MASONITE INTERNATIONAL CORP
Form 10-Q
August 09, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended July 1, 2018
or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____
Commission File Number: 001-11796

Masonite International Corporation
(Exact name of registrant as specified in its charter)

British Columbia, Canada	98-0377314
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2771 Rutherford Road
Concord, Ontario L4K 2N6 Canada
(Address of principal executive offices)
(800) 895-2723
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	x	Accelerated filer	o
Non-accelerated filer	o (Do not check if a smaller reporting company)	Smaller reporting company	o
Emerging growth company	o		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:
The registrant had outstanding 27,591,331 shares of Common Stock, no par value, as of August 6, 2018.

MASONITE INTERNATIONAL CORPORATION
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July 1, 2018

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of the federal securities laws, including, without limitation, statements concerning the conditions in our industry, our operations, our economic performance and financial condition, including, in particular, statements relating to our business and growth strategy and product development efforts under "Management's Discussion and Analysis of Financial Condition and Results of Operations." Forward-looking statements include all statements that do not relate solely to historical or current facts and can be identified by the use of words such as "may," "might," "will," "should," "estimate," "project," "plan," "anticipate," "expect," "intend," "outlook," "believe" and other similar expressions. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of their dates. These forward-looking statements are based on estimates and assumptions by our management that, although we believe to be reasonable, are inherently uncertain and subject to a number of risks and uncertainties. These risks and uncertainties include, without limitation, those identified under "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2017, subsequent reports on Form 10-Q, and elsewhere in this Quarterly Report.

The following list represents some, but not necessarily all, of the factors that could cause actual results to differ from historical results or those anticipated or predicted by these forward-looking statements:

- our ability to successfully implement our business strategy;
- general economic, market and business conditions, including foreign exchange rate fluctuation and inflation;
- levels of residential new construction; residential repair, renovation and remodeling; and non-residential building construction activity;
- the United Kingdom's formal trigger of the two year process for its exit from the European Union, and related negotiations;
- competition;
- our ability to manage our operations including integrating our recent acquisitions and companies or assets we acquire in the future;
- our ability to generate sufficient cash flows to fund our capital expenditure requirements, to meet our pension obligations, and to meet our debt service obligations, including our obligations under our senior notes and our ABL Facility;
- labor relations (i.e., disruptions, strikes or work stoppages), labor costs and availability of labor;
- increases in the costs of raw materials or wages or any shortage in supplies or labor;
- our ability to keep pace with technological developments;
- cyber security threats and attacks;
- the actions taken by, and the continued success of, certain key customers;
- our ability to maintain relationships with certain customers;
- the ability to generate the benefits of our restructuring activities;
- retention of key management personnel;
- environmental and other government regulations; and
- limitations on operating our business as a result of covenant restrictions under our existing and future indebtedness, including our senior notes and our ABL Facility.

We caution you that the foregoing list of important factors is not exclusive. In addition, in light of these risks and uncertainties, the matters referred to in the forward-looking statements contained in this Quarterly Report may not in fact occur. We undertake no obligation to publicly update or revise any forward-looking statement as a result of new information, future events or otherwise, except as otherwise required by law.

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PART I – FINANCIAL INFORMATION

Item 1. Unaudited Financial Statements

MASONITE INTERNATIONAL CORPORATION
Condensed Consolidated Statements of Comprehensive Income (Loss)
(In thousands of U.S. dollars, except per share amounts)
(Unaudited)

	Three Months Ended		Six Months Ended	
	July 1, 2018	July 2, 2017	July 1, 2018	July 2, 2017
Net sales	$566,726	$519,741	$1,084,605	$1,006,922
Cost of goods sold	443,052	412,415	855,502	804,039
Gross profit	123,674	107,326	229,103	202,883
Selling, general and administration expenses	71,851	63,870	140,062	128,980
Restructuring costs, net	—	(700)	—	(407)
Loss (gain) on disposal of subsidiaries	—	212	—	212
Operating income (loss)	51,823	43,944	89,041	74,098
Interest expense (income), net	9,074	7,112	17,830	14,136
Other expense (income), net	(970)	(288)	(1,242)	(802)
Income (loss) from continuing operations before income tax expense (benefit)	43,719	37,120	72,453	60,764
Income tax expense (benefit)	7,894	8,932	14,595	7,253
Income (loss) from continuing operations	35,825	28,188	57,858	53,511
Income (loss) from discontinued operations, net of tax	(131)	(134)	(381)	(379)
Net income (loss)	35,694	28,054	57,477	53,132
Less: net income (loss) attributable to non-controlling interest	953	1,170	1,910	2,683
Net income (loss) attributable to Masonite	$34,741	$26,884	$55,567	$50,449
Earnings (loss) per common share attributable to Masonite:				
Basic	$1.26	$0.90	$1.99	$1.69
Diluted	$1.24	$0.89	$1.96	$1.66
Earnings (loss) per common share from continuing operations attributable to Masonite:				
Basic	$1.26	$0.91	$2.01	$1.70
Diluted	$1.24	$0.89	$1.97	$1.67
Comprehensive income (loss):				
Net income (loss)	$35,694	$28,054	$57,477	$53,132
Other comprehensive income (loss):				
Foreign currency translation gain (loss)	(31,445)	16,751	(25,671)	22,481
Amortization of actuarial net losses	299	292	599	584
Income tax benefit (expense) related to other comprehensive income (loss)	(100)	(55)	(200)	(812)
Other comprehensive income (loss), net of tax:	(31,246)	16,988	(25,272)	22,253
Comprehensive income (loss)	4,448	45,042	32,205	75,385
	584	1,447	1,298	3,064

Less: comprehensive income (loss) attributable to non-controlling interest				
Comprehensive income (loss) attributable to Masonite	$3,864	$43,595	$30,907	$72,321

See accompanying notes to the condensed consolidated financial statements.

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MASONITE INTERNATIONAL CORPORATION
Condensed Consolidated Balance Sheets
(In thousands of U.S. dollars, except share amounts)
(Unaudited)

ASSETS	July 1, 2018	December 31, 2017
Current assets:		
Cash and cash equivalents	$ 30,151	$ 176,669
Restricted cash	10,485	11,895
Accounts receivable, net	310,635	269,235
Inventories, net	244,424	234,042
Prepaid expenses	30,183	27,665
Income taxes receivable	2,083	2,364
Total current assets	627,961	721,870
Property, plant and equipment, net	590,998	573,559
Investment in equity investees	12,091	11,310
Goodwill	179,103	138,449
Intangible assets, net	229,209	182,484
Long-term deferred income taxes	27,184	29,899
Other assets, net	28,403	22,687
Total assets	$ 1,694,949	$ 1,680,258
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 112,730	$ 94,497
Accrued expenses	134,836	126,759
Income taxes payable	2,286	869
Total current liabilities	249,852	222,125
Long-term debt	625,579	625,657
Long-term deferred income taxes	77,017	60,820
Other liabilities	32,986	35,754
Total liabilities	985,434	944,356
Commitments and Contingencies (Note 9)		
Equity:		
Share capital: unlimited shares authorized, no par value, 27,597,126 and 28,369,877 shares issued and outstanding as of July 1, 2018, and December 31, 2017, respectively	614,371	624,403
Additional paid-in capital	219,931	226,528
Accumulated deficit	(2,023)	(18,150)
Accumulated other comprehensive income (loss)	(134,812)	(110,152)
Total equity attributable to Masonite	697,467	722,629
Equity attributable to non-controlling interests	12,048	13,273
Total equity	709,515	735,902
Total liabilities and equity	$ 1,694,949	$ 1,680,258

See accompanying notes to the condensed consolidated financial statements.

