,000 per month. Certain of these leases provide for rent escalations and renewal options. For leases with stated rent escalations, the Company recognizes rent expense ratably over the lease term. The difference between the ratable rent expense and the amount paid is included in other liabilities in the condensed consolidated balance sheets. The majority of these leases obligate the Company to pay costs of maintenance, utilities and property taxes.

Rent expense for the nine months ended September 30, 2017 and October 1, 2016 was $10,993,000 and $10,082,000, respectively.

Legal matters

The Company is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse impact on the Company’s financial position, results of operations or cash flows. As of September 30, 2017, there was no litigation or contingency with at least a reasonable possibility of a material loss either individually or in the aggregate.

NOTE 9 SUBSEQUENT EVENTS

The Company has evaluated all events or transactions that have occurred after the balance sheet date of September 30, 2017 through January 28, 2018, the date the condensed consolidated financial statements were available to be issued.

On November 30, 2017, American Woodmark Corporation (“Woodmark”) and the Company entered into an Agreement and Plan of Merger. On December 29, 2017, Woodmark consummated the previously announced acquisition of the Company. At the closing of the Acquisition, Woodmark assumed the Company’s indebtedness consisting primarily of the Company’s privately placed 6.5% Senior Secured Second Lien Notes due 2023 issued in March 2015.

On December 22, 2017, the Tax Cuts and Jobs Act (“The Act”), was signed into law by President Trump. The Act includes a number of provisions, including the lowering of the U.S. corporate tax rate from 35 percent to 21 percent, effective January 1, 2018 and the establishment of a territorial-style system for taxing foreign-source income of domestic multinational corporations. The Company is in the process of quantifying the tax impacts of The Act. As a result of The Act, the Company expects there will be one-time adjustments for the re-measurement of deferred tax assets (liabilities) and the deemed repatriation tax on the unremitted foreign earnings and profits. The Company is in the process of quantifying the impact of the Act.

(Back To Top)

Section 6: EX-99.3 (EXHIBIT 99.3)

Exhibit 99.3

UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

On November 30, 2017, American Woodmark Corporation (“American Woodmark”), Alliance Merger Sub, Inc. (“Merger Sub”), RSI Home Products, Inc. (“RSI”) and Ronald M. Simon, as the RSI stockholder representative, entered into an Agreement and Plan of Merger (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 (the “RSI Acquisition”). On December 29, 2017 (the “Acquisition Date”), American Woodmark 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.

In connection with the RSI Acquisition, on December 29, 2017, American Woodmark entered into Senior Secured Credit Facilities consisting of a $100 million Senior Secured Revolving Facility, a $250 million Senior Secured Initial Term Loan and a $250 million Senior Secured Delayed Draw Term Loan Facility. American Woodmark used the proceeds of the Senior Secured Initial Term Loan, together with cash on its balance sheet, to fund the cash portion of the RSI Acquisition consideration and its transaction fees and expenses. In addition, American Woodmark drew down $50 million from the Senior Secured Revolving Facility to provide ongoing working capital and for other general corporate purposes of American Woodmark and its subsidiaries.

At the closing of the RSI Acquisition, American Woodmark assumed approximately $589 million of RSI’s indebtedness, including accrued interest, consisting largely of RSI’s 61/2% Senior Secured Second Lien Notes due 2023 (the “RSI Notes”). On January 25, 2018, RSI gave notice that it has elected to conditionally redeem 20% (the “Conditional Redemption”), or $115 million in principal amount, of the $575 million outstanding principal amount of the RSI Notes and repurchase the RSI Notes not subject to the Conditional Redemption pursuant to a cash tender offer and consent solicitation by RSI (the “Tender Offer and Consent Solicitation”). In addition, RSI intends to issue an irrevocable notice of redemption for any and all RSI Notes not tendered and accepted for purchase pursuant to the Tender Offer and Consent Solicitation at the “make-whole” redemption price described in the RSI Notes Indenture (the “Make-Whole Redemption”). This statement of intent shall not constitute a notice of redemption under the RSI Notes Indenture or an obligation to issue a notice of redemption. Such notice, if made, will be made only in accordance with the applicable provisions of the RSI Notes Indenture.

On January 31, 2018, American Woodmark entered into a purchase agreement with Wells Fargo Securities, LLC, as representative of the several initial purchasers named therein, pursuant to which American Woodmark has agreed to sell to the initial purchasers $350 million aggregate principal amount of its 4.875% Senior Notes due 2026 (the “Notes”) for resale to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended, and certain non-U.S. persons in accordance with Regulation S under the Securities Act. The settlement of the sale of the Notes and the redemption and repurchase of the RSI Notes is anticipated to be completed on February 12, 2018. The closing of the offering of the Notes is subject to the satisfaction of certain closing conditions contained in the Purchase Agreement and, as a result, there can be no assurance that the offering of the Notes will be completed. The anticipated proceeds of the Notes and an anticipated $250 million drawdown on the Senior Secured Delayed Draw Term Loan, together with cash on hand of American Woodmark and RSI, will be used to redeem or repurchase the RSI Notes, repay the outstanding balance of the Senior Secured Revolving Facility and pay fees, costs and expenses in connection with the foregoing.

