

PGT, Inc.  
Form 10-Q  
August 06, 2015  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 10-Q**

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

**For the quarterly period ended July 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**

**Delaware  
State of Incorporation**

**20-0634715  
IRS Employer Identification No.**

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  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  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 <input type="checkbox"/>	Accelerated filer <input checked="" type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

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, 48,584,194 shares, as of August 5, 2015.

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**Table of Contents****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)*

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>July 4, 2015</b>	<b>June 28, 2014</b>	<b>July 4, 2015</b>	<b>June 28, 2014</b>
Net sales	\$ 100,833	\$ 81,622	\$ 196,134	\$ 144,346
Cost of sales	67,894	55,476	132,148	98,429
Gross profit	32,939	26,146	63,986	45,917
Selling, general and administrative expenses	16,776	12,952	34,440	26,329
Income from operations	16,163	13,194	29,546	19,588
Interest expense, net	2,940	891	5,853	1,789
Other expense (income), net	127	(278)	226	(101)
Income before income taxes	13,096	12,581	23,467	17,900
Income tax expense	6,316	4,780	10,035	6,747
Net income	\$ 6,780	\$ 7,801	\$ 13,432	\$ 11,153
Net income per common share:				
Basic	\$ 0.14	\$ 0.17	\$ 0.28	\$ 0.24
Diluted	\$ 0.13	\$ 0.16	\$ 0.27	\$ 0.22
Weighted average shares outstanding:				
Basic	48,077	47,265	47,899	47,207
Diluted	50,283	49,706	50,155	49,716
Comprehensive income	\$ 8,418	\$ 7,649	\$ 15,103	\$ 10,911

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



**Table of Contents****PGT, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS***(in thousands, except per share amounts)**(unaudited)*

	<b>July 4, 2015</b>	<b>January 3, 2015</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 47,487	\$ 42,469
Accounts receivable, net	37,638	25,374
Inventories	23,482	19,970
Prepaid expenses and other current assets	6,603	6,464
Deferred income taxes	5,110	5,160
Total current assets	120,320	99,437
Property, plant and equipment, net	66,218	60,898
Trade name and other intangible assets, net	81,041	82,724
Goodwill	66,580	66,580
Other assets, net	2,426	2,110
Total assets	\$ 336,585	\$ 311,749
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 21,524	\$ 17,328
Current portion of long-term debt	1,964	1,962
Total current liabilities	23,488	19,290
Long-term debt, less current portion	191,126	191,792
Deferred income taxes	25,956	25,956
Other liabilities	889	735
Total liabilities	241,459	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; 50,829 and 49,985 shares issued and 48,533 and 47,707 shares outstanding at July 4, 2015 and January 3, 2015, respectively	508	498
Additional paid-in-capital	243,232	238,229
Accumulated other comprehensive loss		(1,671)
Accumulated deficit	(138,577)	(152,009)

Shareholders' equity	105,163	85,047
Less: Treasury stock at cost	(10,037)	(11,071)
Total shareholders' equity	95,126	73,976
Total liabilities and shareholders' equity	\$ 336,585	\$ 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)*

	<b>Six Months Ended</b>	
	<b>July 4,</b>	<b>June 28,</b>
	<b>2015</b>	<b>2014</b>
	<i>(unaudited)</i>	
<b>Cash flows from operating activities:</b>		
Net income	\$ 13,432	\$ 11,153
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	3,242	2,015
Amortization	1,683	428
Recovery on allowance for doubtful accounts	(230)	(307)
Stock-based compensation	932	611
Amortization of deferred financing costs	479	467
Derivative financial instruments	126	147
Deferred income taxes	50	1,449
Excess tax benefits on stock-based compensation	(3,544)	(5,201)
Loss on disposal of assets	9	
Change in operating assets and liabilities:		
Accounts receivable	(12,526)	(7,619)
Inventories	(3,512)	(2,898)
Prepaid expenses, other current and other assets	(1,085)	296
Accounts payable, accrued and other liabilities	10,706	7,532
Net cash provided by operating activities	9,762	8,073
<b>Cash flows from investing activities:</b>		
Purchases of property, plant and equipment	(8,844)	(7,835)
Net cash used in investing activities	(8,844)	(7,835)
<b>Cash flows from financing activities:</b>		
Payments of long-term debt	(1,000)	(2,000)
Purchases of treasury stock	(4)	(1,025)
Proceeds from exercise of stock options	1,576	804
Excess tax benefits on stock-based compensation	3,544	5,201
Other	(16)	
Net cash provided by financing activities	4,100	2,980
Net increase in cash and cash equivalents	5,018	3,218
Cash and cash equivalents at beginning of period	42,469	30,204



