

PGT, Inc.
Form 10-Q
November 06, 2008

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

FORM 10-Q

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

For the quarterly period ended September 27, 2008

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 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 Smaller reporting company

(Do not check if a smaller

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reporting company)

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

Yes

No

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

Common Stock, \$0.01 par value – 35,413,438 shares, as of October 31, 2008.

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PART I — FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

	Third Quarter Ended		Nine Months Ended	
	September	September	September	September
	27,	29,	27,	29,
	2008	2007	2008	2007
	(unaudited)		(unaudited)	
Net sales	\$ 54,330	\$ 72,054	\$ 169,266	\$ 224,059
Cost of sales	38,132	49,177	115,506	147,765
Gross margin	16,198	22,877	53,760	76,294
Goodwill and intangible impairment charges	1,600	-	93,600	-
Asset impairment charge	-	-	-	826
Selling, general and administrative expenses	14,475	18,272	46,909	59,033
Income (loss) from operations	123	4,605	(86,749)	16,435
Interest expense, net	2,236	2,772	7,153	8,697
Other expense (income), net	18	198	(38)	428
(Loss) income before income taxes	(2,131)	1,635	(93,864)	7,310
Income tax (benefit) expense	(502)	566	(13,799)	2,656
Net (loss) income	\$ (1,629)	\$ 1,069	\$ (80,065)	\$ 4,654
Net (loss) income per common share:				
Basic	\$ (0.05)	\$ 0.04	\$ (2.74)	\$ 0.16

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Diluted	\$ (0.05)	\$ 0.04	\$ (2.74)	\$ 0.16
Weighted average shares outstanding:				
Basic	32,082	28,572	29,183	28,279
Diluted	32,082	29,513	29,183	29,447

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 per share amounts)

	September 27, 2008 (unaudited)	December 29, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 18,822	\$ 19,479
Accounts receivable, net	21,387	20,956
Inventories	11,668	9,223
Deferred income taxes	4,019	3,683
Other current assets	5,355	7,080
Total current assets	61,251	60,421
Property, plant and equipment, net	74,956	80,184
Other intangible assets, net	91,871	96,348
Goodwill	76,348	169,648
Other assets, net	1,273	1,264
Total assets	\$ 305,699	\$ 407,865
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 15,991	\$ 15,235
Current portion of long-term debt	95	332
Total current liabilities	16,086	15,567
Long-term debt	90,309	129,668
Deferred income taxes	35,224	48,927
Other liabilities	2,890	3,231
Total liabilities	144,509	197,393
Commitments and contingencies (note 10)		
Shareholders' equity:		
Preferred stock; par value \$.01 per share; 10,000 shares authorized; none outstanding	-	-
Common stock; par value \$.01 per share; 200,000 shares authorized; 35,413		

and		
27,732 shares issued and 35,197 and		
27,620 shares outstanding at		
September 27, 2008 and December 29,		
2007, respectively	352	276
Additional paid-in-capital	241,506	210,964
Accumulated other comprehensive loss	(257)	(422)
Accumulated deficit	(80,411)	(346)
Total shareholders' equity	161,190	210,472
Total liabilities and shareholders'		
equity	\$ 305,699	\$ 407,865

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)

	Nine Months Ended	
	September 27, 2008 (unaudited)	September 29, 2007 (unaudited)
Cash flows from operating activities:		
Net (loss) income	\$ (80,065)	\$ 4,654
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation	8,575	7,656
Amortization	4,177	4,177
Stock-based compensation	588	1,195
Excess tax benefits from stock-based compensation plans	(458)	(1,620)
Deferred taxes	(13,686)	-
Amortization of deferred financing costs	624	648
Derivative financial instruments	(38)	429
Impairment charges	93,600	826
Loss on disposal of assets	6	14
Change in operating assets and liabilities:		
Accounts receivable	535	439
Inventories	(2,445)	1,210
Prepaid expenses and other current assets	757	3,610
Accounts payable, accrued and other liabilities	729	(691)
Net cash provided by operating activities	12,899	22,547
Cash flows from investing activities:		
Purchases of property, plant and equipment	(2,993)	(7,864)
Proceeds from sales of equipment	58	42
Net cash used in investing activities	(2,935)	(7,822)
Cash flows from financing activities:		
Proceeds from exercise of stock options	210	1,816

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Excess tax benefits from stock-based compensation plans	458	1,620
Net proceeds from issuance of common stock	29,362	-
Payments of capital leases	(17)	-
Payments of financing costs	(634)	-
Payments of long-term debt	(40,000)	(35,488)
Net cash used in financing activities	(10,621)	(32,052)
Net decrease in cash and cash equivalents	(657)	(17,327)
Cash and cash equivalents at beginning of period	19,479	36,981
Cash and cash equivalents at end of period	\$ 18,822	\$ 19,654

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 (collectively the “Company”) after elimination of intercompany accounts and transactions. These statements have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and footnotes required by United States Generally Accepted Accounting Principles (“GAAP”) for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring accruals) considered necessary for a fair presentation have been included. All significant intercompany accounts and transactions have been eliminated in consolidation. Operating results for the interim periods 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 September 27, 2008 and September 29, 2007 consist of 13 weeks.

The condensed consolidated balance sheet as of December 29, 2007 is derived from the audited consolidated financial statements but does not include all disclosures required by GAAP. This condensed consolidated balance sheet as of December 29, 2007 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 29, 2007 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. RESTRUCTURINGS

On October 25, 2007, we announced a restructuring of the Company as a result of an in-depth analysis of the Company’s target markets, internal structure, projected run-rate, and efficiency. The restructuring resulted in a decrease in the Company’s workforce of approximately 150 employees and included employees at both its Venice, Florida and Salisbury, North Carolina locations. The restructuring was undertaken in an effort to streamline operations as well as improve processes to drive new product development and sales. As a result of the restructuring, the Company recorded a restructuring charge of \$2.4 million in the fourth quarter of 2007. The charge related primarily to employee separation costs. Of the \$2.4 million charge, \$1.5 million was disbursed in the fourth quarter of 2007, an additional almost \$0.7 million was disbursed in the first quarter of 2008 and the remaining \$0.2 million was disbursed in the second quarter of 2008.

On March 4, 2008, we announced a second restructuring of the Company as a result of continued analysis of the Company’s target markets, internal structure, projected run-rate, and efficiency. The restructuring resulted in a decrease in the Company’s workforce of approximately 300 employees and included employees at both its Venice, Florida and Salisbury, North Carolina locations. As a result of the restructuring, the Company recorded a restructuring charge of \$1.8 million in the first quarter of 2008, of which \$1.1 million is classified within cost of goods sold and \$0.7 million is classified within selling, general and administrative expenses in the accompanying condensed consolidated statement of operations for the first nine months ended September 27, 2008. The charge related primarily to employee separation costs. All of the \$1.8 million charge was disbursed in the first quarter of 2008.