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MASONITE INTERNATIONAL CORPORATION
Condensed Consolidated Statements of Changes in Equity
(In thousands of U.S. dollars, except share amounts)
(Unaudited)

	Common Shares Outstanding	Share Capital	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Equity Attributable to Masonite	Equity Attributable to Non-controlling Interests	Total Equity
Balances as of January 1, 2017	29,774,784	$650,007	$234,926	$(89,063)	$(148,986)	$646,884	$12,892	$659,776
Net income (loss)				151,739		151,739	5,242	156,981
Other comprehensive income (loss), net of tax					38,834	38,834	752	39,586
Dividends to non-controlling interests						—	(5,613)	(5,613)
Share based compensation expense			11,644			11,644		11,644
Common shares issued for delivery of share based awards	372,826	12,290	(12,290)			—		—
Common shares withheld to cover income taxes payable due to delivery of share based awards			(7,466)			(7,466)		(7,466)
Common shares issued under employee stock purchase plan	16,368	1,168	(286)			882		882
Common shares repurchased and retired	(1,794,101)	(39,062)		(80,826)		(119,888)		(119,888)
Balances as of December 31, 2017	28,369,877	$624,403	$226,528	$(18,150)	$(110,152)	$722,629	$13,273	$735,902
Net income (loss)				55,567		55,567	1,910	57,477
Other comprehensive income (loss), net					(24,660)	(24,660)	(612)	(25,272)

of tax								
Dividends to non-controlling interests						—	(2,523)	(2,523)
Share based compensation expense			6,603			6,603		6,603
Common shares issued for delivery of share based awards	181,397	10,698	(10,698)			—		—
Common shares withheld to cover income taxes payable due to delivery of share based awards			(2,423)			(2,423)		(2,423)
Common shares issued under employee stock purchase plan	7,386	499	(79)			420		420
Common shares repurchased and retired	(961,534)	(21,229)		(39,440)		(60,669)		(60,669)
Balances as of July 1, 2018	27,597,126	$614,371	$219,931	$(2,023)	$(134,812)	$697,467	$12,048	$709,515

See accompanying notes to the condensed consolidated financial statements.

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MASONITE INTERNATIONAL CORPORATION
Condensed Consolidated Statements of Cash Flows
(In thousands of U.S. dollars)
(Unaudited)

	Six Months Ended	
Cash flows from operating activities:	July 1, 2018	July 2, 2017
Net income (loss)	$57,477	$53,132
Adjustments to reconcile net income (loss) to net cash flow provided by (used in) operating activities:		
Loss (income) from discontinued operations, net of tax	381	379
Loss (gain) on disposal of subsidiaries	—	212
Depreciation	27,634	29,301
Amortization	13,910	11,566
Share based compensation expense	6,603	5,954
Deferred income taxes	7,234	5,652
Unrealized foreign exchange loss (gain)	(2,079)	776
Share of loss (income) from equity investees, net of tax	(781)	(829)
Pension and post-retirement expense (funding), net	(3,302)	(3,120)
Non-cash accruals and interest	457	644
Loss (gain) on sale of property, plant and equipment	2,512	141
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable	(39,982)	(47,988)
Inventories	(2,799)	(19,497)
Prepaid expenses	(1,941)	(685)
Accounts payable and accrued expenses	27,623	17,965
Other assets and liabilities	(4,970)	(5,661)
Net cash flow provided by (used in) operating activities	87,977	47,942
Cash flows from investing activities:		
Proceeds from sale of property, plant and equipment	1,367	802
Additions to property, plant and equipment	(33,835)	(35,497)
Cash used in acquisitions, net of cash acquired	(135,600)	—
Other investing activities	(1,825)	(1,952)
Net cash flow provided by (used in) investing activities	(169,893)	(36,647)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	—	746
Repayments of long-term debt	(196)	(239)
Proceeds from borrowings on revolving credit facilities	—	5,000
Tax withholding on share based awards	(2,423)	(6,167)
Distributions to non-controlling interests	(2,523)	(1,155)
Repurchases of common shares	(60,669)	(37,886)
Net cash flow provided by (used in) financing activities	(65,811)	(39,701)
Net foreign currency translation adjustment on cash	(201)	(1,962)
Increase (decrease) in cash, cash equivalents and restricted cash	(147,928)	(30,368)
Cash, cash equivalents and restricted cash, beginning of period	188,564	83,910
Cash, cash equivalents and restricted cash, at end of period	$40,636	$53,542

See accompanying notes to the condensed consolidated financial statements.

MASONITE INTERNATIONAL CORPORATION
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Business Overview and Significant Accounting Policies
Unless we state otherwise or the context otherwise requires, references to "Masonite," "we," "our," "us" and the "Company" in these notes to the condensed consolidated financial statements refer to Masonite International Corporation and its subsidiaries.
Description of Business
Masonite International Corporation is one of the largest manufacturers of doors in the world, with significant market share in both interior and exterior door products. Masonite operates 67 manufacturing locations in 8 countries and sells doors to customers throughout the world, including the United States, Canada and the United Kingdom.
Basis of Presentation
We prepare these unaudited condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States of America ("GAAP") and applicable rules and regulations of the U.S. Securities and Exchange Commission ("SEC") regarding interim financial reporting. Accordingly, they do not include all of the information and notes required by GAAP for annual financial statements. In the opinion of management, all adjustments consisting of normal and recurring entries considered necessary for a fair presentation of the results for the interim periods presented have been included. All significant intercompany balances and transactions have been eliminated. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect reported amounts in the financial statements and accompanying notes. These estimates are based on information available as of the date of the unaudited condensed consolidated financial statements; therefore, actual results could differ from those estimates. Interim results are not necessarily indicative of the results for a full year.
These unaudited condensed consolidated financial statements should be read in conjunction with the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2017, as filed with the SEC. Our fiscal year is the 52- or 53-week period ending on the Sunday closest to December 31. In a 52-week year, each fiscal quarter consists of 13 weeks. For ease of disclosure, the 13- and 26-week periods are referred to as three- and six-month periods, respectively. Certain prior year amounts have been reclassified to conform to the current basis of presentation, related to Accounting Standards Updates ("ASU") 2017-07 and 2016-18, as described below.
Changes in Accounting Standards and Policies
There have been no changes in the significant accounting policies from those that were disclosed in the fiscal year 2017 audited consolidated financial statements, other than as noted below.
Adoption of Recent Accounting Pronouncements
In March 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2017-07, “Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost,” which amended Accounting Standards Codification ("ASC") 715, “Retirement Benefits”. This ASU required disaggregation of the service cost component from the other components of net benefit cost. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations. This standard was effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years; early adoption was permitted and retrospective application was required. We have utilized the practical expedient allowing the use of the prior years' disclosed service cost and other cost as the basis for our retrospective changes in presentation. The adoption of this standard changed the presentation of the other components of net benefit cost in our condensed consolidated statements of comprehensive income (loss), requiring the reclassification of a $0.3 million and $0.5 million benefit related to other components of net benefit cost out of previously-presented selling, general and administration expense and into previously presented other expense (income), net, for the three and six months ended July 2, 2017, respectively. The effect of this reclassification reduced

previously-presented operating income by this amount for the same periods. The total benefit which will be reclassified for the years ended December 31, 2017, and January 1, 2017, will be $1.1 million and $0.5 million, respectively.

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

In November 2016, the FASB issued ASU 2016-18, "Restricted Cash Flows", which amended ASC 230 "Statement of Cash Flows". This ASU clarified how entities should present restricted cash and restricted cash equivalents in the statement of cash flows. The new guidance requires entities to show the changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. As a result, entities no longer present transfers between cash and cash equivalents and restricted cash and restricted cash equivalents in the statement of cash flows. This ASU was effective for annual periods beginning after December 15, 2017, and interim periods within those annual periods; early adoption was permitted and retrospective application was required. The adoption of this standard changed the presentation of restricted cash in our condensed consolidated statements of cash flows, which is now being combined with cash and cash equivalents, and had the effect of a $0.3 million decrease to previously-presented cash flow used in investing activities for the six months ended July 2, 2017.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers," which created ASC 606, "Revenue from Contracts with Customers," and largely superseded the existing guidance of ASC 605, "Revenue Recognition." This standard outlined a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and superseded most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In August 2015, the FASB issued ASU 2015-14, "Revenue from Contracts with Customers - Deferral of the Effective Date," and the guidance would now be effective for annual and interim periods beginning on or after December 15, 2017. We have adopted the guidance of ASC 606 as of January 1, 2018, using the modified retrospective method and have applied the standard to only those contracts which were not completed as of the transition date. The adoption of this standard did not have any material impact on revenues in the three months ended April 1, 2018. Prior period amounts were not adjusted and have continued to be reported in accordance with our historic accounting under Topic 605. While we considered an adjustment to opening retained earnings as prescribed by the modified retrospective method, there was no material adjustment ultimately required. Furthermore, there was no material difference between the prior period amounts as reported under ASC 605 and such amounts as would have been reported under ASC 606. Information about the nature, amount and timing of our revenues from contracts with customers is disclosed in Note 10. Revenues. Our accounting policy for revenue recognition is set forth below.