The “RSI Transactions” refers to, collectively, the (i) entry by American Woodmark into the Senior Secured Credit Facilities (including the initial borrowings thereunder and the use of the proceeds thereof), (ii) RSI Acquisition, (iii) repayment and termination of American Woodmark’s revolving credit facility available under that certain Credit Agreement, dated as of December 2, 2009 (the “2009 Revolving Facility”), by and between American Woodmark and Wells Fargo Bank, National Association (as amended, amended and restated, modified or supplemented after the date hereof), and (iv) payment of fees, commissions and expenses in connection with the foregoing. The “Refinancing Transactions” refers to, collectively, the following anticipated transactions: (i) Conditional Redemption, (ii) Tender Offer and Consent Solicitation, (iii) Make-Whole Redemption, (iv) repayment of the outstanding balance of loans under the Senior Secured Revolving Facility and (v) payment of fees, commissions and expenses in connection with the foregoing. The RSI Transactions and the Refinancing Transactions are referred to, collectively, as “the Transactions”.

The pro forma adjustments to reflect the RSI Transactions and the Refinancing Transactions are presented separately in the unaudited pro forma condensed combined financial information to reflect that the RSI Transactions have occurred as of the date of this Form 8-K/A, while the Refinancing Transactions have not occurred as of the date of this Form 8-K but are anticipated to occur and are related to the RSI Transactions. The pro forma adjustments to reflect the RSI Transactions are included under columns titled “RSI Acquisition and Financing” and the pro forma adjustments to reflect the Refinancing Transactions are included under columns titled “Assumed Refinancing”.

The following unaudited pro forma condensed combined financial information presents the historical consolidated statements of operations and consolidated balance sheet of American Woodmark and the historical consolidated statements of operations and consolidated balance sheet of RSI adjusted to reflect the Transactions. The historical financial statements were prepared in conformity with GAAP. The unaudited pro forma condensed combined financial information is presented in accordance with the rules specified by Article 11 of Regulation S-X promulgated by the SEC, and has been prepared using the assumptions described in the notes thereto.

The following unaudited pro forma condensed combined financial information has been prepared by applying the acquisition method of accounting with American Woodmark treated as the acquirer for accounting purposes and is dependent on certain valuations and other analyses that have yet to progress to a stage where there is sufficient information for a definitive measurement. Accordingly, any pro forma adjustments, including the allocation of the purchase price are preliminary, have been made solely for the purposes of providing unaudited pro forma condensed combined financial information and may be revised as additional information becomes available and additional analysis is performed.

The pro forma condensed combined statement of income for the year ended April 30, 2017 combines the historical audited results of American Woodmark for the fiscal year ended April 30, 2017 and the unaudited results of RSI for the year ended April 1, 2017, which was derived from the audited results of RSI for the fiscal year ended December 31, 2016 less the unaudited results of RSI for the three months ended April 2, 2016 plus the unaudited results of RSI for the three months ended April 1, 2017. The pro forma condensed combined statement of income for the six months ended October 31, 2017 combines the historical unaudited results of American Woodmark for the six months ended October 31, 2017 and the historical unaudited results of RSI for the six months ended September 30, 2017. The pro forma condensed combined balance sheet as of October 31, 2017 combines the historical unaudited balance sheet of American Woodmark as of October 31, 2017 and the historical unaudited balance sheet of RSI as of September 30, 2017. The unaudited pro forma condensed combined balance sheet give effect to the Transactions as if they had occurred as of the balance sheet date. The unaudited pro forma condensed combined statements of operations give effect to the Transactions as if they had occurred on May 1, 2016, the beginning of the American Woodmark’s fiscal year ended April 30, 2017.

The historical financial statements have been adjusted in the Pro Forma Financial Statements to give effect to events that are (1) directly attributable to the pro forma events, (2) factually supportable, and (3) with respect to the statement of operations, expected to have a continuing impact on the combined company.

The unaudited pro forma condensed combined statements of income do not reflect cost savings expected to be realized from the elimination of certain expenses and synergies expected to be created or the costs to achieve such cost savings or synergies. Such costs may be material and no assurance can be given that cost savings or synergies will be realized.

The unaudited pro forma condensed combined financial information includes adjustments which are preliminary and may be revised. Acquisition accounting is dependent on certain valuations and other analyses that have yet to progress to a stage where there is sufficient information for a definitive measurement. Accordingly, any pro forma adjustments, including the allocation of the purchase consideration, are preliminary estimates, may be revised as additional information becomes available, and there can be no assurance that any such revisions will not result in material changes. The unaudited pro forma condensed combined financial statements have been prepared for illustrative purposes only. The pro forma information is not necessarily indicative of what the combined company's condensed consolidated financial position or results of operations would actually have been had the pro forma events been completed as of the dates indicated. In addition, the unaudited pro forma condensed combined financial information does not purport to project the future financial position or operating results of the combined company. The pro forma information is based on the assumptions, adjustments and eliminations described in the accompanying notes to the unaudited pro forma combined condensed financial statements.