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

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Accrued Restructuring Costs (in thousands)	Beginning of Period	Charged to Expense	Disbursed in Cash	End of Period
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Nine months ended September 27, 2008:				
2007 Restructuring	\$ 850	\$ -	\$ (850)	\$ -
2008 Restructuring	-	1,752	(1,752)	-
For the first nine months ended September 27, 2008	\$ 850	\$ 1,752	\$ (2,602)	\$ -

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NOTE 3. WARRANTY

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 table provides information with respect to our warranty accrual:

Accrued Warranty (in thousands)	Beginning of Period	Charged to Expense	Adjustments	Settlements	End of Period
Quarter ended September 27, 2008	\$ 4,710	\$ 540	\$ (34)	\$ (790)	\$ 4,426
Quarter ended September 29, 2007	\$ 5,555	\$ 1,445	\$ (302)	\$ (1,200)	\$ 5,498
Nine months ended September 27, 2008	\$ 4,986	\$ 2,539	\$ (485)	\$ (2,614)	\$ 4,426
Nine months ended September 29, 2007	\$ 4,934	\$ 4,492	\$ (73)	\$ (3,855)	\$ 5,498

NOTE 4. 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. Inventories consisted of the following at:

	September 27, 2008	December 29, 2007
Finished goods	\$ 1,484	\$ 717

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Work in progress	503	654
Raw materials	9,681	7,852
	\$ 11,668	\$ 9,223

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NOTE 5. STOCK COMPENSATION EXPENSE

We account for stock-based compensation in accordance with Statement of Financial Accounting Standards (“SFAS”) No. 123(R), Share-Based Payment (“SFAS 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 recorded compensation expense for stock based awards of \$0.2 million for the third quarter of 2008 and \$0.4 million during the third quarter of 2007. We recorded compensation expense for stock based awards of \$0.6 million for the first nine months of 2008 and \$1.2 million during the first nine months of 2007. As of September 27, 2008, there was \$0.4 million and \$0.6 million of total unrecognized compensation cost related to non-vested stock option agreements and non-vested restricted share awards, respectively. These costs are expected to be recognized in earnings on a straight-line basis over the weighted average remaining vesting period of 1.3 years.

NOTE 6. NET (LOSS) INCOME PER COMMON SHARE

Net (loss) income per common share (“EPS”) is calculated in accordance with SFAS No. 128, Earnings per Share, which requires the presentation of basic and diluted EPS. Basic EPS is computed using the weighted average number of common shares outstanding during the period. Diluted EPS is computed using the weighted average number of common shares outstanding during the period, plus the dilutive effect of common stock equivalents. Due to the net losses in each of the third quarter and first nine months of 2008, the effect of compensation plans is anti-dilutive. Basic and diluted weighted average common shares outstanding for the third quarter and nine months ended September 29, 2007 have been restated to give effect to the bonus element included in the rights offering. See Note 14, “Rights Offering.”

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:

	Third Quarter Ended		Nine Months Ended	
	September	September	September	September
	27,	29,	27,	29,
	2008	2007	2008	2007
	(in thousands, except per share amounts)			
Net (loss) income	\$ (1,629)	\$ 1,069	\$ (80,065)	\$ 4,654
Weighted-average common shares - Basic	32,082	28,572	29,183	28,279
Add: Dilutive effect of stock compensation plans	-	941	-	1,168
Weighted-average common shares - Diluted	32,082	29,513	29,183	29,447

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Net (loss) income				
per common share:				
Basic	\$ (0.05)	\$ 0.04	\$ (2.74)	\$ 0.16
Diluted	\$ (0.05)	\$ 0.04	\$ (2.74)	\$ 0.16

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NOTE 7. GOODWILL, OTHER INTANGIBLE AND LONG-LIVED ASSETS

Goodwill and other intangible assets are as follows:

	September 27, 2008 (in thousands)	December 29, 2007	Original Useful Life (in years)
Goodwill	\$ 76,348	\$ 169,648	indefinite
Other intangible assets:			
Trademarks	\$ 62,200	\$ 62,500	indefinite
Customer relationships	55,700	55,700	10
Less: Accumulated amortization	(26,029)	(21,852)	
Subtotal	29,671	33,848	
Other intangible assets, net	\$ 91,871	\$ 96,348	
Goodwill at December 29, 2007			
	\$ 169,648		
Impairment charge - nine months ended September 27, 2008			
	(93,300)		
Goodwill at September 27, 2008			
	\$ 76,348		
Trademarks at December 29, 2007			
	\$ 62,500		
Impairment charge - nine months ended September 27, 2008			
	(300)		
Trademarks at September 27, 2008			
	\$ 62,200		

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 determination of fair value used in the impairment evaluation is based on a discounted cash flow model and is highly sensitive to changes in estimated future cash flows and changes in the discount rate used to evaluate the fair value of the Company. Estimated cash flows are

sensitive to, among other things, changes in the housing market and the economy.

The Company believes that the weakness in the housing market has resulted in the prolonged decline in its market capitalization as compared to its book value. The Company considers the relationship between its market capitalization and its book value, among other things, when reviewing for indicators of impairment. During the second quarter of 2008, the Company concluded that the weakness in the housing sector is likely to persist longer than previously anticipated by the Company based on its review of, among other things, sequential quarter housing starts in the second quarter of 2008 compared to the first quarter of 2008, recent turmoil surrounding the nation's largest mortgage lenders and the potential negative impact on the availability of mortgage financing and housing start forecasts published by national home builder associations which extended the expected recovery in the new home construction market further out in 2009.

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As a result of these impairment indicators, during the second quarter of 2008 the Company updated the first step of its goodwill impairment test and determined that its carrying value exceeded its fair value, indicating that goodwill was impaired. Having determined that goodwill was impaired, we then began performing the second step of the goodwill impairment test which involves calculating the implied fair value of our goodwill by allocating the fair value of the Company to all of our assets and liabilities other than goodwill (including both recognized and unrecognized intangible assets) and comparing it to the carrying amount of goodwill. The Company recorded an estimated \$92.0 million goodwill impairment in the second quarter of 2008 as, at the date of the filing of the Company's Quarterly Report on Form 10-Q for the quarter ended June 28, 2008, the Company had not completed the allocation of fair value in the second step. During the third quarter of 2008, the Company completed the second step of the goodwill impairment test and, as a result, recorded an additional \$1.3 million goodwill impairment charge resulting in goodwill impairment charges totaling \$93.3 million in the nine months ended September 27, 2008. The carrying value of goodwill after impairment charges included in the accompanying condensed consolidated balance sheet at September 27, 2008 is \$76.3 million.

