PGT, Inc.
Form 10-Q
August 04, 2016

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 2, 2016

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 x 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 x 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 x
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 x

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, 48,945,966 shares, as of August 3, 2016.

Table of Contents

PGT, INC.

TABLE OF CONTENTS

Form 10-Q for the Three and Six Months Ended July 2, 2016

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)

	Three Months Ended		Six Months Ended	
	July 2, 2016	July 4, 2015	July 2, 2016	July 4, 2015
	(unaudited)		*(unaudited)*	
Net sales	$ 119,033	$ 100,833	$ 219,239	$ 196,134
Cost of sales	81,563	67,894	151,786	132,148
Gross profit	37,470	32,939	67,453	63,986
Selling, general and administrative expenses	20,615	16,776	40,676	34,440
Income from operations	16,855	16,163	26,777	29,546
Interest expense, net	5,282	2,940	9,440	5,853
Debt extinguishment costs			3,431	
Other expense, net		127		226
Income before income taxes	11,573	13,096	13,906	23,467
Income tax expense	4,223	6,316	5,077	10,035
Net income	$ 7,350	$ 6,780	$ 8,829	$ 13,432
Net income per common share:				
Basic	$ 0.15	$ 0.14	$ 0.18	$ 0.28
Diluted	$ 0.15	$ 0.13	$ 0.17	$ 0.27
Weighted average shares outstanding:				
Basic	48,710	48,077	48,702	47,899
Diluted	50,473	50,283	50,465	50,155
Comprehensive income	$ 7,350	$ 8,418	$ 8,829	$ 15,103

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

3

Table of Contents

PGT, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except per share amounts)

	July 2, 2016	January 2, 2016
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 29,506	$ 61,493
Accounts receivable, net	46,179	31,783
Inventories	30,397	23,053
Prepaid expenses	2,328	2,170
Other current assets	5,352	8,473
Total current assets	113,762	126,972
Property, plant and equipment, net	79,740	71,503
Intangible assets, net	123,533	79,311
Goodwill	108,179	65,635
Other assets, net	751	607
Total assets	$ 425,965	$ 344,028
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 33,177	$ 19,578
Current portion of long-term debt	2,613	1,949
Total current liabilities	35,790	21,527
Long-term debt, less current portion	248,357	188,818
Deferred income taxes, net	25,894	25,894
Other liabilities	1,131	828
Total liabilities	311,172	237,067
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; 51,521 and 51,146 shares issued and 48,745 and 48,806 shares outstanding at July 2, 2016 and January 2, 2016, respectively	515	511
Additional paid-in-capital	246,665	244,944
Accumulated deficit	(119,628)	(128,457)

Shareholders equity	127,552	116,998
Less: Treasury stock at cost	(12,759)	(10,037)
Total shareholders equity	114,793	106,961
Total liabilities and shareholders equity	$ 425,965	$ 344,028

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

Table of Contents

PGT, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Six Months Ended July 2, 2016	Six Months Ended July 4, 2015
	(unaudited)	
Cash flows from operating activities:		
Net income	$ 8,829	$ 13,432
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	4,540	3,242
Amortization	2,878	1,683
Provision for (recovery on) allowance for doubtful accounts	25	(230)
Stock-based compensation	1,147	932
Amortization and write-off of deferred financing costs and debt discount	5,201	479
Derivative financial instruments		126
Deferred income taxes		50
Excess tax benefits on stock-based compensation	(464)	(3,544)
(Gain) loss on disposal of assets	(6)	9
Change in operating assets and liabilities (net of the effect of the acquisition):		
Accounts receivable	(11,904)	(12,526)
Inventories	(566)	(3,512)
Prepaid expenses, other current and other assets	2,927	(1,085)
Accounts payable, accrued and other liabilities	10,991	10,706
Net cash provided by operating activities	23,598	9,762
Cash flows from investing activities:		
Purchases of property, plant and equipment	(8,176)	(8,844)
Business acquisition	(100,259)	
Proceeds from sale of equipment	6	
Net cash used in investing activities	(108,429)	(8,844)
Cash flows from financing activities:		
Payments of long-term debt	(198,850)	(1,000)
Proceeds from issuance of long-term debt	261,030	
Payments of financing costs	(7,178)	
Purchases of treasury stock	(2,776)	(4)
Proceeds from exercise of stock options	152	1,576
Proceeds from issuance of common stock under employee stock purchase plan	17	
Excess tax benefits on stock-based compensation	464	3,544
Other	(15)	(16)

