PGT, Inc.
Form 10-Q
May 08, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended April 4, 2015

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 000-52059

PGT, Inc.

1070 Technology Drive

North Venice, FL 34275

Registrant s telephone number: 941-480-1600

State of Incorporation	**IRS Employer Identification No.**
Delaware	**20-0634715**

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 þ No ¨

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 þ No ¨*

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨	Accelerated filer þ
Non-accelerated filer ¨ (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 þ

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Common Stock, $0.01 par value 47,747,539 shares, as of May 6, 2015.

PGT, INC.

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Form 10-Q for the Three Months Ended April 4, 2015

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PART I FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

PGT, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands, except per share amounts)

(unaudited)

	Three Months Ended	
	April 4, 2015	March 29, 2014
Net sales	$ 95,301	$ 62,724
Cost of sales	64,254	42,953
Gross profit	31,047	19,771
Selling, general and administrative expenses	17,664	13,377
Income from operations	13,383	6,394
Interest expense, net	2,913	898
Other expense, net	99	177
Income before income taxes	10,371	5,319
Income tax expense	3,719	1,967
Net income	$ 6,652	$ 3,352
Net income per common share:		
Basic	$ 0.14	$ 0.07
Diluted	$ 0.13	$ 0.07
Weighted average shares outstanding:		
Basic	47,721	47,150
Diluted	50,032	49,727
Comprehensive income	$ 6,685	$ 3,262

The accompanying notes are an integral part of these condensed consolidated financial statements.

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PGT, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except per share amounts)

(unaudited)

	April 4, 2015	January 3, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 48,742	$ 42,469
Accounts receivable, net	33,009	25,374
Inventories	21,271	19,970
Prepaid expenses and other current assets	5,284	6,464
Deferred income taxes	5,138	5,160
Total current assets	113,444	99,437
Property, plant and equipment, net	63,026	60,898
Trade name and other intangible assets, net	81,906	82,724
Goodwill	66,580	66,580
Other assets, net	2,002	2,110
Total assets	$ 326,958	$ 311,749
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 25,123	$ 17,328
Current portion of long-term debt	1,962	1,962
Total current liabilities	27,085	19,290
Long-term debt, less current portion	191,441	191,792
Deferred income taxes	25,956	25,956
Other liabilities	840	735
Total liabilities	245,322	237,773
Shareholders equity:		
Preferred stock; par value $.01 per share; 10,000 shares authorized; none outstanding		
Common stock; par value $.01 per share; 200,000 shares authorized; 50,083 and 49,985 shares issued and 47,748 and 47,707 shares outstanding at April 4, 2015 and January 3, 2015, respectively	501	498
Additional paid-in-capital	238,167	238,229
Accumulated other comprehensive loss	(1,638)	(1,671)
Accumulated deficit	(145,357)	(152,009)

Shareholders equity	91,673	85,047
Less: Treasury stock at cost	(10,037)	(11,071)
Total shareholders equity	81,636	73,976
Total liabilities and shareholders equity	$ 326,958	$ 311,749

The accompanying notes are an integral part of these condensed consolidated financial statements.

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PGT, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Three Months Ended	
	April 4, 2015	March 29, 2014
	(unaudited)	
Cash flows from operating activities:		
Net income	$ 6,652	$ 3,352
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,550	986
Amortization	818	428
Provision for (recovery of) allowance for doubtful accounts	22	(87)
Stock-based compensation	474	245
Amortization of deferred financing costs	215	234
Derivative financial instruments	55	433
Deferred income taxes	22	429
Tax benefit on exercised stock options	(470)	(1,538)
Loss on disposal of assets	9	
Change in operating assets and liabilities:		
Accounts receivable	(7,907)	(1,852)
Inventories	(1,301)	(2,417)
Prepaid expenses and other current assets	192	486
Accounts payable, accrued and other liabilities	9,902	2,804
Net cash provided by operating activities	10,233	3,503
Cash flows from investing activities:		
Purchases of property, plant and equipment	(3,952)	(3,203)
Net cash used in investing activities	(3,952)	(3,203)
Cash flows from financing activities:		
Payments of long-term debt	(500)	(1,000)
Purchases of treasury stock	(4)	(963)
Proceeds from exercise of stock options	35	698
Tax benefit on exercised stock options	470	1,538
Other	(9)	
Net cash (used in) provided by financing activities	(8)	273
Net increase in cash and cash equivalents	6,273	573
Cash and cash equivalents at beginning of period	42,469	30,204