Cash and cash equivalents at end of period	\$ 47,487	\$ 33,422
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**Non-cash activity:**

Property, plant and equipment additions in accounts payable	\$ (273)	\$ (1,231)
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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 periods 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 July 4, 2015 and June 28, 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 July 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 July 4, 2015, we recorded warranty expense at a rate of 2.25% of sales. This rate is higher than the 1.50% of sales accrued in the second quarter 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 and six months ended July 4, 2015, and June 28, 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:

<b>Accrued Warranty</b> <i>(in thousands)</i>	<b>Beginning of Period</b>	<b>Charged to Expense</b>	<b>Adjustments</b>	<b>Settlements</b>	<b>End of Period</b>
Three months ended July 4, 2015	\$ 3,608	\$ 2,268	\$ 58	\$ (1,857)	\$ 4,077
Three months ended June 28, 2014	\$ 2,656	\$ 1,228	\$ (236)	\$ (1,342)	\$ 2,306
Six months ended July 4, 2015	\$ 3,302	\$ 4,176	\$ 247	\$ (3,648)	\$ 4,077
Six months ended June 28, 2014	\$ 2,666	\$ 2,326	\$ (146)	\$ (2,540)	\$ 2,306

**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:

	<b>July 4, 2015</b>	<b>January 3, 2015</b>
	<i>(in thousands)</i>	
Raw materials	\$ 19,239	\$ 16,674
Work in progress	1,063	791
Finished goods	3,180	2,505
	\$ 23,482	\$ 19,970

**NOTE 4. STOCK BASED-COMPENSATION****Exercises**

For the three months ended July 4, 2015, there were 750,640 options exercised at a weighted average exercise price of \$2.05 per share. For the six months ended July 4, 2015, there were 768,340 options exercised at a weighted average exercise price of \$2.05 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 three months ended July 4, 2015 and \$0.4 million for the three months ended June 28, 2014. We recorded compensation expense for stock based awards of \$0.9 million for the six months ended July 4, 2015 and \$0.6 million for the six months ended June 28, 2014. As of July 4, 2015, and June 28, 2014, there was \$2.2 million and \$1.9 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 1.8 years at July 4, 2015, and 1.8 years at June 28, 2014.

**Table of Contents****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.

Weighted average shares outstanding for the three months ended July 4, 2015, and June 28, 2014, excludes underlying options and restricted stock awards of 20 thousand and 164 thousand, respectively, because their effects were anti-dilutive. Weighted average shares outstanding for the six months ended July 4, 2015, and June 28, 2014, excludes underlying options and restricted stock awards of 20 thousand and 106 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:

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>July 4, 2015</b>	<b>June 28, 2014</b>	<b>July 4, 2015</b>	<b>June 28, 2014</b>
	<i>(in thousands, except per share amounts)</i>			
Net income	\$ 6,780	\$ 7,801	\$ 13,432	\$ 11,153
Weighted-average common shares Basic	48,077	47,265	47,899	47,207
Add: Dilutive effect of stock compensation plans	2,206	2,441	2,256	2,509
Weighted-average common shares Diluted	50,283	49,706	50,155	49,716
<b>Net income per common share:</b>				
Basic	\$ 0.14	\$ 0.17	\$ 0.28	\$ 0.24