PGT, Inc.
Form 10-Q
May 09, 2011
UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended April 2, 2011

OR

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

For the transition period from to

Commission file number 000-52059

PGT, Inc.

1070 Technology Drive
North Venice, FL 34275

Registrant's telephone number: 941-480-1600

State of Incorporation	IRS Employer Identification No.
Delaware	20-0634715

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes R No £

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes £ No £*

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

Large accelerated filer o	Accelerated filer o	Non-accelerated filer þ (Do not check if a smaller reporting company)	Smaller reporting companyo

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

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

Common Stock, $0.01 par value – 53,670,135 shares, as of May 3, 2011.

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

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PART I — FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

	Three Months Ended April 2, 2011 (unaudited)	Three Months Ended April 3, 2010 (unaudited)
Net sales	$ 40,644	$ 40,515
Cost of sales	32,319	29,193
Gross margin	8,325	11,322
Selling, general and administrative expenses	13,034	11,928
Loss from operations	(4,709)	(606)
Interest expense, net	1,122	1,474
Other income	(42)	(20)
Loss before income taxes	(5,789)	(2,060)
Income tax benefit	-	-
Net loss	$ (5,789)	$ (2,060)
Net loss per common share:		
Basic	$ (0.11)	$ (0.05)
Diluted	$ (0.11)	$ (0.05)
Weighted average shares outstanding:		
Basic	53,654	39,738
Diluted	53,654	39,738

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

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

	April 2, 2011 (unaudited)	January 1, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 15,492	$ 22,012
Accounts receivable, net	15,184	13,687
Inventories	11,403	10,535
Prepaid expenses	1,082	881
Assets held for sale	657	657
Other current assets	3,811	3,589
Total current assets	47,629	51,361
Property, plant and equipment, net	51,683	52,863
Intangible assets, net	62,665	64,291
Other assets, net	267	604
Total assets	$ 162,244	$ 169,119
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 14,498	$ 16,696
Deferred income taxes	185	185
Current portion of long-term debt and capital lease obligations	50,115	245
Total current liabilities	64,798	17,126
Long-term debt and capital lease obligations	20	49,918
Deferred income taxes	17,130	17,130
Other liabilities	2,291	1,903
Total liabilities	84,239	86,077
Commitments and contingencies (Note 11)	-	-
Shareholders' equity:		
Preferred stock; par value $.01 per share; 10,000 shares authorized; none outstanding	-	-
Common stock; par value $.01 per share; 200,000 shares authorized; 53,670 issued	537	537

and 53,654 outstanding at April 2, 2011 and January 1, 2011		
Additional paid-in-capital, net of treasury stock	271,663	271,038
Accumulated other comprehensive loss	(1,117)	(1,243)
Accumulated deficit	(193,078)	(187,290)
Total shareholders' equity	78,005	83,042
Total liabilities and shareholders' equity	$ 162,244	$ 169,119

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

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

	Three Months Ended April 2, 2011	Three Months Ended April 3, 2010
	(unaudited)	
Cash flows from operating activities:		
Net loss	$ (5,789)	$ (2,060)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	1,923	2,469
Amortization	1,626	1,496
Provision for allowances of doubtful accounts	346	318
Amortization of deferred financing costs	217	171
Stock-based compensation	626	98
Derivative financial instruments	(42)	-
Loss on disposal of assets	44	-
Change in operating assets and liabilities:		
Accounts receivable	(2,073)	(3,233)
Inventories	(868)	(1,481)
Prepaid expenses and other assets	28	(187)
Accounts payable, accrued and other liabilities	(1,544)	(882)
Net cash used in operating activities	(5,506)	(3,291)
Cash flows from investing activities:		
Purchases of property, plant and equipment	(787)	(289)
Net change in margin account for derivative financial instruments	(200)	-
Net cash used in investing activities	(987)	(289)
Cash flows from financing activities:		
Net proceeds from issuance of common stock	-	27,257
Payments of long-term debt	-	(15,000)
Payments of financing costs	-	(897)
Payments of capital leases	(27)	(26)
Net cash (used in) provided by financing activities	(27)	11,334
Net (decrease) increase in cash and cash equivalents	(6,520)	7,754

Cash and cash equivalents at beginning of period	22,012	7,417
Cash and cash equivalents at end of period	$ 15,492	$ 15,171

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

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PGT, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

NOTE 1. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements include the accounts of PGT, Inc. and its wholly-owned subsidiary (collectively the "Company") after elimination of intercompany accounts and transactions. These statements have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and footnotes required by United States Generally Accepted Accounting Principles ("GAAP") for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the interim period are not necessarily indicative of the results that may be expected for the remainder of the current year or for any future periods. Each of our Company's fiscal quarters ended April 2, 2011 and April 3, 2010 consisted of 13 weeks.

The condensed consolidated balance sheet as of January 1, 2011 is derived from the audited consolidated financial statements but does not include all disclosures required by GAAP. This condensed consolidated balance sheet as of January 1, 2011 and the unaudited condensed consolidated financial statements as of April 2, 2011, should be read in conjunction with the more detailed audited consolidated financial statements for the year ended January 1, 2011 included in the Company's most recent annual report on Form 10-K. Accounting policies used in the preparation of these unaudited condensed consolidated financial statements are consistent with the accounting policies described in the Notes to Consolidated Financial Statements included in the Company's Form 10-K.

As of April 2, 2011, the entire $50 million of our term loan is classified as a current liability in the current portion of long-term debt and capital lease obligations within the accompanying condensed consolidated balance sheet since it is due on February 14, 2012, which is within one year. We are currently in the process of refinancing the loan and expect we will be successful, although no assurance can be made in that regard. If we are unable to refinance our indebtedness on satisfactory terms, we may be required to dedicate a more substantial portion of our operating cash flows to our indebtedness, which may limit our flexibility in planning for, or reacting to, changes in our business or investing in our growth.

NOTE 2. CONSOLIDATION AND RESTRUCTURINGS

On December 3, 2010, we announced that our Salisbury, North Carolina operations would be transferred to Venice, Florida to consolidate our window and door production at our Florida plant. This consolidation is expected to be completed during the second quarter of 2011. As a result of this consolidation, we recorded consolidation charges of $2.6 million of which $2.1 million is classified within costs of goods sold and the remaining $0.5 million is classified within selling, general and administrative expenses in the accompanying condensed consolidated statement of operations for the three months ended April 2, 2011. The charges relate primarily to employee separation costs and moving expenses. The total charges recorded through April 2, 2011 for the consolidation are $4.7 million, of which $1.4 million and $1.8 million are unpaid as of April 2, 2011 and January 1, 2011, respectively, and are classified in accounts payable and accrued liabilities within the accompanying condensed consolidated balance sheet. The unpaid amounts as of April 2, 2011 are expected to be disbursed prior to the end of 2011.

On September 24, 2009 and November 12, 2009, we announced restructurings based on the results of our continued analysis of target markets, internal structure, projected run-rate, and efficiency. The charges from these restructurings totaled $2.4 million, of which $0.2 million was unpaid as of April 3, 2010, and are classified within accounts payable and accrued liabilities in the accompanying condensed consolidated balance sheets. The unpaid amount as of April 3, 2010 was disbursed in 2010.

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

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(in thousands)	Beginning of Period	Charged to Expense	Disbursed in Cash	End of Period
Three months ended April 2, 2011:				
2010 Consolidation	$ 1,812	$ 2,632	$ (3,085)	$ 1,359
Three months ended April 3, 2010:				
2009 Restructurings	$ 898	$ -	$ (660)	$ 238

NOTE 3. WARRANTY

Most of our manufactured products are sold with warranties. Warranty periods, which vary by product component, generally range from 1 to 10 years. However, the majority of the products sold have warranties on components which range from 1 to 3 years. The reserve for warranties is based on management's assessment of the average cost per service call and the number of service calls expected to be incurred to satisfy warranty obligations on recorded net sales. The reserve is determined after assessing our warranty history and estimating our future warranty obligations.

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

Accrued Warranty (in thousands)	Beginning of Period	Charged to Expense	Adjustments	Settlements	End of Period
Quarter ended April 2, 2011	$ 4,103	$ 609	$ (259)	$ (593)	$ 3,860
Quarter ended April 3, 2010	$ 4,041	$ 609	$ (187)	$ (619)	$ 3,844

NOTE 4. INVENTORIES

Inventories consist principally of raw materials purchased for the manufacture of our products. We have limited finished goods inventory since all products are custom, made-to-order products and usually ship upon completion. Finished goods inventory costs include direct materials, direct labor, and overhead. All inventories are stated at the lower of cost (first-in, first-out method) or market value. Inventories consisted of the following at:

	April 2, 2011	January 1, 2011
	(in thousands)	
Raw materials	$ 9,514	$ 9,273
Work in progress	281	293

Finished goods	1,608	969
	$ 11,403	$ 10,535

NOTE 5. STOCK COMPENSATION EXPENSE

We record compensation expense over an award's vesting period based on the award's fair value at the date of grant. We recorded compensation expense for stock based awards of $0.6 million for the first quarter of 2011 and less than $0.1 million for the first quarter of 2010. As of April 2, 2011, there was $2.7 million and less than $0.1 million of total unrecognized compensation cost related to non-vested stock option agreements and non-vested restricted share awards, respectively, including the repriced and exchanged options as described in Item 8, in footnote 17 under the titles "2010 Equity Exchange" and "2010 Issuer Tender Offer" in the Company's Annual Report on Form 10-K for the year ended January 1, 2011, as filed on March 21, 2011. These costs are expected to be recognized in earnings on a straight-line basis over the weighted average remaining vesting period of 2.6 years.

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New Issuances

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

NOTE 6. 2010 RIGHTS OFFERING

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

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

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

NOTE 7. NET LOSS PER COMMON SHARE

Basic earnings per share ("EPS") is computed using the weighted average number of common shares outstanding during the period. Diluted EPS is computed using the weighted average number of common shares outstanding during the period, plus the dilutive effect of common stock equivalents.

Due to the net losses in all periods presented herein, the dilutive effect of stock-based compensation plans is anti-dilutive. There were 6,650,178 and 1,053,431 shares of common stock for the first quarter of 2011 and 2010, respectively, relating to stock option agreements excluded from the computation of diluted EPS in each period as their effect would have been anti-dilutive.

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

	Three Months Ended April 2, 2011	Three Months Ended April 3, 2010
	(in thousands, except per share amounts)	
Net loss	$ (5,789)	$ (2,060)
Weighted-average common shares - Basic	53,654	39,738
Add: Dilutive effect of stock compensation plans	-	-
Weighted-average common shares - Diluted	53,654	39,738
Net loss per common share:		
Basic	$ (0.11)	$ (0.05)
Diluted	$ (0.11)	$ (0.05)

NOTE 8. INTANGIBLE ASSETS

Intangible assets are as follows:

	April 2, 2011	January 1, 2011	Original Useful Life (in years)
	(in thousands)		
Intangible assets:			
Trademarks	$ 44,400	$ 44,400	indefinite
Customer relationships	55,700	55,700	10
Less: Accumulated amortization	(39,955)	(38,562)	
Subtotal	15,745	17,138	
Hurricane intellectual assets	2,797	2,797	3
Less: Accumulated amortization	(277)	(44)	
Subtotal	2,520	2,753	
Intangible assets, net	$ 62,665	$ 64,291	

Indefinite Lived Intangible Assets

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

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

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No impairment test was conducted as of April 2, 2011. Our year-end test of trademarks, performed as of January 1, 2011, utilized a weighted average royalty rate of 4.0% and a discount rate of 16.8%. Projected net sales used in the analysis were based on historical experience and a continuance of the recent decline in sales in the near future, followed by modest growth beginning in 2013. As of January 1, 2011, the estimated fair value of the trademarks exceeded book value by approximately 15%, or $6.6 million. We believe our projected sales are reasonable based on available information regarding our industry. We also believe the royalty rate is appropriate and could improve over time based on market trends and information, including that which is set forth above. The weighted average discount rate was based on current financial market trends and will remain dependent on such trends in the future. Absent offsetting changes in other factors, a 1% increase in the discount rate would decrease the estimated fair value of our trademarks by approximately $3.6 million but would not result in an impairment.

Amortizable Intangible Assets

We perform an impairment test on our amortizable intangible assets anytime that impairment indicators exist. Such assets include our customer relationships asset and the intellectual property assets acquired upon exercise of the option to purchase the Hurricane Window and Door Technology assets in December 2010. We will continue to monitor and evaluate potential impairment indicators, including further decline in the housing market, which could result in impairment.

NOTE 9. LONG-TERM DEBT

On February 14, 2006, we 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 was composed of a $25 million revolving credit facility, having been reduced from $30 million as a result of the third amendment discussed below, and initially, a $205 million first lien term loan. The second lien term loan was fully repaid with proceeds from our IPO in 2006. The outstanding balance of the first lien term loan on April 2, 2011 was $50.0 million. During 2010, we prepaid $18.0 million of long-term debt with cash generated from operations and from the net proceeds of the rights offering which totaled $27.3 million.

During the quarter ending April 2, 2011, our revolving credit facility was reduced to $20 million due to $5 million of the facility not being extended past its original maturity date. As of April 1, 2011, there was $17.3 million available under our $20 million revolving credit facility.

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

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

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 subject to such 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 subsidiary to (i) dispose of assets; (ii) change our business; (iii) engage in mergers or consolidations; (iv) make certain acquisitions; (v) pay dividends; (vi) incur indebtedness or guarantee obligations and issue preferred and other disqualified stock; (vii) make investments

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and loans; (viii) incur liens; (ix) engage in certain transactions with affiliates; (x) enter into sale and leaseback transactions; (xi) issue stock or stock options under certain conditions; (xii) amend or prepay subordinated indebtedness and loans under the second lien secured credit facility; (xiii) modify or waive material documents; or (xiv) change our fiscal year. In addition, under the senior secured credit facility, we are required to comply with specified financial ratios and tests, modified by the third amendment discussed above, including a minimum interest coverage ratio, a maximum leverage ratio, and maximum capital expenditures. On an annual basis, our Company is required to compute excess cash flow, as defined in our credit and security agreement with the bank. In periods where there is excess cash flow, our Company is required to make prepayments in an aggregate principal amount determined through reference to a grid based on the leverage ratio. No such prepayments were required for the year ended January 1, 2011.

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

Remainder of 2011	$217
2012	49,918
Total	$50,135

NOTE 10. COMPREHENSIVE LOSS AND ACCUMULATED OTHER COMPREHENSIVE LOSS

The following table shows the components of comprehensive loss for the three months ended April 2, 2011 and April 3, 2010:

	Three Months Ended April 2, 2011	April 3, 2010
	(in thousands)	
Net loss	$ (5,789)	$ (2,060)
Other comprehensive income (loss), net of taxes:		
Change related to forward contracts for aluminum, net of tax expense of $0 and $0 for the three month periods ended April 2, 2011 and April 3, 2010, respectively	126	(13)
Total comprehensive loss	$ (5,663)	$ (2,073)

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

(in thousands)	Aluminum Forward Contracts	Valuation Allowance	Total
Balance at January 1, 2011	$ (1,631)	$ 388	$ (1,243)
Changes in fair value	259	-	259
Reclassification to earnings	(133)	-	(133)
Tax effect	(48)	48	-
Balance at April 2, 2011	$ (1,553)	$ 436	$ (1,117)

(in thousands)	Aluminum Forward Contracts	Valuation Allowance	Total
Balance at January 2, 2010	$ (1,501)	$ 470	$ (1,031)
Changes in fair value	68	-	68
Reclassification to earnings	(81)	-	(81)
Tax effect	5	(5)	-
Balance at April 3, 2010	$ (1,509)	$ 465	$ (1,044)

NOTE 11. COMMITMENTS AND CONTINGENCIES

Litigation

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

NOTE 12. FINANCIAL INSTRUMENTS AND DERIVATIVE FINANCIAL INSTRUMENTS

Financial Instruments

Our financial instruments, not including derivative financial instruments discussed below, include cash, accounts receivable, accounts payable and capital leases whose carrying amounts approximate their fair values due to their short-term nature. Our financial instruments also include long-term debt. Based on bid prices for our debt, the fair value of our long-term debt was approximately $49.1 million at April 2, 2011 and $48 million at January 1, 2011.

Derivative Financial Instruments

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

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

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Should the price of aluminum fall to a level which causes us to switch to a liability position for open aluminum contracts we would be required to fund daily margin calls to cover the excess.

At April 2, 2011, the fair value of our aluminum forward contracts was in an asset position of $919 thousand including $450 thousand of cash on deposit with our commodity broker. We had 21 outstanding forward contracts for the purchase of 3.4 million pounds of aluminum at an average price of $1.05 per pound with maturity dates of between less than one month and 8 months through December 2011. We assessed the risk of non-performance of the counter-party to these contracts and recorded an immaterial adjustment to fair value as of April 2, 2011. Should we have any margin calls in the future, we will net cash collateral from payments of margin calls on deposit with our commodities broker against the liability position of open contracts for the purchase of aluminum on a first-in, first-out basis. For statement of cash flows presentation, we present net cash receipts from and payments to the margin account as investing activities.

As of April 2, 2011, we had entered into six zero cost collars with a ceiling of $2,700 per metric ton and a concurrent floor at $2,295 per metric ton that hedge 13% of our 2011 anticipated needs. Should prices fall within the range upon settlement, there is no cost to the collars. If aluminum is above $2,700 per metric ton we would be able to purchase at $2,700 per ton. If aluminum is below $2,295 per metric ton we would be required to purchase at $2,295 per metric ton. As of April 2, 2011, aluminum is priced between our ceiling and floor and the net fair value was insignificant.

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

Derivatives in a net asset position	Balance Sheet Location	April 2, 2011	January 1, 2011
Hedging instruments:			
Aluminum forward contracts	Other Current Assets	$ 469	$ 300
Cash on deposit related to payments of margin calls	Other Current Assets	450	250
Total hedging instruments		$ 919	$ 550

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

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		Fair Value Measurements at Reporting Date of Net Asset Using:		
Description	April 2, 2011	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(in thousands)		
Aluminum forward contracts	$ 469	$ -	$ 469	$ -
Cash on deposit related to payments of margin calls	450			
Aluminum forward contracts, net asset	$ 919			

Description	January 1, 2011	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(in thousands)		
Aluminum forward contracts	$ 300	$ -	$ 300	$ -
Cash on deposit related to payments of margin calls	250			
Aluminum forward contracts, net asset	$ 550			

Our aluminum hedges qualify as highly effective for reporting purposes. For the three months ended April 2, 2011, and April 3, 2010, the ineffective portion of the hedging instruments was not significant. Effectiveness of aluminum forward contracts is determined by comparing the change in the fair value of the forward contract to the change in the expected cash to be paid for the hedged item. At April 2, 2011, these contracts were designated as effective. The effective portion of the gain or loss on our aluminum forward contracts is reported as a component of other comprehensive income and is reclassified into earnings in the same line item in the statement of operations as the hedged item in the same period or periods during which the transaction affects earnings. For the three months ended April 2, 2011, and April 3, 2010, no amounts were reclassified to earnings because of the discontinuance of a cash flow hedge because it was probable that the original forecasted transaction would not occur. The ending accumulated balance related to the fair value of the aluminum forward contracts of $0.5 million as of April 2, 2011, is expected to be reclassified into earnings in 2011.

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

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Derivatives in Cash Flow Hedging Relationships

	Amount of Gain or (Loss) Recognized in OCI on Derivatives (Effective Portion)		Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	
	Three Months Ended			Three Months Ended	
	Apr 2, 2011	Apr 3, 2010		Apr 2, 2011	Apr 3, 2010
Aluminum contracts	$ 259	$ 68	Cost of sales	$ 91	$ 61

Derivatives in Cash Flow Hedging Relationships

	Location of Gain or (Loss) Recognized in Income on Derivatives (Ineffective Portion)	Amount of Gain or (Loss) Recognized in Income on Derivatives (Ineffective Portion)	
		Three Months Ended	
		Apr 2, 2011	Apr 3, 2010
Aluminum contracts	Other income	$ 42	$ 20

NOTE 13. ASSETS HELD FOR SALE

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

As of April 3, 2010, we reviewed the relevant factors affecting the value of this facility and determined that the value remained appropriate. This facility's fair value was determined using Level 2 inputs as follows:

		Fair Value Measurements at Reporting Date of Asset Using:		
Description	April 3, 2010	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(in thousands)		
Lexington Property	$ 700	$ -	$ 700	$ -

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In January 2011, we accepted an offer to sell the property. The purchase price less estimated closing cost resulted in an additional impairment of less than $0.1 million, which was recorded in the fourth quarter of 2010. The sale of this building closed on April 15, 2011, at approximately the net book value as recorded at April 2, 2011.

As of April 2, 2011, we reviewed the relevant factors affecting the value of this facility and determined that the value recorded at year end remains appropriate. This facility's fair value was determined using Level 2 inputs as follows:

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

NOTE 14. GOVERNMENT INCENTIVE

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

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

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

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

Special Note Regarding Forward-Looking Statements

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

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

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

EXECUTIVE OVERVIEW

Sales and Operations

On May 5, 2011, we issued a press release and held a conference call on May 6, 2011 to review the results of operations for our first three months ended April 2, 2011. During the call, we also discussed current market conditions and progress made regarding certain growth initiatives and our plant consolidation. The overview and estimates contained in this report are consistent with those given in our press release and our conference call remarks. We are neither updating nor confirming that information.

In the first three months of 2011, housing starts in our core market were down 8%. Multi-family starts were up 68%, but single family starts decreased 21% each compared to a year ago. Market conditions remain difficult and are not expected to turn around significantly in 2011.

We began 2011 with growth in our Florida market sales of $2.6 million, or 7.9% compared to prior year due to an increase in vinyl sales of $2.5 million, or 44%. This growth of vinyl sales was led by Vinyl WinGuard sales, which were up $1.3 million, or 43.2%. Additionally, a version of our new vinyl non-impact product, SpectraGuard, designed for the Florida market and launched last year, contributed $0.7 million in additional sales. Finally, our new PremierVue line of high-end vinyl impact products, contributed $0.5 million in additional sales.

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The growth in Florida was largely offset by a decrease in our out of state sales of $1.9 million, or 32.3%, driven by a decrease in sales of vinyl products of $1.1 million and curtain wall revenue of $0.5 million. The increase in Florida sales as well as the decrease in out of state sales was largely driven by our change in market strategy, in which we decided to focus our resources on our core Florida markets. In addition, international sales decreased $0.6 million for the quarter. Overall our sales increased $0.1 million as compared to the first quarter of 2010.

Excluding curtain wall revenues, sales in the first quarter were up 1.6%, led by an increase in new construction sales which increased 15% over a year ago. Sales into the R&R market decreased 3% as compared to first quarter 2010. As a percentage of total sales for the first quarter of 2011, R&R sales accounted for 74% and new construction sales accounted for 26% of sales. During the quarter we experienced an inconsistent economic and housing recovery with January and February sales lower than prior year, but March sales were stronger.

During the fourth quarter of 2010, we announced the decision to consolidate all operations into our Florida facility. In the first quarter we recorded approximately $2.6 million in consolidation charges, related to employee severance costs and consolidation related expenses. We will continue recording consolidation charges throughout the second quarter of 2011. We currently anticipate incurring between $6.0 and $6.5 million in total cash consolidation charges. Our estimated savings from the consolidation is approximately $7.0 million annually of which we estimate recognizing $3.0 million in our fiscal year 2011.

The tax credit expiration, commercial softness and vacant housing inventory drove a sluggish start to 2011. Median housing prices are now down to 2001 levels, 18% of homes in Florida are vacant, foreclosures are expected to hit an all-time high in 2011 before dropping in 2012, and housing starts dropped in February 2011, down 20% from the prior year.

The year 2011 represents a year of transition for our Company. We are refocusing our resources on our core markets of Florida and the coastal areas from the mid-Atlantic to Texas. In addition, our plant consolidation will allow us to better serve our customer needs within these markets.

Liquidity and Cash Flow

As of April 2, 2011, the entire $50 million of our term loan is classified as a current liability in the current portion of long-term debt and capital lease obligations within the accompanying condensed consolidated balance sheet since it is due on February 14, 2012, which is within one year. We are currently in the process of refinancing the loan and expect we will be successful, although no assurance can be made in that regard. If we are unable to refinance our indebtedness on satisfactory terms, we may be required to dedicate a more substantial portion of our operating cash flows to our indebtedness, which may limit our flexibility in planning for, or reacting to, changes in our business or investing in our growth. As of April 2, 2011 our net debt was approximately $34.5 million.

Consolidation and Restructuring

On December 3, 2010, we announced that our Salisbury, North Carolina operations would be transferred to Venice, Florida to consolidate our window and door production at our Florida plant. This consolidation is expected to be completed during the second quarter of 2011. As a result of this consolidation, we recorded consolidation charges of $2.6 million of which $2.1 million is classified within costs of goods sold and the remaining $0.5 million is classified within selling, general and administrative expenses in the accompanying condensed consolidated statement of operations for the three months ended April 2, 2011. The charges relate primarily to employee separation costs and moving expenses. The total charges recorded through April 2, 2011 for the consolidation are $4.7 million, of which $1.4 million and $1.8 million are unpaid as of April 2, 2011 and January 1, 2011, respectively, and are classified in accounts payable and accrued liabilities within the accompanying condensed consolidated balance sheet. The unpaid amounts as of April 2, 2011 are expected to be disbursed prior to the end of 2011.

On September 24, 2009 and November 12, 2009, we announced restructurings based on the results of our continued analysis of target markets, internal structure, projected run-rate, and efficiency. The charges from these restructurings totaled $2.4 million, of which $0.2 million was unpaid as of April 3, 2010, and are classified within accounts payable and accrued liabilities in the accompanying condensed consolidated balance sheets. The unpaid amount as of April 3, 2010, was disbursed in 2010.

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

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(in thousands)	Beginning of Period	Charged to Expense	Disbursed in Cash	End of Period
Three months ended April 2, 2011:				
2010 Consolidation	$ 1,812	$ 2,632	$ (3,085)	$ 1,359
Three months ended April 3, 2010:				
2009 Restructurings	$ 898	$ -	$ (660)	$ 238

Selected Financial Data

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

	Three Months Ended April 2, 2011	Three Months Ended April 3, 2010
Net sales	100.0 %	100.0 %
Cost of sales	79.5 %	72.1 %
Gross margin	20.5 %	27.9 %
Selling, general and administrative expenses	32.1 %	29.4 %
Loss from operations	(11.6 %)	(1.5 %)
Interest expense, net	2.8 %	3.6 %
Other income	(0.1 %)	0.0 %
Loss before income taxes	(14.2 %)	(5.1 %)
Income tax benefit	0.0 %	0.0 %
Net loss	(14.2 %)	(5.1 %)

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED APRIL 2, 2011 AND APRIL 3, 2010

Net sales

Net sales were $40.6 million in the first quarter of 2011, which represented an increase of $0.1 million, or 0.3%, compared to the 2010 first quarter. The following table shows net sales classified by major product category (sales in millions):

	Three Months Ended				
	April 2, 2011		April 3, 2010		
	Sales	% of sales	Sales	% of sales	% change
Product category:					
Impact Window and Door Products	$ 28.3	69.7 %	$ 27.3	67.4 %	3.8 %
Other Window and Door Products	12.3	30.3 %	13.2	32.6 %	(6.9 %)
Total net sales	$ 40.6	100.0 %	$ 40.5	100.0 %	0.3 %

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Net sales of impact window and door products, which includes our WinGuard, PremierVue and Architectural Systems product lines, were $28.3 million for the first quarter of 2011, an increase of $1.0 million, or 3.8%, from $27.3 million in net sales for the 2010 first quarter. The increase was due mainly to an increase of $1.0 million in our Vinyl WinGuard sales and an increase in PremierVue sales of $0.5 million. This was partially offset by a decrease in the impact portion of our Architectural System sales of approximately $0.2 million and a decrease in Aluminum WinGuard sales of approximately $0.2 million. Our WinGuard sales have also been affected, to some extent, by the lack of storm activity during the four most recent hurricane seasons in the coastal markets of Florida served by the Company. WinGuard product sales represented 64% and 62% our net sales for the first quarter of 2011 and 2010, respectively.

Net sales of Other Window and Door Products were $12.3 million for the first quarter of 2011, a decrease of $0.9 million, or 6.9%, from $13.2 million in net sales for the 2010 first quarter. This decrease was due mainly to a decrease in sales of our curtain wall products of $0.5 million and aluminum non-impact products of $0.3 million.

Gross margin

Gross margin was $8.3 million, or 20.5% of sales, for the first quarter of 2011, a decrease of $3.0 million, or 26.5%, from $11.3 million, or 27.9% of sales, for the first quarter of 2010. The 2011 first quarter margin was impacted by $2.1 million in consolidation costs. Adjusting for these charges, gross margin was 25.8% in the first quarter of 2011. The 2.1% decrease in adjusted gross margin as a percent of sales is mainly a result of increases in the cost of materials (1.6%) and temporary labor inefficiencies related to our plant consolidation (0.5%). Partially offsetting these decreases in gross margin was a decrease in overhead spending categories including health insurance and depreciation expense.

Selling, general and administrative expenses

Selling, general and administrative expenses were $13.0 million for the first quarter of 2011, an increase of $1.1 million, from $11.9 million for the 2010 first quarter. Selling, general, and administrative includes charges of $0.5 million in 2011 related to our plant consolidation. Excluding the consolidation charges in 2011 selling, general and administrative expenses increased $0.6 million and as a percentage of sales was 30.9% in the first quarter of 2011 compared to 29.3% in the first quarter of 2010. The $0.6 million increase in adjusted SG&A was due mainly to a $0.6 million increase in sales and marketing expenses and $0.5 million increase in non-cash stock compensation. Partially offsetting the increase was a decrease in depreciation expense of $0.3 million.

Interest expense, net

Interest expense, net was $1.1 million in the first quarter of 2011, a decrease of $0.4 million from $1.5 million for the first quarter of 2010. The decrease was due to a lower level of debt during the first quarter of 2011 compared to the first quarter of 2010.

Other income

There was other income of less than $0.1 million in both the first quarters of 2011 and 2010. The amounts in each quarter relate to the ineffective portions of aluminum hedges.

Income tax benefit

We had an effective tax rate of 0.0% in both the first quarters of 2011 and 2010 due to the full valuation allowances that we apply to our deferred tax assets. We also expect our effective income tax rate for 2011 to be 0%

due to the fact that we do not anticipate generating enough taxable income to exceed our current net operating loss carry-forwards. Changes in deferred tax assets and liabilities during the first quarter of 2011 and 2010 were offset by changes in the valuation allowance for deferred tax assets. Excluding the change in the valuation allowance, the effective tax rate in the first quarter of 2011 and 2010 would have been a tax benefit of 37.7% and 38.2%, respectively.

Liquidity and Capital Resources

Our principal source of liquidity is cash flow generated by operations, supplemented by borrowings under our credit facilities. This cash generating capability provides us with financial flexibility in meeting operating and investing needs. Our primary capital requirements are to fund working capital needs, meet required debt payments, including debt service payments on our credit facilities, and fund capital expenditures.

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2010 Rights Offering

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

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

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

Consolidated Cash Flows

Operating activities. Cash used in operating activities was $5.5 million in the first three months of 2011 compared to $3.3 million in the first three months of 2010. This is due to our use of cash related to working capital of $3.6 million, primarily for the payment of $2.8 million in employee bonuses earned in 2010 and an increase in receivables of $1.5 million. In addition, we paid $3.1 million in consolidation related expenses in the first quarter of 2011 of which $2.6 million is included in our net loss for the quarter ended April 2, 2011.

Direct cash flows from operations for the first three months of 2011 and 2010 are as follows:

	Direct Cash Flows Three Months Ended	
(in millions)	April 2, 2011	April 3, 2010
Collections from customers	$ 39.8	$ 38.4
Other collections of cash	1.0	0.7
Disbursements to vendors	(26.5)	(26.2)
Personnel related disbursements	(18.9)	(14.9)
Debt service costs	(0.9)	(1.3)

Cash used in operations	$ (5.5)	$ (3.3)

Other collections of cash for the first three months of 2011 includes $0.6 million from Sarasota County related to our plant consolidation. The remaining amount for the first three months of 2011 and 2010 primarily represent scrap aluminum sales.

Days sales outstanding (DSO), which we calculate as accounts receivable divided by average daily sales, was 40 days at April 2, 2011, and 42 days at January 1, 2011, compared to 44 days at April 3, 2010 and 41 days at January 2, 2010, respectively. The gross amount of receivables from two customers on payment plans, at April 2, 2011, was $1.0 million, of which $0.9 million was reserved. During the quarter ended April 2, 2011, we received payments pursuant to these payment plans of less than $0.1 million.

Inventory on hand as of April 2, 2011, remained relatively flat compared to April 3, 2010. Inventory turns during the first three months of 2011, decreased to 11.5 from 11.6 when compared to the first three months of 2010.

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We monitor and evaluate raw material inventory levels based on the need for each discrete item to fulfill short-term requirements calculated from current order patterns and to provide appropriate safety stock. Because all of our products are made-to-order, we have only a small amount of finished goods and work in process inventory. Because of these factors, our inventories are not excessive, and we believe the value of such inventories will be realized through sale.

Investing activities. Cash used for investing activities was $1.0 million for the first three months of 2011, compared to cash used of $0.3 million for the first three months of 2010. The increase of $0.7 million in cash used in investing activities was due to a higher level of capital spending and an increase in cash used for margin calls on our aluminum hedging program.

Financing activities. Cash used in financing activities was less than $0.1 million in the first three months of 2011, compared to cash provided by financing activities of $11.3 million in the first three months of 2010. The cash provided by financing activities in the first quarter of 2010, include the $27.3 million in net proceeds from the rights offering, offset by the $15.0 million term debt prepayment made on March 17, 2010, and the $0.9 million in debt amendment fees.

Capital Resources. On February 14, 2006, we 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 $25 million revolving credit facility, having been reduced from $30 million as a result of the third amendment discussed below, and initially, a $205 million first lien term loan. The second lien term loan was fully repaid with proceeds from our IPO in 2006. The outstanding balance of the first lien term loan on April 2, 2011 was $50.0 million. During 2010, we prepaid $18.0 million of long-term debt.

During the quarter ending April 2, 2011 our revolving credit facility was reduced to $20 million due to $5 million of the facility not being extended past its original maturity date. As of April 2, 2011, there was $17.3 million available under our $20 million revolving credit facility.

On December 24, 2009, we announced that we entered into a third amendment to the credit agreement. The amendment, among other things, provided a leverage covenant holiday for 2010, increased the maximum leverage amount for the first quarter of 2011 to 6.25 times (then dropping 0.25X per quarter from the second quarter until the end of the term), extended the due date on the revolver loan until the end of 2011, increased the applicable rate on any outstanding revolver loan by 25 basis points, and set a base rate floor of 4.25%. The effectiveness of the amendment was conditioned, among other things, on the repayment of at least $17 million of the term loan under the credit agreement no later than March 31, 2010, of which no more than $2 million was permitted to come from cash on hand. In December 2009, the Company used cash generated from operations to prepay $2 million of outstanding borrowings under the credit agreement. Using proceeds from the 2010 rights offering, the Company made an additional prepayment of $15.0 million on March 17, 2010, bringing total prepayments of debt at that time to $17.0 million as required under the amended credit agreement. Having made the total required prepayment and having satisfied all other conditions to bring the amendment into effect, including the payment of the fees and expenses of the administrative agent and a consent fee to participating lenders of 50 basis points of the then outstanding balance of the term loan and the revolving commitment under the credit agreement of $100 million, the amendment became effective on March 17, 2010. Fees paid to the administrative agent and lenders totaled $1.0 million, of which $0.9 million are deferred financing fees and are being amortized using the effective interest method over the remaining term of the credit agreement.

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

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 needs, including our capital expenditures and our debt obligations, in 2011.

As of April 2, 2011, the entire $50 million of our term loan is classified as a current liability in the current portion of long-term debt and capital lease obligations within the accompanying condensed consolidated balance sheet since it is due on February 14, 2012, which is within one year. We are currently in the process of refinancing the loan and expect we will be successful, although no assurance can be made in that regard. If we are unable to refinance our indebtedness on satisfactory terms, we may be required to dedicate a more substantial portion of our operating cash flows to our indebtedness, which may limit our flexibility in planning for, or reacting to, changes in our business or investing in our growth.

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We had $15.5 million of cash on hand as of April 2, 2011. While we are confident in our ability to continue to generate cash flow in this unprecedented and continuing downturn in the housing market and the economy, it is possible that we may use part of this cash to fund margin calls related to our forward contracts for aluminum if the price of aluminum falls to levels less than our positions.

Capital Expenditures. Capital expenditures vary depending on prevailing business factors, including current and anticipated market conditions. For the first three months of 2011, capital expenditures were $0.8 million, compared to $0.3 million for the first three months of 2010. During the past several years and continuing into 2011, we reduced certain discretionary capital spending to conserve cash. We expect to spend nearly $5.3 million on capital expenditures in 2011, including capital expenditures related to product line expansions targeted at increasing sales. We anticipate that cash flows from operations and liquidity from the revolving credit facility, if needed, will be sufficient to execute our business plans.

Hedging. We enter into aluminum forward contracts to hedge the fluctuations in the purchase price of aluminum extrusion we use in production. The Company enters into these contracts by trading on the London Metal Exchange ("LME"). The Company trades on the LME using an international commodities broker that offers global access to all major markets. The Company does not currently maintain a line of credit with its commodities broker to cover the liability position of open contracts for the purchase of aluminum in the event that the price of aluminum falls. Should the price of aluminum fall to a level which causes the Company to have a net liability position for open aluminum contracts, the Company is required to fund daily margin calls to cover the excess.

Contractual Obligations

Other than the debt payments as described in "Liquidity and Capital Resources" above, there have been no significant changes to our "Disclosures of Contractual Obligations and Commercial Commitments" table in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" of our Annual Report on Form 10-K for the year ended January 1, 2011, as filed with the Securities and Exchange Commission on March 21, 2011.

Significant Accounting Policies and Critical Accounting Estimates

Our consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles. Significant 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.

We identified our significant accounting policies in our Annual Report on Form 10-K for the year ended January 1, 2011, as filed with the Securities and Exchange Commission on March 21, 2011. There have been no changes to our critical accounting policies during the first three months of 2011.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We experience changes in interest expense when market interest rates change. We are exposed to changes in LIBOR or the base rate of our credit facility's administrative agent. We do not currently use interest rate swaps, caps or futures contracts to mitigate this risk. Changes in our debt could also increase these risks. Based on debt outstanding at April

2, 2011, a 1% increase (decrease) in interest rates above our interest rate floor established in the credit agreement, would result in approximately $0.5 million of additional (reduced) interest expense annually.

We utilize derivative financial instruments to hedge price movements in aluminum materials used in our manufacturing process. We entered into aluminum hedging instruments that settle at various times through the end of 2011 and cover approximately 47% of our anticipated needs during the remainder of 2011 at an average price of $1.05. For forward contracts for the purchase of aluminum at April 2, 2011, a 10% decrease in the price of aluminum would decrease the fair value of our forward contacts of aluminum by $0.4 million. This calculation utilizes our actual commitment of 3.4 million pounds under contract (to be settled throughout 2011) and the market price of aluminum as of April 2, 2011, which was approximately $1.19 per pound.

As of April 2, 2011, we had entered into zero cost collars with a ceiling of $2,700 per metric ton and a concurrent floor at $2,295 per metric ton that hedge 13% of our remaining 2011 anticipated needs. Should prices fall within the range upon settlement, there is no cost to the collars. If aluminum is above $2,700 per metric ton we would be able to purchase at $2,700 per ton. If aluminum is below $2,295 per metric ton we would be required to purchase at $2,295 per metric ton. As of April 2, 2011, aluminum is priced between our ceiling and floor and a 10% decrease in the price of aluminum would have no effect on the net fair value of our collars as the price of aluminum would still fall between our ceiling and floor.

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ITEM 4. CONTROLS AND PROCEDURES

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

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

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

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

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PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

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

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part 1, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended January 1, 2011, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Unregistered Sales of Equity Securities

None.

Use of Proceeds

Not applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. REMOVED AND RESERVED

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

The following items are attached or incorporated herein by reference:

3.1	Amended and Restated Certificate of Incorporation of PGT, Inc. (incorporated herein by reference to Exhibit 3.1 to the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 18, 2010, Registration No. 000-52059)
3.2	Amended and Restated By-Laws of PGT, Inc. (incorporated herein by reference to Exhibit 3.2 to the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 18, 2010, Registration No. 000-52059)
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10.17 Form of PGT, Inc. 2006 Equity Incentive Plan Replacement Non-Qualified Stock Option Agreement (incorporated herein by reference to Exhibit 10.17 to the Company's Annual Report on Form 10-K filed
10.18 with the Securities and Exchange Commission on March 18, 2010, Registration No. 000-5205
Amendment No. 3 to Second Amended and Restated Credit Agreement dated as of December 22, 2009 among PGT Industries, Inc., UBS AG, Stamford Branch, as administrative agent and the Lenders, as
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31.1* Certification of chief executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2* Certification of chief financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

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

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* Filed herewith.

** Furnished herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	PGT, INC. (Registrant)
Date: May 9, 2011	/s/ Rodney Hershberger Rodney Hershberger President and Chief Executive Officer
Date: May 9, 2011	/s/ Jeffrey T. Jackson Jeffrey T. Jackson Executive Vice President and Chief Financial Officer

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