

PGT, Inc.
Form 10-Q
August 12, 2011
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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, 2011

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 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. 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 (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

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 53,670,135 shares, as of July 29, 2011.

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PGT, INC.

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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 2, 2011	July 3, 2010	July 2, 2011	July 3, 2010
	<i>(unaudited)</i>		<i>(unaudited)</i>	
Net sales	\$ 45,171	\$ 49,006	\$ 85,816	\$ 89,522
Cost of sales	36,100	33,760	68,419	62,953
Gross margin	9,071	15,246	17,397	26,569
Selling, general and administrative expenses	12,597	13,904	25,631	25,833
(Loss) income from operations	(3,526)	1,342	(8,234)	736
Interest expense, net	1,050	1,264	2,173	2,738
Other expense (income), net	461		419	(20)
(Loss) income before income taxes	(5,037)	78	(10,826)	(1,982)
Income tax expense		77		77
Net (loss) income	\$ (5,037)	\$ 1	\$ (10,826)	\$ (2,059)
Net (loss) income per common share:				
Basic	\$ (0.09)	\$ 0.00	\$ (0.20)	\$ (0.04)
Diluted	\$ (0.09)	\$ 0.00	\$ (0.20)	\$ (0.04)
Weighted average shares outstanding:				
Basic	53,659	53,649	53,658	46,694
Diluted	53,659	54,334	53,658	46,694

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 2, 2011 (unaudited)	January 1, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 7,677	\$ 22,012
Accounts receivable, net	18,565	13,687
Inventories	11,581	10,535
Prepaid expenses	1,104	881
Other current assets	3,341	3,589
Assets held for sale		657
Total current assets	42,268	51,361
Property, plant and equipment, net	50,697	52,863
Intangible assets, net	61,040	64,291
Deferred financing costs	1,838	59
Other assets, net	248	545
Total assets	\$ 156,091	\$ 169,119
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 15,396	\$ 16,696
Deferred income taxes	185	185
Current portion of long-term debt and capital lease obligations	1,296	245
Total current liabilities	16,877	17,126
Long-term debt and capital lease obligations	46,811	49,918
Deferred income taxes	17,130	17,130
Other liabilities	2,158	1,903
Total liabilities	82,976	86,077
Commitments and contingencies (Note 11)		
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; 53,670 and 53,670 shares issued and 53,659 and 53,654 shares outstanding at July 2, 2011 and January 1, 2011, respectively	537	537
Additional paid-in-capital, net of treasury stock	272,119	271,038
Accumulated other comprehensive loss	(1,426)	(1,243)
Accumulated deficit	(198,115)	(187,290)

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Total shareholders' equity	73,115	83,042
Total liabilities and shareholders' equity	\$ 156,091	\$ 169,119

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, 2011	July 3, 2010
	<i>(unaudited)</i>	
Cash flows from operating activities:		
Net loss	\$ (10,826)	\$ (2,059)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	3,774	4,895
Amortization	3,251	2,992
Provision for allowances of doubtful accounts	440	603
Amortization and write off of deferred financing costs	803	360
Stock-based compensation	1,081	973
Loss (gain) on disposal of assets	38	(2)
Change in operating assets and liabilities:		
Accounts receivable	(4,959)	(5,083)
Inventories	(1,046)	(1,639)
Prepaid and other assets	107	3,406
Accounts payable, accrued and other liabilities	(1,401)	263
Net cash (used in) provided by operating activities	(8,738)	4,709
Cash flows from investing activities:		
Purchases of property, plant and equipment	(1,652)	(1,049)
Proceeds from assets held for sale and sales of equipment	663	8
Net change in margin account for derivative financial instruments	(200)	(371)
Net cash used in investing activities	(1,189)	(1,412)
Cash flows from financing activities:		
Net proceeds from issuance of common stock		27,257
Payments of long-term debt	(50,000)	(15,000)
Proceeds from issuance of long-term debt	48,000	
Payments of financing costs	(2,352)	(897)
Acquisition of treasury stock		(4)
Payments of capital leases	(56)	(52)
Net cash (used in) provided by financing activities	(4,408)	11,304
Net (decrease) increase in cash and cash equivalents	(14,335)	14,601
Cash and cash equivalents at beginning of period	22,012	7,417
Cash and cash equivalents at end of period	\$ 7,677	\$ 22,018

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

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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. (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. 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 2, 2011 and July 3, 2010 consisted of 13 weeks.

The condensed consolidated balance sheet as of January 1, 2011 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 1, 2011 and the unaudited condensed consolidated financial statements as of July 2, 2011, should be read in conjunction with the more detailed audited consolidated financial statements for the year ended January 1, 2011 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.

NOTE 2. CONSOLIDATION AND RESTRUCTURINGS

On December 3, 2010, we announced that our Salisbury, North Carolina operations would be transferred to Venice, Florida to consolidate our window and door production at our Florida plant. All operations have been moved as of the end of the second quarter. As a result of this consolidation, we recorded consolidation charges of \$1.4 million, which includes \$0.1 million of severance expense and \$1.3 million of moving expenses. The classification of these charges were \$1.2 million within costs of goods sold and the remaining \$0.2 million within selling, general and administrative expenses in the accompanying condensed consolidated statement of operations for the three months ended July 2, 2011. We recorded consolidation charges of \$4.0 million, which includes \$1.3 million of severance expense and \$2.7 million of moving expenses. The classification of the charges were \$3.3 million within costs of goods sold, and the remaining \$0.7 million, within selling, general and administrative expenses in the accompanying condensed consolidated statement of operations for the six months ended July 2, 2011. The charges relate primarily to employee separation costs and moving expenses. The total charges recorded through July 2, 2011 for the consolidation are \$6.1 million, \$2.1 million having been recorded in December 2009, of which \$0.1 million and \$1.8 million are unpaid as of July 2, 2011 and January 1, 2011, respectively, and are classified in accounts payable and accrued liabilities within the accompanying condensed consolidated balance sheets. The unpaid severance expenses, as of July 2, 2011, is expected to be disbursed prior to the end of 2011. We anticipate incurring an additional \$0.5 million of expense during the last six months of 2011, to complete the consolidation of the operations.

