MASONITE INTERNATIONAL CORP
Form 10-Q
November 06, 2014

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 September 28, 2014
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 or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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 29,849,958 shares of Common Stock, no par value, as of November 3, 2014.

MASONITE INTERNATIONAL CORPORATION
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September 28, 2014

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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 29, 2013, 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;
- levels of residential new construction; residential repair, renovation and remodeling; and non-residential building construction activity;
- 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 senior secured asset-based credit facility, or 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 any shortage in supplies;
- our ability to keep pace with technological developments;
- the actions taken by, and the continued success of, certain key customers;
- our ability to maintain relationships with certain customers;
- new contractual commitments;
- the ability to generate the benefits of our restructuring activities;
- retention of key management personnel;
- environmental and other government regulations;
- our levels of indebtedness and debt service obligations, including our obligations under our senior notes and our ABL Facility;
- 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; and
- our ability to repurchase our senior notes upon a change of control.

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		Nine Months Ended	
	September 28, 2014	September 29, 2013	September 28, 2014	September 29, 2013
Net sales	$476,124	$433,051	$1,388,760	$1,310,668
Cost of goods sold	409,894	374,082	1,190,937	1,136,629
Gross profit	66,230	58,969	197,823	174,039
Selling, general and administration expenses	53,855	51,386	170,149	154,378
Restructuring costs	9,913	1,265	11,194	4,467
Operating income (loss)	2,462	6,318	16,480	15,194
Interest expense (income), net	10,447	8,330	31,034	24,788
Other expense (income), net	(404)	(255)	1,083	(776)
Income (loss) from continuing operations before income tax expense (benefit)	(7,581)	(1,757)	(15,637)	(8,818)
Income tax expense (benefit)	2,004	(6,272)	3,402	(7,716)
Income (loss) from continuing operations	(9,585)	4,515	(19,039)	(1,102)
Income (loss) from discontinued operations, net of tax	(124)	(62)	(436)	(196)
Net income (loss)	(9,709)	4,453	(19,475)	(1,298)
Less: net income (loss) attributable to non-controlling interest	258	838	1,498	2,123
Net income (loss) attributable to Masonite	$(9,967)	$3,615	$(20,973)	$(3,421)
Earnings (loss) per common share attributable to Masonite:				
Basic	$(0.34)	$0.13	$(0.70)	$(0.12)
Diluted	$(0.34)	$0.12	$(0.70)	$(0.12)
Earnings (loss) per common share from continuing operations attributable to Masonite:				
Basic	$(0.34)	$0.13	$(0.69)	$(0.11)
Diluted	$(0.34)	$0.12	$(0.69)	$(0.11)
Comprehensive income (loss):				
Net income (loss)	$(9,709)	$4,453	$(19,475)	$(1,298)
Other comprehensive income (loss):				
Foreign exchange gain (loss)	(23,780)	10,284	(23,911)	(13,577)
Amortization of actuarial net losses	—	349	—	1,047
Income tax benefit (expense) related to other comprehensive income (loss)	(427)	(136)	(1,046)	(408)
Other comprehensive income (loss), net of tax:	(24,207)	10,497	(24,957)	(12,938)
Comprehensive income (loss)	(33,916)	14,950	(44,432)	(14,236)

Less: comprehensive income (loss) attributable to non-controlling interest	(112)	962	1,020	1,737
Comprehensive income (loss) attributable to Masonite	$(33,804)	$13,988	$(45,452)	$(15,973)

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	September 28, 2014	December 29, 2013
Current assets:		
Cash and cash equivalents	$202,754	$100,873
Restricted cash	13,294	13,831
Accounts receivable, net	265,228	243,823
Inventories, net	234,300	218,348
Prepaid expenses	20,610	22,371
Assets held for sale	—	3,408
Income taxes receivable	3,663	3,250
Current deferred income taxes	19,691	17,840
Total current assets	759,540	623,744
Property, plant and equipment, net	598,679	630,279
Investment in equity investees	8,325	7,483
Goodwill	98,276	78,404
Intangible assets, net	215,062	203,714
Long-term deferred income taxes	18,116	23,363
Other assets, net	25,217	24,158
Total assets	$1,723,215	$1,591,145
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$114,195	$98,936
Accrued expenses	154,817	128,924
Income taxes payable	662	732
Total current liabilities	269,674	228,592
Long-term debt	512,393	377,861
Long-term deferred income taxes	111,489	108,924
Other liabilities	44,108	50,206
Total liabilities	937,664	765,583
Commitments and Contingencies (Note 9)		
Equity:		
Share capital: unlimited shares authorized, no par value, 29,827,751 and 29,085,021 shares issued and outstanding as of September 28, 2014, and December 29, 2013, respectively.	655,150	646,196
Additional paid-in capital	227,479	230,306
Accumulated deficit	(81,150)	(60,177)
Accumulated other comprehensive income (loss)	(44,080)	(19,601)
Total equity attributable to Masonite	757,399	796,724
Equity attributable to non-controlling interests	28,152	28,838
Total equity	785,551	825,562
Total liabilities and equity	$1,723,215	$1,591,145

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	Common Stock Amount	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 December 30, 2012	27,943,774	$633,910	$240,784	$(49,167)	$(18,984)	$806,543	$31,272	$837,815
Net income (loss)				(11,010)		(11,010)	2,050	(8,960)
Other comprehensive income (loss), net of tax					(617)	(617)	(761)	(1,378)
Dividends to non-controlling interests						—	(3,723)	(3,723)
Share based awards			7,752			7,752		7,752
Common shares issued for delivery of share based awards	1,141,247	12,286	(12,286)			—		—
Common shares withheld to cover income taxes payable due to delivery of share based awards			(5,944)			(5,944)		(5,944)
Balances as of December 29, 2013	29,085,021	$646,196	$230,306	$(60,177)	$(19,601)	$796,724	$28,838	$825,562
Net income (loss)				(20,973)		(20,973)	1,498	(19,475)
Other comprehensive income (loss), net of tax					(24,479)	(24,479)	(478)	(24,957)
Dividends to non-controlling interests						—	(1,706)	(1,706)
Share based awards			7,335			7,335		7,335
	463,322	4,853	(4,853)			—		—