Cash and cash equivalents at end of period	$ 48,742	$ 30,777
Non-cash activity:		
Property, plant and equipment additions in accounts payable	$ 225	$

The accompanying notes are an integral part of these condensed consolidated financial statements.

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PGT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

NOTE 1. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements include the accounts of PGT, Inc. and its wholly-owned subsidiary, PGT Industries, Inc., and its wholly-owned subsidiary CGI Window and Holdings, Inc. (collectively the Company), after elimination of intercompany accounts and transactions. These statements have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and footnotes required by United States Generally Accepted Accounting Principles (GAAP) for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the interim period are not necessarily indicative of the results that may be expected for the remainder of the current year or for any future periods. Each of our Company s fiscal quarters ended April 4, 2015 and March 29, 2014, consisted of 13 weeks.

The Condensed Consolidated Balance Sheet as of January 3, 2015, is derived from the audited consolidated financial statements, but does not include all disclosures required by GAAP. The Condensed Consolidated Balance Sheet as of January 3, 2015, and the unaudited condensed consolidated financial statements as of and for the period ended April 4, 2015, should be read in conjunction with the more detailed audited consolidated financial statements for the year ended January 3, 2015, included in the Company s most recent Annual Report on Form 10-K. Accounting policies used in the preparation of these unaudited condensed consolidated financial statements are consistent with the accounting policies described in the Notes to Consolidated Financial Statements included in the Company s Annual Report on Form 10-K.

Recently Adopted Accounting Pronouncements

In April 2014, the FASB issued ASU No. 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity, which changes the criteria for reporting discontinued operations. Under the new guidance, a discontinued operation is defined as a disposal of a component or group of components that is disposed of, or is classified as held for sale, and represents a strategic shift that has (or will have) a major effect on an entity s operations and financial results. Major strategic shifts include disposals of a significant geographic area or line of business. The new standard allows an entity to have significant continuing involvement and cash flows with the discontinued operation. The standard requires expanded disclosures for discontinued operations and new disclosures for individually material disposal transactions that do not meet the definition of a discontinued operation. This new guidance is effective for annual reporting periods beginning on or after December 15, 2014, and interim periods within those annual periods, with early adoption permitted only for disposals (or classifications as held for sale) that have not been previously reported. The adoption of this standard did not have a significant impact on our consolidated financial statements.

NOTE 2. WARRANTY

Most of our manufactured products are sold with warranties. Warranty periods, which vary by product components, generally range from 1 to 10 years; however, the warranty period for a limited number of specifically identified components in certain applications is a lifetime. The majority of the products sold have warranties on components which range from 1 to 3 years. The reserve for warranties is based on management s assessment of the cost per service call and the number of service calls expected to be incurred to satisfy warranty obligations on the current net sales.

During the three months ended April 4, 2015, we recorded warranty expense at a rate of 2.00% of sales. This rate is higher than the 1.75% of sales accrued in the first three months of 2014, due to an increase in warranty claims experience.

The following table summarizes: current period charges, adjustments to previous estimates, if necessary, as well as settlements, which represent actual costs incurred during the period for the three months ended April 4, 2015, and March 29, 2014. The reserve is determined through specific identification and assessing Company history. Expected future obligations are discounted to a current value using a risk-free rate for obligations with similar maturities.

