

NCI BUILDING SYSTEMS INC
Form 10-Q
September 07, 2007
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended: July 29, 2007

Commission file number: 1-14315

NCI BUILDING SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

10943 N. Sam Houston Parkway W.

Houston, TX
(Address of principal executive offices)

(281) 897-7788

Registrant's telephone number, including area code

76-0127701
(I.R.S. Employer
Identification No.)

77064
(Zip Code)

Former name, former address and former fiscal year, if changed since last report.

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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 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. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes 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 20,074,596 shares as of August 27, 2007

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Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements.****NCI BUILDING SYSTEMS, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS**

(In thousands)

	July 29, 2007 (Unaudited)	October 29, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 7,454	\$ 25,038
Accounts receivable, net	145,473	163,814
Inventories, net	170,290	160,208
Deferred income taxes	22,980	22,864
Prepaid expenses and other	13,014	11,054
Total current assets	359,211	382,978
Property, plant and equipment, net	268,933	252,580
Goodwill	616,384	614,461
Intangible assets, net	43,078	41,647
Other assets	12,884	12,577
Total assets	\$ 1,300,490	\$ 1,304,243
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ 934	\$ 947
Accounts payable	101,780	116,028
Accrued compensation and benefits	41,865	53,024
Accrued interest	1,561	3,095
Other accrued expenses	66,122	77,818
Total current liabilities	212,262	250,912
Long-term debt	496,340	497,037
Deferred income taxes	51,492	52,168
Other long-term liabilities	5,046	5,717
Total long-term liabilities	552,878	554,922
Stockholders' equity:		
Common stock	221	218
Additional paid-in capital	188,590	175,121
Retained earnings	441,416	403,125
Accumulated other comprehensive loss	(1,247)	(1,804)
Treasury stock, at cost	(93,630)	(78,251)

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Total stockholders' equity	535,350	498,409
Total liabilities and stockholders' equity	\$ 1,300,490	\$ 1,304,243

See accompanying notes to condensed consolidated financial statements.

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Table of Contents**NCI BUILDING SYSTEMS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

(In thousands, except per share data)

(Unaudited)

	Fiscal Three Months Ended	
	July 29, 2007	July 30, 2006
Sales	\$ 433,844	\$ 449,393
Cost of sales	324,053	335,731
Gross profit	109,791	113,662
Selling, general and administrative expenses	67,781	72,187
Income from operations	42,010	41,475
Interest income	7	799
Interest expense	(7,206)	(8,026)
Other income, net	362	82
Income before income taxes	35,173	34,330
Provision for income taxes	13,846	12,655
Net income	\$ 21,327	\$ 21,675
Earnings per share:		
Basic	\$ 1.09	\$ 1.08
Diluted	\$ 1.02	\$ 1.00
Weighted average shares outstanding:		
Basic	19,655	20,065
Diluted	20,881	21,718

See accompanying notes to condensed consolidated financial statements.

Table of Contents**NCI BUILDING SYSTEMS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

(In thousands, except per share data)

(Unaudited)

	Fiscal Nine Months Ended	
	July 29,	July 30, 2006
	2007	2006
Sales	\$ 1,160,874	\$ 1,072,007
Cost of sales	878,009	810,386
Gross profit	282,865	261,621
Selling, general and administrative expenses	199,530	175,574
Income from operations	83,335	86,047
Interest income	246	4,806
Interest expense	(21,918)	(17,627)
Other income, net	1,411	614
Income before income taxes	63,074	73,840
Provision for income taxes	24,783	28,093
Net income	\$ 38,291	\$ 45,747
Earnings per share:		
Basic	\$ 1.95	\$ 2.28
Diluted	\$ 1.82	\$ 2.13
Weighted average shares outstanding:		
Basic	19,661	20,079
Diluted	21,022	21,479

See accompanying notes to condensed consolidated financial statements.