Common shares issued for delivery of share based awards								
Common shares issued for exercise of warrants	279,408	4,101	(3,838)			263		263
Common shares withheld to cover income taxes payable due to delivery of share based awards			(1,471)			(1,471)		(1,471)
Balances as of September 28, 2014	29,827,751	$655,150	$227,479	$(81,150)	$(44,080)	$757,399	$28,152	$785,551

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)

	Nine Months Ended	
Cash flows from operating activities:	September 28, 2014	September 29, 2013
Net income (loss)	$(19,475)	$(1,298)
Adjustments to reconcile net income (loss) to net cash flow provided by (used in) operating activities, net of acquisitions:		
Loss (income) from discontinued operations, net of tax	436	196
Non-cash loss on deconsolidation	6,174	—
Depreciation	45,824	47,682
Amortization	16,173	12,883
Share based compensation expense	7,335	5,752
Deferred income taxes	642	(8,826)
Unrealized foreign exchange loss (gain)	1,490	(298)
Share of loss (income) from equity investees, net of tax	(839)	(789)
Pension and post-retirement expense (funding), net	(4,853)	(4,608)
Non-cash accruals and interest	(1,915)	772
Loss (gain) on sale of property, plant and equipment	2,359	(1,810)
Impairment	1,403	1,904
Changes in assets and liabilities:		
Accounts receivable	(32,283)	(18,091)
Inventories	(21,077)	(24,084)
Prepaid expenses	2,255	(2,577)
Accounts payable and accrued expenses	52,570	21,142
Other assets and liabilities	20	1,897
Net cash flow provided by (used in) operating activities	56,239	29,847
Cash flows from investing activities:		
Proceeds from sale of property, plant and equipment	6,751	9,288
Additions to property, plant and equipment	(35,174)	(24,850)
Cash used in acquisitions, net of cash acquired	(50,355)	(15,082)
Loss on deconsolidation	(1,187)	—
Restricted cash	522	(1,369)
Other investing activities	(2,607)	(2,471)
Net cash flow provided by (used in) investing activities	(82,050)	(34,484)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	138,688	—
Payment of financing costs	(1,925)	—
Minimum tax withholding on share based awards	(1,471)	—
Distributions to non-controlling interests	(1,706)	(1,696)
Proceeds from exercise of common stock warrants	263	—
Return of capital paid	—	(1,321)
Net cash flow provided by (used in) financing activities	133,849	(3,017)
Net foreign currency translation adjustment on cash	(6,157)	(1,488)
Increase (decrease) in cash and cash equivalents	101,881	(9,142)
Cash and cash equivalents, beginning of period	100,873	122,314

Cash and cash equivalents, at end of period	$202,754	$113,172

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 62 manufacturing and distribution facilities in 10 countries and sells doors to customers throughout the world, including the United States, Canada, the United Kingdom and France.

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 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 29, 2013, as filed with the SEC. There have been no changes in the significant accounting policies from those that were disclosed in the 2013 audited consolidated financial statements.

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 39-week periods are referred to as three- and nine-month periods, respectively.

Changes in Accounting Standards and Policies
Adoption of Recent Accounting Pronouncements
In July 2013, the FASB issued ASU 2013-11, "Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists," which amended ASC 740, "Income Taxes." This ASU addresses the diversity in practice regarding financial statement presentation of an unrecognized tax benefit when a net operating loss, a similar tax loss or a tax credit carryforward exists. This ASU requires an entity to present an unrecognized tax benefit, or a portion of an unrecognized tax benefit, as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss or a tax credit carryforward, except as follows: to the extent a

net operating loss carryforward, a similar tax loss or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. This ASU was effective prospectively for reporting periods beginning after December 15, 2013, and early adoption was permitted. The adoption of this standard did not have a material impact on the presentation of our financial statements.

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

In March 2013, the FASB issued ASU 2013-05, "Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity," which amended ASC 830, "Foreign Currency Matters." This ASU updates accounting guidance related to the application of consolidation guidance and foreign currency matters. This ASU resolves the diversity in practice about what guidance applies to the release of the cumulative translation adjustment into net income. This ASU was effective prospectively for annual reporting periods beginning after December 15, 2013, and interim periods within those annual periods. The adoption of this standard did not have a material impact on the presentation of our financial statements. Any future impact of ASU 2013-05 on our financial position and results of operations will depend upon the nature and extent of future sales or dispositions of any entities that had created a cumulative translation adjustment.

Other Recent Accounting Pronouncements not yet Adopted

In August 2014, the FASB issued ASU 2014-15, "Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern," which amended ASC 205-40, "Presentation of Financial Statements - Going Concern". This ASU requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year of the date of issuance of the entity's financial statements and to provide related footnote disclosures. This ASU is effective for annual reporting periods ending after December 15, 2016, and interim periods thereafter; early adoption is permitted. We are in the process of evaluating this guidance to determine the impact it will have on our financial statements.

In May 2014, the FASB issued ASU 2014-09, "Revenue From Contracts With Customers," which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes 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. This ASU is effective for annual reporting periods beginning after December 15, 2016, and interim periods within those annual periods; early application is not permitted. We are in the process of evaluating this guidance to determine the magnitude of its impact on our financial statements.