Revenue Recognition

Revenue from the sale of products is recognized when control of the promised goods is transferred to our customers based on the agreed-upon shipping terms, in an amount that reflects the consideration to which we expect to be entitled in exchange for those goods or services. Volume rebates, expected returns, discounts and other incentives to customers are considered variable consideration and we estimate these amounts based on the expected amount to be provided to customers and reduce the revenues we recognize accordingly. Sales taxes and value added taxes assessed by governmental entities are excluded from the measurement of consideration expected to be received. Shipping and handling costs incurred after a customer has taken possession of our goods are treated as a fulfillment cost and are not considered a separate performance obligation. Shipping and other transportation costs charged to customers are recorded in both revenues and cost of goods sold in the condensed consolidated statements of comprehensive income (loss).

Other Recent Accounting Pronouncements not yet Adopted

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)", which will replace the existing guidance in ASC 840, "Leases." The updated standard aims to increase transparency and comparability among organizations by requiring lessees to recognize lease assets and lease liabilities on the balance sheet and requiring disclosure of key information about leasing arrangements. This ASU is effective for annual periods beginning after December 15, 2018,

and interim periods within those annual periods; early adoption is permitted and modified retrospective application is required. We are currently implementing a new lease system in connection with the adoption of ASU 2016-02. We are progressing with implementation and continuing to evaluate the impact on our consolidated financial statements and disclosures. We currently anticipate that the primary impact upon adoption will be a material adjustment to our consolidated balance sheets from the recognition, on a discounted basis, of our expected future payments for our operating leases, resulting in the recognition of right to use assets and lease obligations. Our current minimum undiscounted lease commitments under non-cancelable operating leases are disclosed in Note 9. Commitments and Contingencies.

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

2. Acquisitions and Disposition
2018 Acquisitions
On June 1, 2018, we completed the acquisition of the operating assets of the wood door companies of AADG, Inc., which includes the brands Graham Manufacturing Corporation and The Maiman Company (collectively, "Graham & Maiman"). We acquired the operating assets of Graham & Maiman for cash consideration of $39.3 million. Graham & Maiman are based in Mason City, Iowa, and Springfield, Missouri. Graham & Maiman provide the non-residential construction industry with a full range of architectural premium and custom grade flush wood doors, architectural stile and rail wood doors, thermal-fused flush wood doors and wood door frames. The preliminary excess purchase price over the fair value of net assets acquired of $10.7 million was allocated to goodwill. The goodwill principally represents anticipated synergies to be gained from the integration into our existing Architectural business and the goodwill is deductible for tax purposes.
On January 29, 2018, we completed the acquisition of DW3 Products Holdings Limited (“DW3”), a leading UK provider of high quality premium door solutions and window systems, supplying products under brand names such as Solidor, Residor, Nicedor and Residence. We acquired 100% of the equity interests in DW3 for cash consideration of $96.3 million, net of cash acquired. DW3 is based in Stoke-on-Trent and Gloucester, England, and their online quick ship capabilities and product portfolio both complement and expand the strategies we are pursuing with our business. The excess purchase price over the fair value of net assets acquired of $33.6 million was allocated to goodwill. The goodwill principally represents anticipated synergies to be gained from the integration into our existing United Kingdom business. This goodwill is not deductible for tax purposes and relates to the Europe segment.
The fair value of assets acquired and liabilities assumed in the Graham & Maiman and DW3 acquisitions are as follows:

(In thousands)	Graham & Maiman	DW3	Total 2018 Acquisitions
Accounts receivable	$—	$8,590	$ 8,590
Inventory	6,414	5,059	11,473
Property, plant and equipment	19,557	8,196	27,753
Goodwill	10,696	33,623	44,319
Intangible assets	2,750	62,873	65,623
Accounts payable and accrued expenses	(126)	(10,418)	(10,544)
Deferred income taxes	—	(11,546)	(11,546)
Other assets and liabilities, net	—	(68)	(68)
Cash consideration, net of cash acquired	$39,291	$96,309	$ 135,600

The fair values of tangible assets acquired and liabilities assumed from the Graham & Maiman acquisition were based upon preliminary calculations and valuations and the estimates and assumptions are subject to change as we obtain additional information during the measurement period (up to one year from the acquisition date). The primary areas of the preliminary estimate which are not yet finalized relate to customer relationships, income tax liabilities and goodwill. The gross contractual value of acquired trade receivables was $9.1 million for the DW3 acquisition. The fair values of intangible assets acquired are based on management's estimates and assumptions including variations of the income approach, the cost approach and the market approach. The intangible assets acquired are not expected to have any residual value. During the three months ended July 1, 2018, we finalized the valuation of customer relationships, income tax liabilities and goodwill for the DW3 acquisition, which resulted in a difference in the purchase price allocation when compared to the previously-presented preliminary purchase price allocation.

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

Intangible assets acquired from the 2018 Acquisitions consist of the following:

(In thousands)	Graham & Maiman	Expected Useful Life (Years)	DW3	Expected Useful Life (Years)
Customer relationships	$ 2,400	10.0	$49,554	10.0
Trademarks and trade names	350	1.5	11,785	10.0
Patents	—		1,420	10.0
Other	—		114	3.0
Total intangible assets acquired	$ 2,750		$62,873	

The following schedule represents the amounts of net sales and net income (loss) attributable to Masonite from the 2018 Acquisitions which have been included in the consolidated statements of comprehensive income (loss) for the periods indicated subsequent to the acquisition date.

	Three Months Ended July 1, 2018		
(In thousands)	Graham & Maiman	DW3	Total 2018 Acquisitions
Net sales	$6,266	$18,351	$ 24,617
Net income (loss) attributable to Masonite	302	1,145	1,447

	Six Months Ended July 1, 2018		
(In thousands)	Graham & Maiman	DW3	Total 2018 Acquisitions
Net sales	$6,266	$29,549	$ 35,815
Net income (loss) attributable to Masonite	302	2,093	2,395

2017 Acquisition

On October 2, 2017, we completed the acquisition of A&F Wood Products, Inc. (“A&F”), through the purchase of 100% of the equity interests in A&F and certain assets of affiliates of A&F for cash consideration of $13.8 million, net of cash acquired. A&F is based in Howell, Michigan, and is a wholesaler and fabricator of architectural and commercial doors in the Midwest United States. The excess purchase price over the fair value of net assets acquired of $5.9 million was allocated to goodwill. The goodwill principally represents anticipated synergies from A&F's integration into our existing Architectural door business. This goodwill is not deductible for tax purposes and relates to the Architectural segment. Additional information relating to the A&F acquisition is described in our Annual Report on Form 10-K for the year ended December 31, 2017.

Pro Forma Information

The following unaudited pro forma financial information represents the consolidated financial information as if the acquisitions had been included in our consolidated results beginning on the first day of the fiscal year prior to their respective acquisition dates. The pro forma results have been calculated after adjusting the results of the acquired entities to remove intercompany transactions and transaction costs incurred and to reflect the additional depreciation and amortization that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets had been applied on the first day of the fiscal year prior to the respective acquisitions, together with the consequential tax effects. The pro forma results do not reflect any cost savings, operating synergies or revenue enhancements that the combined company may achieve as a result of the acquisitions; the costs to combine

the companies' operations; or the costs necessary to achieve these costs savings, operating synergies and revenue enhancements. The pro forma results do not necessarily reflect the actual results of operations of the combined companies' under our ownership and operation.