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The following provides information with respect to our warranty accrual:

Accrued Warranty	**Beginning of Period**	**Charged to Expense**	**Adjustments**	**Settlements**	**End of Period**
(in thousands)					
Quarter ended April 4, 2015	$ 3,302	$ 1,908	$ 189	$ (1,791)	$ 3,608
Quarter ended March 29, 2014	$ 2,666	$ 1,098	$ 90	$ (1,198)	$ 2,656

NOTE 3. INVENTORIES

Inventories consist principally of raw materials purchased for the manufacture of our products. We have limited finished goods inventory since all products are custom, made-to-order and usually ship upon completion. Finished goods inventory costs include direct materials, direct labor, and overhead. All inventories are stated at the lower of cost (first-in, first-out method) or market value. Inventories consisted of the following:

	April 4, 2015	**January 3, 2015**
	(in thousands)	
Raw materials	$ 17,768	$ 16,674
Work in progress	824	791
Finished goods	2,679	2,505
	$ 21,271	$ 19,970

NOTE 4. STOCK BASED-COMPENSATION

Exercises

For the three months ended April 4, 2015, there were 17,700 options exercised at a weighted average exercise price of $2.00 per share.

Issuance

On March 4, 2015, we granted 178,256 restricted stock awards to certain executives and non-executive employees of the Company. The restrictions on these stock awards lapse over time based solely on continued service. However, the quantity of restricted shares granted on half of these shares, or 89,128 shares, is fixed, whereas the quantity granted on the remaining half, or 89,128 shares, is subject to Company-specific performance criteria. The restricted stock awards have a fair value on date of grant of $10.95 per share based on the closing NASDAQ market price of the common stock on the day prior to day the awards were granted. Those restricted shares whose quantity is fixed vest in equal amounts over a three-year period on the first, second and third anniversary dates of the grant. Those restricted shares whose quantity is subject to Company performance criteria vest in equal amounts over a two-year period on the second and third anniversary dates of the grant.

The performance criteria, as defined in the share awards, provides for a graded awarding of shares based on the percentage by which the Company meets earnings before interest and taxes, as defined, in our 2015 business plan. The performance percentages, ranging from less than 80% to greater than 120%, provide for the awarding of shares ranging from no shares to 150% of the original amount of shares.

We record stock compensation expense over an award s vesting period based on the award s fair value at the date of grant. We recorded compensation expense for stock based awards of $0.5 million for the first quarter of 2015 and $0.2 million for the first quarter of 2014. As of April 4, 2015, and March 29, 2014, there was $2.7 million and $2.0 million, respectively, of total unrecognized compensation cost related to non-vested stock option agreements and restricted share awards. These costs are expected to be recognized in earnings on a straight-line basis over the weighted average remaining vesting period of 2.0 years at April 4, 2015, and 2.1 years at March 29, 2014.

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NOTE 5. NET INCOME PER COMMON SHARE

Basic EPS is computed by dividing net income available to common shareholders, by the weighted-average number of common shares outstanding during the period. Diluted EPS reflects the dilutive effect of potential common shares from securities such as stock options.

Our weighted average shares outstanding for the three months ended April 4, 2015, and March 29, 2014, excludes underlying options and restricted stock awards of 20 thousand and 47 thousand, respectively, because their effects were anti-dilutive.

The table below presents the calculation of EPS and a reconciliation of weighted average common shares used in the calculation of basic and diluted EPS for our Company:

	Three Months Ended	
	April 4, 2015	**March 29, 2014**
	(in thousands, except per share amounts)	
Net income	$ 6,652	$ 3,352
Weighted-average common shares-Basic	47,721	47,150
Add: Dilutive effect of stock compensation plans	2,311	2,577
Weighted-average common shares-Diluted	50,032	49,727
Net income per common share:		
Basic	$ 0.14	$ 0.07
Diluted	$ 0.13	$ 0.07

NOTE 6. ACQUISITION

On September 22, 2014, we completed the acquisition of CGI which became a wholly-owned subsidiary of PGT, Inc. The purchase price paid in the transaction was $110.4 million, which was preliminarily allocated to the net assets acquired and liabilities assumed as of the acquisition date, in accordance with ASC 805, Business Combinations . There have been no adjustments to this preliminary allocation in the three months ended April 4, 2015. For discussion of this acquisition, see Note 4 in the Company s Annual Report on Form 10-K for the year ended January 3, 2015.