In April 2014, the FASB issued ASU 2014-08, "Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity," which amends the definition of a discontinued operation in ASC 205-20 and requires entities to provide additional disclosures about discontinued operations as well as disposal transactions that do not meet the discontinued operations criteria. The FASB issued the ASU to provide more decision-useful information and to make it more difficult for a disposal transaction to qualify as a discontinued operation. This ASU is effective for annual reporting periods beginning after December 15, 2014, and interim periods within those annual periods; early application is permitted. The adoption of this standard is not expected to have a material impact on the presentation of our financial statements.

2. Acquisitions

2014 Acquisition

On February 24, 2014, we completed the acquisition of Door-Stop International Limited ("Door-Stop") for total consideration of $50.4 million. We acquired 100% of the equity interests in Door-Stop through the purchase of all outstanding shares of common stock on the acquisition date. Door-Stop is based in Nottinghamshire, United Kingdom, utilizes an internet-based ordering process and manufactures exterior door sets for the residential repair and renovation markets. The excess purchase price over the fair value of net tangible and intangible assets acquired of $20.4 million was allocated to goodwill. The goodwill principally represents the future expected value of the operations of the business. This goodwill is not deductible for tax purposes and relates to the Europe, Asia and Latin America segment. The Door-Stop acquisition complements our existing global fiberglass business.

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

The aggregate consideration paid for the Door-Stop acquisition was as follows:

(In thousands)	Door-Stop Acquisition
Accounts receivable, net	$2,648
Inventory	2,665
Property, plant and equipment	4,303
Goodwill	20,359
Intangible assets, net	28,776
Accounts payable and accrued expenses, net	(3,492)
Other assets and liabilities, net	(4,904)
Cash consideration, net of cash acquired	$50,355

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. Intangible assets acquired from Door-Stop consist of customer relationships and are being amortized over the weighted average amortization period of 9.9 years. The intangible assets are not expected to have any residual value. The gross contractual value of acquired trade receivables was $2.8 million.

The following schedule represents the amount of revenue and earnings from the Door-Stop acquisition which have been included in the consolidated statements of comprehensive income (loss) for the period indicated subsequent to the acquisition date:

(In thousands)	Three Months Ended September 28, 2014	Nine Months Ended September 28, 2014
Net sales	$11,883	$28,757
Net income (loss) attributable to Masonite	639	2,079

2013 Acquisition

On July 9, 2013, we acquired assets of a door manufacturing operation from Masisa S.A (the "Chile" acquisition) for servicing the North American market for total consideration of $12.2 million. The transaction includes the door component operations in Cabrero, Chile, and a door assembly factory in Chillan, Chile. The operations acquired primarily manufacture high quality stile and rail panel and French wood doors for the North American market. The excess purchase price over the fair value of net tangible and intangible assets acquired of $0.3 million was allocated to goodwill. The goodwill principally represents anticipated synergies to be gained from integration into our North American wood door business. This goodwill is not deductible for tax purposes and relates to the North America segment. The Chile acquisition acts as a natural complement to our existing North American interior stile and rail residential wood door operations.

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

The aggregate consideration paid for the Chile acquisition was as follows:

(In thousands)	Chile Acquisition
Inventory	$5,174
Property, plant and equipment	6,228
Goodwill	316
Other assets and liabilities, net	508
Cash consideration	$12,226

Amounts of revenue and earnings included in the condensed consolidated statements of comprehensive income (loss) for Chile were not material for the three or nine months ended September 28, 2014, or September 29, 2013.

Pro Forma Information

The following unaudited pro forma financial information represents the unaudited condensed consolidated financial information as if the Door-Stop acquisition had been included in our unaudited condensed consolidated results beginning on the first day of the fiscal year prior to the acquisition date. Pro forma information relating to the Chile acquisition has been excluded as it is not materially different from amounts reported. The pro forma results have been derived from audited and unaudited financial results of the acquired entity. The pro forma results have been calculated after adjusting the results of the acquired entity 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 acquisition, 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 acquisition; 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.

	Nine Months Ended September 28, 2014		
(In thousands, except per share amounts)	Masonite	Door-Stop	Pro Forma
Net sales	$1,388,760	$6,659	$1,395,419
Net income (loss) attributable to Masonite	(20,973)	624	(20,349)
Basic earnings (loss) per common share	$(0.70)		$(0.69)
Diluted earnings (loss) per common share	$(0.70)		$(0.69)

In the table above, amounts under the Door-Stop heading reflect pro forma results for the period prior to acquisition through the acquisition date of February 24, 2014. All actual results from Door-Stop subsequent to the acquisition date are reflected under the Masonite heading above.

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

	Three Months Ended September 29, 2013		
(In thousands, except per share amounts)	Masonite	Door-Stop	Pro Forma
Net sales	$433,051	$9,380	$442,431
Net income (loss) attributable to Masonite	3,615	744	4,359
Basic earnings (loss) per common share	$0.13		$0.16
Diluted earnings (loss) per common share	$0.12		$0.15

	Nine Months Ended September 29, 2013		
(In thousands, except per share amounts)	Masonite	Door-Stop	Pro Forma
Net sales	$1,310,668	$27,017	$1,337,685
Net income (loss) attributable to Masonite	(3,421)	1,966	(1,455)
Basic earnings (loss) per common share	$(0.12)		$(0.05)
Diluted earnings (loss) per common share	$(0.12)		$(0.05)

3. Goodwill and Intangible Assets

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

(In thousands)	North America Segment	Europe, Asia and Latin America Segment	Total
December 30, 2012	$78,122	$—	$78,122
Goodwill from 2013 acquisition	316	—	316
Foreign exchange fluctuations	(34)	—	(34)
December 29, 2013	78,404	—	78,404
Goodwill from 2014 acquisition	—	20,359	20,359
Foreign exchange fluctuations	(59)	(428)	(487)
September 28, 2014	$78,345	$19,931	$98,276