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	Three Months Ended July 1, 2018			
(In thousands, except per share amounts)	Masonite	Graham & Maiman	Historical Sales to 2018 Acquisitions	Pro Forma
Net sales	$566,726	$11,288	$ (197)	$577,817
Net income (loss) attributable to Masonite	34,741	(114)	(22)	34,605
Basic earnings (loss) per common share	$1.26			$1.25
Diluted earnings (loss) per common share	1.24			1.23

	Three Months Ended July 2, 2017					
(In thousands, except per share amounts)	Masonite	Graham & Maiman	DW3	A&F	Historical Sales to 2018 and 2017 Acquisitions	Pro Forma
Net sales	$519,741	$17,604	$13,736	$3,672	$ (1,177)	$553,576
Net income (loss) attributable to Masonite	26,884	(111)	575	371	(73)	27,646
Basic earnings (loss) per common share	$0.90					$0.93
Diluted earnings (loss) per common share	0.89					0.91

	Six Months Ended July 1, 2018				
(In thousands, except per share amounts)	Masonite	Graham & Maiman	DW3	Historical Sales to 2018 Acquisitions	Pro Forma
Net sales	$1,084,605	$26,887	$4,918	$ (651)	$1,115,759
Net income (loss) attributable to Masonite	55,567	89	81	(63)	55,674
Basic earnings (loss) per common share	$1.99				$2.00
Diluted earnings (loss) per common share	1.96				1.96

	Six Months Ended July 2, 2017					
(In thousands, except per share amounts)	Masonite	Graham & Maiman	DW3	A&F	Historical Sales to 2018 and 2017 Acquisitions	Pro Forma
Net sales	$1,006,922	$34,440	$26,430	$6,812	$ (3,441)	$1,071,163
Net income (loss) attributable to Masonite	50,449	54	442	564	(170)	51,339
Basic earnings (loss) per common share	$1.69					$1.72
Diluted earnings (loss) per common share	1.66					1.69

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Disposition
On June 28, 2017, we completed the liquidation of our legal entity in Hungary. As a result, we recognized $0.2 million of cumulative translation adjustment in loss (gain) on disposal of subsidiaries from accumulated other comprehensive income during the three months ended July 2, 2017.

3. Accounts Receivable

Our customers consist mainly of wholesale distributors, dealers, homebuilders and retail home centers. Our ten largest customers accounted for 52.4% and 56.2% of total accounts receivable as of July 1, 2018, and December 31, 2017, respectively. Our largest customer, The Home Depot, Inc., accounted for more than 10% of the consolidated gross accounts receivable balance as of July 1, 2018, and December 31, 2017. Our second largest customer, Lowe's Co. Inc., accounted for more than 10% of the consolidated gross accounts receivable balance as of December 31, 2017. The allowance for doubtful accounts balance was $1.6 million and $1.8 million as of July 1, 2018, and December 31, 2017, respectively.

We maintain an accounts receivable sales program with a third party (the "AR Sales Program"). Under the AR Sales Program, we can transfer ownership of eligible trade accounts receivable of certain customers. Receivables are sold outright to a third party that assumes the full risk of collection, without recourse to us in the event of a loss. Transfers of receivables under this program are accounted for as sales. Proceeds from the transfers reflect the face value of the accounts receivable less a discount. Receivables sold under the AR Sales Program are excluded from trade accounts receivable in the condensed consolidated balance sheets and are included in cash flows from operating activities in the condensed consolidated statements of cash flows. The discounts on the sales of trade accounts receivable sold under the AR Sales Program were not material for any of the periods presented and were recorded in selling, general and administration expense within the condensed consolidated statements of comprehensive income (loss).

4. Inventories

The amounts of inventory on hand were as follows as of the dates indicated:

(In thousands)	July 1, 2018	December 31, 2017
Raw materials	$174,919	$ 172,960
Finished goods	77,593	68,851
Provision for obsolete or aged inventory	(8,088)	(7,769)
Inventories, net	$244,424	$ 234,042

5. Property, Plant and Equipment

The carrying amounts of our property, plant and equipment and accumulated depreciation were as follows as of the dates indicated:

(In thousands)	July 1, 2018	December 31, 2017
Land	$29,037	$ 26,790
Buildings	178,535	176,077
Machinery and equipment	688,407	661,026
Property, plant and equipment, gross	895,979	863,893
Accumulated depreciation	(304,981)	(290,334)
Property, plant and equipment, net	$590,998	$ 573,559

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Total depreciation expense was $13.7 million and $27.6 million in the three and six months ended July 1, 2018, respectively, and $15.3 million and $29.3 million in the three and six months ended July 2, 2017, respectively. Depreciation expense is included primarily within cost of goods sold in the condensed consolidated statements of comprehensive income (loss).

6. Goodwill and Intangible Assets

Changes in the carrying amount of goodwill were as follows as of the dates indicated:

(In thousands)	North American Residential	Europe	Architectural	Total
December 31, 2017	$ 2,867	$35,431	$ 100,151	$138,449
Goodwill from 2018 acquisitions	—	33,623	10,696	44,319
Foreign exchange fluctuations	(20)	(3,461)	(184)	(3,665)
July 1, 2018	$ 2,847	$65,593	$ 110,663	$179,103

The cost and accumulated amortization values of our intangible assets were as follows as of the dates indicated:

	July 1, 2018			
(In thousands)	Cost	Accumulated Amortization	Translation Adjustment	Net Book Value
Definite life intangible assets:				
Customer relationships	$212,282	$ (89,735)	$ (15,892)	$106,655
Patents	33,885	(22,814)	(938)	10,133
Software	34,933	(31,860)	(201)	2,872
Trademarks and tradenames	15,155	(2,895)	(845)	11,415
Other	12,340	(10,399)	(1,784)	157
Total definite life intangible assets	308,595	(157,703)	(19,660)	131,232
Indefinite life intangible assets:				
Trademarks and tradenames	108,572	—	(10,595)	97,977
Total intangible assets	$417,167	$ (157,703)	$ (30,255)	$229,209

	December 31, 2017			
(In thousands)	Cost	Accumulated Amortization	Translation Adjustment	Net Book Value
Definite life intangible assets:				
Customer relationships	$160,327	$ (79,628)	$ (11,338)	$69,361
Patents	31,999	(21,768)	(686)	9,545
Software	33,574	(31,183)	(190)	2,201
Other	15,246	(11,836)	(1,781)	1,629
Total definite life intangible assets	241,146	(144,415)	(13,995)	82,736
Indefinite life intangible assets:				
Trademarks and tradenames	108,572	—	(8,824)	99,748
Total intangible assets	$349,718	$ (144,415)	$ (22,819)	$182,484

Amortization of intangible assets was $7.2 million and $13.3 million for the three and six months ended July 1, 2018, respectively, and $6.0 million and $11.9 million for the three and six months ended July 2, 2017, respectively. Amortization expense is classified within selling, general and administration expenses in the condensed consolidated

statements of comprehensive income (loss).

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The estimated future amortization of intangible assets with definite lives as of July 1, 2018, is as follows:

(In thousands)	
Fiscal year:	
2018 (remaining six months)	$13,198
2019	24,980
2020	20,218
2021	16,992
2022	13,520

7. Accrued Expenses

The details of our accrued expenses were as follows as of the dates indicated:

(In thousands)	July 1, 2018	December 31, 2017
Accrued payroll	$43,137	$ 38,296
Accrued rebates	32,744	34,488
Accrued interest	10,987	10,688
Other accruals	47,968	43,287
Total accrued expenses	$134,836	$ 126,759

8. Long-Term Debt

(In thousands)	July 1, 2018	December 31, 2017
5.625% senior unsecured notes due 2023	$625,000	$ 625,000
Unamortized premium on 2023 Notes	5,167	5,714
Debt issuance costs for 2023 Notes	(5,889)	(6,635)
Capital lease obligations	176	378
Other long-term debt	1,125	1,200
Total long-term debt	$625,579	$ 625,657

Interest expense related to our consolidated indebtedness under senior unsecured notes was $8.9 million and $17.6 million for the three and six months ended July 1, 2018, respectively, and $6.9 million and $13.9 million for the three and six months ended July 2, 2017, respectively.