The following unaudited pro forma financial information assumes the acquisition had occurred at the beginning of the earliest period presented that does not include CGI s actual results for the entire period. Pro forma results have been prepared by adjusting our historical results to include the results of CGI adjusted for the following: amortization expense related to the intangible assets arising from the acquisition and interest expense to reflect the 2014 Credit Agreement entered into in connection with the acquisition.

The unaudited pro forma results below do not necessarily reflect the results of operations that would have resulted had the acquisition been completed at the beginning of the earliest periods presented, nor does it indicate the results of operations in future periods. The unaudited pro forma results do not include the impact of synergies, nor any potential impacts on current or future market conditions which could alter the following unaudited pro forma results.

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Pro Forma Results (unaudited)		Quarter Ended March 29, 2014
(in thousands, except per share amounts)		
Net sales	$	71,157
Net income	$	3,502
Net income per common share:		
Basic	$	0.07
Diluted	$	0.07

NOTE 7. GOODWILL, TRADE NAMES, AND OTHER INTANGIBLE ASSETS

Goodwill, trade names, and other intangible assets, net, are as follows:

	April 4, 2015	January 3, 2015	Initial Useful Life (in years)
	(in thousands)		
Goodwill	$ 66,580	$ 66,580	indefinite
Other intangible assets:			
Trade names	$ 57,441	$ 57,441	indefinite
Customer relationships	79,700	79,700	8-10
Developed technology	1,700	1,700	10
Non-compete agreement	600	600	2
Less: Accumulated amortization	(57,535)	(56,717)	
Subtotal	24,465	25,283	
Other intangible assets, net	$ 81,906	$ 82,724	

NOTE 8. LONG-TERM DEBT

On September 22, 2014, we entered into a Credit Agreement (the 2014 Credit Agreement), among us, the lending institutions identified in the 2014 Credit Agreement, and Deutsche Bank AG New York Branch, as Administrative Agent and Collateral Agent. For further discussion of the significant terms of the 2014 Credit Agreement, see Note 8 in the Company s Annual Report on Form 10-K for the year ended January 3, 2015. As of April 4, 2015, there were $0.5 million of letters of credit outstanding and $34.5 million available under the revolving credit portion of the 2014 Credit Agreement.

The 2014 Credit Agreement contains a springing financial covenant, if we draw in excess of twenty percent (20%) of the revolving facility, which requires us to maintain a maximum total net leverage ratio (based on the ratio of total debt for borrowed money to trailing EBITDA, each as defined in the 2014 Credit Agreement), and is tested quarterly based on the last four fiscal quarters and is set at levels as described in the 2014 Credit Agreement. As of April 4, 2015, no such test is required as we have not exceeded 20% of our revolving capacity.

The 2014 Credit Agreement also contains a number of affirmative and restrictive covenants, including limitations on the incurrence of additional debt, liens on property, acquisitions and investments, loans and guarantees, mergers, consolidations, liquidations and dissolutions, asset sales, dividends and other payments in respect of our capital stock, prepayments of certain debt and transactions with affiliates. The 2014 Credit Agreement also contains customary events of default. As of April 4, 2015, we were in compliance with all affirmative and restrictive covenants.

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The face value of the debt as of April 4, 2015, was $199.0 million. Related debt issuance costs and the debt discount are being amortized to interest expense, net on the Condensed Consolidated Statements of Comprehensive Income over the term of the debt.

The contractual future maturities of long-term debt outstanding as of April 4, 2015, are as follows (excluding unamortized debt discount and issuance costs):