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

	September 28, 2014			
(In thousands)	Cost	Accumulated Amortization	Translation Adjustment	Net Book Value
Definite life intangible assets:				
Customer relationships	$107,834	$(30,149)	$(1,229)	$76,456
Patents	28,428	(14,042)	(100)	14,286
Software	28,586	(18,398)	185	10,373
Other	12,198	(6,513)	(1,406)	4,279
	177,046	(69,102)	(2,550)	105,394
Indefinite life intangible assets:				
Trademarks and tradenames	111,053	—	(1,385)	109,668
Total intangible assets	$288,099	$(69,102)	$(3,935)	$215,062

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	December 29, 2013			
(In thousands)	Cost	Accumulated Amortization	Translation Adjustment	Net Book Value
Definite life intangible assets:				
Customer relationships	$82,333	$(21,171)	$(675)	$60,487
Patents	27,546	(12,105)	154	15,595
Software	27,266	(15,670)	299	11,895
Other	11,923	(5,457)	(1,432)	5,034
	149,068	(54,403)	(1,654)	93,011
Indefinite life intangible assets:				
Trademarks and tradenames	109,789	—	914	110,703
Total intangible assets	$258,857	$(54,403)	$(740)	$203,714

Amortization of intangible assets was $5.0 million and $14.7 million for the three and nine months ended September 28, 2014, respectively, and was $4.3 million and $12.9 million for the three and nine months ended September 29, 2013, respectively. Amortization expense is classified within selling, general and administration expenses in the condensed consolidated statements of comprehensive income (loss).

The estimated future amortization of intangible assets with definite lives as of September 28, 2014, is as follows:

(In thousands)	
Fiscal year:	
2014 (remaining three months)	$4,922
2015	19,743
2016	18,276
2017	16,038
2018	12,732

4. Accounts Receivable

Our customers consist mainly of wholesale distributors, dealers, and retail home centers. Our ten largest customers accounted for 44.8% and 44.4% of total accounts receivable as of September 28, 2014, and December 29, 2013, respectively. Our largest customer, The Home Depot, Inc., accounted for more than 10% of the consolidated gross accounts receivable balance as of September 28, 2014, and December 29, 2013. No other individual customer accounted for greater than 10% of the consolidated gross accounts receivable balance at either September 28, 2014, or December 29, 2013. The allowance for doubtful accounts balance was $3.2 million and $3.8 million as of September 28, 2014, and December 29, 2013, respectively.

We maintain an accounts receivable sales program with a third party ("AR Sales Program"). Under the AR Sales Program, we can transfer ownership of eligible trade accounts receivable of a large retail customer. 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 consolidated balance sheets and are included in cash flows from operating activities in the 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 to selling, general and administration expense within the consolidated statements of comprehensive income (loss).

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5. Inventories

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

(In thousands)	September 28, 2014	December 29, 2013
Raw materials	$159,446	$151,065
Finished goods	74,854	67,283
Inventories, net	$234,300	$218,348

We carried an inventory provision of $7.3 million and $8.4 million as of September 28, 2014, and December 29, 2013, respectively. This provision is the result of obsolete or aged inventory.

6. 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)	September 28, 2014	December 29, 2013
Land	$48,354	$50,190
Buildings	187,259	192,782
Machinery and equipment	550,120	559,776
Property, plant and equipment, gross	785,733	802,748
Accumulated depreciation	(187,054)	(172,469)
Property, plant and equipment, net	$598,679	$630,279

Total depreciation expense was $15.8 million and $45.8 million in the three and nine months ended September 28, 2014, respectively, and was $15.5 million and $47.7 million in the three and nine months ended September 29, 2013, respectively. Depreciation expense is included primarily within cost of goods sold in the condensed consolidated statements of comprehensive income (loss).

On June 6, 2014, an explosion occurred in the power plant of our Estcourt mill in South Africa which reduced the site's ability to generate steam and heat the kilns which, in turn, required the production lines to cease operating for several weeks. Currently, the mill is running at approximately 80% of pre-incident levels with the balance expected to be restored during the fourth quarter of 2014. We are insured against property loss and business interruption, and we received $0.8 million in business interruption proceeds in September 2014 as an interim partial payment.

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7. Long-Term Debt

(In thousands)	September 28, 2014	December 29, 2013
8.25% Senior Notes due 2021	$500,000	$375,000
Unamortized premium on Senior Notes	12,393	2,809
Capital lease obligations and other long-term debt	—	52
Total long-term debt	$512,393	$377,861

Senior Notes

On January 21, 2014, March 9, 2012, and April 15, 2011, we issued $125.0 million, $100.0 million and $275.0 million aggregate principal senior unsecured notes, respectively (the "Senior Notes"). As of September 28, 2014, we had outstanding $500.0 million aggregate principal amount of Senior Notes. All issuances of the Senior Notes have the same terms, rights and obligations, and were issued in the same series. The Senior Notes were issued in three 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 Senior Notes were issued without registration rights and are not listed on any securities exchange. The Senior Notes bear interest at 8.25% per annum, payable in cash semiannually in arrears on April 15 and October 15 of each year and are due April 15, 2021. We received net proceeds of $136.8 million, $101.5 million and $265.5 million in 2014, 2012 and 2011, respectively, after deducting $1.9 million, $2.0 million and $9.5 million of transaction issuance costs. The transaction costs were capitalized as deferred financing costs (included in other assets) and are being amortized to interest expense over the term of the Senior Notes using the effective interest method. The Senior Notes were issued at 108.75%, 103.50% and par in 2014, 2012 and 2011, respectively. The resulting premiums of $10.9 million and $3.5 million in 2014 and 2012, respectively, are being amortized to interest expense over the term of the Senior Notes using the effective interest method. The net proceeds from the Senior Notes were used to fund a $124.9 million return of capital to shareholders in 2011, in the amount of $4.54 per share; as well as the acquisitions of seven companies since 2011 for aggregate consideration of $293.6 million. The remaining proceeds from the Senior Notes are intended for general corporate purposes, which may include funding future acquisitions. Interest expense relating to the Senior Notes was $9.8 million and $29.4 million for the three and nine months ended September 28, 2014, respectively, and was $8.0 million and $23.9 million for the three and nine months ended September 29, 2013, respectively.

