

PGT, Inc.
Form 10-Q
August 12, 2009

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended July 4, 2009

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
Delaware

IRS Employer Identification No.
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 R 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.

Edgar Filing: PGT, Inc. - Form 10-Q

See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting
o companyo

(Do not check if a 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

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 – 35,685,245 shares, as of July 31, 2009.

* Registrant is not subject to the requirements of Rule 405 of Regulation S-T at this time.

Table of Contents

PGT, INC.
TABLE OF CONTENTS

	Page Number
<u>Part I. Financial Information</u>	
<u>Item 1. Condensed Consolidated Financial Statements (unaudited)</u>	
<u>Condensed Consolidated Statements of Operations</u>	3
<u>Condensed Consolidated Balance Sheets</u>	4
<u>Condensed Consolidated Statements of Cash Flows</u>	5
<u>Notes to Condensed Consolidated Financial Statements</u>	6
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	19
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	28
<u>Item 4. Controls and Procedures</u>	28
<u>Part II. Other Information</u>	
<u>Item 1. Legal Proceedings</u>	29
<u>Item 1A. Risk Factors</u>	29
<u>Item 2. Unregistered Sales of Equity Securities and Use Of Proceeds</u>	29
<u>Item 3. Defaults Upon Senior Securities</u>	29
<u>Item 4. Submission of Matters to a Vote of Security Holders</u>	30
<u>Item 5. Other Information</u>	30
<u>Item 6. Exhibits</u>	30

Table of Contents

PART I — FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

PGT, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
 (in thousands, except per share amounts)

	Three Months Ended		Six Months Ended	
	July 4, 2009	June 28, 2008	July 4, 2009	June 28, 2008
	(unaudited)		(unaudited)	
Net sales	\$ 46,867	\$ 60,100	\$ 88,381	\$ 114,936
Cost of sales	32,247	38,609	63,866	77,374
Gross margin	14,620	21,491	24,515	37,562
Goodwill impairment charge	-	92,000	-	92,000
Selling, general and administrative expenses	12,541	16,165	27,552	32,434
Income (loss) from operations	2,079	(86,674)	(3,037)	(86,872)
Interest expense, net	1,737	2,190	3,315	4,917
Other expense (income), net	-	51	6	(56)
Income (loss) before income taxes	342	(88,915)	(6,358)	(91,733)
Income tax benefit	-	(12,266)	-	(13,297)
Net income (loss)	\$ 342	\$ (76,649)	\$ (6,358)	\$ (78,436)
Net income (loss) per common share:				
Basic	\$ 0.01	\$ (2.65)	\$ (0.18)	\$ (2.72)
Diluted	\$ 0.01	\$ (2.65)	\$ (0.18)	\$ (2.72)
Weighted average shares outstanding:				
Basic	35,240	28,934	35,220	28,832
Diluted	35,622	28,934	35,220	28,832

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)

	July 4, 2009 (unaudited)	January 3, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 14,609	\$ 19,628
Accounts receivable, net	18,001	17,321
Inventories	9,199	9,441
Deferred income taxes	529	1,158
Other current assets	4,325	5,569
Total current assets	46,663	53,117
Property, plant and equipment, net	69,540	73,505
Other intangible assets, net	69,893	72,678
Other assets, net	1,119	1,317
Total assets	\$ 187,215	\$ 200,617
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 14,055	\$ 14,582
Current portion of long-term debt	102	330
Total current liabilities	14,157	14,912
Long-term debt	82,216	90,036
Deferred income taxes	17,844	18,473
Other liabilities	2,901	3,011
Total liabilities	117,118	126,432
Commitments and contingencies (note 10)		
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; 35,685 and 35,392 shares issued and 35,300 and 35,197 shares outstanding at July 4, 2009 and January 3, 2009, respectively	353	352
Additional paid-in-capital	241,555	241,177
Less: Treasury shares at cost	(6)	-

