

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: 1994-05-17 | Period of Report: 1994-04-02
SEC Accession No. 0000950109-94-000867

(HTML Version on secdatabase.com)

FILER

PLY GEM INDUSTRIES INC

CIK: 79209 | IRS No.: 111727150 | State of Incorporation: DE | Fiscal Year End: 1231
Type: 10-Q | Act: 34 | File No.: 001-04087 | Film No.: 94529101
SIC: 2430 Millwood, veneer, plywood, & structural wood members

Mailing Address
PLY GEM INDUSTRIES INC
777 THIRD AVE
NEW YORK NY 10017-1401

Business Address
777 THIRD AVE
NEW YORK NY 10017-1401
2128321550

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 April 2, 1994 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 1-4087

PLY GEM INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

Delaware	11-1727150
-----	-----
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

777 Third Avenue, New York, NY	10017
-----	-----
(Address of principal executive offices)	(Zip code)

Registrant's telephone number, including area code 212-832-1550

(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 No

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

Class	Outstanding at April 30, 1994
-----	-----
Common stock, par value \$.25 per share	14,683,074 Shares

PLY GEM INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

<TABLE>
<CAPTION>

ASSETS -----	(Dollars in Thousands)	
	April 2, 1994	December 31, 1993

	(Unaudited)	
<S>	<C>	<C>
Cash and cash equivalents	\$ 3,378	\$ 12,499
Marketable securities	1,942	1,942
Accounts receivable, net of allowance of \$7,654; \$7,197 in 1993	63,568	54,432
Inventories	134,748	117,515
Prepaid expenses and other current assets	22,481	11,077
	-----	-----
Current assets	226,117	197,465
Funds held for construction	2,216	2,375
Property, plant and equipment -- at cost net of accumulated depreciation and amortization of \$40,766; \$38,704 in 1993	68,892	67,766

Patents and trademarks, net of accumulated amortization of \$6,959; \$6,677 in 1993	17,315	17,595
Other intangible assets -- net	20,775	21,557
Cost in excess of net assets acquired -- net	26,104	26,492
Other assets	28,531	11,694
	-----	-----
	\$389,950	\$344,944
	-----	-----
LIABILITIES AND STOCKHOLDERS' EQUITY		

Accounts payable and accrued expenses	\$ 54,374	\$ 55,764
Notes payable	2,514	2,365
Current maturities of long-term debt	946	2,841
	-----	-----
Current liabilities	57,834	60,970
Long-term debt	126,244	142,898
Capital leases	7,159	7,166
Deferred income taxes and other liabilities	21,984	4,968
Stockholders' equity:		
Preferred stock, \$.01 par value; authorized 5,000,000 shares; none issued		
Common stock, \$.25 par value; authorized 30,000,000 shares; issued 16,642,268; 11,872,509; in 1993	4,161	2,968
Additional paid-in capital	138,850	64,006
Retained earnings	70,964	72,601
Less: Treasury stock--at cost (1,982,993 shares; 910,073 in 1993)	36,018	9,362
Unamortized restricted stock	1,228	1,271
	-----	-----
Stockholders' equity	176,729	128,942
	-----	-----
	\$389,950	\$344,944
	-----	-----

</TABLE>

See accompanying notes to financial statements.

2

PLY GEM INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

<TABLE>
<CAPTION>

	(Dollars in Thousands)	
	Quarter Ended	
	April 2	March 31
	1994	1993
	-----	-----
<S> Net sales	<C> \$163,412	<C> \$146,347
Cost of goods sold	136,935	120,338
	-----	-----
Gross profit	26,477	26,009
Selling, general and administrative expenses	25,129	26,098
	-----	-----
Income (loss) from operations	1,348	(89)
Amortization of goodwill and other intangibles	(1,184)	(1,196)
Interest expense	(2,662)	(2,392)
Investment and other income (expense), net	126	(42)
	-----	-----
Loss before income taxes	(2,372)	(3,719)
Income taxes benefit	(1,067)	(1,673)
	-----	-----
Net loss	\$ (1,305)	(2,046)
	-----	-----

Loss per share:		
Primary	\$ (.11)	\$ (.19)
Fully diluted	(.11)	(.19)
Weighted average number of shares outstanding:		
Primary	11,490,000	10,576,000
Fully diluted	11,490,000	10,576,000
Cash dividends per share	\$.03	\$.03

</TABLE>

See accompanying notes to financial statements.