We may redeem the Senior Notes, in whole or in part, at any time prior to April 15, 2015, at a price equal to 100% of the principal amount plus the applicable premium, plus accrued and unpaid interest, if any, to the date of redemption. The applicable premium means, with respect to a note at any date of redemption, the greater of (i) 1.00% of the then-outstanding principal amount of such note and (ii) the excess of (a) the present value at such date of redemption of (1) the redemption price of such note at April 15, 2015, plus (2) all remaining required interest payments due on such note through such date (excluding accrued but unpaid interest to the date of redemption), computed using a discount rate equal to the Treasury Rate plus 50 basis points, over (b) the principal amount of such note on such redemption date. We may also redeem the Senior Notes, in whole or in part, at any time on or after April 15, 2015, at the applicable redemption prices specified under the indenture governing the Senior 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 Senior Notes at a purchase price of 101.00% of their principal amount, plus accrued and unpaid interest, if any, to the repurchase date.

Obligations under the Senior Notes are fully and unconditionally guaranteed, jointly and severally, on a senior unsecured basis, by certain of our directly or indirectly wholly-owned subsidiaries.

The indenture governing the Senior 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 Senior Notes. In addition, if in

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the future the Senior 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 Senior Notes contains customary events of default (subject in certain cases to customary grace and cure periods). As of September 28, 2014, and December 29, 2013, we were in compliance with all covenants under the indenture governing the Senior Notes.

ABL Facility

In May 2011, we and certain of our subsidiaries, as borrowers, entered into a $125.0 million asset-based revolving credit facility (the "ABL Facility"). The borrowing base is calculated based on a percentage of the value of selected U.S. and Canadian accounts receivable and U.S. and Canadian inventory, less certain ineligible amounts.

Obligations under the ABL Facility are secured by a first priority security interest in substantially all of the current assets of Masonite and our subsidiaries. In addition, obligations under the ABL Facility are fully and unconditionally guaranteed, jointly and severally, on a senior unsecured basis, by certain of our directly or indirectly wholly-owned subsidiaries.

Borrowings under the ABL Facility will bear interest at a variable rate per annum equal to, at our option, (i) LIBOR, plus a margin ranging from 2.00% to 2.50% per annum, or (ii) the Base Rate (as defined in the ABL Facility agreement), plus a margin ranging from 1.00% to 1.50% per annum.

In addition to paying interest on any outstanding principal under the ABL Facility, we are required to pay a commitment fee in respect of unutilized commitments of 0.25% of the aggregate commitments under the ABL Facility if the average utilization is greater than 50% for any applicable period, and 0.375% of the aggregate commitments under the ABL Facility if the average utilization is less than or equal to 50% for any applicable period. We must also pay customary letter of credit fees and agency fees.

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) incur additional indebtedness, (ii) pay dividends on our common stock and make other restricted payments, (iii) make investments and acquisitions, (iv) engage in transactions with our affiliates, (v) sell assets, (vi) merge and (vii) create liens. As of September 28, 2014, and December 29, 2013, 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.

8. Share Based Compensation Plans

Share based compensation expense was $2.3 million and $7.3 million for the three and nine months ended September 28, 2014, respectively, and was $1.8 million and $5.8 million for the three and nine months ended September 29, 2013, respectively. As of September 28, 2014, the total remaining unrecognized compensation expense related to share based compensation amounted to $12.6 million, which will be amortized over the weighted average remaining requisite service period of 2.1 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 Plan

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

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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.

On July 12, 2012, the Board of Directors adopted the Masonite International Corporation 2012 Equity Incentive Plan (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 10 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 compensation 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 any material amendments are subject to shareholder approval. Prior to June 21, 2013, the aggregate number of common shares that could be issued with respect to equity awards under the 2012 Plan could not exceed 1,500,000 shares plus the number of shares subject to existing grants under the 2009 Plan that may expire or be forfeited or cancelled. On June 21, 2013, the Board of Directors approved an increase of 500,000 common shares issuable under the 2012 Plan, bringing the total number of shares issuable under the 2012 Plan to 2,000,000 plus the number of shares subject to existing grants under the 2009 plan that may expire or be forfeited or cancelled. As of September 28, 2014, there were 1,836,909 shares of common stock available for future issuance under the 2012 Plan.

Deferred Compensation Plan

Effective August 13, 2012, the Board of Directors adopted a Deferred Compensation Plan ("DCP"). The DCP is an unfunded non-qualified deferred compensation plan that permits 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 September 28, 2014 the liability and asset relating to deferred compensation each had a fair value of $1.3 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 September 28, 2014, participation in the deferred compensation plan is limited and no restricted stock awards have been deferred into the deferred compensation plan.

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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 four years, have a life of ten years and settle in common shares. It is assumed that all time-based SARs will vest.

The total fair value of SARs vested was zero and $0.6 million in the three and nine months ended September 28, 2014, respectively, and was $1.4 million and $2.5 million in the three and nine months ended September 29, 2013, respectively.

