

PGT, Inc.  
Form 10-Q  
November 01, 2013  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 10-Q**

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

**For the quarterly period ended September 28, 2013**

**OR**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission file number 000-52059**

**PGT, Inc.**

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**1070 Technology Drive**

**North Venice, FL 34275**

**Registrant's telephone number: 941-480-1600**

**State of Incorporation**  
**Delaware**

**IRS Employer Identification No.**  
**20-0634715**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

|   |  |
|---|--|
| Large accelerated filer <input type="checkbox"/>  | Accelerated filer <input type="checkbox"/>         |
| Non-accelerated filer <input checked="" type="checkbox"/> (Do not check if a smaller reporting company) | Smaller reporting company <input type="checkbox"/> |

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

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

Common Stock, \$0.01 par value 46,815,697 shares, as of October 28, 2013.

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**PGT, INC.**

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**Table of Contents****PART I FINANCIAL INFORMATION****ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)****PGT, INC.****CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME***(in thousands, except per share amounts)*

|  | <b>Three Months Ended</b> |                           | <b>Nine Months Ended</b>  |                           |
|--|---------------------------|---------------------------|---------------------------|---------------------------|
|  | <b>September 28, 2013</b> | <b>September 29, 2012</b> | <b>September 28, 2013</b> | <b>September 29, 2012</b> |
|  | <i>(unaudited)</i>        |                           | <i>(unaudited)</i>        |                           |
| Net sales                                    | \$ 64,858                 | \$ 44,743                 | \$ 177,268                | \$ 129,329                |
| Cost of sales                                | 43,938                    | 29,501                    | 117,759                   | 85,670                    |
| <b>Gross margin</b>                          | <b>20,920</b>             | <b>15,242</b>             | <b>59,509</b>             | <b>43,659</b>             |
| Selling, general and administrative expenses | 13,507                    | 11,592                    | 40,817                    | 35,206                    |
| Gain on sale of assets held for sale         |                           |                           | (2,195)                   |                           |
| Income from operations                       | 7,413                     | 3,650                     | 20,887                    | 8,453                     |
| Interest expense, net                        | 1,055                     | 878                       | 2,564                     | 2,675                     |
| Other expense (Income), net                  | 64                        | (10)                      | 741                       | (110)                     |
| Income before income taxes                   | 6,294                     | 2,782                     | 17,582                    | 5,888                     |
| Income tax expense (benefit)                 | 5                         | 60                        | (3,893)                   | 128                       |
| <b>Net income</b>                            | <b>\$ 6,289</b>           | <b>\$ 2,722</b>           | <b>\$ 21,475</b>          | <b>\$ 5,760</b>           |
| Net income per common share:                 |                           |                           |                           |                           |
| Basic  | \$ 0.14                   | \$ 0.05                   | \$ 0.43                   | \$ 0.11                   |
| Diluted                                      | \$ 0.13                   | \$ 0.05                   | \$ 0.40                   | \$ 0.11                   |
| Weighted average shares outstanding:         |                           |                           |                           |                           |
| Basic  | 46,238                    | 53,686                    | 49,567                    | 53,674                    |
| Diluted                                      | 49,257                    | 56,054                    | 53,097                    | 54,475                    |

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|                      |          |          |           |          |
|----------------------|----------|----------|-----------|----------|
| Comprehensive income | \$ 5,985 | \$ 3,203 | \$ 20,788 | \$ 6,140 |
|----------------------|----------|----------|-----------|----------|

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

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

|   | <b>September 28,<br/>2013</b> | <b>December 29,<br/>2012</b> |
|---|-------------------------------|------------------------------|
|   | <i>(unaudited)</i>            |                              |
| <b>ASSETS</b>                                     |                               |                              |
| Current assets:                                   |                               |                              |
| Cash and cash equivalents                         | \$ 23,745                     | \$ 18,743                    |
| Accounts receivable, net                          | 21,671                        | 13,997                       |
| Inventories                                       | 15,266                        | 11,529                       |
| Deferred income taxes                             | 1,547                         |                              |
| Prepaid expenses                                  | 1,122                         | 916                          |
| Assets held for sale                              |                               | 5,259                        |
| Other current assets                              | 3,072                         | 2,886                        |
| <br>  |                               |                              |
| Total current assets                              | 66,423                        | 53,330                       |
| Property, plant and equipment, net                | 42,786                        | 41,220                       |
| Intangible assets, net                            | 40,450                        | 45,327                       |
| Other assets, net                                 | 2,428                         | 1,440                        |
| <br>  |                               |                              |
| Total assets                                      | \$ 152,087                    | \$ 141,317                   |
| <br><b>LIABILITIES AND SHAREHOLDERS EQUITY</b>    |                               |                              |
| Current liabilities:                              |                               |                              |
| Accounts payable and accrued liabilities          | \$ 17,038                     | \$ 13,279                    |
| Deferred income taxes                             | 46                            | 46                           |
| Current portion long-term debt                    | 3,907                         |                              |
| <br>  |                               |                              |
| Total current liabilities                         | 20,991                        | 13,325                       |
| Long-term debt                                    | 74,236                        | 37,500                       |
| Deferred income taxes                             | 12,076                        | 14,858                       |
| Other liabilities                                 | 1,638                         | 1,424                        |
| <br>  |                               |                              |
| Total liabilities                                 | 108,941                       | 67,107                       |
| <br><b>Commitments and contingencies (Note 9)</b> |                               |                              |
| <br>Shareholders' equity:                         |                               |                              |

|   |            |            |
|---|------------|------------|
| Preferred stock; par value \$.01 per share; 10,000 shares authorized; none outstanding  |            |            |
| Common stock; par value \$.01 per share; 200,000 shares authorized; 48,812 and 53,737 shares issued and 46,816 and 52,814 shares outstanding at September 28, 2013, and December 29, 2012, respectively | 488        | 537        |
| Additional paid-in-capital  | 228,563    | 274,275    |
| Accumulated other comprehensive loss  | (2,101)    | (1,414)    |
| Accumulated deficit   | (173,758)  | (195,233)  |
| Subtotal shareholders' equity   | 53,192     | 78,165     |
| Less Treasury stock at cost; 1,996,772 and 922,694 shares   | (10,046)   | (3,955)    |
| Total shareholders' equity  | 43,146     | 74,210     |
| Total liabilities and shareholders' equity  | \$ 152,087 | \$ 141,317 |

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

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## PGT, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

*(in thousands)*

|   | Nine Months Ended     |                       |
|---|-----------------------|-----------------------|
|   | September 28,<br>2013 | September 29,<br>2012 |
|   | <i>(unaudited)</i>    |                       |
| <b>Cash flows from operating activities:</b>  |                       |                       |
| Net income  | \$ 21,475             | \$ 5,760              |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: |                       |                       |
| Depreciation  | 3,509                 | 4,384                 |
| Amortization  | 4,877                 | 4,877                 |
| Provision for allowances of doubtful accounts   | (107)                 | 29                    |
| Amortization and write off of deferred financing costs                                      | 1,427                 | 623                   |
| Stock-based compensation  | 752                   | 1,046                 |
| Derivative financial instruments  | 111                   | 42                    |
| Deferred income tax   | (3,898)               |                       |
| Gain on disposal of assets  | (2,185)               | (291)                 |
| Change in operating assets and liabilities:   |                       |                       |
| Accounts receivable   | (8,624)               | (2,995)               |
| Inventories   | (3,737)               | (84)                  |
| Prepaid and other assets  | (861)                 | (40)                  |
| Accounts payable, accrued and other liabilities   | 3,580                 | 3,080                 |
| <b>Net cash provided by operating activities</b>  | <b>16,319</b>         | <b>16,431</b>         |
| <b>Cash flows from investing activities:</b>  |                       |                       |
| Purchases of property, plant and equipment  | (5,100)               | (3,145)               |
| Proceeds from sales of assets   | 7,478                 | 454                   |
| <b>Net cash provided by (used in) investing activities</b>                                  | <b>2,378</b>          | <b>(2,691)</b>        |
| <b>Cash flows from financing activities:</b>  |                       |                       |
| Payments of long-term debt  | (37,500)              | (5,000)               |
| Proceeds from issuance of long-term debt  | 80,000                |                       |
| Purchase of treasury stock  | (56,091)              |                       |
| Payments of financing costs   | (3,591)               |                       |
| Proceeds from exercise of stock options   | 3,487                 | 42                    |
| Payments of capital leases  |                       | (50)                  |



|  |           |           |
|--|-----------|-----------|
| Net cash used in financing activities            | (13,695)  | (5,008)   |
| Net increase in cash and cash equivalents        | 5,002     | 8,732     |
| Cash and cash equivalents at beginning of period | 18,743    | 10,940    |
| Cash and cash equivalents at end of period       | \$ 23,745 | \$ 19,672 |

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

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**PGT, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

*(unaudited)*

**NOTE 1. BASIS OF PRESENTATION**

The accompanying unaudited condensed consolidated financial statements include the accounts of PGT, Inc. and its wholly-owned subsidiary, PGT Industries, Inc. (collectively the Company) after elimination of intercompany accounts and transactions. These statements have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and footnotes required by United States Generally Accepted Accounting Principles (GAAP) for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the interim period are not necessarily indicative of the results that may be expected for the remainder of the current year or for any future periods. Each of our Company's fiscal quarters ended September 28, 2013, and September 29, 2012, consisted of 13 weeks.

The Condensed Consolidated Balance Sheet as of December 29, 2012, is derived from the audited consolidated financial statements but does not include all disclosures required by GAAP. The Condensed Consolidated Balance Sheets as of December 29, 2012, and the unaudited condensed consolidated financial statements as of and for the period ended September 28, 2013, should be read in conjunction with the more detailed audited consolidated financial statements for the year ended December 29, 2012, included in the Company's most recent Form 10-K annual report. Accounting policies used in the preparation of these unaudited condensed consolidated financial statements are consistent with the accounting policies described in the Notes to Consolidated Financial Statements included in the Company's Form 10-K.

**Recently Issued Accounting Pronouncements**

In December 2011, the Financial Accounting Standards Board (FASB) issued ASU 2011-11 Disclosures about Offsetting Assets and Liabilities. Subsequently, in February 2013, the FASB issued ASU 2013-01, Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities. These updates amended the guidance related to disclosures about offsetting assets and liabilities, including recognized financial instruments and derivatives. The provisions of the amended guidance became effective for us beginning in the first quarter of 2013. We adopted this standard in the first quarter of 2013 and additional disclosures have been made to comply with the standard.

In February 2013, the FASB issued ASU 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. The guidance amends the requirements of ASC 220, Comprehensive Income. The goal behind the amendments is to improve the transparency of reporting reclassifications out of accumulated other comprehensive income. It does not change current requirements for reporting net income or other comprehensive income in the financial statements. The provisions of the amended guidance became effective for us beginning in the first quarter of 2013. We adopted this standard in the first quarter of 2013 and additional disclosures have been made to comply with the standard.

**NOTE 2. WARRANTY**

Most of our manufactured products are sold with warranties. Warranty periods, which vary by product components, generally range from 1 to 10 years, although the warranty period for a limited number of specifically identified components in certain applications is a lifetime. However, the majority of the products sold have warranties on components which range from 1 to 3 years. The reserve for warranties is based on management's assessment of the cost per service call and the number of service calls expected to be incurred to satisfy warranty obligations on the current net sales.

During the quarter and nine months ended, we recorded warranty expense at a rate of 1.25% and 1.32% of sales, respectively. This rate is lower than the 2.00% of sales accrued in the third quarter of 2012 due to improved quality and lower costs to service claims experienced in the past several quarters. We assess the adequacy of our warranty accrual on a quarterly basis and adjust the previous amounts recorded, if necessary, to reflect a change in estimate of the future costs of claims yet to be serviced.

The table set forth below summarizes current period charges, any adjustment to previous estimates if necessary, as well as settlements, which represent actual costs incurred during the period, for the three and nine months ended September 28, 2013, and September 29, 2012. The reserve is determined after assessing Company history and through specific identification. Expected future obligations are discounted to a current value using a risk-free rate for obligations with similar maturities.

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The following provides information with respect to our warranty accrual:

| <b>Accrued Warranty</b>               | <b>Beginning<br/>of<br/>Period</b> | <b>Charged to<br/>Expense</b> | <b>Adjustments<br/>(in thousands)</b> | <b>Settlements</b> | <b>End of<br/>Period</b> |
|---------------------------------------|------------------------------------|-------------------------------|---------------------------------------|--------------------|--------------------------|
| Three months ended September 28, 2013 | \$ 3,128                           | \$ 811                        | \$ (71)                               | \$ (917)           | \$ 2,951                 |
| Three months ended September 29, 2012 | \$ 4,313                           | \$ 783                        | \$ (235)                              | \$ (786)           | \$ 4,075                 |
| Nine months ended September 28, 2013  | \$ 3,858                           | \$ 2,341                      | \$ (530)                              | \$ (2,718)         | \$ 2,951                 |
| Nine months ended September 29, 2012  | \$ 4,406                           | \$ 2,476                      | \$ (319)                              | \$ (2,488)         | \$ 4,075                 |

**NOTE 3. INVENTORIES**

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

|                   | September 28,<br>2013 | December 29,<br>2012 |
|-------------------|-----------------------|----------------------|
|                   | <i>(in thousands)</i> |                      |
| Raw materials     | \$ 12,564             | \$ 10,477            |
| Work in progress  | 578                   | 256                  |
| Finished goods    | 2,124                 | 796                  |
| Total inventories | \$ 15,266             | \$ 11,529            |

**NOTE 4. STOCK COMPENSATION EXPENSE**

We record stock compensation expense over an award's vesting period based on the award's fair value at the date of grant. We recorded compensation expense for stock based awards of \$0.2 million for the third quarter of 2013 and \$0.3 million for the third quarter of 2012. We recorded compensation expense for stock based awards of \$0.8 million for the first nine months of 2013 and \$1.0 million for the first nine months of 2012. As of September 28, 2013, and September 29, 2012, there was \$0.7 million and \$1.6 million, respectively, of total unrecognized compensation cost related to non-vested stock option agreements and restricted share awards. These costs are expected to be recognized in earnings on a straight-line basis over the weighted average remaining vesting period of 1.3 years.

*Exercises*

In the third quarter of 2013, there were 1,082,478 options exercised at a weighted average exercise price of \$2.09 per

share. For the nine months ended September 28, 2013, there were 1,866,667 options exercised at a weighted average exercise price of \$1.87 per share.

**NOTE 5. NET INCOME PER COMMON SHARE**

Basic EPS is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding during the period. Diluted EPS reflects the dilutive effect of potential common shares from securities such as stock options.

Our weighted average shares outstanding for the three months ended September 29, 2012, excludes underlying options of 437,455 because their effects were anti-dilutive. Our weighted average shares outstanding for the nine months ended September 28, 2013, and September 29, 2012, excludes underlying options of 15,007 and 396,529, respectively, because their effects were anti-dilutive.

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

|   | <b>Three Months Ended</b>                       |                      | <b>Nine Months Ended</b> |                      |
|---|---|----------------------|--------------------------|----------------------|
|   | <b>September 28,</b>                            | <b>September 29,</b> | <b>September 28,</b>     | <b>September 29,</b> |
|   | <b>2013</b>                                     | <b>2012</b>          | <b>2013</b>              | <b>2012</b>          |
|   | <i>(in thousands, except per share amounts)</i> |                      |                          |                      |
| Net income  | \$ 6,289  | \$ 2,722             | \$ 21,475                | \$ 5,760             |
| Weighted-average common shares -<br>Basic           | 46,238  | 53,686               | 49,567                   | 53,674               |
| Add: Dilutive effect of stock<br>compensation plans | 3,019   | 2,368                | 3,530                    | 801                  |
| Weighted-average common shares -<br>Diluted         | 49,257  | 56,054               | 53,097                   | 54,475               |
| Net income per common share:                        |   |                      |                          |                      |
| Basic   | \$ 0.14   | \$ 0.05              | \$ 0.43                  | \$ 0.11              |
| Diluted   | \$ 0.13   | \$ 0.05              | \$ 0.40                  | \$ 0.11              |

**NOTE 6. INTANGIBLE ASSETS**

Intangible assets are as follows:

|                                | <b>September 28,</b>  | <b>December 29,</b> | <b>Original</b>    |
|--------------------------------|-----------------------|---------------------|--------------------|
|                                | <b>2013</b>           | <b>2012</b>         | <b>Useful Life</b> |
|                                | <i>(in thousands)</i> |                     | <b>(in years)</b>  |
| <b>Intangible assets:</b>      |                       |                     |                    |
| Trade names                    | \$ 38,441             | \$ 38,441           | indefinite         |
| Customer relationships         | 55,700                | 55,700              | 10                 |
| Less: Accumulated amortization | (53,879)              | (49,701)            |                    |
| Subtotal                       | 1,821                 | 5,999               |                    |
| Hurricane intellectual assets  | 2,797                 | 2,797               | 3                  |

|                                |           |           |
|--------------------------------|-----------|-----------|
| Less: Accumulated amortization | (2,609)   | (1,910)   |
| Subtotal                       | 188       | 887       |
| Intangible assets, net         | \$ 40,450 | \$ 45,327 |

### **Indefinite Lived Intangible Asset**

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

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

Our year-end test of trade names, performed as of December 29, 2012, utilized a weighted average royalty rate of 4.0% and a discount rate of 14.3%. Net sales used in the analysis were based on historical experience and a modest growth rate over the next six years. As of December 29, 2012, the estimated fair value of the trade names exceeded book value by approximately

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47%, or \$18.0 million. We believe our projected sales are reasonable based on available information regarding our industry and the core markets that we serve. We also believe the royalty rate is appropriate and could improve over time based on market trends and information, including that which is set forth above. The discount rate was based on current financial market trends and will remain dependent on such trends in the future.

No impairment test was conducted as of September 28, 2013, because no impairment indicators were identified that require us to perform this test prior to our annual test at December 28, 2013. We will continue to monitor and evaluate potential impairment indicators.

**Amortizable Intangible Assets**

We perform an impairment test on our amortizable intangible assets any time that impairment indicators exist. Such assets include our customer relationships asset and the intellectual property assets acquired upon exercise of the option to purchase the Hurricane Window and Door Technology assets in December 2010, which underlie our PremierVue product line. No such impairment indicators were identified as of September 28, 2013. We will continue to monitor and evaluate potential impairment indicators.

**NOTE 7. LONG-TERM DEBT**

On May 28, 2013, we entered into a Credit Agreement (the "Credit Agreement") with the various financial institutions and other persons from time to time parties thereto as lenders (the "Lenders"), SunTrust Bank, as administrative agent (in such capacity, the "Administrative Agent"), as collateral agent, as swing line lender and as a letter of credit issuer, and the other agents and parties thereto. The Credit Agreement establishes new senior secured credit facilities in an aggregate amount of \$105.0 million, consisting of an \$80.0 million Tranche A term loan facility maturing in five years that will amortize on a basis of 5% annually during the five-year term, and a \$25.0 million revolving credit facility maturing in five years that includes a \$5.0 million swing line facility and a \$10.0 million letter of credit facility.

Interest on all loans under the Credit Agreement is payable either quarterly or at the expiration of any LIBOR interest period applicable thereto. Borrowings under the term loans and the revolving credit facility accrue interest at a rate equal to, at our option, a base rate or LIBOR plus an applicable margin. The applicable margin is based on our leverage ratio, ranging from 300 to 350 basis points in the case of LIBOR and 200 to 250 basis points in the case of the base rate. We will pay quarterly fees on the unused portion of the revolving credit facility equal to 0.50% as well as a quarterly letter of credit fee at a rate per annum equal to the applicable margin for LIBOR loans on the face amount of any outstanding letters of credit. In connection with this refinancing, we wrote-off \$0.3 million of deferred financing costs from the Old Credit Agreement, which are classified within other expense (income), net in the Condensed Consolidated Statements of Income and Comprehensive Income for the nine months ended September 28, 2013.

On September 16, 2013, we entered into two interest rate caps and an interest rate swap to hedge a portion of our debt against volatility in future interest rates (See Note 12).

The Credit Agreement will require us to maintain a maximum leverage ratio (based on the ratio of total funded debt to consolidated EBITDA, each as defined in the Credit Agreement) and a minimum fixed charge coverage ratio (based on the ratio of consolidated EBITDA minus net cash taxes minus capital expenditures to cash interest expense plus scheduled principal payments of term loans, each as defined in the Credit Agreement), which will be tested quarterly based on the last four fiscal quarters and is set at levels as described in the Credit Agreement. As of September 28, 2013, we were in compliance with all debt covenants.



The Credit Agreement also contains a number of affirmative and restrictive covenants, including limitations on the incurrence of additional debt, liens on property, acquisitions and investments, loans and guarantees, mergers, consolidations, liquidations and dissolutions, asset sales, dividends and other payments in respect of our capital stock, prepayments of certain debt and transactions with affiliates. The Credit Agreement also contains customary events of default.

In connection with entering into the Credit Agreement, on May 28, 2013, we terminated the Credit Agreement, dated as of June 23, 2011, among PGT Industries, Inc., as the borrower, the Company, as guarantor, the lenders from time to time party thereto and General Electric Capital Corporation, as administrative agent and collateral agent (the Old Credit Agreement ). Proceeds from the term loan facility under the Credit Agreement were used to repay amounts outstanding under the Old Credit Agreement, repurchase shares of our common stock having an aggregate value of approximately \$50 million, and pay certain fees and expenses.

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On August 5, 2013, we entered into Amendment No. 1 (the Amendment) to the Credit Agreement dated May 28, 2013. The Amendment permits us to make capital expenditures (as defined in the Credit Agreement) in an amount up to but not exceeding \$14.0 million in connection with the expansion and operation of our glass processing business and activities without reducing the amount of capital expenditures otherwise permitted.

The face value of the debt as of September 28, 2013, was \$80.0 million. The Company incurred issuance costs of \$3.6 million, of which \$2.0 million of the costs were classified as a discount and presented in the current and long-term portion of debt on the Condensed Consolidated Balance Sheets. Approximately \$1.2 million was reported as debt issuance costs in current assets and other assets on the Condensed Consolidated Balance Sheets, while the remaining \$0.3 million was expensed in selling, general and administrative expense on the Condensed Consolidated Statements of Income and Comprehensive Income. The debt issuance costs and discount are being amortized to interest expense, net on the Condensed Consolidated Statements of Income and Comprehensive Income over the term of the debt.

In connection with the cash proceeds from the sale of our Salisbury facility on January 23, 2013, we voluntarily prepaid \$7.5 million of debt on January 31, 2013.

The contractual future maturities of long-term debt outstanding as of September 28, 2013, are as follows (excluding unamortized debt discount and issuance costs):

|              | <i>(in thousands)</i> |
|--------------|-----------------------|
| 2013         | \$ 1,000              |
| 2014         | 5,000                 |
| 2015         | 4,000                 |
| 2016         | 4,000                 |
| 2017         | 3,000                 |
| 2018         | 63,000                |
| <b>Total</b> | <b>\$ 80,000</b>      |

The Old Credit Agreement provided for a \$15.0 million revolving credit facility, a \$48.0 million term loan facility and an uncommitted incremental facility in an amount of up to \$25.0 million. The revolving credit facility commitment and the term loans under the Old Credit Agreement would have matured June 2016.

All borrowings under the Old Credit Agreement bore interest, at our option, at either: (a) a base rate equal to the highest of: (i) 0.50% per year above the weighted average of the rates on overnight federal funds transactions with members of the Federal Reserve System, (ii) the annual rate of interest in effect for that day as publicly announced as the prime rate and (iii) the one-month eurodollar rate (not to be less than 1.25%) or (b) a eurodollar base rate equal to the higher of (i) 1.25% and (ii) (adjusted for reserve requirements, deposit insurance assessment rates and other regulatory costs for eurodollar liabilities) the rate at which eurodollar deposits in dollars for the relevant interest period (which will be one, two, three or six months or, subject to availability, nine or twelve months, as selected by us) are offered in the interbank eurodollar market plus, in each case, a rate dependent on the ratio of our funded debt as compared to our adjusted consolidated EBITDA, ranging from 3.5% to 2.0% per year for borrowings bearing interest at the base rate and from 4.5% to 3.0% per year for borrowings bearing interest at the eurodollar rate (such rate added to the eurodollar rate, the Eurodollar Margin).



**Table of Contents****NOTE 8. ACCUMULATED OTHER COMPREHENSIVE LOSS**

The following table shows the components of accumulated other comprehensive loss for the three and nine months ended September 28, 2013, and September 29, 2012:

|  | <b>Aluminum<br/>Forward<br/>Contracts</b> | <b>Interest<br/>Swap</b> | <b>Total</b>          |
|--|---|--------------------------|-----------------------|
|  | <i>(in thousands)</i>                     | <i>(in thousands)</i>    | <i>(in thousands)</i> |
| Balance at June 29, 2013                                       | \$ (1,797)                                | \$                       | \$ (1,797)            |
| Other comprehensive income (loss) before reclassification      | 196                                       | (727)                    | (531)                 |
| Amounts reclassified from accumulated other comprehensive loss | 36  |                          | 36                    |
| Tax effect   | (89)                                      | 280                      | 191                   |
| <b>Net current-period other comprehensive loss</b>             | <b>143</b>                                | <b>(447)</b>             | <b>(304)</b>          |
| Balance at September 28, 2013                                  | \$ (1,654)                                | \$ (447)                 | \$ (2,101)            |

|  | <b>Aluminum<br/>Forward<br/>Contracts</b> | <b>Interest<br/>Swap</b> | <b>Total</b>          |
|--|---|--------------------------|-----------------------|
|  | <i>(in thousands)</i>                     | <i>(in thousands)</i>    | <i>(in thousands)</i> |
| Balance at June 30, 2012                                       | \$ (1,899)                                | \$                       | \$ (1,899)            |
| Other comprehensive income before reclassification             | 346                                       |                          | 346                   |
| Amounts reclassified from accumulated other comprehensive loss | 135                                       |                          | 135                   |
| Tax effect   |   |                          |                       |
| <b>Net current-period other comprehensive loss</b>             | <b>481</b>                                |                          | <b>481</b>            |
| Balance at September 29, 2012                                  | \$ (1,418)                                | \$                       | \$ (1,418)            |

|  | <b>Aluminum<br/>Forward<br/>Contracts</b> | <b>Interest<br/>Swap</b> | <b>Total</b>          |
|--|---|--------------------------|-----------------------|
|  | <i>(in thousands)</i>                     | <i>(in thousands)</i>    | <i>(in thousands)</i> |
| Balance at December 29, 2012                                   | \$ (1,414)                                | \$                       | \$ (1,414)            |
| Other comprehensive loss before reclassification               | (460)                                     | (727)                    | (1,187)               |
| Amounts reclassified from accumulated other comprehensive loss | 69  |                          | 69                    |
| Tax effect   | 151                                       | 280                      | 431                   |

|   |       |       |       |
|---|-------|-------|-------|
| Net current-period other comprehensive loss | (240) | (447) | (687) |
|---|-------|-------|-------|

|                               |            |          |            |
|-------------------------------|------------|----------|------------|
| Balance at September 28, 2013 | \$ (1,654) | \$ (447) | \$ (2,101) |
|-------------------------------|------------|----------|------------|

|  | <b>Aluminum<br/>Forward<br/>Contracts</b> | <b>Interest<br/>Swap</b> | <b>Total</b>          |
|--|---|--------------------------|-----------------------|
|  | <i>(in thousands)</i>                     | <i>(in thousands)</i>    | <i>(in thousands)</i> |
| Balance at December 31, 2011                                   | \$ (1,798)                                | \$                       | \$ (1,798)            |
| Other comprehensive income before reclassification             | 183                                       |                          | 183                   |
| Amounts reclassified from accumulated other comprehensive loss | 197                                       |                          | 197                   |
| Tax effect   |   |                          |                       |
| Net current-period other comprehensive loss                    | 380                                       |                          | 380                   |
| Balance at September 29, 2012                                  | \$ (1,418)                                | \$                       | \$ (1,418)            |

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Reclassification out of accumulated other comprehensive loss for the three and nine months ended September 28, 2013, and September 29, 2012:

| Detail about accumulated other comprehensive loss components | Amount reclassified from Accumulated |                    | Affected line item in Statement where Net Income is presented |
|--|--------------------------------------|--------------------|---|
|  | September 28, 2013                   | September 29, 2012 |   |
|  | <i>(in thousands)</i>                |                    |   |
| <b>Aluminum Forward Contracts</b>                            |                                      |                    |   |
| Effective portion of aluminum forward contracts              | \$ 36                                | \$ 135             | Cost of Sales   |
| Tax effect   | (14)                                 | (52)               | Tax expense   |
| <b>Interest Swap</b>   |                                      |                    |   |
| Effective portion of interest hedge contracts                |                                      |                    | Interest  |
| Tax effect   |                                      |                    | Tax expense   |
|  | \$ 22                                | \$ 83              | Net of Tax  |

| Detail about accumulated other comprehensive loss components | Nine months ended     |                    | Affected line item in Statement where Net Income is presented |
|--|-----------------------|--------------------|---|
|  | September 28, 2013    | September 29, 2012 |   |
|  | <i>(in thousands)</i> |                    |   |
| <b>Aluminum Forward Contracts</b>                            |                       |                    |   |
| Effective portion of aluminum forward contracts              | \$ 69                 | \$ 197             | Cost of Sales   |
| Tax effect   | (27)                  | (76)               | Tax expense   |
| <b>Interest Swap</b>   |                       |                    |   |
| Effective portion of interest hedge contracts                |                       |                    | Interest  |
| Tax effect   |                       |                    | Tax expense   |
|  | \$ 42                 | \$ 121             | Net of Tax  |

**NOTE 9. 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 10. INCOME TAXES**

At the end of each interim period, we are required to estimate our annual effective tax rate for the fiscal year and use that rate to provide for income taxes for the current year-to-date reporting period. We recorded a minimal income tax expense and a \$3.9 million benefit for the three and nine months ended September 28, 2013, respectively, compared to an expense of \$0.1 million and \$0.1 million for the same respective periods in 2012. The income tax benefit in the nine months ended September 28, 2013 is due primarily to a \$3.9 million reversal of a portion of our deferred tax asset valuation allowance during the second quarter, while the expense in the prior year was due primarily to a release of a portion of our deferred tax asset valuation allowance to partially offset our regular tax expense and our expected alternative minimum tax obligation. Due to the effect of the deferred tax asset valuation allowance release, our effective tax rates in 2013 and 2012 do not directly correlate to the amount of pretax income or loss. In the absence of such releases, our tax rate would have been 39.1% and 39.5%, for the three months ended September 28, 2013, and September 29, 2012, respectively.

Deferred income taxes reflect the net tax effects of temporary differences between (1) the carrying amounts of the assets and liabilities for financial reporting purposes and (2) the amounts used for income tax purposes. A valuation allowance is recorded against a deferred tax asset if, based on the weight of available evidence, it is more-likely-than-not (a likelihood of more than 50%) that some portion, or all, of the deferred tax asset will not be realized. At December 29, 2012, we had a valuation allowance totaling \$12.9 million recorded against our net deferred tax asset. During the quarter ended June 29, 2013, we concluded that it was more likely than not that we would be able to realize all of our deferred tax assets and as such, we reversed our deferred tax asset valuation allowance. The reversal was based upon consideration of a number of factors, recent earnings history and forecasts of future earnings that enabled us to conclude it is more likely than not that the deferred tax assets will be realized. The \$3.9 million tax benefit recorded for the nine months ended September 28, 2013, reflects the estimated remaining valuation allowance in excess of what is being used to offset the 2013 income tax expense in the estimated annual effective tax rate.

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**Table of Contents****NOTE 11. DERIVATIVE**

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

In addition, we entered into LIBOR rate hedges on September 16, 2013, to offset the changes in cash flows of the debt interest rate payments that are attributable to the fluctuations of LIBOR rates. With the exception of the time value portion of our caps, these contracts are designated as cash flow hedges since they are highly effective in offsetting the changes in the monthly interest payments attributable to the changes in interest rates during the term of the agreement.

We net cash collateral from payments of margin calls on deposit with our brokers against the liability position of open contracts for the purchase of hedge instruments on a first-in, first-out basis. For statement of cash flows presentation, we present net cash receipts from and payments to the margin account as investing activities.

**Derivative Financial Instruments – Aluminum Contracts**

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

We maintain a \$2.0 million line of credit with our commodities broker to cover the liability position of open contracts for the purchase of aluminum in the event that the price of aluminum falls. Should the price of aluminum fall to a level which causes our liability for open aluminum contracts to exceed \$2.0 million, we are required to fund daily margin calls to cover the excess.

At September 28, 2013, the fair value of our aluminum forward contracts was in a net liability position of \$0.4 million. We had 42 outstanding forward contracts for the purchase of 11.4 million pounds of aluminum, approximately 41% of our anticipated needs through June 2015, at an average price of \$0.90 per pound with maturity dates of between less than one month and twenty-one months. We assessed the risk of non-performance of the Company to these contracts and recorded a de minimis adjustment to fair value as of September 28, 2013.

As of December 29, 2012, the fair value of our aluminum forward contracts was in a net asset position of approximately \$20 thousand. We had 24 outstanding forward contracts for the purchase of 3.9 million pounds of aluminum at an average price of \$0.94 per pound with maturity dates of between less than one month and 12 months through December 2013. We assessed the risk of non-performance of the counterparty on these contracts and recorded a de minimis adjustment to fair value as of December 29, 2012.

Although it is our intent to have our aluminum hedges qualify as highly effective for reporting purposes, for the three months ended September 28, 2013, 6 of our 42 outstanding contracts did not qualify as effective. Effectiveness of aluminum forward contracts is determined by comparing the change in the fair value of the forward contract to the change in the expected cash to be paid for the hedged item. The effective portion of the gain or loss on our aluminum forward contracts is reported as a component of Accumulated other comprehensive loss and is reclassified into



earnings in the same line item in the income statement as the hedged item in the same period or periods during which the transaction affects earnings. When a cashflow hedge becomes ineffective, and if the forecasted hedged transaction is still probable of occurrence, amounts previously recorded in Accumulated other comprehensive loss remain in Accumulated other comprehensive loss and are recognized in earnings in the period in which the hedged transaction affects earnings. The change in value of the aluminum forward contracts occurring after ineffectiveness is recognized in Other expense (income), net on the Condensed Consolidated Statements of Income and Comprehensive Income. We do not expect the gains or losses recognized in the Accumulated other comprehensive loss line item in the accompanying Condensed Consolidated Balance Sheets (unaudited) as of September 28, 2013, that will be reclassified to earnings within the next three months to be material.

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As of December 29, 2012, our aluminum hedges did not qualify as effective for reporting purposes and amounts previously recorded in Accumulated other comprehensive loss remain in Accumulated other comprehensive loss and are recognized in earnings in the period in which the hedged transaction affects earnings. The change in value of the aluminum forward contracts occurring after ineffectiveness is recognized in Other expense, net on the Condensed Consolidated Statements of Income and Comprehensive Income.

**Derivative Financial Instruments Interest Rate Contract**

On September 16, 2013, we entered into two interest rate caps and one interest rate swap. The first is a one year interest rate cap agreement with a notional amount of \$40.0 million that was designated as a cash flow hedge that protects the variable rate debt from an increase in the floating one month LIBOR rate of greater than 0.50%. The second is a two year interest rate cap agreement with a notional amount of \$20.0 million that was designated as a cash flow hedge that protects the variable rate debt from an increase in the floating one month LIBOR rate of greater than 0.50%. Effectiveness for the interest rate caps will be measured by comparing the changes in the intrinsic value of the cap with the change in the fair value of the forecasted interest payments due to changes in the LIBOR interest rate when LIBOR is greater than 0.5%. The intrinsic value portion of the interest rate caps are expected to be highly effective due to the critical terms of the cap exactly matching those of the hedge debt. The time value portion of the caps are deemed ineffective and will be marked to market in the reporting period.

The last is a forward starting three year six months interest rate swap agreement with a notional amount of \$40.0 million that effectively converted a portion of the floating rate debt to a fixed rate of 2.15% that starts September 28, 2014, with a termination date of May 18, 2018. Since all of the critical terms of the swap and cap exactly matched those of the hedged debt, no ineffectiveness was identified in the hedging relationship. Consequently, all changes in fair value are recorded as a component of Accumulated other comprehensive income. Hedge effectiveness for the interest rate swap will be evaluated in accordance with ASC 815 on a quarterly basis by comparing changes in the cumulative gain or loss from the forward-starting interest rate swap with the cumulative changes in the discounted expected cash flows of future monthly interest related to changes of the swap rate.

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The impact of the offsetting derivative instruments are depicted below:

As of September 28, 2013

(in thousands)

| Description               | Gross Amounts of Assets Presented in Balance Sheet |        | Net amounts of Assets Presented in Balance Sheet |        | Gross Amounts of Liabilities Presented in Balance Sheet |        | Net amounts of Liabilities Presented in Balance Sheet |        |
|---------------------------|--|--------|--|--------|---|--------|---|--------|
|                           | Recognized   | Offset | Recognized                                       | Offset | Recognized  | Offset | Recognized  | Offset |
| Aluminum Forward Contract | \$ 54  | \$     | \$   | \$     | \$ 54   | \$     | \$  | \$     |
| Interest Rate Caps        | \$ 54  | \$     | \$   | \$     | \$ 54   | \$     | \$  | \$     |
| As of September 28, 2013  |  |        |  |        |   |        |   |        |

(in thousands)

| Description               | Gross Amounts of Liabilities Presented in Balance Sheet |        | Net amounts of Liabilities Presented in Balance Sheet |        | Gross Amounts of Assets Presented in Balance Sheet |        | Net amounts of Assets Presented in Balance Sheet |        |
|---------------------------|---|--------|---|--------|--|--------|--|--------|
|                           | Recognized  | Offset | Recognized  | Offset | Recognized   | Offset | Recognized                                       | Offset |
| Aluminum Forward Contract | \$ 453  | \$     | \$  | \$     | \$ 453   | \$     | \$   | \$     |
| Interest Rate Swap        | \$ 727  | \$     | \$  | \$     | \$ 727   | \$     | \$   | \$     |
| As of December 29, 2012   |   |        |   |        |  |        |  |        |

(in thousands)

| Description               | Gross Amounts of Assets Presented in Balance Sheet |         | Net amounts of Assets Presented in Balance Sheet |        | Gross Amounts of Liabilities Presented in Balance Sheet |        | Net amounts of Liabilities Presented in Balance Sheet |        |
|---------------------------|--|---------|--|--------|---|--------|---|--------|
|                           | Recognized   | Offset  | Recognized                                       | Offset | Recognized  | Offset | Recognized  | Offset |
| Aluminum Forward Contract | \$ 53  | \$ (33) | \$   | \$     | \$ 20   | \$     | \$  | \$     |
| As of December 29, 2012   |  |         |  |        |   |        |   |        |

(in thousands)

| Description | Gross Amounts of Assets Presented in Balance Sheet | Net amounts of Assets Presented in Balance Sheet | Gross Amounts of Liabilities Presented in Balance Sheet | Net amounts of Liabilities Presented in Balance Sheet |
|-------------|--|--|---|---|
|-------------|--|--|---|---|

|                           | Gross Amounts of Recognized Liabilities | Amounts of Liabilities in Balance Sheet | Net amounts of Liabilities Present in Balance Sheet | Financial Instruments | Cash Pledged | Net Collateral Amount |
|---------------------------|---|---|---|-----------------------|--------------|-----------------------|
| Aluminum Forward Contract | \$ 33                                   | \$ (33)                                 | \$  | \$                    | \$           | \$                    |

The fair value of our derivatives are classified in the accompanying Condensed Consolidated Balance Sheets as follows:

| Derivatives in a net asset (liability) position | Balance Sheet Location | September 29, 2013 |       | December 29, 2012 |  |
|---|------------------------|--------------------|-------|-------------------|--|
|   |                        |                    |       |                   |  |
| Interest rate cap                               | Other Current Assets   | \$ 30              | \$    |                   |  |
| Interest rate cap                               | Other Assets           | \$ 24              | \$    |                   |  |
| Interest rate swap                              | Other Liabilities      | \$ 727             | \$    |                   |  |
| Aluminum forward contracts                      | Other Assets           | \$ 54              | \$ 20 |                   |  |
| Aluminum forward contracts                      | Accrued Liabilities    | \$ 453             | \$    |                   |  |

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The following represents the gains (losses) on derivative financial instruments for the three and nine months ended September 28, 2013, and September 29, 2012, and their classifications within the accompanying Condensed Consolidated Financial Statements:

| <b>Derivatives in Cash Flow Hedging Relationships</b> |  |             |   |   |             |
|---|--|-------------|---|---|-------------|
|   | <b>Amount of Gain or (Loss) Recognized in OCI on Derivatives (Effective Portion) Three Months Ended September 28, 2013</b> |             | <b>Location of Gain or (Loss) Recognized in Accumulated OCI into Income (Effective Portion)</b> | <b>Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) Three Months Ended September 29, 2012</b> |             |
|   | <b>2013</b>  | <b>2012</b> |   | <b>2013</b>   | <b>2012</b> |
| Aluminum contracts                                    | \$ 196   | \$ 346      | Cost of sales   | \$ 36   | \$ 135      |
| Interest rate swap                                    | \$ (727)   | \$          | Interest Expense, net   | \$  | \$          |

|                    | <b>Location of Gain or (Loss) Recognized in Income on Derivatives (Ineffective Portion)</b> |                            | <b>Amount of Gain or (Loss) Recognized in Income on Derivatives (Ineffective Portion) Three Months Ended September 28, 2013</b> |             |
|--------------------|---|----------------------------|---|-------------|
|                    | <b>2013</b>   | <b>2012</b>                | <b>2013</b>   | <b>2012</b> |
| Aluminum contracts | Other Expense (income) net  | Other Expense (income) net | \$ 18   | \$ 5        |
| Interest rate swap | Other Expense (income) net  | Other Expense (income) net | \$  | \$          |

| <b>Derivatives in Cash Flow Hedging Relationships</b> |   |             |   |  |             |
|---|---|-------------|---|--|-------------|
|   | <b>Amount of Gain or (Loss) Recognized in OCI on Derivatives (Effective Portion) Nine Months Ended September 28, 2013</b> |             | <b>Location of Gain or (Loss) Recognized in Accumulated OCI into Income (Effective Portion)</b> | <b>Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) Nine Months Ended September 29, 2012</b> |             |
|   | <b>2013</b>   | <b>2012</b> |   | <b>2013</b>  | <b>2012</b> |

|                    | September 28, 2013 | September 29, 2012 |                       | September 28, 2013 | September 29, 2012 |
|--------------------|--------------------|--------------------|-----------------------|--------------------|--------------------|
| Aluminum contracts | \$ (460)           | \$ 183             | Cost of sales         | \$ 69              | \$ 197             |
| Interest rate swap | \$ (727)           | \$                 | Interest Expense, net | \$                 | \$                 |

|   |                            | Amount of Gain or (Loss)            |                    |
|---|----------------------------|-------------------------------------|--------------------|
| Location of Gain or (Loss) Recognized       |                            | Recognized in Income on Derivatives |                    |
| Income on Derivatives (Ineffective Portion) |                            | (Ineffective Portion)               |                    |
|   |                            | Nine Months Ended                   |                    |
|   |                            | <i>(in thousands)</i>               |                    |
|   |                            | September 28, 2013                  | September 29, 2012 |
| Aluminum contracts                          | Other Expense (income) net | \$ (350)                            | \$ 54              |
| Interest rate swap                          | Other Expense (income) net | \$                                  | \$                 |

**NOTE 12. FAIR VALUE**

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A three-tier fair value hierarchy is used to prioritize the inputs used in measuring fair value. The hierarchy gives the highest priority to unadjusted quoted market prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The three levels of the fair value hierarchy are as follows:

Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

The accounting guidance concerning fair value allows us to elect to measure financial instruments at fair value and report the changes in fair value through the Condensed Consolidated Statements of Income and Comprehensive Income. This election can only be made at certain specified dates and is irrevocable once made. We do not have a policy regarding specific assets or liabilities to elect to measure at fair value, but rather make the election on an instrument-by-instrument basis as they are acquired or incurred.

**Table of Contents****Items Measured at Fair Value on a Recurring Basis**

The following assets and liabilities are measured in the Condensed Consolidated Balance Sheets at fair value on a recurring basis and are categorized in the table below based upon the lowest level of significant input to the valuation:

| Description                                     | Fair Value Measurements at Reporting Date of Net Asset (Liability) Using: |                                     |                                 |    |
|---|---|-------------------------------------|---------------------------------|----|
|   | <i>(in thousands)</i>   |                                     |                                 |    |
|   | Quoted Prices in Active Markets   | Significant Other Observable Inputs | Significant Unobservable Inputs |    |
|   | September 28, 2013 (Level 1)  | (Level 2)                           | (Level 3)                       |    |
| Aluminum forward contracts                      | \$ (399)  | \$ (399)                            | \$                              | \$ |
| Interest rate cap                               | 54  | 54                                  |                                 |    |
| Interest rate swap                              | (727)   | (727)                               |                                 |    |
| Derivative financial instruments, net liability | \$ (1,072)  | \$ (1,072)                          |                                 | \$ |

| Description                                 | Fair Value Measurements at Reporting Date of Net Asset (Liability) Using: |                                     |                                 |    |
|---|---|-------------------------------------|---------------------------------|----|
|   | <i>(in thousands)</i>   |                                     |                                 |    |
|   | Quoted Prices in Active Markets   | Significant Other Observable Inputs | Significant Unobservable Inputs |    |
|   | December 29, 2012 (Level 1)   | (Level 2)                           | (Level 3)                       |    |
| Aluminum forward contracts                  | \$ 20   | \$ 20                               | \$                              | \$ |
| Interest rate cap                           |   |                                     |                                 |    |
| Derivative financial instruments, net asset | \$ 20   | \$ 20                               |                                 | \$ |

The following is a description of the methods and assumptions used to estimate the fair values of our assets and liabilities measured at fair value on a recurring basis, as well as the basis for classifying these assets and liabilities as Level 2.

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

Interest rate cap and swap contracts identical to that held by us are sold by financial institutions. The valuation price at any measurement date for a contract with identical terms, exercise price, expiration date, settlement date, and notional

quantities, as the one we hold, is used for determining the fair value.



**Table of Contents*****Fair Value of Financial Instruments***

The following table presents the carrying values and estimated fair values of financial assets and liabilities that are required to be recorded or disclosed at fair value at September 28, 2013, and December 29, 2012, respectively:

|  | September 28, 2013 |                      | December 29, 2012 |                      |
|--|--------------------|----------------------|-------------------|----------------------|
|  | Carrying Amount    | Estimated Fair Value | Carrying Amount   | Estimated Fair Value |
| <i>(in thousands)</i>                    |                    |                      |                   |                      |
| <b>Financial assets and liabilities</b>  |                    |                      |                   |                      |
| Cash and cash equivalents                | \$ 23,745          | \$ 23,745            | \$ 18,743         | \$ 18,743            |
| Accounts receivable, net                 | \$ 21,671          | \$ 21,671            | \$ 13,997         | \$ 13,997            |
| Accounts payable and accrued liabilities | \$ 17,038          | \$ 17,038            | \$ 13,279         | \$ 13,279            |
| Long-term debt                           | \$ 78,143          | \$ 80,000            | \$ 37,500         | \$ 37,500            |

The following provides a description of the methods and significant assumptions used in estimating the fair value of our financial instruments that are not measured at fair value on a recurring basis.

*Cash and cash equivalents* The estimated fair value of these financial instruments approximates their carrying amounts due to their highly liquid or short-term nature.

*Accounts receivable, net* The estimated fair value of these financial instruments approximates their carrying amounts due to their short-term nature.

*Accounts payable and accrued liabilities* The estimated fair value of these financial instruments approximate their carrying amounts due to their short-term nature.

*Debt* The estimated fair value of this debt is based on Level 2 inputs of debt with similar terms and characteristics.

**NOTE 13. GOVERNMENT INCENTIVE**

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

We believe that, based on the number of employees hired to date and our plans for future hiring, as well as the completion of other terms noted above, we have reasonable assurance the grant will be retained on December 1, 2015. Due to the existence of the performance obligations extending over a 5-year period, we recognize the reasonably assured portion of the grant over the life of the agreement as an offset to the payroll of the employees hired, which is included in cost of goods sold. This amount is expected to result in an immaterial amount recognized each quarter through December 1, 2015. As of September 28, 2013, and December 29, 2012, the deferred portion of the \$0.6

million grant has been classified as \$0.1 million and \$0.1 million in accounts payable and accrued liabilities, respectively, and \$0.2 million and \$0.3 million in other liabilities, respectively, within the accompanying Condensed Consolidated Balance Sheets.

**NOTE 14. ASSETS HELD FOR SALE**

During the first quarter of 2013 we sold the Salisbury, North Carolina facility for approximately \$8.0 million in cash (approximately \$7.5 million net of selling costs), resulting in a gain of \$2.2 million. The facility's carrying value was \$5.3 million at December 29, 2012, and at the time of the sale was recorded in the Condensed Consolidated Balance Sheets as an Asset held for sale.

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

The following discussion of our financial condition and results of operations should be read in conjunction with the Management's Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and notes thereto for the year ended December 29, 2012, included in our most recent Form 10-K annual report as well as our reports on Forms 10-Q and 8-K and other publicly available information. All amounts herein are unaudited.

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**Special Note Regarding Forward-Looking Statements**

From time to time, we have made or will make forward-looking statements within the meaning of Section 21E of the Exchange Act. These statements do not relate strictly to historical or current facts. Forward-looking statements usually can be identified by the use of words such as goal , objective , plan , expect , anticipate , intend , project , believe , may , could , or other words of similar meaning. Forward-looking statements provide our current expectations or forecasts of future events, results, circumstances or aspirations. Our disclosures in this report contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. We may also make forward-looking statements in our other documents filed or furnished with the Securities and Exchange Commission and in oral presentations. Forward-looking statements are based on assumptions and by their nature are subject to risks and uncertainties, many of which are outside of our control. Our actual results may differ materially from those set forth in our forward-looking statements. There is no assurance that any list of risks and uncertainties or risk factors is complete. Factors that could cause actual results to differ materially from those described in our forward-looking statements include, but are not limited to:

Changes in new home starts and home remodeling trends

The economy in the U.S. generally or in Florida where the substantial portion of our sales are generated

Raw material prices, especially aluminum

Transportation costs

Level of indebtedness

Dependence on our WinGuard branded product lines

Product liability and warranty claims

Federal and state regulations

Dependence on our manufacturing facilities

The substantial interest of JLL Partners Fund IV, L.P.

Any forward-looking statements made by us or on our behalf speak only as of the date they are made and we do not undertake any obligation to update any forward-looking statement to reflect the impact of subsequent events or

circumstances. Before making any investment decision, you should carefully consider all risks and uncertainties disclosed in all our SEC filings, including our reports on Forms 8-K, 10-Q and 10-K and our registration statements under the Securities Act of 1933, as amended, all of which are accessible on the SEC's website at [www.sec.gov](http://www.sec.gov) and at <http://ir.pgtindustries.com/sec.cfm>

## **EXECUTIVE OVERVIEW**

### **Sales and Operations**

On October 30, 2013, we issued a press release, and held a conference call on October 31, 2013, to review the results of operations for the three and nine months ended September 28, 2013. During the call, we also discussed current market conditions and progress made regarding certain business initiatives. The overview and estimates contained in this report are consistent with those given in our press release and our conference call remarks. We are neither updating nor confirming that information.

We delivered our highest quarterly sales since the first quarter of 2007 coming in at \$64.9 million, up 45.0% over the third quarter of 2012. A combination of improving market conditions and marketing programs focused on both consumers and dealers targeting our WinGuard products continues to drive both sales growth and share gains.

During the quarter, impact sales grew 47% over prior year and represented 78% of total sales, compared to 77% a year ago. In addition, sales of non-impact products grew 38%. Sales increased in both our repair and remodel and new construction markets, up 40% and 58%, respectively. Net income was \$6.3 million, and adjusted net income was \$6.4 million compared to net income of \$2.7 million a year ago.

The 45.0% sales growth during the quarter generated a 37.3% increase in gross margin dollars. As a percent, however, gross margin decreased by 1.8% due to a temporary increase in labor and material costs in connection with the training of our new employees, including the 301 hired during the quarter. Margin was also impacted by the purchase of finished glass units to support sales in excess of our current glass capacities. These two factors negatively impacted margin during the quarter by 4.8%, which more than offset the 3.0% improvement in other factors including strong leverage of fixed costs.

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Lastly, selling, general and administrative expenses as a percent of sales decreased to 20.8%, compared to 25.9% in the third quarter of 2012 due to strong leverage in this category. Cash flow generated from operations was \$8.9 million during the quarter. At quarter end, our cash balance was \$23.7 million.

**Forward Outlook**

We continue to focus our efforts on both training and retaining newly hired employees to improve our production efficiency. We are also expanding our current glass fabrication capabilities by constructing a new facility. During August, we purchased land neighboring to our existing campus for \$1.7 million and expect operations to commence in our new glass facility in the third quarter of 2014. This action alone is expected to improve our margins by approximately 2%.

In the third quarter of 2013, we announced a price increase of approximately 3% on certain products effective for the fourth quarter of 2013 to offset the cost increases of labor, including healthcare costs, as well as increases in the cost of glass from outside vendors and other costs associated with our business.

Based on our October sales and our current pipeline, which encompasses our price increase, we believe the fourth quarter's sales will range from \$58 million to \$60 million. We also expect lower overtime and glass purchases with these reduced sales, however, we expect to experience lower leveraging of our fixed costs.

**Performance Summary**

The following table presents financial data derived from our unaudited Condensed Consolidated Statements of Income and Comprehensive Income as a percentage of total net sales for the periods indicated:

|  | <i>(unaudited)</i>        |        |                      |        | <i>(unaudited)</i>       |        |                      |        |
|--|---------------------------|--------|----------------------|--------|--------------------------|--------|----------------------|--------|
|  | <b>Three Months Ended</b> |        | <b>September 29,</b> |        | <b>Nine Months Ended</b> |        | <b>September 29,</b> |        |
|  | <b>September 28,</b>      |        | <b>September 29,</b> |        | <b>September 28,</b>     |        | <b>September 29,</b> |        |
|  | <b>2013</b>               |        | <b>2012</b>          |        | <b>2013</b>              |        | <b>2012</b>          |        |
|  | <i>(in thousands)</i>     |        |                      |        | <i>(in thousands)</i>    |        |                      |        |
| Net sales                                    | \$ 64,858                 | 100.0% | \$ 44,743            | 100.0% | \$ 177,268               | 100.0% | \$ 129,329           | 100.0% |
| Cost of sales                                | 43,938                    | 67.7%  | 29,501               | 65.9%  | 117,759                  | 66.4%  | 85,670               | 66.2%  |
| Gross margin                                 | 20,920                    | 32.3%  | 15,242               | 34.1%  | 59,509                   | 33.6%  | 43,659               | 33.8%  |
| Selling, general and administrative expenses | 13,507                    | 20.8%  | 11,592               | 25.9%  | 40,817                   | 23.0%  | 35,206               | 27.2%  |
| Gain on sale of assets held for sale         |                           | 0.0%   |                      | 0.0%   | (2,195)                  | -1.2%  |                      | 0.0%   |
| Income from operations                       | 7,413                     | 11.4%  | 3,650                | 8.2%   | 20,887                   | 11.8%  | 8,453                | 6.5%   |
| Interest expense, net                        | 1,055                     | 1.6%   | 878                  | 2.0%   | 2,564                    | 1.4%   | 2,675                | 2.1%   |
| Other expense (income), net                  | 64                        | 0.1%   | (10)                 | 0.0%   | 741                      | 0.4%   | (110)                | -0.1%  |

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|                              |          |      |          |      |           |       |          |      |
|------------------------------|----------|------|----------|------|-----------|-------|----------|------|
| Income before income taxes   | 6,294    | 9.7% | 2,782    | 6.2% | 17,582    | 9.9%  | 5,888    | 4.6% |
| Income tax (benefit) expense | 5        | 0.0% | 60       | 0.1% | (3,893)   | -2.2% | 128      | 0.1% |
| Net income                   | \$ 6,289 | 9.7% | \$ 2,722 | 6.1% | \$ 21,475 | 12.1% | \$ 5,760 | 4.5% |

**Table of Contents****RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED SEPTEMBER 28, 2013 AND SEPTEMBER 29, 2012**

The following table represents total sales by product category for the three months ended September 28, 2013, and September 29, 2012:

|                                 | <b>Three Months Ended</b> |                           | <b>September 29, 2012</b> |                   | <b>% change</b> |
|---------------------------------|---------------------------|---------------------------|---------------------------|-------------------|-----------------|
|                                 | <b>September 28, 2013</b> | <b>September 29, 2012</b> | <b>Sales</b>              | <b>% of sales</b> |                 |
|                                 | <b>Sales</b>              | <b>% of sales</b>         | <b>Sales</b>              | <b>% of sales</b> |                 |
|                                 | <i>(in millions)</i>      |                           |                           |                   |                 |
| <b>Product category:</b>        |                           |                           |                           |                   |                 |
| Impact Window and Door Products | \$ 50.3                   | 77.5%                     | \$ 34.2                   | 76.5%             | 47.0%           |
| Other Window and Door Products  | 14.6                      | 22.5%                     | 10.5                      | 23.5%             | 38.2%           |
| <b>Total net sales</b>          | <b>\$ 64.9</b>            | <b>100.0%</b>             | <b>\$ 44.7</b>            | <b>100.0%</b>     | <b>45.0%</b>    |

Net sales of impact window and door products, which include our WinGuard, PremierVue and Architectural Systems product lines, were \$50.3 million for the third quarter of 2013, an increase of \$16.1 million, or 47.0%, from \$34.2 million in net sales for the 2012 third quarter. The increase was due mainly to an increase in Aluminum and Vinyl WinGuard of \$10.5 million and \$4.1 million, respectively. WinGuard product sales, which grew both in new construction and repair and remodel markets, represented 73% of our net sales for the third quarter of both 2013 and 2012.

Net sales of other window and door products were \$14.6 million for the third quarter of 2013, an increase of \$4.1 million, or 38.2%, from \$10.5 million in net sales for the 2012 third quarter. This increase was due mainly to an increase in sales of our non-impact aluminum products of \$1.8 million, non-impact vinyl products, whose sales were up \$1.4 million, and an increase in Eze-Breeze product sales of \$0.8 million.

**Gross margin**

Gross margin was \$20.9 million, or 32.3% of sales, compared to \$15.2 million, or 34.1% for the third quarter of 2012, an increase of \$5.7 million, or 37.3% from the third quarter of 2012. The 1.8% decrease in gross margin as a percent of sales in 2013 is the result of the increased labor cost and scrap commensurate with hiring 575 new employees over the past six months (2.8%), outside glass purchases (2.0%) and change in mix (0.9%). These decreases were offset by leveraging higher sales (3.6%) and reduced costs of aluminum (0.3%).

**Selling, general and administrative expenses**

Selling, general and administrative expenses were \$13.5 million for the third quarter of 2013, an increase of \$1.9 million from \$11.6 million for the third quarter of 2012. This was driven by employee related expense increase of \$1.5 million, \$0.3 million in bank related fees, and consulting fees of \$0.1 million. As a percent of sales, selling, general and administrative expenses were 20.8% for the third quarter of 2013 compared to 25.9% from the third quarter of 2012, as we were able to substantially leverage our increase in sales.

**Interest expense, net**

Interest expense, net was \$1.1 million in the third quarter of 2013, an increase of \$0.2 million from \$0.9 million for the third quarter of 2012. The increase from prior year was due to a higher outstanding debt level resulting from the new debt agreement offset by the lower interest rate associated with the new credit agreement.

***Other expense (income), net***

Other expense, net was \$0.1 million in the third quarter of 2013, compared to Other income, net of less than \$0.1 million in the third quarter of 2012. The amount in 2013 relates to the changes in the fair value and settlements of our ineffective aluminum hedges. The amount in 2012 relates to the ineffective portion of aluminum hedges and the changes in the fair value of our interest rate cap.

***Income tax expense***

At the end of each interim period, we are required to estimate our annual effective tax rate for the fiscal year and use that rate to provide for income taxes for the current year-to-date reporting period. We recorded a minimal tax expense for the three months ended September 28, 2013, compared to an expense of \$0.1 million for the same period in 2012.



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Due to the effects of the deferred tax asset valuation allowance release, our effective tax rates in 2013 and 2012 do not directly correlate to the amount of pretax income or loss. In the absence of such releases our tax rate would have been 39.1% and 39.5%, for the three months ended September 28, 2013, and September 29, 2012, respectively.

**RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 28, 2013 AND SEPTEMBER 29, 2012**

The following table represents total sales by product category for the nine months ended September 28, 2013, and September 29, 2012:

|                                 | September 28, 2013   |            | September 29, 2012 |            | % change |
|---------------------------------|----------------------|------------|--------------------|------------|----------|
|                                 | Sales                | % of sales | Sales              | % of sales |          |
|                                 | <i>(in millions)</i> |            |                    |            |          |
| Product category:               |                      |            |                    |            |          |
| Impact Window and Door Products | \$ 135.9             | 76.7%      | \$ 96.1            | 74.3%      | 41.4%    |
| Other Window and Door Products  | 41.4                 | 23.3%      | 33.2               | 25.7%      | 24.5%    |
| Total net sales                 | \$ 177.3             | 100.0%     | \$ 129.3           | 100.0%     | 37.1%    |

Net sales of impact window and door products, which include our WinGuard, PremierVue and Architectural Systems product lines, were \$135.9 million for the first nine months of 2013, an increase of \$39.8 million, or 41.4%, from \$96.1 million in net sales for the 2012 first nine months. The increase was due mainly to an increase in Aluminum and Vinyl WinGuard of \$26.9 million and \$10.7 million, respectively. Also, our Architectural System sales increased \$2.0 million. WinGuard product sales, which grew in both new construction and repair and remodel markets, represented 72% and 70% of our net sales for the first nine months of 2013 and 2012, respectively.

Net sales of other window and door products were \$41.4 million for the first nine months of 2013, an increase of \$8.2 million, or 24.5%, from \$33.2 million in net sales for the 2012 first nine months. This increase was due mainly to an increase in sales of our non-impact vinyl products, whose sales were up \$3.5 million, our non-impact aluminum products of \$3.1 million, and an increase in Eze-Breeze product sales of \$1.6 million.

***Gross margin***

Gross margin was \$59.5 million, or 33.6% of sales, compared to \$43.7 million, or 33.8% for the first nine months of 2013, an increase of \$15.8 million, or 36.3% from the first nine months of 2012. The 0.2% decrease in gross margin as a percent of sales in 2013 is the result of increased labor cost and scrap commensurate with hiring 758 new employees (2.5%) and outsourced glass purchases of (0.8%). This was offset by the leveraging of higher sales (3.1%).

***Selling, general and administrative expenses***

Selling, general and administrative expenses were \$40.8 million for the first nine months of 2013, an increase of \$5.6 million from \$35.2 million for the first nine months of 2012. This was driven by an increase of \$1.5 million relating to the secondary market offering of 12.65 million shares by our majority stockholder and debt refinancing, \$1.1 million in advertising costs to assist our efforts to capture market share, \$0.5 million in selling activities, and employee related

expenses of \$2.8 million. As a percent of sales, selling, general and administrative expenses were 23.1% for the first nine months of 2013 compared to 27.2% from the second quarter of 2012, when adjusting for offering related costs, as we were able to substantially leverage our increase in sales.

***Gain on assets held for sale***

During the first quarter of 2013 we sold the Salisbury, North Carolina facility for approximately \$8.0 million in cash (approximately \$7.5 million net of selling costs), resulting in a gain of \$2.2 million. The facility's carrying value was \$5.3 million at December 29, 2012, and at the time of the sale was recorded in the Condensed Consolidated Balance Sheets as an asset held for sale.

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**Table of Contents*****Interest expense, net***

Interest expense, net was \$2.6 million in the first nine months of 2013, a decrease of \$0.1 million from \$2.7 million for the first nine months of 2012. The decrease from prior year was due to the effect of the lower interest rate associated with the new credit agreement. Offsetting this decrease is a higher outstanding debt level from the new debt agreement along with the non-recurring amortization of deferred financing charges related to the \$7.5 million voluntary pre-payment of debt.

***Other expense (income), net***

Other expense, net was \$0.7 million in the first nine months of 2013, compared to Other income, net of \$0.1 million in the first nine months of 2012. The amount in 2013 relates to the write off of \$0.3 million of deferred financing costs relating to the old debt agreement along with the changes in the fair value and settlements of our ineffective aluminum hedges. The amount in 2012 relates to the ineffective portion of aluminum hedges and the changes in the fair value of our interest rate cap.

***Income tax expense***

At the end of each interim period, we are required to estimate our annual effective tax rate for the fiscal year and use that rate to provide for income taxes for the current year-to-date reporting period. We recorded an income tax benefit of \$3.9 million for the nine months ended September 28, 2013, compared to an expense of \$0.1 million for the same period in 2012. The income tax benefit in the current year is due primarily to a \$3.9 million reversal of a portion of our deferred tax asset valuation allowance in the second quarter, while the expense in the prior year was due primarily to a release of a portion of our deferred tax asset valuation allowance to partially offset our regular tax expense and our expected alternative minimum tax obligation. Due to the effect of the deferred tax asset valuation allowance release, our effective tax rates in 2013 and 2012 do not directly correlate to the amount of pretax income or loss. In the absence of such releases our tax rate would have been 41.0% and 39.5%, for the nine months ended September 28, 2013, and September 29, 2012, respectively.

**Liquidity and Capital Resources**

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

***Consolidated Cash Flows***

*Operating activities.* Cash provided by operating activities during the first nine months was \$16.3 million, compared to \$16.4 million in the first nine months of 2012. This is slightly lower despite higher sales due to increases in working capital requirements to support the growth of the business.

Direct cash flows from operations for the first nine months of 2013 and 2012 are as follows:

**Direct Cash Flows  
Nine Months Ended**

|                                 | <b>September 28,<br/>2013</b> | <b>September 29,<br/>2012</b> |
|---------------------------------|-------------------------------|-------------------------------|
|                                 | <i>(in millions)</i>          |                               |
| Collections from customers      | \$ 173.7                      | \$ 130.1                      |
| Other collections of cash       | 4.5                           | 1.6                           |
| Disbursements to vendors        | (109.3)                       | (74.2)                        |
| Personnel related disbursements | (50.5)                        | (38.8)                        |
| Income taxes paid               | (0.1)                         |                               |
| Debt service costs (interest)   | (2.0)                         | (2.2)                         |
| Other activity, net             |                               | (0.1)                         |
| Cash provided by operations     | \$ 16.3                       | \$ 16.4                       |

Days sales outstanding (DSO), which we calculate as accounts receivable divided by quarterly average daily sales, was 32 days at September 28, 2013, compared to 34 days at September 29, 2012.

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Inventory on hand as of September 28, 2013, increased \$3.6 million compared to September 29, 2012. Inventory turns during the first nine months of 2013 increased to 10.9 from 9.6 for the first nine months of 2012.

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

*Investing activities.* Cash provided by investing activities was \$2.4 million for the first nine months of 2013, compared to cash used in investing activities of \$2.7 million for the first nine months of 2012. The increase of \$5.1 million in cash provided by investing activities was due to proceeds from the sale of the Salisbury, North Carolina facility, of \$7.5 million, during the first quarter of 2013 offset by increased capital spending mainly related to the land purchase for the expansion of our glass processing capabilities.

*Financing activities.* Cash used in financing activities was \$13.7 million in the first nine months of 2013, due to a \$7.5 million prepayment of debt, \$6.1 million for stock repurchases and \$3.6 million to pay certain fees and expenses relating to the offering. This was offset by proceeds from exercises of stock options totaling \$3.5 million. The repurchase of \$50 million in shares was funded by a \$50 million increase in debt, resulting in no change in cash. Cash used in financing activities was \$5.0 million in the first nine months of 2012, due to \$5.0 million prepayment of debt and \$0.1 million of capital lease payments offset by stock options exercised.

*Debt Covenant.* In accordance with the Credit Agreement (defined below) we are required to meet certain financial covenants, the most restrictive of which is a maximum ratio of Total Funded Debt to Consolidated EBITDA for the trailing four quarters. This maximum ratio decreases during the term of the agreement from 3.75X to 3.0X. Consolidated EBITDA as defined in the agreement is determined as follows: Consolidated net income/(loss) plus interest expense (net of interest income), income taxes, depreciation, amortization, as well as other non-recurring items such as restructuring charges, plant consolidation costs, manufacturing inefficiencies incurred with plant consolidations, and non-cash stock compensation. We closely monitor compliance with our various debt covenants. As of September 28, 2013, we were in compliance and expect to be in the future.

*Capital Resources.* On May 28, 2013, we entered into a Credit Agreement (the Credit Agreement ) with the various financial institutions and other persons from time to time parties thereto as lenders (the Lenders ), SunTrust Bank, as administrative agent (in such capacity, the Administrative Agent ), as collateral agent, as swing line lender and as a letter of credit issuer, and the other agents and parties thereto. The Credit Agreement establishes new senior secured credit facilities in an aggregate amount of \$105.0 million, consisting of an \$80.0 million Tranche A term loan facility maturing in five years that will amortize on a basis of 5% annually during the five-year term, and a \$25.0 million revolving credit facility maturing in five years that includes a \$5.0 million swing line facility and a \$10.0 million letter of credit facility. As of September 28, 2013, there were \$1.1 million of letters of credit outstanding and \$23.9 million available on the revolver.

Interest on all loans under the Credit Agreement is payable either quarterly or at the expiration of any LIBOR interest period applicable thereto. Borrowings under the term loans and the revolving credit facility accrue interest at a rate equal to, at our option, a base rate or LIBOR plus an applicable margin. The applicable margin is based on our leverage ratio, ranging from 300 to 350 basis points in the case of LIBOR and 200 to 250 basis points in the case of the base rate. We will pay quarterly fees on the unused portion of the revolving credit facility equal to 0.50% as well as a quarterly letter of credit fee at a rate per annum equal to the applicable margin for LIBOR loans on the face amount of any outstanding letters of credit. In connection with this refinancing, we wrote-off \$0.3 million of deferred

financing costs from the Old Credit Agreement, which are classified within other expense (income), net in the Condensed Consolidated Statements of Income and Comprehensive Income for the nine months ended September 28, 2013.

The Credit Agreement requires us to maintain a maximum leverage ratio (based on the ratio of total funded debt to consolidated EBITDA, each as defined in the Credit Agreement) and a minimum fixed charge coverage ratio (based on the ratio of consolidated EBITDA minus net cash taxes minus capital expenditures to cash interest expense plus scheduled principal payments of term loans, each as defined in the Credit Agreement), which will be tested quarterly based on the last four fiscal quarters and is set at levels as described in the Credit Agreement.

The Credit Agreement also contains a number of affirmative and restrictive covenants, including limitations on the incurrence of additional debt, liens on property, acquisitions and investments, loans and guarantees, mergers, consolidations, liquidations and dissolutions, asset sales, dividends and other payments in respect of our capital stock, prepayments of certain debt and transactions with affiliates. The Credit Agreement also contains customary events of default.

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The Credit Agreement also requires us to maintain certain maximum leverage ratios and minimum fixed charge ratios, which are tested at the end of each fiscal quarter. We were in compliance with all covenants as of September 28, 2013.

PGT, Inc. has unconditionally guaranteed all loans and other obligations under the Credit Agreement and related documents, and such guarantee is secured by a lien on substantially all of the assets of our wholly owned subsidiary, PGT Industries, Inc., subject to certain limitations. PGT, Inc. has no operations or assets independent of its subsidiary.

The face value of the debt as of September 28, 2013, is \$80.0 million and the Company incurred issuance costs of \$3.6 million, of which \$2.0 million of the costs were classified as a discount and presented in the current portion of long-term debt and long-term debt on the Condensed Consolidated Balance Sheets. Approximately \$1.2 million was reported as debt issuance costs in current assets and other assets on the Condensed Consolidated Balance Sheets, while the remaining \$0.3 million was expensed in selling, general and administrative expense on the Condensed Consolidated Statements of Income and Comprehensive Income. The debt issuance costs and discount are being amortized to interest expense, net on the Condensed Consolidated Statement of Income and Comprehensive Income over the term of the debt.

In connection with the cash proceeds from the sale of our Salisbury facility on January 23, 2013, we voluntarily prepaid \$7.5 million of debt on January 31, 2013.

The contractual future maturities of long-term debt outstanding as of September 28, 2013, are as follows (excluding unamortized debt discount and issuance costs):

|              | <i>(in thousands)</i> |
|--------------|-----------------------|
| 2013         | \$ 1,000              |
| 2014         | 5,000                 |
| 2015         | 4,000                 |
| 2016         | 4,000                 |
| 2017         | 3,000                 |
| 2018         | 63,000                |
| <b>Total</b> | <b>\$ 80,000</b>      |

*Capital Expenditures.* Capital expenditures vary depending on prevailing business factors, including current and anticipated market conditions. For the first nine months of 2013, capital expenditures were \$5.1 million, compared to \$3.1 million for the first nine months of 2012. This includes the \$1.7 million land purchase for the expansion of our glass processing capabilities and \$0.2 on related equipment deposits. We expect to spend nearly \$9.5 million on capital expenditures in 2013, of which \$2.6 million is related to the glass plant expansion, along with continuing capital expenditures related to the new enterprise resource planning ( ERP ) system and new product and manufacturing initiatives. We anticipate that cash flows from operations and liquidity from the revolving credit facility, if needed, will be sufficient to execute our business plans.

*Hedging.* We enter into aluminum forward contracts to hedge the fluctuations in the purchase price of aluminum extrusion we use in production. We enter into these contracts by trading on the London Metal Exchange ( LME ). We trade on the LME using an international commodities broker that offers global access to all major markets. We maintain a \$2.0 million line of credit with our commodities broker to cover the liability position of open contracts for

the purchase of aluminum in the event that the price of aluminum falls. Should the price of aluminum fall to a level which causes our liability for open aluminum contracts to exceed \$2.0 million, we are required to fund daily margin calls to cover the excess.

On September 16, 2013, we entered into two interest rate caps and one interest rate swap. The first is a one year interest rate cap agreement with a notional amount of \$40.0 million that was designated as a cash flow hedge that protects the variable rate debt from an increase in the floating one month LIBOR rate of greater than 0.50%. The second is a two year interest rate cap agreement with a notional amount of \$20.0 million that was designated as a cash flow hedge that protects the variable rate debt from an increase in the floating one month LIBOR rate of greater than 0.50%. The last is a forward starting three year six months interest rate swap agreement with a notional amount of \$40.0 million that effectively converted a portion of the floating rate debt to a fixed rate of 2.15% that starts September 28, 2014, with a termination date of May 18, 2018 (See Note 11 to the Condensed Consolidated Financial Statements).



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### **Contractual Obligations**

At the end of the third quarter, we have committed to \$2.0 million for equipment relating to the glass plant expansion. Other than this equipment, the debt refinancing and interest caps and swap as described in *Liquidity and Capital Resources* above, there have been no significant changes to our *Disclosures of Contractual Obligations and Commercial Commitments* table in Part II, Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations* of our Annual Report on Form 10-K for the year ended December 29, 2012, as filed with the Securities and Exchange Commission on March 1, 2013.

### **Significant Accounting Policies and Critical Accounting Estimates**

Our consolidated financial statements are prepared in accordance with U.S. Generally Accepted Accounting Principles (GAAP). Significant accounting policies are those that are both important to the accurate portrayal of a Company's financial condition and results and require subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. We make estimates and assumptions that affect the amounts reported in our financial statements and accompanying notes. Certain estimates are particularly sensitive due to their significance to the financial statements and the possibility that future events may be significantly different from our expectations.

We identified our significant accounting policies in our Form 10-K annual report for the year ended December 29, 2012, as filed with the Securities and Exchange Commission on March 1, 2013. During our second quarter review we added *Income Tax Valuation Allowance* to our policies. Below is summary of that policy. There have been no other changes to our critical accounting policies during the first nine months of 2013. *Critical Accounting policy*

*Income Taxes Valuation Allowance.* A valuation allowance is recorded against a deferred tax asset if, based on the weight of available evidence, it is more-likely-than-not (a likelihood of more than 50%) that some portion, or all, of the deferred tax asset will not be realized. The realization of a deferred tax asset ultimately depends on the existence of sufficient positive evidence from the sources listed below.

The four sources of taxable income to be considered in determining whether a valuation allowance is required include:

future reversals of existing taxable temporary differences;

taxable income in prior carryback years;

tax planning strategies; and

future taxable income exclusive of reversing temporary differences and carryforwards.

Determining whether a valuation allowance for deferred tax assets is necessary requires an analysis of both positive and negative evidence regarding realization of the deferred tax assets. Examples of positive evidence may include:

a strong earnings history exclusive of the loss that created the deductible temporary differences, coupled with evidence indicating that the loss is the result of an aberration rather than a continuing condition;

an excess of appreciated asset value over the tax basis of a company's net assets in an amount sufficient to realize the deferred tax asset; and

existing backlog that will produce sufficient taxable income to realize the deferred tax asset based on existing sales prices and cost structures.

Examples of negative evidence may include:

the existence of cumulative losses (generally defined as a pretax cumulative loss for the current and previous two years);

an expectation of being in a cumulative loss position in a future reporting period;

a carryback or carryforward period that is so brief that it would limit the realization of tax benefits;

a history of operating loss or tax credit carryforwards expiring unused; and

unsettled circumstances that, if unfavorably resolved, would adversely affect future operations and profit levels on a continuing basis.

The weight given to the potential effect of negative and positive evidence should be commensurate with the extent to which it can be objectively verified. A company must use judgment in considering the relative impact of positive and negative evidence. At September 28, 2013, we have \$1.8 million of valuation allowance against our deferred tax asset which will be used to offset the estimated tax expense on the forecasted earnings for the last quarter of 2013. This amount has not yet been released as its realization is the result of the current year forecasted earnings. For 2012, we had a full valuation allowance of \$12.9 million recorded against our net deferred tax asset, primarily due to our experiencing a three-year cumulative operating

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loss as of December 29, 2012, and December 31, 2011. The decrease in the valuation allowance was a result of recent earnings and forecasted income which provide sufficient positive evidence that our deferred tax assets will more likely than not be realized. At September 28, 2013, we are no longer in a cumulative loss position. Future adjustments to our deferred tax asset valuation allowance will be determined based upon changes in the expected realization of our net deferred tax assets. In the future, changes in our valuation allowance may result from, among other things, additional pretax operating losses resulting in increases in our valuation allowance or pretax operating income resulting in decreases in our valuation allowance.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We utilize derivative financial instruments to hedge price movements in aluminum materials used in our manufacturing process and to hedge interest rate fluctuation associated with our debt. We entered into aluminum hedging instruments that settle at various times through June 2015 and cover approximately 41% of our anticipated needs through June 2015 at an average price of \$0.90 per pound. For forward contracts for the purchase of aluminum on September 28, 2013, a 10% decrease in the price of aluminum per pound would decrease the fair value of our forward contracts of aluminum by \$1.0 million. This calculation utilizes our actual commitment of 11.4 million pounds under contract (to be settled throughout June 2015) and the market price of aluminum as of September 28, 2013, which was approximately \$0.90 per pound.

We experience changes in interest expense when market interest rates change. Changes in our debt could also increase these risks. Based on debt outstanding at September 28, 2013, a 100 basis point increase in interest rates would result in approximately \$0.4 million of additional interest costs annually, which includes the impact of our interest rate caps and swap (see Note 11 to the Condensed Consolidated Financial Statements).

**ITEM 4. CONTROLS AND PROCEDURES**

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

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

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

During the second quarter of fiscal year 2012, we started the implementation of our new Enterprise Resource Planning System ( ERP System ). We expect to continue this implementation in phases over the course of the next eight months. The implementation of this ERP System has affected and will continue to affect our internal controls over financial reporting by, among other things, improving user access security and automating a number of accounting, back office and reporting processes and activities. Management will continue to evaluate the operating effectiveness of related key controls during subsequent periods.

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

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**PART II OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

We are involved in various claims and lawsuits incidental to the conduct of our business in the ordinary course. We carry insurance coverage in such amounts in excess of our self-insured retention as we believe to be reasonable under the circumstances and that may or may not cover any or all of our liabilities with 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 Form 10-K annual report for the year ended December 29, 2012, which could materially affect our business, financial condition or future results.

During the second quarter of fiscal year 2012, we started the implementation of our new ERP System. In order to maintain our leadership position in the market and efficiently process increased business volume, we are making a significant upgrade to our computer hardware, software and our ERP System. Should we be unable to continue to fund the completion of this upgrade, or should the ERP System upgrade be unsuccessful or take longer to implement than anticipated, our ability to maintain and grow the business could be hindered, and our operations and financial results could be adversely impacted.

Additional risk and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

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

**Unregistered Sales of Equity Securities and Use of Proceeds**

None.

**Issuer Purchases of Equity**

During the second quarter of fiscal 2013, PGT Inc. repurchased 6,791,171 shares of its common stock from the secondary offering of JLL Partners Fund IV, L.P. PGT purchased these shares from the Selling Stockholder at a price per share of \$7.36, which represented the offering price to the public less the underwriting discounts and commissions. These shares were cancelled and retired.



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The following table sets forth information with respect to repurchases by us of our common stock during the fiscal quarter ended September 28, 2013:

| Period*   | Total number of shares purchased | Average price paid per share | Total number of shares purchased as part of publicly announced plans(1) | Maximum approximate dollar value of shares that may yet be purchased under the plan(1) |
|---|----------------------------------|------------------------------|---|--|
| Month No. 1<br>(June 30, 2013 - July 27, 2013)          |                                  | \$                           |   | \$   |
| Repurchase Program                                      |                                  |                              |   |  |
| Month No. 2<br>(July 28, 2013 - August 24, 2013)        |                                  | \$                           |   | \$   |
| Repurchase Program                                      |                                  |                              |   |  |
| Month No. 3<br>(August 25, 2013 - September 28, 2013)   |                                  | \$                           |   | \$   |
| Repurchase Program (1) activity since program inception |                                  | \$                           | 1,996,772   | \$ 10,042,293  |

\* Periods represent our fiscal months.

(1) On November 15, 2012, the Board of Directors authorized and approved a share repurchase program of up to \$20 million. All share repurchases will be made in accordance with Rule 10b5-1 and Rule 10b-18, as applicable, of the Securities Exchange Act of 1934 as to the timing, pricing, and volume of such transactions.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. MINE SAFETY DISCLOSURE**

Not applicable

**ITEM 5. OTHER INFORMATION**

None.

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The following items are attached or incorporated herein by reference:

- 3.1 Amended and Restated Certificate of Incorporation of PGT, Inc. (incorporated herein by reference to Exhibit 3.1 to the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 18, 2010, Registration No. 000-52059)
- 3.2 Amended and Restated By-Laws of PGT, Inc. (incorporated herein by reference to Exhibit 3.2 to the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 18, 2010, Registration No. 000-52059)
- 4.1 Form of Specimen Certificate (incorporated herein by reference to Exhibit 4.1 to Amendment No. 2 to the Registration Statement of the Company on Form S-1, filed with the Securities and Exchange Commission on May 26, 2006, Registration No. 333-132365)
- 10.1 Credit Agreement, dated as of May 28, 2013, among PGT, Inc., PGT Industries, Inc., the lenders party thereto, certain other financial institutions, and SunTrust Bank, as Administrative Agent and Collateral Agent, (incorporated herein by reference to Exhibit 10.1 to Current Report on Form 8-K dated May 28, 2013, filed with the Securities and Exchange Commission on June 3, 2013, Registration No. 000-52059).
- 10.2 Form of PGT, Inc. 2006 Equity Incentive Plan Non-qualified Stock Option Agreement (incorporated herein by reference to Exhibit 10.8 to Amendment No. 3 to the Registration Statement of the Company on Form S-1, filed with the Securities and Exchange Commission on June 8, 2006, Registration No. 333-132365)
- 10.3 Form of Employment Agreement, between PGT Industries, Inc. and, individually, Rodney Hershberger, Jeffery T. Jackson, Mario Ferrucci III, Deborah L. LaPinska, Monte Burns, David B. McCutcheon, Bradley West and Todd Antonelli (incorporated herein by reference to Exhibit 10.1 to Current Report on Form 8-K dated February 20, 2009, filed with the Securities and Exchange Commission on February 26, 2009, Registration No. 000-52059)
- 10.4 Form of PGT, Inc. 2006 Equity Incentive Plan Replacement Non-Qualified Stock Option Agreement (incorporated herein by reference to Exhibit 10.17 to the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 18, 2010, Registration No. 000-52059)
- 10.8 PGT, Inc. Amended and Restated 2006 Equity Incentive Plan (incorporated herein by reference to Exhibit 10.7 to the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 18, 2010, Registration No. 0000-52059)
- 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 pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2\* Certification of chief financial officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 101.INS\* XBRL Instance Document



|          |   |
|----------|---|
| 101.SCH* | XBRL Taxonomy Extension Schema                |
| 101.CAL* | XBRL Taxonomy Extension Calculation Linkbase  |
| 101.LAB* | XBRL Taxonomy Extension Label Linkbase        |
| 101.PRE* | XBRL Taxonomy Extension Presentation Linkbase |

\* Filed herewith.

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**SIGNATURES**

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

**PGT, INC.**  
**(Registrant)**

Date: November 1, 2013

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

Date: November 1, 2013

/s/ Jeffrey T. Jackson  
Jeffrey T. Jackson  
Executive Vice President and Chief Financial Officer