5.625% Senior Notes due 2023

On September 27, 2017, and March 23, 2015, we issued $150.0 million and $475.0 million aggregate principal senior unsecured notes, respectively (the "2023 Notes"). The 2023 Notes were issued in two private placements for resale to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended (the "Securities Act"), and to buyers outside the United States pursuant to Regulation S under the Securities Act. The 2023 Notes were issued without registration rights and are not listed on any securities exchange. The 2023 Notes bear interest at 5.625% per annum, payable in cash semiannually in arrears on March 15 and September 15 of each year and are due March 15, 2023. The 2023 Notes were issued at 104.0% and par in 2017 and 2015, respectively, and the resulting premium of $6.0 million is being amortized to interest expense over the term of the 2023 Notes using the effective interest method. We received net proceeds of $153.9 million and $467.9 million, respectively, after deducting $2.1 million and $7.1 million of debt issuance costs in 2017 and 2015, respectively. The debt issuance costs were capitalized as a reduction to the carrying value of debt and are being accreted to interest expense over the term of the 2023 Notes using the effective interest method. The net proceeds from the 2017 issuance of the 2023 Notes are for general corporate purposes. The net

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
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proceeds from the 2015 issuance of the 2023 Notes, together with available cash balances, were used to redeem $500.0 million aggregate principal of prior 8.25% senior unsecured notes due 2021 and to pay related premiums, fees and expenses.

Obligations under the 2023 Notes are fully and unconditionally guaranteed, jointly and severally, on a senior unsecured basis, by certain of our directly or indirectly wholly-owned subsidiaries. We may redeem the 2023 Notes, in whole or in part, at any time on or after March 15, 2018, at the applicable redemption prices specified under the indenture governing the 2023 Notes, plus accrued and unpaid interest, if any, to the date of redemption. If we experience certain changes of control or consummate certain asset sales and do not reinvest the net proceeds, we must offer to repurchase all of the 2023 Notes at a purchase price of 101.00% of their principal amount, plus accrued and unpaid interest, if any, to the repurchase date.

The indenture governing the 2023 Notes contains restrictive covenants that, among other things, limit our ability and the ability of our subsidiaries to: (i) incur additional debt and issue disqualified or preferred stock, (ii) make restricted payments, (iii) sell assets, (iv) create or permit restrictions on the ability of our restricted subsidiaries to pay dividends or make other distributions to the parent company, (v) create or incur certain liens, (vi) enter into sale and leaseback transactions, (vii) merge or consolidate with other entities and (viii) enter into transactions with affiliates. The foregoing limitations are subject to exceptions as set forth in the indenture governing the 2023 Notes. In addition, if in the future the 2023 Notes have an investment grade rating from at least two nationally recognized statistical rating organizations, certain of these covenants will be replaced with a less restrictive covenant. The indenture governing the 2023 Notes contains customary events of default (subject in certain cases to customary grace and cure periods). As of July 1, 2018, and December 31, 2017, we were in compliance with all covenants under the indenture governing the 2023 Notes.

ABL Facility

On April 9, 2015, we and certain of our subsidiaries entered into a $150.0 million asset-based revolving credit facility (the "ABL Facility") maturing on April 9, 2020. The borrowing base is calculated based on a percentage of the value of selected U.S. and Canadian accounts receivable and inventory, less certain ineligible amounts.

Obligations under the ABL Facility are secured by a first priority security interest in certain of the current assets of Masonite's United States and Canadian subsidiaries. In addition, obligations under the ABL Facility are fully and unconditionally guaranteed, jointly and severally, on a senior secured basis, by certain of our directly or indirectly wholly-owned subsidiaries. Borrowings under the ABL Facility bear interest at a rate equal to, at our option, (i) the Base Rate, Canadian Prime Rate or Canadian Base Rate (each as defined in the Amended and Restated Credit Agreement) plus a margin ranging from 0.25% to 0.75% per annum, or (ii) the Eurodollar Base Rate or BA Rate (each as defined in the Amended and Restated Credit Agreement), plus a margin ranging from 1.25% to 1.75% per annum. In addition to paying interest on any outstanding principal under the ABL Facility a commitment fee is payable on the undrawn portion of the ABL Facility in an amount equal to 0.25% per annum of the average daily balance of unused commitments during each calendar quarter.

The ABL Facility contains various customary representations, warranties and covenants by us that, among other things, and subject to certain exceptions, restrict Masonite's ability and the ability of our subsidiaries to: (i) pay dividends on our common shares and make other restricted payments, (ii) make investments and acquisitions, (iii) engage in transactions with our affiliates, (iv) sell assets, (v) merge and (vi) create liens. The Amended and Restated Credit Agreement amended the ABL Facility to, among other things, (i) permit us to incur unlimited unsecured debt as long as such debt does not contain covenants or default provisions that are more restrictive than those contained in the ABL Facility, (ii) permit us to incur debt as long as the pro forma secured leverage ratio is less than 4.5 to 1.0, and (iii) add certain additional exceptions and exemptions under the restricted payment, investment and indebtedness covenants (including increasing the amount of certain debt permitted to be incurred under an existing exception). As

of July 1, 2018, and December 31, 2017, we were in compliance with all covenants under the credit agreement governing the ABL Facility and there were no amounts outstanding under the ABL Facility.

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9. Commitments and Contingencies

Leases

For lease agreements that provide for escalating rent payments or rent-free occupancy periods, we recognize rent expense on a straight line basis over the non-cancelable lease term and any option renewal period where failure to exercise such option would result in an economic penalty in such amount that renewal appears, at the inception of the lease, to be reasonably assured. The lease term commences on the date when all conditions precedent to our obligation to pay rent are satisfied. The leases contain provisions for renewal ranging from zero to three options of generally five years each. Minimum payments, for the following future periods, under non-cancelable operating leases and service agreements with initial or remaining terms of one year or more consist of the following:

(In thousands)	
Fiscal year:	
2018 (remaining six months)	$12,615
2019	23,197
2020	21,409
2021	16,672
2022	12,523
Thereafter	55,818
Total future minimum lease payments	$142,234

Total rent expense, including non-cancelable operating leases and month-to-month leases, was $7.8 million and $15.5 million for the three and six months ended July 1, 2018, respectively, and $7.2 million and $14.3 million for the three and six months ended July 2, 2017, respectively.

We have provided customary indemnifications to our landlords under certain property lease agreements for claims by third parties in connection with their use of the premises. We also have provided routine indemnifications against adverse effects related to changes in tax laws and patent infringements by third parties. The maximum amount of these indemnifications cannot be reasonably estimated due to their nature. In some cases, we have recourse against other parties to mitigate the risk of loss from these indemnifications. Historically, we have not made any significant payments relating to such indemnifications.

Legal Proceedings

The following discussion describes material developments in previously disclosed legal proceedings that occurred since December 31, 2017. Refer to Note 9. Commitments and Contingencies in the consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2017, for a full description of these pending legal proceedings.

Mathis

In the Mathis matter, on March 29, 2018, and before any responsive pleadings were filed, the parties entered into a Settlement Agreement and General Release pursuant to which we made a nominal settlement payment in exchange for a general release and the lawsuit was dismissed with prejudice on April 23, 2018. In entering into the settlement, we denied all claims made in the lawsuit and denied any wrongdoing.

Byrd

In the Byrd matter, on March 22, 2018 the settlement previously agreed to by the parties received final court approval and the court dismissed the case. Payment of the settlement occurred on April 27, 2018. Payouts to class members were initiated on May 16, 2018. However, the court can reassert jurisdiction to enforce the settlement until the payout process is determined to be complete. The amount we paid as part of the settlement did not have a material impact on our financial condition or operating results.

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In addition, from time to time, we are involved in various claims, legal actions and government audits. In the opinion of management, the ultimate disposition of these matters, individually and in the aggregate, will not have a material effect on our financial condition, results of operations or cash flows.

