PGT, Inc.
Form 10-K
March 10, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 29, 2007

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.

(Exact name of registrant as specified in its charter)

Delaware	**20-0634715**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
1070 Technology Drive	
North Venice, Florida	**34275**
(Address of principal executive offices)	*(Zip Code)*

Registrant s telephone number, including area code:

(941) 480-1600

Former name, former address and former fiscal year, if changed since last report: Not applicable

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Exchange on Which Registered
Common stock, par value $0.01 per share	**NASDAQ Global Market**

Securities registered pursuant to Section 12 (g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ¨ No x

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 x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of accelerated filer, large accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨ Smaller reporting company ¨

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act). Yes ¨ No x

The aggregate market value of the registrant s common stock held by non-affiliates of the registrant as of June 29, 2007 was approximately $115,739,814 based on the closing price per share on that date of $10.93 as reported on the NASDAQ Global Market.

The number of shares of the registrant s common stock, par value $0.01, outstanding as of February 29, 2008 was 27,645,096.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company s Proxy Statement for the Company s 2008 Annual Meeting of Stockholders are incorporated by reference into Part III of this Form 10-K.

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PGT, INC.

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PART I

Item 1. ***BUSINESS***
COMPANY OVERVIEW

We are the leading U.S. manufacturer and supplier of residential impact-resistant windows and doors and pioneered the U.S. impact-resistant window and door industry in the aftermath of Hurricane Andrew in 1992. Our impact-resistant products, most of which are marketed under the WinGuard ® brand name, combine heavy-duty aluminum or vinyl frames with laminated glass to provide protection from hurricane-force winds and wind-borne debris by maintaining their structural integrity and preventing penetration by impacting objects. Impact-resistant windows and doors satisfy increasingly stringent building codes in hurricane-prone coastal states and provide an attractive alternative to shutters and other active forms of hurricane protection that require installation and removal before and after each storm. Our current market share in Florida, which is the largest U.S. impact-resistant window and door market, is significantly greater than that of any of our competitors. WinGuard sales have increased to represent 68% of our net sales in 2007, compared to 17% in 1999. In addition to our core WinGuard branded product line, we offer a complete range of premium, made-to-order and fully customizable aluminum and vinyl windows and doors that represented 32% of our 2007 net sales. We manufacture these products in a wide variety of styles and sell to both the residential new construction, and home repair and remodeling end markets including multi-story buildings with our Architectural Systems line of products. For the year ended December 29, 2007, we generated net sales of $278.4 million.

The impact-resistant window and door market has been growing faster than any major segment of the overall window and door industry. This growth has been driven primarily by increased adoption and more active enforcement of stringent building codes that mandate the use of impact-resistant products and increased penetration of impact-resistant windows and doors relative to active forms of hurricane protection.

The geographic regions in which we currently operate include the Southeastern U.S., the Gulf Coast and the Caribbean. Additionally, we expect increased demand along the Atlantic coast, from Georgia to New York, as recently adopted building codes are enforced and awareness of the PGT brand continues to grow. We distribute our products through multiple channels, including over 1,300 window distributors, building supply distributors, window replacement dealers and enclosure contractors. This broad distribution network provides us with the flexibility to meet demand as it shifts between the residential new construction and repair and remodeling end markets.

We operate strategically located manufacturing facilities in North Venice, Florida and Salisbury, North Carolina, both capable of producing fully-customizable windows and doors. Our facilities are vertically integrated with a glass tempering and laminating facility, which provides us with a consistent source of impact-resistant laminated glass, shorter lead times, and substantially lower costs relative to third-party sourcing. Our Salisbury, North Carolina plant supports the expansion of our geographic footprint as the impact-resistant market continues to grow.

History

Our subsidiary, PGT Industries, Inc., was founded in 1980 as Vinyl Technology, Inc. by Paul Hostetler and our current President and Chief Executive Officer, Rodney Hershberger. The PGT brand was established in 1987, and we introduced our WinGuard branded product line in the aftermath of Hurricane Andrew in 1992.

PGT, Inc. is a Delaware corporation formed on December 16, 2003, as JLL Window Holdings, Inc. by an affiliate of JLL Partners, our largest stockholder, in connection with its acquisition of PGT Industries, Inc. On February 15, 2006, we changed our name to PGT, Inc., and on June 27, 2006 we became a publicly listed company on the NASDAQ National Market under the symbol PGTI .

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Our Products

We manufacture complete lines of premium, fully customizable aluminum and vinyl windows and doors and porch enclosure products targeting both the residential new construction and repair and remodeling end markets. All of our products carry the PGT brand, and our consumer-oriented products carry an additional, trademarked product name, including WinGuard and Eze-Breeze. We operate in one segment, the manufacture and sale of windows and doors.

Window and door products

WinGuard. WinGuard is our impact-resistant product line and combines heavy-duty aluminum or vinyl frames with laminated glass to provide protection from hurricane-force winds and wind-borne debris. WinGuard products satisfy increasingly stringent building codes and primarily target hurricane-prone coastal states in the U.S., as well as the Caribbean and Mexico. In addition to their impact-resistant characteristics, WinGuard products are fully customizable and offer excellent aesthetics, year-round security, enhanced energy efficiency, noise reduction, and protection from ultra-violet light.

Aluminum. We offer a complete line of fully customizable, non-impact-resistant aluminum frame windows and doors. These products primarily target regions with warmer climates, where aluminum is often preferred due to its ability to withstand higher temperatures and humidity.

Vinyl. We offer a complete line of fully customizable, non-impact-resistant vinyl frame windows and doors primarily targeting regions with colder climates, where the energy-efficient characteristics of vinyl frames are critical.

Architectural Systems. Similar to WinGuard, Architectural Systems products are impact-resistant, offering protection from hurricane-force winds and wind-borne debris. However, this product line is installed in mid- and high-rise buildings rather than single family homes.

Porch-enclosure products

Eze-Breeze. Our Eze-Breeze sliding panels for porch enclosures are vinyl-glazed, aluminum-framed products used for enclosing screened-in porches. The cost-effective Eze-Breeze product is ideal for enclosing screen porches because it provides protection from inclement weather while still creating a screened-porch feel.

Sales and Marketing

Our sales strategy primarily focuses on attracting and retaining distributors and dealers by consistently providing exceptional customer service, leading product quality, and competitive pricing. Our customers also value our shorter lead times, knowledge of building code requirements, and technical expertise, which collectively generate significant customer loyalty.

Our marketing strategy focuses on television and print advertising in coastal markets that reinforce the high quality of our products and educate consumers and homebuilders on the advantages of using impact-resistant products. Our slogan for the WinGuard brand, Effortless Hurricane Protection, summarizes our marketing message. We primarily market our products based on quality, building code compliance, outstanding service, shorter lead times, and on-time delivery, and we operate a truck fleet of 67 tractors and 147 trailers.

Our Customers

We have a highly diversified customer base that is comprised of over 1,300 window distributors, building supply distributors, window replacement dealers and enclosure contractors. Our largest customer accounts for approximately 2.2% of net sales and our top ten customers account for approximately 14.6% of net sales.

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Although we do not supply our products directly to homebuilders, demand for our products is also a function of our relationships with a number of national homebuilders, which we believe are strong.

Our sales are balanced between the residential new construction and home repair and remodeling end markets, which represented approximately 46% and 54% of our sales, respectively, during 2007. Given our broad distribution network, we have the flexibility to effectively meet demand as it shifts between these end markets. In fiscal years 2007, 2006 and 2005, our net sales from customers in the United States were $263.2 million, $354.9 million and $318.5 million, respectively, and our net sales from foreign countries, including the Caribbean, Mexico, South America and Australia, in those same periods were $15.2 million, $16.7 million and $14.3 million, respectively.

Materials and Supplier Relationships

Our primary manufacturing materials include aluminum extrusion, glass, and polyvinyl butyral. Although in many instances we have agreements with our suppliers, these agreements are generally terminable by either party on limited notice. At December 29, 2007, we had 22 outstanding forward contracts for the purchase of 5.4 million pounds of aluminum at an average price of $1.22 per pound with maturity dates of between one month and eight months through August 2008. All of our materials are typically readily available from other sources.

Aluminum extrusions accounted for approximately 44% of our material purchases during fiscal year 2007. While aluminum prices increased over the past three years, we were able to hedge a portion of our exposure to these rising costs through forward purchase commitments.

Sheet glass, which is sourced from four major national suppliers, accounted for approximately 18% of our material purchases during fiscal year 2007. Sheet glass that we purchase comes in various sizes, tints, and thermal properties. We have vertically integrated glass tempering and laminating facilities that provide us with a consistent source of impact-resistant laminated glass, shorter lead times, and substantially lower costs relative to third-party sourcing.

Polyvinyl butyral, which is used as the inner layer in laminated glass, accounted for approximately 15% of our material purchases during fiscal year 2007. We have negotiated an agreement with our polyvinyl butyral supplier that provides us with favorable pricing through the end of 2008. In return, we are required to purchase 100% of our requirements for polyvinyl butyral from this supplier.

Manufacturing

Our manufacturing facilities, located in Florida and North Carolina, are capable of producing fully-customizable products. The manufacturing process typically begins in one of our glass plants where we cut, temper and laminate sheet glass to meet specific requirements of our customers orders.

Glass is transported to our window and door assembly lines in a make-to-order sequence where it is combined with an aluminum or vinyl frame. These frames are also fabricated to order, as we start with a piece of extruded material that we cut and shape into a frame that fits our customers specifications. After an order has been completed, it is immediately staged for delivery on one of our trucks and shipped within an average of 48 hours of completion.

Competition

The window and door industry is highly fragmented and is served predominantly by local and regional competitors with relatively limited product lines and overall market share. In general, we divide the competitive landscape of our industry based on geographic scope, with competitors falling within one of two categories: local and regional competitors, and national window and door manufacturers.

Local and Regional Window and Door Manufacturers: This group of competitors consists of numerous local job shops and small manufacturing facilities that tend to focus on selling branded products to local or regional dealers and wholesalers and that typically lack the service levels and quality controls demanded by larger distributors.

National Window and Door Manufacturers: This group of competitors tends to focus on selling branded products nationally to dealers and wholesalers and has multiple locations.

The principal methods of competition in the window and door industry are the development of long-term relationships with window and door dealers and distributors and professional homebuilders and the retention of customers by delivering a full range of high-quality products on time while offering competitive pricing and flexibility in transaction processing. Although some of our competitors may have greater geographic scope and access to greater resources and economies of scale than do we, our leading position in the U.S. impact-resistant window and door market and the high quality of our products position us well to meet the needs of our customers and retain an advantage over our competitors.

Environmental Considerations

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, and we believe that our facilities are in material compliance with such laws and regulations.

Employees

At December 29, 2007, we had approximately 1,900 employees, none of whom was represented by a union. We believe that we have good relations with our employees.

Information Technology Systems

The key to our application software is our Expert Configuration Order Fulfillment System, which allows us to accurately enter, price, and configure valid product in a made-to-order, demand-driven manufacturing environment. Expert Configuration assistance is critical, given that our products can be built in millions of combinations of options and sizes. This software enables us to synchronize the scheduling of the manufacturing process of multiple assembly operations to serve our make-to-order needs and ship in geography sequence.

Our Web Weaver web-based order entry system extends the Expert Configuration technology to the dealer, allowing dealers to configure, price and order our products 24 hours a day. Web Weaver is seamlessly integrated with our manufacturing system to allow orders to flow directly from dealers to our manufacturing plants. Our dealers currently enter 50% of our sales dollars directly into Web Weaver.

Trademarks and Patents

Among the trademarks owned and registered by us in the United States are the following: PGT, WinGuard, Effortless Hurricane Protection, Eze-Breeze, Progressive Glass Technology, PGT Industries, Visibly Better and Web Weaver. In addition, we own several patents and patent applications concerning various aspects of window assembly and related processes. We are not aware of any circumstances that would have a material adverse affect on our ability to use our trademarks and patents. As long as we continue to renew our trademarks when necessary, the trademark protection provided by them is perpetual. Our patents will expire at various times over the next 20 years.

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AVAILABLE INFORMATION

We are subject to the informational requirements of the Securities Exchange Act of 1934, as amended, (the Exchange Act) and in accordance therewith, we file or furnish reports, proxy and information statements and other information with the Securities and Exchange Commission (SEC). Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy and information statements and other information and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act are available free of charge as soon as reasonably practicable after such reports are electronically filed with or furnished to the SEC through the investor relations section of our Web site under the links to SEC Filings or in print by contacting our investor relations department. Our Internet address is www.pgtinc.com. We are not including this or any other information on our Web site as a part of, nor incorporating it by reference into, this Form 10-K or any of our other SEC filings.

In addition to our Web site, you may read and copy public reports we file with or furnish to the SEC at the SEC s Public Reference Room at 100 F Street, NE, Washington, DC 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-732-0330 (if you are calling from within the United States), or +205-551-8090. The SEC maintains an Internet site that contains our reports, proxy and information statements, and other information that we file electronically with the SEC at www.sec.gov.

Item 1A. ***RISK FACTORS***
CAUTIONARY STATEMENT

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

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Risks Relating to Our Business and Industry

The new home construction and repair and remodeling markets have been declining.

The window and door industry is subject to the cyclical market pressures of the larger new construction and repair and remodeling markets, which in turn may be significantly affected by adverse changes in economic conditions such as demographic trends, employment levels, and consumer confidence. Beginning in the second half of 2006, we saw a significant slowdown in the Florida housing market. This slowdown continued during 2007, and we expect this trend to continue. Like many building material suppliers in the industry, we have been and will continue to be faced with a challenging operating environment due to this decline in the housing market. Specifically, new single family housing permits in Florida decreased by 49% in 2007 compared to the prior year. The resulting decline in our customers construction levels has decreased demand for our products which has had, and which we expect will continue to have, an adverse impact on our sales and results of operations.

The home building industry and the home repair and remodeling sector are regulated.

The homebuilding industry and the home repair and remodeling sector are subject to various local, state, and federal statutes, ordinances, rules, and regulations concerning zoning, building design and safety, construction, and similar matters, including regulations that impose restrictive zoning and density requirements in order to limit the number of homes that can be built within the boundaries of a particular area. Increased regulatory restrictions could limit demand for new homes and home repair and remodeling products and could negatively affect our sales and earnings.

Our operating results are substantially dependent on sales of our WinGuard branded line of products.

A majority of our net sales are, and are expected to continue to be, derived from the sales of our WinGuard branded line of products. Accordingly, our future operating results will depend on the demand for WinGuard products by current and future customers, including additions to this product line that are subsequently introduced. If our competitors release new products that are superior to WinGuard products in performance or price, or if we fail to update WinGuard products with any technological advances that are developed by us or our competitors or introduce new products in a timely manner, demand for our products may decline. A decline in demand for WinGuard products as a result of competition, technological change or other factors could have a material adverse effect on our ability to generate sales, which would negatively affect our financial condition, results of operation, and cash flow.

Changes in building codes could lower the demand for our impact-resistant windows and doors.

The market for our impact-resistant windows and doors depends in large part on our ability to satisfy state and local building codes that require protection from wind-borne debris. If the standards in such building codes are raised, we may not be able to meet their requirements, and demand for our products could decline. Conversely, if the standards in such building codes are lowered or are not enforced in certain areas, demand for our impact-resistant products may decrease. Further, if states and regions that are affected by hurricanes but do not currently have such building codes fail to adopt and enforce hurricane protection building codes, our ability to expand our business in such markets may be limited.

We may be unable to successfully implement our expansion plans included in our business strategy.

Our business strategy includes expansion into new geographic markets in additional coastal states as those states adopt or enforce building codes that require protection from wind-borne debris. Should these regions fail to adopt or enforce such building codes, our ability to expand geographically may be limited. In addition, if these regions do adopt or enforce building codes that require protection from wind-borne debris but our competitors enter those markets with products superior to ours in performance or price, demand for our products in such markets may not develop. Our business plan also provides for our introduction of new product lines, such as our new vinyl WinGuard products, and the expansion of our Architectural Systems product line. If our competitors release new products that are superior to ours in performance or price, or if we cannot develop products that

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meet customers demands or introduce our products in a timely manner, we may be unable to generate sales of such new products.

Our strategy depends in part upon reducing and controlling operating expenses over time and upon working capital and operational improvements. We cannot assure you that our efforts will result in increased profitability, cost savings or other benefits that we expect.

Our industry is competitive, and competition may increase as our markets grow as more states adopt or enforce building codes that require impact-resistant products.

The window and door industry is highly competitive. We face significant competition from numerous small, regional producers, as well as a small number of national producers. Some of these competitors make products from alternative materials, including wood. Any of these competitors may (i) foresee the course of market development more accurately than do we, (ii) develop products that are superior to our products, (iii) have the ability to produce similar products at a lower cost, (iv) develop stronger relationships with window distributors, building supply distributors, and window replacement dealers, or (v) adapt more quickly to new technologies or evolving customer requirements than do we. As a result, we may not be able to compete successfully with them.

In addition, while we are skilled at creating finished impact-resistant and other window and door products, the materials we use can be purchased by any existing or potential competitor. New competitors can enter our industry, and existing competitors may increase their efforts in the impact-resistant market. Furthermore, if the market for impact-resistant windows and doors continues to expand, larger competitors could enter, or expand their presence in the market and may be able to compete more effectively. Finally, we may not be able to maintain our costs at a level sufficiently low for us to compete effectively. If we are unable to compete effectively, demand for our products and our profitability may decline.

Our business is currently concentrated in one state.

Our business is concentrated geographically in Florida. In fiscal year 2007, approximately 91% of our sales were generated in Florida and new single family housing permits in Florida decreased by 49% in 2007 compared to the prior year. A decline in the economy of the state of Florida or of the coastal regions of Florida, a change in state and local building code requirements for hurricane protection, or any other adverse condition in the state could cause a decline in the demand for our products in Florida, which could decrease our sales and profitability.

We depend on third-party suppliers, and the prices we pay for our raw materials are subject to rapid fluctuations

Our ability to offer a wide variety of products to our customers is dependent upon our ability to obtain adequate material supplies from manufacturers and other suppliers. Generally, our raw materials and supplies are obtainable from various sources and in sufficient quantities. However, it is possible that our competitors or other suppliers may create laminates or products based on new technologies that are not available to us or are more effective than our products at surviving hurricane-force winds and wind-borne debris or that they may have access to products of a similar quality at lower prices.

Our primary manufacturing materials include aluminum extrusion, glass, and polyvinyl butyral each of which is subject to periods of rapid and significant fluctuations in price. Our cost of aluminum extrusion increased by 27% over the last three years and the total cost of our raw materials in 2007 constituted approximately 52% of our total cost of goods sold. We have been subject to fuel surcharges enacted by our raw material suppliers. In 2007, we paid on average approximately $1,000 per shipment in fuel surcharges to certain raw material suppliers. Although in many instances we have agreements with our suppliers, these agreements are generally terminable by either party on limited notice. Moreover, other than with our suppliers of polyvinyl butyral and aluminum, we do not have long-term contracts with the suppliers of our raw materials. At December 29, 2007, we had 22 outstanding forward contracts for the purchase of 5.4 million pounds of aluminum at an average price of $1.22 per pound which covers approximately 45% of our anticipated needs

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through August 2008. However, in the event that severe shortages of such materials occur, we may experience significant increases in the cost of, or delay in the shipment of, such materials, which may result in lower margins on the sales of our products. While historically we have been able to substantially pass on significant cost increases through to our customers, our results between periods may be negatively impacted by a delay between the cost increases and price increases in our products. Failure by our suppliers to continue to supply us with materials on commercially reasonable terms or in our ability to pass on any future price increases could result in significantly lower margins.

Price increases may not be sufficient to offset cost increases and maintain profitability.

We may be able to pass some or all raw material, energy and other input cost increases to customers by increasing the selling prices of our products; however, higher product prices may also result in a reduction in sales volume. If we are not able to increase our selling prices sufficiently to offset increased raw material, energy or other input costs, including packaging, direct labor, overhead and employee benefits, or if our sales volume decreases significantly due to such price increase, there could be a negative impact on our results of operations and financial condition.

Our level of indebtedness could adversely affect our ability to raise additional capital to fund our operations, limit our ability to react to changes in the economy or our industry, and prevent us from meeting our obligations under our debt instruments.

As of December 29, 2007, our total indebtedness was $130.0 million, all of which was outstanding under the first lien term loan in our senior secured credit facility. All of our debt was at a variable interest rate. In the event that interest rates rise, our interest expense would increase. Although we utilize interest rate swap contracts to fix interest rates on a portion of our outstanding long-term debt balance, all such agreements expired by February 2008. Based on debt outstanding at December 29, 2007, a 1.0% increase in interest rates would result in approximately $1.3 million of additional interest expense annually, without giving effect to our hedging arrangements.

Our debt could have important consequences for you, including:

- increasing our vulnerability to general economic and industry conditions;

- requiring a substantial portion of our cash flow from operations to be dedicated to the payment of principal and interest on our indebtedness, therefore reducing our ability to use our cash flow to fund our operations, capital expenditures, and future business opportunities;

- exposing us to the risk of increased interest rates because certain of our borrowings, including borrowings under our credit facilities, will be at variable rates of interest;

- limiting our ability to obtain additional financing for working capital, capital expenditures, debt service requirements, acquisitions, and general corporate or other purposes; and

- limiting our ability to adjust to changing market conditions and placing us at a competitive disadvantage compared to our competitors who have less debt.

In addition, some of our debt instruments, including those governing our credit facilities, contain cross-default provisions that could result in multiple tranches of our debt being declared immediately due and payable. In such event, it is unlikely that we would be able to satisfy our obligations under all of such accelerated indebtedness simultaneously.

We may incur additional indebtedness.

We may incur additional indebtedness under our credit facilities, which provide for up to $30 million of revolving credit borrowings. In addition, we and our subsidiary may be able to incur substantial additional indebtedness in the future, including secured debt, subject to the restrictions contained in the agreements

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governing our credit facilities. If new debt is added to our current debt levels, the related risks that we now face could intensify.

Our debt instruments contain various covenants that limit our ability to operate our business.

Our credit facilities contain various provisions that limit our ability to, among other things:

- transfer or sell assets, including the equity interests of our subsidiary, or use asset sale proceeds;
- incur additional debt;
- pay dividends or distributions on our capital stock or repurchase our capital stock;
- make certain restricted payments or investments;
- create liens to secure debt;
- enter into transactions with affiliates;
- merge or consolidate with another company; and
- engage in unrelated business activities.

In addition, our credit facilities require us to meet specified financial ratios. These covenants may restrict our ability to expand or fully pursue our business strategies. Our ability to comply with these and other provisions of our credit facilities may be affected by changes in our operating and financial performance, changes in general business and economic conditions, adverse regulatory developments, or other events beyond our control. The breach of any of these covenants, including those contained in our credit facilities, could result in a default under our indebtedness, which could cause those and other obligations to become due and payable. If any of our indebtedness is accelerated, we may not be able to repay it.

We may be adversely affected by any disruption in our information technology systems.

Our operations are dependent upon our information technology systems, which encompass all of our major business functions. For example, our Expert Configuration Order Fulfillment System enables us to synchronize the scheduling of the manufacturing processes of multiple feeder and assembly operations to serve our make-to-order needs and ship in geographical sequence, and our Web Weaver web-based order entry system extends the Expert Configuration technology to the dealer, allowing configuration and price-quoting from the field. A substantial disruption in our information technology systems for any prolonged period could result in delays in receiving inventory and supplies or filling customer orders and adversely affect our customer service and relationships.

We may be adversely affected by any disruptions to our manufacturing facilities or disruptions to our customer, supplier, or employee base.

Any serious disruption to our facilities resulting from hurricanes and other weather-related events, fire, an act of terrorism, or any other cause could damage a significant portion of our inventory, affect our distribution of products, and materially impair our ability to distribute our products to customers. We could incur significantly higher costs and longer lead times associated with distributing our products to our customers during the time that it takes for us to reopen or replace a damaged facility. In addition, if there are disruptions to our customer and supplier base or to our employees caused by hurricanes, as we experienced during the 2004 hurricane season, our business could be temporarily adversely affected by higher costs for materials, increased shipping and storage costs, increased labor costs, increased absentee rates, and scheduling issues. Furthermore, some of our direct and indirect suppliers have unionized work forces, and strikes, work stoppages, or slowdowns experienced by these suppliers could result in slowdowns or closures of their facilities. Any interruption in the production or delivery of our supplies could reduce sales of our products and increase our costs.

The nature of our business exposes us to product liability and warranty claims.

We are involved in product liability and product warranty claims relating to the products we manufacture and distribute that, if adversely determined, could adversely affect our financial condition, results of operations, and cash flows. In addition, we may be exposed to potential claims arising from the conduct of homebuilders and home remodelers and their sub-contractors. Although we currently maintain what we believe to be suitable and adequate insurance in excess of our self-insured amounts, we may not be able to maintain such insurance on acceptable terms or such insurance may not provide adequate protection against potential liabilities. Product liability claims can be expensive to defend and can divert the attention of management and other personnel for significant periods, regardless of the ultimate outcome. Claims of this nature could also have a negative impact on customer confidence in our products and our company.

We are subject to potential exposure to environmental liabilities and are subject to environmental regulation.

We are subject to various federal, state, and local environmental laws, ordinances, and regulations. Although we believe that our facilities are in material compliance with such laws, ordinances, 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. Remediation may be required in the future as a result of spills or releases of petroleum products or hazardous substances, the discovery of unknown environmental conditions, or more stringent standards regarding existing residual contamination. More burdensome environmental regulatory requirements may increase our general and administrative costs and may increase the risk that we may incur fines or penalties or be held liable for violations of such regulatory requirements.

A range of factors may make our quarterly net sales and earnings variable.

We have historically experienced, and in the future will continue to experience, variability in net sales and earnings on a quarterly basis. The factors expected to contribute to this variability include, among others, (i) the cyclical nature of the homebuilding industry and the home repair and remodeling sector, (ii) general economic conditions in the various local markets in which we compete, (iii) the distribution schedules of our customers, (iv) the effects of the weather, and (v) the volatility of prices of aluminum, glass and vinyl. These factors, among others, make it difficult to project our operating results on a consistent basis.

We conduct all of our operations through our subsidiary, and rely on payments from our subsidiary to meet all of our obligations.

We are a holding company and derive all of our operating income from our subsidiary, PGT Industries, Inc. All of our assets are held by our subsidiary, and we rely on the earnings and cash flows of our subsidiary to meet our debt service obligations. The ability of our subsidiary to make payments to us will depend on its respective operating results and may be restricted by, among other things, the laws of its jurisdiction of organization (which may limit the amount of funds available for distributions to us), the terms of existing and future indebtedness and other agreements of our subsidiary, including our credit facilities, and the covenants of any future outstanding indebtedness we or our subsidiary incur.

We are exposed to risks relating to evaluations of controls required by Section 404 of the Sarbanes-Oxley Act of 2002.

We are required to comply with Section 404 of the Sarbanes-Oxley Act of 2002. While we have concluded that at December 29, 2007 we have no material weaknesses in our internal controls over financial reporting, we cannot assure you that we will not have a material weakness in the future. A material weakness is a control deficiency, or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. If we fail to maintain a system of internal controls over financial reporting that meets the requirements of Section 404, we

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might be subject to sanctions or investigation by regulatory authorities such as the SEC or by the NASDAQ Stock Market LLC. Additionally, failure to comply with Section 404 or the report by us of a material weakness may cause investors to lose confidence in our financial statements and our stock price may be adversely affected. If we fail to remedy any material weakness, our financial statements may be inaccurate, we may not have access to the capital markets, and our stock price may be adversely affected.

The controlling position of an affiliate of JLL Partners limits the ability of our minority stockholders to influence corporate matters.

An affiliate of JLL Partners owned 52.4% of our outstanding common stock as of December 29, 2007. Accordingly, such affiliate of JLL Partners has significant influence over our management and affairs and over all matters requiring stockholder approval, including the election of directors and significant corporate transactions, such as a merger or other sale of our company or its assets. This concentration of ownership may have the effect of delaying or preventing a transaction such as a merger, consolidation, or other business combination involving us, or discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control, even if such a transaction or change of control would benefit minority stockholders. In addition, this concentrated control limits the ability of our minority stockholders to influence corporate matters, and such affiliate of JLL Partners, as a controlling stockholder, could approve certain actions, including a going-private transaction, without approval of minority stockholders, subject to obtaining any required approval of our board of directors for such transaction. As a result, the market price of our common stock could be adversely affected.

The controlling position of an affiliate of JLL Partners exempts us from certain Nasdaq corporate governance requirements.

Although we have satisfied all applicable Nasdaq corporate governance rules, for so long as an affiliate of JLL Partners continues to own more than 50% of our outstanding shares, we will continue to avail ourselves of the Nasdaq Rule 4350(c) controlled company exemption that applies to companies in which more than 50% of the stockholder voting power is held by an individual, a group, or another company. This rule grants us an exemption from the requirements that we have a majority of independent directors on our board of directors and that we have independent directors determine the compensation of executive officers and the selection of nominees to the board of directors. However, we intend to comply with such requirements in the event that such affiliate of JLL Partners ownership falls to or below 50%.

Our directors and officers who are affiliated with JLL Partners do not have any obligation to report corporate opportunities to us.

Because some individuals may serve as our directors or officers and as directors, officers, partners, members, managers, or employees of JLL Partners or its affiliates or investment funds and because such affiliates or investment funds may engage in similar lines of business to those in which we engage, our amended and restated certificate of incorporation allocates corporate opportunities between us and JLL Partners and its affiliates and investment funds. Specifically, for so long as JLL Partners and its affiliates and investment funds own at least 15% of our shares of common stock, none of JLL Partners, nor any of its affiliates or investment funds, or their respective directors, officers, partners, members, managers, or employees has any duty to refrain from engaging directly or indirectly in the same or similar business activities or lines of business as do we. In addition, if any of them acquires knowledge of a potential transaction that may be a corporate opportunity for the Company and for JLL Partners or its affiliates or investment funds, subject to certain exceptions, we will not have any expectancy in such corporate opportunity, and they will not have any obligation to communicate such opportunity to us.

Item 1B. ***UNRESOLVED STAFF COMMENTS***

None.

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Item 2. ***PROPERTIES***

We own facilities in two strategic locations in Florida and North Carolina both of which are capable of producing our fully customizable product lines:

In North Venice, Florida, we own a 363,000 square foot facility that contains our corporate headquarters and main manufacturing plant. We also own an adjacent 80,000 square foot facility used for glass tempering and laminating, a 42,000 square foot facility for producing Architectural System products and simulated wood-finished products, and a 3,590 square foot facility used for employee and customer training.

In Salisbury, North Carolina, we own a 393,000 square foot manufacturing facility including glass tempering and laminating capabilities. It provides easy distribution access to the Mid-Atlantic and the developing impact-resistant market along the Eastern seaboard and Gulf coasts. In addition, 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 the larger Salisbury facility. However, in December 2007 we reclassified the real estate as held and used when we made the decision to utilize the facility in order to produce a special-order product to be used in large-scale commercial projects and began depreciating the assets that comprise the Lexington real estate as appropriate.

We lease four properties in North Venice, Florida. The leases for the fleet maintenance building, glass plant line maintenance building, fleet parking lot, and facility maintenance/glass hub in North Venice, Florida expire in September 2008, November 2008, September 2013 and December 2010, respectively. Each of the leases provides for a fixed annual rent. The leases require us to pay taxes, insurance and common area maintenance expenses associated with the properties.

Our principal manufacturing plants and distribution facilities are listed below.

Facility Location	Address	General Character	Leased or Owned
North Venice, Florida	1070 Technology Drive	Manufacturing plant and distribution center	Own
North Venice, Florida	3419 Technology Drive	Manufacturing and finishing plant	Own
North Venice, Florida	3429 Technology Drive	Glass tempering and laminating plant	Own
North Venice, Florida	3439 Technology Drive Units 1 and 2	PGT-University training facility	Own
North Venice, Florida	3439 Technology Drive Units 1 and 2 Units 10 and 11	Glass plant line maintenance	Lease
North Venice, Florida	3430 Technology Drive	Facility maintenance	Lease
North Venice, Florida	1044 Endeavor Court	Fleet maintenance bldg	Lease
North Venice, Florida	Precision Drive	Fleet parking lot	Lease
Salisbury, North Carolina	2121 Heilig Road	Manufacturing plant and distribution center	Own
Lexington, North Carolina	210 Walser Road	Manufacturing plant and distribution center	Own

Item 3. ***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 of claims and lawsuits. We do not believe that the ultimate resolution of these matters will have a material adverse impact on our financial position, cash flows or operating results.

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Item 4. ***SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS***

None.

EXECUTIVE OFFICERS AND SIGNIFICANT EMPLOYEES OF THE REGISTRANT

Name	Age	Position
Rodney Hershberger	51	President, Chief Executive Officer, and Director
Jeffrey T. Jackson	42	Chief Financial Officer and Treasurer
Mario Ferrucci III	44	Vice President Corporate Counsel and Secretary
Deborah L. Lapinska	46	Vice President WinGuard Product Stream
B. Wayne Varnadore	43	Vice President Architectural Sytems Product Stream
C. Douglas Cross	52	Vice President Vinyl Product Stream

Rodney Hershberger, President, Chief Executive Officer, and Director. Mr. Hershberger, a co-founder of PGT Industries, Inc., has served the Company for 25 years. Mr. Hershberger was named President and Director in 2004 and became our Chief Executive Officer in March 2005. Mr. Hershberger also became President of PGT Industries, Inc. in 2004 and was named Chief Executive Officer of PGT Industries, Inc. in 2005. In 2003 Mr. Hershberger became executive vice president and chief operating officer and oversaw the Company s Florida and North Carolina operations, sales, marketing, and engineering groups. Previously, Mr. Hershberger led the manufacturing, transportation, and logistics operations in Florida and served as vice president of customer service.

Jeffrey T. Jackson, Chief Financial Officer and Treasurer. Mr. Jackson joined the Company as Chief Financial Officer and Treasurer in November 2005, and his current responsibilities include all aspects of financial reporting and accounting, internal controls, cash management, supply chain, information technology and the business planning process. Before joining the Company, Mr. Jackson spent two years as Vice President, Corporate Controller for The Hershey Company. From 1999 to 2004 Mr. Jackson was Senior Vice President, Chief Financial Officer for Mrs. Smith s Bakeries, LLC, a division of Flowers Foods, Inc. Mr. Jackson has over sixteen years of increasing responsibility in various executive management roles with various companies, including Division Chief Financial Officer, Vice President Corporate Controller, and Senior Vice President of Operations. Mr. Jackson holds a B.B.A. from the University of West Georgia and is a Certified Public Accountant in the State of Georgia and the State of California.

Mario Ferrucci III, Vice President Corporate Counsel and Secretary. Mr. Ferrucci joined the Company in April 2006 as Vice President and Corporate Counsel. Mr. Ferrucci is responsible for the Company s legal affairs and field service. From 2001 to 2006, Mr. Ferrucci practiced law with the law firm of Skadden, Arps, Slate, Meagher & Flom LLP.

Deborah L. LaPinska, Vice President WinGuard Product Stream. Ms. LaPinska joined the Company in 1991. Ms. LaPinska is responsible for customer service, sales, and marketing, as well as incorporating new tools and resources to improve order processing cycle times and sales forecasting. Before she was appointed Vice President in 2003, Ms. LaPinska held the position of Director, National and International Sales. Ms. LaPinska holds a B.A. in business management from Eckerd College.

B. Wayne Varnadore, Vice President Architectural Systems Product Stream. Mr. Varnadore joined the Company in 1993 as a Vice President. Mr. Varnadore is responsible for the Architectural Systems line of products. Mr. Varnadore holds a B.S. in finance from the University of Florida and an M.B.A. from the University of South Florida.

C. Douglas Cross, Vice President Vinyl Product Stream. Mr. Cross joined PGT in March 2007 as a Vice President. He oversees PGT s vinyl product line. Located in the N.C. facility, he has over 25 years of manufacturing and leadership experience. Mr. Cross earned a B.S. in Commerce, from the University of Virginia and attended the Young Executives Institute, University of North Carolina at Chapel Hill.

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PART II

Item 5. ***MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES***

Our Common Stock has been traded on the NASDAQ Global Market ® under the symbol PGTI since June 28, 2006. On February 29, 2008, the closing price of our Common Stock as reported on the NASDAQ Global Market was $3.40. The approximate number of stockholders of record of our Common Stock on that date was 100, although we believe that the number of beneficial owners of our Common Stock is substantially greater.

The table below sets forth the price range of our Common Stock during the periods indicated.

	High	Low
2007		
1st Quarter	$ 13.42	$ 11.00
2nd Quarter	$ 13.01	$ 10.20
3rd Quarter	$ 12.41	$ 7.86
4th Quarter	$ 8.71	$ 4.69
2006		
2nd Quarter	$ 16.42	$ 13.89
3rd Quarter	$ 18.84	$ 12.60
4th Quarter	$ 15.16	$ 10.60

Dividends

We have not paid regular dividends in the past. Any future determination relating to dividend policy will be made at the discretion of our board of directors. The terms of our senior secured credit facility governing our notes currently restrict our ability to pay dividends.

Although we have not paid regular dividends in the past, we did pay a special cash dividend of $83.5 million, or $5.30 per share, to stockholders in connection with our February 2006 refinancing. We also paid a special cash dividend of $20.0 million, or $1.27 per share, to stockholders in September 2005.

Unregistered Sales of Equity Securities

During the year ended December 29, 2007, we issued an aggregate of 468,422 shares of our common stock to certain 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 approximately $0.7 million 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 year ended December 29, 2007, we issued an aggregate of 141,415 shares of our common stock to certain employees upon the exercise of options awarded under our 2004 Stock Incentive Plan. We received aggregate proceeds of $1.2 million as a result of the exercise of these options. The Company relied on the exemption from the registration requirements of the Securities Act of 1933 in reliance on Rule 701 thereunder as transactions pursuant to compensatory benefit plans and contracts relating to compensation as provided under Rule 701.

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

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Performance Graph

The following graphs compare the percentage change in PGT, Inc. s cumulative total stockholder return on its Common Stock with the cumulative total stockholder return of the Standard & Poor s Building Products Index and the NASDAQ Composite Index over the period from June 27, 2006 (the date we became a public company) to December 29, 2007.

COMPARISON OF 18 MONTH CUMULATIVE TOTAL RETURN*

AMONG PGT, INC., THE NASDAQ COMPOSITE INDEX,

AND THE S&P BUILDING PRODUCTS INDEX

	6/27/2006	6/06	7/06	8/06	9/06	10/06	11/06	12/06
PGT, Inc.	100.00	112.86	112.50	105.36	100.43	105.79	81.79	90.36
S&P Building Products	100.00	102.51	92.08	96.44	96.65	99.28	101.96	105.41
NASDAQ Composite	100.00	103.42	99.58	103.98	107.53	112.69	115.79	115.00

	1/07	2/07	3/07	4/07	5/07	6/07
PGT, Inc.	89.07	92.29	85.71	73.57	83.36	78.07
S&P Building Products	113.15	111.98	106.85	108.36	119.04	114.67
NASDAQ Composite	117.32	115.04	115.30	120.23	124.01	123.95

	7/07	8/07	9/07	10/07	11/07	12/07
PGT, Inc.	73.50	74.43	56.64	57.07	39.43	34.50
S&P Building Products	107.38	103.18	95.04	99.07	94.51	103.78
NASDAQ Composite	121.24	123.62	128.63	136.13	126.70	126.28

* $100 invested on 06/27/2006 in stock or in index-including reinvestment of dividends for 18 months ending December 29, 2007.

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Item 6. ***SELECTED FINANCIAL DATA***

The following table sets forth selected historical consolidated financial information and other data as of and for the periods indicated. The selected historical financial data as of December 29, 2007 and December 30, 2006, and for the years ended December 29, 2007, December 30, 2006 and December 31, 2005 have been derived from our audited consolidated financial statements and related notes thereto included as Item 8 of this annual report on Form 10-K, which have been audited by Ernst & Young LLP, independent registered public accounting firm. The selected historical financial data as of December 31, 2005 and for the period January 30, 2004 to January 1, 2005 has been derived from our audited consolidated financial statements and related notes thereto included as Item 8 of our annual report on Form 10-K for the year ended December 30, 2006, not included herein, which was audited by Ernst & Young LLP, independent registered public accounting firm. The selected historical financial data for the period December 28, 2003 to January 29, 2004 has been derived from PGT Holding Company s audited consolidated financial statements and related notes thereto included as Item 8 of our annual report on Form 10-K for the year ended December 30, 2006, not included herein, which was audited by Ernst & Young LLP, independent registered public accounting firm. Throughout this report, we refer to PGT Holding Company as our Predecessor. The selected historical financial data as of January 1, 2005 have been derived from our audited consolidated financial statements and related notes thereto not included in this report. The selected historical financial data as of January 29, 2004 and December 27, 2003 and for the year ended December 27, 2003 has been derived from our Predecessor s audited consolidated financial statements and related notes thereto not included in this report.

On January 29, 2004, we were acquired by an affiliate of JLL Partners in a purchase business combination. This acquisition was accounted for using the purchase method of accounting in accordance with SFAS No. 141, Business Combinations. The post-acquisition periods of our Company have been impacted by the application of purchase accounting resulting in incremental, non-cash depreciation expense and non-cash amortization of intangible assets. Accordingly, the results of operations for the periods of our Company are not comparable to the results of operations for the Predecessor periods.

All information included in the following tables should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations contained in Item 7 of this annual report on Form 10-K and with the consolidated financial statements and related notes included as Item 8 of this annual report on Form 10-K.

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Consolidated Selected Financial Data (in thousands except per share data)	Company: Year Ended December 29, 2007	Company: Year Ended December 30, 2006	Company: Year Ended December 31, 2005	Company: January 30, 2004 to January 1, 2005	Predecessor: December 28, 2003 to January 29, 2004	Predecessor: Year Ended December 27, 2003
Net sales	$ 278,394	$ 371,598	$ 332,813	$ 237,350	$ 19,044	$ 222,594
Cost of sales	187,389	229,867	209,475	152,316	13,997	135,285
Gross margin	91,005	141,731	123,338	85,034	5,047	87,309
Restructuring charge	1,696					
Impairment charges	826	1,151				
Stock compensation expense (1)		26,898	7,146			
Write-off of trademark			7,200			
Selling, general and administrative expenses (2)	75,308	86,219	83,634	63,494	6,024	55,655
Income (loss) from operations	13,175	27,463	25,358	21,540	(977)	31,654
Interest expense	11,404	28,509	13,871	9,893	518	7,292
Other (income) expense, net (3)	692	(178)	(286)	124		
Income (loss) before income taxes	1,079	(868)	11,773	11,523	(1,495)	24,362
Income tax expense (benefit)	456	101	3,910	4,531	(912)	9,397
Net income (loss)	$ 623	$ (969)	$ 7,863	$ 6,992	$ (583)	$ 14,965
Net income (loss) per common share:						
Basic (4)(6)	$ 0.02	$ (0.05)	$ 0.50	$ 0.44	N/A	N/A
Diluted (4)(6)	$ 0.02	$ (0.05)	$ 0.45	$ 0.41	N/A	N/A
Weighted average shares outstanding:						
Basic (5)(6)	27,294	21,204	15,723	15,720	N/A	N/A
Diluted (5)(6)	28,338	21,204	17,299	17,221	N/A	N/A
Other financial data:						
Depreciation	$ 10,418	$ 9,871	$ 7,503	$ 5,221	$ 484	$ 5,075
Amortization	5,570	5,742	8,020	9,289	44	458

	As Of December 29, 2007	As Of December 30, 2006	As Of December 31, 2005	As Of January 1, 2005	As Of January 29, 2004	As Of December 27, 2003
Balance Sheet data:						
Cash and cash equivalents	$ 19,479	$ 36,981	$ 3,270	$ 2,525	$ 12,191	$ 8,536
Total assets	407,865	442,794	425,553	409,936	157,084	154,505
Total debt, including current portion	130,000	165,488	183,525	168,375	61,683	61,641
Shareholders equity	210,472	205,206	156,571	166,107	68,187	68,731

(1) Represents compensation expense paid to stock option holders (including applicable payroll taxes) in lieu of adjusting exercise prices in connection with the dividends paid to shareholders in September 2005 and February 2006 of $7.1 million, including expenses, and $26.9 million, respectively. These amounts include amounts paid to stock option holders whose other compensation is a component of cost of sales of $1.3 million and $5.1 million, respectively.

(2) Prior to 2007, includes management fees paid to our majority stockholder. The management services agreement pursuant to which these fees were paid terminated upon consummation of the Initial Public Offering in June 2006.

(3) Represents ineffective portion of derivative financial instruments.

(4) Basic net income per share represents net income divided by weighted average common shares outstanding, and diluted net income per share represents net income divided by weighted average common and common equivalent shares outstanding. Due to the significant change in our capital structure on January 29, 2004, the Predecessor amount has not been presented because it is not considered comparable to our Company s amount.

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(5) Weighted average shares outstanding basic represents the weighted average number of shares of common stock outstanding and is determined by measuring (a) the shares outstanding during each portion of the respective reporting period that shares of common stock have been outstanding relative to (b) the total amount of time in such reporting period. Weighted average shares outstanding diluted represents the basic weighted average shares outstanding, adjusted to include the number of additional shares of common stock that would have been outstanding if the dilutive shares of common stock issuable upon exercise of our stock options had been issued and the effect of restricted share grants.
(6) Reflects the impact of the 662.07889-for-1 stock split as discussed in Note 15 to the consolidated financial statements included as Item 8 of this annual report.

Item 7. ***MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS***
Non-GAAP Financial Measures Items Affecting Comparability

Below is a presentation of EBITDA, a non-GAAP measure, which we believe is useful information for investors (in thousands):

	Year Ended December 29, 2007	December 30, 2006	December 31, 2005
Net income (loss)	$ 623	$ (969)	$ 7,863
Interest expense	11,404	28,509	13,871
Income tax expense	456	101	3,910
Depreciation	10,418	9,871	7,503
Amortization	5,570	5,742	8,020
EBITDA (1)(2)	$ 28,471	$ 43,254	$ 41,167
(1) Includes the impact of the following expenses:			
Restructuring charge (a)	$ 2,375	$	$
Impairment of property held for sale (b)	826	1,151	
Management fees (c)		1,434	1,840
Write-off of NatureScape trademark (d)			7,200
Stock compensation (e)		26,898	7,146
NatureScape exit costs (f)			629
Refinancing fees (g)			404

(a) Represents charge related to restructuring actions taken in the fourth quarter of 2007 as announced on October 25, 2007 of which $0.7 million is classified within cost of goods sold. This charge related primarily to employee separation costs.
(b) Represents a write-down of the value of the Lexington, North Carolina property which had been classified as an asset held for sale due to the relocation of our plant to Salisbury, North Carolina and related exit costs. These expenses are included in selling, general and administrative expenses. In December 2007, we reclassified the real estate as held and used when we made the decision to utilize the facility in order to produce a special-order product to be used in large-scale commercial projects in this facility and began depreciating the assets that comprise the Lexington real estate, the effect of which was not significant to results of operations in 2007.
(c) Represents management fees paid to our majority stockholder. The management services agreement pursuant to which these fees were paid was terminated upon consummation of the Initial Public Offering in June 2006.
(d) Represents a write-down of our NatureScape trademark in connection with the sale of our NatureScape business.
(e) Represents compensation expense related to amounts paid to option holders in lieu of adjusting exercise prices in connection with the payment of dividends to shareholders in September 2005 and February 2006.

(f) Represents exit costs related to the sale of our NatureScape business, such as the write-off of raw materials and equipment.

(g) Represents legal fees related to refinancing our senior secured credit facility in September 2005.

(2) EBITDA is defined as net income plus interest expense (net of interest income), income taxes, depreciation, and amortization. EBITDA is a measure commonly used in the window and door industry, and we present EBITDA to enhance your understanding of our operating performance. We use EBITDA as one criterion for evaluating our performance relative to that of our peers. We believe that EBITDA is an operating performance measure that provides investors and analysts with a measure of operating results unaffected by differences in capital structures, capital investment cycles, and ages of related assets among otherwise comparable companies. Further, we believe that EBITDA is a useful measure because it improves comparability of predecessor and successor results of operations, since purchase accounting renders depreciation and amortization non-comparable between predecessor and successor periods. While we believe EBITDA is a useful measure for investors, it is not a measurement presented in accordance with United States generally accepted accounting principles, or GAAP. You should not consider EBITDA in isolation or as a substitute for net income, cash flows from operations, or any other items calculated in accordance with GAAP. In addition, EBITDA has inherent material limitations as a performance measure. It does not include interest expense and, because we have borrowed money, interest expense is a necessary element of our costs. In addition, EBITDA does not include depreciation and amortization expense. Because we have capital and intangible assets, depreciation and amortization expense is a necessary element of our costs. Moreover, EBITDA does not include taxes, and payment of taxes is a necessary element of our operations. Accordingly, since EBITDA excludes these items, it has material limitations as a performance measure. To compensate for the limitations of EBITDA, the Company s management separately monitors capital expenditures, which impact depreciation expense, as well as amortization expense, interest expense, and income tax expense. Because not all companies use identical calculations, our presentation of EBITDA may not be comparable to other similarly titled measures of other companies.

Overview

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

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

Residential new construction. Our business is driven in part by residential new construction activity. Beginning in the second half of 2006 we saw a significant slowdown in the Florida housing market. This slowdown continued during 2007. Like many building material suppliers in the industry, we have been and will continue to be faced with a challenging operating environment due to this decline in the housing market. Specifically, new single family housing permits in Florida decreased by 49% in 2007 compared to the prior year. We still believe there are several meaningful trends such as rising immigration rates, growing prevalence of second homes, the aging demographics of the population, relatively low interest rates and the aging of the housing stock, that indicate housing demand will stabilize. Based on these trends and certain other factors, and although the pullback in the housing industry is longer-term than we had expected, we believe that the housing industry will eventually rebound.

Home repair and remodeling expenditures. The repair and remodeling component of window and door demand tends to be less cyclical than residential new construction and partially insulates overall window and door sales from the impact of residential new construction cycles. However, recent declines in homeowner equity due to the downturn in real estate and the tightening of credit availability could negatively impact the home repair and remodeling market.

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

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

Cost of materials. The prices of our primary raw materials, including aluminum, laminate and glass, are subject to volatility and affect our results of operations when prices rapidly rise or fall within a relatively short period of time. From time to time, we use hedging instruments to manage the market risk of our aluminum costs. We currently have forward contracts for the purchase of aluminum at an average price of $1.22 per pound that cover approximately 40% to 45% of our anticipated needs through August 2008. The aluminum hedges had a fair value of $0.7 million at December 29, 2007, classified within accrued liabilities in the accompanying consolidated balance sheet.

Current Operating Conditions and Outlook

Fiscal 2006 began with robust housing starts. Our infrastructure, capital-spend and staffing levels were geared to service this high level of housing activity. We achieved a record sales level in 2006 following a strong first three quarters. However, we experienced a slow-down in sales in the last quarter of 2006 as macroeconomic factors turned strongly against our industry during the second half of the year. By the fourth quarter 2006, housing starts for our markets decreased 48% compared to the prior year fourth quarter. This slowdown continued during 2007 as new single family housing permits in Florida decreased by 49% compared to the prior year. In addition, fuel costs continued to increase during 2007 and market prices for aluminum increased on average 10% in 2006. In response to the deterioration in the housing market and increasing costs, we took actions to conserve capital and adjust our operating cost structure to more closely align with current demand. In October 2007, we executed a restructuring plan 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 indirect workforce (overhead) of approximately 17%, which equates to approximately 8% of the Company s then overall employee population. In addition, we decreased our capital spending in 2007. On March 4, 2008, we announced a further 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 17%. However, we also view this market downturn as an opportunity to gain market share from our competitors. For instance, we have introduced new incentive programs offered to both our distributors and our end users. We also accelerated certain new product introductions and product line expansions to broaden our product offering.

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

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Other Developments

Initial Public Offering

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

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

Stock Split

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

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

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

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 indirect workforce (overhead) of approximately 17%, which equated to approximately 8% of the Company s then overall employee population, and included employees at both its Venice, Florida and Salisbury, North Carolina locations. The Company believes this restructuring is essential 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 of which $0.7 million is classified within cost of goods sold in the accompanying statement of operations for the year ended December 29, 2007. The charge related primarily to employee separation costs. Of the $2.4 million charge, $1.5 million of cash had been disbursed as of December 29, 2007. The remaining $0.9 million is classified within accrued liabilities in the accompanying consolidated balance sheet as of December 29, 2007 and is expected to be disbursed in 2008.

On March 4, 2008, we announced a further 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 17% and included employees at both its Venice, Florida and Salisbury, North Carolina locations. As a result of the restructuring, the Company expects to record

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an estimated restructuring charge of approximately $1.9 million in the first quarter of 2008. No amounts related to this restructuring have been accrued in the accompanying consolidated financial statements as of and for the year ended December 29, 2007.

Repricing

On March 6, 2008, the board of directors of the Company approved, subject to the approval of the Company s stockholders, the cancellation and termination of the option agreements (collectively, the Current Option Agreements) of certain employees of the Company, including Jeffrey T. Jackson, Chief Financial Officer and Treasurer of the Company, and Mario Ferrucci III, Vice President, Corporate Counsel, and Secretary of the Company (collectively, the Designated Employees), and the grant of replacement options under the Company s 2006 Equity Incentive Plan, in each case to be entered into by the Company and each such Designated Employee pursuant to a PGT, Inc. 2006 Equity Incentive Plan Replacement Non-Qualified Stock Option Agreement (the Replacement Option Agreement).

The board of directors of the Company determined that, as a result of economic conditions that have adversely affected the Company and the industry in which the Company competes, the options held by the Designated Employees had exercise prices that were significantly above the current market price of the Company s common stock and that the grants of replacement options would help the Company to retain and provide additional incentive to such Designated Employees and align their interests with those of the Company s stockholders.

Pursuant to the terms of the Replacement Option Agreement executed on March 6, 2008, by each of the Designated Employees, the grant of replacement options is conditioned upon the approval of the Company s stockholders at a duly called annual or special meeting. If the grant of replacement options and the cancellation and termination of the Current Option Agreements fail to be approved by the Company s stockholders on or prior to September 30, 2008, the Replacement Option Agreements will automatically expire without further action of the parties and become null and void, and the Current Option Agreements will be reinstated and continue in full force and effect.

The replacement options have an exercise price of $3.09 per share, which is the closing price on the NASDAQ Global Market of the Company s common stock on March 5, 2008, the day before the date on which the board of directors of the Company granted the replacement options and the Designated Employees executed the Replacement Option Agreements. The replacement options are exercisable with respect to one third of the shares (rounded to the nearest whole share) on each of the first, second, and third anniversaries of March 6, 2008. The replacement options expire on March 6, 2015.

Mr. Jackson was granted an option to purchase an aggregate of 152,675 shares of the Company s common stock at an exercise price of $3.09 per share. In connection therewith, Mr. Jackson s option to purchase 115,863 shares of the Company s common stock at an exercise price of $12.84 per share and his option to purchase 36,812 shares of the Company s common stock at an exercise price of $12.77 per share were cancelled and terminated, subject to approval of the Company s stockholders.

Mr. Ferrucci was granted an option to purchase an aggregate of 53,984 shares of the Company s common stock at an exercise price of $3.09 per share. In connection therewith, Mr. Ferrucci s option to purchase 36,414 shares of the Company s common stock at an exercise price of $14.00 per share and his option to purchase 17,570 shares of the Company s common stock at an exercise price of $12.77 per share were cancelled and terminated, subject to approval of the Company s stockholders.

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RESULTS OF OPERATIONS

Analysis of Selected Items from our Consolidated Statements of Operations

	Year Ended December 29, 2007	December 30, 2006	December 31, 2005	Percent Change Increase / (Decrease) 2007-2006	2006-2005
Net sales	$ 278,394	$ 371,598	$ 332,813	(25.1)%	11.7%
Cost of sales	187,389	229,867	209,475	(18.5)%	9.7%
Gross margin	91,005	141,731	123,338	(35.8)%	14.9%
Gross margin as a percentage of sales	32.7%	38.1%	37.1%		
Restructuring charge	1,696				
Impairment charges	826	1,151			
Stock compensation expense		26,898	7,146		
Write-off of trademark			7,200		
SG&A expenses	75,308	86,219	83,634	(12.7)%	3.1%
SG&A expenses as a percentage of sales	27.1%	23.2%	25.1%		
Income from operations	13,175	27,463	25,358	(52.0)%	8.3%
Income from operations as a percentage of sales	4.7%	7.4%	7.6%		
Interest expense, net	11,404	28,509	13,871		
Other expenses (income), net	692	(178)	(286)		
Income tax expense	456	101	3,910		
Net income (loss)	$ 623	$ (969)	$ 7,863		
Net income (loss) per common share:					
Diluted	$ 0.02	$ (0.05)	$ 0.45		

2007 Compared with 2006

Overview

Our 2007 operating results were negatively affected by the continuation of the downturn in the housing industry in Florida. This decline began in the second half of 2006 and continued and intensified throughout all of 2007. Our 2006 operating results were negatively impacted by $26.9 million of stock compensation expense resulting from amounts payable to stock option holders in lieu of adjusting exercise prices in connection with the dividend paid to shareholders in February 2006.

Net sales

Net sales for 2007 were $278.4 million, a $93.2 million, or 25.1%, decrease in sales from $371.6 million in the prior year.

The following table shows net sales classified by major product category (in millions):

	Year Ended December 29, 2007 Sales	% of sales	December 30, 2006 Sales	% of sales	% change
Product category:					

WinGuard Windows and Doors	$ 189.7	68.1%	$ 241.1	64.9%	(21.3)%
Other Window and Door Products	88.7	31.9%	130.5	35.1%	(32.0)%
Total net sales	$ 278.4	100.0%	$ 371.6	100.0%	(25.1)%

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Net sales of WinGuard Windows and Doors were $189.7 million in 2007, a decrease of $51.4 million, or 21.3%, from $241.1 million in net sales for the prior year. The decrease was mainly due to the decline in new home construction. Demand for WinGuard branded products is driven by, among other things, increased enforcement of strict building codes mandating the use of impact-resistant products, increased consumer and homebuilder awareness of the advantages provided by impact-resistant windows and doors over active forms of hurricane protection, and our successful marketing efforts.

Net sales of Other Window and Door Products were $88.7 million in 2007, a decrease of $41.8 million, or 32.0%, from $130.5 million for the prior year. The decrease was mainly due to the decline in new home construction. New housing demand has historically impacted sales of our Other Window and Door Products more than our WinGuard Window and Door Products.

As of December 29, 2007 backlog was $13.1 million compared to $18.4 million at December 30, 2006. Our backlog consists of orders that we have received from customers that have not yet shipped, and we expect that substantially all of our current backlog will be recognized as sales during the next three months. The decrease in our backlog resulted from improvements in our manufacturing lead-times and a softening of the housing market, which has had a negative impact on order intake. We expect this trend will continue and have a negative effect on future period to period comparisons.

Gross margin

Gross margin was $91.0 million in 2007, a decrease of $50.7 million, or 35.8%, from $141.7 million in the prior year. The gross margin percentage was 32.7% in 2007 compared to 38.1% in the prior year. This decrease was largely due to lower sales volumes of all of our products, but most significantly of our WinGuard branded windows and doors, sales of which decreased 21.3% compared to the prior year. Cost of goods sold in 2007 also includes a $0.7 million charge related to the restructuring actions taken in the fourth quarter.

Restructuring Charge

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. As a result of the restructuring, the Company recorded a restructuring charge of $2.4 million in the fourth quarter of 2007 of which $0.7 million is classified within cost of goods sold. The charge related primarily to employee separation costs.

Impairment Charges

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 the larger Salisbury facility. In 2007 and 2006, we recorded impairment charges of $0.8 million and $1.2 million, respectively, to reduce the carrying value of the assets comprising the Lexington facility to its 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 and resumed depreciation of the assets that comprise the Lexington real estate.

Selling, general and administrative expenses

Selling, general and administrative expenses were $75.3 million, a decrease of $10.9 million, or 12.7% from $86.2 million in the prior year. This decrease was mainly due to decreases of $4.3 million in commissions, bonuses and other personnel related costs, $3.7 million in distribution costs as the result of the lower volume, $1.6 million in depreciation as assets from the 2004 acquisition become fully depreciated, $1.4 million in management fees as those fees were eliminated with the 2006 IPO and a $0.5 million warranty accrual adjustment related to a refinement of our warranty calculation to better reflect the decline in sales volumes. These decreases were partially offset by a $1.4 million increase in public company costs, including our compliance with Section 404 of the Sarbanes-Oxley Act of 2002 (SOX) and a $1.2 million increase in stock-based compensation expense. The remaining overall decrease in selling, general and administrative expenses is volume

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related as the general level of selling, general and administrative expenses have declined with sales. As a percentage of sales, selling, general and administrative expenses increased to 27.1% in 2007 compared to 23.2% for the prior year. This increase was due to the fact that certain fixed expenses, such as support and administrative costs, did not decrease at a rate relative to the decrease in net sales.

Stock compensation expense

Stock compensation expense of $26.9 million was recorded in 2006 relating to payments to option holders in lieu of adjusting exercise prices in connection with the payment of a dividend to shareholders in February 2006 and September 2005, respectively.

Interest expense

Interest expense was $11.4 million in 2007, a decrease of $17.1 million from $28.5 million in the prior year. In 2006, interest expense includes non-recurring charges of $8.9 million and $0.5 million related to termination penalties and the write-off of unamortized debt issuance costs, respectively, in connection with prepayments of debt in the respective periods. In addition, there was an increase in our average debt levels to $230.8 million for 2006 associated with our debt financing on February 14, 2006 as described under the Liquidity and Capital Resources section of this report. During 2007, we prepaid $35.5 million of debt resulting in a lower average level of debt when compared to 2006 but which also resulted in the write-off of $0.4 million of unamortized debt issuance costs.

Other expenses (income), net

There were other expenses of $0.7 million in 2007 compared to other income of $0.2 million in 2006. The amounts in both periods relate to the ineffective portions of interest and aluminum hedges.

Income tax expense

Our effective combined federal and state tax rate was 42.3% and 11.6% for the years ended December 29, 2007 and December 30, 2006, respectively. The 11.6% effective tax rate resulted from a change in the recognition of state tax credits in North Carolina. These credits are now recognized in the year in which they are made available for deduction. Previously, we recognized these credits in the year in which they were generated. This change resulted in an unfavorable adjustment to our tax expense of $422,000. Without this adjustment our tax rate would have been a benefit of 37.0% for 2006.

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 the current year. However, should we accrue for such liabilities when and if they arise in the future we will recognize interest and penalties associated with uncertain tax positions as part of our income tax provision.

2006 Compared with 2005

Overview

Our 2006 operating results were primarily driven by strong sales growth largely resulting from increased demand for our WinGuard windows and doors and price increases across most of our product lines. Our operating results were negatively impacted by $26.9 million of stock compensation expense resulting from amounts payable to stock option holders in lieu of adjusting exercise prices in connection with the dividend paid to shareholders in February 2006.

Net sales

Net sales for 2006 were $371.6 million, a $38.8 million, or 11.7%, increase over sales of $332.8 million for the prior year.

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The following table shows net sales classified by major product category (in millions):

	Year Ended				
	December 30, 2006		December 31, 2005		
	Sales	% of sales	Sales	% of sales	% change
Product category:					
WinGuard Windows and Doors	$ 241.1	64.9%	$ 186.2	55.9%	29.5%
Other Window and Door Products	130.5	35.1%	146.6	44.1%	(11.0)%
Total net sales	$ 371.6	100.0%	$ 332.8	100.0%	11.7%

Net sales of WinGuard Windows and Doors were $241.1 million in 2006, an increase of $54.9 million, or 29.5%, from $186.2 million in net sales for the prior year. This growth was due to increased sales volume of our WinGuard branded products and the effect of a 9% price increase implemented during the first quarter of 2006. 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, including a television advertising campaign which began running in March of 2006.

Net sales of Other Window and Door Products were $130.5 million in 2006, a decrease of $16.1 million, or 11.0%, from $146.6 million for the prior year. This decrease was primarily driven by a discontinuation of the NatureScape product line resulting in a reduction of net sales of $17.1 million when compared to the prior year. We discontinued these products because they generated lower margins and had less attractive growth prospects as compared to our other product lines. The effect of this product line discontinuation was offset in part by growth in our Architectural Systems products and the net impact of year-over-year price increases.

As of December 30, 2006 backlog was $18.4 million compared to $57.5 million at December 31, 2005. Our backlog consists of orders that we have received from customers that have not yet shipped. The decrease in our backlog resulted from improvements in our manufacturing lead-times and a softening of the housing market, which has had a negative impact on order intake.

Gross margin

Gross margin was $141.7 million in 2006, an increase of $18.4 million, or 14.9%, from $123.3 million in the prior year. The gross margin percentage was 38.1% in 2006 compared to 37.1% in the prior year. This growth was largely due to higher sales volume of our WinGuard branded windows and doors, which increased as a percentage of our total net sales to 64.9%, compared to 55.9% in the prior year, increased prices across most of our product lines and improved manufacturing efficiencies.

Impairment Charges

We own a 225,000 square foot facility in Lexington, North Carolina which was classified as held for sale in 2006. In 2006, we recorded impairment charges of $1.2 million to reduce the carrying value of the assets comprising the Lexington facility to its estimated fair market value.

Selling, general and administrative expenses

Selling, general and administrative expenses were $86.2 million, an increase of $2.6 million, or 3.1% from $83.6 million in the prior year. This increase was mainly due to an increase of $3.7 million in selling, marketing and distribution costs of which $1.4 million related to increased targeted advertising. Administrative expenses include an increase of $2.9 million for costs such as additional accounting, legal, insurance, compliance and other expenses to support our growth and the requirements of being a public company. Administrative expenses in

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2006 also included $0.5 million of stock compensation expense related to our adoption of SFAS 123R. These increases in administrative expenses were offset by lower bad debt expense as a result of the improved aging profile of our accounts receivable and lower amortization of intangibles. As a percentage of sales, selling, general and administrative expenses decreased to 23.2% in 2006 compared to 25.1% for the prior year. This decrease was due to the fact that certain fixed expenses, such as support and administrative costs, grew at a slower rate relative to the increase in net sales.

Stock compensation expense

Stock compensation expense of $26.9 million and $7.1 million was recorded in 2006 and 2005, respectively, relating to payments to option holders in lieu of adjusting exercise prices in connection with the payment of a dividend to shareholders in February 2006 and September 2005, respectively.

Write-off of trademark

In 2005, we wrote off our trademark in the amount of $7.2 million related to our NatureScape business that we sold on February 20, 2006. No such write-off occurred in 2006.

Interest expense

Interest expense was $28.5 million in 2006, an increase of $14.6 million from $13.9 million in the prior year. Interest expense includes non-recurring charges of $8.9 million and $0.5 million in 2006 and 2005, respectively, related to termination penalties and the write-off of unamortized debt issuance costs in connection with prepayments of debt in the respective periods. In addition, there was an increase in our average debt levels to $230.8 million for 2006 associated with our debt financing on February 14, 2006 as described under the Liquidity and Capital Resources section of this report, as compared to $173.5 million for the prior year, as well as higher LIBOR rates.

Other expenses (income), net

There was other income of $0.2 million in 2006 compared to other income of $0.3 million in 2005. The amounts in both periods relate to the ineffective portions interest and aluminum hedges.

Income tax expense

Our effective combined federal and state tax rate was 11.6% and 33.2% for the years ended December 30, 2006 and December 31, 2005, respectively. The 11.6% effective tax rate resulted from a change in the recognition of state tax credits in North Carolina. These credits are now recognized in the year in which they are made available for deduction. Previously, we recognized these credits in the year in which they were generated. This change resulted in an unfavorable adjustment to our tax expense of $422,000 in 2006. Without this adjustment in 2006 and had we not recognized any benefit from state tax credits in 2005, our tax rates would have been a benefit of 37.0% for 2006 and an expense of 38.1% in 2005.

LIQUIDITY AND CAPITAL RESOURCES

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

Consolidated Cash Flows

Operating activities. Cash flows provided by operating activities were $24.8 million for 2007, compared to cash flows provided by operating activities of $30.2 million for the prior year. This decrease was mainly due to lower operating profitability in 2007 than in 2006 after adjusting for the effect on 2006 by cash compensatory payments of $26.9 million made to option holders in lieu of adjusting exercise prices in connection with the payment of dividends to shareholders. Days sales outstanding (DSO), which we calculate as accounts receivable divided by recent average daily sales, was 37 days at December 29, 2007 compared to 46 days at December 30, 2006. However, this improvement in DSO was offset by the lower level of operating profitability in 2007. Cash flows provided by operating activities were $30.2 million for 2006, compared to cash flows provided by operating activities of $21.7 million for 2005. This increase was mainly due to improved operating profitability and to a lesser extent, lower working capital requirements in 2006. Operating cash flows were impacted by cash compensatory payments of $26.9 million and $7.1 million in 2006 and 2005, respectively, made to option holders in lieu of adjusting exercise prices in connection with the payment of dividends to shareholders in the respective periods. DSO was 46 days at December 30, 2006 compared to 50 days at December 31, 2005.

Investing activities. Cash flows used in investing activities were $10.5 million for 2007, compared to $26.6 million for the prior year. The decrease in cash flows used in investing activities was mainly due to the 2006 purchase of our 393,000 square foot facility in Salisbury, North Carolina plus related building improvements. We moved our main operations from Lexington, N.C. to our new facility in Salisbury, N.C. in 2006. Cash flows used in investing activities were $26.6 million for 2006, compared to $15.6 million for 2005. The increase in cash flows used in investing activities was mainly due to the 2006 purchase of the Salisbury, North Carolina facility described above.

Financing activities. Cash flows used in financing activities were $31.8 million for 2007, compared to cash flows provided in financing activities of $30.2 million for the prior year. In 2007, we made a total of $35.5 million of debt payments including prepayments of $20.0 million in February 2007, $5.0 million in June 2007, $4.5 million in July 2007 and $6.0 million in September 2007. These financing cash uses were partially offset by proceeds from option exercises of $1.9 million and the classification of $1.8 million of related excess tax benefits within financing activities. In February 2006, we entered into a second amended and restated senior secured credit facility and a second lien term loan, and received $320.0 million proceeds. The proceeds were used to refinance our Company s existing debt facility, pay a cash dividend to stockholders of $83.5 million, make a cash compensatory payment of approximately $26.9 million (including applicable payroll taxes of $0.5 million) to stock option holders in lieu of adjusting exercise prices in connection with such dividend, and pay certain financing costs related to the amendment. In June 2006, we completed our IPO, and received net proceeds of $129.5 million. We used the net proceeds from the IPO, including the underwriter overallotment, together with cash generated from operations to repay $154.0 million of our long term debt, including full repayment of the second lien debt. In September 2005, we amended and restated our prior credit agreement with a bank. In connection with the amendment, our Company created a new tranche of term loans with an aggregate principal amount of $190.0 million. The proceeds were used to refinance the existing Tranche A and B debt, fund a $20.0 million dividend to our stockholders, make a cash payment of $7.1 million to stock option holders in lieu of adjusting exercise prices in connection with such dividend, and pay certain financing costs related to the amendment.

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

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

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aggregate undrawn amount of outstanding letters of credit plus the aggregate principal amount of all letter of credit reimbursement obligations, (ii) a fronting fee to the letter of credit issuing bank and (iii) administrative fees.

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

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

Based on our ability to generate cash flows from operations and our borrowing capacity under the revolver under the senior secured credit facility, we believe we will have sufficient capital to meet our short-term and long-term needs, including our capital expenditures and our debt obligations in 2008.

Capital Expenditures. Capital expenditures vary depending on prevailing business factors, including current and anticipated market conditions. For the years ended December 29, 2007 and December 30, 2006, capital expenditures were $10.6 million and $26.8 million, respectively. We anticipate that cash flows from operations and liquidity from the revolving credit facility will be sufficient to execute our business plans.

On April 14, 2006, our Company entered into an interest rate swap agreement with a notional amount of $61.0 million that was designated as a cash flow hedge and effectively converted a portion of the floating rate debt to a fixed rate of 5.345% (plus a margin of 3.00%). Since all of the critical terms of the swap exactly matched those of the hedged debt, no ineffectiveness was identified in the hedging relationship. Consequently, all changes in fair value were recorded as a component of other comprehensive income. The fair value of the interest rate swap agreement was $0.1 million as of December 29, 2007 and is recorded in accrued liabilities in the accompanying consolidated balance sheet. This swap expired in February 2008.

The fair value of this interest rate swap agreement was $0.1 million as of December 30, 2006.

The weighted-average interest rate at December 29, 2007 for the floating rate notes was 8.38%.

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Long-term debt consisted of the following:

	December 29, 2007	December 30, 2006
	(in thousands)	
Tranche A2 term note payable to a bank in quarterly installments of $420,019 beginning November 14, 2007 through November 14, 2011. A lump sum payment of $158.4 million is due on February 14, 2012. Interest is payable quarterly at LIBOR or the prime rate plus an applicable margin. At December 30, 2006, the rate was 5.38% plus a margin of 3.00%	$	$ 165,488
Tranche A2 term note payable to a bank in quarterly installments of $331,632 beginning November 14, 2008 through November 14, 2011. A lump sum payment of $125.7 million is due on February 14, 2012. Interest is payable quarterly at LIBOR or the prime rate plus an applicable margin. At December 29, 2007, the rate was 5.38% plus a margin of 3.00%	130,000	
	$ 130,000	$ 165,488

DISCLOSURES OF CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

The following summarizes the contractual obligations of the Company as of December 29, 2007 (in thousands):

		Payments Due by Period				
Contractual Obligations	**Total**	**Current**	**2-3 Years**	**4 Years**	**5 Years**	**Thereafter**
Long-term debt (1)	$ 174,992	$ 11,555	$ 24,400	$ 12,032	$ 127,005	$
Operating leases	4,781	2,212	1,902	349	126	192
Supply agreements	2,501	2,501				
Equipment purchase commitments	508	508				
Total contractual cash obligations	$ 182,782	$ 16,776	$ 26,302	$ 12,381	$ 127,131	$ 192

(1) Includes estimated future interest expense assuming the weighted average interest rate of 8.38% on our long-term debt as of December 29, 2007 does not change.

The amounts reflected in the table above for operating leases represent future minimum lease payments under noncancelable operating leases with an initial or remaining term in excess of one year at December 29, 2007. Purchase orders entered into in the ordinary course of business are excluded from the above table. Amounts for which we are liable under purchase orders are reflected on our consolidated balance sheet as accounts payable and accrued liabilities.

Our Company is obligated to purchase certain raw materials used in the production of our products from certain suppliers pursuant to stocking programs. If these programs were cancelled by our Company, we would be required to pay $2.5 million for various materials.

At December 29, 2007, our Company had $4.7 million in standby letters of credit related to its worker s compensation insurance coverage and commitments to purchase equipment of $0.5 million.

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

Revenue recognition

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

Allowance for doubtful accounts and related reserves

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

Over the three-year period ending December 29, 2007, we recorded an expense averaging $0.8 million per year for potential uncollectible accounts. During this period, allowance for doubtful accounts has ranged from $0.4 million to $2.8 million, and write-off of uncollectible accounts, net of recoveries, averaged approximately $0.9 million.

Long-lived assets

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

Goodwill

The impairment evaluation for goodwill is conducted at the end of each fiscal year, or more frequently if events or changes in circumstances indicate that an asset might be impaired. The evaluation is performed using a two-step process. In the first step, which is used to screen for potential impairment, the fair value of the reporting unit is compared with the carrying amount of the reporting unit, including goodwill. The estimated fair value of the reporting unit is determined using the discounted future cash flows method, based on management estimates. If the estimated fair value of the reporting unit is less than the carrying amount of the reporting unit, then a second step, which determines the amount of the goodwill impairment to be recorded must be completed. In the

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second step, the implied fair value of the reporting unit s goodwill is determined by allocating the reporting unit s fair value to all of its assets and liabilities other than goodwill (including any unrecognized intangible assets). The resulting implied fair value of the goodwill that results from the application of this second step is then compared to the carrying amount of the goodwill and an impairment charge is recorded for the difference. Estimation of fair value is dependent on a number of factors, including, but not limited to, interest rates, future growth assumptions, operations and capital expenditure requirements and other factors which are subject to change and could materially impact the results of the impairment tests. Unless our actual results differ significantly from those in our estimation of fair value, it would not result in an impairment of goodwill.

We performed our annual assessment of goodwill impairment as of December 29, 2007, which indicated that no impairment was present. The determination of fair value used in that assessment is highly sensitive to differences between estimated and actual cash flows and changes in the related 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. Goodwill was $169.6 million as of December 29, 2007.

Other intangibles

The impairment evaluation of the carrying amount of intangible assets with indefinite lives is conducted annually or more frequently if events or changes in circumstances indicate that an asset might be impaired. The evaluation is performed by comparing the carrying amount of these assets to their estimated fair value. If the estimated fair value is less than the carrying amount of the intangible assets with indefinite lives, then an impairment charge is recorded to reduce the asset to its estimated fair value. The estimated fair value is generally determined on the basis of discounted projected cost savings attributable to ownership of the intangible assets with indefinite lives which, for the Company, are our 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 Company operating plans. Such assumptions are subject to change as a result of changing economic and competitive conditions. We performed our annual assessment of our trademarks, which are our only intangible assets not subject to amortization, as of December 29, 2007, which indicated that no impairment was present. The determination of fair value used in that assessment is highly sensitive to differences between estimated and actual cash flows and changes in the related 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. Intangible assets not subject to amortization totaled $62.5 million as of December 29, 2007.

Warranties

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

Over the three-year period ending December 29, 2007, we recorded a warranty expense averaging $5.6 million per year for costs related to warranties on our products. During this period, the accrual for warranties as a percentage of net sales has ranged from 1.3% to 1.8%.

Derivative instruments

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

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

Stock Compensation

We adopted Statement of Financial Accounting Standards No. 123R, *Share-Based Payment* (SFAS 123R), on January 1, 2006. This statement is a fair-value based approach for measuring stock-based compensation and requires us to recognize the cost of employee services received in exchange for our company s equity instruments. Under SFAS 123R, we are required to record compensation expense over an award s vesting period based on the award s fair value at the date of grant. We have adopted SFAS 123R on a prospective basis; accordingly, our financial statements for periods prior to January 1, 2006, do not include compensation cost calculated under the fair value method. Our awards vest based only on service conditions and compensation expense is recognized on a straight-line basis for each separately vesting portion of an award.

Prior to January 1, 2006, our Company applied Accounting Principles Board Opinion 25, *Accounting for Stock issued to Employees* (APB 25), and therefore recorded the intrinsic value of stock-based compensation as expense. Pursuant to APB 25, compensation cost was recorded only to the extent that the exercise price was less than the fair value of our Company s stock on the date of grant. No compensation expense was recognized in previous financial statements under APB 25. Additionally, our Company reported the pro forma impact of using a fair value based approach to valuing stock options under the Statement of Financial Accounting Standards No. 123, *Accounting for Stock Based Compensation* (SFAS 123).

Stock options granted prior to our Company s IPO were valued using the minimum value method in the pro-forma disclosures required by SFAS 123. The minimum value method excludes volatility in the calculation of fair value of stock based compensation. In accordance with SFAS No. 123R, options that were valued using the minimum value method, for purposes of pro forma disclosure under SFAS 123, must be transitioned to SFAS 123R using the prospective method. This means that these options will continue to be accounted for under the same accounting principles (recognition and measurement) originally applied to those awards in the income statement, which for our Company was APB 25. Accordingly, the adoption of SFAS 123R did not result in any compensation cost being recognized for these options. Additionally, pro forma information previously required under SFAS 123 and SFAS 148 will no longer be presented for these options.

The compensation cost that was charged against income for stock compensation plans was $1.5 million in 2007 and $0.6 million for 2006 and is included in selling, general and administrative expenses in the accompanying consolidated statements of operations. The total income tax benefit recognized for share-based compensation arrangements was $0.6 million in 2007 and $0.2 million in 2006. We currently expect to satisfy share-based awards with registered shares available to be issued. As of December 29, 2007, there was $0.5 million of total unrecognized compensation cost related to non-vested stock option compensation arrangements granted which is expected to be recognized in earnings straight-line over a weighted-average period of 1.7 years. As of December 29, 2007, there was $0.8 million of total unrecognized compensation cost related to non-vested restricted share awards. That cost is expected to be recognized in earnings straight-line over a weighted average period of 1.9 years.

The fair value of each stock option grant was estimated on the date of grant using a Black-Scholes option-pricing model with the following weighted-average assumptions used for grants under the 2006 Plan in 2006: dividend yield of 0%, expected volatility of 44.3%, risk-free interest rate of 5.2%, and expected life of 7 years.

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The fair value of each stock option grant was estimated on the date of grant using a Black-Scholes option-pricing model with the following weighted-average assumptions used for grants under the 2006 Plan in 2007: dividend yield of 0%, expected volatility of 36.0%, risk-free interest rate of 4.7%, and expected life of 5 years.

RECENTLY ISSUED ACCOUNTING STANDARDS

Statement of Accounting Standards No. 141 (revised 2007), *Business Combinations* (SFAS No. 141R) was issued in December 2007. SFAS No. 141R establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. SFAS No. 141R also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS No. 141R is effective for the Company in its fiscal year beginning January 1, 2009. The Company will apply the provisions of SFAS No. 141R to future acquisitions, if any.

Statement of Accounting Standards No. 160, *Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51* (SFAS No. 160) was issued in December 31, 2007. SFAS No. 160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. SFAS No. 160 is effective for the Company in fiscal years beginning January 1, 2009. The adoption of SFAS No. 160 is not currently expected to have a material impact on the Company s consolidated financial statements.

Emerging Issues Task Force issue 06-11, *Accounting for Income Tax Benefits of Dividends on Share-Based Payment Award,* (Issue 06-11) was issued in June 2007. Issue 06-11 applies to share-based payment arrangements with dividend protection features that entitle employees to receive (a) dividends on equity-classified nonvested shares, (b) dividend equivalents on equity-classified nonvested share units, or (c) payments equal to the dividends paid on the underlying shares while an equity-classified share option is outstanding, when those dividends or dividend equivalents are charged to retained earnings under Statement of Accounting Standards No. 123 (revised 2004), *Share-Based Payments* (SFAS No. 123R) and result in an income tax deduction for the employer. The Task Force reached a consensus that a realized income tax benefit from dividends or dividend equivalents that are charged to retained earnings and are paid to employees for equity classified nonvested equity shares, nonvested equity share units, and outstanding equity share options should be recognized as an increase to additional paid-in capital. The amount recognized in additional paid-in capital for the realized income tax benefit from dividends on those awards should be included in the pool of excess tax benefits available to absorb tax deficiencies on share-based payment awards (as described in Statement 123(R)). The consensus in Issue 06-11 is effective for the Company for income tax benefits that result from dividends on equity-classified employee share-based payment awards that are declared in fiscal years beginning January 1, 2008. The Company will apply the provisions of Issue 06-11 to future share-based payment awards, if any, should they contain dividend protection features.

Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115* (SFAS No. 159) was issued in February 2007 and will become effective for the Company on January 1, 2008. SFAS No. 159 permits entities the option to measure many financial instruments and certain other items at fair value. Unrealized gains and losses in respect of assets and liabilities for which the fair value option has been elected will be reported in earnings. Selection of the fair value option is irrevocable and can be applied on a partial basis, i.e., to some but not all similar financial assets or liabilities. The Company is still evaluating its election options under SFAS No. 159 for any of its financial assets and liabilities for which SFAS No. 159 allows such an election to be made.

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Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (SFAS No. 157) was issued in September 2006 to increase consistency and comparability in fair value measurements and to expand their disclosures. The new standard includes a definition of fair value as well as a framework for measuring fair value. The provisions of this standard apply to other accounting pronouncements that require or permit fair value measurements. SFAS No. 157 does not require any new fair value measurements. SFAS No. 157 is effective with fiscal years beginning after November 15, 2007 and should be applied prospectively, except for certain financial instruments where it must be applied retrospectively as a cumulative-effect adjustment to the balance of opening retained earnings in the year of adoption. In November 2007, the FASB agreed to a one-year deferral of SFAS No. 157 s fair-value measurement requirements for nonfinancial assets and liabilities that are not required or permitted to be measured at fair value on a recurring basis. The FASB also intends to clarify disclosure requirements about the fair-value measurements of pension plan assets by plan sponsors and will develop additional guidance on how SFAS No. 157 applies to measurements of liabilities. The Company is currently evaluating if the adoption of SFAS No. 157 will have a material impact on its financial statements.

Item 7A. ***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. Although we utilize interest rate swap contracts to fix interest rates on a portion of our outstanding long-term debt balance, all such agreements expire by February 2008. Based on debt outstanding at December 29, 2007, a 1% increase in interest rates would result in approximately $1.3 million of additional interest costs annually.

From time to time, we utilize derivative financial instruments to hedge price movements in our aluminum materials. As of December 29, 2007, we covered approximately 45% of our anticipated needs through August 2008. 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 2007 purchases of aluminum, a 10% increase in the cost of aluminum would increase cost of sales by $2.6 million, net of the change in the fair value of aluminum hedges.

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Item 8. ***FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA***

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of

PGT, Inc.

We have audited the accompanying consolidated balance sheets of PGT, Inc. and Subsidiary (the Company) as of December 29, 2007 and December 30, 2006, and the related consolidated statements of operations, shareholders equity, and cash flows for the years ended December 29, 2007, December 30, 2006 and December 31, 2005. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of PGT, Inc. and Subsidiary at December 29, 2007 and December 30, 2006, and the consolidated results of their operations and their cash flows for the years ended December 29, 2007, December 30, 2006 and December 31, 2005, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), PGT, Inc.'s internal control over financial reporting as of December 29, 2007, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 7, 2008 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Certified Public Accountants

Tampa, Florida

March 7, 2008

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PGT, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

	Year Ended December 29, 2007	December 30, 2006	December 31, 2005
Net sales	$ 278,394	$ 371,598	$ 332,813
Cost of sales	187,389	229,867	209,475
Gross margin	91,005	141,731	123,338
Restructuring charge	1,696		
Impairment charges	826	1,151	
Stock compensation expense (includes expenses related to cost of sales and selling, general and administrative expenses of $5,069 and $21,829, respectively, during 2006 and $1,292 and $5,854, respectively, during 2005)		26,898	7,146
Write-off of trademark			7,200
Selling, general and administrative expenses	75,308	86,219	83,634
Income from operations	13,175	27,463	25,358
Interest expense, net	11,404	28,509	13,871
Other expenses (income), net	692	(178)	(286)
Income (loss) before income taxes	1,079	(868)	11,773
Income tax expense	456	101	3,910
Net income (loss)	$ 623	$ (969)	$ 7,863
Net income (loss) per common share:			
Basic	$ 0.02	$ (0.05)	$ 0.50
Diluted	$ 0.02	$ (0.05)	$ 0.45
Weighted average shares outstanding:			
Basic	27,294	21,204	15,723
Diluted	28,338	21,204	17,299

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

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PGT, INC.

CONSOLIDATED BALANCE SHEETS

(in thousands, except per share amounts)

	December 29, 2007	December 30, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 19,479	$ 36,981
Accounts receivable, net	20,956	25,244
Inventories, net	9,223	11,161
Deferred income taxes, net	3,683	4,031
Other current assets	7,080	13,041
Total current assets	60,421	90,458
Property, plant and equipment, net	80,184	78,802
Other intangible assets, net	96,348	101,918
Goodwill	169,648	169,648
Other assets, net	1,264	1,968
Total assets	$ 407,865	$ 442,794
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 3,730	$ 2,776
Accrued liabilities	11,505	15,031
Current portion of long-term debt	332	420
Total current liabilities	15,567	18,227
Long-term debt	129,668	165,068
Deferred income taxes	48,927	51,217
Other liabilities	3,231	3,076
Total liabilities	197,393	237,588
Commitments and contingencies (Note 12)		
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; 27,732 and 27,078 shares issued and 27,620 and 26,999 shares outstanding at December 29, 2007 and December 31, 2006, respectively	276	270
Additional paid-in-capital	210,964	205,799
Accumulated other comprehensive (loss) income	(422)	106
Accumulated deficit	(346)	(969)
Total shareholders equity	210,472	205,206
Total liabilities and shareholders equity	$ 407,865	$ 442,794

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

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PGT, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Year Ended December 29, 2007	December 30, 2006	December 31, 2005
Cash flows from operating activities:			
Net income (loss)	$ 623	$ (969)	$ 7,863
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation	10,418	9,871	7,503
Amortization	5,570	5,742	8,020
Stock-based compensation	1,479	592	
Excess tax benefits from stock-based compensation plans	(1,762)	(5,375)	
Amortization of deferred financing costs	724	7,205	1,285
Unrealized loss (gain) on derivative financial instruments	692	(176)	(221)
Deferred income taxes	(1,423)	3,715	(4,978)
Expense related to stock issuance			334
Impairment of Lexington facility	826	1,151	
Write-off of trademark			7,200
Loss on disposal of assets	226	103	562
Change in operating assets and liabilities:			
Accounts receivable	4,393	16,376	(18,197)
Inventories	1,874	2,820	(2,530)
Prepaid expenses and other current assets	4,243	(748)	893
Accounts payable and accrued liabilities	(3,063)	(10,128)	13,964
Net cash provided by operating activities	24,820	30,179	21,698
Cash flows from investing activities:			
Purchases of property, plant and equipment	(10,569)	(26,753)	(15,864)
Proceeds from sales of equipment and intangibles	43	109	261
Net cash used in investing activities	(10,526)	(26,644)	(15,603)
Cash flows from financing activities:			
Proceeds from exercise of stock options	1,930	1,311	
Excess tax benefits from stock-based compensation plans	1,762	5,375	
Proceeds from initial public offering		129,471	
Proceeds from issuance of long-term debt		320,000	190,000
Net change in revolving line of credit			(2,000)
Payments of dividends		(83,484)	(20,000)
Payments of financing costs		(4,459)	(500)
Payments of long-term debt	(35,488)	(338,038)	(172,850)
Net cash (used in) provided by financing activities	(31,796)	30,176	(5,350)
Net (decrease) increase in cash and cash equivalents	(17,502)	33,711	745
Cash and cash equivalents at beginning of period	36,981	3,270	2,525
Cash and cash equivalents at end of period	$ 19,479	$ 36,981	$ 3,270

Supplemental cash flow information:			
Interest paid	$ 12,034	$ 22,827	$ 11,643
Income taxes paid	$ 2,798	$ 1,242	$ 10,780

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

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PGT, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

(in thousands except share amounts)

	Common stock					
	Shares	Amount	Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total
Balance at January 1, 2005	15,720,351	$ 157	$ 157,458	$ 6,992	$ 1,500	$ 166,107
Issuance of stock as compensation	29,132		334			334
Dividends paid			(5,145)	(14,855)		(20,000)
Comprehensive income:						
Amortization of ineffective interest rate swap					(78)	(78)
Change in fair value of interest rate swaps, net of tax benefit of $248					465	465
Change in fair value of aluminum forward contracts, net of tax benefit of $1,202					1,880	1,880
Net income						