On September 24, 2009 and November 12, 2009, we announced restructurings based on the results of our continued analysis of target markets, internal structure, projected run-rate, and efficiency. The charges from these restructurings totaled \$2.4 million, of which \$0.1 million was unpaid as of July 3, 2010, and are classified within accounts payable and accrued liabilities in the accompanying condensed consolidated balance sheets. The unpaid amount as of July 3, 2010 was disbursed in 2010.

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The following table provides information with respect to our accrual for severance costs incurred in connection with the consolidation and restructuring costs:

<i>(in thousands)</i>	Beginning of Period	Charged to Expense	Disbursed in Cash	End of Period
Three months ended July 2, 2011:				
2010 Consolidation	\$ 1,359	\$ 114	\$ (1,345)	\$ 128
Three months ended July 3, 2010:				
2009 Restructurings	\$ 238	\$	\$ (128)	\$ 110
Six months ended July 2, 2011:				
2010 Consolidation	\$ 1,812	\$ 1,294	\$ (2,978)	\$ 128
Six months ended July 3, 2010:				
2009 Restructurings	\$ 898	\$	\$ (788)	\$ 110

NOTE 3. WARRANTY

Most of our manufactured products are sold with warranties. 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:

<i>(in thousands)</i>	Beginning of Period	Charged to Expense	Adjustments	Settlements	End of Period
Accrued Warranty					
Three months ended July 2, 2011	\$ 3,860	\$ 678	\$ 64	\$ (635)	\$ 3,967
Three months ended July 3, 2010	\$ 3,844	\$ 734	\$ 108	\$ (621)	\$ 4,065
Six months ended July 2, 2011	\$ 4,103	\$ 1,287	\$ (195)	\$ (1,228)	\$ 3,967
Six months ended July 3, 2010	\$ 4,041	\$ 1,343	\$ (42)	\$ (1,277)	\$ 4,065

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 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:

	July 2, 2011	January 1, 2011
	<i>(in thousands)</i>	
Raw materials	\$ 10,142	\$ 9,273
Work in progress	323	293
Finished goods	1,116	969
	\$ 11,581	\$ 10,535

Table of Contents**NOTE 5. STOCK COMPENSATION EXPENSE**

We 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 \$0.5 million for the second quarter of 2011 and \$0.9 million for the second quarter of 2010. We recorded compensation expense for stock based awards of \$1.1 million for the first six months of 2011 and \$1.0 million for the first six months of 2010. As of July 2, 2011, there was \$2.3 million and less than \$0.1 million of total unrecognized compensation cost related to non-vested stock option agreements and non-vested restricted share awards, respectively, including the repriced and exchanged options as described in Item 8, in footnote 17 under the titles "2010 Equity Exchange" and "2010 Issuer Tender Offer" in the Company's Annual Report on Form 10-K for the year ended January 1, 2011, as filed on March 21, 2011. These costs are expected to be recognized in earnings on a straight-line basis over the weighted average remaining vesting period of 2.4 years.

New Issuances

In February 2011, we issued 30,000 options to certain non-executive employees of the Company. On each of five anniversary dates beginning February 2012, 20% of these options will vest. These options have an exercise price of \$2.31 based on the NASDAQ market price of the underlying common stock on the close of business on the day the options were granted.

NOTE 6. 2010 RIGHTS OFFERING

On January 29, 2010, the Company filed Amendment No. 1 to the Registration Statement on Form S-1 filed on December 24, 2009 relating to a previously announced offering of rights to purchase 20,382,326 shares of the Company's common stock with an aggregate value of approximately \$30.6 million. The registration statement relating to the rights offering was declared effective by the United States Securities and Exchange Commission on February 10, 2010, and the Company distributed to each holder of record of the Company's common stock as of close of business on February 8, 2010, at no charge, one (1) non-transferable subscription right for every one and three-quarters (1.75) shares of common stock held by such holder under the basic subscription privilege. Each whole subscription right entitled its holder to purchase one share of PGT's common stock at the subscription price of \$1.50 per share. The rights offering also contained an over-subscription privilege that permitted all basic subscribers to purchase additional shares of the Company's common stock up to an amount equal to the amount available to each such holder under the basic subscription privilege. Shares issued to each participant in the over-subscription were determined by calculating each subscriber's percentage of the total shares over-subscribed, multiplied by the number of shares available in the over-subscription privilege. The rights offering expired on March 12, 2010.

The rights offering was 90.0% subscribed resulting in the Company distributing 18,336,368 shares of its common stock, including 15,210,184 shares under the basic subscription privilege and 3,126,184 under the over-subscription privilege, representing a 74.6% basic subscription participation rate. There were requests for 3,126,184 shares under the over-subscription privilege representing an allocation rate of 100% to each over-subscriber. Of the 18,336,368 shares issued, 13,333,332 shares were issued to JLL Partners Fund IV (JLL) the Company's majority shareholder, including 10,719,389 shares issued under the basic subscription privilege and 2,613,943 shares issued under the over-subscription privilege. Prior to the rights offering, JLL held 18,758,934 shares, or 52.6%, of the Company's outstanding common stock. With the completion of the rights offering, the Company had 54,005,439 total shares of common stock outstanding, of which JLL holds 59.4%.