The following unaudited pro forma condensed combined financial information is presented:

- Unaudited pro forma condensed combined balance sheet as of October 31, 2017
- Unaudited pro forma condensed combined statement of income for the year ended April 30, 2017
- Unaudited pro forma condensed combined statements of income for the six months ended October 31, 2017

The unaudited pro forma condensed combined financial information should be read in conjunction with the historical audited annual and unaudited interim financial statements, including the notes thereto, of American Woodmark and RSI, included in Exhibits 99.1 and 99.2 of this Form 8-K. The pro forma financial information included in this offering memorandum are presented for illustrative purposes only and may not be an indication of American Woodmark's financial condition or results of operations following the RSI Acquisition".

UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENTS OF INCOME

SIX MONTHS ENDED OCTOBER 31, 2017
(in thousands, except per share data)

	Historical: American Woodmark Six months ended October 31, 2017	Historical: RSI Six months ended September 30, 2017	Reclassification Adjustments Amount	Note	Pro Forma Adjustments: RSI Acquisition and Financing Amount	Note	Pro Forma Adjustments: Assumed Refinancing Amount	Note	Pro-Forma Combined
Net Sales	$ 551,596	280,927					$ —		$ 832,523
Cost of sales and distribution	435,767	201,501	—		(77)	C	—		637,191
Gross Profit	115,829	79,426	—		77		—		195,332
Selling and marketing expenses	36,230	—	11,989	A	(22)	D	—		48,197
General and administrative expenses	17,950	23,983	(11,989)	A	24,508	E	—		54,452
Operating Income	61,649	55,443	—		(24,409)		—		92,683
Interest expense	105	19,444	136	B	5,384	F	(5,707)	J	19,362
Other (income) expense	(1,291)	798	(136)	B	669	G	312	K	352
Income Before Income Taxes	62,835	35,201	—		(30,462)		5,395		72,969
Income tax expense (benefit)	20,799	12,245	—		(12,316)	H	2,181	L	22,909
Net Income	$ 42,036	$ 22,956	$ —		$(18,146)		$ 3,214		$ 50,060
Net Earnings Per Share									
Weighted Average Shares Outstanding									
Basic	16,235	—	—		1,458	I	—		17,693
Diluted	16,319	—	—		1,458	I	—		17,777
Net earnings per share									
Basic	$ 2.59	—	—		—		—		$ 2.83
Diluted	$ 2.58	—	—		—		—		$ 2.82

UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENTS OF INCOME

YEAR ENDED APRIL 30, 2017
(in thousands, except per share data)

	Historical		Pro Forma Adjustments						
	American Woodmark	RSI	Reclassification Adjustments		RSI Acquisition and Financing		Assumed Refinancing		Pro-Forma
	Year ended April 30, 2017	Year ended April 1, 2017	Amount	Note	Amount	Note	Amount	Note	Combined
Net Sales	$ 1,030,248	596,107	$ —		$ —		$ —		$1,626,355
Cost of sales and distribution	805,612	417,853	—		365	C	—		1,223,830
Gross Profit	224,636	178,254	—		(365)		—		402,525
Selling and marketing expenses	70,979	—	23,221	A	100	D	—		94,300
General and administrative expenses	45,419	63,275	(23,221)	A	46,413	E	—		131,886
Operating Income	108,238	114,979	—		(46,878)		—		176,339
Interest expense	885	38,657	54	B	10,768	F	(10,997)	J	39,367
Other (income) expense	(1,572)	(1,428)	(54)	B	629	G	293	K	(2,132)
Income Before Income Taxes	108,925	77,750	—		(58,275)		10,704		139,104
Income tax expense (benefit)	37,726	24,864			(23,560)	H	4,328	L	43,357
Net Income	$ 71,199	$ 52,886	$ —		$(34,715)		$ 6,376		$ 95,747
Net Earnings Per Share									
Weighted Average Shares Outstanding									
Basic	16,259	—	—		1,458	I	—		17,717
Diluted	16,398	—	—		1,458	I	—		17,856
Net earnings per share									
Basic	$ 4.38	—	—		—		—		$ 5.40
Diluted	$ 4.34	—	—		—		—		$ 5.36

UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET

OCTOBER 31, 2017
(in thousands)