Table of Contents**NCI BUILDING SYSTEMS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In thousands)

(Unaudited)

	Fiscal Nine Months Ended	
	July 29, 2007	July 30, 2006
Cash flows from operating activities:		
Net cash provided by operating activities	\$ 42,725	\$ 54,544
Cash flows from investing activities:		
Acquisitions, net of cash acquired	(18,859)	(366,490)
Capital expenditures	(33,440)	(19,364)
Other, net	(401)	(203)
Net cash used in investing activities	(52,700)	(386,057)
Cash flows from financing activities:		
Payments on revolving line of credit	(90,500)	
Borrowings on revolving line of credit	90,500	
Issuance of long-term debt		200,000
Payments on long-term debt	(710)	(2,264)
Payment of financing costs	(75)	(594)
Proceeds from stock options exercised	3,787	5,492
Excess tax benefits from share-based compensation arrangements	1,459	3,361
Purchase of treasury stock	(12,286)	(17,580)
Net cash (used in) provided by financing activities	(7,825)	188,415
Effect of exchange rate changes on cash and cash equivalents	216	126
Net decrease in cash and cash equivalents	(17,584)	(142,972)
Cash and cash equivalents at beginning of period	25,038	200,716
Cash and cash equivalents at end of period	\$ 7,454	\$ 57,744

See accompanying notes to condensed consolidated financial statements.

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NCI BUILDING SYSTEMS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

JULY 29, 2007

(Unaudited)

NOTE 1 BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements 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, all adjustments, which consist of normal recurring entries except as otherwise disclosed, considered necessary for a fair presentation have been made. Operating results for the fiscal three month and fiscal nine month periods ended July 29, 2007 are not necessarily indicative of the results that may be expected for the fiscal year ending October 28, 2007. Among the factors that could cause actual results to differ materially are industry cyclicality and seasonality.

We use a four-four-five week calendar each quarter with year end on the Sunday closest to October 31. The year end for fiscal 2007 is October 28, 2007.

Certain reclassifications have been made to prior period amounts in our condensed consolidated statements of cash flows to conform to the current presentation.

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 29, 2006 filed with the Securities and Exchange Commission (the SEC).

NOTE 2 ACQUISITIONS

On January 31, 2007, we completed the purchase of substantially all of the assets of Garco Building Systems, Inc. (Garco), which designs, manufactures and distributes steel building systems primarily for markets in the northwestern United States and western Canada. Garco is now a division of our Company and the results of Garco's operations beginning January 31, 2007 are included in our condensed consolidated financial statements. Garco is headquartered in Spokane, Washington, where it operates a manufacturing facility for steel building systems for industrial, commercial, institutional and agricultural applications. The aggregate purchase price for this acquisition was \$16.3 million, comprised of \$14.5 million in cash and \$1.8 million in restricted common stock (35,448 shares). In addition, we finalized, paid and recorded a working capital adjustment of \$0.6 million and incurred estimated transaction costs of \$0.2 million. At the date of purchase, there was no excess of cost over fair value of the acquired assets. We obtained third-party valuations of certain tangible and intangible assets. As a result of the valuation work, we recorded \$5.6 million in intangible assets which includes \$2.4 million in customer relationships. The \$1.8 million in restricted NCI common stock relates to 5-year non-compete agreements with certain of the sellers of Garco. We will expense the fair value of the restricted stock ratably over the terms of the agreements. In addition, we recorded \$6.4 million in property, plant and equipment and \$5.0 million in working capital. Garco's results of operations are included in the engineered building systems segment. This acquisition was not material to the financial statements as a whole, and accordingly, pro forma information has not been provided.

On April 7, 2006, we closed our acquisition of Robertson-Ceco Corporation (RCC). We acquired 100% of the issued and outstanding shares of RCC. RCC is now a wholly owned subsidiary and the results of RCC's operations beginning April 7, 2006 are included in our condensed consolidated financial statements. RCC operates the Ceco Building Systems, Star Building Systems and Robertson Building Systems divisions and is a leader in the metal buildings industry. This transaction resulted in goodwill of \$277.3 million as it has created an organization with greater product and geographic diversification, a stronger customer base and a more extensive distribution network than either company had separately.