Edgar Filing: PGT, Inc. - Form 10-Q

Accumulated other comprehensive loss	(2,069)	(3,966)
Accumulated deficit	(169,736)	(163,378)
Total shareholders' equity	70,097	74,185
Total liabilities and shareholders' equity	\$ 187,215	\$ 200,617

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 4, 2009	June 28, 2008
	(unaudited)	
Cash flows from operating activities:		
Net loss	\$ (6,358)	\$ (78,436)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	5,247	5,666
Amortization	2,785	2,785
Stock-based compensation	385	361
Excess tax benefits from stock-based compensation plans	-	(458)
Deferred taxes	-	(13,395)
Amortization of deferred financing costs	272	236
Derivative financial instruments	6	(56)
Impairment charge	-	92,000
Loss on disposal of assets	90	6
Change in operating assets and liabilities:		
Accounts receivable	(16)	(2,257)
Inventories	70	(1,103)
Prepaid expenses and other current assets	861	2,098
Accounts payable, accrued and other liabilities	(1,127)	1,601
Net cash provided by operating activities	2,215	9,048
Cash flows from investing activities:		
Purchases of property, plant and equipment	(1,403)	(1,957)
Proceeds from sales of equipment	32	58
Net change in margin account for derivative financial instruments	2,197	-
Net cash provided by (used in) investing activities	826	(1,899)
Cash flows from financing activities:		
Payments of long-term debt	(8,000)	(10,000)
Payments of capital leases	(48)	-
Purchases of treasury stock	(6)	-
Adjustment to proceeds from issuance of common stock	(6)	-
Proceeds from exercise of stock options	-	210
Excess tax benefits from stock-based compensation plans	-	458

Edgar Filing: PGT, Inc. - Form 10-Q

Net cash used in financing activities	(8,060)	(9,332)
Net decrease in cash and cash equivalents	(5,019)	(2,183)
Cash and cash equivalents at beginning of period	19,628	19,479
Cash and cash equivalents at end of period	\$ 14,609	\$ 17,296

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 (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 accruals) considered necessary for a fair presentation have been included. All significant intercompany accounts and transactions have been eliminated in consolidation. Operating results for the interim period 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, 2009 and June 28, 2008 consisted of 13 weeks.

The condensed consolidated balance sheet as of January 3, 2009 is derived from the audited consolidated financial statements but does not include all disclosures required by GAAP. This condensed consolidated balance sheet as of January 3, 2009 and the unaudited condensed consolidated financial statements included herein should be read in conjunction with the more detailed audited consolidated financial statements for the year ended January 3, 2009 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 Form 10-K.

We have evaluated the condensed consolidated financial statements for subsequent events through the date of the filing of this Form 10-Q.

NOTE 2. RESTRUCTURINGS

On January 13, 2009 and March 11, 2009, we announced further restructurings of the Company as a result of continued analysis of our target markets, internal structure, projected run-rate, and efficiency. The restructurings resulted in a decrease in our workforce of approximately 250 employees and included employees at both our Venice, Florida and Salisbury, North Carolina locations. As a result of the restructurings, we recorded restructuring charges totaling \$3.0 million in the first quarter of 2009, of which \$1.4 million is classified within cost of sales and \$1.6 million is classified within selling, general and administrative expenses in the accompanying condensed consolidated statement of operations for the six months ended July 4, 2009. The charges related primarily to employee separation costs.

The total costs incurred for the restructurings in 2008 and 2007 were \$2.1 million and \$2.4 million, respectively.

The following table provides information with respect to our accrual for restructuring costs:

Table of Contents

Accrued Restructuring Costs (in thousands)	Beginning of Period	Charged to Expense	Disbursed in Cash	End of Period
Three months ended July 4, 2009:				
2008 Restructuring	\$ -	\$ -	\$ -	\$ -
2009 Restructurings	403	-	(322)	81
For the three months ended July 4, 2009	\$ 403	\$ -	\$ (322)	\$ 81
Three months ended June 28, 2008:				
2007 Restructuring	\$ 217	\$ -	\$ (217)	\$ -
2008 Restructuring	-	-	-	-
For the three months ended June 28, 2008	\$ 217	\$ -	\$ (217)	\$ -
Six months ended July 4, 2009:				
2008 Restructuring	\$ 332	\$ -	\$ (332)	\$ -
2009 Restructurings	-	3,002	(2,921)	81
For the six months ended July 4, 2009	\$ 332	\$ 3,002	\$ (3,253)	\$ 81
Six months ended June 28, 2008:				
2007 Restructuring	\$ 850	\$ -	\$ (850)	\$ -
2008 Restructuring	-	1,752	(1,752)	-
For the six months ended June 28, 2008	\$ 850	\$ 1,752	\$ (2,602)	\$ -

NOTE 3. WARRANTY

We have warranty obligations with respect to most of our manufactured products. Warranty periods, which vary by product component, generally range from 1 to 10 years. However, 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 recorded net sales. The reserve is determined after assessing our warranty history and estimating our future warranty obligations.

The following table provides information with respect to our warranty accrual:

Accrued Warranty (in thousands)	Beginning of Period	Charged to Expense	Adjustments	Settlements	End of Period
------------------------------------	------------------------	--------------------------	-------------	-------------	------------------

Edgar Filing: PGT, Inc. - Form 10-Q

Three months ended July 4, 2009	\$ 4,214	\$ 584	\$ (75)	\$ (637)	\$ 4,086
------------------------------------	----------	--------	----------	-----------	----------

Three months ended June 28, 2008	\$ 4,835	\$ 902	\$ (279)	\$ (748)	\$ 4,710
-------------------------------------	----------	--------	-----------	-----------	----------

Six months ended July 4, 2009	\$ 4,224	\$ 1,414	\$ (125)	\$ (1,427)	\$ 4,086
----------------------------------	----------	----------	-----------	-------------	----------

Six months ended June 28, 2008	\$ 4,986	\$ 1,999	\$ (451)	\$ (1,824)	\$ 4,710
-----------------------------------	----------	----------	-----------	-------------	----------

Table of Contents

NOTE 4. 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 products 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 at:

	July 4, 2009	January 3, 2009
	(in thousands)	
Finished goods	\$ 1,018	\$ 905
Work in progress	188	342
Raw materials	7,993	8,194
	\$ 9,199	\$ 9,441

NOTE 5. STOCK COMPENSATION EXPENSE

We account for stock-based compensation in accordance with Statement of Financial Accounting Standards (“SFAS”) No. 123(R), “Share-Based Payment” (SFAS 123(R)). This statement is a fair-value based approach for measuring stock-based compensation and requires us to recognize the cost of employee and non-employee directors’ services received in exchange for our Company’s equity instruments. Under SFAS 123(R), we are required to record 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 \$0.2 million for the second quarter of 2009 and \$0.3 million for the second quarter of 2008. We recorded compensation expense for stock based awards of \$0.4 million for the first half of 2009 and \$0.4 million for the first half of 2008. As of July 4, 2009, there was \$0.3 million and \$0.4 million of total unrecognized compensation cost related to non-vested stock option agreements and non-vested restricted share awards, respectively. These costs are expected to be recognized in earnings on a straight-line basis over the weighted average remaining vesting period of 1.7 years.

NOTE 6. NET LOSS PER COMMON SHARE

Net loss per common share (“EPS”) is calculated in accordance with SFAS No. 128, “Earnings per Share”, which requires the presentation of basic and diluted EPS. Basic EPS is computed using the weighted average number of common shares outstanding during the period. Diluted EPS is computed using the weighted average number of common shares outstanding during the period, plus the dilutive effect of common stock equivalents.

Due to the net losses in the first half of 2009 and in the second quarter and first half of 2008, the effect of compensation plans is anti-dilutive. Basic and diluted weighted average common shares outstanding for the second quarter and first half of 2008 have been restated to give effect to the market value premium included in the rights offering that ended on September 4, 2008. There were shares of common stock of 1,409,181 for the second quarter and 1,856,662 for the first half of 2009 relating to stock option agreements excluded from the computation of diluted EPS in each period as they were anti-dilutive.