	Historical		Reclassification Adjustments		Pro Forma Adjustments				
	American Woodmark	RSI			RSI Acquisition and Financing		Assumed Refinancing		
	As of October 31, 2017	As of September 30, 2017	Amount	Note	Amount	Note	Amount	Note	Pro Forma Combined
Current Assets									
Cash and cash equivalents	$ 162,545	$ 80,941	$ —		$ (79,510)	D	$(61,957)	S	$ 102,019
Investments — certificates of deposit	57,500	—	—		(49,500)	E	—		8,000
Customer receivables, net	66,211	50,815	—		—		—		117,026
Inventories	46,723	63,601	—		3,889	F	—		114,213
Prepaid expenses and other	9,189	9,019	1,476	A	13,594	G, I	14,003	T	47,281
Prepaid income taxes	—	1,476	(1,476)	A	—				—
Total Current Assets	342,168	205,852	—		(111,527)		(47,954)		388,539
Property, plant and equipment, net	121,732	61,288	(8,359)	B	32,889	H	—		207,550
Investments — certificates of deposit	24,250	—	—		(21,750)	E	—		2,500
Promotional displays, net	4,729	—	8,359	B	—		—		13,088
Deferred income taxes	10,140	10,797	—		(20,937)	I	—		—
Other assets	10,286	2,192	—		—		—		12,478
Intangible Assets other than Goodwill	—	10,308	—		279,692	J	—		290,000
Goodwill	—	—	—		804,881	K	—		804,881
Total Assets	**$ 513,305**	**$ 290,437**	**$ —**		**$ 963,248**		**$(47,954)**		**$1,719,036**
Current Liabilities									
Accounts payable	$ 38,739	$ 25,290	$ —		$ 12,200	L	$ —		$ 76,229
Current maturities of long-term debt	1,710	685	—		9,375	M	9,375	U	21,145
Accrued compensation and related expenses	35,119	—	16,989	C	—		—		52,108
Accrued marketing expenses	12,512	—	—		—		—		12,512
Other accrued expenses	12,130	35,250	(16,989)	C	53	N, I	(1,557)	V	28,887
Total Current Liabilities	**100,210**	**61,225**	**—**		**21,628**		**7,818**		**190,881**
Long Term Liabilities									
Long-term debt, less current maturities	16,087	569,699	—		319,108	O	(68,588)	W	836,306
Defined benefit pension liabilities	18,151	—	—		—		—		18,151
Other long-term liabilities	3,714	6,080	—		(5,180)	N, I	—		4,614
Deferred income taxes	—	—	—		103,476	I	14,003	T	117,479
Total Liabilities	**138,162**	**637,004**	**—**		**439,032**		**(46,767)**		**1,167,431**
Shareholders' Equity									
Preferred stock	—	—	—		—		—		—
Common stock	170,389	19	—		189,830	P	—		360,238
Additional paid in capital	—	67,515	—		(67,515)	Q	—		—
Retained earnings	244,683	(414,101)	—		401,901	R	(1,187)	X	231,296
Defined benefit pension plans	(39,929)	—	—		—		—		(39,929)
Total Shareholders' Equity	375,143	(346,567)	—		524,216		(1,187)		551,605
Total Liabilities And Shareholders' Equity	**$ 513,305**	**$ 290,437**	**$ —**		**$ 963,248**		**$(47,954)**		**$1,719,036**

NOTES TO UNAUDITED PRO FORMA

CONDENSED COMBINED FINANCIAL INFORMATION
(amounts in thousands except per share data)

1. Description of the Transactions

The Merger — On December 29, 2017 (the "Acquisition Date"), American Woodmark 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.

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 $189.9 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 these pro forma financial statements do not reflect any adjustment to the estimated working capital reflected in the consideration paid at the Acquisition Date.

Senior Secured Credit Facilities — In connection with the RSI Acquisition, on December 29, 2017, American Woodmark entered into the Senior Secured Credit Facilities consisting of the $100 million Senior Secured Revolving Facility, the $250 million Senior Secured Initial Term Loan, and the $250 million Senior Secured Delayed Draw Term Loan. The borrowing rate on the Senior Secured Credit Facilities is a grid—based pricing based on the ratio of total funded debt under the Senior Secured Credit Facilities to EBITDA. The initial borrowing rate for the Senior Secured Credit Facilities is LIBOR plus 2.00% and an annual 0.25% commitment fee on the average daily undrawn portion of the Senior Secured Revolving Facility. Amounts borrowed under the Revolving Credit Facility are due December 29, 2022. American Woodmark used the proceeds of the Senior Secured Initial Term Loan, together with cash on its balance sheet, to fund the cash portion of the RSI Acquisition consideration and its transaction fees and expenses. In addition, American Woodmark drew down $50 million from the Senior Secured Revolving Facility to provide ongoing working capital and for other general corporate purposes of American Woodmark and its subsidiaries.

Senior Unsecured Notes — The anticipated proceeds of the Notes and the Senior Secured Delayed Draw Term Loan, together with cash on hand of American Woodmark and RSI, will be used to redeem or repurchase the RSI Notes, repay the outstanding balance of the Senior Secured Revolving Facility and pay fees, costs and expenses in connection with the foregoing.

