MASONITE INTERNATIONAL CORP
Form 10-Q
May 02, 2019

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2019

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)

Securities registered pursuant to Section 12(b) of the Act:

Common Stock (no par value)	**DOOR**	**New York Stock Exchange**
(Title of class)	(Trading symbol)	(Name of exchange on which registered)

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 every Interactive Data File required to be submitted 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 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 25,146,479 shares of Common Stock, no par value, as of April 29, 2019.

MASONITE INTERNATIONAL CORPORATION
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March 31, 2019

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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 30, 2018, 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:

- downward trends in our end markets and in economic conditions;
- reduced levels of residential new construction; residential repair, renovation and remodeling; and non-residential building construction activity due to increases in mortgage rates, changes in mortgage interest deductions and related tax changes and reduced availability of financing;
- competition;
- the continued success of, and our ability to maintain relationships with, certain key customers in light of customer concentration and consolidation;
- new tariffs and evolving trade policy between the United States and other countries, including China;
- increases in prices of raw materials and fuel;
- increases in labor costs, the availability of labor, or labor relations (i.e., disruptions, strikes or work stoppages);
- our ability to manage our operations including anticipating demand for our products, managing disruptions in our operations, managing manufacturing realignments (including related restructuring charges), managing customer credit risk and successful integration of acquisitions;
- the continuous operation of our information technology and enterprise resource planning systems and management of potential cyber security threats and attacks;
- 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;
- political, economic and other risks that arise from operating a multinational business;
- uncertainty relating to the United Kingdom's anticipated exit from the European Union;
- fluctuating exchange and interest rates;
- our ability to innovate and keep pace with technological developments;
- product liability claims and product recalls;
- retention of key management personnel;
- environmental and other government regulations, including the FCPA, and any changes in such 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
(In thousands of U.S. dollars, except per share amounts)
(Unaudited)

	Three Months Ended	
	March 31, 2019	**April 1, 2018**
Net sales	$530,311	$517,879
Cost of goods sold	418,207	412,450
Gross profit	112,104	105,429
Selling, general and administration expenses	78,100	68,211
Restructuring costs	3,740	—
Asset impairment	10,625	—
Loss on disposal of subsidiaries	4,605	—
Operating income	15,034	37,218
Interest expense, net	11,127	8,756
Other income, net of expense	(1,130)	(22)
Income before income tax expense	5,037	28,484
Income tax expense	58	6,701
Net income	4,979	21,783
Less: net income attributable to non-controlling interests	1,190	957
Net income attributable to Masonite	$3,789	$20,826
Basic earnings per common share attributable to Masonite	$0.15	$0.74
Diluted earnings per common share attributable to Masonite	$0.15	$0.73
Comprehensive income:		
Net income	$4,979	$21,783
Other comprehensive income:		
Foreign currency translation gain	13,991	5,774
Amortization of actuarial net losses	404	300
Income tax expense related to other comprehensive income	(93)	(100)
Other comprehensive income, net of tax:	14,302	5,974
Comprehensive income	19,281	27,757
Less: comprehensive income attributable to non-controlling interests	1,406	714
Comprehensive income attributable to Masonite	$17,875	$27,043

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	March 31, 2019	December 30, 2018
Current assets:		
Cash and cash equivalents	$79,642	$ 115,656
Restricted cash	10,985	10,485
Accounts receivable, net	291,298	283,580
Inventories, net	255,499	250,407
Prepaid expenses	31,432	32,970
Income taxes receivable	3,181	3,495
Total current assets	672,037	696,593
Property, plant and equipment, net	598,064	609,753
Operating lease right-of-use assets	126,600	—
Investment in equity investees	14,372	13,474
Goodwill	182,898	180,297
Intangible assets, net	208,947	212,045
Deferred income taxes	29,451	28,509
Other assets	39,347	37,794
Total assets	$1,871,716	$ 1,778,465
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$95,523	$ 96,362
Accrued expenses	147,922	147,345
Income taxes payable	2,643	1,599
Total current liabilities	246,088	245,306
Long-term debt	796,586	796,398
Deferred income taxes	79,302	82,122
Long-term operating lease liabilities	114,426	—
Other liabilities	24,944	32,334
Total liabilities	1,261,346	1,156,160
Commitments and Contingencies (Note 10)		
Equity:		
Share capital: unlimited shares authorized, no par value, 25,314,850 and 25,835,664 shares issued and outstanding as of March 31, 2019, and December 30, 2018, respectively	567,490	575,207
Additional paid-in capital	214,294	218,988
Accumulated deficit	(45,852)	(30,836)
Accumulated other comprehensive loss	(138,833)	(152,919)
Total equity attributable to Masonite	597,099	610,440
Equity attributable to non-controlling interests	13,271	11,865
Total equity	610,370	622,305
Total liabilities and equity	$1,871,716	$ 1,778,465

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)

	Three Months Ended	
	March 31, 2019	**April 1, 2018**
Total equity, beginning of period	$622,305	$735,902
Share capital:		
Beginning of period	575,207	624,403
Common shares issued for delivery of share based awards	6,152	9,864
Common shares issued under employee stock purchase plan	517	516
Common shares repurchased and retired	(14,386)	(15,229)
End of period	567,490	619,554
Additional paid-in capital:		
Beginning of period	218,988	226,528
Share based compensation expense	2,680	3,065
Common shares issued for delivery of share based awards	(6,152)	(9,864)
Common shares withheld to cover income taxes payable due to delivery of share based awards	(1,090)	(2,422)
Common shares issued under employee stock purchase plan	(132)	(79)
End of period	214,294	217,228
Accumulated deficit:		
Beginning of period	(30,836)	(18,150)
Net income attributable to Masonite	3,789	20,826
Common shares repurchased and retired	(18,805)	(28,962)
End of period	(45,852)	(26,286)
Accumulated other comprehensive loss:		
Beginning of period	(152,919)	(110,152)
Other comprehensive income attributable to Masonite, net of tax	14,086	6,217
End of period	(138,833)	(103,935)
Equity attributable to non-controlling interests:		
Beginning of period	11,865	13,273
Net income attributable to non-controlling interests	1,190	957
Other comprehensive income (loss) attributable to non-controlling interests, net of tax	216	(243)
Dividends to non-controlling interests	—	(975)
End of period	13,271	13,012
Total equity, end of period	$610,370	$719,573
Common shares outstanding:		
Beginning of period	25,835,664	28,369,877
Common shares issued for delivery of share based awards	116,252	166,248
Common shares issued under employee stock purchase plan	9,036	7,386
Common shares repurchased and retired	(646,102)	(691,783)
End of period	25,314,850	27,851,728

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)

	Three Months Ended	
Cash flows from operating activities:	**March 31, 2019**	**April 1, 2018**
Net income	$4,979	$21,783
Adjustments to reconcile net income to net cash flow provided by operating activities:		
Loss on disposal of subsidiaries	4,605	—
Depreciation	18,285	13,934
Amortization	7,597	6,585
Share based compensation expense	2,680	3,065
Deferred income taxes	(3,708)	3,619
Unrealized foreign exchange loss	272	692
Share of income from equity investees, net of tax	(898)	(311)
Pension and post-retirement funding, net of expense	(1,661)	(1,424)
Non-cash accruals and interest	(562)	382
Loss on sale of property, plant and equipment	2,913	612
Asset impairment	10,625	—
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable	(6,587)	(16,629)
Inventories	(5,902)	(1,644)
Prepaid expenses	1,986	(176)
Accounts payable and accrued expenses	(16,193)	(1,969)
Other assets and liabilities	80	(1,326)
Net cash flow provided by operating activities	18,511	27,193
Cash flows from investing activities:		
Additions to property, plant and equipment	(20,422)	(21,801)
Cash used in acquisitions, net of cash acquired	(219)	(96,309)
Cash disposed in sale of subsidiaries, net of cash proceeds	(230)	—
Proceeds from sale of property, plant and equipment	88	—
Other investing activities	(418)	(862)
Net cash flow used in investing activities	(21,201)	(118,972)
Cash flows from financing activities:		
Repayments of long-term debt	(6)	(102)
Tax withholding on share based awards	(1,090)	(2,422)
Distributions to non-controlling interests	—	(975)
Repurchases of common shares	(33,191)	(44,191)
Net cash flow used in financing activities	(34,287)	(47,690)
Net foreign currency translation adjustment on cash	1,463	(224)
Decrease in cash, cash equivalents and restricted cash	(35,514)	(139,693)
Cash, cash equivalents and restricted cash, beginning of period	126,141	188,564
Cash, cash equivalents and restricted cash, at end of period	$90,627	$48,871

See accompanying notes to the condensed consolidated financial statements.

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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 30, 2018, 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-week periods are referred to as three-month periods. Certain prior year amounts have been reclassified to conform to the current basis of presentation, related to discontinued operations, as described in the 2018 Form 10-K.

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 2018 audited consolidated financial statements, other than as noted below.

Adoption of Recent Accounting Pronouncements

In August 2018, the FASB issued ASU 2018-15, "Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract." This ASU amended the definition of a hosting arrangement and required a customer in a cloud computing arrangement that is a service contract to follow the internal-use software guidance in ASC 350-40 "Intangibles—Goodwill and Other—Internal-Use Software" to determine which implementation costs to capitalize as assets or expense as incurred. Capitalized implementation costs related to a hosting arrangement that is a service contract are amortized over the term of the hosting arrangement, beginning when the module or component of the hosting arrangement is ready for its intended use. The guidance was effective for annual periods beginning after December 15, 2019, and interim periods within those annual periods; early adoption was permitted and either retrospective or prospective application was required for all implementation costs incurred after the date of adoption. We have early adopted this guidance prospectively as of December 31, 2018, the beginning of fiscal year 2019, and the adoption did not have any material impact on our results of operations.

In January 2017, the FASB issued ASU 2017-04, "Simplifying the Test for Goodwill Impairment," which amended ASC 350 "Intangibles—Goodwill and Other." This ASU simplified the accounting for goodwill impairments and allowed a goodwill impairment charge to be based upon the amount of a reporting unit's carrying value in excess of its fair value; thus, eliminating what is currently known as "Step 2" under the current guidance. This ASU was effective for annual periods beginning after December 15, 2019, and interim periods within those annual periods; early adoption

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

was permitted and prospective application was required. We have early adopted this guidance prospectively as of December 31, 2018, the beginning of fiscal year 2019, and the adoption did not have a material impact on our financial statements.

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)," which replaces the existing guidance in ASC 840, "Leases." This standard was supplemented by ASUs 2018-01, 2018-10, 2018-11 and 2019-01. The updated standards aim to increase transparency and comparability among organizations by requiring lessees to recognize right-of-use ("ROU") assets and lease liabilities on the balance sheet and requiring disclosure of key information about leasing arrangements. The transition option in ASU 2018-11 allows entities to not apply the standards to the comparative periods they present in their financial statements in the year of adoption. These ASUs were effective for annual periods beginning after December 15, 2018, and interim periods within those annual periods; early adoption was permitted. We have elected to adopt these standards utilizing the modified retrospective method as of December 31, 2018, with the package of practical expedients permitted under the transition guidance of the new standards, which allowed us to not reassess whether any expired or existing contracts contain leases, to carry forward the historical lease classification and permitted us to exclude from our assessment initial direct costs for any existing leases. Additionally, we have elected to utilize the practical expedient which allows us to account for each separate lease component and the non-lease components associated with that lease component as a single lease component. We also made an accounting policy election to exclude leases with an initial term of twelve months or less from our transition adjustment. Lease payments are recognized in the consolidated statements of comprehensive income on a straight-line basis over the lease term.

The adoption of the standard resulted in the recognition of a ROU asset and lease liability for our operating leases of \$108.0 million and \$113.9 million, respectively, as of December 31, 2018. Our operating leases include leases for real estate and machinery and equipment and we have no material finance leases. The difference between the opening ROU asset and lease liability amounts was due to the reclassification of the existing deferred rent liability balance against the opening ROU assets to which it related. The standard did not materially affect our results of operations, liquidity or compliance with our debt covenants under our current agreements. Additional transition disclosures, including our updated lease accounting policy, are included in Note 6.

Other Recent Accounting Pronouncements not yet Adopted

In August 2018, the FASB issued ASU 2018-14, "Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans," which amended ASC 715, "Compensation—Retirement Benefits." This standard is applicable for employers that sponsor defined benefit pension or other postretirement plans, and eliminates disclosures no longer considered cost beneficial, clarifies specific disclosure requirements for entities that provide aggregate disclosures for two or more plans and adds requirements for explanations for significant gains and losses related to changes in benefit obligations. The guidance will be effective for annual periods ending after December 15, 2020; early adoption is permitted and retrospective application is required. We are in the process of evaluating this guidance to determine the impact it may have on our financial statements.

2. Acquisitions and Disposition

2018 Acquisitions

On November 1, 2018, we completed the acquisition of the operating assets of Bridgewater Wholesalers Inc. ("BWI") for cash considerations of \$22.3 million, net of cash acquired. BWI is headquartered in Branchburg, New Jersey, and is a fabricator and distributor of residential interior and exterior door systems, supporting customers in the Mid-Atlantic and Northeastern United States. Their product offerings include residential interior and exterior doors, commercial doors and hardware as well as value added pre-finishing services. The excess purchase price over the fair value of net assets acquired of \$3.7 million was allocated to goodwill. The goodwill principally represents anticipated synergies to be gained from the integration into our existing North American Residential business and the goodwill is deductible for tax purposes.

On June 1, 2018, we completed the acquisition of the operating assets of the wood door companies of AADG, Inc., including the brands Graham Manufacturing Corporation and The Maiman Company (collectively, "Graham & Maiman"). We acquired the operating assets of Graham & Maiman for cash consideration of $39.0 million. Graham & Maiman are based in Mason City, Iowa, and Springfield, Missouri. Graham & Maiman provide the non-residential

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

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 excess purchase price over the fair value of net assets acquired of $11.0 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 and the goodwill is not deductible for tax purposes.

The fair value of assets acquired and liabilities assumed in the 2018 acquisitions are as follows:

(In thousands)	**BWI**	**Graham & Maiman**	**DW3**	**Total 2018 Acquisitions**
Accounts receivable	$9,215	$—	$8,590	$ 17,805
Inventory	10,736	6,090	5,059	21,885
Property, plant and equipment	2,222	19,557	8,196	29,975
Goodwill	3,739	10,996	33,623	48,358
Intangible assets	2,970	2,750	62,873	68,593
Accounts payable and accrued expenses	(6,816)	(426)	(10,418)	(17,660)
Deferred income taxes	—	—	(11,546)	(11,546)
Other assets and liabilities, net	240	—	(68)	172
Cash consideration, net of cash acquired	$22,306	$38,967	$96,309	$ 157,582

During the three months ended March 31, 2019, we finalized the purchase price allocation for the BWI acquisition, which resulted in a $0.4 million increase in goodwill due to final working capital adjustments. 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. The gross contractual value of acquired trade receivables was $9.3 million and $9.1 million for the BWI and DW3 acquisitions, respectively.

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

(In thousands)	**BWI**	**Expected Useful Life (Years)**	**Graham & Maiman**	**Expected Useful Life (Years)**	**DW3**	**Expected Useful Life (Years)**
Customer relationships	$1,200	10.0	$ 2,400	10.0	$49,554	10.0
Trademarks and trade names	900	10.0	350	1.5	11,785	10.0
Patents	—		—		1,420	10.0
Other	870	2.2	—		114	3.0
Total intangible assets acquired	$2,970		$ 2,750		$62,873	

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

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 for the periods indicated subsequent to the acquisition date:

	Three Months Ended March 31, 2019			
(In thousands)	**BWI**	**Graham & Maiman**	**DW3**	**Total 2018 Acquisitions**
Net sales	$21,943	$16,656	$19,662	$ 58,261
Net income attributable to Masonite	78	220	2,857	3,155

	Three Months Ended April 1, 2018
(in thousands)	**DW3**
Net sales	$11,198
Net income attributable to Masonite	948

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.

	Three Months Ended April 1, 2018					
(In thousands, except per share amounts)	**Masonite**	**BWI**	**Graham & Maiman**	**DW3**	**Intercompany Eliminations**	**Pro Forma**
Net sales	$517,879	23,060	$15,599	$4,918	$ (11,109)	$550,347
Net income attributable to Masonite	20,826	130	202	81		21,239
Basic earnings per common share	$0.74					$0.75
Diluted earnings per common share	0.73					0.74

Disposition

On March 21, 2019, we completed the sale of all of the capital stock of Performance Doorset Solutions Limited ("PDS") for nominal consideration. We have had and will continue to have no continuing involvement with PDS subsequent to the sale, and the purchasers are not considered to be a related party. The disposition of this business resulted in a loss on disposal of subsidiaries of $4.6 million, which was recognized during the first quarter of 2019 in the Europe segment. The total charge consists of $3.6 million relating to the write-off of the net assets sold and other professional fees and $1.0 million relating to the recognition of the cumulative translation adjustment out of accumulated other comprehensive income (loss).

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

3. Accounts Receivable

Our customers consist mainly of wholesale distributors, dealers, homebuilders and retail home centers. Our ten largest customers accounted for 52.6% and 54.6% of total accounts receivable as of March 31, 2019, and December 30, 2018, respectively. Our largest customer, The Home Depot, Inc., accounted for more than 10% of the consolidated gross accounts receivable balance as of March 31, 2019, and December 30, 2018. The allowance for doubtful accounts balance was $1.9 million and $2.1 million as of March 31, 2019, and December 30, 2018, 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.

4. Inventories

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

(In thousands)	**March 31, 2019**	**December 30, 2018**
Raw materials	$ 187,587	$ 189,145