10. Revenues

We derive our revenues primarily from the manufacture and delivery of doors and door components as performance obligations that arise from our contracts with customers are satisfied. Materially all of our revenues are generated from contracts with customers and the nature, timing and any uncertainty in the recognition of revenues are not affected by the type of good, customer or geographical region to which the performance obligation relates. Our contracts with our customers are generally in the form of purchase orders and the performance obligation arises upon receipt of the purchase order and agreement upon the transaction price. The performance obligations are satisfied at a point in time when control of the promised goods is transferred to the customer and payment terms vary from customer to customer. Payment terms are short-term, are customary for our industry and in some cases, early payment incentives are offered. The transaction price recognized as revenue and accounts receivable is determined based upon a number of estimates, including:

- Incentive-based volume rebates, which are based on individual rebate agreements with our customers, as well as historical and expected performance of each individual customer,
- Estimated sales returns, which are based on historical returns as a percentage of revenues, and
- Adjustments for early payment discounts offered by us.

Contract assets are represented by our trade accounts receivable balances on the condensed consolidated balance sheets, and are described in Note 3. Accounts Receivable. There were no other material contract assets or liabilities as of either July 1, 2018, or December 31, 2017. Our warranties are assurance-type warranties and do not represent separate performance obligations to our customers. There were no material impairment losses related to contract assets during the three or six months ended July 1, 2018, or July 2, 2017.

11. Share Based Compensation Plans

Share based compensation expense was $3.5 million and $6.6 million for the three and six months ended July 1, 2018, respectively, and $3.5 million and $6.0 million for the three and six months ended July 2, 2017, respectively. As of July 1, 2018, the total remaining unrecognized compensation expense related to share based compensation amounted to $20.1 million, which will be amortized over the weighted average remaining requisite service period of 1.9 years. Share based compensation expense is recognized using a graded-method approach, or to a lesser extent a cliff-vesting approach, depending on the terms of the individual award and is classified within selling, general and administration expenses in the condensed consolidated statements of comprehensive income (loss). All share based awards are settled through issuance of new shares of our common stock. The share based award agreements contain restrictions on sale or transfer other than in limited circumstances. All other transfers would cause the share based awards to become null and void.

Equity Incentive Plans

Prior to July 9, 2012, we had a management equity incentive plan (the "2009 Plan"). The 2009 Plan required granting by June 9, 2012, equity instruments which upon exercise would result in management (excluding directors) owning 9.55% of our common equity (3,554,811 shares) on a fully diluted basis, after giving consideration to the potential exercise of warrants and the equity instruments granted to directors. Under the 2009 Plan, we were required to issue equity instruments to directors that represented 0.90% (335,004 shares) of the common equity on a fully diluted basis. The requirement for issuance to employees was satisfied in June 2012, and the requirement for issuance to directors was satisfied in July 2009. No awards have been granted under the 2009 Plan since May 30, 2012, and no future awards will be granted under the 2009 Plan; however, all outstanding awards under the 2009 Plan will continue to be governed by their existing terms. Aside from shares issuable for outstanding awards, there are no further shares of

common stock available for future issuance under the 2009 Plan.

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On July 12, 2012, the Board of Directors adopted the Masonite International Corporation 2012 Equity Incentive Plan, which was amended on June 21, 2013, by our Board of Directors, further amended and restated by our Board of Directors on February 23, 2015, and approved by our shareholders on May 12, 2015 (as amended and restated, the "2012 Plan"). The 2012 Plan was adopted because the Board believes awards granted will help to attract, motivate and retain employees and non-employee directors, align employee and stockholder interests and encourage a performance-based culture built on employee stock ownership. The 2012 Plan permits us to offer eligible directors, employees and consultants cash and share-based incentives, including stock options, stock appreciation rights, restricted stock, other share-based awards (including restricted stock units) and cash-based awards. The 2012 Plan is effective for ten years from the date of its adoption. Awards granted under the 2012 Plan are at the discretion of the Human Resources and Compensation Committee of the Board of Directors. The Human Resources and Compensation Committee may grant any award under the 2012 Plan in the form of a performance award. The 2012 Plan may be amended, suspended or terminated by the Board at any time; provided, that any amendment, suspension or termination which impairs the rights of a participant is subject to such participant's consent and; provided further, that certain material amendments are subject to shareholder approval. The aggregate number of common shares that can be issued with respect to equity awards under the 2012 Plan cannot exceed 2,000,000 shares plus the number of shares subject to existing grants under the 2009 Plan that may expire or be forfeited or cancelled. As of July 1, 2018, there were 735,644 shares of common stock available for future issuance under the 2012 Plan.

Deferred Compensation Plan

We offer to certain of our employees and directors a Deferred Compensation Plan ("DCP"). The DCP is an unfunded non-qualified deferred compensation plan that permits those certain employees and directors to defer a portion of their compensation to a future time. Eligible employees may elect to defer a portion of their base salary, bonus and/or restricted stock units and eligible directors may defer a portion of their director fees or restricted stock units. All contributions to the DCP on behalf of the participant are fully vested (other than restricted stock unit deferrals which remain subject to the vesting terms of the applicable equity incentive plan) and placed into a grantor trust, commonly referred to as a "rabbi trust." Although we are permitted to make matching contributions under the terms of the DCP, we have not elected to do so. The DCP invests the contributions in diversified securities from a selection of investments and the participants choose their investments and may periodically reallocate the assets in their respective accounts. Participants are entitled to receive the benefits in their accounts upon separation of service or upon a specified date, with benefits payable as a single lump sum or in annual installments. All plan investments are categorized as having Level 1 valuation inputs as established by the FASB’s Fair Value Framework.

Assets of the rabbi trust, other than Company stock, are recorded at fair value and included in other assets in the condensed consolidated balance sheets. These assets in the rabbi trust are classified as trading securities and changes in their fair values are recorded in other income (loss) in the condensed consolidated statements of comprehensive income (loss). The liability relating to deferred compensation represents our obligation to distribute funds to the participants in the future and is included in other liabilities in the condensed consolidated balance sheets. As of July 1, 2018, the liability and asset relating to deferred compensation each had a fair value of $6.2 million. Any unfunded gain or loss relating to changes in the fair value of the deferred compensation liability is recognized in selling, general and administration expense in the condensed consolidated statements of comprehensive income (loss). As of July 1, 2018, participation in the deferred compensation plan is limited and no restricted stock awards have been deferred into the deferred compensation plan.

Stock Appreciation Rights

We have granted Stock Appreciation Rights ("SARs") to certain employees under both the 2009 Plan and the 2012 Plan, which entitle the recipient to the appreciation in value of a number of common shares over the exercise price over a period of time, each as specified in the applicable award agreement. The exercise price of any SAR granted

may not be less than the fair market value of our common shares on the date of grant. The compensation expense for the SARs is measured based on the fair value of the SARs at the date of grant and is recognized over the requisite service period. The SARs vest over a maximum of three years, have a life of ten years and settle in common shares. We recognize forfeitures of SARs in the period in which they occur.

The total fair value of SARs vested was $0.7 million and $0.4 million during the six months ended July 1, 2018, and July 2, 2017, respectively.

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Six Months Ended July 1, 2018	Stock Appreciation Rights	Aggregate Intrinsic Value (in thousands)	Weighted Average Exercise Price	Average Remaining Contractual Life (Years)
Outstanding, beginning of period	537,930	$ 23,263	$ 32.00	4.5
Granted	69,752		65.00	
Exercised	(25,725)	1,288	19.82	
Outstanding, end of period	581,957	$ 20,839	$ 36.49	4.8
Exercisable, end of period	459,072	$ 20,085	$ 28.30	3.6

Six Months Ended July 2, 2017	Stock Appreciation Rights	Aggregate Intrinsic Value (in thousands)	Weighted Average Exercise Price	Average Remaining Contractual Life (Years)
Outstanding, beginning of period	790,290	$ 32,659	$ 24.47	4.6
Granted	59,265		77.00	
Exercised	(191,593)	11,453	18.93	
Forfeited	(10,357)		64.32	
Outstanding, end of period	647,605	$ 29,365	$ 30.29	4.6
Exercisable, end of period	545,422	$ 28,573	$ 23.11	3.9

The value of SARs granted is determined using the Black-Scholes Merton valuation model, and the corresponding expense is recognized over the average requisite service period of 2.0 years for all periods presented. Expected volatility is based upon the historical volatility of our public industry peers' common shares amongst other considerations. The expected term is calculated using the simplified method, due to insufficient exercise activity during recent years as a basis from which to estimate future exercise patterns. The weighted average grant date assumptions used for the SARs granted were as follows for the periods indicated:

	2018 Grants	2017 Grants
SAR value (model conclusion)	$18.63	$22.65
Risk-free rate	2.7 %	2.0 %
Expected dividend yield	0.0 %	0.0 %
Expected volatility	22.8 %	25.8 %
Expected term (years)	6.0	6.0

Restricted Stock Units

We have granted Restricted Stock Units ("RSUs") to directors and certain employees under both the 2009 Plan and the 2012 Plan. The RSUs confer the right to receive shares of our common stock at a specified future date or when certain conditions are met. The compensation expense for the RSUs awarded is based on the fair value of the RSUs at the date of grant and is recognized over the requisite service period. The RSUs vest over a maximum of three years and call for the underlying shares to be delivered no later than 30 days following the vesting date unless the participant is subject to a blackout period. In such case, the shares are to be delivered once the blackout restriction has been lifted. We recognize forfeitures of RSUs in the period in which they occur.

