NCI BUILDING SYSTEMS INC
Form 10-Q
June 06, 2013

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

**(Mark One)**

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

**For the quarterly period ended April 28, 2013**

**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: 1-14315**

**NCI BUILDING SYSTEMS, INC.**

**(Exact name of registrant as specified in its charter)**

| | |
|---|---|
| **Delaware**<br>**(State or other jurisdiction of incorporation or organization)** | **76-0127701**<br>**(I.R.S. Employer Identification No.)** |
| **10943 N. Sam Houston Parkway W. Houston, TX**<br>**(Address of principal executive offices)** | **77064**<br>**(Zip Code)** |

**(281) 897-7788**

**(Registrant's telephone number, including area code)**

**(Former name, former address and former fiscal year, if changed since last report)**

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). x Yes ¨ 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 | 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 x No

**APPLICABLE ONLY TO CORPORATE ISSUERS**

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

Common Stock, $.01 par value - 74,793,763 shares as of May 31, 2013

## TABLE OF CONTENTS

**PART I — FINANCIAL INFORMATION**

**Item 1. Unaudited Consolidated Financial Statements.**

**NCI BUILDING SYSTEMS, INC.**

**CONSOLIDATED BALANCE SHEETS**

**(In thousands, except share data)**

| | April 28, 2013 (Unaudited) | October 28, 2012 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $ 27,538 | $ 55,158 |
| Restricted cash | — | 1,375 |
| Accounts receivable, net | 112,563 | 133,475 |
| Inventories, net | 125,779 | 106,015 |
| Deferred income taxes | 28,716 | 21,926 |
| Income tax receivable | 1,341 | 549 |
| Investments in debt and equity securities, at market | 4,315 | 4,076 |
| Prepaid expenses and other | 18,388 | 16,864 |
| Assets held for sale | 2,397 | 2,397 |
| Total current assets | 321,037 | 341,835 |
| Property, plant and equipment, net | 265,703 | 268,875 |
| Goodwill | 76,856 | 76,746 |
| Intangible assets, net | 51,002 | 53,028 |
| Other assets, net | 9,970 | 11,000 |
| Total assets | $ 724,568 | $ 751,484 |
| LIABILITIES AND STOCKHOLDERS' DEFICIT | | |
| Current liabilities: | | |
| Current portion of long-term debt | $ 2,500 | $ 2,500 |
| Note payable | 1,481 | 515 |
| Accounts payable | 97,752 | 113,177 |
| Accrued compensation and benefits | 42,431 | 43,066 |
| Accrued interest | 3,102 | 345 |
| Other accrued expenses | 57,132 | 60,455 |

| | | |
|---|---|---|
| Total current liabilities | 204,398 | 220,058 |
| Long-term debt, net | 225,111 | 234,444 |
| Deferred income taxes | 36,572 | 35,565 |
| Other long-term liabilities | 11,939 | 11,995 |
| Total long-term liabilities | 273,622 | 282,004 |
| Series B cumulative convertible participating preferred stock | 619,950 | 619,950 |
| Stockholders' deficit: | | |
| Common stock, $.01 par value, 100,000,000 shares authorized; 20,658,219 and 20,357,183 shares issued at April 28, 2013 and October 28, 2012, respectively; 20,656,817 and 20,354,217 shares outstanding at April 28, 2013 and October 28, 2012, respectively | 925 | 925 |
| Additional paid-in capital | 11,128 | 4,991 |
| Accumulated deficit | (378,819) | (369,850) |
| Accumulated other comprehensive loss | (6,613) | (6,568) |
| Treasury stock, at cost (1,402 and 2,966 shares at April 28, 2013 and October 28, 2012, respectively) | (23) | (26) |
| Total stockholders' deficit | (373,402) | (370,528) |
| Total liabilities and stockholders' deficit | $ 724,568 | $ 751,484 |