3

PLY GEM INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

<TABLE>

<CAPTION>

		(In Thousands)	
		Quarter Ended	
		April 2,	March 31,
		1994	1993
		-----	-----
<S>	<C>	<C>	<C>
Cash flows from operating activities			

Net loss		\$ (1,305)	\$ (2,046)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	\$ 3,577	\$ 3,131	
Provision for doubtful accounts	725	1,997	
Changes in assets and liabilities:			
Accounts receivable	(9,861)	(12,469)	
Inventories	(17,233)	(20,974)	
Prepaid expenses and other current assets	(11,404)	717	
Accounts payable and accrued expenses	(2,413)	9,107	
Other	1,202	(35,407)	(1,655)
		-----	-----
Net cash (used in) operating activities		(36,712)	(22,192)
		-----	-----
Cash flows from investing activities			

Additions to property, plant and equipment		(3,311)	(6,018)
Funds used for construction		159	3,919
Other		24	148
		-----	-----
Net cash (used in) investing activities		(3,128)	(1,951)
		-----	-----
Cash flows from financing activities			

Short-term debt borrowings, (repayments), net		149	(168)
Repayments of long-term debt		(1,875)	(2,394)
Long-term borrowings		33,326	26,000
Cash dividends		(332)	(323)
Other		(549)	(150)
		-----	-----
Net cash provided by financing activities		30,719	22,965
		-----	-----
Net increase (decrease) in cash and cash equivalents		(9,121)	(1,178)
Cash and cash equivalents at beginning of period		12,499	1,880
		-----	-----

Cash and cash equivalents at end of period \$ 3,378 \$ 702

</TABLE>

See accompanying notes to financial statements.

4

PLY GEM INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1 - The accompanying financial statements have been prepared without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. Certain prior year items have been reclassified to conform to the 1994 presentation.

In 1994 the Company modified its interim fiscal reporting periods. Each period will end on the Saturday nearest to the end of the respective calendar quarters for March, June and September. This change will have no effect on the annual reporting period which will continue to end on December 31.

These statements include all adjustments, consisting only of normal recurring accruals, considered necessary for a fair presentation of financial position and results of operations. The financial statements included herein should be read in conjunction with the financial statements and notes thereto included in the latest annual report on Form 10-K.

NOTE 2 - The major classes of inventories were as follows:

<TABLE>
<CAPTION>

	(In Thousands)	
	April 2, 1994	December 31, 1993
<S>	<C>	<C>
Finished goods	\$ 67,804	\$ 56,630
Work in process	28,194	25,806
Raw materials	38,750	35,079
	\$134,748	\$117,515

</TABLE>

NOTE 3 - Earnings per share of common stock are based on the weighted average number of shares outstanding during each of the periods. Common stock equivalents and the assumed conversion of the Company's Convertible Senior Subordinated Discount Debentures in 1993 were not used because the results would be anti-dilutive.

NOTE 4 - Supplemental cash flow information for the quarterly periods are as follows:

<TABLE>
<CAPTION>

	(In Thousands)	
	April 2, 1994	March 31, 1993
<S>	<C>	<C>
Interest paid	\$ 994	\$1,017
Income taxes paid	1,883	2,419

</TABLE>

Non-cash financing activities involve the issuance of common stock during the first quarter of 1994 upon conversion of \$49,963,000 of the Company's subordinated debentures.

5

PLY GEM INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Unaudited)

NOTE 5 - The accumulated amortization of cost in excess of net assets acquired and other intangibles is \$23,968,000 at April 2, 1994 and \$26,136,000 at December 31, 1993.

NOTE 6 - The Company's loan agreements with its banks require the attainment of certain working capital and tangible net worth levels and the maintenance of various financial ratios, among its provisions. Under the most restrictive of these covenants, at April 2, 1994 approximately \$1,860,000 of retained earnings was available for the payment of dividends in 1994.

NOTE 7 - Hoover, a wholly-owned subsidiary of the Company, is a defendant, along with many other parties, in a number of commercial lawsuits, including a purported class action on behalf of certain Maryland homeowners, alleging property damage caused by alleged defects in certain pressure treated interior wood products. Hoover has not manufactured or sold these products since August 1988. The Company is also a defendant in many of these suits. The number of lawsuits pending, as of April 2, 1994, where Hoover is not being defended and indemnified by a third party, as well as the number of lawsuits filed in 1993 and 1994 have declined significantly from earlier periods.

Many of the suits and claims have been settled. In those suits that remain pending, direct defense costs are being paid by either insurance carriers, under reservations of rights agreements, or out of insurance proceeds. Two actions have proceeded to trial against Hoover and resulted in jury verdicts against it. In one of these actions, judgment was entered in Hoover's favor by the court after a jury verdict against it and the plaintiff's petition to appeal the judgment entered in Hoover's favor was denied. Hoover is appealing the other judgment and believes that it has meritorious grounds for overturning it in whole or in part.

Hoover and the Company have engaged in litigation with their insurers regarding coverage for these lawsuits and claims. Hoover has settled its coverage claims with a majority of its insurers and is negotiating settlements with others. Hoover and the Company believe they have meritorious claims for coverage from their remaining unsettled insurers and are seeking declaratory judgments confirming such coverage. The proceeds from settled insurance claims, along with the proceeds from a settlement of claims by Hoover against certain suppliers of materials used by it in the production of treated wood, are available for the settlement of the underlying property damage actions, including the jury verdict now on appeal. The Company believes that Hoover's remaining coverage disputes will be resolved within the next two years on a satisfactory basis and a substantial amount of additional coverage will be available to Hoover. In reaching this belief, it has analyzed Hoover's insurance coverage, considered its history of successful settlements with primary and excess insurers and consulted with counsel.

Hoover and the Company are vigorously defending the underlying lawsuits which cannot be resolved on a reasonable basis and believe that they have meritorious defenses to those suits including, in the case of the Company, the

6

defense that it has been improperly joined, as it did not manufacture or market the Hoover products at issue, and is not legally liable for the damage allegedly caused by them.

At April 2, 1994, in accordance with the provisions of Financial Accounting Standards Board Interpretation No. 39, which became effective on January 1, 1994, Hoover recorded a receivable (included in other assets) for \$17.2 million for the estimated proceeds and recoveries related to insurance matters discussed above and accrued the same amount (included in other liabilities), for its estimated cost to resolve those matters not presently covered by existing settlements with insurance carriers and suppliers. In estimating both this liability, which Hoover expects to discharge over the next four years, and its anticipated additional insurance recoveries, Hoover and the Company have considered a number of factors, including: the number and exposure posed by the pending lawsuits; the significant decline in the number of lawsuits filed in 1993 and 1994; the availability of various legal defenses, including statutes of limitations; the existence of settlement protocols; an agreement indemnifying Hoover as to certain past and future claims; and Hoover's experience to date in settling with its insurance companies and the likely availability of additional insurance. Based on its evaluation, the Company believes that the ultimate resolution of the lawsuits and the insurance claims will not have a material adverse effect upon the financial position of the Company.

NOTE 8 - During the period February 23 to March 23, 1994 holders of \$49,963,000 principal amount of 10% Convertible Senior Subordinated Discount Debentures, due October 1, 2008, exchanged them for 2,751,328 shares of common stock of the Company. The remaining \$37,000 of the original \$50 million face amount was redeemed by the Company.

PLY GEM INDUSTRIES, INC. AND SUBSIDIARIES
 MANAGEMENT'S DISCUSSION AND ANALYSIS OF
 FINANCIAL CONDITIONAL AND RESULTS OF OPERATIONS
 QUARTER ENDED APRIL 2, 1994

Results of Operations

- - - - -

Net sales for the first quarter of 1994 increased approximately 12% to \$163.4 million from the corresponding 1993 period. Of the total net sales increase in 1994, approximately 70% is attributable to additional unit volume and approximately 30% to increases in average selling prices. Substantially all operating entities of the Company reported higher sales for the first quarter of 1994 when compared with the corresponding period in 1993. In 1994 the Company changed its interim fiscal reporting periods. The change had no material effect on the quarterly comparisons.

Gross profit, expressed as a percentage of net sales, was 16.2% for the first quarter of 1994 compared to 17.8% for the corresponding period in 1993. The lower margin in 1994 was primarily due to the absence of inventory wood price gains experienced in 1993 and to a lesser extent competitive pricing pressures.

Selling, general and administrative expenses, as a percent of net sales, were 15.4% for the 1994 first quarter compared to 17.8% for the corresponding period in 1993. The decline is primarily due to economies resulting from the absorption of fixed expenses over a larger sales base and lower provision for bad debts.

The net loss for the first quarter of 1994 was \$1.3 million compared with a net loss of \$2.0 million for the first quarter of 1993. The lower loss experienced during the first quarter of 1994 resulted from the factors described above.

Liquidity and Capital Resources

- - - - -

The Company used \$36.9 million in cash from operations during the first quarter of 1994 principally as a result of a seasonal increases in working capital and from the timing of the tax benefit related to the exercise of stock options. Significant first quarter 1994 financing activities related to the net increase in revolving credit borrowings of \$33 million used principally to finance the working capital requirements of the Company.

The Company's current ratio was 3.9 to 1 at April 2, 1994 compared to 3.2 to 1 at December 31, 1993.

Available bank credit facilities were approximately \$41 million at April 2, 1994.

PLY GEM INDUSTRIES, INC. AND SUBSIDIARIES

April 2, 1994

PART II - OTHER INFORMATION

All items are inapplicable except:

Item 1. Legal Proceedings

See Note 7 to the consolidated financial statements.

Item 6. Exhibits and Reports on Form 8-K

- (a) Exhibits: None
- (b) Reports - Dated February 24, 1994 reporting on a \$200 million five year credit agreement with a group of banks.

PLY GEM INDUSTRIES, INC. AND SUBSIDIARIES

April 2, 1994

S I G N A T U R E S

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Fly Gem Industries, Inc.

(Registrant)

Date: May 17, 1994

Herbert P. Dooskin

Executive Vice President
Principal Financial Officer