The impairment evaluation for indefinite lived intangible assets, which for the Company are its trademarks, 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 determination of fair value used in the impairment evaluation is based on discounted estimates of future projected cost savings attributable to ownership of the trademarks. 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 operating plans. Such assumptions are subject to change as a result of changing economic and competitive conditions. The determination of fair value is highly sensitive to changes in estimated future cash flows and changes in the discount rate used to evaluate the fair value of the trademarks. Estimated cash flows are sensitive to changes in the Florida housing market and changes in the economy, among other things. As a result of the impairment indicators described above, during the second quarter of 2008, the Company evaluated its intangible assets with indefinite lives for impairment and compared the estimated fair value of its trademarks to their carrying value and preliminarily determined that there was no impairment. During the third quarter of 2008, as part of finalizing its goodwill impairment test discussed above, the Company made certain changes to its projections that affected the previous estimate of fair value and, when compared to the carrying value of indefinite lived intangibles, resulted in a \$0.3 million impairment charge in the third quarter of 2008. The carrying value of indefinite lived intangible assets included in the accompanying condensed consolidated balance sheet at September 27, 2008 is \$62.2 million.

The Company reviews long-lived assets, including its intangible assets subject to amortization which, for the Company are its customer relationships, 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 by these assets. 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. As a result of the impairment indicators described above, during the second quarter of 2008, the Company tested its long-lived assets for impairment by comparing the estimated future undiscounted net cash flows expected to be generated by these assets to their carrying value and determined that there was no impairment.

NOTE 8. LONG-TERM DEBT

On February 14, 2006, the 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 September 27, 2008 there was \$25.6 million available under the revolving credit facility.

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On April 30, 2008, the Company announced that it entered into an amendment to the credit agreement. The amendment, among other things, relaxes certain financial covenants through the first quarter of 2010, increases the applicable rate on loans and letters of credit, and sets a LIBOR floor. The effectiveness of the amendment was conditioned, among other things, on the repayment of at least \$30 million of loans under the credit agreement no later than August 14, 2008, of which no more than \$15 million was permitted to come from cash on hand. In June 2008, the Company used cash generated from operations to prepay \$10 million of outstanding borrowings under the credit agreement. Using proceeds from the rights offering, the Company made an additional prepayment of \$20 million on August 11, 2008, bringing total prepayments of debt at that time to \$30 million as required under the amended credit agreement. Having made the total required prepayment and having satisfied all other conditions to bring the amendment into effect, including the payment of the fees and expenses of the administrative agent and a consent fee to participating lenders of 25 basis points of the then outstanding balance under the credit agreement of \$100 million, the amendment became effective on August 11, 2008. Fees paid to the administrative agent and lenders totaled \$0.6 million and have been deferred and are included in other assets on the accompanying condensed consolidated balance sheet as of September 27, 2008. Such fees are being amortized on a straight-line basis over the remaining term of the credit agreement. See Note 14, "Rights Offering," below.

Under the amendment, the first lien term loan bears 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 revolving credit facility bear interest at a rate equal to an adjusted LIBOR rate plus a margin depending on our leverage ratio ranging from 3.0% per annum to 4.75% per annum or a base rate plus a margin ranging from 2.0% per annum to 3.75% per annum, at our option. The amendment established a floor of 3.25% for adjusted LIBOR. Prior to the effectiveness of the amendment, the first lien term loan bore 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 bore interest initially, at our option, 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 could have declined to 2.00% for LIBOR loans and 1.00% for base rate loans if certain leverage ratios were 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.

Contractual future maturities of long-term debt outstanding as of September 27, 2008 are as follows (in thousands):

Remainder of 2008	\$	23
2009		329
2010		1,031
2011		1,039
2012		87,982
Total	\$	90,404

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During the first nine months of 2007, we prepaid \$35.5 million of long-term debt with cash on hand. During the first nine months of 2008, we prepaid \$40.0 million of long-term debt with cash generated from operations and from the net proceeds of the rights offering, which totaled \$29.4 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 29, 2007. 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 credit agreement, as amended, of not greater than certain predetermined amounts. Our Company believes that we are in compliance with all restrictive financial covenants.

NOTE 9. COMPREHENSIVE (LOSS) INCOME

	Third Quarter Ended		Nine Months Ended	
	September	September	September	September
	27,	29,	27,	29,
	2008	2007	2008	2007
	(in thousands)		(in thousands)	
Net (loss) income	\$ (1,629)	\$ 1,069	\$ (80,065)	\$ 4,654
Other comprehensive (loss) income, net of taxes:				
Amortization of ineffective interest rate swap, net of tax benefit of \$30 for the quarter and \$91 for the first nine months ended September 29, 2007	-	(47)	-	(143)
Change in the fair value of interest rate swap, net of tax benefit of \$5 for the quarter ended September 29, 2007, and tax expense of \$28 and \$30 for the first nine months ended September 27, 2008 and September 29, 2007, respectively	-	(8)	46	42

Change in the fair value of forward contracts for					
aluminum, net of tax benefit of \$234 and \$190					
for the quarter ended September 27, 2008 and					
September 29, 2007, and tax expense of \$77 and					
tax benefit of \$174 for the first nine months ended					
September 27, 2008 and September 29, 2007,					
respectively	(366)	(298)	119	(273)	
T o t a l					
comprehensive (loss) income	\$ (1,995)	\$ 716	\$ (79,900)	\$ 4,280	

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NOTE 10. 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 11. 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 where the Company or a subsidiary has a material tax presence.

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 and there were no changes to our unrecognized tax benefits during 2007 or the first nine months of 2008. However, should we accrue for such liabilities if they arise in the future we will recognize interest and penalties associated with uncertain tax positions as part of our income tax provision.

We had an effective tax rate of 23.6% for the quarter ended September 27, 2008 and an effective tax rate of 34.6% for the quarter ended September 29, 2007. Our effective tax rate was 14.7% for the first nine months of 2008 and our effective tax rate was 36.3% for the first nine months of 2007. Excluding the deferred tax benefits totaling \$0.3 million related to the \$1.6 million of impairment charges recorded in the quarter and \$13.8 million related to the \$93.6 million of impairment charges and a \$0.1 million valuation allowance recorded against the deferred tax assets for North Carolina state tax credits recorded in the nine months ended September 29, 2008, we would have had an effective tax rate of 36.5% for the quarter and 36.4% for the first nine months ended September 27, 2008.

