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American  
Woodmark™  
2012  
Annual Report



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## DIRECTORS AND EXECUTIVE OFFICERS

**Bradley S. Boyer**  
Senior Vice President, Sales and Marketing Remodel

**William F. Brandt, Jr.**  
Director;  
Former Chairman and Chief Executive Officer

**Andrew B. Cogan**  
Director;  
Member of the Audit Committee  
Chief Executive Officer of Knoll, Inc.

**Martha M. Dally**  
Director;  
Chair of the Governance Committee and  
Member of the Compensation Committee  
Retired Vice President Customer Development of Sara Lee Corporation

**James G. Davis, Jr.**  
Director;  
Member of the Audit Committee  
President and Chief Executive Officer of James G. Davis Construction Corporation

**S. Cary Dunston**  
Senior Vice President, Manufacturing and Supply Chain Services

**Kent B. Guichard**  
Director;  
Chairman and Chief Executive Officer

**Daniel T. Hendrix**  
Director;  
Chair of the Compensation Committee  
Chairman and Chief Executive Officer of Interface, Inc.

**Kent J. Hussey**  
Director;  
Member of the Audit Committee and  
Member of the Governance Committee  
Retired Chairman and Chief Executive Officer of Spectrum Brands, Inc.

**Carol B. Moerdyk**  
Director;  
Chair of the Audit Committee and  
Member of the Governance Committee  
Retired Senior Vice President, International, OfficeMax Incorporated

**Vance W. Tang**  
Director;  
Member of the Compensation Committee  
President and Chief Executive Officer of KONE Inc.

**Jonathan H. Wolk**  
Senior Vice President and Chief Financial Officer;  
Corporate Secretary

## CORPORATE INFORMATION

**ANNUAL MEETING**  
The Annual Meeting of Shareholders of American Woodmark Corporation will be held on August 23, 2012, at 9:00 a.m. at the Holiday Inn, 333 Front Royal Pike in Winchester, Virginia.

**ANNUAL REPORT ON FORM 10-K**  
A copy of the Company's Annual Report on Form 10-K for the fiscal year ended April 30, 2012, may be obtained free of charge on the Company's Web site at [www.americanwoodmark.com](http://www.americanwoodmark.com) or by writing:  
Glenn Eanes  
Vice President & Treasurer  
American Woodmark Corporation  
PO Box 1980  
Winchester, VA 22604-8090

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**TRANSFER AGENT**  
Registrar and Transfer Company  
Investor Relations  
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## mission statement

# creating value through people

### WHO WE ARE

American Woodmark is an organization of employees and shareholders who have combined their resources to pursue a common goal.

### WHAT WE DO

Our common goal is to create value by providing kitchens and baths “of pride” for the American family.

### WHY WE DO IT

We pursue this goal to earn a profit, which allows us to reward our shareholders and employees and to make a contribution to our society.

### HOW WE DO IT

Four principles guide our actions:

**CUSTOMER SATISFACTION** Providing the best possible quality, service and value to the greatest number of people. Doing whatever is reasonable, and sometimes unreasonable, to make certain that each customer’s needs are met each and every day.

**INTEGRITY** Doing what is right. Caring about the dignity and rights of each individual. Acting fairly and responsibly with all parties. Being a good citizen in the communities in which we operate.

**TEAMWORK** Understanding that we must all work together if we are to be successful. Realizing that each individual must contribute to the team to remain a member of the team.

**EXCELLENCE** Striving to perform every job or action in a superior way. Being innovative, seeking new and better ways to get things done. Helping all individuals to become the best that they can be in their jobs and careers.

### ONCE WE’VE DONE IT

When we achieve our goal good things happen: sales increase, profits are made, shareholders and employees are rewarded, jobs are created, our communities benefit, we have fun and our customers are happy and proud—with a new kitchen or bath from American Woodmark.

# company profile



American Woodmark Corporation manufactures and distributes kitchen cabinets and vanities for the remodeling and new home construction markets. The Company operates 9 manufacturing facilities located in Arizona, Georgia, Indiana, Kentucky, Maryland, Tennessee, Virginia and West Virginia and 9 service centers across the country.

American Woodmark Corporation was incorporated in 1980 and became a public company through a common stock offering in 1986.

The Company offers approximately 550 cabinet lines in a wide variety of designs, materials and finishes. Products are sold across the United States through a network of independent dealers and distributors and directly to home centers and major builders. The Company's remodeling sales comprised 69% of sales during fiscal 2012, with the remaining 31% sold to the new home market. References in this annual report to fiscal years mean the Company's fiscal year, which ends on April 30.

The Company believes it is one of the three largest manufacturers of kitchen cabinets in the United States.



# market information

American Woodmark Corporation common stock is quoted on The NASDAQ Global Select Market under the "AMWD" symbol. Common stock per share market prices and cash dividends declared during the last two fiscal years were as follows:

(in dollars)	MARKET PRICE		DIVIDENDS DECLARED
	High	Low	
<b>FISCAL 2012</b>			
First quarter	\$22.51	\$15.73	\$0.09
Second quarter	19.87	11.53	0.00
Third quarter	17.99	10.88	0.00
Fourth quarter	19.52	13.19	0.00

<b>FISCAL 2011</b>			
First quarter	\$25.41	\$15.51	\$0.09
Second quarter	20.56	15.00	0.09
Third quarter	25.16	17.09	0.09
Fourth quarter	21.99	18.12	0.09

As of May 18, 2012, there were approximately 5,100 shareholders of record of the Company's common stock. Included are approximately 64% of the Company's employees, who are shareholders through the American Woodmark Stock Ownership Plan. The Company paid dividends on its common stock during each fiscal quarter of 2011 and the first quarter of 2012 presented above. The Company suspended the dividend during the remainder of fiscal 2012. The determination as to the payment and the amount of any future dividends will be made by the Board of Directors from time to time and will depend on the Company's then-current financial condition, capital requirements, results of operations and any other factors then deemed relevant by the Board of Directors.

# financial highlights

## FISCAL YEARS ENDED APRIL 30

(in thousands, except per share data)	2012 <sup>1,2</sup>	2011 <sup>2</sup>	2010 <sup>2</sup>
<b>OPERATIONS</b>			
Net sales	\$ 515,814	\$ 452,589	\$ 406,540
Operating loss	(33,446)	(31,054)	(37,256)
Net loss	(20,786)	(20,018)	(22,341)
Loss per share			
Basic	\$ (1.45)	\$ (1.40)	\$ (1.58)
Diluted	(1.45)	(1.40)	(1.58)
Average shares outstanding			
Basic	14,344	14,252	14,146
Diluted	14,344	14,252	14,146
<b>FINANCIAL POSITION</b>			
Working capital	\$ 71,881	\$ 69,572	\$ 73,465
Total assets	265,121	268,370	282,433
Long-term debt, less current maturities	23,790	24,655	25,582
Shareholders' equity	130,020	153,965	175,318
Long-term debt to capital ratio <sup>3</sup>	15.5%	13.8%	12.7%

<sup>1</sup> The Company announced plans to realign its manufacturing network during fiscal 2012. The impact of these initiatives in fiscal 2012 increased operating loss, net loss and loss per share by \$15,917,000, \$9,710,000 and \$0.68, respectively.

<sup>2</sup> The Company performed a reduction-in-force of salaried personnel and announced plans to realign its manufacturing network during fiscal 2009. The impact of these initiatives in fiscal 2010 increased operating loss, net loss and loss per share by \$2,808,000, \$1,722,000 and \$0.12, respectively. During fiscal 2011, these same initiatives increased operating loss, net loss and loss per share by \$62,000, \$39,000 and \$0.00, respectively. During fiscal 2012, these same initiatives increased operating loss, net loss and loss per share by \$404,000, \$246,000 and \$0.01, respectively.

<sup>3</sup> Defined as long-term debt, less current maturities, divided by the sum of long-term debt and shareholders' equity.



# to our shareholders



KENT B. GUICHARD  
Chairman and CEO

Our goal during fiscal 2012 was to lay the foundation for a return to profitability in fiscal 2013 without wavering from our commitment to strengthen the organization, invest in our strategy, and provide a superior experience to both our direct customer and the end consumer. Despite many challenges, we ended the year with a still vibrant organization, having made progress on both our long-term Vision and the establishment of a base for significant improvements in financial performance.

As we began the latest leg in our journey last May, I was cautiously optimistic about the beginning of an industry recovery in the near term. While realistic about the obstacles that needed to be overcome, I was encouraged by early signs that we might be on the long road back towards normalcy. Our plans anticipated improvement in demand.

The economy ebbed and flowed during the year, but showed overall net gains. Gross domestic product expanded each quarter, avoiding concerns about a double dip recession during the summer. Corporate profits improved. The stock market ended

up mostly flat over our fiscal year, almost double the low in the spring of 2009. The economy generated almost two million jobs. The unemployment rate dropped a full percentage point. Throughout the year, total retail sales increased as consumers were relatively active.

Consumer participation was, unfortunately, extremely selective. Different categories and products experienced widely different trends. Consumers continued to avoid big ticket, discretionary purchases, particularly related to housing. While home prices began to stabilize in many areas, homeowner equity has been significantly reduced or even eliminated in virtually all markets. One in five families finds themselves in a house with a current market value that is less than their mortgage. In the hardest hit communities, one out of every two houses carries an underwater mortgage. The negative wealth effect remained an anchor around the entire housing sector.

On the new construction side, overall housing starts in calendar 2011 were up four percent from the previous year. While improved, this represents only two-thirds of the starts in 2008 and less than half of 2007. Activity was driven by multi-family units as displaced homeowners increased the demand for rental housing. Single family home starts, the source of home ownership and the segment of the new construction market more relevant to our business, was down eight percent. Last year was the lowest year since 1959, three percent below the previous low in 2009.

Consumer sentiment was similar regarding remodeling activity as they found it difficult to direct capital into an asset with diminished value. Residential investment as a percent of GDP remained stalled at two and a half percent, around half the long-term average. Big ticket projects such as kitchen and bath remodels fared



below the average. Homeowners used their resources on repair and maintenance projects, not capital improvements.

In this on-going extreme environment, we continued to move forward. Net sales were up 14%, the second consecutive year of double digit growth despite a flat to declining market. We gained share in all channels of distribution based on the combination of our outstanding service platform, new products to keep pace with fashion trends, and marketing programs to support our customer partners. Even in this difficult environment, average revenue per kitchen increased as consumers took advantage of our outstanding value to upgrade product selection and features.

The Company experienced inflation throughout the year, primarily in raw materials and fuel costs. Through additional volume and expense management efforts, we were able to more than offset these increases and gained financial leverage. Our net loss of \$10.8 million excluding restructuring charges dropped almost in half from the prior year.

As has been the case throughout this housing cycle, the Company placed emphasis on generating strong cash flow and protecting the financial strength of our balance sheet. The Company generated free cash flow of \$6.1 million, only \$1.6 million below the prior year despite a decline of over \$7 million in tax refunds received. Cash increased by nearly \$4 million, ending the year at \$73.7 million. The Company remained financially sound, closing the year with debt to capital of approximately 15%.







Early in the fiscal year, facing continued economic uncertainty and weak consumer demand, the Company made the decision to suspend the cash dividend on its common stock. We believe liquidity is worth a premium in the current environment and that financial flexibility will allow the Company to continue to increase market share, invest in cost saving projects, and retain capacity to support our customers during the eventual recovery. To the extent that excess cash exists, we will move to distribute that cash to Shareholders under our stock repurchase authorization.

Despite the increase in net sales, the decrease in the operating loss, and the continued strength of our cash flow, it became clear during the fall that the level of housing activity would not sustain our full network of manufacturing facilities, carry our overhead costs, and return us to profitability. After careful consideration, we made the difficult decision to implement several actions to more closely align our capacity and cost structure with the current reality of the market.

Near the end of calendar 2011, we announced a restructuring of our manufacturing network with the closure of two facilities. These choices are never easy, particularly when they negatively impact good people that have contributed to our efforts and

success over many years. We cannot, however, control events and the continuing housing slump made the amount of excess capacity simply too expensive to maintain. After the closings and the associated restructuring, our costs are better aligned with demand while still retaining upside capacity.

In addition to the actions in manufacturing, we made several additional choices in order to reduce cost and lower our breakeven point. Effective with the beginning of fiscal 2013, we redesigned our long-term employee benefit plans, most notably freezing our defined benefit pension plans and increasing the opportunities offered to employees in our defined contribution plan. The costs associated with the traditional pension plan, combined with the rapid decline in such plans in the market place, resulted in an increasingly non-competitive cost structure. The move towards contribution plans maintains



a retirement program for our employees, lowers overall expense, and places us in a more competitive position.

As we turn the corner to fiscal 2013, market conditions remain cloudy. On one hand, consumers have begun to show signs of additional stress. Savings rates have recently dropped. Debt levels have increased. Elevated gas prices have taken a larger share of household income. On the other hand, builder confidence is improving based on increased traffic through model homes and sales contract activity. Permits, construction starts, and completions are all trending upward. Foreclosure and delinquency filings are at multiple year lows. Sales of existing homes are rising, with home buying for occupancy returning to the mix.

Longer term, we continue to believe strongly in the strength of the industry. We see no indication that the fundamentals of population growth, household formation, and the dream of home ownership have changed. Quite the opposite, we see



those elements continuing to support healthy demand for affordable, quality housing. In the short term, there is no shortage of theories and forecasts as to the timing of a recovery. It seems that everyone has an opinion, and there is an opinion for everyone.

There are times and subjects that we over think. In my view, the outlook for housing is simple and straight-forward. It's about jobs. When you don't have a job, or you are worried about losing your job and believe the prospects of finding another one are dim, you don't buy a house. You don't sign on for a major remodel. You wait. Modifying your mortgage doesn't help. If you have work, you save the difference for what may come. If you are out of work, reducing your monthly payments doesn't help. You are worried about your job.

While certainly a positive sign, the drop in the unemployment rate is not a full picture of the reality across America. The labor participation rate is at thirty year lows. Our collective reality is that almost fifteen million of our fellow citizens are out of work. This figure does not account for those millions that are underemployed. Job prospects are such that half of all college graduates are moving back home after graduation. Housing will truly





recover when people get back to work, when they believe they will keep the job they have or they can find a new job if need be.