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	Six Months Ended			
	July 1, 2018		July 2, 2017	
	Total Restricted Stock Units Outstanding	Weighted Average Grant Date Fair Value	Total Restricted Stock Units Outstanding	Weighted Average Grant Date Fair Value
Outstanding, beginning of period	417,598	$ 66.14	501,926	$ 58.51
Granted	276,647	63.02	227,992	70.62
Delivered	(162,529)		(186,312)	
Withheld to cover [(1)]	(41,557)		(54,638)	
Forfeited	(9,831)		(31,726)	
Outstanding, end of period	480,328	$ 65.52	457,242	$ 65.68

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(1) A portion of the vested RSUs delivered were net share settled to cover statutory requirements for income and other employment taxes. We remit the equivalent cash to the appropriate taxing authorities. These net share settlements had the effect of share repurchases by us as we reduced and retired the number of shares that would have otherwise been issued as a result of the vesting.

Approximately one-half of the RSUs granted during the six months ended July 1, 2018, vest at specified future dates with only service requirements, while the remaining portion of the RSUs vest based on both performance and service requirements. The expense for RSUs granted in the six months ended July 1, 2018, and July 2, 2017, is being recognized over the weighted average requisite service period of 2.6 and 2.7 years, respectively. During the six months ended July 1, 2018, there were 204,086 RSUs vested at a fair value of $13.1 million.

12. Restructuring Costs

Restructuring costs were not material in the three or six months ended July 1, 2018. The following table summarizes the restructuring charges recorded for the periods indicated:

	Three Months Ended July 2, 2017			
(In thousands)	Europe	Architectural	Corporate & Other	Total
2016 Plan	$ —	$ 503	$ —	$ 503
2015 Plan	(96)	—	24	(72)
2014 Plan	—	—	(1,131)	(1,131)
Total Restructuring Costs	$ (96)	$ 503	$ (1,107)	$ (700)

	Six Months Ended July 2, 2017			
(In thousands)	Europe	Architectural	Corporate & Other	Total
2016 Plan	$ —	$ 774	$ —	$ 774
2015 Plan	(96)	—	46	(50)
2014 Plan	—	—	(1,131)	(1,131)
Total Restructuring Costs	$ (96)	$ 774	$ (1,085)	$ (407)

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	Cumulative Amount Incurred Through July 1, 2018				
(In thousands)	North American Residential	Europe	Architectural	Corporate & Other	Total
2016 Plan	$—	$—	$ 3,707	$—	$3,707
2015 Plan	—	2,335	—	3,274	5,609
2014 Plan	—	—	—	7,993	7,993
2013 Plan	3,025	2,733	—	2,157	7,915
2012 and Prior Plans	2,378	12,668	—	3,609	18,655
Total Restructuring Costs	$5,403	$17,736	$ 3,707	$ 17,033	$43,879

Our restructuring plans initiated in 2016 and prior years are described in detail in our Annual Report on Form 10-K for the year ended December 31, 2017. Costs associated with our existing restructuring plans include severance and closure charges and are substantially completed. The 2013 Plan also included impairment of certain property, plant and equipment. Actions associated with all of our existing restructuring plans are substantially completed, although cash payments are expected to continue through 2019, primarily related to lease payments at closed facilities under our restructuring plans initiated in 2012 and prior years. As of July 1, 2018, we do not expect to incur any material future charges relating to any of our existing restructuring plans.

The changes in the accrual for restructuring by activity were as follows for the periods indicated:

(In thousands)	December 31, 2017	Cash Payments	July 1, 2018
2016 Plan	$ 90	$ 90	$ —
2012 and Prior Plans	194	70	124
Total	$ 284	$ 160	$ 124

(In thousands)	January 1, 2017	Severance	Closure Costs	Cash Payments	July 2, 2017
2016 Plan	$1,300	$ 271	$503	$ 1,173	$901
2015 Plan	282	46	(96)	86	146
2014 Plan	426	—	(1,131)	(1,119)	414
2012 and Prior Plans	465	—	—	95	370
Total	$2,473	$ 317	$(724)	$ 235	$1,831

13. Income Taxes

The effective tax rate differs from the Canadian statutory rate of 26.5% primarily due to changes in our valuation allowances, tax exempt income and mix of earnings in foreign jurisdictions which are subject to tax rates that differ from the Canadian statutory rate. In addition, we recognized $0.1 million and $0.3 million of income tax benefit due to the exercise and delivery of share-based awards during the three and six months ended July 1, 2018, and $0.1 million and $5.1 million during the three and six months ended July 2, 2017.

In accordance with SAB 118, we have reflected the income tax effects of the aspects of the Tax Cuts and Jobs Act of 2017 ("Tax Reform") for which the accounting under ASC 740 is complete. Our provision for income taxes does include estimates around the timing of certain deductions. To the extent those estimates change, there could be effects to income tax expense due to the change in the tax rate. We would expect to be complete with this analysis upon filing of our tax return in 2018. Additionally, the final impact of Tax Reform may differ from our estimates due to additional regulations that may be issued or changes in interpretations as we gain a more thorough understanding of the tax law.

These changes could be material to income tax expense.

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14. Earnings Per Share

Basic earnings per share ("EPS") is calculated by dividing earnings attributable to Masonite by the weighted-average number of our common shares outstanding during the period. Diluted EPS is calculated by dividing earnings attributable to Masonite by the weighted-average number of common shares plus the incremental number of shares issuable from non-vested and vested RSUs and SARs outstanding during the period.

	Three Months Ended		Six Months Ended	
(In thousands, except share and per share information)	July 1, 2018	July 2, 2017	July 1, 2018	July 2, 2017
Net income (loss) attributable to Masonite	$34,741	$26,884	$55,567	$50,449
Less: income (loss) from discontinued operations, net of tax	(131)	(134)	(381)	(379)
Income (loss) from continuing operations attributable to Masonite	$34,872	$27,018	$55,948	$50,828
Shares used in computing basic earnings per share	27,609,132	29,789,955	27,899,461	29,825,527
Effect of dilutive securities:				
Incremental shares issuable under share compensation plans and warrants	420,454	568,283	502,753	609,057
Shares used in computing diluted earnings per share	28,029,586	30,358,238	28,402,214	30,434,584
Basic earnings (loss) per common share attributable to Masonite:				
Continuing operations attributable to Masonite	$1.26	$0.91	$2.01	$1.70
Discontinued operations attributable to Masonite, net of tax	—	(0.01)	(0.02)	(0.01)
Total Basic earnings per common share attributable to Masonite	$1.26	$0.90	$1.99	$1.69
Diluted earnings (loss) per common share attributable to Masonite:				
Continuing operations attributable to Masonite	$1.24	$0.89	$1.97	$1.67
Discontinued operations attributable to Masonite, net of tax	—	—	(0.01)	(0.01)
Total Diluted earnings per common share attributable to Masonite	$1.24	$0.89	$1.96	$1.66
Anti-dilutive instruments excluded from diluted earnings per common share:				
Stock appreciation rights	51,129	55,955	51,129	55,955

The weighted average number of shares outstanding utilized for the diluted EPS calculation contemplates the exercise of all currently outstanding SARs and the conversion of all RSUs. The dilutive effect of such equity awards is calculated based on the weighted average share price for each fiscal period using the treasury stock method. For all periods presented, common shares issuable for stock appreciation rights which have a higher strike price than our weighted average market price have been excluded from the computation of diluted earnings per share, as their effect would have been anti-dilutive.