Nine Months Ended September 28, 2014	Stock Appreciation Rights	Aggregate Intrinsic Value (in thousands)	Weighted Average Exercise Price	Average Remaining Contractual Life (Years)
Outstanding, beginning of period	1,812,658	$59,525	$18.16	6.4
Exercised	(407,668)		14.33	
Cancelled	(20,622)		38.48	
Outstanding, end of period	1,384,368	$47,748	$18.94	6.0
Exercisable, end of period	1,052,644	$39,495	$15.91	5.3
Nine Months Ended September 29, 2013				
Outstanding, beginning of period	2,628,448	$21,005	$15.76	6.9
Granted	212,550		32.68	
Exercised	(116,135)		13.67	
Cancelled	(42,887)		14.60	
Outstanding, end of period	2,681,976	$41,478	$17.21	5.9
Exercisable, end of period	2,251,929	$38,567	$15.55	5.4

During the nine months ended September 29, 2013, the Company granted 212,550 units of SARs to certain employees. The value of the SARs granted in 2013, as determined using the Black-Scholes-Merton valuation model, was $2.7 million and is being recognized over the weighted average requisite service period of 3.0 years. Expected volatility is based on the historical volatility of the Company's public industry peers' common shares, amongst other considerations. Following are the weighted average grant date assumptions used for the SARs granted in 2013:

Option value (model conclusion)	$12.53
Risk-free rate	1.8 %
Expected dividend yield	0.0 %
Expected volatility	35.1 %
Expected term (in years)	6.5

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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 four years, and call for the underlying shares to be delivered no later than the fourth anniversary of the grant dates. It is assumed that all time-based RSUs will vest.

	Nine Months Ended			
	September 28, 2014		September 29, 2013	
	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	618,963	$22.09	921,946	$17.75
Granted	193,940	54.65	324,358	23.80
Delivered	(137,527)		(460,512)	
Withheld to cover [1]	(28,947)		(11,968)	
Cancelled	(15,787)		(48,119)	
Outstanding, end of period	630,642	$31.85	725,705	$21.19

(1) A portion of the vested RSUs delivered were net share settled to cover the minimum statutory requirements for income and other employment taxes, at the individual participant’s election. 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 nine months ended September 28, 2014, 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 value of RSUs granted in the nine months ended September 28, 2014, was $10.6 million and is being recognized over the weighted average requisite service period of 1.8 years. During the nine months ended September 28, 2014, there were 166,474 RSUs vested at a fair value of $8.9 million.

During the nine months ended September 29, 2013, the Company granted 324,358 RSUs to certain employees. Approximately half of the RSUs 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 value of RSUs granted in 2013 was $7.7 million and is being recognized over the weighted average requisite service period of 2.3 years.

Warrants

On June 9, 2009, we issued 5,833,335 warrants, representing the right to purchase our common shares for $55.31 per share, subsequently adjusted to $50.77 per share for the $4.54 per share return of capital in 2011. Of these, 3,333,334 were scheduled to expire on June 9, 2014 (the "2014 Warrants"), and 2,500,001 expire on June 9, 2016 (the "2016 Warrants"). During the six months prior to their respective expiration dates, the warrants provide the holders with a cashless exercise option. During the nine month period ended September 28, 2014, holders of the 2014 Warrants exercised 3,289,146 warrants resulting in the issuance of 279,408 new common shares to the holders for which we

received cash proceeds of $0.3 million. The remaining 44,188 outstanding 2014 Warrants expired and were forfeited as of June 9, 2014. There has been no activity relating to the 2016 Warrants as of September 28, 2014. We have accounted for these warrants as equity instruments. Future exercises and forfeitures will reduce the amount of warrants. Future exercises will increase the amount of common shares outstanding and reduce additional paid-in capital.

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9. Commitments and Contingencies

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:	
2014 (remaining three months)	$3,825
2015	14,775
2016	11,100
2017	9,032
2018	8,257
Thereafter	51,504
Total future minimum lease payments	$98,493

Total rent expense, including non-cancelable operating leases and month-to-month leases, was $6.1 million and $18.1 million for the three and nine months ended September 28, 2014, respectively, and was $6.1 million and $18.9 million and for the three and nine months ended September 29, 2013, 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.

From time to time, we are involved in various claims and legal actions. In the opinion of management, the ultimate disposition of these matters, individually and in the aggregate, will not have a material effect on our condensed consolidated financial statements, results of operations or liquidity.

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10. Restructuring Costs

The following table summarizes the restructuring charges recorded for the periods indicated:

	Three Months Ended September 28, 2014				September 29, 2013		
(In thousands)	North America	Europe, Asia and Latin America	Africa	Total	North America	Europe, Asia and Latin America	Total
Israel Plan	$—	$9,664	$—	$9,664	$—	$—	$—
2013 Plan	107	7	1	115	—	131	131
2012 Plan	(27)	161	—	134	65	942	1,007
2009 and Prior Plans	—	—	—	—	—	127	127
Total Restructuring Costs	$80	$9,832	$1	$9,913	$65	$1,200	$1,265

	Nine Months Ended September 28, 2014				September 29, 2013		
(In thousands)	North America	Europe, Asia and Latin America	Africa	Total	North America	Europe, Asia and Latin America	Total
Israel Plan	$—	$9,664	$—	$9,664	$—	$—	$—
2013 Plan	470	716	7	1,193	—	508	508
2012 Plan	12	325	—	337	1,095	2,484	3,579
2009 and Prior Plans	—	—	—	—	—	380	380
Total Restructuring Costs	$482	$10,705	$7	$11,194	$1,095	$3,372	$4,467