The true unemployment picture is unlikely to dramatically change in the coming months. As a result, we begin fiscal 2013 anticipating relatively level unit demand for the coming year. Our expectation is for a modest improvement in revenue as new products and efforts to encourage sales of higher priced products improve our overall mix. Improvement in our financial performance is more likely to come from the cost reductions that we have put in place to lower our breakeven point below this revenue level.

There are risks. Most obvious is the fragile state of the economy and the nation's continuing struggle with housing activity and values. Shortages and associated inflation are looming in several raw material categories. The potential remains for increases in promotional costs in order to remain competitive.

On balance, we are positioned to return to profitability in fiscal 2013. Nothing, however, is guaranteed. Many challenges remain. I am confident that we are up to the task and that the men and women of our Company will work tirelessly to achieve that goal. After the past six years, I am no longer surprised by the efforts of these outstanding individuals, but I do continue to admire their dedication, commitment, and teamwork. It is a privilege to be associated with people of this caliber and character.

On behalf of the Board of Directors, the Leadership Team, and the entire Company, thank you for your support.

Kent B. Guichard  
Chairman and Chief Executive Officer

## FIVE-YEAR SELECTED FINANCIAL INFORMATION

(in millions, except per share data)	FISCAL YEARS ENDED APRIL 30				
	2012 <sup>1,2</sup>	2011 <sup>2</sup>	2010 <sup>2</sup>	2009 <sup>2</sup>	2008
<b>FINANCIAL STATEMENT DATA</b>					
Net sales	\$515.8	\$ 452.6	\$ 406.5	\$ 545.9	\$ 602.4
Income (loss) before income taxes	(33.3)	(30.0)	(37.1)	(6.2)	5.7
Net income (loss)	(20.8)	(20.0)	(22.3)	(3.2)	4.3
Earnings (loss) per share:					
Basic	(1.45)	(1.40)	(1.58)	(0.23)	0.30
Diluted	(1.45)	(1.40)	(1.58)	(0.23)	0.29
Depreciation and amortization expense	23.4	26.7	30.9	35.1	35.2
Total assets	265.1	268.4	282.4	303.7	314.8
Long-term debt, less current maturities	23.8	24.7	25.6	26.5	26.0
Total shareholders' equity	130.0	154.0	175.3	203.7	214.6
Cash dividends declared per share	0.09	0.36	0.36	0.36	0.33
Average shares outstanding					
Basic	14.3	14.3	14.1	14.1	14.5
Diluted	14.3	14.3	14.1	14.1	14.5
<b>PERCENT OF SALES</b>					
Gross profit	12.9%	11.7%	12.0%	16.4%	17.1%
Selling, general and administrative expenses	16.2	18.5	20.5	15.9	16.4
Income (loss) before income taxes	(6.4)	(6.6)	(9.1)	(1.1)	0.9
Net income (loss)	(4.0)	(4.4)	(5.5)	(0.6)	0.7
<b>RATIO ANALYSIS</b>					
Current ratio	2.2	2.4	2.5	2.6	2.6
Inventory turnover <sup>3</sup>	19.2	16.1	12.3	11.5	9.7
Collection period—days <sup>4</sup>	30.0	30.1	32.9	33.5	31.9
Percentage of capital (long-term debt plus equity):					
Long-term debt, less current maturities	15.5%	13.8%	12.7%	11.5%	10.8%
Equity	84.5	86.2	87.3	88.5	89.2
Return on equity (average %)	(14.6)	(12.2)	(11.8)	(1.5)	1.9

<sup>1</sup>The Company announced plans to realign its manufacturing network during fiscal 2012. The impact of these initiatives in fiscal 2012 increased operating loss, net loss and loss per share by \$15,917,000, \$9,710,000 and \$0.68, respectively.

<sup>2</sup>The Company performed a reduction-in-force of salaried personnel and announced plans to realign its manufacturing network during fiscal 2009. The impact of these initiatives in fiscal 2009 reduced operating income (loss), net income (loss) and earnings (loss) per share by \$9,743,000, \$6,050,000 and \$0.43, respectively. During fiscal 2010, these same initiatives increased operating loss, net loss and loss per share by \$2,808,000, \$1,722,000 and \$0.12, respectively. During fiscal 2011, these same initiatives increased operating loss, net loss and loss per share by \$62,000, \$39,000 and \$0.00, respectively. During fiscal 2012, these same initiatives increased operating loss, net loss and loss per share by \$404,000, \$246,000 and \$0.01, respectively.

<sup>3</sup>Based on the average of beginning and ending inventory.

<sup>4</sup>Based on the ratio of average monthly customer receivables to average sales per day.

# management's discussion and analysis

## RESULTS OF OPERATIONS

The following table sets forth certain income and expense items as a percentage of net sales:

	PERCENTAGE OF NET SALES Fiscal Years Ended April 30		
	2012	2011	2010
Net sales	100.0%	100.0%	100.0%
Cost of sales and distribution	87.1	88.3	88.0
Gross profit	12.9	11.7	12.0
Selling and marketing expenses	11.3	13.5	14.0
General and administrative expenses	4.9	5.0	6.5
Restructuring charges	3.2	0.0	0.7
Operating loss	(6.5)	(6.8)	(9.2)
Interest expense/other (income) expense	(0.1)	(0.2)	(0.1)
Loss before income taxes	(6.4)	(6.6)	(9.1)
Income tax benefit	(2.4)	(2.2)	(3.6)
Net loss	(4.0)	(4.4)	(5.5)

The following discussion should be read in conjunction with the Five-Year Selected Financial Information and the Consolidated Financial Statements and the related notes contained elsewhere herein.

## FORWARD-LOOKING STATEMENTS

This report contains statements concerning the Company's expectations, plans, objectives, future financial performance and other statements that are not historical facts. These statements are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. In most cases, the reader can identify these forward-looking statements by words such as "anticipate," "estimate," "forecast," "expect," "believe," "should," "could," "would," "plan," "may," or other similar words. Forward-looking statements contained in this annual report, including Management's Discussion and Analysis, are based on current expectations and our actual results may differ materially from those projected in any forward-looking statements. In addition, the Company participates in an industry that is subject to rapidly changing

conditions and there are numerous factors that could cause the Company to experience a decline in sales and/or earnings or deterioration in financial condition. These include but are not limited to: (1) general economic or business conditions and instability in the financial and credit markets, including their potential impact on our (i) sales and operating costs and access to financing, and (ii) customers and suppliers and their ability to obtain financing or generate the cash necessary to conduct their respective businesses; (2) the cyclical nature of the Company's industry, which is particularly sensitive to changes in consumer confidence, the amount of consumers' income available for discretionary purchases, and the availability and terms of consumer credit; (3) economic weakness in a specific channel of distribution; (4) the loss of sales from specific customers due to their loss of market share, bankruptcy or switching to a competitor; (5) risks associated with

domestic manufacturing operations, including fluctuations in capacity utilization and the prices and availability of key raw materials as well as fuel, transportation, warehousing and labor costs and environmental compliance and remediation costs; (6) the need to respond to price or product initiatives launched by a competitor; (7) the Company's ability to successfully implement initiatives related to increasing market share, new products, maintaining and increasing its sales force and new product displays; and (8) sales growth at a rate that outpaces the Company's ability to install new capacity or a sales decline that requires reduction or realignment of the Company's manufacturing capacity. Additional information concerning the factors that could cause actual results to differ materially from those in forward-looking statements is contained in this report, including elsewhere in "Management's Discussion and Analysis" and also in the Company's most recent annual report on Form 10-K for the fiscal year ended April 30, 2012, filed with the U.S. Securities and Exchange Commission (SEC), including Item 1A, "Risk Factors," and Item 7A, "Quantitative and Qualitative Disclosures about Market Risk." While the Company believes that these risks are manageable and will not adversely impact the long-term performance of the Company, these risks could, under certain circumstances, have a material adverse impact on its operating results and financial condition.

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

## OVERVIEW

American Woodmark Corporation manufactures and distributes kitchen cabinets and vanities for the remodeling and new home construction markets. Its products are sold on a national basis directly to home centers, major builders and home manufacturers and through a network of independent dealers and distributors. At April 30, 2012, the Company operated 9 manufacturing facilities and 9 service centers across the country.

During the Company's fiscal year that ended on April 30, 2012 (fiscal 2012), the Company experienced a continuation of difficult housing market conditions that have prevailed since the

housing market peaked in 2006, although the outlook has begun to trend more positively.

Positive factors included:

- Creation of approximately 2.0 million private sector jobs in the U.S. during the Company's fiscal 2012 (according to the U.S. Department of Labor);
- Creation of over 1.1 million new U.S. households during calendar 2011, compared with less than 0.8 million new households during the two preceding years combined (according to the U.S. Census Bureau);
- An 8.8% improvement in Gross Private Residential Fixed Investment reported by the U.S. Department of Commerce during the first quarter of calendar 2012, compared with the same quarter one year ago; and
- Increases in total housing starts and single family housing starts during the Company's fiscal 2012 of 17% and 4%, respectively, as compared to the Company's fiscal 2011, according to the U.S. Department of Commerce.

Negative factors included:

- The median price of existing homes sold in the U.S. declined for the 6th consecutive year during the Company's fiscal 2012, according to data provided by the National Association of Realtors;
- Consumer confidence, as reported by the University of Michigan, averaged a lower level during the Company's fiscal 2012 than in fiscal 2011; and
- Cabinet sales, as reported by members of the Kitchen Cabinet Manufacturers Association (KCMA), increased by less than 1% during fiscal 2012, inclusive of increased new construction sales and therefore indicative of lower remodeling sales.

Faced with these challenging market conditions, the Company's largest remodeling customers and competitors continued to utilize an elevated level of sales promotions in the Company's product category during fiscal 2012 to boost sales. These promotions consisted of free products and cash discounts to consumers based upon the amount and/or type of cabinets they purchased. The Company also continued to participate in these promotional activities in order to remain competitive with competitors'

promotional offerings which have generally been richer than those offered by the Company. Price-conscious consumers generally responded to these promotional offerings, helping the Company to gain market share and realize increased sales volumes in fiscal 2012. The Company's remodeling sales increased at a mid-single digit pace during fiscal 2012 in a remodeling market that appears to have declined from the prior year.

Despite market conditions that continue to be well below normal levels, the Company increased its net sales by 14% during fiscal 2012. The Company realized strong sales gains in its new construction channel during fiscal 2012, where sales increased by more than 25%, significantly outpacing the improvement in single family housing starts. Management believes this result, combined with the Company's increased remodeling sales, indicates the Company realized market share gains in both of its sales channels during fiscal 2012.

During the third quarter of fiscal 2012, the Company announced several initiatives designed to reduce its manufacturing capacity and its cost base, including the permanent closure of two manufacturing plants, the decision to place a previously closed manufacturing facility for sale, and the realignment of its retirement program, including the freezing of its pension plans. Restructuring charges related to these actions have been reflected in the Company's results.

Gross margin for fiscal 2012 was 12.9%, up from 11.7% in fiscal 2011. The increase in the Company's gross margin rate was driven by the beneficial impact of increased sales volume upon direct labor and manufacturing overhead costs, which more than offset the impact of rising materials, freight and sales promotional costs.

Although the present housing market downturn has continued at historic low levels of market activity, the Company believes that

the long-term fundamentals for the American housing industry continue to remain positive, based upon continued population growth, job creation and household formation. Based upon this belief, the Company has continued to invest in improving its operations and its capabilities to service its customers. The Company remains focused on growing its market share and has continued to invest in developing and launching new products and expanding its marketing reach to new customers.

The Company regularly assesses its long-lived assets to determine if any impairment has occurred and regularly evaluates its deferred tax assets to determine whether a valuation allowance is necessary. Although the Company generated an operating loss in fiscal 2012 in what may have been the bottom of the housing market, the Company expects that a combination of continued market share gains and lower costs resulting from its recent restructuring actions will enable it to return to profitability commencing with fiscal 2013. As a result of its restructuring initiatives, the Company recorded total pre-tax restructuring costs of \$16.3 million during fiscal 2012, including a pre-tax impairment charge of \$7.9 million related to three of its manufacturing facilities that have been included in restructuring initiatives. The Company has concluded that none of the long-lived assets pertaining to its other 9 remaining manufacturing plants or any of its other long-lived assets were impaired and that no valuation allowance on its deferred tax assets was necessary as of April 30, 2012.

Restructuring charges recorded in connection with the Company's cost reduction initiatives aggregated \$10.0 million net of tax in fiscal 2012, \$0.0 million net of tax in fiscal 2011 and \$1.7 million net of tax in fiscal 2010. Exclusive of these charges, the Company generated a net loss of \$(10.8) million in fiscal 2012, \$(20.0) million in fiscal 2011 and \$(20.6) million in fiscal 2010.

## RESULTS OF OPERATIONS

FISCAL YEARS ENDED APRIL 30

(in thousands)	2012	2011	2010	2012 VS. 2011 PERCENT CHANGE	2011 VS. 2010 PERCENT CHANGE
Net sales	\$ 515,814	\$ 452,589	\$ 406,540	14%	11%
Gross profit	66,475	52,751	48,921	26	8
Selling and marketing expenses	58,271	61,034	56,935	(5)	7
General and administrative expenses	25,329	22,709	26,434	12	(14)
Interest expense	527	572	637	(8)	(10)



## NET SALES

Net sales were \$515.8 million in fiscal 2012, an increase of \$63.2 million, or 14%, compared with fiscal 2011. Overall unit volume for fiscal 2012 was 9% higher than in fiscal 2011, driven primarily by the Company's increased market share. Average revenue per unit increased 5% in fiscal 2012, driven primarily by improvements in the Company's product mix.

Net sales for fiscal 2011 increased 11% to \$452.6 million from \$406.5 million in fiscal 2010. Overall unit volume for fiscal 2011 was 8% higher than in fiscal 2010, driven primarily by the Company's increased market share. Average revenue per unit increased 3% during fiscal 2011, driven primarily by shifts in product mix.