*See accompanying notes to consolidated financial statements.*

**NCI BUILDING SYSTEMS, INC.**

**CONSOLIDATED STATEMENTS OF OPERATIONS**

**(In thousands, except per share data)**

**(Unaudited)**

| | Fiscal Three Months Ended | | Fiscal Six Months Ended | |
|---|---|---|---|---|
| | **April 28, 2013** | **April 29, 2012** | **April 28, 2013** | **April 29, 2012** |
| Sales | $ 293,399 | $ 250,231 | $ 590,983 | $ 493,834 |
| Cost of sales | 232,562 | 192,229 | 469,277 | 382,210 |
| Gross profit | 60,837 | 58,002 | 121,706 | 111,624 |
| Engineering, selling, general and administrative expenses | 62,782 | 51,564 | 123,253 | 100,505 |
| Acquisition-related costs | — | 1,494 | — | 1,890 |
| Income (loss) from operations | (1,945) | 4,944 | (1,547) | 9,229 |
| Interest income | 42 | 28 | 72 | 56 |
| Interest expense | (6,191) | (3,062) | (12,465) | (6,386) |
| Other income, net | 246 | 353 | 640 | 379 |
| Income (loss) before income taxes | (7,848) | 2,263 | (13,300) | 3,278 |
| Provision (benefit) for income taxes | (2,506) | 942 | (4,331) | 1,368 |
| Net income (loss) | $ (5,342) | $ 1,321 | $ (8,969) | $ 1,910 |
| Convertible preferred stock dividends and accretion | — | 9,744 | — | 16,352 |
| Convertible preferred stock beneficial conversion feature | — | 7,858 | — | 11,878 |
| Net loss applicable to common shares | $ (5,342) | $ (16,281) | $ (8,969) | $ (26,320) |
| Loss per common share: | | | | |
| Basic | $ (0.28) | $ (0.86) | $ (0.46) | $ (1.40) |
| Diluted | $ (0.28) | $ (0.86) | $ (0.46) | $ (1.40) |
| Weighted average number of common shares outstanding: | | | | |
| Basic | 19,416 | 18,832 | 19,326 | 18,760 |
| Diluted | 19,416 | 18,832 | 19,326 | 18,760 |

*See accompanying notes to consolidated financial statements.*

4

**NCI BUILDING SYSTEMS, INC.**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

**(In thousands)**

**(Unaudited)**

| | Fiscal Three Months Ended | | Fiscal Six Months Ended | |
|---|---|---|---|---|
| | April 28, 2013 | April 29, 2012 | April 28, 2013 | April 29, 2012 |
| Comprehensive income (loss): | | | | |
| Net income (loss) | $ (5,342) | $ 1,321 | $ (8,969) | $ 1,910 |
| Other comprehensive income (loss), net of tax: | | | | |
| Foreign exchange translation gains (losses) and other, net of taxes (1) | (21) | 6 | (45) | 1 |
| Gains (losses) in fair value of foreign currency derivative, net of taxes (2) | — | 72 | — | (17) |
| Other comprehensive income (loss) | (21) | 78 | (45) | (16) |
| Comprehensive income (loss) | $ (5,363) | $ 1,399 | $ (9,014) | $ 1,894 |

(1) Foreign exchange translation gains (losses) and other are presented net of taxes of $0 in both of the three months ended April 28, 2013 and April 29, 2012 and $0 in both the six months ended April 28, 2013 and April 29, 2012.

(2) Gains (losses) in fair value of foreign currency derivative are presented net of taxes of $(10) in the three months ended April 29, J012 and $46 in the six months ended April 29, 2012.

*See accompanying notes to the consolidated financial statements.*

5

**NCI BUILDING SYSTEMS, INC.**

**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT**

**(In thousands, except share data)**

**(Unaudited)**

| | Common Stock | | Additional Paid-In | Retained | Accumulated Other Comprehensive | Treasury Stock | | Stockholders' |
|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Capital | Deficit | Loss | Shares | Amount | Deficit |
| Balance, October 28, 2012 | 20,357,183 | $ 925 | $ 4,991 | $ (369,850) | $ (6,568) | (2,966) | $ (26) | $ (370,528) |
| Treasury stock purchases | — | — | (17) | — | — | (168,923) | (2,352) | (2,369) |
| Retirement of treasury shares | (170,487) | — | (2,355) | — | — | 170,487 | 2,355 | — |
| Issuance of restricted stock | 395,381 | — | — | — | — | — | — | — |
| Stock options exercised | 76,142 | — | 674 | — | — | — | — | 674 |
| Excess tax benefits from share-based compensation arrangements | — | — | 948 | — | — | — | — | 948 |
| Foreign exchange translation gain (loss) and other | — | — | — | — | (45) | — | — | (45) |
| Share-based compensation | — | — | 6,887 | — | — | — | — | 6,887 |
| Net loss | — | — | — | (8,969) | — | — | — | (8,969) |
| Balance, April 28, 2013 | 20,658,219 | $ 925 | $ 11,128 | $ (378,819) | $ (6,613) | (1,402) | $ (23) | $ (373,402) |