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The aggregate consideration paid for the RCC acquisition was as follows (in thousands):

Cash consideration	\$ 371,014
Transaction costs	5,128
	\$ 376,142

The purchase price was subject to a post-closing adjustment based on net working capital, as defined in the stock purchase agreement, of RCC at the closing date. This adjustment was finalized in March 2007 and resulted in an additional purchase price of \$4.5 million.

Upon acquisition of RCC, we began to assess RCC's manufacturing operations in Ontario, Canada and formulate a plan to exit these activities. In the second quarter of fiscal 2007, we finalized our RCC integration plans to shut-down, exit and dispose of this manufacturing facility. Our plan calls for the sales, marketing, engineering, drafting and customer service capabilities in Ontario to continue, but in accordance with our plan, manufacturing activities have ceased and the manufacturing facility is being sold. The liquidation plans call for a small portion of the manufacturing equipment to be transferred to existing manufacturing facilities and the remainder, including the real estate and buildings, to be sold to third parties. In the second quarter of fiscal 2007, we established a reserve of \$1.2 million, and through July 29, 2007 have incurred expenses of \$0.3 million, for certain severance and exit costs relating to the closure of this manufacturing facility, which has been recognized as a liability at the date of acquisition and is included in other accrued expenses in the Condensed Consolidated Balance Sheet at July 29, 2007. Accrued severance costs related to the terminated employees will primarily be paid in the fourth quarter of fiscal 2007. Additionally, the preliminary carrying value of the plant and equipment in Ontario has been reduced by \$2.5 million to reflect its estimated fair market value upon disposition. Costs associated with these actions have not impacted current earnings and have been recognized as a component of purchase accounting, resulting in an adjustment to increase goodwill by \$2.8 million, net of tax effects.

NOTE 3 INVENTORIES

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

	July 29, 2007	October 29, 2006
Raw materials	\$ 119,063	\$ 121,024
Work in process and finished goods	51,227	39,184
	\$ 170,290	\$ 160,208

NOTE 4 BUSINESS SEGMENTS

We have aggregated our operations into three reportable segments based upon similarities in product lines, manufacturing processes, marketing and management of our businesses: metal components, engineered building systems and metal coil coating. Products of all three segments use similar basic raw materials. The metal components segment products include metal roof and wall panels, doors, metal partitions, metal trim and other related accessories. The engineered building systems segment includes the manufacturing of main frames, Long Bay® Systems and value-added engineering and drafting, which are typically not part of metal components or metal coil coating products or services. The metal coil coating segment consists of cleaning, treating, painting and slitting continuous steel coils before the steel is fabricated. The reporting segments follow the same accounting policies used for our consolidated financial statements. We evaluate a segment's performance based primarily upon operating income before corporate expenses. Intersegment sales are recorded based on standard material costs plus a standard markup to cover labor and overhead and consist of: (i) building components provided by the metal components segment to the engineered building systems segment, (ii) structural framing provided by the engineered building systems segment to the metal components segment, and (iii) hot rolled, light gauge painted and slit material and other services provided by the metal coil coating segment to both the engineered building systems and metal components segments. We are not dependent on any one customer or group of customers. Substantially all of our sales are made within the United States. For the fiscal nine months

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ended July 29, 2007, steel represented approximately 73% of our cost of goods sold. We are not dependent on any single source for our supply of steel, but approximately 39% of our steel purchases came from our two largest suppliers.

The following table represents sales, operating income and total assets attributable to these business segments for the periods indicated (in thousands):

	Fiscal Three Months Ended		Fiscal Nine Months Ended	
	July 29, 2007	July 30, 2006	July 29, 2007	July 30, 2006
Total sales:				
Metal components	\$ 193,140	\$ 206,270	\$ 511,257	\$ 555,167
Engineered building systems	256,086	250,907	692,393	524,221
Metal coil coating	72,275	74,813	195,338	199,169
Intersegment sales	(87,657)			