## GROSS PROFIT

Gross profit as a percentage of sales increased to 12.9% in fiscal 2012 as compared with 11.7% in fiscal 2011. The impact of increased sales volume in fiscal 2012 created improved labor efficiencies and more favorable absorption of manufacturing overhead costs, which were partially offset by increased sales promotion costs, material costs and diesel fuel. Specific changes and additional information included:

- Labor and overhead costs improved by 3.7% as a percentage of net sales compared with the prior fiscal year, as increased sales volume caused increased productivity of direct labor and absorption of fixed overhead costs;
- Materials and freight costs increased as a percentage of net sales by 1.8% during fiscal 2012 as compared with fiscal 2011, driven primarily by inflationary pressures in finishing materials, lumber, cartons, imported components, and diesel fuel; and
- Sales promotion costs increased by 0.7% of net sales during fiscal 2012, as the Company chose to remain competitive with competitors' promotional offerings to drive sales growth in a challenging market. Sales promotions generally involved the use of free products or cash reimbursements back to the Company's large retail customers and were deducted from gross margin as opposed to being classified as operating expenses.

During fiscal 2011, the Company's gross profit declined as a percentage of net sales from 12.0% in fiscal 2010 to 11.7%

in fiscal 2011. The impact of increased sales volume in fiscal 2011 created improved labor efficiencies and more favorable absorption of manufacturing overhead costs, which were more than offset by increased sales promotion costs, material costs and diesel fuel. Specific changes and additional information included:

- Sales promotion costs increased by 2.2% of net sales during fiscal 2011 due to extremely challenging market conditions and a highly competitive remodeling market;
- Materials and freight costs increased as a percentage of net sales by 1.1% during fiscal 2011 as compared with fiscal 2010, driven primarily by increases in paint, cartons, particleboard, imported components, and diesel fuel; and
- Labor and overhead costs improved by 3.0% as a percentage of net sales during fiscal 2011 compared with the prior fiscal year, as increased sales volume caused increased productivity of direct labor and absorption of fixed overhead costs.

## SELLING AND MARKETING EXPENSES

Selling and marketing expenses in fiscal 2012 were 11.3% of net sales, compared with 13.5% of net sales in fiscal 2011. Selling and marketing costs decreased by 5% in relation to a 14% increase in net sales for fiscal 2012 as compared to fiscal 2011. Although the breadth of the Company's fiscal 2012 product launches was similar in scope to those of the prior fiscal year, efficiencies from lower marketing collateral and branding costs, as well as reductions in product display costs more than offset the increases in employee compensation and travel costs incurred by the Company in fiscal 2012.

Selling and marketing expenses were 13.5% of net sales in fiscal 2011 compared with 14.0% in fiscal 2010. The decreased cost as a percent of sales in fiscal 2011 was a result of increased sales levels, which generated favorable cost leverage.

## GENERAL & ADMINISTRATIVE EXPENSES

General and administrative expenses for fiscal 2012 increased by \$2.6 million, or 12%, compared with fiscal 2011 and represented 4.9% of net sales, compared with 5.0% of net sales for

fiscal 2011. The majority of the cost increase was related to increased pay-for-performance compensation.

General and administrative expenses in fiscal 2011 declined by \$3.7 million, or 14%, compared with fiscal 2010 and represented 5.0% of net sales, as compared with 6.5% of net sales for fiscal 2010. The majority of the decline was related to a reduction in incentive compensation and reduced bad debt and related costs pertaining to insolvent customers. As of both April 30, 2012 and 2011, the Company had receivables from customers with a higher perceived level of risk aggregating less than \$0.1 million.

## EFFECTIVE INCOME TAX RATES

The Company generated a pre-tax loss of \$33.3 million during fiscal 2012, including \$16.3 million of restructuring charges. The Company's effective tax rate increased from 33.2% in fiscal 2011 to 37.6% in fiscal 2012, driven primarily by the impact of a tax basis adjustment, changes driven by restructuring charges, and the absence of favorability that occurred in fiscal 2011 relating to a loss carryback.

## OUTLOOK FOR FISCAL 2013

The Company follows several indices, including but not limited to housing starts, existing home sales, mortgage interest rates, new jobs growth, GDP growth and consumer confidence that it believes are leading indicators of overall demand for kitchen and bath cabinetry. The Company believes that while these indicators collectively suggest the long-term economic outlook for housing is positive, the near-term outlook for housing remains subdued.

The Company expects that the U.S. economy will continue to grow, that job creation will continue, and that the prices for existing homes will finally bottom during fiscal 2013. For fiscal 2013, the Company expects that the median price of existing homes sold will be flat with that of fiscal 2012, and that industry-wide cabinet remodeling sales will be roughly flat in fiscal 2013 after several years of declines. The Company expects that its remodeling market share will be stable in fiscal 2013 and that its remodeling unit sales will therefore approximate those of fiscal 2012.

The Company expects that single-family housing starts will continue to grow at a mid-single digit rate during fiscal 2013. The Company grew its new construction market share significantly during fiscal 2012 and expects that it will be able to grow its new construction sales at a high single digit rate in fiscal 2013 in a market that seems poised to grow at a slightly lesser rate.

Inclusive of the potential for modest sales mix and pricing improvements, the Company expects that it will grow its sales at a mid single digit rate in fiscal 2013. The Company's operating loss exclusive of restructuring charges was \$17.0 million in fiscal 2012. The Company expects that the savings realized from its fiscal 2012 restructuring will approximate this amount, creating the ability to break-even absent any sales growth. Because of the sales growth that is expected to occur, the Company expects to return to profitability during fiscal 2013, inclusive of expected adverse impacts from a continuing rise in material costs.

The Company plans to increase its capital expenditures from \$9.9 million in fiscal 2012 to approximately \$14 million in fiscal 2013, driven by increasing the number of sales display units deployed with customers and investing in machinery and equipment to enable production volume to increase.

The Company expects that its operating cash flow may decline, driven by the elimination of income tax refunds, increased pension plan funding requirements and increased working capital usage as the Company's sales grow.

Additional risks and uncertainties that could affect the Company's results of operations and financial condition are discussed elsewhere in this report, including under "Forward-Looking Statements;" elsewhere in "Management's Discussion and Analysis" and also in the Company's annual report on Form 10-K for the fiscal year ended April 30, 2012 filed with the SEC, under Item 1A, "Risk Factors" and Item 7A, "Quantitative and Qualitative Disclosures about Market Risk."

## LIQUIDITY AND CAPITAL RESOURCES

The Company's cash, cash equivalents and restricted cash totaled \$73.7 million at April 30, 2012, which represented an increase of \$3.9 million from April 30, 2011. Total debt was

\$24.7 million at April 30, 2012, \$0.9 million lower than in the prior fiscal year and long-term debt, excluding current maturities, to capital was 15.5% at April 30, 2012, up from 13.8% at April 30, 2011.

The Company's main source of liquidity is its cash and cash equivalents on hand and cash generated from its operating activities.

The Company maintains a \$35 million secured revolving credit facility with Wells Fargo Bank, N.A. (Wells Fargo). Pursuant to the terms of the Wells Fargo credit facility, at April 30, 2012, \$7.1 million of the Company's cash served as security for borrowings under this facility and was classified as restricted cash.

## OPERATING ACTIVITIES

Primarily because of its non-cash operating expenses that are included in net income, the Company's cash provided by operating activities has historically been considerably higher than the Company's net income. During the three-year period ended April 30, 2012, the Company generated a total of \$30.5 million in cash from operating activities, as compared with a cumulative net loss during this period of \$63.1 million. Of the \$93.7 million difference between these two amounts, \$92.8 million related to non-cash depreciation and amortization and stock-based compensation expense.

Cash provided by operating activities in fiscal 2012 was \$16.1 million, compared with \$13.2 million in fiscal 2011. The \$2.9 million improvement was primarily attributable to the reduction in the Company's operating loss exclusive of restructuring charges of \$13.9 million. This improvement was offset in part by reductions in proceeds from income tax refunds of \$7.1 million, from increasing funding to its pension plans of \$2.9 million, and from funding restructuring costs of \$1.2 million.

Cash provided by operating activities in fiscal 2011 was \$13.2 million, compared with \$13 million in fiscal 2010. The \$11.9 million increase in cash provided by operating activities was primarily attributable to the \$2.3 million decrease in net loss, proceeds of \$8.8 million collected from income tax refunds and the absence of payments made in relation to the Company's cost reduction initiatives in the prior fiscal year of approximately \$9 million.

A \$9.8 million increase in the Company's net working capital investment in inventory and customer receivables partially offset these improvements.

## INVESTING ACTIVITIES

The Company's investing activities primarily consist of capital expenditures and investments in promotional displays. Net cash used by investing activities in fiscal 2012 was \$9.9 million, compared with \$5.5 million in fiscal 2011 and \$11.5 million in fiscal 2010. Investments in property, plant and equipment for fiscal 2012 were \$6.7 million, compared with \$5.0 million in fiscal 2011 and \$2.9 million in fiscal 2010. Investments in promotional displays were \$3.3 million in fiscal 2012, compared with \$3.5 million in fiscal 2011 and \$8.7 million in fiscal 2010.

During fiscal 2012, the Company's increased investment in capital expenditures was driven by machinery purchases that helped enable the recent plant closures to occur. The remainder of the increase in net cash invested during fiscal 2012 was due to the absence of \$2.9 million of proceeds received during fiscal 2011 from the sale of two previously closed manufacturing plants.

The Company generated positive free cash flow (defined as cash provided by operating activities less cash used for investing activities) of \$6.1 million during fiscal 2012, compared with positive \$7.7 million in fiscal 2011 and negative \$10.2 million in fiscal 2010. The reduction in fiscal 2012 was driven by increased net outflows used for investing activities that more than offset net improvements in cash provided by operating activities. Exclusive of the adverse change in tax refunds, pension contributions, cash used for restructuring activities and declines due to building sale proceeds, free cash flow generated during fiscal 2012 improved by approximately \$14 million compared with fiscal 2011. The improvement in fiscal 2011 compared with fiscal 2010 of \$17.9 million was primarily driven by the absence of cash paid for restructuring activities aggregating \$9 million, coupled with a reduction in net cash used for investing activities of \$6 million.

## FINANCING ACTIVITIES

The Company's financing activities have typically consisted of returning a portion of its free cash flow to its shareholders

in the form of cash dividends and repayments of debt, net of any proceeds received from the exercise of stock options.

The Company provided \$5.1 million from financing activities in fiscal 2012, compared with using \$5.5 million for financing activities in fiscal 2011. The primary financing activity that generated cash in fiscal 2012 was the release of \$74 million of restricted cash previously used to secure the Company's credit facility. The Company's outflows of \$1.0 million to service its debt and \$1.3 million to pay dividends served to reduce the net cash flow from financing activities to \$5.1 million in fiscal 2012.

The Company used \$5.5 million for financing activities in fiscal 2011, including \$5.1 million to pay dividends and \$0.9 million to service its debt, offset in part by proceeds received from issuance of its common stock. The Company used \$19.4 million for financing activities in fiscal 2010, driven by having \$14.4 million of its cash become restricted as security for its credit facility and paying dividends of \$5.1 million.

Despite the Company's strong liquidity and positive free cash flow, the Company's assessment of the U.S. economy and the continued difficulties in the housing market caused it to suspend its dividend and restructure its operations during fiscal 2012. As a result of these actions, the Company believes that it has the capability to operate profitably, generate satisfactory levels of operating cash flow to fund increased levels of capital expenditures, and still have ample remaining manufacturing capacity to grow its sales revenue by approximately 50% from present levels. To the extent that the Company determines that it is carrying excess cash in relation to its future operational and other needs, then the Company's Board of Directors will consider returning some or all of the excess cash to its shareholders in the form of either stock repurchases or future dividends. The Company is authorized to repurchase its stock under an authorization approved by its Board of Directors in 2007 of up to \$93.3 million. The Company made no stock repurchases in fiscal 2011 or 2012.

The Company can borrow up to \$35 million under the Wells Fargo credit facility; however, the Company must maintain cash and specified investments held in accounts pledged to Wells Fargo having a collateral value of at least 50% of the Company's

aggregate indebtedness and other obligations to Wells Fargo. At April 30, 2012, \$10 million of loans and \$3.7 million of letters of credit were outstanding under the Wells Fargo facility and \$7.1 million of the Company's cash was held as security.

On May 29, 2012, the Company and Wells Fargo amended the credit facility and modified related security arrangements. Effective as of April 26, 2012, the amount of cash and securities required to be held as security was reduced from 100% to 50% of the Company's outstanding indebtedness and other obligations to Wells Fargo. As a result, the Company's restricted cash was reduced by \$7.4 million to \$7.1 million as of the fiscal year end. The Company also agreed to pledge substantially all of its assets as security for the Company's indebtedness and other obligations to Wells Fargo. Effective as of May 29, 2012, the amendment to the credit facility reduced the allowable ratio of the Company's total liabilities to its tangible net worth to a maximum of 1.4 to 1.0 at the end of each fiscal quarter, added a requirement for the Company to maintain a ratio of cash flow to fixed charges of not less than 1.25 to 1.0 at the end of each fiscal quarter on a rolling four-quarter basis and added a requirement that the Company maintain an asset coverage ratio of not less than 1.47 to 1.0 at the end of each calendar month.

The Company was in compliance with all covenants specified in the amended credit facility as of April 30, 2012, as follows: (1) the Company's ratio of total liabilities to tangible net worth at April 30, 2012 was 1.0 to 1.0; (2) cash flow to fixed charges for its most recent four quarters was 1.35 to 1.0; and (3) its asset coverage ratio as of April 30, 2012 was 4.89 to 1.0.

The credit facility does not limit the Company's ability to use unrestricted cash to pay dividends or repurchase its common stock as long as the Company is in compliance with these covenants.

Cash flow from operations combined with accumulated cash and cash equivalents on hand are expected to be more than sufficient to support forecasted working capital requirements, service existing debt obligations and fund capital expenditures for fiscal 2013.

The timing of the Company's contractual obligations as of April 30, 2012 is summarized in the table below:

(in thousands)	TOTAL AMOUNTS	FISCAL YEARS ENDED APRIL 30			
		2013	2014–2015	2016–2017	2018 AND THEREAFTER
Revolving credit facility	\$ 10,000	\$ —	\$ 10,000	\$ —	\$ —
Economic development loans	3,524	—	—	2,234	1,290
Term loans	3,858	328	718	804	2,008
Capital lease obligations	7,283	547	1,131	1,140	4,465
Interest on long-term debt <sup>1</sup>	2,460	480	902	599	479
Operating lease obligations	13,729	3,665	6,206	3,803	55
Pension contributions <sup>2</sup>	30,410	7,350	11,970	11,090	—
Total	\$ 71,264	\$ 12,370	\$ 30,927	\$ 19,670	\$ 8,297

<sup>1</sup> Interest commitments under interest bearing debt consist of interest under the Company's primary loan agreement, term loans and capitalized lease agreements. Amounts outstanding under the Company's revolving credit facility, \$10 million at April 30, 2012, bears a variable interest rate determined by the London Interbank Offered Rate (LIBOR) plus 1.25%. Interest under the Company's term loans and capitalized lease agreements is fixed at rates between 2% and 6.5%. Interest commitments under interest bearing debt for the Company's revolving credit facility are at LIBOR plus the spread as of April 30, 2012, throughout the remaining term of the facility.

<sup>2</sup> The estimated cost of the Company's two defined benefit pension plans is determined annually based upon the discount rate and other assumptions at fiscal year end. Future pension funding contributions beyond 2017 have not been determined at this time.

## MARKET RISKS

The Company's business has historically been subjected to seasonal influences, with higher sales typically realized in the second and fourth fiscal quarters.

The costs of the Company's products are subject to inflationary pressures and commodity price fluctuations. The Company has generally been able, over time, to recover the effects of inflation and commodity price fluctuations through sales price increases.

On April 30, 2012, the Company had no material exposure to changes in interest rates for its debt agreements.

The Company does not currently use commodity or interest rate derivatives or similar financial instruments to manage its commodity price or interest rate risks.

For additional discussion of risks that could affect the Company and its business, see "Forward-Looking Statements" above and "Risk Factors" in the Company's most recent annual report on Form 10-K filed with the SEC.

## OFF-BALANCE SHEET ARRANGEMENTS

As of April 30, 2012 and 2011, the Company had no off-balance sheet arrangements.

## CRITICAL ACCOUNTING POLICIES

Management has chosen accounting policies that are necessary to give reasonable assurance that the Company's operational results and financial position are accurately and fairly reported. The significant accounting policies of the Company are disclosed in Note A to the Consolidated Financial Statements included in this report. The following discussion addresses the accounting policies that management believes have the greatest potential impact on the presentation of the financial condition and operating results of the Company for the periods being reported and that require the most judgment.

Management regularly reviews these critical accounting policies and estimates with the Audit Committee of the Board of Directors.

**LONG-LIVED ASSET IMPAIRMENT.** The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the related carrying amounts may not be recoverable. For purposes of assessing if impairment exists, assets are grouped at the lowest level for which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. To determine whether an impairment has occurred, the Company compares estimates of the future undiscounted net cash flows of groups of assets to their

carrying values. The Company has not recognized impairments of long-lived assets in the last three years other than the impairments related to restructuring activities.

**REVENUE RECOGNITION.** The Company utilizes signed sales agreements that provide for transfer of title to the customer upon delivery. The Company must estimate the amount of sales that have been transferred to third-party carriers but not delivered to customers. The estimate is calculated using a lag factor determined by analyzing the actual difference between shipment date and delivery date of orders over the past 12 months. Revenue is only recognized on those shipments which the Company believes have been delivered to the customer.

The Company recognizes revenue based on the invoice price less allowances for sales returns, cash discounts and other deductions as required under U.S. generally accepted accounting principles. Collection is reasonably assured as determined through an analysis of accounts receivable data, including historical product returns and the evaluation of each customer's ability to pay. Allowances for sales returns are based on the historical relationship between shipments and returns. The Company believes that its historical experience is an accurate reflection of future returns.

**SELF INSURANCE.** The Company is self-insured for certain costs related to employee medical coverage and workers' compensation liability. The Company maintains stop-loss coverage with third-party insurers to limit total exposure. The Company establishes a liability at the balance sheet date based on estimates for a variety of factors that influence the Company's ultimate cost. In the event that actual experience is substantially different from the estimates, the financial results for the period could be adversely affected. The Company believes that the methodologies used to estimate all factors related to employee medical coverage and workers' compensation are an accurate reflection of the liability as of the date of the balance sheet.

**PENSIONS.** The Company has two non-contributory defined benefit pension plans covering substantially all of the Company's employees.

The Company's Board of Directors approved the freezing of both defined benefit pension plans, effective as of April 30, 2012. As a result, the Company re-measured its pension liability, updating

the pension measurement assumptions, and recorded pension curtailment charges of \$0.3 million during fiscal 2012.

The estimated expense, benefits and pension obligation of these plans are determined using various assumptions. The most significant assumptions are the long-term expected rate of return on plan assets, the discount rate used to determine the present value of the pension obligations and the future rate of compensation level increases. In fiscal 2012, the Company determined the discount rate by referencing the Aon Hewitt AA Bond Universe Yield Curve. Previously, the Company referred to the Hewitt Above Median Yield Curve in establishing the discount rate. This change was caused by the merger of Aon and Hewitt and the corresponding elimination of the Hewitt Above Median Yield Curve. The Company believes that using a yield curve approach accurately reflects changes in the present value of liabilities over time since each cash flow is discounted at the rate at which it could effectively be settled. The long-term expected rate of return on plan assets reflects the current mix of the plan assets invested in equities and bonds.

The following is a summary of the potential impact of a hypothetical 1% change in actuarial assumptions for the discount rate, expected return on plan assets and consumer price index:

(in millions)	IMPACT OF 1% INCREASE	IMPACT OF 1% DECREASE
(decrease) increase		
Effect on annual pension expense	\$ (2.9)	\$ 3.4
Effect on projected pension benefit obligation	\$ (19.3)	\$24.5

Pension expense for fiscal 2012 and the assumptions used in that calculation are presented in Note H of the Consolidated Financial Statements. At April 30, 2012, the discount rate was 4.66% compared to 5.66% at April 30, 2011. The expected return on plan assets was 7.5% at April 30, 2012, compared to 8.0% at April 30, 2011. The assumed rate of increase in compensation levels was 4.0% for the fiscal year ended April 30, 2012, unchanged from the prior fiscal year.

The projected performance of the Company's pension plans is largely dependent on the assumptions used to measure the obligations of the plans and to estimate future performance of the

plans' invested assets. Over the past two measurement periods, the most material deviations between results based on assumptions and the actual plan performance have been as a result of the changes to the discount rate used to measure the plans' benefit obligations and the actual return on plan assets. Accounting guidelines require the discount rate to be set to market at each annual measurement date. From the fiscal 2010 to fiscal 2011 measurement dates, the discount rate decreased from 5.91% to 5.66%, and caused an actuarial loss of \$4.5 million that was recognized in fiscal 2011. From the fiscal 2011 to fiscal 2012 measurement dates, the discount rate decreased from 5.66% at April 30, 2011 to 4.76% at December 31, 2011 and 4.66% at April 30, 2012, which caused an additional actuarial loss of \$26.3 million.

The Company strives to balance expected long-term returns and short-term volatility of pension plan assets. Favorable and unfavorable differences between the assumed and actual returns on plan assets are generally amortized over a period no longer than the average life expectancy of the plans' active participants. The actual rates of return on plan assets realized, net of investment manager fees, were 3.1%, 11.9% and 21.5% for fiscal years 2012, 2011 and 2010, respectively.

The fair value of plan assets at April 30, 2012 was \$85.7 million compared to \$83.3 million at April 30, 2011. The Company's projected benefit obligation exceeded plan assets by \$50.5 million in fiscal 2012 and \$36.7 million in fiscal 2011. The \$13.8 million increase in the Company's net under-funded position during fiscal 2012 was driven by the Company's \$26.3 million actuarial losses, plus additional service benefits accruing of \$5.3 million, offset in part by curtailments related to freezing the pension plans as of April 30, 2012, which stopped all future benefit accruals. The Company expects its pension expense to decrease from \$7.4 million in fiscal 2012 to \$0.6 million in fiscal 2013, due to the elimination of future benefit accruals related to the freezing of the pension plans. The Company expects to contribute \$7.4 million to its pension plans in fiscal 2013, which represents required funding. The Company made contributions of \$2.9 million to its pension plans in fiscal 2012. Under the requirements of the Pension Protection Act of 2006, the Company was not required to make contributions to its pension plans in fiscal 2011.

**PROMOTIONAL DISPLAYS.** The Company invests in promotional displays in retail stores to demonstrate product features, product specifications, quality specifications and serve as a training tool for designers. The investment is carried at cost less applicable amortization. Amortization is provided by the straight-line method on an individual display basis over the estimated period of economic benefit, approximately 30 to 36 months. The Company believes that the estimated period of economic benefit provides an accurate reflection of the value of displays as of the date of the balance sheet based on historical experience.

**PRODUCT WARRANTY.** The Company estimates outstanding warranty costs based on the historical relationship between warranty claims and revenues. The warranty accrual is reviewed monthly to verify that it properly reflects the Company's remaining obligation based on anticipated expenditures over the balance of the obligation period. Adjustments are made when actual warranty claim experience differs from estimates. Warranty claims are generally made within three months of the original shipment date.

**STOCK-BASED COMPENSATION EXPENSE.** The calculation of stock-based compensation expense involves estimates that require management's judgment. These estimates include the fair value of each stock option and restricted stock unit award granted. Stock option awards are estimated on the date of grant using a Black-Scholes option pricing model. There are two significant inputs into the Black-Scholes option pricing model: expected volatility and expected term. The Company estimates expected volatility based on the historical volatility of the Company's stock over a term equal to the expected term of the option granted. The expected term of stock option awards granted is derived from historical exercise experience under the Company's stock option plans and represents the period of time that stock option awards granted are expected to be outstanding.

For performance-based restricted stock units, the Company estimates the number of shares that will be granted upon satisfaction of the performance conditions, based upon actual and expected future operating results. The assumptions used in calculating the fair value of stock-based payment awards represent management's best estimates, but these estimates involve inherent uncertainties and the application of significant management

judgment. As a result, if factors change or the Company uses different assumptions, stock-based compensation expense could be materially different in the future. In addition, the Company is required to estimate the expected forfeiture rate and only recognize expense for those shares expected to vest. If the Company's actual forfeiture rate is materially different from its estimate, the stock-based compensation expense could be significantly different from what the Company has recorded in the current period. See Note G to the Consolidated Financial Statements for further discussion on stock-based compensation.

**VALUATION OF DEFERRED TAX ASSETS.** The Company regularly considers the need for a valuation allowance against its deferred tax assets. Based upon the Company's analysis at April 30, 2012 and 2011, the Company determined in each case that a valuation allowance was not required. The Company considered all available evidence, both positive and negative, in determining the need for a valuation allowance. As a result of the Company's recent restructuring activities plus prospects for sales growth, management expects the Company to return to profitability in fiscal 2013. Based upon this analysis, management determined that it is more likely than not that the Company's deferred tax assets will be realized through expected future income and the reversal of taxable temporary differences. The Company will continue to update this analysis on a periodic basis and changes in expectations about future income or the timing of the reversal of taxable temporary differences could cause the Company to record a valuation allowance in a future period.

## RECENT ACCOUNTING PRONOUNCEMENTS

In June 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-05, "Comprehensive Income (Topic 220): Presentation of Comprehensive Income," which requires an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income, or in two separate but consecutive statements. Additionally, ASU 2011-05 eliminates the option to present comprehensive income and its components as part of the statement of shareholders'

equity. The ASU does not change the items that must be reported in other comprehensive income. ASU 2011-05 became effective for the Company beginning May 1, 2012.

In December 2011, the FASB issued ASU No. 2011-12, "Comprehensive Income (Topic 220): Deferral of the Effective Date of Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in ASU No. 2011-05." The amendments were made to allow FASB time to redeliberate whether to present on the face of the financial statements the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income. Companies are required to continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect before ASU 2011-05. All other requirements in ASU 2011-05 are not affected by ASU 2011-12.

## LEGAL MATTERS

The Company is involved in suits and claims in the normal course of business, including without limitation product liability and general liability claims and claims pending before the Equal Employment Opportunity Commission. On at least a quarterly basis, the Company consults with its legal counsel to ascertain the reasonable likelihood that such claims may result in a loss. As required by ASC Topic 450, "Contingencies" (ASC 450), the Company categorizes the various suits and claims into three categories according to their likelihood for resulting in potential loss: those that are probable, those that are reasonably possible and those that are deemed to be remote. The Company accounts for these loss contingencies in accordance with ASC 450. Where losses are deemed to be probable and estimable, accruals are made. Where losses are deemed to be reasonably possible or remote, a range of loss estimates is determined and considered for disclosure. Where no loss estimate range can be made, the Company and its counsel perform a worst-case estimate. In determining these loss range estimates, the Company considers known values of similar claims and consultation with independent counsel.

The Company believes that the aggregate range of estimated loss stemming from the various suits and asserted and unasserted claims which were deemed to be either probable or reasonably possible was not material as of April 30, 2012.



# CONSOLIDATED BALANCE SHEETS

APRIL 30

(in thousands, except share and per share data)

	2012	2011
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 66,620	\$ 55,420
Customer receivables, net	32,533	31,067
Inventories	22,340	24,471
Income taxes receivable and other	2,523	3,799
Deferred income taxes	7,086	5,659
<b>Total Current Assets</b>	<b>131,102</b>	<b>120,416</b>
Property, plant and equipment, net	75,375	100,628
Restricted cash	7,064	14,419
Promotional displays, net	5,073	7,330
Deferred income taxes	34,969	21,178
Other assets	11,538	4,399
<b>TOTAL ASSETS</b>	<b>\$265,121</b>	<b>\$268,370</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current Liabilities		
Accounts payable	\$ 19,492	\$ 18,569
Current maturities of long-term debt	875	928
Accrued compensation and related expenses	21,963	15,607
Accrued marketing expenses	8,756	7,408
Other accrued expenses	8,135	8,332
<b>Total Current Liabilities</b>	<b>59,221</b>	<b>50,844</b>
Long-term debt, less current maturities	23,790	24,655
Defined benefit pension liabilities	50,547	36,726
Other long-term liabilities	1,543	2,180
Shareholders' Equity		
Preferred stock, \$1.00 par value; 2,000,000 shares authorized, none issued	—	—
Common stock, no par value; 40,000,000 shares authorized; issued and outstanding shares: at April 30, 2012: 14,395,273, at April 30, 2011: 14,295,540	96,205	92,408
Retained earnings	61,422	83,495
Accumulated other comprehensive loss—		
Defined benefit pension plans	(27,607)	(21,938)
<b>Total Shareholders' Equity</b>	<b>130,020</b>	<b>153,965</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$265,121</b>	<b>\$268,370</b>

See notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)	FISCAL YEARS ENDED APRIL 30		
	2012	2011	2010
Net sales	\$ 515,814	\$ 452,589	\$ 406,540
Cost of sales and distribution	449,339	399,838	357,619
<b>Gross Profit</b>	<b>66,475</b>	<b>52,751</b>	<b>48,921</b>
Selling and marketing expenses	58,271	61,034	56,935
General and administrative expenses	25,329	22,709	26,434
Restructuring charges	16,321	62	2,808
<b>Operating Loss</b>	<b>(33,446)</b>	<b>(31,054)</b>	<b>(37,256)</b>
Interest expense	527	572	637
Other income	(685)	(1,666)	(838)
<b>Loss Before Income Taxes</b>	<b>(33,288)</b>	<b>(29,960)</b>	<b>(37,055)</b>
Income tax benefit	(12,502)	(9,942)	(14,714)
<b>Net Loss</b>	<b>\$ (20,786)</b>	<b>\$ (20,018)</b>	<b>\$ (22,341)</b>
<b>SHARE INFORMATION</b>			
Net loss per share			
Basic	\$ (1.45)	\$ (1.40)	\$ (1.58)
Diluted	(1.45)	(1.40)	(1.58)
Cash dividends per share	0.09	0.36	0.36

See notes to consolidated financial statements.

# CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE LOSS

(in thousands, except share data)	COMMON STOCK		RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE LOSS	TOTAL SHAREHOLDERS' EQUITY
	SHARES	AMOUNT			
<b>Balance, May 1, 2009</b>	<b>14,094,449</b>	<b>\$ 82,293</b>	<b>\$136,074</b>	<b>\$(14,685)</b>	<b>\$ 203,682</b>
Comprehensive Loss:					
Net loss			(22,341)		(22,341)
Other comprehensive loss, net of tax:					
Change in pension benefits				(6,793)	(6,793)
<b>Total Comprehensive Loss</b>					<b>(29,134)</b>
Stock-based compensation		4,392			4,392
Adjustments to excess tax benefit from stock-based compensation		(439)			(439)
Cash dividends			(5,090)		(5,090)
Exercise of stock-based compensation awards	54,070	719			719
Employee benefit plan contributions	56,943	1,188			1,188
<b>Balance, April 30, 2010</b>	<b>14,205,462</b>	<b>\$ 88,153</b>	<b>\$108,643</b>	<b>\$(21,478)</b>	<b>\$ 175,318</b>
Comprehensive Loss:					
Net loss			(20,018)		(20,018)
Other comprehensive loss, net of tax:					
Change in pension benefits				(460)	(460)
<b>Total Comprehensive Loss</b>					<b>(20,478)</b>
Stock-based compensation		3,995			3,995
Adjustments to excess tax benefit from stock-based compensation		(1,347)			(1,347)
Cash dividends			(5,130)		(5,130)
Exercise of stock-based compensation awards	27,401	394			394
Employee benefit plan contributions	62,677	1,213			1,213
<b>Balance, April 30, 2011</b>	<b>14,295,540</b>	<b>\$ 92,408</b>	<b>\$ 83,495</b>	<b>\$(21,938)</b>	<b>\$ 153,965</b>
Comprehensive Loss:					
Net loss			(20,786)		(20,786)
Other comprehensive loss, net of tax:					
Change in pension benefits				(5,669)	(5,669)
<b>Total Comprehensive Loss</b>					<b>(26,455)</b>
Stock-based compensation		3,413			3,413
Adjustments to excess tax benefit from stock-based compensation		(859)			(859)
Cash dividends			(1,287)		(1,287)
Exercise of stock-based compensation awards	19,410	12			12
Employee benefit plan contributions	80,323	1,231			1,231
<b>Balance, April 30, 2012</b>	<b>14,395,273</b>	<b>\$ 96,205</b>	<b>\$ 61,422</b>	<b>\$(27,607)</b>	<b>\$ 130,020</b>

See notes to consolidated financial statements.

# CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)	FISCAL YEARS ENDED APRIL 30		
	2012	2011	2010
<b>OPERATING ACTIVITIES</b>			
Net loss	\$ (20,786)	\$ (20,018)	\$ (22,341)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	23,387	26,703	30,876
Net loss on disposal of property, plant and equipment	180	209	209
Impairment loss related to restructuring activities	7,913	—	—
(Gain) loss on sales of assets held for sale	111	(982)	—
Stock-based compensation expense	3,413	3,995	4,392
Deferred income taxes	(12,290)	(8,185)	(5,800)
Pension expense in excess of contributions	4,528	6,907	5,029
Tax benefit from stock-based compensation	—	(80)	(212)
Other non-cash items	867	(971)	(992)
Changes in operating assets and liabilities:			
Customer receivables	(1,533)	(3,514)	(640)
Inventories	115	331	7,302
Income taxes receivable and other assets	(320)	5,709	(9,370)
Accounts payable	923	4,534	(1,035)
Accrued compensation, marketing and other accrued expenses	9,545	(1,442)	(6,126)
<b>Net Cash Provided by Operating Activities</b>	<b>16,053</b>	<b>13,196</b>	<b>1,292</b>
<b>INVESTING ACTIVITIES</b>			
Payments to acquire property, plant and equipment	(6,679)	(4,952)	(2,861)
Proceeds from sales of property, plant and equipment	15	3	131
Proceeds from sales of assets held for sale	56	2,939	—
Investment in promotional displays	(3,310)	(3,456)	(8,737)
<b>Net Cash Used by Investing Activities</b>	<b>(9,918)</b>	<b>(5,466)</b>	<b>(11,467)</b>
<b>FINANCING ACTIVITIES</b>			
Payments of long-term debt	(1,021)	(892)	(10,859)
Proceeds from long-term debt	—	—	10,000
Change in restricted cash	7,355	—	(14,419)
Tax benefit from stock-based compensation	—	80	212
Proceeds from issuance of common stock and other	18	399	743
Payment of dividends	(1,287)	(5,130)	(5,090)
<b>Net Cash Provided (Used) by Financing Activities</b>	<b>5,065</b>	<b>(5,543)</b>	<b>(19,413)</b>
<b>Net Increase/(Decrease) in Cash and Cash Equivalents</b>	<b>11,200</b>	<b>2,187</b>	<b>(29,588)</b>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<b>55,420</b>	<b>53,233</b>	<b>82,821</b>
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 66,620</b>	<b>\$ 55,420</b>	<b>\$ 53,233</b>

See notes to consolidated financial statements.

# notes

## to consolidated financial statements

### NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company manufactures and distributes kitchen cabinets and vanities for the remodeling and new home construction markets. The Company's products are sold across the United States through a network of independent dealers and distributors and directly to home centers and major builders.

The following is a description of the Company's significant accounting policies:

**PRINCIPLES OF CONSOLIDATION AND BASIS OF PRESENTATION:** The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary. Significant inter-company accounts and transactions have been eliminated in consolidation.

**REVENUE RECOGNITION:** The Company recognizes revenue when product is delivered to the customer and title has passed. Revenue is based on invoice price less allowances for sales returns, cash discounts and other deductions.

**COST OF SALES AND DISTRIBUTION:** Cost of sales and distribution includes all costs associated with the manufacture and distribution of the Company's products including the costs of shipping and handling.

**ADVERTISING COSTS:** Advertising costs are expensed as incurred. Advertising expenses for fiscal years 2012, 2011 and 2010 were \$37.4 million, \$30.0 million and \$16.0 million, respectively.

**CASH AND CASH EQUIVALENTS:** Cash in excess of operating requirements is invested in money market accounts which are carried at cost (which approximates fair value). The Company

considers all highly liquid short-term investments with an original maturity of three months or less when purchased to be cash equivalents. Cash equivalents were \$31.8 million and \$46.8 million at April 30, 2012 and 2011, respectively.

**INVENTORIES:** Inventories are stated at lower of cost or market. Inventory costs are determined by the last-in, first-out (LIFO) method.

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

**PROPERTY, PLANT AND EQUIPMENT:** Property, plant and equipment is stated on the basis of cost less accumulated depreciation. Depreciation is provided by the straight-line method over the estimated useful lives of the related assets, which range from 15 to 30 years for buildings and improvements and 3 to 10 years for machinery and equipment. Assets under capital leases are amortized over the shorter of their estimated useful lives or the term of the related lease.

**IMPAIRMENT OF LONG-LIVED ASSETS:** The Company reviews its long-lived assets for impairment when events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. During fiscal years 2012, 2011 and 2010, the Company concluded no impairment existed, except for impairments related to restructuring activities.

**PROMOTIONAL DISPLAYS:** The Company invests in promotional displays in retail stores to demonstrate product features, product specifications, quality specifications and serve as a training

tool for retail kitchen designers. The Company invests in these long-lived productive assets to provide the aforementioned benefits. The Company's investment in promotional displays is carried at cost less applicable amortization. Amortization is provided by the straight-line method on an individual display basis over periods of 30 to 36 months (the estimated period of benefit). Promotional display amortization expense for fiscal years 2012, 2011 and 2010 was \$5.6 million, \$7.9 million and \$9.8 million, respectively, and is included in selling and marketing expenses.

**INCOME TAXES:** The Company accounts for deferred income taxes utilizing the asset and liability method, whereby deferred tax assets and liabilities are recognized based on the tax effects of temporary differences between the financial statement amounts and the tax basis of assets and liabilities, using enacted tax rates in effect for the year in which these items are expected to reverse. At each reporting date, the Company evaluates the need for a valuation allowance to adjust deferred tax assets and liabilities to an amount that more likely than not will be realized.

**PENSIONS:** The Company has two non-contributory defined benefit pension plans covering substantially all of the Company's employees. Both defined benefit pension plans were frozen effective April 30, 2012. The Company recognizes the overfunded or underfunded status of its defined benefit pension plans, measured as the difference between the fair value of plan assets and the benefit obligation, in its consolidated balance sheets. The Company also recognizes the actuarial gains and losses and the prior service costs, credits and transition costs as a component of other comprehensive income (loss), net of tax.

**STOCK-BASED COMPENSATION:** The Company recognizes stock-based compensation expense based on the grant date fair value over the requisite service period.

**RECENT ACCOUNTING PRONOUNCEMENTS:** In June 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-05, "Comprehensive Income (Topic 220): Presentation of Comprehensive Income," which requires an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous

statement of comprehensive income, or in two separate but consecutive statements. Additionally, ASU 2011-05 eliminates the option to present comprehensive income and its components as part of the statement of shareholders' equity. The ASU does not change the items that must be reported in other comprehensive income. ASU 2011-05 became effective for the Company beginning May 1, 2012.

In December 2011, the FASB issued ASU No. 2011-12, "Comprehensive Income (Topic 220): Deferral of the Effective Date of Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in ASU No. 2011-05." The amendments were made to allow FASB time to redeliberate whether to present on the face of the financial statements the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income. Companies are required to continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect before ASU 2011-05. All other requirements in ASU 2011-05 are not affected by ASU 2011-12.

**USE OF ESTIMATES:** The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during each reporting period. Actual results could differ from those estimates.

## NOTE B—CUSTOMER RECEIVABLES

The components of customer receivables were:

	APRIL 30	
(in thousands)	2012	2011
Gross customer receivables	\$34,572	\$ 33,039
Less:		
Allowance for doubtful accounts	(93)	(67)
Allowance for returns and discounts	(1,946)	(1,905)
Net customer receivables	\$32,533	\$31,067

## NOTE C—INVENTORIES

The components of inventories were:

(in thousands)	APRIL 30	
	2012	2011
Raw materials	\$ 9,412	\$ 9,275
Work-in-process	14,543	16,597
Finished goods	8,734	8,679
Total FIFO inventories	32,689	34,551
Reserve to adjust inventories to LIFO value	(10,349)	(10,080)
Total LIFO inventories	\$ 22,340	\$ 24,471

After tax income (losses) were impacted by \$125,000, \$34,000 and \$394,000 in fiscal years 2012, 2011 and 2010, respectively, as a result of liquidation of LIFO based inventories.

## NOTE D—PROPERTY, PLANT AND EQUIPMENT

The components of property, plant and equipment were:

(in thousands)	APRIL 30	
	2012	2011
Land	\$ 5,929	\$ 6,378
Buildings and improvements	65,750	84,047
Buildings and improvements—capital leases	11,202	20,356
Machinery and equipment	169,406	180,607
Machinery and equipment—capital leases	26,685	27,354
Construction in progress	2,908	1,144
	281,880	319,886
Less accumulated amortization and depreciation	(206,505)	(219,258)
Total	\$ 75,375	\$ 100,628

Amortization and depreciation expense on property, plant and equipment amounted to \$16.8 million, \$18.1 million and \$20.5 million in fiscal years 2012, 2011 and 2010, respectively. Accumulated amortization on capital leases included in the above table amounted to \$26.6 million and \$31.5 million as of April 30, 2012 and 2011, respectively.

## NOTE E—LOANS PAYABLE AND LONG-TERM DEBT

Maturities of long-term debt are as follows:

(in thousands)	FISCAL YEARS ENDING APRIL 30						TOTAL OUTSTANDING
	2013	2014	2015	2016	2017	2018 AND THEREAFTER	
Revolving credit facility	\$ —	\$ —	\$10,000	\$ —	\$ —	\$ —	\$10,000
Economic development loans	—	—	—	—	2,234	1,290	3,524
Term loans	328	348	370	393	411	2,008	3,858
Capital lease obligations	547	559	572	573	567	4,465	7,283
Total	\$ 875	\$ 907	\$ 10,942	\$ 966	\$ 3,212	\$ 7,763	\$ 24,665
Less current maturities							\$ 875
Total long-term debt							\$ 23,790

The Company's primary loan agreement is a \$35 million secured revolving credit facility which expires on May 29, 2014 with Wells Fargo Bank, N.A. (Wells Fargo). The Company incurs a fee for amounts not used under the revolving credit facility. Fees paid by the Company related to non-usage of its current and former credit facilities have been included in interest expense and were \$54,158, \$54,002 and \$83,424 for fiscal years 2012, 2011 and 2010, respectively. Pursuant to the terms of the Wells Fargo credit facility, at April 30, 2012 and 2011, \$7.1 million and \$14.4 million, respectively, of the Company's cash served as security for the Company's aggregate debt and other obligations to Wells Fargo and was classified as restricted.

An amendment to the revolving credit facility and modifications to related security arrangements completed on May 29, 2012 reduced the amount of cash and securities required to be held in certain of the Company's accounts with Wells Fargo as security from 100% to 50% of the Company's outstanding indebtedness and other obligations to Wells Fargo as of April 26, 2012. The Company's outstanding indebtedness and other obligations to Wells Fargo are now also secured by substantially all of the Company's assets. The Company can borrow up to \$35 million under the revolving credit facility; however, the Company's aggregate indebtedness and other obligations to Wells Fargo cannot exceed 200% of the collateral value of the Company's cash and specified investments held in the accounts pledged to Wells Fargo. As amended, the Wells Fargo line of credit bears interest at the London Interbank Offered Rate (LIBOR) (0.25% at April 30, 2012) plus 2.625%. Under the terms of the amended revolving credit facility effective May 29, 2012, the Company must: (1) maintain at the end of each fiscal quarter a ratio of total liabilities to tangible net worth not greater than 1.4 to 1.0; (2) maintain at the end of each fiscal quarter a ratio of cash flow to fixed charges of not less than 1.25 to 1.0 measured on a rolling four quarters; (3) maintain at the end of each calendar month an asset coverage ratio of not less than 1.47 to 1.0; and (4) comply with other customary affirmative and negative covenants.

The Company was in compliance with all covenants specified in the amended revolving credit facility as of April 30, 2012,

as follows: (1) the Company's ratio of total liabilities to tangible net worth at April 30, 2012 was 1.0 to 1.0; (2) cash flow to fixed charges for its most recent four quarters was 1.35 to 1.0; and (3) its asset coverage ratio as of April 30, 2012 was 4.89 to 1.0.

The credit facility does not limit the Company's ability to use unrestricted cash to pay dividends or repurchase its common stock as long as the Company is in compliance with these covenants.

In 2009, the Company entered into a loan agreement with the Board of County Commissioners of Garrett County as part of the Company's capital investment in land located in Garrett County, Maryland. This loan agreement is secured by a Deed of Trust on the property and bears interest at a fixed rate of 3%. The agreement defers principal and interest during the term of the obligation and forgives any outstanding balance at December 31, 2019, if the Company complies with certain employment levels. The outstanding balance as of April 30, 2012 and 2011 was \$1,290,000.

In 2005, the Company entered into two separate loan agreements that were amended in 2008 with the Maryland Economic Development Corporation and the County Commissioners of Allegany County as part of the Company's capital investment and operations at the Allegany County, Maryland site. The aggregate balance of these loan agreements was \$2,234,000 for both fiscal years ended April 30, 2012 and 2011, and expire at December 31, 2016, bearing interest at a fixed rate of 3% per annum. These loan agreements are secured by mortgages on the manufacturing facility constructed in Allegany County, Maryland. These loan agreements defer principal and interest during the term of the obligation and forgive any outstanding balance at December 31, 2016, if the Company complies with certain employment levels at the facility.

In 2002, the Company entered into a loan agreement with the Perry, Harlan, Leslie, Breathitt Regional Industrial Authority (a.k.a. Coalfields Regional Industrial Authority, Inc.) as part of the Company's capital investment and operations at the Hazard, Kentucky site. This debt facility is a \$6 million term loan, which expires November 13, 2017, bearing interest at a fixed rate of 2% per annum. It is secured by a mortgage on the manufacturing facility constructed in Hazard, Kentucky. The loan



requires annual debt service payments consisting of principal and interest with a fixed balloon payment of \$1.6 million at loan expiration. The outstanding amounts owed as of April 30, 2012 and 2011 were \$3,858,000 and \$4,165,000, respectively.

During 2012, the Company entered into two capitalized lease agreements in the aggregate amount of \$103,000 with First American Financial Bancorp related to financing computer equipment. Each lease has a term of 48 months and a fixed interest rate of 6.5%. The leases require quarterly rental payments. The aggregate outstanding amount for both leases as of April 30, 2012 was \$95,000.

In 2004, the Company entered into a lease agreement with the West Virginia Economic Development Authority as part of the Company's capital investment and operations at the South Branch plant located in Hardy County, West Virginia. This capital lease agreement is a \$10 million term obligation, which expires

June 30, 2024, bearing interest at a fixed rate of 2% per annum. The lease requires monthly rental payments. The outstanding amounts owed as of April 30, 2012 and 2011 were \$7,188,000 and \$7,700,000, respectively.

Certain of the Company's loan agreements limit the amount and type of indebtedness the Company can incur and require the Company to maintain specified financial ratios measured on a quarterly basis. In addition to the assets previously discussed, certain of the Company's property, plant and equipment are pledged as collateral under term loan agreements and capital lease arrangements. The Company was in compliance with all covenants contained in its loan agreements and capital leases at April 30, 2012.

Interest paid under the Company's loan agreements and capital leases during fiscal years 2012, 2011 and 2010 was \$453,000, \$467,000 and \$567,000, respectively.

## NOTE F—EARNINGS (NET LOSS) PER SHARE

The following table summarizes the computations of basic and diluted earnings (net loss) per share:

(in thousands, except per share amounts)	FISCAL YEARS ENDED APRIL 30		
	2012	2011	2010
Numerator used in basic and diluted earnings (net loss) per common share:			
Net loss	\$ (20,786)	\$ (20,018)	\$ (22,341)
Denominator:			
Denominator for basic earnings (net loss) per common share—weighted-average shares	14,344	14,252	14,146
Effect of dilutive securities:			
Stock options and restricted stock units	—	—	—
Denominator for diluted earnings (net loss) per common share—weighted-average shares and assumed conversions	14,344	14,252	14,146
Net loss per share			
Basic	\$ (1.45)	\$ (1.40)	\$ (1.58)
Diluted	\$ (1.45)	\$ (1.40)	\$ (1.58)

Potentially dilutive shares of 139,000, 90,000 and 20,000 issuable under the Company's securities have been excluded from the calculation of net loss per share for the fiscal years ended April 30, 2012, 2011 and 2010, respectively, as the effect would be anti-dilutive.

## NOTE G—STOCK-BASED COMPENSATION

The Company has two types of stock-based compensation awards in effect for its employees and directors. The Company has issued stock options since 1986 and issued initial grants of restricted stock units (RSUs) during fiscal 2010. Total compensation expense related to stock-based awards for the fiscal years ended April 30, 2012, 2011 and 2010, was \$3.4 million, \$4.0 million and \$4.4 million, respectively. The Company recognizes stock-based compensation costs net of an estimated forfeiture rate for those shares expected to vest on a straight-line basis over the requisite service period of the award. The Company estimates the forfeiture rates based upon its historical experience.

### STOCK INCENTIVE PLANS

At April 30, 2012, the Company had stock option and RSU awards outstanding under four different plans: (1) 1999 stock option plan for employees; (2) amended and restated 2004 stock incentive plan for employees; (3) 2006 non-employee directors equity ownership plan; and (4) 2011 non-employee directors equity ownership plan. As of April 30, 2012, there were 1,980,378 shares of common stock available for future stock-based compensation awards under the Company's stock incentive plans.

### METHODOLOGY ASSUMPTIONS

For purposes of valuing stock option grants, the Company has identified two employee groups and one non-employee director group, based upon observed option exercise patterns. The Company uses the Black-Scholes option-pricing model to value the Company's stock options for each of the three groups. Using this option-pricing model, the fair value of each stock option award

is estimated on the date of grant. The fair value of the Company's stock option awards is expensed on a straight-line basis over the vesting period of the stock options. The expected volatility assumption is based on the historical volatility of the Company's stock over a term equal to the expected term of the option granted. The expected term of stock option awards granted is derived from the Company's historical exercise experience and represents the period of time that stock option awards granted are expected to be outstanding for each of the three identified groups. The expected term assumption incorporates the contractual term of an option grant, which is generally ten years for employees and from four to ten years for non-employee directors, as well as the vesting period of an award, which is typically three years. The risk-free interest rate is based on the implied yield on a U.S. Treasury constant maturity with a remaining term equal to the expected term of the option granted.

For purposes of determining the fair value of RSUs, the Company uses the closing stock price of its common stock as reported on the NASDAQ Global Select Market on the date of grant, reduced by the discounted value of future expected dividend payments during the vesting period, since the recipients are not entitled to dividends during the vesting period. The fair value of the Company's RSU awards is expensed on a straight-line basis over the vesting period of the RSUs to the extent the Company believes it is probable the related performance criteria, if any, will be met. The risk-free interest rate is based on the implied yield on a U.S. Treasury constant maturity with a remaining term equal to the vesting period of the RSU grant.

The weighted-average assumptions and valuation of the Company's stock options were as follows:

	FISCAL YEARS ENDED APRIL 30		
	2012	2011	2010
Weighted-average fair value of grants	\$ 5.43	\$ 8.87	\$ 16.05
Expected volatility	35.1%	49.1%	82.8%
Expected term in years	6.0	6.2	6.0
Risk-free interest rate	2.24%	2.64%	3.59%
Expected dividend yield	2.0%	1.7%	1.5%

## STOCK OPTION ACTIVITY

Stock options granted and outstanding under each of the Company's plans vest evenly over a three-year period and have contractual terms ranging from four to ten years. The exercise price of all stock options granted is equal to the fair market value of the Company's common stock on the option grant date.

The following table presents a summary of the Company's stock option activity for the fiscal years ended April 30, 2012, 2011 and 2010 (remaining contractual term in years and exercise prices are weighted-averages):

	NUMBER OF OPTIONS	REMAINING CONTRACTUAL TERM	EXERCISE PRICE	AGGREGATE INTRINSIC VALUE (in thousands)
Outstanding at April 30, 2009	2,328,769	6.1	\$ 28.79	\$629
Granted	120,000	9.1	24.73	—
Exercised	(103,700)	—	16.59	551
Cancelled or expired	(239,554)	—	29.26	10
Outstanding at April 30, 2010	2,105,515	5.6	\$ 29.03	\$295
Granted	115,000	9.1	20.87	—
Exercised	(27,000)	—	14.80	216
Cancelled or expired	(588,159)	—	29.58	—
Outstanding at April 30, 2011	1,605,356	5.7	\$ 28.48	\$ 29
Granted	130,000	9.1	18.16	—
Exercised	(1,200)	—	14.93	6
Cancelled or expired	(109,396)	—	28.82	—
Outstanding at April 30, 2012	1,624,760	5.1	\$ 27.64	\$ —
Vested and expected to vest in the future at April 30, 2012	1,593,505	5.0	\$ 27.78	\$ —
Exercisable at April 30, 2012	1,389,756	4.5	\$ 28.93	\$ —

The aggregate intrinsic value in the previous table of the outstanding options on April 30, 2012 represents the total pre-tax intrinsic value (the excess, if any, of the Company's closing stock price on the last trading day of fiscal 2012 over the exercise price, multiplied by the number of in-the-money options) of the shares of the Company's common stock that would have been received by the option holders had all option holders exercised their options on April 30, 2012. This amount changes based upon the fair market value of the Company's common stock. The total fair value of options vested for the fiscal years ended April 30, 2012, 2011 and 2010 was \$2.4 million, \$3.3 million and \$4.8 million, respectively.

As of April 30, 2012, there was \$0.9 million of total unrecognized compensation expense related to unvested stock options granted under the Company's stock-based compensation plans. This expense is expected to be recognized over a weighted-average period of 1.6 years.

Cash received from option exercises for the fiscal years ended April 30, 2012, 2011 and 2010, was an aggregate of \$0.0 million, \$0.4 million and \$0.7 million, respectively. The actual tax benefit realized for the tax deduction from option exercises of stock option awards totaled \$3,000, \$84,000 and \$215,000 for the fiscal years ended April 30, 2012, 2011 and 2010, respectively.

The following table summarizes information about stock options outstanding at April 30, 2012 (remaining lives in years and exercise prices are weighted-averages):

OPTION PRICE PER SHARE	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
	OPTIONS	REMAINING LIFE	EXERCISE PRICE	OPTIONS	EXERCISE PRICE
\$18.16–\$18.16	125,000	9.1	\$ 18.16	—	\$ —
\$20.16–\$26.85	725,600	5.6	23.99	615,596	24.32
\$28.97–\$34.63	751,548	4.0	32.31	751,548	32.31
\$38.37–\$42.17	22,612	2.5	41.43	22,612	41.43
	1,624,760			1,389,756	

#### RESTRICTED STOCK UNIT ACTIVITY:

The Company's RSUs granted to employees cliff-vest over a three-year period from date of grant, while RSUs granted to non-employee directors vest daily over a two-year period from date of grant. Directors were granted service-based RSUs only, while employees were awarded both service-based and performance-based RSUs (PBRsUs) in fiscal years 2012, 2011 and

2010. The PBRsUs granted in fiscal 2012 are earned based on achievement of a number of goals pertaining to the Company's operational and financial performance during the performance period of fiscal 2012. Employees who satisfy the vesting criteria will receive a proportional amount of PBRsUs based upon the Compensation Committee's assessment of the Company's achievement of the performance criteria.

The following table contains a summary of the Company's RSU activity for the fiscal years ended April 30, 2012, 2011 and 2010:

	PERFORMANCE-BASED RSUs	SERVICE-BASED RSUs	TOTAL RSUs	WEIGHTED AVERAGE GRANT DATE FAIR VALUE
Awarded in fiscal 2010	128,325	64,425	192,750	\$ 22.00
Less forfeited	(10,425)	(3,925)	(14,350)	\$ 22.10
Issued and outstanding, April 30, 2010	117,900	60,500	178,400	\$ 21.99
Awarded in fiscal 2011	125,475	61,825	187,300	\$ 19.25
Less cancelled due to non-achievement of performance goals	(63,145)	—	(63,145)	\$ 22.10
Less settled in common stock	(364)	(260)	(624)	\$ 22.10
Less forfeited	(5,296)	(2,965)	(8,261)	\$ 21.96
Issued and outstanding, April 30, 2011	174,570	119,100	293,670	\$ 20.25
Awarded in fiscal 2012	134,250	64,750	199,000	\$ 17.00
Less cancelled due to non-achievement of performance goals	(48,870)	—	(48,870)	\$ 19.81
Less settled in common stock	(666)	(17,951)	(18,617)	\$ 21.15
Less forfeited	(22,208)	(10,171)	(32,379)	\$ 19.30
Issued and outstanding, April 30, 2012	237,076	155,728	392,804	\$ 18.75

As of April 30, 2012, there was \$23 million of total unrecognized compensation expense related to unvested RSUs granted under the Company's stock-based compensation plans. This expense is expected to be recognized over a weighted-average period of 1.7 years.

For the fiscal years ended April 30, 2012, 2011 and 2010 stock-based compensation expense was allocated as follows:

(in thousands)	2012	2011	2010
Cost of sales and distribution	\$ 531	\$ 735	\$ 909
Selling and marketing expenses	715	842	1,049
General and administrative expenses	2,167	2,418	2,434
Stock-based compensation expense, before income taxes	<b>\$ 3,413</b>	<b>\$ 3,995</b>	<b>\$ 4,392</b>

## NOTE H—EMPLOYEE BENEFIT AND RETIREMENT PLANS

### EMPLOYEE STOCK OWNERSHIP PLAN

In fiscal 1990, the Company instituted the American Woodmark Investment Savings Stock Ownership Plan. Under this plan, all employees who are at least 18 years old and have been employed by the Company for at least six consecutive months are eligible to receive Company stock through a discretionary profit-sharing contribution and a 401(k) matching contribution based upon the employee's contribution to the plan.

The Company did not make, or recognize any expenses for, discretionary profit-sharing contributions in fiscal years 2012, 2011 and 2010.

During fiscal 2012, the Company matched 401(k) contributions in the form of Company stock at 50% of an employee's annual contribution to the plan up to 4% of base earnings for an effective maximum Company contribution of 2% of base earnings. As part of the realignment of its retirement plans, the Company will match 401(k) contributions in the form of Company stock at 100% of an employee's annual contribution to the plan up to 4% of base earnings beginning in fiscal 2013. The expense for 401(k) matching contributions for this plan was \$1,284,000, \$1,272,000, and \$1,284,000, in fiscal years 2012, 2011 and 2010, respectively.

### PENSION BENEFITS

The Company has two defined benefit pension plans covering virtually all of the Company's employees. These plans provide defined benefits based on years of service and final average earnings (for salaried employees) or benefit rate (for hourly employees).

In December 2011, the Company's Board of Directors approved the freezing of both of the Company's defined benefit pension plans, effective April 30, 2012. As a result, the Company re-measured its pension liability, updating the pension measurement assumptions, and recorded pension curtailment charges of \$0.3 million.

Included in accumulated other comprehensive loss at April 30, 2012 is \$45.3 million (\$27.6 million net of tax) related to net unrecognized actuarial losses and unrecognized prior service costs that have not yet been recognized in net periodic pension benefit costs. The Company expects to recognize \$0.9 million (\$0.6 million net of tax) in net actuarial losses in net periodic pension benefit costs during fiscal 2013. The Company uses an April 30 measurement date for its benefit plans.

The following provides a reconciliation of benefit obligations, plan assets and funded status of the Company's non-contributory defined benefit pension plans as of April 30:

(in thousands)	PENSION BENEFITS	
	2012	2011
<b>CHANGE IN PROJECTED BENEFIT OBLIGATION</b>		
Projected benefit obligation at beginning of year	\$ 120,059	\$ 107,441
Service cost	5,305	4,717
Interest cost	6,533	6,268
Actuarial losses	26,318	4,530
Benefits paid	(3,293)	(2,897)
Curtailments	(18,658)	—
Projected benefit obligation at end of year	\$ 136,264	\$ 120,059
<b>CHANGE IN PLAN ASSETS</b>		
Fair value of plan assets at beginning of year	\$ 83,334	\$ 78,376
Actual return on plan assets	2,805	7,855
Company contributions	2,871	—
Benefits paid	(3,293)	(2,897)
Fair value of plan assets at end of year	\$ 85,717	\$ 83,334
Funded status of the plans	\$ (50,547)	\$ (36,726)
Unamortized prior service cost	—	384
Unrecognized net actuarial loss	45,255	35,578
Accrued benefit cost	\$ (5,292)	\$ (764)
<b>AMOUNTS RECOGNIZED IN THE CONSOLIDATED BALANCE SHEETS</b>		
Defined benefit pension liabilities	\$ (50,547)	\$ (36,726)
Accumulated other comprehensive loss	45,255	35,962
Net amount recognized	\$ (5,292)	\$ (764)

The accumulated benefit obligation for all pension plans was \$136,264,000 and \$106,600,000 at April 30, 2012 and 2011, respectively.

(in thousands)	PENSION BENEFITS		
	2012	2011	2010
<b>COMPONENTS OF NET PERIODIC PENSION BENEFIT COST</b>			
Service cost	\$ 5,305	\$ 4,717	\$ 3,321
Interest cost	6,533	6,268	5,619
Expected return on plan assets	(6,533)	(6,159)	(5,282)
Amortization of prior service cost	53	85	115
Curtailment loss	331	—	—
Recognized net actuarial loss	1,710	1,996	1,256
Pension benefit cost	\$ 7,399	\$ 6,907	\$ 5,029

**ACTUARIAL ASSUMPTIONS:** The discount rate at April 30 was used to measure the year-end benefit obligations and the earnings effects for the subsequent year. Actuarial assumptions used to determine benefit obligations and earnings effects for the pension plans follow:

	FISCAL YEARS ENDED APRIL 30	
	2012	2011
<b>WEIGHTED-AVERAGE ASSUMPTIONS TO DETERMINE BENEFIT OBLIGATIONS</b>		
Discount rate	4.66%	5.66%
Rate of compensation increase	*	4.0%

\*The rate of compensation increase is not applicable for periods beyond April 30, 2012 because the Company froze its pension plans.

	FISCAL YEARS ENDED APRIL 30		
	2012	2011	2010
<b>WEIGHTED-AVERAGE ASSUMPTIONS TO DETERMINE NET PERIODIC PENSION BENEFIT COST</b>			
Discount rate	5.66%/4.76% <sup>1</sup>	5.91%	7.16%
Expected return on plan assets	8.0%	8.0%	8.0%
Rate of compensation increase	4.0%	4.0%	4.0%

<sup>1</sup>The discount rate was 5.66% from May 1, 2011 to December 31, 2011 and 4.76% from January 1, 2012 to April 30, 2012. The rate changed during fiscal 2012 as a result of the required re-measurement of the Company's pension liability upon its decision to freeze its pension plans.

In fiscal 2012, the Company determined the discount rate by referencing the Aon Hewitt AA Bond Universe Yield Curve. In fiscal 2011, the Company referred to the Hewitt Above Median Yield Curve in establishing the discount rate. This change was caused by the merger of Aon and Hewitt and the corresponding elimination of the Hewitt Above Median Yield Curve. The Company believes that using a yield curve approach accurately reflects changes in the present value of liabilities over time since each cash flow is discounted at the rate at which it could effectively be settled.

In developing the expected long-term rate of return assumption for the assets of the defined benefit pension plans, the Company evaluated input from its third party pension plan asset managers, including their review of asset class return expectations and long-term inflation assumptions. The Company also considered the related historical ten-year average asset returns at April 30, 2012.

The Company amortizes experience gains and losses, as well as the effects of changes in actuarial assumptions and plan provisions, over a period no longer than the average future working lifetime of the active participants.

**CONTRIBUTIONS:** The Company funds the pension plans in amounts sufficient to meet minimum funding requirements set forth in employee benefit and tax laws plus additional amounts the Company deems appropriate.

The Company expects to contribute \$7.4 million to its pension plans in fiscal 2013. The Company made contributions of \$2.9 million to its pension plans in fiscal 2012. The Company was not required to make, and did not make, any contributions to the pension plans in fiscal 2011.

**ESTIMATED FUTURE BENEFIT PAYMENTS:** The following benefit payments, which reflect expected future service, are expected to be paid:

FISCAL YEAR	BENEFIT PAYMENTS (in thousands)
2013	\$ 3,846
2014	4,261
2015	4,674
2016	5,103
2017	5,479
Years 2018–2022	33,489

PLAN ASSETS: Pension assets by major category of plan assets and the type of fair value measurement as of April 30, 2012 and 2011 are presented in the following tables:

FAIR VALUE MEASUREMENTS AT APRIL 30, 2012				
(in thousands)	TOTAL	QUOTED PRICES IN ACTIVE MARKETS (LEVEL 1)	SIGNIFICANT OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
Cash Equivalents	\$ 273	\$273	\$ —	\$ —
<b>Equity Collective Funds:<sup>1</sup></b>				
Equity Index Growth Fund	17,094	—	17,094	—
Equity Index Value Fund	16,850	—	16,850	—
Small Cap Index Fund	5,002	—	5,002	—
International Equity Fund	3,315	—	3,315	—
<b>Fixed Income Collective Funds:<sup>1</sup></b>				
Core Fixed Income Fund	25,824	—	25,824	—
Capital Preservation Fund	17,359	—	17,359	—
<b>Total</b>	<b>\$ 85,717</b>	<b>\$273</b>	<b>\$ 85,444</b>	<b>\$ —</b>

FAIR VALUE MEASUREMENTS AT APRIL 30, 2011				
(in thousands)	TOTAL	QUOTED PRICES IN ACTIVE MARKETS (LEVEL 1)	SIGNIFICANT OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
Cash Equivalents	\$ 248	\$248	\$ —	\$ —
<b>Equity Collective Funds:<sup>1</sup></b>				
Equity Index Growth Fund	16,957	—	16,957	—
Equity Index Value Fund	16,773	—	16,773	—
Small Cap Index Fund	5,119	—	5,119	—
International Equity Fund	3,490	—	3,490	—
<b>Fixed Income Collective Funds:<sup>1</sup></b>				
Core Fixed Income Fund	23,499	—	23,499	—
Capital Preservation Fund	17,248	—	17,248	—
<b>Total</b>	<b>\$ 83,334</b>	<b>\$248</b>	<b>\$ 83,086</b>	<b>\$ —</b>

<sup>1</sup>The Collective Trust Funds are valued by applying each plan's ownership percentage in the fund to the fund's net assets at fair value at the valuation date.



**INVESTMENT STRATEGY:** The Company has established formal investment policies for the assets associated with its pension plans. The objectives of the investment strategies include preservation of capital and long-term growth of capital while avoiding excessive risk. Target allocation percentages are established at an asset class level by the Pension Committee. Target allocation ranges are guidelines, not limitations, and occasionally the Pension Committee will approve allocations above or below a target range.

During a period of uncertainty in the equity and fixed income markets, the Pension Committee may suspend the Target Asset Allocation and manage the investment mix as it sees reasonable, prudent and in the best interest of the plans to better protect the value of the plan assets.

The Company's pension plans' weighted-average asset allocations at April 30, 2012 and 2011, by asset category, were as follows:

APRIL 30	PLAN ASSET ALLOCATION		2011 ACTUAL
	2012 TARGET	2012 ACTUAL	
Equity Funds	50.0%	49.5%	50.8%
Fixed Income Funds	50.0%	50.5%	49.2%
Total	100.0%	100.0%	100.0%

Within the broad categories outlined in the preceding table, the Company has targeted the following specific allocations as a percentage of total funds invested: 20% Capital Preservation, 30% Bond, 20% Large Capital Growth, 20% Large Capital Value, 6% Small Capital and 4% International.

## NOTE I—INCOME TAXES

Income tax expense was comprised of the following:

(in thousands)	FISCAL YEARS ENDED APRIL 30		
	2012	2011	2010
<b>CURRENT EXPENSE (BENEFIT)</b>			
Federal	\$ (36)	\$ (2,368)	\$ (8,260)
State	(176)	611	(654)
Total current expense (benefit)	(212)	(1,757)	(8,914)
<b>DEFERRED BENEFIT</b>			
Federal	(10,115)	(6,065)	(4,273)
State	(2,175)	(2,120)	(1,527)
Total deferred benefit	(12,290)	(8,185)	(5,800)
Total benefit from continuing operations	(12,502)	(9,942)	(14,714)
Other comprehensive loss	(3,624)	(294)	(4,343)
Total comprehensive income tax benefit	\$ (16,126)	\$ (10,236)	\$ (19,057)

The Company's effective income tax rate varied from the federal statutory rate as follows:

	FISCAL YEARS ENDED APRIL 30		
	2012	2011	2010
Federal statutory rate	35.0%	35.0%	35.0%
Effect of:			
Tax basis adjustment	(1.7)%	(3.3)%	0.0%
General business credits	0.3	0.1	1.0
Meals and entertainment	(0.8)	(0.8)	(0.7)
Other	(0.3)	(0.9)	0.1
Total	(2.5)%	(4.9)%	0.4%
Effective federal income tax rate	32.5%	30.1%	35.4%
State income taxes, net of federal tax effect	5.1	3.1	4.3
Effective income tax rate	37.6%	33.2%	39.7%

Income taxes paid were \$229,000, \$235,000 and \$309,000 for fiscal years 2012, 2011 and 2010, respectively.

The significant components of deferred tax assets and liabilities were as follows:

(in thousands)	APRIL 30	
	2012	2011
Deferred tax assets:		
Pension benefits	\$ 18,238	\$ 13,659
Accounts receivable	3,103	3,259
Product liability	735	678
Employee benefits	10,878	9,632
Net operating loss carryforward	6,686	4,074
Income tax credits	747	—
Depreciation	896	—
Other	772	352
Total	42,055	31,654
Deferred tax liabilities:		
Depreciation	—	4,338
Inventory	—	479
Total	—	4,817
Net deferred tax asset	\$ 42,055	\$ 26,837

The net operating loss carryforward value for April 30, 2012 contained in the above table includes an amount relating to a federal net operating loss carryforward of \$14.6 million, of which \$2.7 million will expire on April 30, 2031 and \$11.9 million will expire on April 30, 2032, as well as amounts pertaining to various state net operating loss carryforwards which carry various expiration dates.

Management believes it is more likely than not that the Company will realize its gross deferred tax assets due to expected future taxable income and reversal of taxable temporary differences.

## NOTE J—ACCOUNTING FOR UNCERTAINTY IN INCOME TAXES

The Company accounts for its income tax uncertainties in accordance with ASC Topic 740, "Income Taxes." The Company had no liability relating to uncertain tax positions for the years ended April 30, 2012 and 2011.

With minor exceptions, the Company is currently open to audit by tax authorities for tax years ending April 30, 2009 through April 30, 2011. The Company is currently not under federal audit.

## NOTE K—COMMITMENTS AND CONTINGENCIES

### LEGAL MATTERS

The Company is involved in suits and claims in the normal course of business, including without limitation product liability and general liability claims, and claims pending before the Equal Employment Opportunity Commission. On at least a quarterly basis, the Company consults with its legal counsel to ascertain the reasonable likelihood that such claims may result in a loss. As required by ASC Topic 450, "Contingencies" (ASC 450), the Company categorizes the various suits and claims into three categories according to their likelihood for resulting in potential loss: those that are probable, those that are reasonably possible and those that are deemed to be remote. The Company accounts for these loss contingencies in accordance with ASC 450. Where losses are deemed to be probable and estimable, accruals are made. Where losses are deemed to be reasonably possible or remote, a range of loss estimates is determined and considered for disclosure. Where no loss estimate range can be made, the Company and its counsel perform a worst-case estimate. In determining these loss range estimates, the Company considers known values of similar claims and consultation with independent counsel.

The Company believes that the aggregate range of loss stemming from the various suits and asserted and unasserted claims which were deemed to be either probable or reasonably possible were not material as of April 30, 2012.

## PRODUCT WARRANTY

The Company estimates outstanding warranty costs based on the historical relationship between warranty claims and revenues. The warranty accrual is reviewed monthly to verify that it properly reflects the remaining obligation based on the anticipated expenditures over the balance of the obligation period. Adjustments are made when actual warranty claim experience differs from estimates. Warranty claims are generally made within three months of the original shipment date.

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

(in thousands)	2012	2011
<b>PRODUCT WARRANTY RESERVE</b>		
Beginning balance	\$ 1,738	\$ 1,582
Accrual for warranties	8,605	7,460
Settlements	(8,458)	(7,304)
Ending balance at fiscal year end	\$ 1,885	\$ 1,738

### LEASE AGREEMENTS

The Company leases certain office buildings, manufacturing buildings, service centers and equipment. Total rental expenses under operating leases amounted to approximately \$7,206,000, \$7,518,000 and \$7,514,000, in fiscal years 2012, 2011 and 2010, respectively. Minimum rental commitments as of April 30, 2012, under noncancelable leases with terms in excess of one year are as follows:

FISCAL YEAR	OPERATING (in thousands)	CAPITAL (in thousands)
2013	\$ 3,665	\$ 692
2014	3,256	692
2015	2,950	692
2016	2,626	681
2017	1,177	662
2018 (and thereafter)	55	4,800
	\$ 13,729	\$ 8,219
Less amounts representing interest (between 2% and 6.5%)		(936)
Total obligations under capital leases		\$ 7,283

## RELATED PARTIES

During fiscal 1985, prior to becoming a publicly held corporation, the Company entered into an agreement with a partnership which includes certain former executive officers and current significant shareholders of the Company, including one current member of the Board of Directors of the Company, to lease the Company's headquarters building which was constructed and is owned by the partnership. The Company has subsequently renewed this lease in accordance with Company policy and procedures which includes approval by the Board of Directors. As of April 30, 2012, the Company is in the second year of the latest five-year renewal period, which expires in 2016. Under this agreement, rental expense was \$460,000, \$460,000 and \$455,000, in fiscal years 2012, 2011 and 2010, respectively. Rent during the remaining term of approximately \$1,857,000 (included in the preceding table) is subject to annual increases of 2% beginning with the third year of the lease in fiscal 2013.

## NOTE L—CREDIT CONCENTRATION

Credit is extended to customers based on an evaluation of each customer's financial condition and generally collateral is not required. The Company's customers operate in the new home construction and home remodeling markets.

The Company maintains an allowance for bad debt based upon management's evaluation and judgment of potential net loss. The allowance is estimated based upon historical experience, the effects of current developments and economic conditions and of each customer's current and anticipated financial condition. Estimates and assumptions are periodically reviewed and updated. Any resulting adjustments to the allowance are reflected in current operating results.

At April 30, 2012, the Company's two largest customers, Customers A and B, represented 26.5% and 30.7% of the Company's gross customer receivables, respectively. At April 30, 2011, Customers A and B represented 29.7% and 40.2% of the Company's gross customer receivables, respectively.

The following table summarizes the percentage of sales to the Company's two largest customers for the last three fiscal years:

	PERCENT OF ANNUAL GROSS SALES		
	2012	2011	2010
Customer A	41.5	38.7	35.1
Customer B	26.0	34.2	36.3

## NOTE M—FAIR VALUE MEASUREMENTS

The Company utilizes the hierarchy of fair value measurements to classify certain of its assets and liabilities based upon the following definitions:

**LEVEL 1**— Investments with quoted prices in active markets for identical assets or liabilities. The Company's cash equivalents are invested in money market funds, mutual funds and United States Treasury instruments. The Company's mutual fund investment assets represent contributions made and invested on behalf of the Company's named executive officers in a supplementary employee retirement plan.

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

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

The following table summarizes the fair value of assets that are recorded in the Company's consolidated financial statements as of April 30, 2012 and 2011 at fair value on a recurring basis:

(in thousands)	FAIR VALUE MEASUREMENTS AS OF APRIL 30, 2012		
	LEVEL 1	LEVEL 2	LEVEL 3
<b>ASSETS:</b>			
Money market funds	\$38,874	\$ —	\$ —
Mutual funds	1,357	—	—
Total assets at fair value	\$40,231	\$ —	\$ —

(in thousands)	FAIR VALUE MEASUREMENTS AS OF APRIL 30, 2011		
	LEVEL 1	LEVEL 2	LEVEL 3
<b>ASSETS:</b>			
Money market funds	\$61,226	\$ —	\$ —
Mutual funds	1,574	—	—
Total assets at fair value	\$62,800	\$ —	\$ —

The fair value measurement of assets held by the Company's defined benefit pension plans is discussed in Note H.

## NOTE N—RESTRUCTURING CHARGES

In the third quarter of fiscal 2012, the continuing impact of the housing economy's lengthy downturn caused the Company to announce a restructuring plan ("2012 Restructuring Plan") that committed to the closing of two of the Company's manufacturing plants located in Hardy County, West Virginia and Hazard, Kentucky, offering its previously idled plant in Tahlequah, Oklahoma for sale, and realigning its retirement program, including freezing the Company's defined benefit pension plans. Operations ceased in Hazard in April 2012 and in Hardy County in May 2012. The 2012 Restructuring Plan was adopted to reduce costs, increase the Company's capacity utilization rates and decrease overhead costs. As a result of the 2012 Restructuring Plan, the Company expects to incur total pre-tax exit costs of \$16.3 million related to this initiative, including severance and separation costs of \$4.7 million, pension curtailments of \$0.3 million, and \$11.3 million for equipment, inventory, and facilities-related expenses.

During fiscal 2012, the Company recognized a total of \$15.9 million in restructuring costs related to these initiatives, including severance and separation costs of \$4.4 million, pension curtailment costs of \$0.3 million, building impairment charges of

\$7.7 million, equipment impairment charges of \$2.2 million, facilities-related expenses of \$0.2 million, professional fees of \$0.1 million, and \$1.0 million related to inventory at these facilities. The Company expects to incur most of its remaining plant closure costs during the first quarter of fiscal 2013.

A reserve for restructuring charges in the amount of \$2.8 million is included in the Company's consolidated balance sheet as of April 30, 2012 which relates to employee termination costs accrued but not yet paid. Below is the summary of the restructuring reserve balance as of April 30, 2012:

(in thousands)	
<b>2012 RESTRUCTURING PLAN</b>	
Restructuring reserve balance as of April 30, 2011	\$ —
Additions	4,353
Payments	(1,536)
Reserve balance as of April 30, 2012	\$ 2,817

In the fourth quarter of fiscal 2009, the Company announced a restructuring plan ("2009 Restructuring Plan") to close two of its manufacturing plants, located in Berryville, Virginia and

Moorefield, West Virginia and suspend operations in a third manufacturing plant located in Tahlequah, Oklahoma. These closures were completed during the first quarter of fiscal 2010. These initiatives were intended to increase the Company's capacity utilization rates and decrease overhead costs. In addition to these initiatives, the Company made other staffing reductions during the fourth quarter of fiscal 2009.

During fiscal years 2012, 2011 and 2010, the Company recognized total pre-tax restructuring charges for both the 2012 Restructuring Plan and the 2009 Restructuring Plan of \$16.3 million, \$62,000 and \$2.8 million, respectively. The Company recognized recurring operating costs for the facilities closed as part of the 2009 Restructuring Plan of \$0.5 million in fiscal 2012. The Company will continue to incur costs related to its closed and unsold plants until they are sold.

The Company has a total of three manufacturing plants classified as held for sale; one plant that was idled in 2009, plus the two manufacturing plants included in the 2012 Restructuring Plan. During the fourth quarter of fiscal 2012, the Company sold its closed plant located in Moorefield, West Virginia and recognized a \$0.1 million loss on the sale. The loss was included as a restructuring charge. During fiscal 2012, the Company recorded impairment charges of \$7.9 million relating to two of the three plants that are included as held for sale and the property that was sold during the fourth quarter. The Company believes that the remaining \$7.3 million net book value of the properties classified as held for sale is fully recoverable. These assets are included in Other Assets on the Company's balance sheet at April 30, 2012.

## NOTE O—QUARTERLY FINANCIAL DATA (UNAUDITED)

FISCAL 2012	7/31/11	10/31/11	1/31/12	4/30/12
(in thousands, except per share amounts)				
Net sales	\$ 131,199	\$ 128,418	\$ 119,976	\$ 136,221
Gross profit	18,407	16,114	14,588	17,366
Loss before income taxes	(3,908)	(4,523)	(15,653)	(9,204)
Net loss	(2,716)	(2,976)	(9,114)	(5,980)
Loss per share				
Basic	\$ (0.19)	\$ (0.21)	\$ (0.63)	\$ (0.42)
Diluted	\$ (0.19)	\$ (0.21)	\$ (0.63)	\$ (0.42)
FISCAL 2011	7/31/10	10/31/10	1/31/11	4/30/11
(in thousands, except per share amounts)				
Net sales	\$ 109,303	\$ 107,613	\$ 111,443	\$ 124,230
Gross profit	14,387	9,816	12,164	16,384
Loss before income taxes	(5,535)	(11,958)	(9,309)	(3,158)
Net loss	(3,418)	(7,384)	(5,828)	(3,388)
Loss per share				
Basic	\$ (0.24)	\$ (0.52)	\$ (0.41)	\$ (0.24)
Diluted	\$ (0.24)	\$ (0.52)	\$ (0.41)	\$ (0.24)

# report of independent registered public accounting firm

## THE BOARD OF DIRECTORS AND SHAREHOLDERS OF AMERICAN WOODMARK CORPORATION:

We have audited the accompanying consolidated balance sheets of American Woodmark Corporation and subsidiary (the Company), as of April 30, 2012 and 2011, and the related consolidated statements of operations, shareholders' equity and comprehensive loss, and cash flows for each of the years in the three year period ended April 30, 2012. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects the financial position of American Woodmark Corporation as of April 30, 2012 and 2011, and the results of their operations and their cash flows for each of the years in the three year period ended April 30, 2012, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of April 30, 2012, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated June 29, 2012 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

**KPMG LLP**

Richmond, Virginia  
June 29, 2012

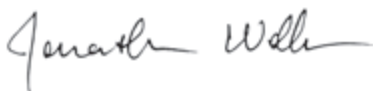
# management's

## report on internal control over financial reporting

Management has responsibility for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Management has assessed the effectiveness of the Company's internal control over financial reporting as of April 30, 2012. In making its assessment, Management has utilized the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control—Integrated Framework. Management concluded that based on its assessment, American Woodmark Corporation's internal control over financial reporting was effective as of April 30, 2012. The Company's internal control over financial reporting as of April 30, 2012, has been audited by KPMG LLP, an independent registered public accounting firm, as stated in their report, which appears in this Annual Report to Shareholders.



**Kent B. Guichard**  
Chairman and Chief Executive Officer



**Jonathan H. Wolk**  
Senior Vice President and Chief Financial Officer



# report

## of independent registered public accounting firm— internal control over financial reporting

### THE BOARD OF DIRECTORS AND SHAREHOLDERS OF AMERICAN WOODMARK CORPORATION:

We have audited American Woodmark Corporation's (the Company's) internal control over financial reporting as of April 30, 2012, based on criteria established in Internal Control—Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that

transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of April 30, 2012, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as of April 30, 2012 and 2011, and the related consolidated statements of operations, shareholders' equity and comprehensive loss, and cash flows for each of the years in the three-year period ended April 30, 2012 and our report dated June 29, 2012 expressed an unqualified opinion on those consolidated financial statements.

**KPMG LLP**

Richmond, Virginia  
June 29, 2012

# stock performance graph

Set forth below is a graph comparing the five-year cumulative total shareholder return, including reinvestment of dividends, from investing \$100 on May 1, 2007 through April 30, 2012 in American Woodmark Corporation common stock, the Russell 2000 Index and the S&P Household Durables Index:

