

PGT, Inc.  
Form 10-Q  
November 02, 2012  
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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 29, 2012

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

IRS Employer

State of Incorporation  
Delaware

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  Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

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

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

Common Stock, \$0.01 par value 53,697,189 shares, as of October 31, 2012.

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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 COMPREHENSIVE INCOME (LOSS)***(in thousands, except per share amounts)*

|  | <b>Three Months Ended</b>     |                            | <b>Nine Months Ended</b>      |                            |
|--|-------------------------------|----------------------------|-------------------------------|----------------------------|
|  | <b>September 29,<br/>2012</b> | <b>October 1,<br/>2011</b> | <b>September 29,<br/>2012</b> | <b>October 1,<br/>2011</b> |
|  | <i>(unaudited)</i>            |                            | <i>(unaudited)</i>            |                            |
| Net sales                                    | \$ 44,743                     | \$ 45,751                  | \$ 129,329                    | \$ 131,567                 |
| Cost of sales                                | 29,501                        | 32,836                     | 85,670                        | 101,418                    |
| Gross margin                                 | 15,242                        | 12,915                     | 43,659                        | 30,149                     |
| Selling, general and administrative expenses | 11,592                        | 11,524                     | 35,206                        | 36,992                     |
| Income (loss) from operations                | 3,650                         | 1,391                      | 8,453                         | (6,843)                    |
| Interest expense, net                        | 878                           | 1,114                      | 2,675                         | 3,287                      |
| Other (income)/expense, net                  | (10)                          | 36                         | (110)                         | 455                        |
| Income (loss) before income taxes            | 2,782                         | 241                        | 5,888                         | (10,585)                   |
| Income tax expense                           | 60                            |                            | 128                           |                            |
| Net income (loss)                            | \$ 2,722                      | \$ 241                     | \$ 5,760                      | \$ (10,585)                |
| Net income (loss) per common share:          |                               |                            |                               |                            |
| Basic  | \$ 0.05                       | \$ 0.00                    | \$ 0.11                       | \$ (0.20)                  |
| Diluted                                      | \$ 0.05                       | \$ 0.00                    | \$ 0.11                       | \$ (0.20)                  |
| Weighted average shares outstanding:         |                               |                            |                               |                            |
| Basic  | 53,686                        | 53,659                     | 53,674                        | 53,658                     |
| Diluted                                      | 56,054                        | 53,962                     | 54,475                        | 53,658                     |
| Comprehensive income (loss)                  | \$ 3,203                      | \$ (6)                     | \$ 6,140                      | \$ (11,015)                |

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 29,<br/>2012</b> | <b>December 31,<br/>2011</b> |
|---|-------------------------------|------------------------------|
|   | (unaudited)                   |                              |
| <b>ASSETS</b>   |                               |                              |
| Current assets:   |                               |                              |
| Cash and cash equivalents   | \$ 19,672                     | \$ 10,940                    |
| Accounts receivable, net  | 16,439                        | 13,830                       |
| Inventories   | 11,686                        | 11,602                       |
| Prepaid expenses  | 963                           | 871                          |
| Assets held for sale  | 5,259                         |                              |
| Other current assets  | 3,099                         | 2,871                        |
| <b>Total current assets</b>   | <b>57,118</b>                 | <b>40,114</b>                |
| Property, plant and equipment, net  | 41,945                        | 48,606                       |
| Intangible assets, net  | 46,953                        | 51,830                       |
| Other assets, net   | 1,518                         | 2,285                        |
| <b>Total assets</b>   | <b>\$ 147,534</b>             | <b>\$ 142,835</b>            |
| <b>LIABILITIES AND SHAREHOLDERS EQUITY</b>  |                               |                              |
| Current liabilities:  |                               |                              |
| Accounts payable and accrued liabilities  | \$ 15,822                     | \$ 12,706                    |
| Current portion of long-term debt and capital lease obligations   |                               | 50                           |
| <b>Total current liabilities</b>  | <b>15,822</b>                 | <b>12,756</b>                |
| Long-term debt  | 40,500                        | 45,500                       |
| Deferred income taxes   | 15,041                        | 15,041                       |
| Other liabilities   | 1,581                         | 2,176                        |
| <b>Total liabilities</b>  | <b>72,944</b>                 | <b>75,473</b>                |
| <b>Commitments and contingencies (Note 10)</b>  |                               |                              |
| Shareholders' equity:   |                               |                              |
| Preferred stock; par value \$.01 per share; 10,000 shares authorized; none outstanding  |                               |                              |
| Common stock; par value \$.01 per share; 200,000 shares authorized; 53,697 and 53,670 shares issued and 53,697 and 53,659 shares outstanding at September 29, 2012, and December 31, 2011, respectively | 537                           | 537                          |
| Additional paid-in-capital, net of treasury stock   | 273,899                       | 272,811                      |
| Accumulated other comprehensive loss  | (1,418)                       | (1,798)                      |
| Accumulated deficit   | (198,428)                     | (204,188)                    |
| <b>Total shareholders' equity</b>   | <b>74,590</b>                 | <b>67,362</b>                |
| <b>Total liabilities and shareholders' equity</b>   | <b>\$ 147,534</b>             | <b>\$ 142,835</b>            |

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



**Table of Contents****PGT, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS***(in thousands)*

|  | <b>Nine Months Ended</b>      |                            |
|--|-------------------------------|----------------------------|
|  | <b>September 29,<br/>2012</b> | <b>October 1,<br/>2011</b> |
|  | <i>(unaudited)</i>            |                            |
| <b>Cash flows from operating activities:</b>   |                               |                            |
| Net income (loss)  | \$ 5,760                      | \$ (10,585)                |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: |                               |                            |
| Depreciation   | 4,384                         | 5,912                      |
| Amortization   | 4,877                         | 4,877                      |
| Provision for allowances of doubtful accounts  | 29                            | 656                        |
| Amortization and write off of deferred financing costs   | 623                           | 1,082                      |
| Stock-based compensation   | 1,046                         | 1,428                      |
| Derivative financial instruments   | 42                            | 36                         |
| (Gain) on disposal of assets   | (291)                         | (109)                      |
| Change in operating assets and liabilities:  |                               |                            |
| Accounts receivable  | (2,995)                       | (4,594)                    |
| Inventories  | (84)                          | (1,573)                    |
| Prepaid and other assets   | (40)                          | (126)                      |
| Accounts payable, accrued and other liabilities  | 3,080                         | (1,553)                    |
| Net cash provided by (used in) operating activities  | 16,431                        | (4,549)                    |
| <b>Cash flows from investing activities:</b>   |                               |                            |
| Purchases of property, plant and equipment   | (3,145)                       | (2,684)                    |
| Proceeds from sales of assets  | 454                           | 667                        |
| Net change in margin account for derivative financial instruments                                  |                               | 6                          |
| Net cash used in investing activities  | (2,691)                       | (2,011)                    |
| <b>Cash flows from financing activities:</b>   |                               |                            |
| Payments of long-term debt   | (5,000)                       | (52,500)                   |
| Proceeds from issuance of long-term debt   |                               | 48,000                     |
| Payments of financing costs  |                               | (3,012)                    |
| Exercise of stock options  | 42                            |                            |
| Payments of capital leases   | (50)                          | (84)                       |
| Net cash used in financing activities  | (5,008)                       | (7,596)                    |
| Net increase (decrease) in cash and cash equivalents   | 8,732                         | (14,156)                   |
| Cash and cash equivalents at beginning of period   | 10,940                        | 22,012                     |
| Cash and cash equivalents at end of period   | \$ 19,672                     | \$ 7,856                   |

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

**Table of Contents****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 29, 2012, and October 1, 2011, consisted of 13 weeks.