Net cash provided by financing activities	52,844	4,100
Net (decrease) increase in cash and cash equivalents	(31,987)	5,018
Cash and cash equivalents at beginning of period	61,493	42,469
Cash and cash equivalents at end of period	$ 29,506	$ 47,487
Non-cash activity:		
Earn-out contingency in accrued liabilities	$ 3,000	$
Property, plant and equipment additions in accounts payable	$ 428	$ 273

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

Table of Contents

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 subsidiaries CGI Window and Holdings, Inc. (CGI), and WinDoor, Incorporated (collectively the Company), after elimination of intercompany accounts and transactions. Through PGT Industries, Inc., we purchased all of the issued and outstanding shares of common stock of WinDoor, Incorporated, a Florida corporation, and all of the issued and outstanding membership units of LTE, LLC, a Florida limited liability company (together with WinDoor Incorporated, WinDoor) effective on February 16, 2016 pursuant to a stock purchase agreement (SPA) by and among PGT Industries, Inc., and the sellers as identified in the SPA. As a result of the SPA, WinDoor became a wholly-owned subsidiary of PGT Industries, Inc. The fair value of consideration transferred in the acquisition was $103.3 million, including the estimated fair value of contingent consideration of $3.0 million, which has been preliminarily allocated to the net assets acquired and liabilities assumed as of the acquisition date, in accordance with Accounting Standards Codification (ASC) 805, Business Combinations . For a more detailed discussion of this acquisition, see Note 6 herein.

These condensed consolidated financial 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 2, 2016, and July 4, 2015, consisted of 13 weeks.

The condensed consolidated balance sheet as of January 2, 2016, 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 2, 2016, and the unaudited condensed consolidated financial statements as of and for the periods ended July 2, 2016, should be read in conjunction with the more detailed audited consolidated financial statements for the year ended January 2, 2016, 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 September 2015, the FASB issued ASU No. 2015-16, Business Combinations (Topic 805) Simplifying the Accounting for Measurement-Period Adjustments . This guidance eliminates the requirement to revise prior period financial statements for measurement period adjustments in a business combination. This guidance requires that the cumulative impact of a measurement-period adjustment (including the impact on prior periods) be recognized in the reporting period in which the adjustment is identified. This ASU was effective for the Company on January 3, 2016. The adoption of this ASU did not have an impact on our financial statements.

In April 2015, the FASB issued ASU No. 2015-03, Interest Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs, (ASU 2015-03) which will require debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts (original issue discount or OID). The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. This ASU is effective in financial statements issued for fiscal years beginning after December 15, 2015. In August 2015, the FASB issued ASU No. 2015-15, Interest Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements - Amendments to SEC Paragraphs Pursuant to Staff Announcement at June 18, 2015 EITF Meeting, which amends Subtopic 835-30 to add SEC paragraphs pursuant to the SEC Staff Announcement at the June 18, 2015 Emerging Issues Task Force (EITF) meeting about the presentation and subsequent measurement of debt issuance costs associated with line-of-credit arrangements, regarding the SECs views of the classification of debt issuance costs relating to line-of-credit arrangements as deferred assets when no borrowings exist under the arrangement. We retrospectively adopted ASU 2015-03 in the interim period ended April 2, 2016, with respect to all deferred financing costs, lender fees and original issue discount, including those associated with the revolving credit portion of the 2016 Credit Agreement (see Note 8). The effect of this change did not have a material impact on the Company s consolidated financial condition. The effects on the Company s consolidated balance sheet as of January 2, 2016 relating to the reclassification of deferred financing costs is as follows (in thousands):

Table of Contents

	Previously Reported		As Reclassified	
Other current assets	$	8,490	$	8,473
Total current assets	$	126,989	$	126,972
Other assets	$	2,291	$	607
Total assets	$	345,729	$	344,028
Current portion of long-term debt	$	1,966	$	1,949
Total current liabilities	$	21,544	$	21,527
Long-term debt, less current portion	$	190,502	$	188,818
Total liabilities	$	238,768	$	237,067
Total liabilities and shareholders equity	$	345,729	$	344,028

In June 2014, the Financial Accounting Standards Board (FASB) issued ASU No. 2014-12, Compensation Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period (a consensus of the FASB Emerging Issues Task Force). The new standard requires that a performance target that affects vesting, and that could be achieved after the requisite service period, be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant date fair value of the award. The update further clarifies that compensation cost should be recognized in the pe