Net proceeds of \$27.5 million from the rights offering were used to repay a portion of the outstanding indebtedness under our amended credit agreement in the amount of \$15.0 million, and for general corporate purposes in the amount of \$12.5 million.

NOTE 7. NET (LOSS) INCOME PER COMMON SHARE

Basic EPS is determined using the two-class method and is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding during the period. Diluted EPS reflects the dilutive effect of potential common shares from securities such as stock options.

Due to the net losses in the three and six month periods of 2011, as well as the six month period of 2010 presented herein, the dilutive effect of stock-based compensation plans is anti-dilutive. For the three months ended July 2, 2011 and July 3, 2010, there were 5,173,649 and 4,140,798 potential shares of common stock for the second quarter of 2011 and 2010, respectively relating to stock option agreements excluded from the computation of diluted EPS as their effect would have been anti-dilutive. For the six months ended July 2, 2011 and July 3, 2010, there were 5,119,824 and 2,709,748 potential shares of common stock, respectively, relating to stock option agreements excluded from the computation of diluted EPS as their effect would have been anti-dilutive.

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The table below presents the calculation of EPS and a reconciliation of weighted average common shares used in the calculation of basic and diluted EPS for our Company:

	Three Months Ended		Six Months Ended	
	July 2, 2011	July 3, 2010	July 2, 2011	July 3, 2010
	<i>(in thousands, except per share amounts)</i>		<i>(in thousands, except per share amounts)</i>	
Net (loss)/income	\$ (5,037)	\$ 1	\$ (10,826)	\$ (2,059)
Weighted-average common shares - Basic	53,659	53,649	53,658	46,694
Add: Dilutive effect of stock compensation plans		685		
Weighted-average common shares - Diluted	53,659	54,334	53,658	46,694
Net (loss)/income per common share:				
Basic	\$ (0.09)	\$ 0.00	\$ (0.20)	\$ (0.04)
Diluted	\$ (0.09)	\$ 0.00	\$ (0.20)	\$ (0.04)

NOTE 8. INTANGIBLE ASSETS

Intangible assets are as follows:

	July 2, 2011	January 1, 2011	Original Useful Life (in years)
	<i>(in thousands)</i>		
Intangible assets:			
Trademarks	\$ 44,400	\$ 44,400	indefinite
Customer relationships	55,700	55,700	10
Less: Accumulated amortization	(41,348)	(38,562)	
Subtotal	14,352	17,138	
Hurricane intellectual assets	2,797	2,797	3
Less: Accumulated amortization	(509)	(44)	
Subtotal	2,288	2,753	
Intangible assets, net	\$ 61,040	\$ 64,291	

Indefinite Lived Intangible Asset

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The impairment evaluation of the carrying amount of intangible assets with indefinite lives is conducted annually, or more frequently, if events or changes in circumstances indicate that an asset might be impaired. The evaluation is performed by comparing the carrying amounts of these assets to their estimated fair values. If the estimated fair value is less than the carrying amount of the intangible assets, then an impairment charge is recorded to reduce the asset to its estimated fair value. The estimated fair value is determined using the relief from royalty method that is based upon the discounted projected cost savings (value) attributable to ownership of our trademarks, our only indefinite lived intangible assets.

In estimating fair value, the method we use requires us to make assumptions, the most material of which are net sales projections attributable to products sold with these trademarks, the anticipated royalty rate we would pay if the trademarks were not owned (as a percent of net sales), and a weighted average discount rate. These assumptions are subject to change based on changes in the markets in which these products are sold, which impact our projections of future net sales and the assumed royalty rate. Factors affecting the weighted average discount rate include assumed debt to equity ratios, risk-free interest rates and equity returns, each for market participants in our industry.

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No impairment test was conducted as of July 2, 2011. Our year-end test of trademarks, performed as of January 1, 2011, utilized a weighted average royalty rate of 4.0% and a discount rate of 16.8%. Projected net sales used in the analysis were based on historical experience and a continuance of the recent decline in sales in the near future, followed by modest growth beginning in 2012. As of January 1, 2011, the estimated fair value of the trademarks exceeded book value by approximately 15%, or \$6.6 million. We believe our projected sales are reasonable based on available information regarding our industry. We also believe the royalty rate is appropriate and could improve over time based on market trends and information, including that which is set forth above. The weighted average discount rate was based on current financial market trends and will remain dependent on such trends in the future. Absent offsetting changes in other factors, a 1% increase in the discount rate would decrease the estimated fair value of our trademarks by approximately \$3.6 million but would not result in an impairment.

Amortizable Intangible Assets

We perform an impairment test on our amortizable intangible assets anytime that impairment indicators exist. Such assets include our customer relationships asset and the intellectual property assets acquired upon exercise of the option to purchase the Hurricane Window and Door Technology assets in December 2010. No such impairment and indicators were identified in 2011. We will continue to monitor and evaluate potential impairment indicators, including further declines in the housing market, which could result in impairment.

NOTE 9. LONG-TERM DEBT

On June 23, 2011, PGT Industries, Inc., entered into a credit agreement (the "Credit Agreement") with three lenders. The Credit Agreement replaces the Company's second amended and restated credit agreement, dated as of February 14, 2006 (the "Old Credit Agreement"). The Credit Agreement provides for a \$15.0 million revolving credit facility, a \$48.0 million term loan facility and an uncommitted incremental facility in an amount of up to \$25.0 million. The revolving credit facility commitment and the term loans under the Credit Agreement will mature five years from the date of the execution of the Credit Agreement. As of July 2, 2011, there were \$2.6 million of letters of credit outstanding and \$12.4 million available on the revolver.

All borrowings under the Credit Agreement bear interest, at our option, at either: (a) a "base rate" equal to the highest of: (i) 0.50% per year above the weighted average of the rates on overnight federal funds transactions with members of the Federal Reserve System, (ii) the annual rate of interest in effect for that day as publicly announced as the "prime rate" and (iii) the one-month "eurodollar rate" (not to be less than 1.25%) or (b) a "eurodollar base rate" equal to the higher of (i) 1.25% and (ii) (adjusted for reserve requirements, deposit insurance assessment rates and other regulatory costs for eurodollar liabilities) the rate at which eurodollar deposits in dollars for the relevant interest period (which will be one, two, three or six months or, subject to availability, nine or twelve months, as selected by us) are offered in the interbank eurodollar market plus, in each case, a rate dependent on the ratio of our funded debt as compared to our adjusted consolidated EBITDA, ranging from 3.5% to 2.0% per year for borrowings bearing interest at the "base rate" and from 4.5% to 3.0% per year for borrowings bearing interest at the "eurodollar rate" (such rate added to the "eurodollar rate," the "Eurodollar Margin").

In accordance with Credit Agreement we will pay quarterly fees on the unused portion of the revolving credit facility at a rate equal to 0.50% as well as a quarterly letter of credit fee at a rate per annum equal to the Eurodollar Margin for revolving loans based on the maximum undrawn face amount of any outstanding letters of credit. We also pay customary transaction charges in connection with any letters of credit. In connection with this refinancing, we wrote off \$0.4 million of deferred financing costs from our previous credit agreement, which is classified within other expense (income), net in the condensed consolidated statements of operations for the three and six months ended July 2, 2011.

Commencing in our third quarter, the \$48.0 million term loan facility will be subject to quarterly repayments of 0.625% through our fiscal quarter ending on June 30, 2012, 1.25% through our fiscal quarter ending on July 4, 2015, and 1.875% thereafter, on a scheduled basis set forth in the Credit Agreement, with the final payment of all amounts outstanding (including accrued interest) being due five years from the date of the execution of the Credit Agreement.

The Credit Agreement imposes certain restrictions on us, including restrictions on our ability to: incur debt or provide guarantees; grant or suffer to exist liens; sell our assets; pay dividends or make other distributions in respect of capital stock; prepay certain indebtedness, make loans, advances, investments and acquisitions; change our line of business; engage in affiliate transactions; consummate mergers, consolidations or other fundamental transactions; and enter into agreements with negative pledge clauses. Commencing with the fiscal quarter ending on October 1, 2011, the Credit Agreement also requires us to maintain certain minimum interest coverage ratios and maximum leverage ratios, which are tested at the end of each fiscal quarter, and further provides for customary affirmative covenants (including obligations to hedge a portion of our interest rate risk) and events of default.

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PGT, Inc. has unconditionally guaranteed all loans and other obligations under the Credit Agreement and related documents and such guarantee is secured by a lien on the assets of our wholly owned subsidiary, PGT Industries, Inc., subject to certain limitations. PGT, Inc. has no operations or assets independent of its subsidiary.

Contractual future maturities of long-term debt and capital leases as of July 2, 2011 are as follows (in thousands):

Remainder of 2011	\$ 0.7
2012	1.8
2013	2.4
2014	2.4
2015	3.0
2016	37.8
Total	\$ 48.1

The Old Credit Agreement consisted of \$235 million senior secured credit facility (Terminated Facility) and a \$115 million second lien term loan due February 14, 2012, with a syndicate of banks. The Terminated Facility was composed of a \$25 million revolving credit facility, having been reduced from \$30 million as a result of the third amendment discussed below, and initially, a \$205 million first lien term loan. The second lien term loan was fully repaid with proceeds from our IPO in 2006. The outstanding balance of the first lien term loan on April 2, 2011 was \$50.0 million. During 2010, we prepaid \$18.0 million of long-term debt with cash generated from operations and from the net proceeds of the rights offering.

On December 24, 2009, we announced that we entered into a third amendment to the Terminated Facility. The amendment, among other things, provided a leverage covenant holiday for 2010, increased the maximum leverage amount for the first quarter of 2011 to 6.25 times (then dropping 0.25X per quarter starting the second quarter until the end of the term), extended the due date on the revolver loan until the end of 2011, increased the applicable rate on any outstanding revolver loan by 25 basis points, and set a base rate floor of 4.25%. The effectiveness of the amendment was conditioned, among other things, on the repayment of at least \$17 million of the term loan under the Terminated Facility no later than March 31, 2010, of which no more than \$2 million was permitted to come from cash on hand. In December 2009, the Company used cash generated from operations to prepay \$2 million of outstanding borrowings under the Terminated Facility. Using proceeds from the 2010 rights offering, the Company made an additional prepayment of \$15.0 million on March 17, 2010, bringing total prepayments of debt at that time to \$17.0 million. Fees paid to the administrative agent and lenders totaled \$1.0 million. Such fees were being amortized using the effective interest method over the remaining term of the Terminated Facility. Having made the total required prepayment and having satisfied all other conditions to bring the amendment into effect, the amendment became effective on March 17, 2010.

Under the third amendment, the first lien term loan bore interest at a rate equal to an adjusted LIBOR rate plus a margin ranging from 3.5% per annum to 5% per annum or a base rate plus a margin ranging from 2.5% per annum to 4.0% per annum, at our option. The margin in either case is dependent on our leverage ratio. The loans under the Terminated Facility bore interest at a rate equal to an adjusted LIBOR rate plus a margin depending on our leverage ratio ranging from 3.00% per annum to 5.00% per annum or a base rate plus a margin ranging from 2.00% per annum to 4.00% per annum, at our option. The amendment established a floor of 4.25% for base rate loans, and continued the 3.25% floor for adjusted LIBOR established in the previous amendment.

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The following table shows the components of comprehensive loss for the three and six month periods ended July 2, 2011 and July 3, 2010:

	Three Months Ended		Six Months Ended	
	July 2, 2011	July 3, 2010	July 2, 2011	July 3, 2010
	<i>(in thousands)</i>		<i>(in thousands)</i>	
Net (loss)/income	\$ (5,037)	\$ 1	\$ (10,826)	\$ (2,059)
Other comprehensive loss, net of taxes:				
Change related to forward contracts for aluminum, net of tax expense of \$0 and \$0 for the three month periods ended July 2, 2011 and July 3, 2010, respectively, and net of tax expense of \$0 and \$0 for the six month periods ended July 2, 2011 and July 3, 2010, respectively	(309)	(702)	(183)	(715)
Total comprehensive loss	\$ (5,346)	\$ (701)	\$ (11,009)	\$ (2,774)

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The following table shows the components of accumulated other comprehensive loss for the three and six month periods ended July 2, 2011 and July 3, 2010:

<i>(in thousands)</i>	Aluminum Forward Contracts	Valuation Allowance	Total
Balance at April 2, 2011	\$ (1,553)	\$ 436	\$ (1,117)
Changes in fair value	(65)	0	(65)
Reclassification to earnings	(244)	0	(244)
Tax effect	121	(121)	
Balance at July 2, 2011	\$ (1,741)	\$ 315	\$ (1,426)

<i>(in thousands)</i>	Aluminum Forward Contracts	Valuation Allowance	Total
Balance at April 3, 2010	\$ (1,509)	\$ 465	\$ (1,044)
Changes in fair value	(572)	0	(572)
Reclassification to earnings	(130)	0	(130)
Tax effect	274	(274)	
Balance at July 3, 2010	\$ (1,937)	\$ 191	\$ (1,746)

<i>(in thousands)</i>	Aluminum Forward Contracts	Valuation Allowance	Total
Balance at January 1, 2011	\$ (1,631)	\$ 388	\$ (1,243)
Changes in fair value	194	0	194
Reclassification to earnings	(377)	0	(377)
Tax effect	73	(73)	
Balance at July 2, 2011	\$ (1,741)	\$ 315	\$ (1,426)

<i>(in thousands)</i>	Aluminum Forward Contracts	Valuation Allowance	Total
Balance at January 2, 2010	\$ (1,501)	\$ 470	\$ (1,031)
Changes in fair value	(504)		(504)
Reclassification to earnings	(211)		(211)
Tax effect	279	(279)	
Balance at July 3, 2010	\$ (1,937)	\$ 191	\$ (1,746)

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NOTE 11. COMMITMENTS AND CONTINGENCIES

Litigation

Our Company is a party to various legal proceedings in the ordinary course of business. Although the ultimate disposition of those proceedings cannot be predicted with certainty, management believes the outcome of any claim that is pending or threatened, either individually or in the aggregate, will not have a materially adverse effect on our operations, financial position or cash flows.

NOTE 12. FINANCIAL INSTRUMENTS AND DERIVATIVE FINANCIAL INSTRUMENTS

Financial Instruments

Our financial instruments, not including derivative financial instruments discussed below, include cash, accounts receivable and accounts payable whose carrying amounts approximate their fair values due to their short-term nature. Our financial instruments also include long-term debt. As the refinancing was completed on June 23, 2011, the fair value is approximately equal to the carrying value as of July 2, 2011. Based on bid prices for our debt, the fair value of our long-term debt was approximately \$48 million as of January 1, 2011.

Derivative Financial Instruments

We enter into aluminum forward contracts to hedge the fluctuations in the purchase price of aluminum extrusion we use in production. Our contracts are designated as cash flow hedges since they are highly effective in offsetting changes in the cash flows attributable to forecasted purchases of aluminum.

Guidance under the *Financial Instruments* topic of the Codification requires us to record our hedge contracts at fair value and consider our credit risk for contracts in a liability position, and our counter-parties' credit risk for contracts in an asset position, in determining fair value. We assess our counter-parties' risk of non-performance when measuring the fair value of financial instruments in an asset position by evaluating their financial position, including cash on hand, as well as their credit ratings. We assess our risk of non-performance when measuring the fair value of our financial instruments in a liability position by evaluating our credit ratings, our current liquidity including cash on hand and availability under our revolving credit facility as compared to the maturities of the financial liabilities. In addition, we entered into an arrangement with our commodities broker that provides for, among other things, the close-out netting of exchange-traded transactions in the event of the insolvency of either party.

We do not maintain a line of credit to cover the liability position of open contracts for the purchase of aluminum in the event that the price of aluminum falls. Should the price of aluminum fall to a level which causes us to switch to a liability position for open aluminum contracts, we would be required to fund daily margin calls to cover the excess.

At July 2, 2011, the fair value of our aluminum forward contracts was in an asset position of \$425 thousand including \$304 thousand of cash on deposit with our commodity broker. We had 12 outstanding forward contracts for the purchase of 1.7 million pounds of aluminum, approximately 39% of our anticipated need for the third and fourth quarter of 2011, at an average price of \$1.08 per pound with maturity dates of between less than one month and 5 months through December 2011. We assessed the risk of non-performance of the counter-party to these contracts and recorded an immaterial adjustment to fair value as of July 2, 2011. When margin calls are required, we net cash collateral from payments of margin calls on deposit with our commodities broker against the liability position of open contracts for the purchase of aluminum on a first-in, first-out basis. For statement of cash flows presentation, we present net cash receipts from and payments to the margin account as investing activities.

In addition, as of July 2, 2011, we had entered into six zero cost collars with a ceiling of \$2,700 per metric ton and a concurrent floor at \$2,295 per metric ton that hedge 0.9 million pounds, approximately 22% of our remaining 2011 third and fourth quarter anticipated needs. Should prices fall within the range upon settlement, there is no cost to the collars. If aluminum is above \$2,700 per metric ton we would be able to purchase at \$2,700 per ton. If aluminum is below \$2,295 per metric ton we would be required to purchase at \$2,295 per metric ton. As of July 2, 2011, aluminum is priced between our ceiling and floor and the net fair value of the instruments was insignificant.

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The fair value of our aluminum hedges is classified in the accompanying consolidated balance sheets as follows (in thousands):

		July 2, 2011	January 1, 2011
<u>Derivatives in a net asset position</u>	<u>Balance Sheet Location</u>		
Hedging instruments:			
Aluminum forward contracts	Other Current Assets	\$ 121	\$ 300
Cash on deposit related to payments of margin calls	Other Current Assets	304	250
Total hedging instruments		\$ 425	\$ 550

Aluminum forward contracts identical to those held by us trade on the London Metal Exchange (LME). The LME provides a transparent forum and is the world's largest center for the trading of futures contracts for non-ferrous metals. The prices are used by the metals industry worldwide as the basis for contracts for the movement of physical material throughout the production cycle. Based on this high degree of volume and liquidity in the LME, the valuation price at any measurement date for contracts with identical terms as to prompt date, trade date and trade price as those we hold at any time we believe represents a contract's exit price to be used for purposes of determining fair value. We categorize these aluminum forward contracts as being valued using Level 2 inputs as follows:

Description	July 2, 2011	Fair Value Measurements at Reporting Date of Net Asset Using:		
		Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Aluminum forward contracts	\$ 121	\$ 0	\$ 121	\$ 0
Cash on deposit related to payments of margin calls	304			
Aluminum forward contracts, net asset	\$ 425			

(in thousands)

Description	January 1, 2011	Fair Value Measurements at Reporting Date of Net Asset Using:		
		Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Aluminum forward contracts	\$ 300		\$ 300	
Cash on deposit related to payments of margin calls	250			
Aluminum forward contracts, net asset	\$ 550			

(in thousands)

Our aluminum hedges qualify as highly effective for reporting purposes. For the three and six month periods ended July 2, 2011, and July 3, 2010, the ineffective portion of the hedging instruments was not significant. Effectiveness of aluminum forward contracts is determined by comparing the change in the fair value of the forward contract to the change in the expected cash to be paid for the hedged item. At July 2, 2011,

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these contracts were designated as effective. The effective portion of the gain or loss on our aluminum forward contracts is reported as a component of other comprehensive income and is reclassified into earnings in the same line item in the income statement as the hedged item in the same period or periods during which the transaction affects earnings. For the three and six month periods ended July 2, 2011, and July 3, 2010, no amounts were reclassified to earnings because of the discontinuance of a cash flow hedge because it was probable that the original forecasted transaction would not occur. The ending accumulated balance related to the fair value of the aluminum forward contracts included in accumulated other comprehensive income, net of tax, is \$0.1 million as of July 2, 2011, all of which is expected to be reclassified into earnings over the next twelve months.

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The following represents the gains (losses) on derivative financial instruments for the three and six month periods ended July 2, 2011 and July 3, 2010, and their classifications within the accompanying condensed consolidated financial statements (in thousands):

	Derivatives in Cash Flow Hedging Relationships				
	Amount of Gain or (Loss) Recognized in OCI on Derivatives (Effective Portion) Three Months Ended		Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) Three Months Ended	
	July 2, 2011	July 3, 2010		July 2, 2011	July 3, 2010
Aluminum contracts	\$ (65)	\$ (572)	Cost of sales	\$ 285	\$ 130

	Derivatives in Cash Flow Hedging Relationships				
	Amount of Gain or (Loss) Recognized in Income on Derivatives (Ineffective Portion) Three Months Ended		Location of Gain or (Loss) Recognized in Income on Derivatives (Ineffective Portion)	Amount of Gain or (Loss) Recognized in Income on Derivatives (Ineffective Portion) Three Months Ended	
	July 2, 2011	July 3, 2010		July 2, 2011	July 3, 2010
Aluminum contracts			Other income or other expense	\$ (41)	\$ 0

	Derivatives in Cash Flow Hedging Relationships				
	Amount of Gain or (Loss) Recognized in OCI on Derivatives (Effective Portion) Six Months Ended		Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) Six Months Ended	
	July 2, 2011	July 3, 2010		July 2, 2011	July 3, 2010
Aluminum contracts	\$ 194	\$ (504)	Cost of sales	\$ 377	\$ 191

	Derivatives in Cash Flow Hedging Relationships				
	Amount of Gain or (Loss) Recognized in Income on Derivatives (Ineffective Portion) Six Months Ended		Location of Gain or (Loss) Recognized in Income on Derivatives (Ineffective Portion)	Amount of Gain or (Loss) Recognized in Income on Derivatives (Ineffective Portion) Six Months Ended	
	July 2, 2011	July 3, 2010		July 2, 2011	July 3, 2010
Aluminum contracts			Other income or other expense	\$ 0	\$ 20

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In the first quarter of 2010, we entered into an agreement to list the Lexington, North Carolina facility for sale with an agent. We determined the fair value by obtaining recommendations of value from various local real estate agents and by reviewing data from comparable sales and leases executed in the recent past.

As of January 1, 2011, we reviewed the relevant factors affecting the value of this facility and determined that the value remained appropriate. This facility's fair value was determined using Level 2 inputs as follows:

Description	January 1, 2011	Fair Value Measurements at Reporting Date of Asset Using:		
		Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Lexington Property	\$ 657	\$	\$ 657	\$

(in thousands)

In January 2011, we accepted an offer to sell the property. The purchase price less estimated closing cost resulted in an additional impairment of less than \$0.1 million, which was recorded in the fourth quarter of 2010. The sale of this building closed in the second quarter of 2011 at approximately the net book value as recorded.

NOTE 14. GOVERNMENT INCENTIVE

In February 2011 we received a government incentive of \$0.6 million in cash from our local county authority to assist in the consolidation of operations into our Florida facilities. Under the terms of the agreement we must, among other things, move the majority of our equipment from North Carolina to Florida and lease at least one building in Sarasota County, both of which were accomplished by April 2, 2011. In addition, we must add 400 employees by December 1, 2015. If we have not hired or do not have open positions for 400 additional employees on December 1, 2015, we will be required to repay \$1,500 for each employee under 400 that we have not hired or have an open position for at that date. The agreement also requires us to repay a pro-rata portion of the grant if we relocate operations outside of the county before December 1, 2015.

We believe that based on the number of employees hired to date and our plans for future hiring, as well as the completion of other terms noted above, we have reasonable assurance that a substantial majority of the grant will be retained on December 1, 2015. Due to the existence of the performance obligations extending over a 5-year period, we will recognize the reasonably assured portion of the grant over the life of the agreement as an offset to the payroll of the employees hired, which is included in cost of goods sold. This amount is expected to result in an immaterial amount recognized each quarter through December 1, 2015. As of July 2, 2011, the deferred portion of the grant of \$0.6 million has been classified as \$0.1 million in accounts payable and accrued liabilities and \$0.5 million in other liabilities within the accompanying condensed consolidated balance sheet.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our financial condition and results of operations should be read in conjunction with the Management's Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and notes thereto for the year ended January 1, 2011 included in our most recent annual report on Form 10-K.

Special Note Regarding Forward-Looking Statements

This document includes forward-looking statements regarding, among other things, our financial condition and business strategy. Forward-looking statements provide our current expectations and projections about future events. Forward-looking statements include statements about our expectations, beliefs, plans, objectives, intentions, assumptions, and other statements that are not historical facts. As a result, all statements other than statements of historical facts included in this discussion and analysis and located elsewhere in this document regarding the prospects of our industry and our prospects, plans, financial position, and business strategy may constitute forward-looking statements within the meaning of Section 21E of the Exchange Act. In addition, forward-looking statements generally can be identified by the use of forward-looking terminology such as may, could, expect, intend, estimate, anticipate, plan, foresee, believe, or continue, or variations of these terms or similar terminology, but the absence of these words does not necessarily mean that a statement is not forward-looking.

Forward-looking statements are subject to known and unknown risks and uncertainties and are based on potentially inaccurate assumptions that could cause actual results to differ materially from those expected or implied by the forward-looking statements. Although we believe that the expectations reflected in these forward-looking statements are reasonable, we can give no assurance that these expectations will occur as predicted. All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements included in this document. These forward-looking statements speak only as of the date of this report. We undertake no obligation to publicly update or revise any forward-looking statement to reflect circumstances or events after the date of this report or to reflect the occurrence of unanticipated events, except as may be required by applicable securities laws.

Risks associated with our business, an investment in our securities, and with achieving the forward-looking statements contained in this report or in our news releases, Web sites, public filings, investor and analyst conferences or elsewhere, include, but are not limited to, the risk factors described in our most recent Annual Report on Form 10-K filed with the Securities and Exchange Commission. Any of the risk factors described therein could cause our actual results to differ materially from expectations and could have a material adverse effect on our business, financial condition or results of operations. We may not succeed in addressing these challenges and risks.

EXECUTIVE OVERVIEW

Sales and Operations

On August 3, we issued a press release and held a conference call on August 4, 2011 to review the results of operations for our second quarter and first six months ended July 2, 2011. During the call, we also discussed current market conditions and progress made regarding certain business initiatives and our plant consolidation. The overview and estimates contained in this report are consistent with those given in our press release and our conference call remarks. We are neither updating nor confirming that information.

In the second quarter of 2011, housing starts in our core market were down 5%. Multi-family starts were up 9%, but single family starts decreased 8%, each compared to a year ago. Market conditions remain difficult and are not expected to turn around significantly in 2011.

Sales in the second quarter decreased \$3.8 million or 7.8% from a year ago. This includes a reduction in WinGuard sales which were down \$1.8 million or 5.9%, mainly as a result of temporary capacity constraints. In April 2011, our Vinyl WinGuard lines were able to produce approximately 50% of the units that were produced in April 2010. This was due to the shutdown in North Carolina, the line move to Florida and the subsequent ramp up of the line. As a result, these lines could not meet demand, and Vinyl WinGuard sales were down \$400 thousand or 8% from prior year. That product line had year over year sales growth in each of the previous 4 quarters.

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We did experience improvement on these lines during the second quarter. In June, that line produced 90% of the units produced in June 2010.

Although our Aluminum WinGuard lines were already located in Florida, production was negatively affected by the increased pressure on our glass operations. In order to meet demand we extended our lead times during April. This increase in lead time, along with the shift towards vinyl products, contributed to the decline in Aluminum WinGuard sales, which were down \$1.4 million, or 6%, for the quarter. Lead times for product on this line returned to 10 days at the end of July.

Our vinyl non-impact products, including SpectraGuard, reported a \$1.6 million decline in sales, or 33%, due both to our decreased sales efforts out of state as well as capacity constraints caused by moving these lines during the second quarter.

We also experienced a \$1.6 million decrease in Architectural Systems sales due to ongoing softness in the commercial market.

Our PremierVue line of high end vinyl impact products continues to grow with a \$1.1 million increase in sales to \$2.2 million for the second quarter. The growth of this line shows that consumers in Florida are interested in energy efficient products meeting the highest structural demands.

In terms of sales by region, out of state sales were down \$3.0 million, or 39%. This decline was not unexpected, as we have intentionally decreased our sales efforts out of state, and narrowed our focus to Florida, international, and coastal markets.

Sales into Florida were down \$1.1 million, or 2.8%, from a year ago due mainly to temporary capacity constraints described above.

International sales have increased 17%, or \$0.3 million, over prior year. Our recently added resources are already making an impact in a territory in which we believe there is a strong demand for our impact products.

Our decline in overall sales occurred both in new construction, down 11%, and in repair and remodeling (R&R), down 5%. As a percentage of total sales for the second quarter of 2011, R&R sales accounted for 78% and new construction sales accounted for 22% of sales.

Liquidity and Cash Flow

On June 23, 2011 we refinanced our long-term debt which was going to be due in February 2012. This agreement, which was filed as part of an 8-K with the SEC on June 23, 2011, among other things, extends the due date of our debt to June 2016 and reduces the interest rate on the debt by 100 basis points (5.75 percent initially with the potential for a further improvement as our leverage decreases). In connection with this refinancing, we paid down our outstanding debt by \$2 million to \$48 million.

Consolidation and Restructuring

On December 3, 2010, we announced that our Salisbury, North Carolina operations would be transferred to Venice, Florida to consolidate our window and door production at our Florida plant. All operations have been moved as of the end of the second quarter. As a result of this consolidation, we recorded consolidation charges of \$1.4 million, which include \$0.1 million of severance expense and \$1.3 million of moving expenses. The classification of these charges were \$1.2 million within costs of goods sold and the remaining \$0.2 million within selling, general and administrative expenses in the accompanying condensed consolidated statement of operations for the three months ended July 2, 2011. We recorded consolidation charges of \$4.0 million, which includes \$1.3 million of severance expense and \$2.7 million of moving expenses. The classification of these charges were \$3.3 million within costs of goods sold and the remaining \$0.7 million within selling, general and administrative expenses in the accompanying condensed consolidated statement of operations for the six months ended July 2, 2011. The charges relate primarily to employee separation costs and moving expenses. The total charges recorded through July 2, 2011 for the consolidation are \$6.1 million, \$2.1 million having been recorded in December 2009, of which \$0.1 million and \$1.8 million are unpaid as of July 2, 2011 and January 1, 2011, respectively, and are classified in accounts payable and accrued liabilities within the accompanying condensed consolidated balance sheets. The unpaid severance expense as of July 2, 2011 are expected to be disbursed prior to the end of 2011. The Company anticipates incurring an additional \$0.5 million of expense during the third and fourth quarter of 2011, to complete the consolidation of the operations.

On September 24, 2009 and November 12, 2009, we announced restructurings based on the results of our continued analysis of target markets, internal structure, projected run-rate, and efficiency. The charges from these restructurings totaled \$2.4 million, of which \$0.1 million was unpaid as of July 3, 2010, and are classified within accounts payable and accrued liabilities in the accompanying condensed consolidated balance sheets. The unpaid amount as of July 3, 2010 was disbursed in 2010.

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The following table provides information with respect to our accrual for severance costs incurred in connection with the consolidation and restructuring costs:

<i>(in thousands)</i>	Beginning of Period	Charged to Expense	Disbursed in Cash	End of Period
Three months ended July 2, 2011:				
2010 Consolidation	\$ 1,359	\$ 114	\$ (1,345)	\$ 128
Three months ended July 3, 2010:				
2009 Restructurings	\$ 238	\$	\$ (128)	\$ 110
Six months ended July 2, 2011:				
2010 Consolidation	\$ 1,812	\$ 1,294	\$ (2,978)	\$ 128
Six months ended July 3, 2010:				
2009 Restructurings	\$ 898	\$	\$ (788)	\$ 110

Selected Financial Data

The following table presents financial data derived from our unaudited statements of operations as a percentage of total revenues for the periods indicated.

	Three Months Ended		Six Months Ended	
	July 2, 2011	July 3, 2010	July 2, 2011	July 3, 2010
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	79.9%	68.9%	79.7%	70.3%
Gross margin	20.1%	31.1%	20.3%	29.7%
Selling, general and administrative expenses	27.9%	28.4%	29.9%	28.9%
(Loss) income from operations	(7.8%)	2.7%	(9.6%)	0.8%
Interest expense, net	2.4%	2.5%	2.5%	3.0%
Other expense	1.0%	0.0%	0.5%	0.0%
(Loss) income before income taxes	(11.2%)	0.2%	(12.6%)	(2.2%)
Income tax expense	0.0%	0.2%	0.0%	