INDEVUS PHARMACEUTICALS INC
Form POS AM
December 05, 2003
Table of Contents

As filed with the Securities and Exchange Commission, on December 5, 2003

Registration Number 333-109263

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Post-Effective Amendment No. 1

to

FORM S-3

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

Indevus Pharmaceuticals, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**04-3047911**
(State or other jurisdiction of incorporation)	**(I.R.S. Employer Identification No.)**

One Ledgemont Center

99 Hayden Avenue

Lexington, MA 02421-7966

(781) 861-8444

(Address, including zip code, and telephone number, including area code of registrant s principal executive offices)

Glenn L. Cooper, M.D., President, Chief Executive Officer and Chairman

One Ledgemont Center

99 Hayden Avenue

Lexington, MA 02421-7966

(781) 861-8444

(Name, address, including zip code and telephone number, including area code, of agent for service)

Josef B. Volman, Esq.

Burns & Levinson LLP

125 Summer Street

Boston, MA 02110-1624

(617) 345-3000

Approximate date of commencement of proposed sale to the public: From time to time after this Registration Statement becomes effective.

If the only securities being registered on this form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. ¨

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, as amended (the Securities Act) other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. x

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. ¨

Table of Contents

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be registered	Proposed maximum offering price per Share	Proposed maximum aggregate offering price	Amount of registration fee(3)
6.25% Convertible Senior Notes due July 15, 2008	$72,000,000	100%	$72,000,000	$5,825
Common Stock, $.001 Par Value per share	10,817,309(1)	n/a	n/a	n/a
	59,686	$5.565(2)	$332,153	$27

(1) This number represents the number of shares of common stock that are initially issuable upon conversion of the 6.25% Convertible Senior Notes due July 15, 2008 registered hereby. For purposes of estimating the number of shares of common stock to be included in the registration statement upon conversion of the notes, Indevus Pharmaceuticals, Inc. calculated the number of shares issuable upon conversion of the notes based on a conversion rate of 150.2404 shares per $1,000 principal amount of the notes. In addition to the shares set forth in the table, the amount to be registered includes an indeterminate number of shares of Common Stock issuable upon conversion of the notes, by means of adjustment to the conversion price applicable thereto. Pursuant to Rule 457(i) under the Securities Act of 1933, there is no filing fee with respect to the shares of common stock issuable upon conversion of the exercise of the conversion privilege.

(2) Estimated in accordance with Rule 457(c) of the Securities Act solely for the purpose of computing the amount of registration fee based on the average of the high and low prices of the registrant s Common Stock as reported on The Nasdaq National Market on September 26, 2003.

(3) Calculated in accordance with Rule 457(o) of the Securities Act and previously paid.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933, AS AMENDED OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

Table of Contents

Registration No. 333-109263

Indevus Pharmaceuticals, Inc.

6.25% Convertible Senior Notes Due July 15, 2008

and

Shares of Common Stock Issuable Upon Conversion of the Notes

This prospectus relates to $72,000,000 in aggregate principal amount of 6.25% Convertible Senior Notes due July 15, 2008 of Indevus Pharmaceuticals, Inc. and 10,817,309 shares of common stock of Indevus Pharmaceuticals, Inc., which are initially issuable upon conversion of the notes, plus an indeterminate number of shares as may become issuable upon conversion as a result of adjustments to the conversion rate. The notes were originally issued and sold by Indevus Pharmaceuticals, Inc. in a private placement on July 16, 2003. This prospectus will be used by selling securityholders to resell their notes and the common stock issuable upon conversion of the notes.

We will not receive any proceeds from the sale of the notes or shares of common stock issuable upon conversion of the notes by any of the selling securityholders. Holders of the notes or the shares of our common stock issuable upon conversion of the notes may offer the notes or the common stock for sale at any time at market prices prevailing at the time of sale or at privately negotiated prices. The selling holders may sell the notes or the common stock directly to purchasers or through underwriters, broker-dealers or agents, who may receive compensation in the form of discounts, concessions or commissions.

Interest on the notes is payable on January 15 and July 15 of each year, commencing on January 15, 2004. The notes are convertible into our common stock at any time prior to the close of business on the business day prior to the maturity date of the notes, unless previously redeemed or repurchased, into 150.2404 shares of our common stock per $1,000 principal amount of notes, subject to adjustment in certain circumstances. This rate results in an initial conversion price of approximately $6.656 per share.

On or after July 20, 2006, we may at our option redeem the notes, in whole or in part, at the redemption prices described in this prospectus, plus any accrued and unpaid interest to the redemption date; provided that the closing price of our common stock has exceeded 150% of the conversion price then in effect for at least 20 trading days within a period of 30 consecutive trading days ending on the date of mailing of the provisional redemption notice to holders. In the event of a change in control (as defined in this prospectus) of Indevus Pharmaceuticals, Inc., each holder of notes may require us to repurchase the notes at 100% of the principal amount of the notes plus accrued and unpaid interest.

Our common stock is listed on the Nasdaq Stock Market under the symbol IDEV. The closing sales price of the common stock on December 1, 2003 was $5.70 per share.

The notes originally issued in the private placement are eligible for trading on the PORTAL Market of the National Association of Securities Dealers, Inc. However, notes sold pursuant to this prospectus will no longer be eligible for trading on the PORTAL Market. We do not intend to list the notes on any national securities exchange.

Indevus Pharmaceuticals, Inc. is a Delaware corporation. Our principal office is at One Ledgemont Center, 99 Hayden Avenue, Lexington, Massachusetts 02421-7966 and our main telephone number is (781) 861-8444.

Investing in the notes or our common stock involves a high degree of risk. You should carefully consider the risk factors beginning on page 5 of this prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or the accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this Prospectus is December 5, 2003

Table of Contents

IMPORTANT NOTICE TO READERS

This prospectus is part of a registration statement that we filed with the Securities and Exchange Commission, or SEC, using a shelf registration process. Under this shelf registration process, the selling securityholders may, from time to time, offer notes or shares of our common stock owned by them. Each time the selling securityholders offer notes or common stock under this prospectus, they will provide a copy of this prospectus and, if applicable, a copy of a prospectus supplement. You should read both this prospectus and, if applicable, any prospectus supplement together with the information incorporated by reference in this prospectus. See Where You Can Find More Information and Incorporation by Reference for more information.

You should rely only on the information contained or incorporated by reference in this prospectus. We have not authorized anyone else to provide you with different information. If anyone provides you with different information, you should not rely on it. We are not making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus or any document incorporated by reference in this prospectus is accurate only as of the date on the front cover of the applicable document or as specifically indicated in the document. Our business, financial condition, results of operations and prospects may have changed since that date.

Unless otherwise indicated, in this prospectus, Indevus, the Company, we, us and our refer to Indevus Pharmaceuticals, Inc. and its subsidiar

PROSPECTUS TABLE OF CONTENTS

Table of Contents

SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS

Statements in this prospectus, and the documents incorporated by reference into this prospectus, that are not statements or descriptions of historical facts are forward-looking statements under Section 21E of the Securities Exchange Act of 1934, as amended, (the Exchange Act) and the Private Securities Litigation Reform Act of 1995 and are subject to numerous risks and uncertainties. These and other forward-looking statements made by us in reports that we file with the SEC, press releases, and public statements of our officers, corporate spokespersons or our representatives are based on a number of assumptions and relate to, without limitation: our ability to successfully develop, obtain regulatory approval for and commercialize any products, including trospium; our ability to enter into corporate collaborations or combinations or to obtain sufficient additional capital to fund operations; and the Redux-related litigation. The words believe, expect, anticipate, intend, plan, estimat other expressions which predict or indicate future events and trends and do not relate to historical matters identify forward-looking statements. You are cautioned not to place undue reliance on these forward-looking statements as they involve risks and uncertainties and such forward-looking statements may turn out to be wrong. Actual results could differ materially from those currently anticipated due to a number of factors, including those set forth under Risk Factors and elsewhere in, or incorporated by reference into, this prospectus. These factors include, but are not limited to: dependence on the success of trospium; the early stage of products under development; uncertainties relating to clinical trials, regulatory approval and commercialization of our products, particularly trospium; risks associated with contractual agreements; dependence on third parties for manufacturing and marketing; competition; need for additional funds and corporate partners, including for the commercialization of trospium and for the development of pagoclone and citicoline; failure to acquire and develop additional product candidates; history of operating losses and expectation of future losses; product liability and insurance uncertainties; risks relating to the Redux-related litigation; limited patent and proprietary rights; dependence on market exclusivity; valuation of our Common Stock; risks related to repayment of debts; risks related to increased leverage; and other risks. The forward-looking statements represent our judgment and expectations as of the date of this prospectus. Except as may otherwise be required by applicable securities laws, we assume no obligation to update any such forward-looking statements.

Table of Contents

PROSPECTUS SUMMARY

This summary provides an overview of selected information and does not contain all the information you should consider. Before making an investment decision, you should carefully read the entire prospectus, including the section entitled Risk Factors and the documents incorporated by reference into this prospectus.

Indevus Pharmaceuticals, Inc.

Indevus is a biopharmaceutical company engaged in the development and commercialization of a diversified portfolio of pharmaceutical product candidates, including multiple compounds in late-stage clinical development. We currently have six compounds in development: trospium for overactive bladder, pagoclone for panic and generalized anxiety disorders, citicoline for ischemic stroke, IP 751 for pain and inflammatory disorders, PRO 2000 for the prevention of infection by HIV and other sexually-transmitted pathogens, and aminocandin for treatment of systemic fungal infections.

We seek to acquire, develop and commercialize a portfolio of pharmaceutical products for a range of therapeutic indications. The key elements of our business strategy include: (1) identifying product candidates with broad applications and large, unsatisfied markets, (2) acquiring clinical and late pre-clinical stage compounds, including products with clinical data or market experience outside the United States, (3) defining strategies to take these compounds through clinical testing and to market, (4) adding value to acquired products through clinical testing and regulatory review activities, and (5) commercializing products in collaboration or combination with corporate partners in order to help ensure the timely penetration of target markets. Our strategy encompasses a range of products and therapeutic areas arising from our relationships with a diverse range of partners including biopharmaceutical, regional pharmaceutical, and multi-national pharmaceutical firms, as well as academic and government institutions. Our rights with respect to our current product candidates have been licensed from third parties.

Our lead product candidate is trospium chloride (trospium), a muscarinic receptor antagonist in development as a treatment for overactive bladder. On June 27, 2003, the U.S. Food and Drug Administration (FDA) accepted for filing our New Drug Application (NDA) for trospium. The NDA for trospium includes data from 32 clinical studies involving over 2,700 subjects and patients, including 12 double-blind, placebo- or active-controlled studies, 12 clinical pharmacology and pharmacokinetic studies and 8 uncontrolled studies. Results from previous clinical trials and our 523-patient Phase III trial demonstrated that treatment with trospium significantly reduced the frequency of both urination and incontinence episodes in patients with overactive bladder. In addition to the twice-a-day formulation of trospium which is the subject of the filed NDA, we have entered into an agreement with Shire Laboratories, Inc. (Shire) to develop an extended release, once-a-day formulation. We are currently evaluating commercial opportunities for trospium, including co-promotion and licensing arrangements, strategic combinations, and other partnering opportunities. It is estimated that more than 17 million Americans suffer from overactive bladder in the United States. According to a recent *SCRIP* Report, only 20 percent of overactive bladder patients are currently treated with pharmacotherapy. In 2002, the market for drugs to treat overactive bladder was approximately $1 billion in the United States. We have exclusive rights to develop and market trospium in the United States. Trospium is currently marketed in Europe, where it is one of the leading treatments for overactive bladder.

Pagoclone is a GABA (gamma amino butyric acid) receptor agonist for the treatment of anxiety disorders. Pagoclone is in Phase III clinical testing for panic disorder and Phase II for generalized anxiety disorder (GAD). To date, there have been three Phase II clinical trials of pagoclone that demonstrated statistically significant efficacy, two in panic disorder and one in GAD, as well as three other Phase II clinical trials that did not demonstrate statistically significant efficacy. Results from these clinical trials suggest the potential of pagoclone as

1

Table of Contents

a novel anti-anxiety agent that is free from the sedative effects and withdrawal or rebound-anxiety symptoms seen with other anti-anxiety agents. We have exclusive, worldwide rights to develop and market pagoclone.

Citicoline is cytidine-5 diphosphate choline, a precursor for the biosynthesis of phosphatidylcholine, a major building block of nerve cell membranes, and has been under development as a neuroprotective treatment for ischemic stroke. We have completed three Phase III clinical trials and one Phase II/III clinical trial with citicoline in North America. We believe that these studies may indicate the effectiveness of citicoline in reducing the disability associated with ischemic stroke utilizing various outcome measures. However, only one of these trials has successfully met its primary outcome objective. Two meta-analyses of clinical trials presented at the 27th International Stroke Conference in February 2002 and a recently published analysis of pooled data from various controlled trials suggest that treatment with citicoline may reduce infarct growth after stroke and reduce rates of death or disability over the long term. We believe that additional clinical testing of citicoline is required before an NDA can be submitted. We continue to have discussions with the FDA regarding the design, clinical endpoints and number of additional trials that may be necessary to complete the development of citicoline sufficient for filing an NDA. We are seeking a development partnership for the commercialization of citicoline. We have exclusive rights to develop and market citicoline in the United States and Canada.

IP 751 is a non-psychoactive synthetic derivative of tetrahydrocannabinol (THC). Pre-clinical studies have shown that this novel anti-inflammatory and analgesic compound inhibits inflammatory cytokines, particularly interleukin 1-beta and TNF-alpha. In addition, results of a Phase II clinical trial conducted in Germany and announced in December 2002 showed that treatment with IP 751 significantly reduced neuropathic pain among 21 patients and was well-tolerated, with no evidence of psychoactive properties. An initial Phase I clinical trial designed to assess the safety of IP 751 showed that it was well-tolerated, with no clinically significant adverse events and no evidence of psychoactive properties. An Investigational New Drug Application (IND) for IP 751 has been filed with the FDA. We are currently scaling up manufacturing of IP 751 and plan to initiate clinical trials in 2004. We have exclusive, worldwide rights to develop and market IP 751.

PRO 2000 is a topical microbicide in development for the prevention of the sexual transmission of HIV and other sexually-transmitted diseases (STDs). Government-sponsored Phase I and Phase I/II clinical trials in both healthy and HIV-positive women have shown PRO 2000 to be well-tolerated. In February 2002, PRO 2000 was selected for a broad, five-year testing program of vaginal microbicides by an international collaboration of research groups in the United Kingdom and Africa under a grant from the U.K. Department for International Development (DFID). A Phase II clinical trial in Africa, funded by the European Commission, is currently underway to assess the safety of PRO 2000. Later this year it is expected that a National Institutes of Health (NIH)-sponsored Phase II clinical trial will begin that will extend to a Phase III clinical trial to determine its safety and efficacy in preventing male and female HIV transmission. We have exclusive, worldwide rights to develop and market PRO 2000.

Aminocandin is an echinocandin, a new class of anti-fungal compounds in development for the treatment of a broad spectrum of systemic, invasive fungal infections. Aminocandin has shown *in vitro* and *in vivo* activity against a number of candida and aspergillus fungal species. We expect aminocandin will be ready for Phase I clinical testing during 2003 as an intravenous agent. We believe that aminocandin also has potential to be delivered orally, unlike the currently approved drugs in its class that can be delivered only intravenously. We plan to pursue technological solutions related to an oral formulation in parallel with an intravenous clinical program. We have exclusive, worldwide rights to develop and market aminocandin.

In addition to our product candidates in development, we are receiving royalties under a patent we licensed to Eli Lilly & Company (Lilly) based on net sales of Sarafem in the United States. Sarafem is prescribed to treat certain conditions and symptoms associated with pre-menstrual syndrome.

Indevus Pharmaceuticals, Inc. is a Delaware corporation. Our principal office is at One Ledgemont Center, 99 Hayden Avenue, Lexington, Massachusetts 02421-7966 and our main telephone number is (781) 861-8444.

Table of Contents

The Offering

Securities Offered	$72 million aggregate principal amount of 6.25% Convertible Senior Notes due July 15, 2008 and 10,817,309 shares of our Common Stock, $0.01 par value per share, issuable upon conversion of the notes.
Maturity	July 15, 2008, unless earlier converted or redeemed by us at our option or repurchased by us at your option.
Interest Rate	The notes bear interest at 6.25% per year. Interest will be payable semiannually in arrears on January 15 and July 15 of each year, commencing January 15, 2004. The initial interest payment will include accrued interest from July 16, 2003.
Conversion Rights	Holders may convert their notes into our common stock at any time prior to the close of business on the business day prior to the maturity date of the notes, unless previously redeemed or repurchased, at a conversion price of $6.656 per share (equal to a conversion rate of approximately 150.2404 shares per $1,000 principal amount of notes), subject to adjustment as described under Description of Notes Conversion Rights.
Provisional Redemption of Notes at Our Option	We may redeem all or a portion of the notes for cash at any time on or after July 20, 2006, at 100% of their principal amount plus accrued and unpaid interest to, but excluding, the redemption date; provided, that the current market value (as defined in this prospectus) of our common stock equals or exceeds 150% of the conversion price then in effect for at least 20 trading days in any consecutive 30 trading day period ending on the date we mail the provisional redemption notice to holders. We will therefore be required to make at least six interest payments on the notes before being able to redeem any notes. See Description of Notes Provisional Redemption by Indevus.
Sinking Fund	None.
Change of Control Put Right	Upon a change of control of Indevus, each holder may require us to repurchase for cash all or a portion of its notes at a repurchase price equal to 100% of the principal amount of the notes to be repurchased, plus accrued and unpaid interest thereon to, but excluding, the repurchase date. See Description of Notes Repurchase at Option of Holders Upon a Change of Control.
Events of Default	If there is an event of default on the notes, the principal amount of the notes plus accrued and unpaid interest to the date of acceleration may be declared immediately due and payable subject to certain conditions set forth in the indenture. These amounts automatically become due and payable in the case of certain types of bankruptcy or insolvency events of default involving Indevus.
Use of Proceeds	All of the notes and the shares of our common stock issuable upon conversion of the notes are being sold by the selling securityholders or

Table of Contents

	by their pledgees, donees, transferees or other successors in interest. We will not receive any proceeds from the sale of the notes or the shares of our common stock issuable upon conversion of the notes.
DTC Eligibility	The notes will be issued in book-entry form and will be represented by one or more permanent global certificates deposited with a custodian for and registered in the name of a nominee of The Depository Trust Company in New York, New York. Beneficial interests in the notes will be shown on, and transfers will be effected only through, records maintained by DTC and its direct and indirect participants and any such interest may not be exchanged for definitive securities, except in limited circumstances. See Description of Notes Form, Denomination and Registration.
Registration Rights	Pursuant to a registration rights agreement, we have filed a shelf registration statement, of which this prospectus is part, with respect to the notes and the common stock issuable upon conversion of the notes. See Description of the Notes Registration Rights.
Indenture and Trustee	We have issued the notes under an Indenture, dated as of July 16, 2003, between The Bank of New York, as trustee, and us.
Trading Market	The notes originally issued in the private placement are eligible for trading on the PORTAL market of The Nasdaq Stock Market. However, notes sold pursuant to this prospectus will no longer be eligible for trading on the PORTAL Market. We do not intend to include the notes in any other automated interdealer quotation system or list the notes on any securities exchange. Our common stock is traded on the Nasdaq Stock Market under the symbol IDEV.

Ratio Of Earnings To Fixed Charges

The following table shows the ratio of earnings to fixed charges for Indevus for the periods indicated. In calculating the ratio of earnings to fixed charges, earnings consist of income before income taxes and cumulative effect of accounting change and fixed charges.

	Fiscal Years Ended September 30,					Nine Months Ended	
	1998	1999	2000	2001	2002	June 30, 2002	June 30, 2003
Ratio of earnings to fixed charges			70.3x	31.9x			

(1) The ratio of earnings to fixed charges is not presented for the fiscal years ended September 30, 1998, 1999 and 2002 or for the nine months ended June 30, 2002 and 2003, because in each such period fixed charges exceeded earnings due to our operating losses incurred in these periods. Fixed charges exceeded earnings by $46,480,000, $38,863,000 and $17,621,000 for the fiscal years ended September 30, 1998, 1999 and 2002, respectively, and by $6,041,000 and $12,076,000 for the nine months ended June 30, 2002 and 2003, respectively. We calculated our ratio of earnings to fixed charges by dividing (A) (i) income from continuing operations, plus (ii) one third of rent expense which is deemed representative of an interest factor, plus (iii) interest expense, plus (iv) equity in net income (loss) of unconsolidated subsidiary, by (B) fixed charges consisting of (i) one third of rent expense which is deemed representative of an interest factor, (ii) interest expense, and (iii) dividends on preferred stock.

4

Table of Contents

RISK FACTORS

Before purchasing the notes, you should carefully consider the following risk factors in conjunction with the other information contained in this prospectus, including the financial statements in our Annual Report on Form 10-K for the year ended September 30, 2002 and in our Quarterly Reports on Form 10-Q for the quarters ended December 31, 2002, March 31, 2003 and June 30, 2003. These factors, among others, could cause actual results to differ materially from those currently anticipated and contained in forward-looking statements made in this prospectus and presented elsewhere by our management from time to time. See Special Note Regarding Forward Looking Statements.

Risks Related to Our Business

We will depend on the success of trospium.

Our future success will depend in large part on the success of trospium. There are many risks associated with the successful approval, manufacturing and commercialization of trospium.

Regulatory risks

On April 28, 2003, we submitted an NDA for trospium with the FDA and on June 27, 2003 the FDA accepted the NDA for filing. We would be materially adversely affected if we are unable to obtain FDA approval for trospium or if the FDA should require additional testing prior to FDA approval. In addition, the FDA may impose post-marketing or other regulatory requirements after approval, which could have an adverse affect on the commercialization of trospium. In addition, although trospium has thus far demonstrated an acceptable safety profile in clinical trials, there can be no assurance that the safety profile of the drug would not change when taken in future trials or by a larger population of users.

Risks related to the commercialization of trospium

Even if we receive FDA approval for trospium, we do not have the necessary sales and marketing capability or financial resources to market trospium. Although we have been in discussions regarding a variety of strategic transactions and collaborative arrangements, we would be materially adversely affected if we were unable to find a corporate partner on acceptable terms or at all. We will be highly dependent on any strategic or collaborative partner for the commercialization of trospium and we, in combination or collaboration with any partner, may not be successful in commercializing trospium. We would be materially adversely affected if trospium did not achieve or maintain market acceptance. We will also be dependent on Madaus AG (Madaus), the licensor of trospium to us and the current manufacturer of trospium, to manufacture trospium for us. We are working with Madaus to achieve compliance with FDA requirements for manufacturers of drugs sold in the United States. If Madaus were unable to achieve or maintain compliance, we would need to seek alternative sources of supply, which could delay the commercialization or create disruptions in the supply of trospium. Our pending NDA relates to an immediate release, twice-a-day formulation of trospium. We have entered into an agreement with Shire to develop an extended release, once-a-day formulation of trospium. If efforts to develop a once-a-day formulation are unsuccessful, we will rely on sales solely from the twice-a-day formulation which may suffer from generic penetration after the expiration of any market exclusivity period and from competition with once-a-day formulations of competing products.

Risks related to competition in the overactive bladder market

Competition in the overactive bladder market is intense and expected to increase. Trospium may not compete successfully with current drug therapies for overactive bladder or with new drugs which may reach the market in the future. Trospium will compete with drugs from large, multinational companies who have

Table of Contents

substantially greater marketing and financial resources and experience than us. Trospium will compete with other therapies for overactive bladder, including anticholinergics currently on the market. In addition, antimuscarinic and antispasmodics for overactive bladder are the subject of testing or commercialization efforts by other companies, including certain treatments for which NDAs have already been filed. No assurance can be given that trospium, if approved by the FDA, will be able to compete successfully against existing or new products. In addition, our ability to compete with existing or new products will also be affected by labeling that may be approved by the FDA.

Lack of Patent Protection

Our license for trospium does not include any patents that we expect to use in commercializing the product. Assuming FDA approval for trospium is obtained, our ability to successfully commercialize trospium in the United States will depend on the availability of market exclusivity under the Drug Price Competition and Patent Term Restoration Act of 1984, which is commonly known as the Waxman-Hatch Act, which provides protections for certain new products. Under the Waxman-Hatch Act, a company which does not have a patent on a compound may obtain five years of market exclusivity if the FDA determines such compound to be a chemical entity that has not been the subject of an approved NDA in the past. If we receive favorable treatment under the Waxman-Hatch Act for trospium, we may obtain market exclusivity for a period of five years from the date of FDA approval. The marketing of trospium could be materially adversely affected if market exclusivity is not available to us or if the period of market exclusivity is shortened. We expect to seek patent protection for an extended release, once-a-day formulation of trospium. If we were unable to obtain a patent on such formulation we would have to rely solely on market exclusivity for this formulation.

Our products are early stage and may not be successful or achieve market acceptance.

In addition to trospium, we currently have five other compounds which are in various stages of development and have not been approved by the FDA. These product candidates are subject to the risk that any or all of them are found to be ineffective or unsafe, or otherwise may fail to receive necessary regulatory clearances. We are unable to predict whether any of these other product candidates will receive regulatory clearances or be successfully manufactured or marketed. Further, due to the extended testing and regulatory review process required before marketing clearance can be obtained, the time frames for commercialization of any products are long and uncertain. Even if these other product candidates receive regulatory clearance, our products may not achieve or maintain market acceptance.

We rely on the favorable outcome of clinical trials of our product candidates.

Before obtaining regulatory approval for the commercial sale of any of the pharmaceutical products we are developing, we or our licensees must demonstrate that the product is safe and efficacious for use in each target indication. The process of obtaining FDA and other regulatory approvals is lengthy and expensive. If clinical trials do not demonstrate the safety and efficacy of certain products under development, we will be materially adversely affected. The results of pre-clinical studies and early clinical trials may not predict results that will be obtained in large-scale testing or use. Clinical trials of products we are developing may not demonstrate the safety and efficacy of such products. Regardless of clinical trial results, the FDA may not approve marketing of the product. The costs to obtain regulatory approvals could be considerable and the failure to obtain, or delays in obtaining, regulatory approval could have a significant negative effect on our business performance and financial results. Even if pre-market approval of a product is obtained, the FDA is authorized to impose post-marketing requirements. A number of companies in the pharmaceutical industry, including our company, have suffered significant setbacks in advanced clinical trials or have not received FDA approval, even after promising results in earlier trials. For example, while there have been three Phase II clinical trials of pagoclone that demonstrated statistically significant efficacy, two in panic disorder and one in GAD, other trials have failed to demonstrate statistically significant efficacy, prompting Pfizer Inc. (Pfizer) to elect not to pursue further development of the compound and to return to us exclusive, worldwide development and commercialization rights to pagoclone.

6

Table of Contents

We will rely on third parties to commercialize and manufacture our products.

We do not have necessary sales and marketing capabilities to market our products. Substantial additional funds will be required to complete development and commercialization of our products and, accordingly, we seek corporate partnerships for the manufacture and commercialization of our products. We may not be successful in finding corporate partners and the terms of any such arrangements may not be favorable to us or our security holders. If we are unable to obtain any such corporate partners, development of our product candidates could be delayed or curtailed, which could materially adversely affect our operations and financial condition.

Any collaborative partners may not be successful in commercializing our products or may terminate their collaborative agreements with us. If we obtain any collaborative arrangements, we will depend on the efforts of these collaborative partners and we will have limited or no control over the development, manufacture and commercialization of the products subject to the collaboration. If certain of our collaborative partners terminate the related agreements or fail to develop, manufacture or commercialize products, we would be materially adversely affected. Because we will generally retain a royalty interest in sales of products licensed to third parties, our revenues may be less than if we marketed products directly.

We currently contract with third parties for all of our manufacturing needs and do not manufacture any of our own products or product candidates. Certain of our requirements for supplies or clinical compounds are filled by purchase orders on an as-requested basis and are not the subject of long-term contracts. As a result, we cannot be certain that manufacturing sources will continue to be available or that we can continue to out-source the manufacturing of these products or product candidates on reasonable terms or at all. Any manufacturing facilities for any of our compounds are subject to FDA inspection both before and after NDA approval to determine compliance with U.S. current Good Manufacturing Practices, so-called cGMP , requirements. Facilities used to produce our compounds may not have complied, or may not be able to maintain compliance, with U.S. cGMP. The U.S. cGMP regulations are complex and failure to be in compliance could lead to non-approval or delayed approval of an NDA. This would delay product launch or, if approval is obtained, may result in remedial action, penalties and delays in production of material acceptable to the FDA.

Our failure to acquire and develop additional product candidates will impair our ability to grow.

We do not conduct our own research to discover new drug compounds. Instead, we depend on the licensing of compounds from others for development. Therefore, in order to grow, we must continue to acquire and develop additional compounds. The success of this strategy depends upon our ability to identify, select and acquire compounds that meet the criteria we have established. Identifying suitable compounds is a lengthy, complex and uncertain process. In addition, we compete with other companies with substantially greater financial, marketing and sales resources, for the acquisition of compounds. We may not be able to acquire the rights to additional compounds on terms we find acceptable or at all.

We need additional funds in the future.

Our existing cash resources together with the proceeds from this offering will be insufficient to commercialize trospium or any of our other product candidates on our own. In addition, we continue to expend substantial funds for product development activities, research and development, pre-clinical and clinical testing, operating expenses, regulatory approval, licensing and other strategic relationships, manufacturing and marketing. These amounts have increased since our filing of the NDA for trospium in April 2003. In fiscal 2002, net cash used in operating activities was $14,609,000 and during fiscal 2003 such amount was $17,079,000 for the nine months ended June 30, 2003. We expect that net cash used in operating activities will continue to increase significantly as we continue to fund our development activities including the

development of trospium. We will be seeking a strategic or collaborative partner to commercialize trospium but may also seek additional funding through other corporate collaborations, strategic combinations or public or private equity and debt financing options. Any such corporate collaboration, strategic combination or financial transactions could result in material changes to the capitalization, operations, management and prospects for our business and no

Table of Contents

assurance can be given that the terms of a strategic transaction would be favorable to Indevus or our security holders. If we raise additional funds by issuing equity securities, existing stockholders will be diluted and future investors may be granted rights superior to those of existing stockholders. There can be no assurance that additional financing will be available on terms acceptable to us or at all. If we sell securities in a private offering, we may have to sell such shares at a discount from the market price of our stock which could have a depressive effect on our stock price.

In addition, future resales of shares in the public market sold in a private offering could negatively affect our stock price. Our cash requirements and cash resources will vary significantly depending upon the following principal factors:

- our ability to receive FDA approval for trospium and successfully commercialize trospium and the nature of any strategic combination, collaboration or funding source regarding the commercialization of trospium;
- the progress of research and development programs;
- costs and results of pre-clinical and clinical testing;
- the timing and cost of obtaining regulatory approvals; and
- whether we are successful in either in-licensing or out-licensing products.

As a result of the uncertainties and costs associated with business development activities, market conditions and other factors generally affecting our ability to raise additional funds, we may not be able to obtain sufficient additional funds to satisfy cash requirements in the future or may be required to obtain financing on terms that are not favorable to us. We may have to curtail our operations or delay development of our products.

We have a history of losses and expect losses to continue.

Other than in fiscal 2000, we have incurred substantial net losses over the past five fiscal years including net losses of approximately $70,000,000, $38,000,000, $1,500,000 and $18,000,000 for fiscal years 1998, 1999, 2001, and 2002, respectively. During fiscal year 2003, we have experienced a net loss of approximately $20,447,000 for the nine months ended June 30, 2003 and expect to experience increased quarterly net losses and use of cash through the end of our fiscal year, primarily as a result of continued development and pre-marketing costs for trospium.

Through June 30, 2003, we had accumulated net losses since inception of approximately $289,000,000.

We continue to experience losses and to use substantial amounts of cash in operating activities. We will be required to conduct significant development and clinical testing activities for the products we are developing and these activities are expected to result in continued operating losses and use of cash for the foreseeable future. We cannot predict the extent of future losses or the time required to achieve profitability.

We may not be profitable in the future.

We may never achieve or sustain profitability in the future. We expect to continue to experience fluctuations in revenue as a result of the timing of regulatory filings or approvals, product launches, license fees, royalties, product shipments, and milestone payments.

The outcome of the Redux litigation could materially harm us.

On September 15, 1997, we announced a market withdrawal of our first commercial prescription product, the weight loss medication Redux which had been launched by American Home Products (AHP), now Wyeth, our licensee, in June 1996. Following the withdrawal, we have been named, together with other pharmaceutical companies, as a defendant in several thousand product liability legal actions, some of which purport to be class

Table of Contents

actions, in federal and state courts involving the use of Redux and other weight loss drugs. The existence of such litigation may materially adversely affect our business. In addition, although we are unable to predict the outcome of any such litigation, if successful uninsured or insufficiently insured claims, or if a successful indemnification claim, were made against us, our business, financial condition and results of operations could be materially adversely affected. In addition, the uncertainties associated with these legal actions have had, and may continue to have, an adverse effect on the market price of our common stock and on our ability to obtain corporate collaborations or additional financing to satisfy cash requirements, to retain and attract qualified personnel, to develop and commercialize products on a timely and adequate basis, to acquire rights to additional products, and to obtain product liability insurance for other products at costs acceptable to us, or at all, any or all of which may materially adversely affect our business, financial condition and results of operations.

On May 30, 2001, we entered into an indemnity and release agreement with AHP, now Wyeth, which provides for indemnification of Redux-related claims brought by plaintiffs who initially elected not to stay in the AHP national class action settlement of diet drug litigation and by those claimants who allege primary pulmonary hypertension, a serious disease involving the blood vessels in the lungs. This agreement also provides for funding of all defense costs related to all Redux-related claims and provides for Wyeth to fund certain additional insurance coverage to supplement our existing product liability insurance. However, uninsured or insufficiently insured Redux-related claims or Redux-related claims which are not covered by the AHP indemnity and release agreement may arise. Any such claims, if successful, could have a material adverse effect on our business, results of operations and financial condition. We are unable to predict whether the existence of such litigation may adversely affect our business.

We have limited patent protection on some of our products.

Our future success will depend to a significant extent on our ability to:

- obtain and enforce patent protection on our products and technologies;
- maintain trade secrets; and
- operate and commercialize products without infringing on the patents or proprietary rights of others.

Our patents may not afford any competitive advantages and may be challenged or circumvented by third parties. Further, patents may not issue on pending patent applications. Because of the extensive time required for development, testing and regulatory review of a potential product, it is possible that before a potential product can be commercialized, any related patent may expire, or remain in existence for only a short period following commercialization, reducing any advantage of the patent.

Our license for trospium, a compound under development for treatment of overactive bladder, does not include any patents that we expect to use in commercializing the product.

Our licensed U.S. patent covering the administration of citicoline to treat patients afflicted with conditions associated with the inadequate release of brain acetylcholine expires in 2003. This patent, along with the additional patents issued to us relating to citicoline, may not afford protection against competitors of citicoline to treat ischemic stroke.

Our business may be materially adversely affected if we fail to obtain and retain needed patents, licenses or proprietary information. Others may independently develop similar products. Furthermore, litigation may be necessary:

to enforce any of our patents;

to determine the scope and validity of the patent rights of others; or

in response to legal action against us claiming damages for infringement of patent rights or other proprietary rights or seeking to enjoin commercial activities relating to the affected product or process.

Table of Contents

The outcome of any litigation may be uncertain. Any litigation may also result in significant use of management and financial resources.

To the extent that consultants, key employees or other third parties apply technological information independently developed by them or by others to our proposed products, disputes may arise as to the proprietary rights to such information which may not be resolved in our favor. Most of our consultants are employed by or have consulting agreements with third parties and any inventions discovered by such individuals will not necessarily become our property. There is a risk that other parties may breach confidentiality agreements or that our trade secrets become known or independently discovered by competitors, which could adversely affect us.

We may depend on market exclusivity for certain of our products.

Assuming regulatory approvals are obtained, our ability to commercialize successfully certain drugs may depend on the availability of market exclusivity or patent extension under the Waxman-Hatch Act, which provides protections for certain new products. Under the Waxman-Hatch Act, a company which does not have a patent on a compound may obtain five years of market exclusivity if the FDA determines such compound to be a chemical entity that has not been the subject of an approved NDA in the past. The period of market exclusivity under the Waxman-Hatch Act is considerably shorter than the exclusivity period afforded by patent protection, which, in the case of some patents, may last up to twenty years.

Our products may be unable to compete successfully with other products.

Competition from other pharmaceutical companies is intense and is expected to increase. We are aware of existing products and of products under development by our competitors that address diseases we are targeting and competitors have developed or are developing products or technologies that are, or may compete with our products.

Many of the other companies who market or are expected to market competitive drugs or other products are large, multinational companies who have substantially greater marketing and financial resources and experience than us. We may not be able to develop products that are more effective or achieve greater market acceptance than competitive products. In addition, our competitors may develop products that are safer or more effective or less expensive than those we are developing or that would render our products less competitive or obsolete. As a result, our products may not be able to compete successfully. In addition, royalties payable to us under certain conditions may be reduced or eliminated if there is generic competition.

Many companies in the pharmaceutical industry also have substantially greater experience in undertaking pre-clinical and clinical testing of products, obtaining regulatory approvals and manufacturing and marketing products. In addition to competing with universities and other research institutions in the development of products, technologies and processes, we compete with other companies in acquiring rights and establishing collaborative agreements for the development and commercialization of our products.

We could be materially harmed if our agreements were terminated.

Our agreements with licensors and licensees generally provide the other party with rights to terminate the agreement, in whole or in part, under certain circumstances. Many of our agreements require us to diligently pursue development of the underlying product or risk loss of the license or incur penalties. Depending upon the importance to us of the product that is subject to any such agreement, this could materially adversely affect our business. In particular, termination of our agreement with Madaus, under which we license trospium, or our agreement with Aventis, S.A. (Aventis), under which we license pagoclone, could substantially reduce the likelihood of successful commercialization of our product candidates which would materially harm us. The agreements with Madaus or Aventis may be terminated by either of them if we are in material breach of our agreement with them or if we become insolvent or file for bankruptcy protection.

Table of Contents

We depend upon key personnel and consultants.

We have a small number of employees and are dependent on certain executive officers and scientific personnel, including Glenn L. Cooper, our chief executive officer, Mark S. Butler, our chief administrative officer and general counsel, Michael W. Rogers, our chief financial officer and Bobby W. Sandage, Jr., our chief scientific officer. Our business would be adversely affected by the loss of certain of these individuals. In addition, we rely on the assistance of independent consultants to design and supervise clinical trials and prepare FDA submissions.

Competition for qualified employees among pharmaceutical and biotechnology companies is intense, and the loss of any qualified employees, or an inability to attract, retain and motivate highly skilled employees, could adversely affect our business and prospects. We may not be able to attract additional qualified employees or retain our existing personnel.

We have product liability exposure and insurance uncertainties related to our products.

The use of products in clinical trials and the marketing of products may expose us to substantial product liability claims and adverse publicity. Certain of our agreements require us to obtain specified levels of insurance coverage, naming the other party as an additional insured. We currently maintain product liability and clinical trial insurance in the amount of $20,000,000. This insurance covers our clinical trials and our currently marketed product, Sarafem. We will need to obtain additional coverage for products that may be marketed in the future, including trospium. We may not be able to maintain or obtain insurance coverage, or to obtain insurance in amounts sufficient to protect us or other named parties against liability, at a reasonable cost, or at all. In addition, any insurance obtained may not cover any particular liability claim. We have indemnified certain licensors and licensees and may be required to indemnify additional licensors or licensees against product liability claims incurred by them as a result of products we develop or market. If uninsured or insufficiently insured product liability claims arise, or if a successful indemnification claim was made against us, our business and financial condition could be materially adversely affected. In addition, any payments made by us in connection with product liability litigation could result in significant charges to operations and would materially adversely affect our results of operations and financial condition.

Risks Related to Our Common Stock and the Notes

We may issue preferred stock with rights that could affect your rights and prevent a takeover of the business.

Our board of directors has the authority, without further approval of our stockholders, to fix the rights and preferences, and to issue up to 5,000,000 shares of preferred stock, 244,425 of which are currently issued and outstanding. In addition, vesting of shares of our common stock subject to stock awards under our 1997 Equity Incentive Plan accelerates and outstanding options under our stock option plans become immediately exercisable upon certain changes in control of the Company, except under certain conditions. In addition, Delaware corporate law imposes limitations on certain business combinations. These provisions could, under certain circumstances, delay or prevent a change in control of the Company and, accordingly, could adversely affect the price of our common stock. Also, our license agreement for citicoline contains change of control provisions that may have the effect of discouraging or delaying a change of control of the Company.

We have never paid any dividends on our common stock.

We have not paid any cash dividends on our common stock since inception and do not expect to do so in the foreseeable future. Any dividends on our common stock will be subject to the preferential cumulative annual dividend of $0.1253 per share and $1.00 per share payable on our outstanding Series B preferred stock and Series C preferred stock, respectively, held by Wyeth and dividends payable on any other preferred stock we may issue.

Table of Contents

If we pay cash dividends on our common stock, you may be deemed to have received a taxable dividend without the receipt of any cash.

If we pay a cash dividend on our common stock, and an adjustment to the conversion price results, you may be deemed to have received a taxable dividend subject to U.S. federal income tax without the receipt of any cash. See United States Federal Income Tax Consequences Constructive Dividends.

The price for our securities is volatile.

The market price for our securities and for securities of emerging growth companies have historically been highly volatile. Future announcements concerning us or our competitors may have a significant impact on the market price of our securities. Factors which may affect the market price for our securities include:

- results of clinical studies and regulatory reviews;
- partnerships, corporate collaborations, and strategic corporate transactions;
- announcements by our corporate collaboration partners concerning our products, about which we generally have very limited control, if any, over the timing or content;
- changes in the levels we spend to develop, acquire or license new compounds;
- market conditions in the pharmaceutical and biotechnology industries;
- competitive products;
- sales or the possibility of sales of our common stock or other financings;
- our results of operations and financial condition including variability in quarterly operating results due to timing and recognition of revenue, receipt of licensing, milestone and royalty payments, and regulatory progress and delays;
- proprietary rights;
- Redux-related litigation developments;
- public concern as to the safety or commercial value of our products; and

general economic conditions.

The high and low sales prices of our common stock as reported by Nasdaq Stock Market were: $6.25 and $1.12 for fiscal 1999, $8.75 and $1.34 for fiscal 2000, $10.00 and $1.16 for fiscal 2001, $12.83 and $0.85 for fiscal 2002, and $6.85 and $1.32 for fiscal 2003 through September 30, 2003. Our common stock is subject to delisting if our stock price drops below the bid price of $1.00 per share. If we were to fail to meet any of the continued listing requirements for the Nasdaq Stock Market, our common stock could be delisted from the Nasdaq Stock Market, the effects of which could include limited release of a market price of our common stock and limited news coverage and could result in an adverse effect on the market for our common stock.

The stock markets also experience significant price and volume fluctuation unrelated to the operating performance of particular companies. These market fluctuations may also adversely affect the market price of our common stock.

The price for our common stock could be negatively affected if we issue additional shares or if third parties exercise registration rights.

As of September 30, 2003, we had 47,175,661 shares of common stock outstanding. Substantially all of these shares are eligible for sale without restriction. In addition, Wyeth has the right, under certain circumstances, to require us to register for public sale 622,222 shares of common stock issuable to it upon conversion of the Series B and C preferred stock it owns. We have outstanding registration statements on Form S-3 relating to the resale of our shares of common stock and on Form S-8 relating to shares issuable under our 1989 Stock Option Plan,

Table of Contents

1994 Long-Term Incentive Plan, 1995 Employee Stock Purchase Plan, 1997 Equity Incentive Plan, 1998 Employee Stock Option Plan and 2000 Stock Option Plan. The possibility of sales of such shares, private sales of securities or the possibility of resale of such shares in the public market may adversely affect the market price of our common stock.

Our stockholders could be diluted if we issue our shares subject to options, warrants, convertible notes, stock awards or other arrangements.

As of September 30, 2003, we had reserved the following shares of our common stock for issuance:

	10,817,309 shares issuable upon conversion of the $72,000,000 Conve align="right">84		50		84
Change in fair value of aluminium forward contracts, net of tax expense / (benefit) of $16 and ($752) for the three months ended June 30, 2007 and July 1, 2006, and $16 and ($746) for the six months ended June 30, 2007 and July 1, 2006, respectively		25	(1,177)	25	(1,168)
Total comprehensive income (loss)	**$**	**2,815**	**$ 8,853**	**$ 3,564**	**$ (5,292)**

NOTE 8. 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 9. INCOME TAX EXPENSE

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

12

Table of Contents

The Company adopted the provisions of FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109, Accounting for Income Taxes*, on January 1, 2007. In connection with our FIN 48 implementation, we determined that we have no material unrecognized tax benefits and accordingly, no liability was recorded. However, 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.

Our effective tax rate was 36.8% as of June 30, 2007 and 38.7% as of July 1, 2006. The decrease in our effective tax rate was due to an increase in the amount of manufacturing deductions related to the American Jobs Creation Act of 2004 expected to be taken in 2007.

NOTE 10. IMPAIRMENT OF ASSET HELD FOR SALE

In 2006, the Company relocated its vinyl window and door facility from Lexington, NC to Salisbury, NC. As a result of the relocation, we placed our Lexington, NC facility for sale in November 2006. In accordance with Statement of Financial Accounting Standards No. 144 (SFAS No. 144), *Accounting for the Impairment or Disposal of Long-Lived Assets,* the Company is required to carry the facility at fair value less costs to sell. As a result of a further decline in the market value of the facility, the Company recorded a non-cash impairment charge in the quarter ended June 30, 2007 of approximately $0.8 million.

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

The following discussion of our financial condition and results of operations should be read in conjunction with the Management s Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and notes thereto for the year ended December 30, 2006 included in our most recent annual report on Form 10-K.

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, antic plan, foresee, believe, or continue, or the negatives of these terms or variations of them or similar terminology, but absence of these words does not necessarily mean that a statement is not forward-looking.

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

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

Overview

We are the leading U.S. manufacturer and supplier of residential impact-resistant windows and doors and pioneered the U.S. impact-resistant window and door industry in the aftermath of Hurricane Andrew in 1992. Our

impact-resistant products, which are marketed

Table of Contents

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

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

Residential new construction. Our business is driven in part by residential new construction activity. According to the U.S. Census Bureau, U.S. housing starts were 1.8 million in 2006 and 2.1 million in 2005. During the second half of 2006, we saw a significant slowdown in the Florida housing market. At this point, it is unclear if housing activity has hit bottom. Like many building material suppliers in the industry, we will be faced with a challenging operating environment over the near term due to the decline in the housing market. Specifically, housing permits in Florida decreased by approximately 49% in the first six months of 2007 compared to the first six months of 2006. According to The Freedonia Group and the Joint Center for Housing Studies of Harvard University, housing demand will continue to be supported over the next decade by new household formations, increasing homeownership rates, the size and age of the population, an aging housing stock (approximately 35% of existing homes were built before 1960), improved financing options for buyers and immigration trends. 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 remain healthy in the long term. Based on these trends and certain other factors, we believe that the current pullback in the housing industry is likely to be temporary and that, as we have proven historically, we will be able to outperform the market during this cyclical downturn and grow our business over the long term.

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

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

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. From January 1, 2007 to June 7, 2007, we had no outstanding hedges. On June 8, 2007, we entered into aluminum hedges to cover approximately 10% of our forecasted needs over the next twelve months at an

average price of $2,695 per metric ton.

Current Operating Conditions and Outlook

In the first six months of 2007, housing permits in Florida decreased 49% compared to the first half of 2006. In response to the deterioration in the housing market, we have taken a number of steps to maintain profitability and conserve capital. As a result, we adjusted our operating cost structure to more closely align with current demand. In addition, we have decreased our capital spending in 2007. However, we also view this market downturn as an opportunity to gain market share from our competitors. For instance, we have introduced new incentive programs offered to both our distributors and end users. We have also increased marketing and sales efforts in areas outside of our dominant markets, including northern Florida, the Gulf Coast and the Carolinas. Finally, we have introduced new products and expanded product lines to broaden our product offering. As a result of these actions, we continue to outperform the underlying market, however gross margins have declined to 36.4% and 35.3% for the three and six months ended June 30, 2007 from 43.3% and 40.4% for the three and six months ended July 1, 2006.

Table of Contents

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

Other Developments

Initial Public Offering

On June 27, 2006, the SEC declared our Company s registration statement on Form S-1 effective, and our Company completed an initial public offering (IPO) of 8,823,529 shares of its common stock at a price of $14.00 per share. Our Company s common stock began trading on The Nasdaq National Market under the symbol PGTI on June 28, 2006. After underwriting discounts of approximately $8.6 million and transaction costs of approximately $2.5 million, net proceeds received by the Company on July 3, 2006, were $112.3 million. Our Company used net IPO proceeds, together with cash on hand, to repay $137.0 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 the 2004 Plan to adjust the number of shares underlying stock options and the related exercise prices to reflect the change in the per share value and outstanding shares on the date of the stock split. The effect of fractional shares is not material.

Following the effective date of the stock split, the par value of the common stock remained at $0.01 per share. As a result, we 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.

Selected Financial Data

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

	3 Months Ended		6 Months Ended	
	June 30, 2007	July 1, 2006	June 30, 2007	July 1, 2006
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	63.6	56.7	64.7	59.6
Gross margin	36.4	43.3	35.3	40.4
Expenses:				

Table of Contents

	3 Months Ended		6 Months Ended	
	June 30, 2007	July 1, 2006	June 30, 2007	July 1, 2006
Stock compensation related to dividends paid (includes expenses related to cost of sales and selling, general, and administrative expense)				13.1
Selling, general and administrative	27.2	21.8	27.5	22.3
Income from operations	9.2%	21.5%	7.8%	5.0%
Interest expense, net	3.6	6.7	3.9	8.6
Other expense (income), net	0.1	(0.3)	0.2	(0.4)
Income (loss) before income tax	5.5%	15.1%	3.7%	(3.2%)
Income tax expense (benefit)	2.0	5.9	1.3	(1.2)
Net income (loss)	3.5%	9.2%	2.4%	(2.0%)

Overview

During the first half of 2007, we continued to execute on our strategy of gaining market share and controlling costs during the current housing downturn. The industry experienced a decline in housing permits in Florida of approximately 49% in the first half of 2007 while our revenues declined 25.7%, as compared to the first half of 2006. In addition, gross margin percentage was 35.3% in the first half of 2007, compared to 40.4% in the first half of 2006. The decline was primarily as a result of the significant slowdown in Florida new home construction and rising costs of aluminum. Selling, general and administrative expenses for the first half of 2007 decreased by $3.7 million, or 8.1% from the first half of 2006, primarily driven by lower distribution costs.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED JUNE 30, 2007 AND JULY 1, 2006

Net sales

Net sales decreased for the three months ended June 30, 2007, compared to the same period in 2006. Net sales for the three months ended June 30, 2007 were $79.7 million, compared with net sales of $108.7 million for the three months ended July 1, 2006, representing a decrease of 26.7%. The following table shows net sales classified by major product category (in millions):

	3 Months Ended			
(dollars in millions)	**June 30, 2007**	**%**	**July 1, 2006**	**%**
Product category:				
WinGuard Windows and Doors	$ 54.9	68.9%	$ 71.6	65.9%
Other Window and Door Products	24.8	31.1	37.1	34.1
Total revenues	**$ 79.7**	100.0%	**$ 108.7**	100.0%

Net sales of WinGuard branded products was $54.9 million for the three months ended June 30, 2007, a decrease of $16.7 million, or 23.3%, from $71.6 million in net sales for the three months ended July 1, 2006. The decrease was mainly due to the decline in new housing. Demand for WinGuard branded products is driven by, among other things, increased enforcement of strict building codes mandating the use of impact-resistant products, increased consumer and homebuilder awareness of the advantages provided by impact-resistant windows and doors over active forms of hurricane protection, and our successful marketing efforts.

16

Table of Contents

Net sales of Other Window and Door Products was $24.8 million for the three months ended June 30, 2007, a decrease of $12.3 million, or 33.2%, from $37.1 million in net sales for the three months ended July 1, 2006. The decrease was mainly due to the decline in new housing. New housing demand has traditionally impacted sales of our Other Window and Door Products more than our WinGuard Window and Door Products.

Gross margin

Gross margin was $29.0 million for the three months ended June 30, 2007, a decrease of $18.1 million, or 38.4%, from $47.1 million for the three months ended July 1, 2006. The decrease is mainly due to margin loss associated with lower sales volumes and the impact of higher costs of aluminum offset in part by a higher mix of our WinGuard branded products, which carry a higher margin than our Other Window and Door Products. Our WinGuard branded products increased as a percentage of our total net sales to 68.9%, compared to 65.9% in the three months ended July 1, 2006. The gross margin percentage was 36.4% for the three months ended June 30, 2007 compared to 43.3% for the three months ended July 1, 2006.

Selling, general, and administrative expenses

Selling, general, and administrative expenses were $21.7 million for the three months ended June 30, 2007, a decrease of $2.1 million, from $23.8 million for the three months ended July 1, 2006. This decrease was mainly due to a decrease in distribution costs of $1.4 million as a result of lower volumes, $1.0 million related to the discontinuance of management fees paid to our majority shareholder upon completion of our IPO, and lower bad debt expense of $0.5 million as a result of the improved aging profile of our accounts receivable. This was partially offset by the $0.8 million impairment charge related to the sale of our Lexington facility. The second quarter of 2007 also included $0.5 million of stock compensation expense related to our adoption of SFAS No. 123R. As a percentage of sales, selling, general and administrative expenses increased during the three months ended June 30, 2007 to 27.2% compared to 21.8% for the three months ended July 1, 2006, mainly due to the decrease in volume.

Interest expense, net

Interest expense, net was $2.8 million in the three months ended June 30, 2007, a decrease of $4.5 million from $7.3 million for the three months ended July 1, 2006. The decrease was due to a lower average debt level for the three months ended June 30, 2007 as compared to the three months ended July 1, 2006.

Income tax expense

Our effective tax rate was 36.8% as of June 30, 2007 compared to 38.7% as of July 1, 2006. The decrease in our effective tax rate was due to an increase in the amount of manufacturing deductions related to the American Jobs Creation Act of 2004 expected to be taken in 2007.

RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED JUNE 30, 2007 AND JULY 1, 2006

Net sales

Net sales decreased for the six months ended June 30, 2007, compared to the same period in 2006. Net sales for the six months ended June 30, 2007 were $152.4 million, compared with net sales of $205.0 million for the six months ended July 1, 2006, representing a decrease of 25.7%. The following table shows net sales classified by major product category (in millions):

	6 Months Ended			
(dollars in millions)	**June 30, 2007**	**%**	**July 1, 2006**	**%**
Product category:				
WinGuard Windows and Doors	$ 103.0	67.6%	$ 131.8	64.3%
Other Window and Door Products	49.4	32.4	73.2	35.7
Total revenues	**$ 152.4**	100.0%	**$ 205.0**	100.0%

Table of Contents

Net sales of WinGuard branded products was $103.0 million for the six months ended June 30, 2007, a decrease of $28.8 million, or 21.9%, from $131.8 million in net sales for the six months ended July 1, 2006. The decrease was mainly due to the decline in new housing. Demand for WinGuard branded products is driven by, among other things, increased enforcement of strict building codes mandating the use of impact-resistant products, increased consumer and homebuilder awareness of the advantages provided by impact-resistant windows and doors over active forms of hurricane protection, and our successful marketing efforts.

Net sales of Other Window and Door Products were $49.4 million for the six months ended June 30, 2007, a decrease of $23.8 million, or 32.5%, from $73.2 million in net sales for the six months ended July 1, 2006. The decrease was mainly due to the decline in new housing. New housing demand has traditionally impacted sales of our Other Window and Door Products more than our WinGuard Window and Door Products.

Gross margin

Gross margin was $53.8 million for the six months ended June 30, 2007, a decrease of $29.0 million, or 35.0%, from $82.8 million for the six months ended July 1, 2006. The decrease is mainly due to margin loss associated with lower sales volumes and the impact of higher costs of aluminum offset in part by a higher mix of our WinGuard branded products, which carry a higher margin than our Other Window and Door Products. Our WinGuard branded products increased as a percentage of our total net sales to 67.6% in the six months ended June 30, 2007, compared to 64.3% in the six months ended July 1, 2006. The gross margin percentage was 35.3% for the six months ended June 30, 2007 compared to 40.4% for the six months ended July 1, 2006.

Selling, general, and administrative expenses

Selling, general, and administrative expenses were $42.0 million for the six months ended June 30, 2007, a decrease of $3.7 million, from $45.7 million for the six months ended July 1, 2006. This decrease was mainly due to a decrease in distribution costs of $3.0 million as a result of lower volumes, $1.4 million related to the discontinuance of management fees paid to our majority shareholder upon completion of our IPO, and lower advertising expense of $0.7 million. This was partially offset by a $0.8 million impairment charge related to the sale of our Lexington facility. The first six months of 2007 also included $0.8 million of stock compensation expense related to our adoption of SFAS No. 123R. As a percentage of sales, selling, general and administrative expenses increased during the first six months ended June 30, 2007 to 27.5% compared to 22.3% for the six months ended July 1, 2006 mainly due to the decrease in volume.

Stock compensation expense

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

Interest expense, net

Interest expense, net was $5.9 million for the six months ended June 30, 2007, a decrease of $11.7 million from $17.6 million for the six months ended July 1, 2006. Interest expense includes non-recurring charges of $4.6 million in the first quarter of 2006 related to the write-off of unamortized debt issuance costs in connection with our debt refinancing on February 14, 2006, as described under the Liquidity and Capital Resources section of this report. In addition, there was a lower average debt level for the six months ended June 30, 2007 as compared to the six months ended July 1, 2006.

Income tax expense

Our effective tax rate was 36.8% as of June 30, 2007 compared to 38.7% as of July 1, 2006. The decrease in our effective tax rate was due to an increase in the amount of manufacturing deductions related to the American Jobs Creation Act of 2004 expected to be taken in 2007.

Liquidity and Capital Resources

Our principal source of liquidity is cash flow generated by operations, supplemented by borrowings under our credit facilities. This cash generating capability provides us with financial flexibility in meeting operating and investing needs. In addition, we completed

Table of Contents

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 was $10.5 million for the six months ended June 30, 2007, compared to cash flows provided by operating activities of $6.9 million for the six months ended July 1, 2006. The improvement in cash provided from operating activities for the six months ended June 30, 2007 is the result of the absence of non-recurring charges from 2006, an increase in profitability, and a change in operating assets and liabilities. Days sales outstanding improved to 35 at the end of the second quarter of 2007 from 46 as of December 30, 2006.

Investing activities. Cash flows used in investing activities was $6.2 million for the six months ended June 30, 2007, compared to $18.5 million for the six months ended July 1, 2006. The decrease in cash flows used in investing activities was mainly due to the completion of our manufacturing facility in Salisbury, North Carolina in 2006.

Financing activities. Cash flows used in financing activities was $22.4 million for the six months ended June 30, 2007, compared to cash flows provided by financing activities of $48.0 million for the six months ended July 1, 2006. Significant financing transactions during 2007 and 2006 included the following:

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

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

In June 2007, we prepaid an additional $5.0 million of our long-term debt with cash generated from operations.

Subsequent to the end of the quarter, we prepaid an additional $4.5 million of our long-term debt with cash generated from operations.

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

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

The first lien term loan is secured by a perfected first priority pledge of all of the equity interests of our subsidiary and perfected first priority security interests in and mortgages on substantially all of our tangible and intangible assets and those of the guarantors, except, in the case of the stock of a foreign subsidiary, to the extent such pledge would be prohibited by applicable law or would result in materially adverse tax consequences, and subject to such other exceptions as are agreed. The senior secured credit facility contains a number of covenants that, among other things, restrict our ability and the ability of our subsidiaries to (i) dispose of assets; (ii) change our business; (iii) engage in

mergers or consolidations; (iv) make certain acquisitions; (v) pay dividends or repurchase or redeem stock; (vi) incur indebtedness or guarantee obligations and issue preferred and other disqualified stock; (vii) make investments and loans; (viii) incur liens; (ix) engage in certain transactions with affiliates; (x) enter into sale and leaseback transactions; (xi) issue stock or stock options of our subsidiary; (xii) amend or prepay subordinated indebtedness and loans under the second lien secured credit facility; (xiii) modify or waive material documents; or (xiv) change our fiscal year. In addition, under the first lien secured credit facility, we are required to comply with specified financial ratios and tests, including a minimum interest coverage ratio, a maximum leverage ratio, and maximum capital expenditures.

Table of Contents

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 six months of 2006, the total cash payment to option holders and unamortized deferred financing costs of $4.6 million related to the prior credit facility were expensed and recorded as stock compensation expense and a component of interest expense, respectively.

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

Capital Expenditures. Capital expenditures vary depending on prevailing business factors, including current and anticipated market conditions. For the six months ended June 30, 2007, capital expenditures were $6.2 million, compared to $18.6 million for the six months ended July 1, 2006. We anticipate that cash flows from operations and liquidity from the revolving credit facility will be sufficient to execute our business plans.

Off-Balance Sheet Arrangements

We do not maintain any off-balance sheet arrangements.

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.

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

20

Table of Contents

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 and Other Intangibles

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

The impairment evaluation of the carrying amount of intangible assets with indefinite lives is also conducted annually, or more frequently if events or changes in circumstances indicate that an asset might be impaired. The evaluation is performed by comparing the carrying amount of these assets to their estimated fair value. If the estimated fair value is less than the carrying amount of the intangible assets with indefinite lives, then an impairment charge is recorded to reduce the asset to its estimated fair value. The estimated fair value is generally determined on the basis of discounted future cash flows. The assumptions used in the estimate of fair value are generally consistent with past performance and are also consistent with the projections and assumptions that are used in current Company operating plans. Such assumptions are subject to change as a result of changing economic and competitive conditions.

Warranties

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

Derivative instruments

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

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

Stock compensation

We account for stock-based compensation in accordance with Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment* (SFAS No. 123(R)). This statement is a fair-value based approach for measuring stock-based compensation and requires us to recognize the cost of employee and non-employee directors services received in exchange

Table of Contents

for our Company s equity instruments. Under SFAS No. 123(R), we are required to record compensation expense over an award s vesting period based on the award s fair value at the date of grant. We have adopted SFAS No. 123(R) on a prospective basis; accordingly, our financial statements for periods prior to January 1, 2006, do not include compensation cost calculated under the fair value method. We recorded compensation expense for stock based awards of approximately $0.5 million and $0 during the second quarters of 2007 and 2006, respectively. For the six months ended June 30, 2007, we recorded expense for stock based awards of approximately $0.8 million and $0. As of June 30, 2007, there was $1.0 million and $1.0 million of total unrecognized compensation cost related to non-vested stock option agreements and non-vested restricted share awards, respectively. These costs are expected to be recognized in earnings on a straight line basis over the weighted average remaining vesting period of 2.8 years.

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

Income Taxes

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

The Company adopted the provisions of FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109, Accounting for Income Taxes*, on January 1, 2007. We did not recognize any material liability for unrecognized tax benefits in conjunction with our FIN 48 implementation. 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.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We experience changes in interest expense when market interest rates change. Changes in our debt could also increase these risks. Based on debt outstanding at June 30, 2007, a 25 basis point increase in interest rates would result in approximately $0.4 million of additional interest costs annually.

We utilize derivative financial instruments to hedge price movements in our aluminum materials. As of June 30, 2007, we covered approximately 10% of our anticipated needs for the next twelve months. 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. For the six months ended June 30, 2007, a 10% increase in the cost of aluminum would increase cost of sales by $1.2 million, net of the change in the fair value of aluminum hedges.

ITEM 4. CONTROLS AND PROCEDURES

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

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

misstatements due to error or fraud may occur and not be detected.

Table of Contents

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

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

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

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

ITEM 1A. RISK FACTORS

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

ITEM 2. UNREGISTERED SALE OF EQUITY SECURITIES

Unregistered Sales of Equity Securities

During the six months ended June 30, 2007, we issued an aggregate of 66,999 shares of our common stock to certain officers, employees and former employees upon the exercise of options associated with the Rollover Stock Option Agreement included as Exhibit 10.18 to Amendment No. 1 to the Registration Statement of the Company on Form S-1, filed with the Securities and Exchange Commission on April 21, 2006, Registration No. 333-132365. We received aggregate proceeds of $0.5 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 six months ended June 30, 2007, we issued an aggregate of 363,191 shares of our common stock to certain employees and former employees upon the exercise of options awarded under our 2004 Stock Incentive Plan. We received aggregate proceeds of $0.6 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.

23

Table of Contents

All of the above option grants were made prior to our initial public offering. None of the foregoing transactions involved any underwriters, underwriting discounts or commissions, or any public offering.

Use of Proceeds

Not applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

At the annual meeting of PGT, Inc. shareholders held on May 22, 2007, the shareholders elected the directors nominated in the PGT, Inc. Proxy Statement, dated April 20, 2007, with the following affirmative votes and votes withheld:

Director	Affirmative Votes	Votes Withheld
Alexander R. Castaldi	20,011,764	3,869,811
M. Joseph McHugh	23,823,095	58,480
Randy L. White	20,421,321	3,460,254

The shareholders also approved the following proposal:

Proposal	Affirmative Votes	Votes Against	Abstentions
To ratify the appointment of Ernst & Young, LLP as the Company s independent registered public accounting firm for the 2007 fiscal year	23,811,324	32,866	37,385

ITEM 5. OTHER INFORMATION

None.

Table of Contents

ITEM 6 EXHIBITS

The following items are attached or incorporated herein by reference:

31.1* Certification of chief executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

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

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

* Filed herewith.

** Furnished herewith

Table of Contents

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: August 7, 2007

/s/ Rodney Hershberger
Rodney Hershberger
President and Chief Executive Officer

Date: August 7, 2007

/s/ Jeffrey T. Jackson
Jeffrey T. Jackson
Chief Financial Officer and Treasurer

Table of Contents

EXHIBIT INDEX

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

* Filed herewith.

** Furnished herewith.