NOTE 12. FAIR VALUE MEASUREMENTS

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, “Fair Value Measurements” (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with accounting principles generally accepted in the United States, and expands disclosures about fair value measurements. We adopted the provisions of SFAS No. 157 as of December 30, 2007 (the first day of our 2008 fiscal year) for financial instruments. Although the adoption of SFAS No. 157 did not impact our financial condition, results of operations, or cash flows, we are now required to provide additional disclosures as part of our interim and annual financial statements.

SFAS No. 157 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

As of September 27, 2008, we had liabilities required to be measured at fair value on a recurring basis related to our aluminum hedging activities composed of forward contracts for the purchase of aluminum. We enter into aluminum forward contracts to hedge the fluctuations in the purchase price of aluminum extrusion we use in production. At September 27, 2008, we had 14 outstanding forward contracts for the purchase of 4.2 million pounds of aluminum at an average price of \$1.23 per pound with maturity dates of between one month and eight months through May 2009. These contracts are designated as cash flow hedges since they are highly effective in offsetting changes in the cash flow attributable to forecasted purchases of aluminum. These aluminum hedges were in a liability position at September 27, 2008 and had a fair value of \$0.4 million, classified within accrued liabilities in the accompanying condensed consolidated balance sheet. The Company maintains a \$0.8 million line of credit with its commodities broker 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 the Company's liability for open aluminum contracts to exceed \$0.8 million, the Company is required to fund daily margin calls to cover the excess. The Company believes this mitigates non-performance risk as it places a limit on the amount of the liability for open contracts such that an impact, if any, on the fair value of the liability due to consideration of non-performance risk would not be significant. The Company assesses its risk of non-performance when measuring the fair value of its financial instruments in a liability position by evaluating its current liquidity including cash on hand and availability under its revolving credit facility as compared to the maturities of the financial liabilities.

Our aluminum hedges qualify as highly effective for reporting purposes. 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 September 27, 2008, these contracts were designated as effective. The ending accumulated balance for the aluminum forward contracts included in accumulated other comprehensive loss, net of tax, is \$0.3 million as of September 27, 2008, of which \$0.2 million is expected to be reclassified to earnings in 2008.

Aluminum forward contracts identical to those held by the Company trades on the London Metals 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 and plastics. The trading is highly liquid and, therefore, the metals industry has a high degree of confidence that the trade pricing properly reflects current supply and demand. 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 and the transparency of the market participants, 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 SFAS No. 157. Trade pricing is based on valuation model inputs that can generally be verified but which require some degree of judgment. Therefore, we categorize these aluminum forward contracts as being valued using Level 2 inputs as follows:

Description	Fair Value Measurements Asset (Liability)	
	September 27, 2008	Significant Other Observable Inputs (Level 2)
Forward contracts for aluminum	\$(422)	\$(422)

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 was effective for our Company beginning in fiscal year 2008. We chose not to elect the fair value option provided under SFAS No. 159 for financial instruments that existed as of December 30, 2007, the first day of our 2008 fiscal year.

The Company adopted Financial Staff Position No. SFAS 157-3, “Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active” (FSP SFAS 157-3), which was issued on October 10, 2008. FSP SFAS 157-3 clarifies the application of SFAS No. 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for the financial asset is not active. The adoption of FSP SFAS 157-3 did not have an impact on the Company’s consolidated financial statements.

NOTE 13. RECENT ACCOUNTING PRONOUNCEMENTS

In March 2008, the FASB issued Statement No. 161, “Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133” (SFAS No. 161). SFAS No. 161 requires entities that utilize derivative instruments to provide qualitative disclosures about their objectives and strategies for using such instruments, as well as any details of credit-risk-related contingent features contained within derivatives. SFAS No. 161 also requires entities to disclose additional information about the amounts and location of derivatives located within the financial statements, how the provisions of SFAS 133 have been applied, and the impact that hedges have on an entity’s financial position, financial performance, and cash flows. SFAS No. 161 is effective for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. We currently provide information about our hedging activities and use of derivatives in our annual filings with the SEC, including many of the disclosures required by SFAS No. 161. We currently anticipate the adoption of SFAS No. 161 will not have a material impact on the disclosures provided annually.

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In April 2008, the FASB issued FSP 142-3, "Determination of the Useful Life of Intangible Assets", (FSP 142-3). FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, "Goodwill and Other Intangible Assets". FSP 142-3 is effective for fiscal years beginning after December 15, 2008. The Company is currently assessing the impact of FSP 142-3, if any, on its consolidated financial position and results of operations.

In May 2008, the FASB issued Statement No. 162, "The Hierarchy of Generally Accepted Accounting Principles" (SFAS No. 162). SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles in the United States. SFAS No. 162 is effective mid-November 2008. The company does not expect the impact of SFAS No. 162 to be material to its Condensed Consolidated Financial Statements.

NOTE 14. RIGHTS OFFERING

On August 1, 2008, the Company filed Amendment No. 1 to the Registration Statement on Form S-3 filed on March 28, 2008 relating to a previously announced offering of rights to purchase 7,082,687 shares of the Company's common stock with an aggregate value of approximately \$30 million. The registration statement relating to the rights offering was declared effective by the United States Securities and Exchange Commission on August 4, 2008 and the Company distributed to each holder of record of the Company's common stock as of close of business on August 4, 2008, at no charge, one non-transferable subscription right for every four 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 \$4.20 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 under the basic subscription privilege. Shares issued to each participant in the over-subscription were determined by calculating each subscribers' percentage of the total shares over-subscribed, times the number of shares available in the over-subscription privilege. The rights offering expired on September 4, 2008.

The rights offering was fully subscribed resulting in the Company distributing all 7,082,687 shares of its common stock available, including 6,157,586 shares under the basic subscription privilege and 925,101 under the over-subscription privilege, representing an 86.9% basic subscription participation rate. There were requests for 4,721,763 shares under the over-subscription privilege representing an allocation rate of 19.6% to each over-subscriber for the 925,101 shares available in the over subscription. Of the 7,082,687 shares issued, 4,295,158 shares were issued to JLL Partners Fund IV ("JLL") the Company's majority shareholder, including 3,615,944 shares issued under the basic subscription privilege and 679,214 shares issued under the over-subscription privilege. Prior to the rights offering, JLL held 14,463,776 shares, or 51.1%, of the Company's outstanding common stock. With the completion of the rights offering, the Company has 35,413,438 total shares of common stock outstanding of which JLL holds 53.0%.

Net proceeds of \$29.4 million from the rights offering were used to repay a portion of the outstanding indebtedness under our amended credit agreement. See Note 8, "Long-Term Debt" above.

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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 29, 2007 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 the negatives of these terms or variations of them 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 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.

Current Operating Conditions and Outlook

In the third quarter of 2008, new housing permits in Florida decreased 43% compared to the third quarter of 2007 and were down 10% from the second quarter of 2008. Also in the third quarter of 2008, the availability of credit decreased significantly as the mortgage crisis widened. In response to the deterioration in the housing market, we have taken a number of steps to enhance profitability and conserve capital. As discussed in "Other Developments – Restructurings" below, we adjusted our operating cost structure to more closely align with current demand. In addition, we decreased our capital spending in 2007 and have further restricted capital spending in the first nine months of 2008. 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 end

users. We also increased marketing and sales efforts in areas outside of our dominant markets, including northern Florida, the Gulf Coast and the Carolinas and other southeastern states resulting in some incremental sales outside of Florida compared to last year. Finally, we introduced new products and expanded product lines to broaden our product offering. As a result of these actions, we continue to outperform the underlying market. However, gross margins have declined to 31.8% in the first nine months of 2008 from 34.1% in the first nine months of 2007 due, mainly, to the impact of the loss of operating leverage against fixed costs.

While the homebuilding industry is in a down cycle, we still believe the long-term outlook for the housing industry is positive due to growth in the underlying demographics. At this point, it appears as though the housing market has not hit bottom. Despite these unfavorable operating conditions, we still believe that, in the long-term, we can grow organically by gaining market share and outperforming our underlying markets. However, we believe difficult market conditions affecting our business will continue and the recent downturn in the economy as a result of the mortgage crisis may have a further negative effect on our operating results and year-over-year comparisons.

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Economic conditions have recently deteriorated significantly in the United States, and the housing industry, most notably the Company's primary market of Florida, is in a period of prolonged deterioration. These conditions may persist and remain depressed for the foreseeable future. Economic conditions have been negatively impacted by slowing growth and the mortgage crisis ultimately causing liquidity and credit concerns. Continuing adverse economic conditions in our markets could likely negatively impact our business, which could result in reduced demand for our products, increased price competition, increased risk in the collectibility of cash from our customers potentially resulting in increased reserves for doubtful accounts and write-offs of accounts receivable, and higher operating costs. If economic conditions deteriorate further, we may experience adverse impacts on our business, operating results and financial condition.

Other Developments

Restructurings

On October 25, 2007, we announced a restructuring of the Company as a result of an in-depth analysis of the Company's target markets, internal structure, projected run-rate, and efficiency. The restructuring resulted in a decrease in the Company's workforce of approximately 150 employees and included employees at both its Venice, Florida and Salisbury, North Carolina locations. The restructuring was undertaken in an effort to streamline operations as well as improve processes to drive new product development and sales. As a result of the restructuring, the Company recorded a restructuring charge of \$2.4 million in the fourth quarter of 2007. The charge related primarily to employee separation costs.

On March 4, 2008, we announced a second restructuring of the Company as a result of continued analysis of the Company's target markets, internal structure, projected run-rate, and efficiency. The restructuring resulted in a decrease in the Company's workforce of approximately 300 employees and included employees at both its Venice, Florida and Salisbury, North Carolina locations. As a result of the restructuring, the Company recorded a restructuring charge of \$1.8 million in the first quarter of 2008. The charge related primarily to employee separation costs.

Selected Financial Data

In the following table, we show financial data derived from our unaudited statements of operations as a percentage of total revenues for the periods indicated.

	Third Quarter Ended		Nine Months Ended	
	September	September	September	September
	27,	29,	27,	29,
	2008	2007	2008	2007
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	70.2%	68.3%	68.2%	65.9%
Gross margin	29.8%	31.7%	31.8%	34.1%
Goodwill and intangible impairment charges	2.9%	0.0%	55.3%	0.0%
Asset impairment charge	0.0%	0.0%	0.0%	0.4%

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Selling, general and administrative expenses	26.6%	25.4%	27.7%	26.3%
Income (loss) from operations	0.3%	6.3%	(51.2%)	7.4%
Interest expense, net	4.1%	3.8%	4.2%	3.9%
Other expense (income), net	0.0%	0.3%	0.0%	0.2%
(Loss) income before income taxes	(3.8%)	2.2%	(55.4%)	3.3%
Income tax (benefit) expense	(0.9%)	0.8%	(8.2%)	1.2%
Net (loss) income	(2.9%)	1.4%	(47.2%)	2.1%

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RESULTS OF OPERATIONS FOR QUARTER ENDED SEPTEMBER 27, 2008 AND SEPTEMBER 29, 2007

Net sales

Net sales decreased nearly \$17.8 million, or 24.6%, in the third quarter of 2008, compared to the 2007 third quarter. Net sales for the third quarter of 2008 were \$54.3 million, compared with net sales of \$72.1 million for the third quarter of 2007. The following table shows net sales classified by major product category (sales in thousands):

	Quarter Ended		Sales	% of sales	% change
	September 27, 2008	September 29, 2007			
Product category:					
WinGuard Windows and Doors	\$ 37.7	69.4%	\$ 50.0	69.3%	(24.6%)
Other Window and Door Products	16.6	30.6%	22.1	30.7%	(24.9%)
Total net sales	\$ 54.3	100.0%	\$ 72.1	100.0%	(24.6%)

Net sales of WinGuard branded products were \$37.7 million for the third quarter of 2008, a decrease of \$12.3 million, or 24.6%, from \$50.0 million in net sales for the 2007 third quarter. 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. The decrease in sales of our WinGuard branded products was driven mainly by the decline in new home construction but also to some extent by the lack of storm activity during the two most recent hurricane seasons in the coastal markets of Florida served by the Company.

Net sales of Other Window and Door Products were \$16.6 million for the third quarter of 2008, a decrease of \$5.5 million, or 24.9%, from \$22.1 million in net sales for the 2007 third quarter. 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 Window and Door Products.

Gross margin

Gross margin was \$16.2 million for the third quarter of 2008, a decrease of \$6.7 million, or 29.2%, from \$22.9 million for the third quarter of 2007. This decrease was largely due to lower sales volumes of all of our products, most significantly of our WinGuard branded windows and doors, sales of which decreased 24.6% compared to the prior year quarter, and the resulting loss of operating leverage against fixed costs.

Impairment Charges

The Company believes that the weakness in the housing market has resulted in the prolonged decline in its market capitalization as compared to its book value. The Company considers the relationship between its market capitalization and its book value, among other things, when reviewing for indicators of impairment. During the second quarter of 2008, the Company concluded that the weakness in the housing sector is likely to persist longer than previously anticipated by the Company based on its review of, among other things, sequential quarter housing starts in the second quarter of 2008 compared to the first quarter of 2008, recent turmoil surrounding the nation's largest mortgage lenders and the potential negative impact on the availability of mortgage financing and housing start forecasts published by national home builder associations which extended the expected recovery in the new home construction market further out in 2009.

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As a result of these impairment indicators, during the second quarter of 2008 the Company updated the first step of its goodwill impairment test and determined that its carrying value exceeded its fair value, indicating that goodwill was impaired. Having determined that goodwill was impaired, we then began performing the second step of the goodwill impairment test which involves calculating the implied fair value of our goodwill by allocating the fair value of the Company to all of our assets and liabilities other than goodwill (including both recognized and unrecognized intangible assets) and comparing it to the carrying amount of goodwill. The Company recorded an estimated \$92.0 million goodwill impairment in the second quarter of 2008 as, at the date of the filing of the Company's Quarterly Report on Form 10-Q for the quarter ended June 28, 2008, the Company had not completed the allocation of fair value in the second step. During the third quarter of 2008, the Company completed the second step of the goodwill impairment test and, as a result, recorded an additional \$1.3 million goodwill impairment charge resulting in goodwill impairment charges totaling \$93.3 million in the nine months ended September 27, 2008.

During the second quarter of 2008, also as a result of the impairment indicators described above, the Company evaluated its intangible assets with indefinite lives for impairment and compared the estimated fair value of its trademarks to their carrying value and preliminarily determined that there was no impairment. During the third quarter of 2008, as part of finalizing its goodwill impairment test discussed above, the Company made certain changes to its projections that affected the previous estimate of fair value and, when compared to the carrying value of indefinite lived intangibles, resulted in a \$0.3 million impairment charge in the third quarter of 2008.

Selling, general and administrative expenses

Selling, general and administrative expenses were \$14.5 million for the third quarter of 2008, a decrease of \$3.8 million, from \$18.3 million for the 2007 third quarter. This decrease was mainly due to a \$2.5 million decrease in personnel related costs as the result of the cost saving actions initiated by the Company in the fourth quarter of 2007 and first quarter of 2008 as well as a decrease in commissions, a \$1.0 million decrease in marketing costs primarily due to a lower level of advertising and a \$0.4 million decrease in warranty and service costs. These cost savings were partially offset by a \$0.5 million increase in fuel costs. The remaining decrease is due primarily to an overall lower level of spending due to cost saving initiatives and lower volume. As a percentage of sales, selling, general and administrative expenses increased during the third quarter of 2008 to 26.6% compared to 25.4% for the third quarter of 2007, mainly due to the decrease in sales volume.

Interest expense, net

Interest expense, net was \$2.2 million in the third quarter of 2008, a decrease of almost \$0.6 million, or 19.3%, from \$2.8 million for the third quarter of 2007. The decrease was due to a decrease in average debt level in the third quarter of 2008 compared to the third quarter of 2007, partially offset by lower interest income due to lower average level of cash in banks in the 2008 third quarter compared to the 2007 third quarter. Included in interest expense in the third quarters of 2008 and 2007 are \$0.2 million and \$0.1 million, respectively, of deferred financing costs written-off related to the prepayments of debt in each period.

Other expenses (income), net

There were other expenses of less than \$0.1 million for the third quarter of 2008 compared to other expenses of \$0.2 million for the 2007 third quarter. The amounts in the third quarter of 2008 relate to portions of aluminum hedges designated as over-hedges and in the third quarter of 2007 to ineffective interest rate and aluminum hedges.

Income tax (benefit) expense

We had an effective tax rate of 23.6% for the quarter ended September 27, 2008 and an effective tax rate of 34.6% for the quarter ended September 29, 2007. Excluding the deferred tax benefits totaling \$0.3 million related to the \$1.6 million of impairment charges recorded in the third quarter of 2008, we would have had an effective tax rate of 36.5% for the third quarter of 2008.

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RESULTS OF OPERATIONS FOR FIRST NINE MONTHS ENDED SEPTEMBER 27, 2008 AND SEPTEMBER 29, 2007

Net sales

Net sales decreased \$54.8 million, or 24.5%, in the first nine months of 2008, compared to the 2007 first nine months. Net sales for the first nine months of 2008 were \$169.3 million, compared with net sales of \$224.1 million for the first nine months of 2007. The following table shows net sales classified by major product category (sales in thousands):

P r o d u c t category:	September 27, 2008		September 29, 2007		% change
	Sales	% of sales	Sales	% of sales	
WinGuard Windows and Doors	\$ 118.2	69.8%	\$ 152.6	68.1%	(22.5%)
Other Window and Door Products	51.1	30.2%	71.5	31.9%	(28.5%)
Total net sales	\$ 169.3	100.0%	\$ 224.1	100.0%	(24.5%)

Net sales of WinGuard branded products were \$118.2 million for the first nine months of 2008, a decrease of \$34.4 million, or 22.5%, from \$152.6 million in net sales for the 2007 first nine months. 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. The decrease in sales of our WinGuard branded products was driven mainly by the decline in new housing but, also, to some extent by the lack of storm activity during the two most recent hurricane seasons in the coastal markets of Florida served by the Company.

Net sales of Other Window and Door Products was \$51.1 million for the first nine months of 2008, a decrease of \$20.4 million, or 28.5%, from \$71.5 million in net sales for the 2007 first nine months. 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 Window and Door Products.

Restructuring Charge

On March 4, 2008 we announced a second restructuring of the Company as a result of continued analysis of the Company’s target markets, internal structure, projected run-rate, and efficiency. As a result of the restructuring, the Company recorded a restructuring charge of \$1.8 million in the first quarter of 2008 of which \$1.1 million is included in cost of goods sold and \$0.7 million is included in selling, general and administrative expenses. The charge related

primarily to employee separation costs.

Gross margin

Gross margin was \$53.8 million for the first nine months of 2008, a decrease of \$22.5 million, or 29.5%, from \$76.3 million for the first nine months of 2007. This decrease was largely due to lower sales volumes of all of our products, most significantly of our WinGuard branded windows and doors, sales of which decreased 22.5% compared to the prior year first nine months, and the resulting loss of operating leverage against fixed costs. Cost of goods sold in the first nine months of 2008 also includes a \$1.1 million charge related to the restructuring actions taken in the 2008 first quarter.

Impairment Charges

See “Results of Operations for the Quarter Ended September 27, 2008 and September 27, 2007 – Impairment Charges.” During the third quarter of 2008, as part of finalizing its goodwill impairment test discussed above, the Company made certain changes to its projections that affected the previous estimate of fair value and, when compared to the carrying value of indefinite lived intangibles, resulted in a \$0.3 million impairment charge in the third quarter of 2008.

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Asset Impairment Charge

We own a 225,000 square foot facility in Lexington, North Carolina which was vacant and being marketed for sale as a result of the completion of our move to our larger Salisbury facility. In the second quarter of 2007, we recorded an impairment charge of \$0.8 million to reduce the carrying value of the assets comprising the Lexington facility to their then estimated fair market value. In December 2007, we reclassified the real estate as held and used when we made the decision to utilize the facility to produce a special-order product to be used in large-scale commercial projects. At that time, we resumed depreciation of the assets that comprise the Lexington real estate.

Selling, general and administrative expenses

Selling, general and administrative expenses were \$46.9 million for the first nine months of 2008, a decrease of \$12.1 million, from \$59.0 million for the 2007 first nine months. This decrease was mainly due to a \$5.4 million decrease in personnel related costs as the result of the cost saving actions initiated by the Company in the fourth quarter of 2007 and first quarter of 2008 as well as decreases in commissions and incentive compensation, a \$3.0 million decrease in marketing costs primarily due to a lower level of advertising, a \$1.5 million decrease in warranty and service costs, a \$0.6 million decrease in stock-based compensation expense and a \$0.5 million decrease in Sarbanes-Oxley compliance costs. These decreases were partially offset by a \$1.3 million increase in fuel costs and \$0.7 million in restructuring costs included in selling general and administrative expenses in the first quarter of 2008. The remaining decrease is due primarily to an overall lower level of spending due to cost saving initiatives and lower volume. As a percentage of sales, selling, general and administrative expenses increased during the first nine months of 2008 to 27.7% compared to 26.3% for the first nine months of 2007, mainly due to the restructuring charge and the decrease in volume.

Interest expense, net

Interest expense, net was \$7.2 million in the first nine months of 2008, a decrease of \$1.5 million, or 17.8% from \$8.7 million for the first nine months of 2007. The decrease was due to a decrease in average debt level in the first nine months of 2008 compared to the first nine months of 2007 as well as lower amortization of deferred financing costs, partially offset by lower interest income due to lower average level of cash in banks in the 2008 first nine months compared to the 2007 first nine months. Included in interest expense in the first nine months of 2008 and 2007 are \$0.3 million and \$0.4 million, respectively, of deferred financing costs written-off related to the prepayments of debt in each period.

Other expenses (income), net

There was other income of less than \$0.1 million for the first nine months of 2008 compared to other expenses of \$0.4 million for the 2007 first nine months. The amounts in the first nine months of 2008 relate to the effects of aluminum hedges, both those that are ineffective and those that are effective overhedges, and in the first nine months of 2007 to the effect of ineffective interest rate and aluminum hedges.

Income tax (benefit) expense

We had an effective tax rate of 14.7% for the first nine months of 2008 and an effective tax rate of 36.3% for the first nine months of 2007. Excluding the deferred tax benefits totaling \$13.8 million related to the \$93.6 million of impairment charges recorded in the first nine months of 2008 and a \$0.1 million valuation allowance recorded against the deferred tax assets for North Carolina state tax credits, we would have had an effective tax rate of 36.4% for the first nine months of 2008.

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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. 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 provided by operating activities was \$12.9 million in the first nine months of 2008 compared to \$22.5 million in the first nine months of 2007. In the first nine months of 2008, we had net cash collections from customers totaling \$171.4 million and other cash collections of \$3.2 million, primarily from scrap aluminum sales. In the first nine months of 2008, we disbursed \$97.0 million in cash related to payments of accounts payable, primarily to our vendors, and \$60.5 million in cash to employees and for other payroll-related expenses. We also received a \$2.8 million federal tax refund and used \$6.6 million in cash to pay debt service costs. In the first nine months of 2007, we had net cash collections from customers totaling \$229.9 million and other cash collections of \$3.7 million, primarily from scrap aluminum sales. In the first nine months of 2007, we disbursed \$124.6 million in cash related to payments of accounts payable, primarily to our vendors, and \$76.6 million in cash to employees and for other payroll-related expenses. We also used \$9.3 million in cash to pay debt service costs. Days sales outstanding (DSO), which we calculate as accounts receivable divided by recent average daily sales, was 38 days at September 27, 2008 and 37 days at December 29, 2007, compared to 38 days at September 29, 2007 and 46 days at December 30, 2006.

Investing activities. Cash used in investing activities was \$2.9 million for the first nine months of 2008, compared to \$7.8 million for the first nine months of 2007. The decrease in cash used in investing activities was mainly due to restrictions placed on capital spending in the first nine months of 2008.

Financing activities. Cash used in financing activities was \$10.6 million in the first nine months of 2008. In June 2008, we prepaid \$10.0 million of our long-term debt with cash generated from operations. Using proceeds from the rights offering, which resulted in \$29.4 million in net cash proceeds, we prepaid an additional \$20.0 million of our long-term debt in August 2008 and another \$10.0 million in September 2008, for a total of \$40 million in debt prepayments since the beginning of 2008. Cash proceeds from stock option exercises in the first nine months of 2008 totaled \$0.2 million with related excess tax benefits of \$0.5 million. Payment of deferred financing costs related to the effectiveness of the amendment of our credit agreement totaled \$0.6 million. Cash used in financing activities was \$32.1 million in the first nine months of 2007. In February 2007, June 2007, July 2007 and September 2007, we prepaid \$20.0 million, \$5.0 million, \$4.5 million and \$6.0 million, respectively, of our long-term debt, primarily from cash generated from operations and cash on hand. This use of cash was partially offset by cash proceeds from stock option exercises of \$1.8 million and related excess tax benefits of \$1.6 million.

Non-cash financing and investing activities. During the second quarter of 2008, the Company entered into capital leases totaling approximately \$0.4 million for the acquisition of equipment.

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. At September 27, 2008, the Company had \$90 million of debt outstanding under the first lien term loan and letters of credit totaling \$4.4 million which reduced availability under the revolving credit facility to \$25.6 million.

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On April 30, 2008, the Company announced that it entered into an amendment to the credit agreement. See “Recent Developments” below. Under the amendment, the first lien term loan bears interest at a rate equal to an adjusted LIBOR rate plus a margin depending on our leverage ratio 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 loans under the revolving credit facility bear interest at a rate equal to an adjusted LIBOR rate plus a margin depending on our leverage ratio ranging from 3.0% per annum to 4.75% per annum or a base rate plus a margin ranging from 2.0% per annum to 3.75% per annum, at our option. The amendment established a floor of 3.25% for adjusted LIBOR. Prior to the amendment, the first lien term loan bore 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, at our option. The amendment became effective on August 14, 2008. The loans under the revolving credit facility bore interest initially, at our option, 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 could have declined to 2.00% for LIBOR loans and 1.00% for base rate loans if certain leverage ratios were 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.

On August 1, 2008, the Company filed Amendment No. 1 to the Registration Statement on Form S-3 filed on March 28, 2008 relating to a previously announced offering of rights to purchase 7,082,687 shares of the Company’s common stock with an aggregate value of approximately \$30 million. The registration statement relating to the rights offering was declared effective by the United States Securities and Exchange Commission on August 4, 2008 and the Company distributed to each holder of record of the Company’s common stock as of close of business on August 4, 2008, at no charge, one non-transferable subscription right for every four 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 \$4.20 per share. The rights offering expired on September 4, 2008.

The rights offering was fully subscribed resulting in the Company distributing all 7,082,687 shares of its common stock available. Net proceeds of \$29.4 million from the rights offering were used to repay a portion of the outstanding indebtedness under our amended credit agreement.

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 2008.

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Capital Expenditures. Capital expenditures vary depending on prevailing business factors, including current and anticipated market conditions. For the first nine months of 2008, capital expenditures were \$3.0 million, compared to \$7.9 million for the first nine months of 2007. In the fourth quarter of 2007 and continuing into 2008, we reduced certain discretionary capital spending to conserve cash. We anticipate that cash flows from operations and liquidity from the revolving credit facility will be sufficient to execute our business plans.

Hedging. We enter into aluminum forward contracts to hedge the fluctuations in the purchase price of aluminum extrusion we use in production. The Company enters into these contracts by trading on the London Metals Exchange (“LME”). The Company trades on the LME using an international commodities broker that offers global access to all major markets. The Company maintains an \$0.8 million line of credit with its commodities broker 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 the Company’s liability for open aluminum contracts to exceed \$0.8 million, the Company is required to fund daily margin calls to cover the excess.

Contractual Obligations

There have been no significant changes to our “Disclosures of Contractual Obligations and Commercial Commitments” table in Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of our Annual Report on Form 10-K for the year ended December 29, 2007 as filed with the Securities and Exchange Commission on March 10, 2008.

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 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 identified our critical accounting policies in our Annual Report on Form 10-K for the year ended December 29, 2007 as filed with the Securities and Exchange Commission on March 10, 2008. There have been no changes to our critical accounting policies during the second quarter of 2008.

Stock-Based Compensation

We account for stock-based compensation in accordance with Statement of Financial Accounting Standards (“SFAS”) 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 recorded compensation expense for stock based awards of \$0.2 million for the third quarter of 2008 and \$0.4 million during the third quarter of 2007. We recorded compensation expense for stock based awards of \$0.6 million for the first nine months of 2008 and \$1.2 million during the first nine months of 2007. As of September 27, 2008, there was \$0.4 million and \$0.6 million of total unrecognized compensation cost related to non-vested stock option agreements and non-vested restricted share awards, respectively, including the repriced options as described in Item 8 in footnote 16

under the title “The Repricing” in the Company’s Annual Report on Form 10-K for the year ended December 29, 2007 as filed on March 10, 2008. These costs are expected to be recognized in earnings on a straight line basis over the weighted average remaining vesting period of 1.3 years.

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Goodwill, Other Intangible and Long-Lived Assets

The impairment evaluations for goodwill and indefinite lived intangibles are 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 determination of fair value used in the impairment evaluation is based on a discounted cash flow model and is highly sensitive to changes in estimated future cash flows and changes in the discount rate used to evaluate the fair value of the Company. Estimated cash flows are sensitive to, among other things, changes in the housing market and the economy. A more severe or prolonged downturn in the housing market or a further downturn in the overall economy as a result of, among other things, the availability of credit due to the current mortgage crisis could result in a reduction in our estimates of future cash flows.

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 September 27, 2008, a one percentage-point increase (decrease) in interest rates would result in approximately \$0.9 million of additional (reduced) interest costs annually. As of September 27, 2008 we had no interest rate swaps or caps in place which means our debt is all adjustable-rate debt.

From time to time, we utilize derivative financial instruments to hedge price movements in our aluminum materials. Based on contracts that settle in the fourth quarter of 2008, we have covered approximately 70% of our anticipated needs through the end of 2008 at an average price of \$1.27 per pound. In the third quarter of 2008, we entered into additional aluminum hedging instruments that settle at various times through December 2009 that cover approximately 64% of our anticipated needs during 2009 at an average price of \$1.04 per pound. 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 on such price increases to our customers or that price increases will not negatively impact sales volume, thereby adversely impacting operating margins.

Based on the volume of purchases of aluminum over recent months and the average price of aluminum during October 2008, if not hedged, a 10% increase in the cost of aluminum would increase cost of sales on an annualized basis by \$1.9 million. Our aluminum hedges at September 27, 2008 had a fair value of \$0.4 million, classified within accrued liabilities in the accompanying condensed consolidated balance sheet. A 10% decrease in the cost of aluminum would decrease the fair value of these hedges by \$0.2 million thus increasing the liability by the same amount.

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.

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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.

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 29, 2007, 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 SALE OF EQUITY SECURITIES

Unregistered Sales of Equity Securities

During the first nine months ended September 27, 2008, we issued an aggregate of 479,417 shares of our common stock to certain officers, employees and/or former employees upon the exercise of options associated with the Rollover Stock Option Agreement included as Exhibit 10.18 to Amendment No. 1 to the Registration Statement of the Company on Form S-1, filed with the Securities and Exchange Commission on April 21, 2006, Registration No. 333-132365. We received aggregate proceeds of \$210,428 as a result of the exercise of these options. The Company relied on the exemption from registration provided by Section 4(2) of the Securities Act of 1933 in reliance on, among other things, representations and warranties obtained from the holders of such options. During the quarter ended September 27, 2008, we did not issue any shares of our common stock under our 2004 Stock Incentive Plan.

The options related to the shares issued above were granted prior to our initial public offering. 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:

- 31.1* Certification of chief executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2* Certification of chief financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1** Certification of chief executive officer and chief financial officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Filed herewith.

** Furnished 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: November 6, 2008

/ s / R o d n e y
Hershberger
Rodney Hershberger
President and Chief Executive Officer

Date: November 6, 2008

/ s / J e f f r e y T .
Jackson
Jeffrey T. Jackson
Executive Vice President and Chief Financial Officer

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EXHIBIT INDEX

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