	Cumulative Amount Incurred Through September 28, 2014			
(In thousands)	North America	Europe, Asia and Latin America	Africa	Total
Israel Plan	$—	$9,664	$—	$9,664
2013 Plan	2,878	3,724	1,149	7,751
2012 Plan	4,167	10,523	—	14,690
2011 Plan	856	3,718	—	4,574
2010 Plan	3,552	3,831	—	7,383
2009 and Prior Plans	1,741	2,117	—	3,858
Total Restructuring Costs	$13,194	$33,577	$1,149	$47,920

On August 20, 2014, the Board of Directors of Masonite Israel Ltd. (“Israel”), one of our wholly-owned subsidiaries, decided to voluntarily seek a Stay of Proceedings from the Israeli courts in an attempt to restructure the business (the “Israel Plan”). The court filing was made on August 21, 2014, and the court appointed a trustee to oversee the operation

of the business and to attempt to restructure it. The action to seek court protection followed a

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comprehensive evaluation of the alternatives for the business, including an organized sale process that was ultimately unsuccessful. We determined that the subsidiary should be deconsolidated at that time, as it has become subject to the control of a court. We have had and will continue to have no continuing involvement with Israel subsequent to August 21, 2014, and Israel will not be considered a related party. As a result of Israel's court filing, we incurred $9.7 million of charges, of which $1.4 million relate to non-cash asset impairments, $6.8 million relate to non-cash losses on deconsolidation, and $2.1 million relate to cash charges incurred, primarily relating to bank debt and guarantees. Partially offsetting these charges was a gain of $0.6 million relating to the recognition of the cumulative translation adjustment into net income. As of September 28, 2014, pending the ultimate resolution of the Stay of Proceedings, we do not anticipate any material future charges related to the Israel Plan.

During 2013, we began implementing plans to rationalize certain of our facilities, including related headcount reductions, in Canada due to synergy opportunities related to recent acquisitions in the residential interior wood door markets. We have also rationalized certain of our operations, including related headcount reductions, in Ireland, South Africa and Israel in order to respond to declines in demand in international markets. Additionally, the decision was made to discontinue sales into the Polish market subsequent to the decision to cease manufacturing operations in 2012 (collectively, the "2013 Restructuring Plan"). Costs associated with the 2013 Restructuring Plan include severance and closure charges, including impairment of certain property, plant and equipment, and are expected to be substantially completed during 2014. As of September 28, 2014, we do not expect to incur any material future charges for the 2013 Restructuring Plan.

During 2012, we began implementing plans to close certain of our U.S. manufacturing facilities due to the start-up of our new highly automated interior door slab assembly plant in Denmark, South Carolina, synergy opportunities related to recent acquisitions in the commercial and architectural interior wood door market and footprint optimization efforts resulting from declines in demand in specific markets. We also began implementing plans during 2012 to permanently close our businesses in Hungary and Romania and to cease manufacturing operations in Poland, due to the continued economic downturn and heightened volatility of the Eastern European economies (collectively, the "2012 Restructuring Plan"). Costs associated with these closure and exit activities relate to closures of facilities and impairment of certain tangible and intangible assets and are substantially completed. As of September 28, 2014, we do not expect to incur any material future charges for the 2012 Restructuring Plan.

Prior years’ restructuring plans costs relate to headcount reductions and facility rationalizations as a result of weakened market conditions. In response to the decline in demand, we reviewed the required levels of production and reduced the workforce and plant capacity accordingly, resulting in severance charges. These actions were taken in order to rationalize capacity with existing and forecasted market demand conditions. The restructuring plans initiated in 2009 and prior years (the "2009 and Prior Restructuring Plans") are substantially completed, although cash payments are expected to continue through 2019, primarily related to lease payments at closed facilities. As of September 28, 2014, we do not expect to incur any future charges for the 2009 and Prior Restructuring Plans.

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

(In thousands)	December 29, 2013	Severance	Closure Costs	Cash Payments	Non-Cash Items	September 28, 2014
Israel Plan	$—	$—	$9,664	$1,187	$7,577	$900
2013 Plan	2,348	67	1,126	3,265	—	276
2012 Plans	714	211	126	604	—	447

2009 and Prior Plans	1,347	—	—	455	—	892
Total	$4,409	$278	$10,916	$5,511	$7,577	$2,515

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(In thousands)	December 30, 2012	Severance	Closure Costs	Cash Payments	September 29, 2013
2013 Plan	$—	$—	$508	$412	$96
2012 Plans	2,893	862	2,717	4,929	1,543
2009 and Prior Plans	1,675	353	27	962	1,093
Total	$4,568	$1,215	$3,252	$6,303	$2,732

11. Income Taxes

Income tax expense (benefit) for income taxes consists of the following:

	Three Months Ended		Nine Months Ended	
(In thousands)	September 28, 2014	September 29, 2013	September 28, 2014	September 29, 2013
Current	$380	$308	$2,760	$1,110
Deferred	1,624	(6,580)	642	(8,826)
Income tax expense (benefit)	$2,004	$(6,272)	$3,402	$(7,716)

The effective tax rate differs from the Canadian federal statutory rate of 26.5% primarily due to changes in our income tax valuation allowances, tax exempt income, and earnings in foreign jurisdictions which are subject to lower tax rates.

We currently have deferred tax assets in certain jurisdictions resulting from net operating losses and other deductible temporary differences, which will reduce taxable income in these jurisdictions in future periods. We have determined that a valuation allowance of $17.9 million and $16.9 million was required for our deferred income tax assets as of September 28, 2014, and December 29, 2013, respectively. A valuation allowance has been established on deferred tax assets resulting from net operating loss carry forwards and other carry forward attributes primarily in Canada, Chile, and India. We expect to record valuation allowances on deferred tax assets arising in these jurisdictions until a sustained level of taxable income is reached.

12. Supplemental Cash Flow Information

Certain cash and non-cash transactions were as follows for the periods indicated:

	Nine Months Ended	
(In thousands)	September 28, 2014	September 29, 2013
Transactions involving cash:		
Interest paid	$20,946	$15,503
Interest received	486	388
Income taxes paid	4,475	5,171
Income tax refunds	406	687
Non-cash transactions:		
Property, plant and equipment additions in accounts payable	3,016	1,160

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
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13. Segment Information

Our reportable segments are organized and managed principally by geographic region: North America; Europe, Asia and Latin America; and Africa. 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 geographic 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 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;
- impairment;
- registration and listing fees;
- restructuring costs;
- interest expense (income), net;
- 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 Senior Notes and the credit agreement governing the ABL Facility. Although Adjusted EBITDA is not a measure of financial condition or performance determined in accordance with GAAP, it is used to evaluate and compare the operating 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 geographic segments is as follows for the periods indicated:

(In thousands)	Three Months Ended September 28, 2014			
(In thousands)	North America	Europe, Asia and Latin America	Africa	Total
Sales	$370,216	$99,845	$12,134	$482,195
Intersegment sales	(158)	(5,913)	—	(6,071)
Net sales to external customers	$370,058	$93,932	$12,134	$476,124
Adjusted EBITDA	$36,329	$1,902	$(2,634)	$35,597

(In thousands)	Three Months Ended September 29, 2013			
(In thousands)	North America	Europe, Asia and Latin America	Africa	Total
Sales	$333,116	$85,972	$18,051	$437,139

Intersegment sales	(22)	(4,066)	—	(4,088)
Net sales to external customers	$333,094	$81,906	$18,051	$433,051
Adjusted EBITDA	$25,115	$1,484	$1,833	$28,432

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(In thousands)	Nine Months Ended September 28, 2014			
(In thousands)	North America	Europe, Asia and Latin America	Africa	Total
Sales	$1,057,858	$311,124	$39,497	$1,408,479
Intersegment sales	(674)	(19,045)	—	(19,719)
Net sales to external customers	$1,057,184	$292,079	$39,497	$1,388,760
Adjusted EBITDA	$92,017	$9,964	$(2,616)	$99,365

(In thousands)	Nine Months Ended September 29, 2013			
(In thousands)	North America	Europe, Asia and Latin America	Africa	Total
Sales	$999,493	$270,621	$53,370	$1,323,484
Intersegment sales	(380)	(12,396)	(40)	(12,816)
Net sales to external customers	$999,113	$258,225	$53,330	$1,310,668
Adjusted EBITDA	$73,670	$10,403	$3,997	$88,070

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		Nine Months Ended	
(In thousands)	September 28, 2014	September 29, 2013	September 28, 2014	September 29, 2013
Adjusted EBITDA	$35,597	$28,432	$99,365	$88,070
Less (plus):				
Depreciation	15,842	15,505	45,824	47,682
Amortization	4,889	4,277	16,173	12,883
Share based compensation expense	2,255	1,841	7,335	5,752
Loss (gain) on disposal of property, plant and equipment	236	(2,772)	2,359	(1,810)
Impairment	—	—	—	1,904
Registration and listing fees	—	1,998	—	1,998
Restructuring costs	9,913	1,265	11,194	4,467
Interest expense (income), net	10,447	8,330	31,034	24,788
Other expense (income), net	(404)	(255)	1,083	(776)
Income tax expense (benefit)	2,004	(6,272)	3,402	(7,716)
Loss (income) from discontinued operations, net of tax	124	62	436	196
Net income (loss) attributable to non-controlling interest	258	838	1,498	2,123
Net income (loss) attributable to Masonite	$(9,967)	$3,615	$(20,973)	$(3,421)

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
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14. Fair Value of Financial Instruments

The carrying amounts of our cash and cash equivalents, restricted cash, accounts receivable, income taxes receivable, accounts payable, accrued expenses and income taxes payable approximate fair value because of the short-term maturity of those instruments. The estimated fair value of the Senior Notes as of September 28, 2014, and December 29, 2013, was $534.4 million and $412.1 million, respectively, compared to a carrying value of $512.4 million and $377.8 million, respectively. This estimate is based on market quotes and calculations based on current market rates available to us and is categorized as having Level 2 valuation inputs as established by the FASB's Fair Value Framework. Market quotes used in these calculations are based on bid prices for our debt instruments and are obtained from and corroborated with multiple independent sources. The market quotes obtained from independent sources are within the range of management's expectations.

On December 29, 2013, we had assets held for sale of $3.4 million. During the nine months ended September 28, 2014, foreign exchange fluctuations increased the value of foreign assets held for sale by $0.1 million. Also during the nine months ended September 28, 2014, we divested our last remaining asset held for sale, which had a book value of $3.5 million. The sale of this location resulted in the recognition of a gain of $1.0 million representing the excess of the consideration received over the book value of the divested assets, resulting in a balance of zero in assets held for sale as of September 28, 2014. Assets held for sale are stated at the lower of carrying amount or fair value less cost to sell and are revalued at each reporting date. This valuation is performed on a regular basis and is categorized as having Level 2 valuation inputs as established by the FASB's Fair Value Framework. The related charges due to revaluation were not material in the three and nine months ended September 28, 2014, or September 29, 2013.

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15. 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, SARs and warrants outstanding during the period.

	Three Months Ended		Nine Months Ended	
(In thousands, except share and per share information)	September 28, 2014	September 29, 2013	September 28, 2014	September 29, 2013
Net income (loss) attributable to Masonite	$(9,967)	$3,615	$(20,973)	$(3,421)
Income (loss) from discontinued operations, net of tax	(124)	(62)	(436)	(196)
Income (loss) from continuing operations attributable to Masonite	$(9,843)	$3,677	$(20,537)	$(3,225)