15. Segment Information

Our reportable segments are organized and managed principally by end market: North American Residential, Europe and Architectural. The North American Residential reportable segment is the aggregation of the Wholesale and Retail operating segments. The Europe reportable segment is the aggregation of the United Kingdom and Central Eastern Europe operating segments. The Architectural reportable segment consists solely of the Architectural operating segment.

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The Corporate & Other category includes unallocated corporate costs and the results of immaterial operating segments which were not aggregated into any reportable segment. Operating segments are aggregated into reportable segments only if they exhibit similar economic characteristics. In addition to similar economic characteristics we also consider the following factors in determining the reportable segments: the nature of business activities, the management structure directly accountable to our chief operating decision maker for operating and administrative activities, availability of discrete financial information and information presented to the Board of Directors and investors.
Our management reviews net sales and Adjusted EBITDA (as defined below) to evaluate segment performance and allocate resources. Net assets are not allocated to the reportable segments. Adjusted EBITDA is a non-GAAP financial measure which does not have a standardized meaning under GAAP and is unlikely to be comparable to similar measures used by other companies. Adjusted EBITDA should not be considered as an alternative to either net income or operating cash flows determined in accordance with GAAP. Adjusted EBITDA is defined as net income (loss) attributable to Masonite adjusted to exclude the following items:

- depreciation;
- amortization;
- share based compensation expense;
- loss (gain) on disposal of property, plant and equipment;
- registration and listing fees;
- restructuring costs;
- asset impairment;
- loss (gain) on disposal of subsidiaries;
- interest expense (income), net;
- loss on extinguishment of debt;
- other expense (income), net;
- income tax expense (benefit);
- loss (income) from discontinued operations, net of tax; and
- net income (loss) attributable to non-controlling interest.

This definition of Adjusted EBITDA differs from the definitions of EBITDA contained in the indenture governing the 2023 Notes and the credit agreement governing the ABL Facility. Adjusted EBITDA is used to evaluate and compare the performance of the segments and it is one of the primary measures used to determine employee incentive compensation. Intersegment transfers are negotiated on an arm’s length basis, using market prices. Certain information with respect to segments is as follows for the periods indicated:

(In thousands)	Three Months Ended July 1, 2018				
(In thousands)	North American Residential	Europe	Architectural	Corporate & Other	Total
Net sales	$378,936	$101,389	$ 86,552	$6,317	$573,194
Intersegment sales	(1,070)	(643)	(4,755)	—	(6,468)
Net sales to external customers	$377,866	$100,746	$ 81,797	$6,317	$566,726
Adjusted EBITDA	$58,963	$13,642	$ 11,998	$(6,317)	$78,286

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(In thousands)	Three Months Ended July 2, 2017				
(In thousands)	North American Residential	Europe	Architectural	Corporate & Other	Total
Net sales	$368,869	$75,626	$ 77,837	$4,513	$526,845
Intersegment sales	(990)	(1,791)	(4,323)	—	(7,104)
Net sales to external customers	$367,879	$73,835	$ 73,514	$4,513	$519,741
Adjusted EBITDA	$54,606	$9,001	$ 7,495	$(2,831)	$68,271

(In thousands)	Six Months Ended July 1, 2018				
(In thousands)	North American Residential	Europe	Architectural	Corporate & Other	Total
Net sales	$739,478	$189,141	$ 158,116	$10,741	$1,097,476
Intersegment sales	(1,932)	(1,291)	(9,648)	—	(12,871)
Net sales to external customers	$737,546	$187,850	$ 148,468	$10,741	$1,084,605
Adjusted EBITDA	$109,361	$23,572	$ 19,658	$(12,891)	$139,700

(In thousands)	Six Months Ended July 2, 2017				
(In thousands)	North American Residential	Europe	Architectural	Corporate & Other	Total
Net sales	$707,998	$146,453	$ 153,756	$11,854	$1,020,061
Intersegment sales	(2,077)	(2,647)	(8,415)	—	(13,139)
Net sales to external customers	$705,921	$143,806	$ 145,341	$11,854	$1,006,922
Adjusted EBITDA	$99,543	$16,739	$ 12,709	$(8,126)	$120,865

As described in Note 1. Business Overview and Significant Accounting Policies, the adoption of ASU 2017-07 required a reclassification of prior periods' other expense (income), net. This resulted in a consolidated decrease of $0.3 million and $0.5 million to Adjusted EBITDA for the three and six months ended July 2, 2017, compared to the same figure previously presented. On a segment basis, Adjusted EBITDA for the Europe segment was increased by $0.1 million for both the three and six months ended July 2, 2017, while Adjusted EBITDA for the Corporate & Other category was decreased by $0.3 million, and $0.7 million for the three and six months ended July 2, 2017, respectively, compared to the same figures previously-presented. Amounts for the segments do not sum to consolidated amounts due to rounding.

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A reconciliation of our consolidated Adjusted EBITDA to net income (loss) attributable to Masonite is set forth as follows for the periods indicated:

	Three Months Ended		Six Months Ended	
(In thousands)	July 1, 2018	July 2, 2017	July 1, 2018	July 2, 2017
Adjusted EBITDA	$78,286	$68,271	$139,700	$120,865
Less (plus):				
Depreciation	13,700	15,277	27,634	29,301
Amortization	7,325	5,596	13,910	11,566
Share based compensation expense	3,538	3,527	6,603	5,954
Loss (gain) on disposal of property, plant and equipment	1,900	415	2,512	141
Restructuring costs	—	(700)	—	(407)
Loss (gain) on disposal of subsidiaries	—	212	—	212
Interest expense (income), net	9,074	7,112	17,830	14,136
Other expense (income), net	(970)	(288)	(1,242)	(802)
Income tax expense (benefit)	7,894	8,932	14,595	7,253
Loss (income) from discontinued operations, net of tax	131	134	381	379
Net income (loss) attributable to non-controlling interest	953	1,170	1,910	2,683
Net income (loss) attributable to Masonite	$34,741	$26,884	$55,567	$50,449

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16. Other Comprehensive Income and Accumulated Other Comprehensive Income
A rollforward of the components of accumulated other comprehensive income (loss) is as follows for the periods indicated:

(In thousands)	Three Months Ended		Six Months Ended	
	July 1, 2018	July 2, 2017	July 1, 2018	July 2, 2017
Accumulated foreign currency translation gains (losses), beginning of period	$(83,829)	$(122,450)	$(89,824)	$(127,433)
Foreign currency translation gain (loss)	(31,445)	16,539	(25,671)	22,269
Income tax benefit (expense) on foreign currency translation gain (loss)	(21)	59	(43)	(584)
Cumulative translation adjustment recognized upon deconsolidation of subsidiary	—	212	—	212
Less: foreign currency translation gain (loss) attributable to non-controlling interest	(369)	277	(612)	381
Accumulated foreign currency translation gains (losses), end of period	(114,926)	(105,917)	(114,926)	(105,917)
Accumulated pension and other post-retirement adjustments, beginning of period	(20,106)	(21,375)	(20,328)	(21,553)
Amortization of actuarial net losses	299	292	599	584
Income tax benefit (expense) on amortization of actuarial net losses	(79)	(114)	(157)	(228)
Accumulated pension and other post-retirement adjustments	(19,886)	(21,197)	(19,886)	(21,197)
Accumulated other comprehensive income (loss)	$(134,812)	$(127,114)	$(134,812)	$(127,114)
Other comprehensive income (loss), net of tax	$(31,246)	$16,988	$(25,272)	$22,253
Less: other comprehensive income (loss) attributable to non-controlling interest	(369)	277	(612)	381
Other comprehensive income (loss) attributable to Masonite	$(30,877)	$16,711	$(24,660)	$21,872

Actuarial net losses are reclassified out of accumulated other comprehensive income (loss) into cost of goods sold in the condensed consolidated statements of comprehensive income (loss).

17. Supplemental Cash Flow Information
Certain cash and non-cash transactions were as follows for the periods indicated: