PGT, Inc.
Form 10-Q
May 14, 2007

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the quarterly period ended March 31, 2007

OR

o **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	IRS Employer Identification No.
Delaware	**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 þ No o

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 o Accelerated filer o Non-accelerated filer þ

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No þ

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 27,065,678 shares, as of May 14, 2007.

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PART I FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

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

	Three Months Ended March 31, 2007	April 1, 2006
	(unaudited)	
Net sales	$ 72,675	$ 96,355
Cost of sales	47,903	60,634
Gross margin	24,772	35,721
Stock compensation expense related to dividends paid (includes expenses related to cost of sales and selling, general and administrative expense of $5,069, and $21,829, respectively in 2006)		26,898
Selling, general and administrative expenses	20,245	21,868
Income (loss) from operations	4,527	(13,045)
Other expense (income), net	133	(409)
Interest expense, net	3,124	10,359
Income (loss) before income taxes	1,270	(22,995)
Income tax expense (benefit)	469	(8,919)
Net income (loss)	$ 801	$ (14,076)
Basic net income (loss) per common share	$ 0.03	$ (0.89)
Diluted net income (loss) per common and common equivalent share	$ 0.03	$ (0.89)
Weighted average common shares outstanding:		
Basic	26,999	15,749
Diluted	28,366	15,749

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

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PGT, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share amounts)

	March 31, 2007 *(unaudited)*	December 30, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 17,573	$ 36,981
Accounts receivable, net	28,230	25,244
Inventories, net	11,840	11,161
Deferred income taxes	5,271	5,231
Other current assets	13,290	13,041
Total current assets	76,204	91,658
Property, plant and equipment, net	78,465	78,802
Goodwill	169,648	169,648
Other intangible assets, net	100,526	101,918
Other assets, net	1,645	1,968
Total assets	$ 426,488	$ 443,994
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 3,755	$ 1,123
Current portion of long-term debt		420
Accrued liabilities	15,203	16,684
Total current liabilities	18,958	18,227
Long-term debt	145,488	165,068
Deferred income taxes	52,417	52,417
Other long-term liabilities	3,247	3,076
Total liabilities	220,110	238,788
COMMITMENTS AND CONTINGENCIES		
Shareholders equity:		
Preferred stock, $.01 par value, 10,000,000 shares authorized; zero shares issued and outstanding		
Common stock, $.01 par value, 200,000,000 shares authorized; 27,115,432 shares issued and 27,003,686 shares outstanding at March 31, 2007; 27,078,087 shares issued and 26,999,051 shares outstanding at December 30, 2006	270	270
Additional paid-in-capital	206,221	205,799
Accumulated deficit	(168)	(969)

Accumulated other comprehensive income	55	106
Total shareholders equity	206,378	205,206
Total liabilities and shareholders equity	$ 426,488	$ 443,994

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

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PGT, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Three Months Ended March 31, 2007	April 1, 2006
	(unaudited)	
Cash flows from operating activities:		
Net income (loss)	$ 801	$ (14,076)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation	2,552	2,255
Amortization	1,393	1,564
Stock-based compensation	375	
Excess tax benefits from stock-based compensation plans	(7)	
Amortization of deferred financing costs	323	4,809
Derivative financial instruments	133	(408)
Deferred income taxes		(8,919)
Loss on disposal of assets	2	
Change in operating assets and liabilities:		
Accounts receivable	(2,929)	(836)
Inventories	(679)	557
Other assets	(517)	(2,600)
Accounts payable and accrued liabilities	1,315	(3,070)
Net cash provided by (used in) operating activities	**2,762**	**(20,724)**
Cash flows from investing activities:		
Purchases of property, plant and equipment	(2,248)	(10,736)
Proceeds from sales of equipment and intangibles	31	300
Net cash used in investing activities	**(2,217)**	**(10,436)**
Cash flows from financing activities:		
Exercise of stock options	40	
Excess tax benefits from stock-based compensation plans	7	
Proceeds from issuance of long-term debt		320,000
Payment of dividends		(83,484)
Payment of financing costs		(4,459)
Payment of long-term debt	(20,000)	(183,525)
Net cash (used in) provided by financing activities	(19,953)	48,532
Net (decrease) increase in cash and cash equivalents	**(19,408)**	**17,372**
Cash and cash equivalents at beginning of period	**36,981**	**3,270**

Cash and cash equivalents at end of period	**$ 17,573**	**$ 20,642**
Supplemental cash flow information:		
Interest paid	$ 3,309	$ 4,318
Income taxes paid	$ 2	$ 780

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

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PGT, INC.
CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY AND COMPREHENSIVE INCOME
(in thousands except share amounts)

	Common stock Shares	Common stock Amount	Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive income	Total
Balance at December 30, 2006	26,999,052	$ 270	$ 205,799	$ (969)	$ 106	$ 205,206
Stock-based compensation			375			375
Exercise of stock options, including tax benefit of $7 associated with the exercise of stock options	4,634		47			47
Comprehensive income:						
Amortization of ineffective interest rate swap, net of tax benefit of $30					(49)	(49)
Change in fair value of interest rate swap, net of tax benefit of $1					(2)	(2)
Net income				801		801
Total comprehensive income						750
Balance at March 31, 2007	27,003,686	$ 270	$ 206,221	$ (168)	$ 55	$ 206,378

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)

1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements include the accounts of PGT, Inc. and its wholly-owned subsidiary (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 U.S. generally accepted accounting principles 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 periods are not necessarily indicative of the results that may be expected for the remainder of the current year or for any future periods.

The condensed consolidated balance sheet as of December 30, 2006 is derived from the audited consolidated financial statements but does not include all disclosures required by accounting principles generally accepted in the United States of America. This condensed consolidated balance sheet as of December 30, 2006 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 December 30, 2006 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.

Stock Split

On June 5, 2006, our board of directors and our stockholders approved a 662.07889-for-1 stock split of our common stock and approved increasing the number of shares of common stock that the Company is authorized to issue to 200.0 million.

After the stock split, effective June 6, 2006, each holder of record held 662.07889 shares of common stock for every 1 share held immediately prior to the effective date. As a result of the stock split, the board of directors also exercised its discretion under the anti-dilution provisions of our 2004 Stock Incentive Plan to adjust the number of shares underlying stock options and the related exercise prices to reflect the change in the per share value and outstanding shares on the date of the stock split. The effect of fractional shares is not material.

Following the effective date of the stock split, the par value of the common stock remained at $0.01 per share. As a result, we have increased the common stock in our consolidated balance sheets and statements of shareholders equity included herein on a retroactive basis for all of our Company s periods presented, with a corresponding decrease to additional paid-in capital. All share and per share amounts and related disclosures have also been retroactively adjusted for all of our Company s periods presented to reflect the 662.07889-for-1 stock split.

New Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS No. 157), which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The provisions of SFAS No. 157 are effective as of the beginning of our Company s 2008 fiscal year. We have considered the provisions of SFAS No. 157 and do not expect the application of SFAS No. 157 to have a material effect on our financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS No. 159). SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value and establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective for our Company beginning January 1, 2008. We have not yet determined the impact, if any, from the adoption of SFAS No. 159.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fiscal Period

Each of our Company s fiscal quarters ended March 31, 2007 and April 1, 2006 consist of 13 weeks.

Segment Information

Our Company operates in one operating segment: manufacturer and supplier of windows and doors.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Critical accounting estimates involved in applying our Company s accounting policies are those that require management to make assumptions about matters that are uncertain at the time the accounting estimate was made and those for which different estimates reasonably could have been used for the current period, or changes in the accounting estimate are reasonably likely to occur from period to period, and would have a material impact on the presentation of our Company s financial condition, changes in financial condition or results of operations. Actual results could materially differ from those estimates.

Revenue recognition

We recognize sales when all of the following criteria have been met: a valid customer order with a fixed price has been received; the product has been delivered and accepted by the customer; and collectibility is reasonably assured. All sales recognized are net of allowances for cash discounts and estimated returns, which are estimated using historical experience.

Warranty Expense

Our Company has warranty obligations with respect to most of our manufactured products. Warranty periods, which vary by product component, 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 Company s warranty history and estimating our future warranty obligations. The following provides information with respect to our Company s warranty accrual:

Allowance for Warranty	**Balance at Beginning of Period**	**Accruals for Warranties Issued During Period**	**Adjustments Made**	**Settlements Made**	**Balance at End of Period**
			(In thousands)		
Three months ended March 31, 2007	$4,934	1,453	171	(1,371)	$5,187
Three months ended April 1, 2006	$4,501	1,445	(139)	(1,224)	$4,583

Inventories

Inventories consist principally of raw materials purchased for the manufacture of our products. Our Company has limited finished goods inventory since all products are custom, made-to-order products. 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. The reserve for obsolescence is based on management s assessment of the amount of inventory that may become obsolete in the future and is determined based on our Company s history, specific identification method, and consideration of prevailing economic and industry conditions.

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Inventories consist of the following:

	March 31, 2007	December 30, 2006
	(In thousands)	
Finished goods	$ 1,985	$ 1,109
Work in progress	1,037	880
Raw Materials	9,708	10,297
Less reserve for obsolescence	(890)	(1,125)
	$ 11,840	$ 11,161

Stock compensation

We adopted Statement of Financial Accounting Standards No. 123(R), Share-Based Payment (SFAS No. 123(R)), on January 1, 2006. 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 No. 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 adopted SFAS No. 123(R) on a prospective basis; accordingly, our financial statements for periods prior to January 1, 2006, do not include compensation cost calculated under the fair value method. We recorded compensation expense for stock based awards of approximately $0.4 million and $0 during the first quarters of 2007 and 2006, respectively. As of March 31, 2007, there was $1.3 million and $1.2 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 straight line over a weighted-average period of 2.9 years from the date of grant.

Stock options granted prior to our Company s initial public offering were valued using the minimum value method in the pro-forma disclosures required by SFAS No. 123. The minimum value method excludes volatility in the calculation of fair value of stock based compensation. In accordance with SFAS No. 123(R), options that were valued using the minimum value method were transitioned to SFAS No. 123(R) using the prospective method. As a result, these options will continue to be accounted for under the same accounting principles (recognition and measurement) originally applied to those awards in the income statement, which for our Company was APB No. 25. Accordingly, the adoption of SFAS No. 123(R) does not result in any compensation cost being recognized for these options.

3. Shareholders Equity

Initial Public Offering

On June 27, 2006, the SEC declared our Company s registration statement on Form S-1 effective, and our Company completed an initial public offering (IPO) of 8,823,529 shares of its common stock at a price of $14.00 per share. Our Company s common stock began trading on The Nasdaq National Market under the symbol PGTI on June 28, 2006. After underwriting discounts of approximately $8.6 million and transaction costs of approximately $2.5 million, net proceeds received by the Company on July 3, 2006, were $112.3 million. Our Company used net IPO proceeds, together with cash on hand, to repay $137.0 million of borrowings under our senior secured credit facilities.

Our Company granted the underwriters an option to purchase up to an additional 1,323,529 shares of common stock at the IPO price, which the underwriters exercised in full on July 27, 2006. After underwriting discounts of approximately $1.3 million, aggregate net proceeds received by the Company on August 1, 2006 were $17.2 million of which $17.0 million was used to repay a portion of our outstanding debt.

In conjunction with the IPO, our Company s stockholders approved an amendment and restatement of the Company s certificate of incorporation. The amended and restated certificate of incorporation provides that the Company is authorized to issue 200.0 million shares of common stock, par value $0.01 per share, and 10.0 million shares of preferred stock, par value $0.01 per share.

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Special Cash Dividends

In February 2006, our Company paid a special cash dividend to our stockholders of $83.5 million. In connection with the payment of this dividend, our Company also made a compensatory cash payment of $26.9 million to stock option holders (including applicable payroll taxes of $0.5 million) in-lieu of adjusting exercise prices, that was recorded as stock compensation expense in the accompanying condensed consolidated statement of operations for the three months ended April 1, 2006.

4. NET INCOME (LOSS) PER COMMON SHARE

Net income (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.

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

	For the Three Months Ended	
	March 31, 2007	**April 1, 2006**
Weighted average common shares for basic EPS	26,999,258	15,749,483
Effect of dilutive stock options	1,366,479	
Weighted average common and common equivalent shares for diluted EPS	28,365,737	15,749,483

5. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill and other intangible assets are as follows:

	March 31, 2007	**December 30, 2006**	**Useful Life in Years**
	(In thousands)		
Unamortized intangible assets:			
Goodwill	$ 169,648	$ 169,648	indefinite
Trademarks	$ 62,500	$ 62,500	indefinite
Amortized intangible assets, gross			
Customer relationships	55,700	55,700	10
Supplier agreements	2,300	2,300	1-2
Noncompete agreements	4,469	4,469	2
Total amortized intangible assets, gross	62,469	62,469	
Accumulated Amortization:			
Customer relationships	(17,674)	(16,282)	
Supplier agreements	(2,300)	(2,300)	
Noncompete agreements	(4,469)	(4,469)	
Total Accumulated Amortization	(24,443)	(23,051)	

Other intangible assets, net	$ 100,526	$ 101,918

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6. LONG-TERM DEBT

On February 14, 2006, our Company entered into a second amended and restated $235 million senior secured credit facility and a $115 million second lien term loan due August 14, 2012, with a syndicate of banks. The senior secured credit facility is composed of a $30 million revolving credit facility and, initially, a $205 million first lien term loan. As of March 31, 2007 there was $24.2 million available under the revolving credit facility.

The first lien term loan bears interest at a rate equal to an adjusted LIBOR rate plus 3.0% per annum or a base rate plus 2.0% per annum, at our option. The loans under the revolving credit facility bear interest initially, at our option (provided, that all swingline loans shall be base rate loans), at a rate equal to an adjusted LIBOR rate plus 2.75% per annum or a base rate plus 1.75% per annum, and the margins above LIBOR and base rate may decline to 2.00% for LIBOR loans and 1.00% for base rate loans if certain leverage ratios are met. A commitment fee equal to 0.50% per annum accrues on the average daily unused amount of the commitment of each lender under the revolving credit facility and such fee is payable quarterly in arrears. We are also required to pay certain other fees with respect to the senior secured credit facility including (i) letter of credit fees on the aggregate undrawn amount of outstanding letters of credit plus the aggregate principal amount of all letter of credit reimbursement obligations, (ii) a fronting fee to the letter of credit issuing bank and (iii) administrative fees.

The first lien term loan is secured by a perfected first priority pledge of all of the equity interests of our subsidiary and perfected first priority security interests in and mortgages on substantially all of our tangible and intangible assets and those of the guarantors, except, in the case of the stock of a foreign subsidiary, to the extent such pledge would be prohibited by applicable law or would result in materially adverse tax consequences, and subject to such other exceptions as are agreed. The senior secured credit facility contains a number of covenants that, among other things, restrict our ability and the ability of our subsidiaries to (i) dispose of assets; (ii) change our business; (iii) engage in mergers or consolidations; (iv) make certain acquisitions; (v) pay dividends or repurchase or redeem stock; (vi) incur indebtedness or guarantee obligations and issue preferred and other disqualified stock; (vii) make investments and loans; (viii) incur liens; (ix) engage in certain transactions with affiliates; (x) enter into sale and leaseback transactions; (xi) issue stock or stock options under certain conditions; (xii) amend or prepay subordinated indebtedness and loans under the second lien secured credit facility; (xiii) modify or waive material documents; or (xiv) change our fiscal year. In addition, under the senior secured credit facility, we are required to comply with specified financial ratios and tests, including a minimum interest coverage ratio, a maximum leverage ratio, and maximum capital expenditures.

Borrowings under the new senior secured credit facility and second lien secured credit facility were used to refinance our Company s existing debt facility, pay a cash dividend to stockholders of $83.5 million, and make a cash compensatory payment of approximately $26.9 million (including applicable payroll taxes of $0.5 million) to stock option holders in connection with such dividend. Approximately $5.1 million of the cash payment to stock option holders was paid to employees whose other compensation is a component of cost of sales. In connection with the refinancing, our Company incurred fees and expenses aggregating $4.5 million that are included as a component of other assets, net and amortized over the terms of the new senior secured credit facility. In the first quarter of 2006, the total cash payment to stock option holders and unamortized deferred financing costs of $4.6 million related to the prior credit facility were expensed and recorded as stock compensation expense and as a component of interest expense, respectively.

Contractual future maturities of long-term debt outstanding as of March 31, 2007 are as follows (in thousands):

2007	$
2008	1,108
2009	1,477
2010	1,477
2011	1,477
Thereafter	139,949
	$ 145,488

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During the first quarter of 2007, we repaid $20.0 million of long term debt with cash on hand. In connection with this repayment, we expensed $0.2 million of unamortized deferred financing costs recorded in interest expense in the consolidated statement of operations. This optional prepayment had the effect of reducing our mandatory principal payments on our first lien term loan from $0.4 million to zero in 2007, from $1.7 million to $1.1 million in 2008, from $1.7 million to $1.5 million in 2009 through 2011, and the final lump sum payment due in 2012 from $158.3 million to $140.0 million.

On an annual basis, our Company is required to compute excess cash flow, as defined in our credit and security agreement with the bank. In periods where there is excess cash flow, our Company is required to make prepayments in an aggregate principal amount determined through reference to a grid based on the leverage ratio. No such prepayments were required for the year ended December 30, 2006. The term note and line of credit require that our Company also maintain compliance with certain restrictive financial covenants, the most restrictive of which requires our Company to maintain a total leverage ratio, as defined in the debt agreement, of not greater than certain predetermined amounts. Our Company believes that we are in compliance with all restrictive financial covenants.

7. COMPREHENSIVE INCOME (LOSS)

	For the Three Months Ended	
	March 31, 2007	April 1, 2006
Net income (loss)	$ 801	$ (14,076)
Other comprehensive income (loss), net of taxes:		
Amortization of ineffective interest rate swap, net of tax benefit of $30 and $0 for the quarters ended March 31, 2007 and April 1, 2006, respectively	(49)	(78)
Change in fair value of interest rate swap, net of tax benefit of $1for the quarter ended March 31, 2007	(2)	
Change in fair value of aluminum forward contracts, net of tax expense of $6 for the quarter ended April 1, 2006		10
Total other comprehensive loss	(51)	(68)
Comprehensive income (loss)	$ 750	$ (14,144)

8. COMMITMENTS AND CONTINGENCIES

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.

9. INCOME TAX EXPENSE

The Company or its subsidiary files income tax returns in the U.S. federal jurisdiction and various states. With few exceptions, the Company is no longer subject to U.S. federal examinations by tax authorities for years before 2003 and state and local income tax examinations by tax authorities for years before 2003 in states that have a material tax liability.

The Company adopted the provisions of FASB Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109, Accounting for Income Taxes, on January 1, 2007. In connection with our FIN 48 implementation, we determined that we have no material unrecognized tax benefits and accordingly, no liability was recorded. However, as we accrue for such liabilities when they arise, we will recognize interest and penalties associated with uncertain tax positions as part of our income tax provision.

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Our effective combined federal and state tax rate was 36.9% for the quarter ended March 31, 2007 and 38.8% for the quarter ended April 1, 2006. The decrease in our effective tax rate was due to an increase in the amount of manufacturing deductions expected to be taken in 2007.

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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 December 30, 2006 included in our most recent annual report on Form 10-K.

This report 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, antic plan, foresee, believe, or continue, or the negatives of these terms or variations of them or similar terminology, but 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 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 below. Any of the risk factors described below 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.

Overview

We are the leading U.S. manufacturer and supplier of residential impact-resistant windows and doors and pioneered the U.S. impact-resistant window and door industry in the aftermath of Hurricane Andrew in 1992. Our impact-resistant products, which are marketed under the WinGuard brand name, combine heavy-duty aluminum or vinyl frames with laminated glass to provide protection from hurricane-force winds and wind-borne debris by maintaining their structural integrity and preventing penetration by impacting objects. Impact-resistant windows and doors satisfy increasingly stringent building codes in hurricane-prone coastal states and provide an attractive alternative to shutters and other active forms of hurricane protection that require installation and removal before and after each storm. Our current market share in Florida, which is the largest U.S. impact-resistant window and door market, is significantly greater than that of any of our competitors. In addition to our core WinGuard branded product line, we offer a complete range of premium, made-to-order and fully customizable aluminum and vinyl windows and doors primarily targeting the non-impact-resistant market. We manufacture these products in a wide variety of styles, including single hung, horizontal roller, casement, and sliding glass doors, and we also manufacture sliding panels used for enclosing screened-in porches. Our products are sold to both the residential new construction and repair and remodeling end markets.

Our future results of operations will be affected by the following factors, some of which are beyond our control:

> *Residential new construction.* Our business is driven in part by residential new construction activity. According to the U.S. Census Bureau, U.S. housing starts were 1.8 million in 2006 and 2.1 million in 2005. According to The Freedonia Group and the Joint Center for Housing Studies of Harvard University, strong housing demand will continue to be supported over the next decade by new household formations, increasing homeownership

rates, the size and age of the population, an aging housing stock (approximately 35% of existing homes were built before 1960), improved financing options for buyers and immigration trends. During the second half of 2006, we saw a significant slowdown in the Florida housing market. At this point, it is unclear if housing activity has hit bottom. Like many building material suppliers in the industry, we will be faced with a challenging operating environment over the near term due to the decline in the housing market. Specifically, housing permits in Florida decreased by approximately 52% in the first quarter of 2007 compared to the first quarter of 2006. We still believe there are several meaningful trends such as rising immigration rates, growing prevalence of second homes, the aging demographics of the population, relatively low interest rates, creative new forms of mortgage financing, and the aging of the housing stock, that indicate housing demand will remain healthy in the long term. Based on these trends and certain other factors, we believe that the current pullback in the housing industry is likely to be temporary and that, as we have proven historically, we will be able to outperform the market during this cyclical downturn and grow our business over the long term.

Home repair and remodeling expenditures. Our business is also driven by the home repair and remodeling market. According to the U.S. Census Bureau, national home repair and remodeling expenditures have increased in 36 of the past 40 years. This growth is mainly the result of the aging U.S. housing stock, increasing home ownership rates and homeowners electing to upgrade their existing residences rather than move into a new home. The repair and remodeling component of window and door demand tends to be less cyclical than residential new construction and partially insulates overall window and door sales from the impact of residential new construction cycles.

Adoption and Enforcement of Building Codes. In addition to coastal states that already have adopted building codes requiring wind-borne debris protection, we expect additional states to adopt and enforce similar building codes, which will further expand the market opportunity for our WinGuard branded line of impact-resistant products. The speed with which new states adopt and enforce these building codes will impact our growth opportunities in new geographical markets.

Sale of NatureScape. On February 20, 2006, we sold our NatureScape product line, which constituted approximately $18.8 million of sales in 2005 and $1.6 million in the first quarter of 2006.

Cost of materials. The prices of our primary raw materials, including aluminum, laminate and glass, are subject to volatility and affect our results of operations when prices rapidly rise or fall within a relatively short period of time. From time to time, we use hedging instruments to manage the market risk of our aluminum costs. The last of the related hedging instruments that we had in place matured in October 2006. Our Company is purchasing aluminum at market prices. However, we frequently review the aluminum market in order to determine whether to enter into new hedges at that time.

Current Operating Conditions and Outlook

In the first quarter of 2007, housing permits in Florida decreased approximately 52% compared to the first quarter 2006. In response to the deterioration in the housing market, we have taken a number of steps to maintain profitability and conserve capital. As a result, we adjusted our operating cost structure to more closely align with current demand. In addition, we have decreased our capital spending in 2007. However, we also view this market downturn as an opportunity to gain market share from our competitors. For instance, we have introduced new incentive programs offered to both our distributors and our end users. We have also increased marketing and sales efforts in areas outside of our dominant markets, including northern Florida, the Gulf Coast and the Carolinas. Finally, we accelerated new product introductions and product line expansions to broaden our product offering. As a result of these actions, we continue to outperform the underlying market, and gross margins have improved to 34.1% in the first quarter of 2007 from 28.8% in the fourth quarter of 2006.

While the homebuilding industry is currently in a down turn, we still believe the long-term outlook for the housing industry is positive due to growth in the underlying demographics. At this point, it is unclear if housing activity has hit bottom. Despite the unfavorable operating conditions, we still believe we can continue to grow organically by gaining market share and outperform our underlying markets. However, we think difficult market conditions affecting our business will continue to have a negative effect on our operating results and year-over-year comparisons in the near term.

Critical Accounting Policies and Estimates

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our consolidated financial statements are prepared in accordance with GAAP. Critical accounting policies are those that are both important to the accurate portrayal of a company s financial condition and results and require subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. We make estimates and assumptions that affect the amounts reported in our financial statements and accompanying notes. Certain estimates are particularly sensitive due to

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their significance to the financial statements and the possibility that future events may be significantly different from our expectations. Management has discussed the development and disclosure of critical accounting policies and estimates with the Audit Committee of our Board of Directors.

We have identified the following accounting policies that require us to make the most subjective or complex judgments in order to fairly present our consolidated financial position and results of operations.

Revenue recognition

We recognize sales when all of the following criteria have been met: a valid customer order with a fixed price has been received; the product has been delivered and accepted by the customer; and collectibility is reasonably assured. All sales recognized are net of allowances for discounts and estimated returns, which are estimated using historical experience.

Allowance for doubtful accounts and related reserves

We extend credit to dealers and distributors, generally on a non-collateralized basis. Accounts receivable are recorded at their gross receivable amount, reduced by an allowance for doubtful accounts that results in the receivables being recorded at estimated net realizable value. The allowance for doubtful accounts is based on management s assessment of the amount which may become uncollectible in the future and is determined based on our write-off history, aging of receivables, specific identification of uncollectible accounts, and consideration of prevailing economic and industry conditions. Uncollectible accounts are charged off after repeated attempts to collect from the customer have been unsuccessful. The difference between actual write-offs and estimated reserves has not been material.

Long-lived assets

We review long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of long-lived assets to future undiscounted net cash flows expected to be generated, based on management estimates, in accordance with Statements of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets.* Estimates made by management are subject to change and include such things as future growth assumptions, operating and capital expenditure requirements, asset useful lives and other factors, changes in which could materially impact the results of the impairment test. If such assets are considered to be impaired, the impairment recognized is the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less cost to sell, and depreciation is no longer recorded.

Goodwill

The impairment evaluation for goodwill is conducted at the end of each fiscal year, or more frequently if events or changes in circumstances indicate that an asset might be impaired. The evaluation is performed using a two-step process. In the first step, which is used to screen for potential impairment, the fair value of the reporting unit is compared with the carrying amount of the reporting unit, including goodwill. The estimated fair value of the reporting unit is determined using the discounted future cash flows method, based on management estimates. If the estimated fair value of the reporting unit is less than the carrying amount of the reporting unit, then a second step, which determines the amount of the goodwill impairment to be recorded, must be completed. In the second step, the implied fair value of the reporting unit s goodwill is determined by allocating the reporting unit s fair value to all of its assets and liabilities other than goodwill (including any unrecognized intangible assets). The resulting implied fair value of the goodwill that results from the application of this second step is then compared to the carrying amount of the goodwill and an impairment charge is recorded for the difference. Estimation of fair value is dependent on a number of factors, including, but not limited to, interest rates, future growth assumptions, operations and capital expenditure requirements and other factors which are subject to change and could materially impact the results of the impairment tests. Unless our actual results differ significantly from those in our estimation of fair value, it would not result in an impairment of goodwill.

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Other intangibles

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 amount of these assets to their estimated fair value. If the estimated fair value is less than the carrying amount of the intangible assets with indefinite lives, then an impairment charge is recorded to reduce the asset to its estimated fair value. The estimated fair value is generally determined on the basis of discounted future cash flows.

The assumptions used in the estimate of fair value are generally consistent with past performance and are also consistent with the projections and assumptions that are used in current Company operating plans. Such assumptions are subject to change as a result of changing economic and competitive conditions.

Warranties

We have warranty obligations with respect to most of our manufactured products. Obligations vary by product components. The reserve for warranties is based on our assessment of the costs that will have to be incurred to satisfy warranty obligations on recorded net sales. The reserve is determined after assessing our warranty history and specific identification of our estimated future warranty obligations.

Derivative instruments

We account for derivative instruments in accordance with Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended (SFAS No. 133). SFAS No. 133 requires us to recognize all of our derivative instruments as either assets or liabilities in the consolidated balance sheet at fair value. The accounting for changes in the fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and further, on the type of hedging relationship. For those derivative instruments that are designated and qualify as hedging instruments, we must designate the hedging instrument, based upon the exposure being hedged, as a fair value hedge, a cash flow hedge or a hedge of a net investment in a foreign operation.

All derivative instruments currently utilized by us are designated and accounted for as cash flow hedges (i.e., hedging the exposure to variability in expected future cash flows that is attributable to a particular risk). SFAS No. 133 provides that the effective portion of the gain or loss on a derivative instrument designated and qualifying as a cash flow hedging instrument be reported as a component of other comprehensive income and be reclassified into earnings in the same period or periods during which the transaction affects earnings. The remaining gain or loss on the derivative instrument, if any, must be recognized currently in earnings.

Stock compensation

We account for stock-based compensation in accordance with Statement of Financial Accounting Standards No. 123(R), Share-Based Payment (SFAS No. 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 No. 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 have adopted SFAS No. 123(R) on a prospective basis; accordingly, our financial statements for periods prior to January 1, 2006, do not include compensation cost calculated under the fair value method. We recorded compensation expense for stock based awards of approximately $0.4 million and $0 during the first quarter of 2007 and 2006, respectively. As of March 31, 2007, there was $1.3 million and $1.2 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 straight line over a weighted-average period of 2.9 years from the date of grant.

Stock options granted prior to our Company s initial public offering were valued using the minimum value method in the pro-forma disclosures required by SFAS No. 123. The minimum value method excludes volatility in the calculation of fair value of stock based compensation. In accordance with SFAS No. 123(R), options that were valued using the minimum value method, for purposes of pro forma disclosure under SFAS No. 123, were transitioned to SFAS No. 123(R) using the prospective method. As a result, these options will continue to be accounted for under the same accounting principles (recognition and measurement) originally applied to those awards in the income statement, which for our Company was APB No. 25. Accordingly, the adoption of SFAS No. 123(R) does not result in any compensation cost being recognized for

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these options. Additionally, pro forma information previously required under SFAS No. 123 and SFAS No. 148 will no longer be presented for these options.

Income Taxes

The Company or its subsidiary files income tax returns in the U.S. federal jurisdiction and various states. With few exceptions, the Company is no longer subject to U.S. federal examinations by tax authorities for years before 2003 and state and local income tax examinations by tax authorities for years before 2003 in states that have a material tax liability.

The Company adopted the provisions of FASB Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109, Accounting for Income Taxes, on January 1, 2007. We did not recognize any material liability for unrecognized tax benefits in conjunction with our FIN 48 implementation. However, as we accrue for such liabilities when they arise, we will recognize interest and penalties associated with uncertain tax positions as part of our income tax provision.

Other Developments

Initial Public Offering

On June 27, 2006, the SEC declared our Company s registration statement on Form S-1 effective, and our Company completed an initial public offering (IPO) of 8,823,529 shares of its common stock at a price of $14.00 per share. Our Company s common stock began trading on The Nasdaq National Market under the symbol PGTI on June 28, 2006. After underwriting discounts of approximately $8.6 million and transaction costs of approximately $2.5 million, net proceeds received by the Company on July 3, 2006, were $112.3 million. Our Company used net IPO proceeds, together with cash on hand, to repay $137.0 of borrowings under our senior secured credit facilities.

Our Company granted the underwriters an option to purchase up to an additional 1,323,529 shares of common stock at the IPO price, which the underwriters exercised in full on July 27, 2006. After underwriting discounts of approximately $1.3 million, aggregate net proceeds received by the Company on August 1, 2006 were $17.2 million of which $17.0 million were used to repay a portion of our outstanding debt.

Stock Split

On June 5, 2006, our board of directors and our stockholders approved a 662.07889-for-1 stock split of our common stock and approved increasing the number of shares of common stock that the Company is authorized to issue to 200.0 million.

After the stock split, effective June 6, 2006, each holder of record held 662.07889 shares of common stock for every 1 share held immediately prior to the effective date. As a result of the stock split, the board of directors also exercised its discretion under the anti-dilution provisions of the 2004 Plan to adjust the number of shares underlying stock options and the related exercise prices to reflect the change in the per share value and outstanding shares on the date of the stock split. The effect of fractional shares is not material.

Following the effective date of the stock split, the par value of the common stock remained at $0.01 per share. As a result, we have increased the common stock in our consolidated balance sheets and statements of shareholders equity included herein on a retroactive basis for all of our Company s periods presented, with a corresponding decrease to additional paid-in capital. All share and per share amounts and related disclosures have also been retroactively adjusted for all of our Company s periods presented to reflect the 662.07889-for-1 stock split.

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Results of Operations

Quarter ended March 31, 2007 compared with the quarter ended April 1, 2006

Overview

During the first quarter of 2007, we continued to execute on our strategy of gaining market share and controlling costs during the current housing downturn. The industry experienced a decline in housing permits in Florida of approximately 52% in the first quarter of 2007 while our revenues declined 24.6%, each as compared to the first quarter of 2006. In addition, gross margin percentage was 34.1% in the first quarter of 2007, compared to 37.1% in the same quarter of 2006. The decline was primarily as a result of the significant slowdown in Florida new home construction and rising costs of aluminum. Selling, general and administrative expenses decreased by $1.6 million from the prior year quarter primarily driven by lower distribution costs.

Net sales

Net sales for the quarter ended March 31, 2007 were $72.7 million, a $23.7 million, or 24.6% decrease compared with net sales of $96.4 million for the quarter ended April 1, 2006. The following table shows net sales classified by major product category (in millions):

	First Quarter Ended				
	March 31, 2007		April 1, 2006		
	Sales	% of Sales	Sales	% of Sales	% Growth
WinGuard Windows and Doors	$ 48.1	66.2%	$ 60.0	62.3%	-19.8%
Other Window and Door Products	24.6	33.8%	36.4	37.7%	-32.3%
Total	$ 72.7	100.0%	$ 96.4	100.0%	-24.6%

Net sales of WinGuard branded products were $48.1 million for the quarter ended March 31, 2007, a decrease of $11.9 million, or 19.8%, from $60.0 million in net sales for the quarter ended April 1, 2006. The decrease was mainly due to the decline in new housing. Demand for WinGuard branded products is driven by, among other things, increased enforcement of strict building codes mandating the use of impact-resistant products, increased consumer and homebuilder awareness of the advantages provided by impact-resistant windows and doors over active forms of hurricane protection, and our successful marketing efforts.

Net sales of Other Window and Door Products were $24.6 million for the quarter ended March 31, 2007, a decrease of $11.8 million, or 32.3%, from $36.4 million in net sales for the quarter ended April 1, 2006. The decrease was mainly due to the decline in new housing. New housing demand has traditionally impacted sales of our Other Window and Door Products more than our WinGuard Windows and Door Products.

Gross margin

Gross margin was $24.8 million for the quarter ended March 31, 2007, a decrease of $10.9 million, or 30.5%, from $35.7 million for the quarter ended April 1, 2006. The decrease is mainly due to margin loss associated with lower sales volumes and the impact of higher costs of aluminum offset in part by a higher mix of our WinGuard branded products which carry a higher margin than our Other Window and Door Products. Our WinGuard branded products increased as a percentage of our total net sales to 66.2%, compared to 62.3% in the first quarter of 2006. The gross margin percentage was 34.1% for the quarter ended March 31, 2007 compared to 37.1% for the quarter ended April 1, 2006.

Selling, general, and administrative expenses

Selling, general, and administrative expenses were $20.2 million for the quarter ended March 31, 2007, a decrease of $1.6 million, from $21.9 million for the quarter ended April 1, 2006. This decrease was mainly due to a decrease in distribution costs of $1.5 million as a result of lower volumes. Selling and marketing costs increased by $0.4 million, while administrative costs decreased by $0.6 million. Selling and marketing costs increased mainly due to promotional expenses associated with new incentive programs.

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Administrative expenses decreased mainly due to the discontinuance of management fees paid to our majority shareholder upon completion of our IPO. The first quarter of 2007 also included $0.4 million of stock compensation expense related to our adoption of SFAS 123R. As a percentage of sales, selling, general and administrative expenses increased during the first quarter of 2007 to 27.9% compared to 22.7% for the first quarter of 2006 mainly due to the decrease in volume.

Stock compensation expense

Stock compensation expense of $26.9 million was recorded in the quarter ended April 1, 2006, relating to payments to option holders in lieu of adjusting exercise prices in connection with the payment of a dividend to shareholders in February 2006.

Interest expense

Interest expense was $3.1 million for the quarter ended March 31, 2007, a decrease of $7.3 million from $10.4 million for the quarter ended April 1, 2006. Interest expense includes non-recurring charges of $4.6 million in the first quarter of 2006 related to the write-off of unamortized debt issuance costs in connection with our debt refinancing on February 14, 2006, as described under the Liquidity and Capital Resources section of this report. In addition, there was a lower average debt level for the quarter ended March 31, 2007 as compared to the quarter ended April 1, 2006.

Income tax expense

Our effective combined federal and state tax rate was 36.9% for the quarter ended March 31, 2007 and 38.8% for the quarter ended April 1, 2006. The decrease in our effective tax rate was due to an increase in the amount of manufacturing deductions expected to be taken in 2007.

Liquidity and Capital Resources

Our principal source of liquidity is cash flow generated by operations, supplemented by borrowings under our credit facilities. This cash generating capability provides us with financial flexibility in meeting operating and investing needs. In addition, we completed our IPO in June 2006 and used the net proceeds, together with cash on hand, to repay a portion of our long term debt. Our primary capital requirements are to fund working capital needs, meet required debt payments, including debt service payments on our credit facilities, and fund capital expenditures.

Consolidated Cash Flows

Operating activities. Cash flows provided by operating activities were $2.8 million for the quarter ended March 31, 2007, compared to cash flows used in operating activities of $20.7 million for the quarter ended April 1, 2006. This increase was mainly due to cash compensatory payments of $26.9 million made to option holders in lieu of adjusting exercise prices in connection with the payment of dividends to shareholders and recorded as stock compensation expense in the first quarter of 2006. Days sales outstanding improved to 41 at the end of the first quarter of 2006 from 46 as of December 30, 2006.

Investing activities. Cash flows used in investing activities were $2.2 million for the quarter ended March 31, 2007, compared to $10.4 million for the quarter ended April 1, 2006. The decrease in cash flows used in investing activities was mainly due to the completion of our manufacturing facility in Salisbury, North Carolina in 2006.

Financing activities. Cash flows used in financing activities were $20.0 million for the quarter ended March 31, 2007, compared to cash flows provided by financing activities of $48.5 million for the quarter ended April 1, 2006. Significant financing transactions during 2007 and 2006 included the following:

In February 2006, we entered into a second amended and restated senior secured credit facility and a second lien term loan, and received $320.0 million proceeds. The proceeds were used to refinance our Company s existing debt facility, pay a cash dividend to stockholders of $83.5 million, make a cash compensatory payment of approximately $26.9 million (including applicable payroll taxes of $0.5 million) to stock option holders in lieu of adjusting exercise prices in connection with such dividend, and pay certain financing costs related to the amendment.

In February 2007, we prepaid $20.0 million of our long term debt with cash generated from operations.

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Capital Resources. On February 14, 2006, our Company entered into a second amended and restated $235 million senior secured credit facility and a $115 million second lien term loan due August 14, 2012, with a syndicate of banks. The senior secured credit facility is composed of a $30 million revolving credit facility and, initially, a $205 million first lien term loan.

The first lien term loan bears interest, at our option, at a rate equal to an adjusted LIBOR rate plus 3.0% per annum or a base rate plus 2.0% per annum. The loans under the revolving credit facility bear interest initially, at our option (provided, that all swingline loans shall be base rate loans), at a rate equal to an adjusted LIBOR rate plus 2.75% per annum or a base rate plus 1.75% per annum, and the margins above LIBOR and base rate may decline to 2.00% for LIBOR loans and 1.00% for base rate loans if certain leverage ratios are met. A commitment fee equal to 0.50% per annum accrues on the average daily unused amount of the commitment of each lender under the revolving credit facility and such fee is payable quarterly in arrears. We are also required to pay certain other fees with respect to the senior secured credit facility including (i) letter of credit fees on the aggregate undrawn amount of outstanding letters of credit plus the aggregate principal amount of all letter of credit reimbursement obligations, (ii) a fronting fee to the letter of credit issuing bank and (iii) administrative fees.

The first lien term loan is secured by a perfected first priority pledge of all of the equity interests of our subsidiary and perfected first priority security interests in and mortgages on substantially all of our tangible and intangible assets and those of the guarantors, except, in the case of the stock of a foreign subsidiary, to the extent such pledge would be prohibited by applicable law or would result in materially adverse tax consequences, and subject to such other exceptions as are agreed. The senior secured credit facility contains a number of covenants that, among other things, restrict our ability and the ability of our subsidiaries to (i) dispose of assets; (ii) change our business; (iii) engage in mergers or consolidations; (iv) make certain acquisitions; (v) pay dividends or repurchase or redeem stock; (vi) incur indebtedness or guarantee obligations and issue preferred and other disqualified stock; (vii) make investments and loans; (viii) incur liens; (ix) engage in certain transactions with affiliates; (x) enter into sale and leaseback transactions; (xi) issue stock or stock options of our subsidiary; (xii) amend or prepay subordinated indebtedness and loans under the second lien secured credit facility; (xiii) modify or waive material documents; or (xiv) change our fiscal year. In addition, under the first lien secured credit facility, we are required to comply with specified financial ratios and tests, including a minimum interest coverage ratio, a maximum leverage ratio, and maximum capital expenditures.

Borrowings under the new senior secured credit facility and second lien secured credit facility on February 14, 2006, were used to refinance our Company s existing debt facility, pay a cash dividend to stockholders of $83.5 million, and make a cash compensatory payment of approximately $26.9 million (including applicable payroll taxes of $0.5 million) to stock option holders in lieu of adjusting exercise prices in connection with such dividend. In connection with the refinancing, our Company incurred fees and expenses aggregating $4.5 million that are included as a component of other assets, net and are being amortized over the terms of the new senior secured credit facilities. In the nine months of 2006, the total cash payment to option holders and unamortized deferred financing costs of $4.6 million related to the prior credit facility were expensed and recorded as stock compensation expense and a component of interest expense, respectively.

Based on our ability to generate cash flows from operations and our borrowing capacity under the revolver under the senior secured credit facility, we believe we will have sufficient capital to meet our short-term and long-term needs, including our capital expenditures and our debt obligations in 2007.

Capital Expenditures. Capital expenditures vary depending on prevailing business factors, including current and anticipated market conditions. For the quarter ended March 31, 2007 and April 1, 2006, capital expenditures were $2.2 million and $10.7 million, respectively. We anticipate that cash flows from operations and liquidity from the revolving credit facility will be sufficient to execute our business plans.

New Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS No. 157), which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The provisions of SFAS No. 157 are effective as of the beginning of our Company s 2008 fiscal year. We have considered the provisions of SFAS No. 157 and do not expect the application of SFAS No. 157 to have a material effect on our financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS No. 159). SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value and

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establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective for our Company beginning January 1, 2008. We have not yet determined the impact, if any, from the adoption of SFAS No. 159.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We experience changes in interest expense when market interest rates change. Changes in our debt could also increase these risks. Based on debt outstanding at March 31, 2007, a 25 basis point increase in interest rates would result in approximately $0.4 million of additional interest costs annually.

Historically, we have utilized derivative financial instruments to hedge price movements of our aluminum materials. As of March 31, 2007, there were no hedging contracts in place. Short term changes in the cost of aluminum, which can be significant, are sometimes passed on to our customers through price increases, however there can be no guarantee that we will be able to continue to pass such price increases to our customers or that price increases will not negatively impact sales volume, thereby adversely impacting operating margins.

Item 4. Controls and Procedures

Disclosure Controls and Procedures. Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in the Company s reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms.

A control system, however, no matter how well conceived and operated, can at best provide reasonable, not absolute, assurance that the objectives of the control system are met. Additionally, a control system reflects the fact that there are resource constraints, and the benefits of controls must be considered relative to costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of error or fraud, if any, within our company have been detected, and due to these inherent limitations, misstatements due to error or fraud may occur and not be detected.

Our chief executive officer and chief financial officer, with the assistance of management, evaluated the design, operation and effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report (the Evaluation Date). Based on that evaluation, our chief executive officer and chief financial officer concluded that, as of the Evaluation Date, our disclosure controls and procedures were effective for the purposes of ensuring that information required to be disclosed in our reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms, and that such information is accumulated and communicated to management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting. During the period covered by this report, there have been no changes in our internal control over financial reporting identified in connection with the evaluation described above that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. *Legal Proceedings*

We are involved in various claims and lawsuits incidental to the conduct of our business in the ordinary course. We carry insurance coverage in such amounts in excess of our self-insured retention as we believe to be reasonable under the circumstances and that may or may not cover any or all of our liabilities in respect to claims and lawsuits. We do not believe that the ultimate resolution of these matters will have a material adverse impact on our financial position or results of operations.

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Although our business and facilities are subject to federal, state and local environmental regulation, environmental regulation does not have a material impact on our operations. We believe that our facilities are in material compliance with such laws and regulations. As owners and lessees of real property, we can be held liable for the investigation or remediation of contamination on such properties, in some circumstances without regard to whether we knew of or were responsible for such contamination. Our current expenditures with respect to environmental investigation and remediation at our facilities are minimal, although no assurance can be provided that more significant remediation may not be required in the future as a result of spills or releases of petroleum products or hazardous substances or the discovery of previously unknown environmental conditions.

Item 1A. *Risk Factors*

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part 1, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 30, 2006, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

Item 2. *Unregistered Sales of Equity Securities and Use of Proceeds*

Unregistered Sales of Equity Securities

During the quarter ended March 31, 2007, we issued an aggregate of 4,634 shares of our common stock to an employee upon the exercise of options awarded under our 2004 Stock Incentive Plan. We received aggregate proceeds of approximately $40 thousand as a result of the exercise of these options. The Company relied on the exemption from the registration requirements of the Securities Act of 1933 in reliance on Rule 701 there under for transactions pursuant to compensatory benefit plans and contracts relating to compensation as provided under Rule 701.

The above option grant was made prior to our initial public offering. Proceeds from the foregoing transactions were used for general working capital purposes. None of the foregoing transactions involved any underwriters, underwriting discounts or commissions, or any public offering.

Use of Proceeds

Not applicable.

Item 3. *Defaults upon Senior Securities*

None.

Item 4. *Submission of Matters to a Vote of Security Holders*

None.

Item 5. *Other Information*

None.

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Item 6 Exhibits

The following items are attached or incorporated herein by reference:

3.1	Form of Amended and Restated Certificate of Incorporation of PGT, Inc. (incorporated herein by reference to Exhibit 3.1 to Amendment No. 3 to the Registration Statement of the Company on Form S-1, filed with the Securities and Exchange Commission on June 8, 2006, Registration No. 333-132365)
3.2	Form of Amended and Restated By-Laws of PGT, Inc. (incorporated herein by reference to Exhibit 3.2 to Amendment No. 3 to the Registration Statement of the Company on Form S-1, filed with the Securities and Exchange Commission on June 8, 2006, Registration No. 333-132365)
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* Filed herewith.

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SIGNATURES

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.

	PGT, INC. (Registrant)
Date: May 14, 2007	/s/ Rodney Hershberger
	Rodney Hershberger President and Chief Executive Officer
Date: May 14, 2007	/s/ Jeffrey T. Jackson
	Jeffrey T. Jackson Chief Financial Officer and Treasurer

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