*See accompanying notes to the consolidated financial statements.*

**NCI BUILDING SYSTEMS, INC.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(In thousands)**

**(Unaudited)**

| | Fiscal Six Months Ended | |
|---|---|---|
| | April 28, 2013 | April 29, 2012 |
| Cash flows from operating activities: | | |
| Net income (loss) | $ (8,969) | $ 1,910 |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 20,103 | 14,427 |
| Share-based compensation expense | 6,887 | 4,093 |
| Loss on sale of property, plant and equipment | — | 13 |
| Provision for doubtful accounts | 1,100 | (692) |
| Provision (benefit) from deferred income taxes | (4,772) | 1,147 |
| Changes in operating assets and liabilities, net of effect of acquisitions: | | |
| Accounts receivable | 19,812 | 12,561 |
| Inventories | (19,764) | (18,373) |
| Income tax receivable | (381) | 169 |
| Prepaid expenses and other | 286 | (2,972) |
| Accounts payable | (15,425) | (2,899) |
| Accrued expenses | (2,389) | 656 |
| Other, net | (911) | (51) |
| Net cash (used in) provided by operating activities | (4,423) | 9,989 |
| Cash flows from investing activities: | | |
| Capital expenditures | (12,715) | (13,899) |
| Proceeds from sale of property, plant and equipment | — | 37 |
| Net cash used in investing activities | (12,715) | (13,862) |
| Cash flows from financing activities: | | |
| Proceeds from stock options exercised | 674 | — |
| Decrease in restricted cash | 1,375 | 2,836 |
| Payments on term loan | (10,375) | (2,200) |
| Payments on note payable | (593) | (403) |
| Payment of financing costs | (97) | (50) |
| Excess tax benefits from share-based compensation arrangements | 948 | 1 |
| Purchase of treasury stock | (2,369) | (1,510) |

| | | |
|---|---|---|
| Net cash used in financing activities | (10,437 ) | (1,326 ) |
| | | |
| Effect of exchange rate changes on cash and cash equivalents | (45 ) | 73 |
| Net decrease in cash and cash equivalents | (27,620 ) | (5,126 ) |
| Cash and cash equivalents at beginning of period | 55,158 | 78,982 |
| Cash and cash equivalents at end of period | $ 27,538 | $ 73,856 |

*See accompanying notes to consolidated financial statements.*

7

**NCI BUILDING SYSTEMS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**APRIL 28, 2013**

**(Unaudited)**

## NOTE 1 — BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements for NCI Building Systems, Inc. (together with its subsidiaries, unless otherwise indicated, the "Company," "NCI," "we," "us," or "our") have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, the unaudited consolidated financial statements included herein contain all adjustments, which consist of normal recurring adjustments, necessary to fairly present our financial position, results of operations and cash flows for the periods indicated. Operating results for the fiscal three and six month periods ended April 28, 2013 are not necessarily indicative of the results that may be expected for the fiscal year ending November 3, 2013. Our sales and earnings are subject to both seasonal and cyclical trends and are influenced by general economic conditions, interest rates, the price of steel relative to other building materials, the level of nonresidential construction activity, roof repair and retrofit demand and the availability and cost of financing for construction projects.

We use a four-four-five week calendar each quarter with our year end being on the Sunday closest to October 31. The year end for fiscal 2013 is November 3, 2013. As a result, the fourth quarter of this fiscal year will include an additional week of operating activity.

For further information, refer to the consolidated financial statements and footnotes thereto included in our Annual Report on Form 10-K for the fiscal year ended October 28, 2012 filed with the Securities and Exchange Commission (the "SEC") on December 24, 2012.

## NOTE 2 — ACQUISITION

On June 22, 2012, we completed the acquisition of Metl-Span LLC, a Texas limited liability company ("Metl-Span"). Pursuant to the terms of the Equity Purchase Agreement, dated as of May 2, 2012, as amended (the "Equity Purchase Agreement"), among VSMA, Inc., Metl-Span, NCI Group, Inc. and BlueScope Steel North America Corporation, NCI

Group, Inc. acquired all of the outstanding membership interests of Metl-Span for approximately $145.7 million in cash (the “Acquisition”), which includes $4.7 million of cash acquired. The purchase price is also subject to a post-closing adjustment based on Metl-Span’s cash, working capital, indebtedness, transaction expenses and accrued employee bonuses at closing. Upon the closing of the Acquisition, Metl-Span became a direct, wholly-owned subsidiary of NCI Group, Inc. Effective October 29, 2012, Metl-Span merged with and into NCI Group, Inc., with NCI Group, Inc. being the lone survivor. Metl-Span’s operations are now conducted through NCI Group, Inc. and its results are included in the results of our metal components segment. The Acquisition has strengthened our position as a leading fully integrated supplier to the nonresidential building products industry in North America, providing our customers a comprehensive suite of building products.

Accordingly, the results of Metl-Span’s operations from June 22, 2012 are included in our consolidated financial statements. For the period from October 29, 2012 to April 28, 2013, Metl-Span contributed revenue and operating income of $91.7 million and $6.0 million, respectively. Metl-Span assets acquired through the Acquisition include five manufacturing facilities in the United States serving the nonresidential building products market with cost-effective and energy efficient insulated metal wall and roof panels. The Acquisition resulted in goodwill of $71.7 million. During the three and six month periods ended April 29, 2012, we recognized $1.5 million and $1.9 million, respectively, in acquisition-related costs.

We report on a fiscal year that ends the Sunday closest to October 31. Metl-Span previously reported on a calendar year that ended on June 30. The unaudited pro forma financial information in the fiscal three and six months ended April 29, 2012 in the table below was prepared based on financial information for Metl-Span for the calendar months of October through March. The unaudited pro forma financial information for the fiscal three months ended April 28, 2013 and April 29, 2012 and the fiscal six months ended April 28, 2013 and April 29, 2012 give effect to the transaction as if it had occurred at the beginning of the earliest fiscal period presented.

This unaudited pro forma financial information does not necessarily represent what would have occurred if the transaction had taken place on the dates presented and should not be taken as representative of our future consolidated results of operations. We have not finalized our integration plans. Accordingly, this pro forma information does not include all costs related to the integration. We also expect to realize operating synergies from consolidating procurement activities. The pro forma information does not reflect these potential synergies or expense reductions.

| (In thousands except per share amounts) | Unaudited Pro Forma Fiscal Three Months Ended April 28, 2013 | April 29, 2012 | Unaudited Pro Forma Fiscal Six Months Ended April 28, 2013 | April 29, 2012 |
|---|---|---|---|---|
| Sales | $293,399 | $285,532 | $590,983 | $574,496 |
| Net income (loss) | $(5,342) | $212 | $(8,969) | $796 |
| Net loss applicable to common shares | $(5,342) | $(17,390) | $(8,969) | $(27,434) |
| Earnings per share: | | | | |
| Basic | $(0.28) | $(0.92) | $(0.46) | $(1.46) |
| Diluted | $(0.28) | $(0.92) | $(0.46) | $(1.46) |

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed as part of the Acquisition. The fair value of certain assets acquired and liabilities assumed are preliminary and the final determination of any required purchase accounting adjustments will be made upon the finalization of the post-closing adjustment in the Equity Purchase Agreement and finalization of certain contingent assets and liabilities. We are currently completing our plans to functionally integrate the newly acquired operations into our existing operations. Additionally, as these plans are finalized, we may identify integration charges that are required to be recognized.

| (In thousands) | June 22, 2012 |
|---|---|
| Current assets | $35,233 |
| Current deferred income taxes | 2,182 |
| Property, plant and equipment | 57,572 |
| Intangible assets | 32,760 |
| Assets acquired | $127,747 |
| Current liabilities | $24,924 |
| Deferred income taxes | 27,404 |
| Lease liability | 1,392 |
| Liabilities assumed | $53,720 |
| Fair value of net assets acquired | $74,027 |
| Total consideration paid | 145,682 |
| Goodwill | $71,655 |

The long-term deferred tax liability primarily relates to differences between the book basis and tax basis of property, plant and equipment and intangible assets, which were written up to fair market value for book purposes when accounting for the Acquisition and are not deductible for tax purposes.

The amount allocated to intangible assets was attributed to the following categories (in thousands):

| | | Lives |
|---|---|---|
| Trade names | $9,600 | 15 years |
| Backlog | 1,410 | 3 months |
| Supplier relationships | 150 | 3 years |
| Customer lists and relationships | 21,600 | 12 years |
| | $32,760 | |

These intangible assets are amortized on a basis consistent with the expected future cash flows.

9

The excess of the purchase price over the fair values of assets acquired and liabilities assumed was allocated to goodwill. Goodwill of $71.7 million was recorded in our metal components segment. None of the goodwill recorded as a result of this transaction is expected to be deductible for tax purposes.

## NOTE 3 —ACCOUNTING PRONOUNCEMENTS

### *Adopted Accounting Pronouncements*

In June 2011, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income* ("ASU 2011-05") which amends its guidance on the presentation of comprehensive income to increase the prominence of items reported in other comprehensive income. The new guidance requires that all components of comprehensive income in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The guidance required entities to present reclassification adjustments out of accumulated other comprehensive income by component in both the statement in which net income is presented and the statement in which other comprehensive income is presented. In December 2011, the FASB issued ASU 2011-12, *Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05* ("ASU 2011-12") which indefinitely deferred the guidance related to the presentation on the face of the financial statements of the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income. These amendments are to be applied retrospectively. We adopted ASU 2011-05 and ASU 2011-12 in our first quarter of fiscal 2013. The adoption of ASU 2011-05 and ASU 2011-12 did not have any impact on our consolidated financial statements.

### *Recent Accounting Pronouncements*

In February 2013, the FASB issued ASU 2013-02, *Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*, which requires that companies present, either in a single note or parenthetically on the face of the financial statements, the effect of significant amounts reclassified from each component of accumulated other comprehensive income based on its source and the income statement line items affected by the reclassification. This accounting guidance is effective for our first quarter in fiscal 2014 and is only expected to impact the presentation of our consolidated financial statements and related notes.

## NOTE 4 — RESTRICTED CASH

We have entered into a cash collateral agreement with our agent bank to secure letters of credit. The restricted cash is invested in a bank account securing our agent bank. As of April 28, 2013, we no longer had cash collateralized letters of credit outstanding. As of October 28, 2012, we had restricted cash in the amount of $1.4 million as collateral related to our $1.4 million of letters of credit for certain insurance policies, exclusive of letters of credit under our Amended ABL Facility. See Note 9 — Long-Term Debt and Note Payable to the consolidated financial statements for more information on the material terms of our Amended ABL Facility. Restricted cash as of October 28, 2012 is classified as current as the underlying letters of credit expire within one year of that date.

## NOTE 5 — INVENTORIES

The components of inventory are as follows (in thousands):

| | April 28, 2013 | October 28, 2012 |
|---|---|---|
| Raw materials | $76,450 | $ 77,459 |
| Work in process and finished goods | 49,329 | 28,556 |
| | $125,779 | $ 106,015 |

## NOTE 6 — SHARE-BASED COMPENSATION

Our 2003 Long-Term Stock Incentive Plan (“Incentive Plan”) is an equity-based compensation plan that allows us to grant a variety of types of awards, including stock options, restricted stock, restricted stock units, stock appreciation rights, performance share units (“PSUs”), phantom stock awards and cash awards. As of April 28, 2013 and April 29, 2012, and for all periods presented, our share-based awards under this plan have consisted of restricted stock grants, PSUs and stock option grants, none of which can be settled through cash payments. Both our stock options and restricted stock awards are subject only to vesting requirements based on continued employment at the end of a specified time period and typically vest over four years or earlier upon death, disability or a change of control. However, our annual restricted stock awards also vest upon retirement and, only in the case of certain special one-time restricted stock awards, a portion vest on termination without cause or for good reason, as defined by the agreements governing such awards.

Our PSUs vest pro rata if an executive's employment terminates prior to a three-year performance period ending on June 30, 2015 due to death, disability, or termination by NCI without cause or by the executive with good reason. If the executive's employment terminates for any other reason prior to the end of the performance period, all PSUs are forfeited. If a change in control of NCI occurs prior to the end of the performance period, the performance period will immediately end at the time of the change in control and an executive will earn a percentage of the target number of PSUs based on the total shareholder return achieved determined by reference to the value of NCI Common Stock at the time of the change in control.

During the six month periods ended April 28, 2013 and April 29, 2012, we granted 2,101 and 92,832 stock options, respectively, and the grant-date fair value of options granted during the six month periods ended April 28, 2013 and April 29, 2012 was $7.22 and $5.12, respectively. Cash received from option exercises from a retired executive due to expiration in accordance with the terms of the agreement was $0.7 million during the six months ended April 28, 2013. The actual tax benefit realized for the tax deductions from option exerci