2. Basis of Presentation

The accompanying unaudited pro forma condensed combined financial statements, or the "Pro Forma Statements," and related notes were prepared using the acquisition method of accounting with American Woodmark considered the acquirer of RSI for accounting purposes. Accordingly, the consideration paid in the RSI Acquisition has been allocated to assets and liabilities of RSI based upon their estimated fair values as of the Acquisition Date. Any amount of the consideration that is in excess of the estimated fair values of assets acquired and liabilities assumed will be recorded as goodwill after the finalization of the purchase price allocation. Although management believes that the preliminary purchase price allocation herein is reasonable, there can be no assurance that finalization of such purchase price allocation will not result in material changes from the preliminary purchase price allocation included in the accompanying Pro Forma Financial Statements.

The historical financial statements have been adjusted in the Pro Forma Financial Statements to give effect to events that are (1) directly attributable to the pro forma events, (2) factually supportable, and (3) with respect to the statement of operations, expected to have a continuing impact on the combined company. The unaudited pro forma condensed combined statements of income does not reflect cost savings expected to be realized from the elimination of certain expenses and synergies expected to be created or the costs to achieve such cost savings or synergies. Such costs may be material and no assurance can be given that cost savings or synergies will be realized.

Certain pro forma adjustments have been made to align the accounting policies of RSI with American Woodmark where such RSI accounting policies are expected to change after the Acquisition Date. Further review may identify additional differences between the accounting policies of the two companies that, when conformed, could have a material impact on the financial statements of the combined company. However, at this time, we are not aware of any accounting policy differences that would have a material impact on the unaudited pro forma condensed combined financial statements of the combined company that are not reflected in the pro forma adjustments. Historically, American Woodmark has valued its inventory on a last-in, first-out basis ("LIFO") and RSI has valued its inventory on a first-in, first-out basis ("FIFO"). American Woodmark's management intends to maintain RSI's FIFO valuation basis after the Acquisition Date. Therefore, a pro forma adjustment has not been made to conform RSI's inventory valuation basis from FIFO to LIFO.

American Woodmark operates on a fiscal year basis which ends on April 30 of each year. Prior to the RSI Acquistion, RSI operated on a 52 to 53 week fiscal year, with its fiscal year ending on the Saturday closest to December 31. The pro forma condensed combined financial statements included herein are labeled based on American Woodmark's convention. The pro forma condensed combined statement of income for the year ended April 30, 2017 combines the historical audited results of American Woodmark for the fiscal year ended April 30, 2017 and the unaudited results of RSI for the year ended April 1, 2017, which was derived from the audited results of RSI for the fiscal year ended December 31, 2016 less the unaudited results of RSI for the three months ended April 2, 2016 plus the unaudited results of RSI for the three months ended April 1, 2017. The pro forma condensed combined statement of income for the six months ended October 31, 2017 combines the historical unaudited results of American Woodmark for the six months ended October 31, 2017 and the historical unaudited results of RSI for the six months ended September 30, 2017. The pro forma condensed combined balance sheet as of October 31, 2017 combines the historical unaudited balance sheet of American Woodmark as of October 31, 2017 and the historical unaudited balance sheet of RSI as of September 30, 2017.

3. Pro Forma Purchase Price Allocation

American Woodmark has performed a preliminary valuation analysis of the fair value of RSI's assets acquired and liabilities assumed as of the acquisition date. The following table summarizes the allocation of the preliminary purchase price as of the pro forma condensed combined balance sheet date, which is based on the accounting consideration of $553.2 million, to the estimated fair value of assets acquired and liabilities assumed as if the RSI acquisition had occurred on October 31, 2017:

	(in thousands)
Customer receivables, net	$ 50,815
Inventories	67,490
Prepaid expenses and other	24,089
Property, plant and equipment	94,177
Trademark intangibles	10,000
Customer relationship intangibles	280,000
Other non-current assets	2,192
Goodwill	804,881
Total identifiable assets and goodwill acquired	**1,333,644**
Accounts payable	25,290
Accrued compensation and related expenses	16,989
Other accrued expenses	18,314
Deferred Income Taxes	113,616
Other long-term liabilities	900
Debt	605,332
Total liabilities assumed	**780,441**
Total accounting consideration	**$ 553,203**

This preliminary purchase price allocation has been used to prepare pro forma adjustments in the pro forma condensed combined balance sheet and statements of earnings. US GAAP permits companies to complete the final determination of the fair value of assets and liabilities up to one year from the acquisition date. The final allocation may also result in changes to amortization periods assigned to the assets. Any potential adjustments made could be material in relation to the preliminary values.

4. Reclassification Adjustments

The reclassification adjustments to the historical presentation of RSI's income statements and balance sheet were made to conform RSI's presentation to American Woodmark's presentation. Further review of RSI's financial statements may result in additional reclassifications to conform to American Woodmark's presentation. American Woodmark does not expect that any such revision would be material. The reclassification adjustments are presented below.

Reclassifications Reflected on the Unaudited Pro Forma Condensed Combined Statements of Income for the six months ended October 31, 2017 and year ended April 30, 2017

Adjustment A **—** Reclassifies certain sales and marketing expenses of RSI from general and administrative expenses to selling and marketing expenses to conform to American Woodmark's presentation.

Adjustment B **—** Reclassifies interest income of RSI from interest expense to other (income) expense to conform to American Woodmark's presentation.

Reclassifications Reflected on the Unaudited Pro Forma Condensed Combined Balance Sheet as of October 31, 2017

Adjustment A — Reclassifies prepaid income taxes of RSI to Prepaid Expenses and Other to conform to American Woodmark's presentation.

Adjustment B — Reclassifies promotional displays of RSI from Property, Plant and Equipment, net to Promotional Displays, net to conform to American Woodmark's presentation.

Adjustment C — Reclassifies compensation accruals of RSI from Other Accrued Expenses to Accrued Compensation and Related Expense to conform to American Woodmark's presentation.

5. Pro Forma Adjustments: RSI Acquisition and Financing

The following pro forma adjustments have been reflected in the unaudited pro forma condensed combined financial information to reflect the RSI Transactions, including the acquisition of RSI and the related financing transactions to facilitate the acquisition, including the borrowing of the $250 million of Senior Secured Initial Term Loan and the drawdown of $50 million on the Senior Secured Revolving Facility. The pro forma adjustments are based on preliminary estimates and assumptions that are subject to change.

Pro Forma Adjustments Reflected on the Unaudited Pro Forma Condensed Combined Statements of Income for the six months ended October 31, 2017 and year ended April 30, 2017

Adjustment C

The following summarizes pro forma adjustments impacting Cost of Sales:

		Six months ended October 31, 2017	Year Ended April 30, 2017
		(in thousands)	
C-1	Eliminate RSI's historical depreciation expense for plant, property and equipment.	$ (4,799)	$ (9,088)
C-2	Record depreciation expense for plant, property and equipment based on the preliminary estimated fair value of RSI's plant, property and equipment acquired at the Acquisition Date.	4,722	9,453
		$ (77)	$ 365

See balance sheet adjustment H which describes the depreciation periods for property, plant and equipment.

Adjustment D

The following summarizes pro forma adjustments impacting Selling and Marketing expenses:

		Six months ended October 31, 2017	Year Ended April 30, 2017
		(in thousands)	
D-1	Eliminate RSI’s historical depreciation expense for plant, property and equipment.	$ (1,363)	$ (2,488)
D-2	Record depreciation expense for plant, property and equipment based on the preliminary estimated fair value of RSI’s plant, property and equipment acquired at the Acquisition Date.	1,341	2,588
		$ (22)	$ 100

See balance sheet adjustment H which describes the depreciation periods for property, plant and equipment.

Adjustment E

The following summarizes pro forma adjustments impacting General and Administrative expenses:

		Six months ended October 31, 2017	Year Ended April 30, 2017
		(in thousands)	
E-1	Eliminate RSI’s historical depreciation expense for plant, property and equipment.	$ (495)	$ (1,018)
E-2	Record depreciation expense for plant, property and equipment based on the preliminary estimated fair value of RSI’s plant, property and equipment acquired at the Acquisition Date.	487	1,059
E-3	Eliminate acquisition costs	(484)	(3,628)
E-4	Record amortization of trademarks intangible acquired	1,667	3,333
E-5	Record amortization of customer relationship intangible acquired	23,333	46,667
		$ 24,508	$ 46,413

See balance sheet adjustment H which describes the depreciation periods for property, plant and equipment. See balance sheet adjustment J which describes the amortization period for trademarks and customer relationship intangibles.

Adjustment F

The following summarizes pro forma adjustments impacting Interest Expense:

		Six months ended October 31, 2017	Year Ended April 30, 2017
		(in thousands)	
F-1	Record estimated interest expense associated with Senior Secured Initial Term Loan.	4,613	9,225
F-2	Record commitment fee on Senior Secured Revolving Facility.	125	250
F-3	Record amortization on fees and costs for Senior Secured Credit Facilities.	647	1,293
		$ 5,384	$ 10,768

A one-eighth percent increase or decrease in the LIBOR based interest rate on the Senior Secured Initial Term Loan would cause a $312,500 annual increase or decrease, respectively, in the amount of pro forma interest expense.

Adjustment G

The pro forma adjustment is to reduce historical interest income to reflect estimated lower outstanding balances of cash and cash equivalents and investments in certificates of deposit due to the use of cash, in part, to acquire RSI.

Adjustment H

Reflects the income tax effect of pro forma adjustments based on historical statutory tax rates.

Adjustment I

Reflects the 1,457,568 newly issued shares of American Woodmark included in the consideration for the RSI Acquisition.

Pro Forma Adjustments Reflected on the Unaudited Pro Forma Condensed Combined Balance Sheet as of October 31, 2017

The pro forma balance sheet adjustments include adjustments to record the preliminary estimates of the fair value of assets acquired and liabilities assumed associated with the RSI Acquisition (as shown in Note 3), offset by elimination of RSI's historical values as of the acquisition had occurred on October 31, 2017.

Adjustment D

The following summarizes pro forma adjustments impacting Cash:

	(in thousands)	
D1	$(444,295)	Cash consideration component for RSI Acquisition.
D2	50,000	Draw down of Senior Secured Revolving Facility at Closing Date.
D3	250,000	Proceeds of Senior Secured Initial Term Loan.
D4	(6,465)	Record payment of estimated debt issuance costs related to the Senior Secured Credit Facilities.
D5	71,250	Reclass amounts from Investments in CDs to cash to partially fund RSI Acquisition.
	$ (79,510)	

Adjustment E

Adjustments reflect redemption of investments in certificates of deposit to fund, in part, the RSI Acquisition.

Adjustment F

Represents the estimated adjustment to step up RSI's inventory to fair value. The estimated fair value of RSI inventories includes raw materials at historical cost (which approximated fair value) and finished goods and certain work-in-process at estimated fair value determined based on the estimated selling price of the inventory less the remaining manufacturing and selling costs and a normal profit margin on those manufacturing and selling efforts. The estimated fair value of finished goods inventory reflects a stepped-up value from historical cost at the Acquisition Date of $3.9 million, which will increase cost of sales over approximately 1 month as the inventory is sold. This increase is not reflected in the pro forma condensed combined statements of income because it does not have a continuing impact.

Adjustment G

Adjustment to assign no value to RSI's tooling inventory to conform to American Woodmark's policy of expensing such items when purchased.

Adjustment H

Adjustment to step-up RSI's property, plant and equipment to preliminary estimated fair value. The fair value of property plant and equipment includes $4.7 million for buildings and $89.5 million for equipment. Estimated useful lives are 15 years for buildings and 7 years for equipment. The fair value and useful lives calculations are preliminary and subject to change after American Woodmark finalizes its review of the specific types, nature, age, condition and location of RSI's property, plant and equipment.

Adjustment I

Adjusts tax assets and liabilities resulting from the acquisition of RSI. The pro forma condensed combined balance sheet as of October 31, 2017 includes the following tax balances resulting from the purchase price allocation: taxes receivable of $19.3 million (included in prepaid expenses and other), taxes payable of $78,000 (included in other accrued expenses), $900,000 included in other long-term liabilities, and deferred income tax liabilities of $113.6 million. The estimated increase in deferred tax liabilities to $113.6 million stems primarily from acquired intangibles based on an estimated tax rate of 40.43%. This estimate of deferred income tax balances is preliminary and subject to change based on management's final determination of the fair value of assets acquired and liabilities assumed by jurisdiction.

The following table presents the pro forma adjustments made to arrive at the pro forma tax balances:

	Pro-Forma Tax Adjustments (in thousands)
Prepaid expenses and other	$ 17,831
Deferred income taxes (within Total Assets) (a)	(20,937)
Other accrued expenses	78
Other long-term liabilities	(400)
Deferred income taxes (within Total Liabilities) (a)	103,476

(a) Includes reclassification of deferred tax asset of $10.1 million included on American Woodmark's historical October 31, 2017 balance sheet to deferred tax liability to reflect a net deferred tax liability in the pro forma condensed combined balance sheet.

Adjustment J

The following summarizes pro forma adjustments impacting Intangible Assets other than goodwill:

	(in thousands)	
J1	$(10,308)	Eliminate RSI historical balance of intangible assets other than goodwill.
J2	10,000	Record preliminary estimated trademark intangible based on preliminary purchase price allocation for RSI Acquisition.
J3	280,000	Record preliminary estimated customer relationship intangible based on preliminary purchase price allocation for RSI Acquisition.
	$279,692	

As part of the preliminary valuation analysis, American Woodmark identified intangible assets, including trademarks and customer relationships. The fair value of identifiable intangible assets is determined primarily using the "income approach", which requires a forecast of all of the expected future cash flows. Trademarks and customer relationship intangibles are estimated to have a useful life of three years and six years, respectively. These preliminary estimates of fair value and estimated useful lives will likely differ from final amounts Woodmark will calculate after completing a detailed valuation analysis, and the difference could have a material impact on the accompanying unaudited pro forma condensed combined financial statements.

Adjustment K

Records preliminary estimated goodwill based on preliminary purchase price allocation as if the acquisition of RSI had occurred on October 31, 2017.

Adjustment L

Represents transaction costs not reflected in the historical balance sheets. The adjustment results in a reduction of equity (See Adjustment R). No adjustment has been made to the Unaudited Pro Forma Condensed Combined Statements of Income for the six months ended October 31, 2017 and the year ended April 30, 2017 because the costs are non-recurring in nature.

Adjustment M

Reflects the current portion of the Senior Secured Initial Term Loan.

Adjustment N

Represents the write-off of RSI's historical balance of accrued rent, which is not an assumed liability.

Adjustment O

The following summarizes pro forma adjustments to Long Term Debt less Current Maturities:

	(in thousands)	
O1	$ 34,948	Record fair value adjustment of RSI Debt less historical debt issuance costs.
O2	250,000	Record Senior Secured Initial Term Loan.
O3	(9,375)	Reclass current portion of Senior Secured Initial Term Loan
O4	(6,465)	Record estimated debt issuance costs related to the Senior Secured Credit Facilities.
O5	50,000	Record draw down of Senior Secured Revolving Facility at Closing Date.
	$319,108	

Adjustment P

The following tables details the adjustments to common stock:

	(in thousands)	
P1	$ (19)	Eliminate historical RSI on stock.
P2	189,849	Record fair value of American Woodmark common stock issued as part of consideration for RSI Acquisition.
	$189,830	

Adjustment Q

Represents the elimination of RSI's additional paid in capital.

Adjustment R

The following summarizes pro forma adjustments impacting Retained Earnings:

	(in thousands)	
R1	$414,101	Eliminate historical RSI balance of retained earnings
R2	(12,200)	Record estimated acquisition expenses not reflected in the historical financial statements.
	$401,901	

6. Pro Forma Adjustments: Refinancing Transactions

The following pro forma adjustments have been reflected in the unaudited pro forma condensed combined financial information to reflect the assumed Refinancing Transactions, including the issuance of the Notes offered hereby and the drawdown of $250 million on the Senior Secured Delayed Draw Term Loan, repayment of amounts outstanding under the Senior Secured Revolving Facility and the redemption or repurchase of the RSI Notes. The pro forma adjustments are based on preliminary estimates and assumptions that are subject to change.

Pro Forma Adjustments Reflected on the Unaudited Pro Forma Condensed Combined Statements of Income for the six months ended October 31, 2017 and year ended April 30, 2017

Adjustment J

The following summarizes pro forma adjustments to Interest Expense:

		Six months ended October 31, 2017	Year Ended April 30, 2017
I-1	Eliminate historical RSI interest expense associated with RSI Notes.	$ (18,688)	$ (37,012)
I-2	Eliminate historical RSI amortization of debt issuance costs associated with the RSI Notes.	(579)	(1,102)
I-3	Record estimated interest expense associated with assumed issuance of Senior Delayed Draw Term Loan	4,613	9,225
I-4	Record estimated interest expense associated with assumed issuance of the Notes.	8,532	17,063
I-5	Record estimated amortization of debt issuance costs of assumed issuance of the Notes.	415	829
		$ (5,707)	$ (10,997)

A one-eighth percent increase or decrease in the LIBOR based interest rate on the Senior Delayed Draw Term Loan would cause a $312,500 annual increase or decrease, respectively, in the amount of pro forma interest expense.

Adjustment K

The pro forma adjustment is to reduce historical interest income to reflect estimated lower outstanding balances of cash and cash equivalents and investments in certificates of deposit due to the use of cash, in part, to acquire RSI.

Adjustment L

Reflects the income tax effect of pro forma adjustments based on historical statutory tax rates.

Pro Forma Adjustments Reflected on the Unaudited Pro Forma Condensed Combined Balance Sheet as of October 31, 2017

Adjustment S

The following summarizes pro forma adjustments to cash:

S1	$250,000	Estimated proceeds from assumed drawdown of Senior Secured Delayed Draw Term Loan.
S2	350,000	Estimated proceeds from assumed issuance of Notes offered hereby.
S3	(576,557)	Assumed repurchase of RSI Notes and payment of accrued interest.
S4	(28,500)	Estimated tender premium and estimated expenses related to assumed repurchase of RSI Notes.
S5	(50,000)	Assumed repayment of Senior Secured Revolving Facility.
S6	(6,200)	Record payment of estimated debt issuance costs related to assumed issuance of Notes offered hereby.
S7	(700)	Record payment of estimated debt issuance costs related to assumed drawdown of Senior Delayed Draw Term Loan.
	$(61,957)	

Adjustment T

Represents the estimated tax effect of the refinancing transaction primarily related to the anticipated repurchase premium on the RSI Notes.

Adjustment U

Reflects the current portion of the assumed Senior Secured Delayed Draw Term Loan.

Adjustment V

Pro forma adjustment to reflect the assumed payment of accrued interest on RSI Notes.

Adjustment W

The following summarizes the pro forma adjustments to long-term debt, less current maturities:

	(in thousands)	
W1	$(575,000)	Record at par value assumed repurchase of RSI Notes.
W2	(27,313)	Write-off fair value step-up on RSI Notes.
W3	250,000	Record assumed draw down of Senior Secured Delayed Draw Term Loan.
W4	(9,375)	Reclass current portion of Senior Secured Delayed Draw Term Loan.
W5	350,000	Record assumed issuance of Notes issued hereby.
W6	(6,200)	Record estimated debt issuance costs related to assumed issuance of Notes offered hereby.
W7	(700)	Record payment of estimated debt issuance costs related to assumed drawdown of Senior Delayed Draw Term Loan.
W8	(50,000)	Record assumed repayment of Senior Secured Revolving Facility.
	$(68,588)	

Adjustment X

Represents the estimated loss (including transaction expenses) on repurchase of RSI Notes.

(Back To Top)