The condensed consolidated balance sheet as of December 31, 2011, is derived from the audited consolidated financial statements but does not include all disclosures required by GAAP. The condensed consolidated balance sheet as of December 31, 2011, and the unaudited condensed consolidated financial statements as of and for the period ended September 29, 2012, should be read in conjunction with the more detailed audited consolidated financial statements for the year ended December 31, 2011, 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. Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

**NOTE 2. CONSOLIDATION**

On December 3, 2010, we announced that our Salisbury, North Carolina operations would be transferred to Venice, Florida to consolidate our window and door production at our Florida plant. All operations were moved by the end of the third quarter of 2011. As a result of this consolidation, in the three months ended October 1, 2011, we recorded consolidation charges of \$0.1 million of moving expenses which were classified within cost of goods sold in the accompanying condensed consolidated statement of comprehensive income (loss) for the three months ended October 1, 2011. For the nine months ended October 1, 2011, we recorded consolidation charges of \$4.1 million, which includes \$1.3 million of severance expense and \$2.8 million of moving expenses. The classification of charges were \$3.4 million within cost of goods sold, and the remaining \$0.7 million within selling, general and administrative expenses in the accompanying consolidated statement of comprehensive income (loss) for the nine months ended October 1, 2011. There was no unpaid severance as of September 29, 2012.

The following table provides information with respect to our accrual for consolidation (in thousands):

| Consolidation                       | Beginning of Period | Charged to Expense | Disbursed in Cash | End of Period |
|-------------------------------------|---------------------|--------------------|-------------------|---------------|
| Three months ended October 1, 2011: | \$ 128              | \$                 | \$ (53)           | \$ 75         |
| Nine months ended October 1, 2011:  | \$ 1,812            | \$ 1,294           | \$ (3,031)        | \$ 75         |

**NOTE 3. 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 recorded net sales. 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 (in thousands):

| Accrued Warranty                      | Beginning<br>of Period | Charged<br>Expense | Adjustments | Settlements | End of<br>Period |
|---------------------------------------|------------------------|--------------------|-------------|-------------|------------------|
| Three months ended September 29, 2012 | \$ 4,313               | \$ 783             | \$ (235)    | \$ (786)    | \$ 4,075         |
| Three months ended October 1, 2011    | \$ 4,262               | \$ 906             | \$ 153      | \$ (882)    | \$ 4,439         |
| Nine months ended September 29, 2012  | \$ 4,406               | \$ 2,476           | \$ (319)    | \$ (2,488)  | \$ 4,075         |
| Nine months ended October 1, 2011     | \$ 4,326               | \$ 2,528           | \$ 30       | \$ (2,445)  | \$ 4,439         |

**NOTE 4. INVENTORIES**

Inventories consist principally of raw materials purchased for the manufacture of our products. We have limited finished goods inventory since all products are custom, made-to-order and usually ship upon completion, although our finished goods will be higher during our summer months when sales are higher. 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 29,<br>2012 | December 31,<br>2011 |
|------------------|-----------------------|----------------------|
|                  | <i>(in thousands)</i> |                      |
| Raw materials    | \$ 9,892              | \$ 10,543            |
| Work in progress | 276                   | 335                  |
| Finished goods   | 1,518                 | 724                  |
|                  | \$ 11,686             | \$ 11,602            |

**NOTE 5. STOCK COMPENSATION EXPENSE**

We record compensation expense over an award's vesting period based on the award's fair value at the date of grant. We recorded compensation expense for stock based awards of \$0.3 million for the third quarter of 2012 and \$0.4 million for the third quarter of 2011. We recorded compensation expense for stock based awards of \$1.0 million for the first nine months of 2012 and \$1.4 million for the first nine months of 2011. As of September 29, 2012, and October 1, 2011, there was \$1.6 million and \$2.0 million, respectively, of total unrecognized compensation cost related to non-vested stock option agreements. These costs are expected to be recognized in earnings on a straight-line basis over the weighted average remaining vesting period of 1.8 years.

*New Issuances*

In May and August 2012, we issued options on 643,390 and 30,000 shares of common stock, respectively, to certain directors, an executive, and certain non-executive employees of the Company. These stock options expire ten years after the date of grant and generally vest and may be exercised in cumulative installments of one third of the shares on each of the first three years following the date of grant. The weighted average exercise price was \$2.42 and the total fair value of the options at issuance was \$0.9 million.

*Exercise*

In the third quarter, there were 27,054 options exercised at a weighted average exercise price of \$1.56.

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Basic EPS is determined using the two-class method and 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, and October 1, 2011, excludes underlying options of 437,455, and 5,510,593, respectively, because their effects were anti-dilutive. Our weighted average shares outstanding for the nine months ended September 29, 2012, and October 1, 2011, excludes underlying options of 396,529, and 5,201,823, respectively, because their effects were anti-dilutive.

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

|  | Three Months Ended                              |                    | Nine Months Ended     |                    |
|--|---|--------------------|-----------------------|--------------------|
|  | September 29,<br>2012                           | October 1,<br>2011 | September 29,<br>2012 | October 1,<br>2011 |
|  | <i>(in thousands, except per share amounts)</i> |                    |                       |                    |
| Net income (loss)                                | \$ 2,722  | \$ 241             | \$ 5,760              | \$ (10,585)        |
| Weighted-average common shares - Basic           | 53,686  | 53,659             | 53,674                | 53,658             |
| Add: Dilutive effect of stock compensation plans | 2,368   | 303                | 801                   |                    |
| Weighted-average common shares - Diluted         | 56,054  | 53,962             | 54,475                | 53,658             |
| <b>Net income (loss) per common share:</b>       |   |                    |                       |                    |
| Basic  | \$ 0.05   | \$ 0.00            | \$ 0.11               | \$ (0.20)          |
| Diluted  | \$ 0.05   | \$ 0.00            | \$ 0.11               | \$ (0.20)          |

**NOTE 7. INTANGIBLE ASSETS**

Intangible assets are as follows:

|                                | September 29,<br>2012 | December 31,<br>2011 | Original<br>Useful<br>Life<br>(in years) |
|--------------------------------|-----------------------|----------------------|--|
|                                | <i>(in thousands)</i> |                      |  |
| <b>Intangible assets:</b>      |                       |                      |  |
| Trade names                    | \$ 38,441             | \$ 38,441            | indefinite                               |
| Customer relationships         | 55,700                | 55,700               | 10                                       |
| Less: Accumulated amortization | (48,309)              | (44,131)             |  |
| Subtotal                       | 7,391                 | 11,569               |  |
| Hurricane intellectual assets  | 2,797                 | 2,797                | 3  |
| Less: Accumulated amortization | (1,676)               | (977)                |  |
| Subtotal                       | 1,121                 | 1,820                |  |

|                        |           |           |
|------------------------|-----------|-----------|
| Intangible assets, net | \$ 46,953 | \$ 51,830 |
|------------------------|-----------|-----------|

**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.

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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 31, 2011, utilized a weighted average royalty rate of 4.0% and a discount rate of 17.0%. Projected net sales used in the analysis were based on historical experience and a modest growth in future years. We believe the royalty rate is appropriate and could improve over time based on market trends and information. The weighted average discount rate was based on current financial market trends and will remain dependent on such trends in the future. Absent offsetting changes in other factors, a 1% increase in the discount rate would decrease the estimated fair value of our trade names by approximately \$2.5 million.

No impairment test was conducted as of September 29, 2012, because no impairment indicators were identified that require us to perform this test prior to our annual test at December 29, 2012. We will continue to monitor and evaluate potential impairment indicators.

**Amortizable Intangible Assets**

We perform an impairment test on our amortizable intangible assets anytime that impairment indicators exist. Such assets include our customer relationships asset and the intellectual property assets acquired upon exercise of the option to purchase the Hurricane Window and Door Technology assets in December 2010, which underlie our PremierVue product line. No such impairment indicators were identified as of September 29, 2012. We will continue to monitor and evaluate potential impairment indicators.

**NOTE 8. LONG-TERM DEBT**

On June 23, 2011, PGT Industries, Inc. entered into a credit agreement (the "Credit Agreement") with three lenders; General Electric Capital Corporation, GE Capital Financial, Inc., and SunTrust Bank. The Credit Agreement provides 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 Credit Agreement will mature five years from the date of the execution of the Credit Agreement. As of September 29, 2012, there were \$1.6 million of letters of credit outstanding and \$13.4 million available on the revolver.

The Credit Agreement imposes certain restrictions on us, including restrictions on our ability to: incur debt or provide guarantees; grant or suffer to exist liens; sell certain material assets; pay dividends or make other distributions in respect of capital stock; prepay certain indebtedness, make loans, advances, investments and acquisitions; change our line of business; engage in affiliate transactions; consummate mergers, consolidations or other fundamental transactions; and enter into agreements with negative pledge clauses. The Credit Agreement also requires us to maintain certain minimum interest coverage ratios and maximum leverage ratios, which are tested at the end of each fiscal quarter. We were in compliance with all covenants as of September 29, 2012.

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.

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During 2012, an optional prepayment of \$2.0 million was made in June 2012 and another optional prepayment \$3.0 million was paid in August 2012. Accordingly, no mandatory payments are required until April 2015. Contractual future maturities of long-term debt as of September 29, 2012, are as follows (in millions):

|                   |         |
|-------------------|---------|
| Remainder of 2012 | \$      |
| 2013              |         |
| 2014              |         |
| 2015              | 2.7     |
| 2016              | 37.8    |
| Total             | \$ 40.5 |

On Thursday, November 1, 2012, we made an additional optional payment of \$3.0 million, which reduced our gross debt to \$37.5 million at that time.

**NOTE 9. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)**

The following table shows the components of accumulated other comprehensive income (loss) for the three and nine months ended September 29, 2012, and October 1, 2011 (in thousands):

|                               | <b>Aluminum<br/>Forward<br/>Contracts</b> | <b>Valuation<br/>Allowance</b> | <b>Total</b> |
|-------------------------------|---|--------------------------------|--------------|
| Balance at June 30, 2012      | \$ (2,032)                                | \$ 133                         | \$ (1,899)   |
| Changes in fair value         | 341                                       |                                | 341          |
| Reclassification to earnings  | 140                                       |                                | 140          |
| Tax effect                    | (187)                                     | 187                            |              |
| Balance at September 29, 2012 | \$ (1,738)                                | \$ 320                         | \$ (1,418)   |

|                              | <b>Aluminum<br/>Forward<br/>Contracts</b> | <b>Valuation<br/>Allowance</b> | <b>Total</b> |
|------------------------------|---|--------------------------------|--------------|
| Balance at July 2, 2011      | \$ (1,741)                                | \$ 315                         | \$ (1,426)   |
| Changes in fair value        | (204)                                     |                                | (204)        |
| Reclassification to earnings | (44)                                      |                                | (44)         |
| Tax effect                   | 95  | (95)                           |              |
| Balance at October 1, 2011   | \$ (1,894)                                | \$ 220                         | \$ (1,674)   |

|                               | <b>Aluminum<br/>Forward<br/>Contracts</b> | <b>Valuation<br/>Allowance</b> | <b>Total</b> |
|-------------------------------|---|--------------------------------|--------------|
| Balance at December 31, 2011  | \$ (1,970)                                | \$ 172                         | \$ (1,798)   |
| Changes in fair value         | 129                                       |                                | 129          |
| Reclassification to earnings  | 251                                       |                                | 251          |
| Tax effect                    | (148)                                     | 148                            |              |
| Balance at September 29, 2012 | \$ (1,738)                                | \$ 320                         | \$ (1,418)   |

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|                              | <b>Aluminum<br/>Forward<br/>Contracts</b> | <b>Valuation<br/>Allowance</b> | <b>Total</b> |
|------------------------------|---|--------------------------------|--------------|
| Balance at January 1, 2011   | \$ (1,631)                                | \$ 388                         | \$ (1,243)   |
| Changes in fair value        | (11)                                      |                                | (11)         |
| Reclassification to earnings | (420)                                     |                                | (420)        |
| Tax effect                   | 168                                       | (168)                          |              |
| Balance at October 1, 2011   | \$ (1,894)                                | \$ 220                         | \$ (1,674)   |

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**Table of Contents****NOTE 10. COMMITMENTS AND CONTINGENCIES***Litigation*

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

**NOTE 11. INCOME TAXES**

Our tax rate is lower than the statutory rate in the three and nine months ended September 29, 2012, as we released a portion of our deferred tax asset valuation allowance to offset our regular tax expense. The \$0.1 million of tax expense included in the statement of operations for the three and nine months ended September 29, 2012, represents our expected alternative minimum tax obligation. For the three and nine months ended October 1, 2011, we fully reserved all tax assets and did not recognize any tax benefit.

**NOTE 12. DERIVATIVE****Derivative Financial Instruments – Aluminum Contracts**

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.

Accounting guidance 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 29, 2012, the fair value of our aluminum forward contracts was in a net asset position of \$0.1 million. We had 33 outstanding forward contracts for the purchase of 5.2 million pounds of aluminum, approximately 45% of our anticipated needs through December 2013, at an average price of \$0.95 per pound with maturity dates of between less than one month and fifteen months. We assessed the risk of non-performance of the counter-party to these contracts and recorded an immaterial adjustment to fair value as of September 29, 2012. When margin calls are required, we net cash collateral from payments of margin calls on deposit with our commodities broker against the liability position of open contracts for the purchase of aluminum on a first-in, first-out basis. For statement of cash flows presentation, we present net cash receipts from and payments to the margin account as investing activities.

Our aluminum hedges qualify as highly effective for reporting purposes and qualify for hedge accounting. For the three and nine months ended September 29, 2012, and October 1, 2011, the ineffective portion of the hedging instruments was not significant. Effectiveness of aluminum forward contracts is determined by comparing the change in the fair value of the forward contract to the change in the expected cash to be paid for the hedged item. The effective portion of the gain or loss on our aluminum forward contracts is reported as a component of other comprehensive income, and is reclassified into earnings in the same line item in the income statement as the hedged item in the same period or periods during which the transaction affects earnings. For the three and nine months ended September 29, 2012, and October 1, 2011, no amounts were reclassified to earnings as a result of the discontinuance of a cash flow hedge because it was probable that the original forecasted transaction would not occur. The ending accumulated balance related to the fair value of the aluminum forward contracts included in accumulated other comprehensive income, net of tax, is \$0.1 million as of September 29, 2012, all of which is expected to be reclassified into earnings over the next 15 months.





**Table of Contents****Derivative Financial Instruments Interest Rate Contract**

On August 8, 2011, we entered into a two year interest rate cap to offset the interest rate fluctuation associated with 50% of our initial outstanding long term debt. We are exposed to changes in the LIBOR rate, should it increase over our floor established in the Credit Agreement of 1.25%. The cap indexes to quarterly LIBOR with a notional amount of \$24 million, based on a strike rate of 1.25% payable quarterly, which will effectively fix our LIBOR rate at a maximum of 1.25% for that amount of debt. Changes in the intrinsic value of the cap are expected to offset the changes in cash flow (changes in interest payments) attributable to fluctuations in interest rates above 1.25%. This interest rate cap was not designated as a hedge; therefore, changes in the fair value and changes in intrinsic value are and will be included in the current period earnings as Other expense (income), net in the consolidated statements of comprehensive income (loss). At September 29, 2012, the fair value of our interest rate cap was negligible.

The fair value of the aluminium hedges and interest rate cap are classified in the accompanying consolidated balance sheets as follows (in thousands):

|  |                               | September 29,<br>2012 | December 31,<br>2011 |
|--|-------------------------------|-----------------------|----------------------|
| <b>Derivatives in a net asset (liability) position</b> | <b>Balance Sheet Location</b> |                       |                      |
| Interest rate cap                                      | Other Current Assets          | \$                    | \$ 28                |
| Aluminum forward contracts                             | Other Current Assets          | \$ 79                 | \$                   |
| Aluminum forward contracts                             | Other Assets                  | \$ 31                 | \$                   |
| Aluminum forward contracts                             | Accrued Liabilities           | \$                    | \$ 254               |

The following represents the gains (losses) on derivative financial instruments for the three and nine months ended September 29, 2012, and October 1, 2011, and their classifications within the accompanying condensed consolidated financial statements (in thousands):

|  | Amount of Gain or (Loss) Recognized in OCI on Derivatives (Effective Portion) Three Months Ended |                 | Derivatives in Cash Flow Hedging Relationships<br>Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) | Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) Three Months Ended |                 |
|--|--|-----------------|--|---|-----------------|
|  | September 29, 2012   | October 1, 2011 |  | September 29, 2012  | October 1, 2011 |
|  | Aluminum contracts   | \$ 341          |  | \$ (204)  | Cost of sales   |

|  | Location of Gain or (Loss) Recognized in Income on Derivatives (Ineffective Portion) |                 | Amount of Gain or (Loss) Recognized in Income on Derivatives (Ineffective Portion) Three Months Ended |                 |
|--|--|-----------------|---|-----------------|
|  | September 29, 2012   | October 1, 2011 | September 29, 2012  | October 1, 2011 |
|  | Aluminum contracts   |                 |   | \$ (5)          |

|  | Amount of Gain or (Loss) Recognized in OCI on Derivatives (Effective Portion) Nine Months Ended |                 | Derivatives in Cash Flow Hedging Relationships<br>Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) | Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) Nine Months Ended |                 |
|--|---|-----------------|--|--|-----------------|
|  | September 29, 2012  | October 1, 2011 |  | September 29, 2012   | October 1, 2011 |
|  |   |                 |  |  |                 |

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|                    |                               |         |               |   |  |
|--------------------|-------------------------------|---------|---------------|---|--|
| Aluminum contracts | \$ 129                        | \$ (11) | Cost of sales | \$ (197)  | \$ 420                                     |
|                    |                               |         |               | <b>Amount of Gain or (Loss)<br/>                 Recognized in Income on<br/>                 Derivatives<br/>                 (Ineffective Portion)<br/>                 Nine Months Ended</b> |  |
|                    |                               |         |               | <b>September</b><br><b>29,</b><br><b>2012</b>   | <b>October</b><br><b>1,</b><br><b>2011</b> |
| Aluminum contracts | Other income or other expense |         |               | \$ (54)   | \$   |

**Table of Contents****NOTE 13. 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 consolidated statements of comprehensive income (loss). 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.

**Items Measured at Fair Value on a Recurring Basis**

The following assets and liabilities are measured in the consolidated financial statements 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 (in thousands):

| Description  | Fair Value Measurements at Reporting Date<br>of Net Asset (Liability) Using: |  |   |   |
|--|--|--|---|---|
|  | September 29,<br>2012  | Quoted Prices in Active<br>Markets<br>(Level 1)    | Significant Other Observable<br>Inputs (Level 2)    | Significant Unobservable<br>Inputs (Level 3)    |
| Aluminum forward contracts                         | \$ 110   | \$   | \$ 110  | \$  |
| Derivative financial instruments, net<br>asset     | \$ 110   | \$   | \$ 110  | \$  |
| Description  | December<br>31,<br>2011  | Quoted Prices<br>in Active<br>Markets<br>(Level 1) | Significant Other<br>Observable<br>Inputs (Level 2) | Significant<br>Unobservable<br>Inputs (Level 3) |
| Aluminum forward contracts                         | \$ (254)   | \$   | \$ (254)  | \$  |
| Interest rate cap                                  | 28   |  | 28  |   |
| Derivative financial instruments, net<br>liability | \$ (226)   | \$   | \$ (226)  | \$  |

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.



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Interest rate cap 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.

**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 29, 2012, and December 31, 2011, respectively (in thousands):

|  | September 29, 2012 |                      | December 31, 2011 |                      |
|--|--------------------|----------------------|-------------------|----------------------|
|  | Carrying Amount    | Estimated Fair Value | Carrying Amount   | Estimated Fair Value |
| <b>Financial assets and liabilities</b>  |                    |                      |                   |                      |
| Cash and cash equivalents                | \$ 19,672          | \$ 19,672            | \$ 10,940         | \$ 10,940            |
| Accounts receivable, net                 | \$ 16,439          | \$ 16,439            | \$ 13,830         | \$ 13,830            |
| Accounts payable and accrued liabilities | \$ 15,822          | \$ 15,822            | \$ 12,706         | \$ 12,706            |
| Long-term debt                           | \$ 40,500          | \$ 40,095            | \$ 45,500         | \$ 45,500            |

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 approximates 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 14. 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 that a substantial majority of the grant will be retained on December 1, 2015. Due to the existence of the performance obligations extending over a 5-year period, we 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 29, 2012, and October 1, 2011, 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 \$0.3 million and \$0.4 million in other liabilities, respectively, within the accompanying condensed consolidated balance sheets.

**NOTE 15. ASSETS HELD FOR SALE**

In the second quarter of 2012, we entered into an agreement to list the Salisbury, North Carolina facility for sale with an agent, and it is expected to sell within one year. The estimated sale price, less cost to sell, is expected to be above the current carrying cost of the facility. This facility's carrying value was \$5.3 million as of September 29, 2012.



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

The following discussion of our financial condition and results of operations should be read in conjunction with the Management's Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and notes thereto for the year ended December 31, 2011, 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.

**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, estimate, may, could, or other words of similar meaning. Our 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 controlling 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 31, 2012, we issued a press release, and held a conference call on November 1, 2012, to review the results of operations for the three months and nine months ended September 29, 2012. 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.

In the third quarter of 2012, we posted net income of \$2.7 million, which was a substantial improvement compared to a year ago. This was achieved, despite lower sales by 2.2%, as a result of improved product mix and continued improvement in operational efficiencies. Some of our markets, while still below normal, are showing signs of growth, and we are well positioned to capitalize and gain market share.

During the quarter, WinGuard sales grew 4% over prior year, and represented 73% of the total sales compared to 68% a year ago. Also, targeted promotional activity helped drive our mix improvement and market share gain in certain markets. We did experience lower sales of \$1.1 million in PremierVue products, primarily driven by reduction in low margin sales to a particular customer, and \$0.6 million in our Architectural Systems products due to the completion of a large condo retrofit project in 2011.



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Selling, general and administrative expenses were \$11.6 million for the third quarter of 2012, an increase of \$0.1 million from \$11.5 million for the third quarter of 2011. This was driven by an increase of \$0.7 million for employee bonus compensation and 401(k) expenses, and an increase of \$0.3 million in advertising costs to assist our efforts to capture market share. This was offset by reduced other employee related expenses of \$0.4 million, reduced warranty related costs of \$0.3 million driven by improved quality and reduced bad debt expense of \$0.2 million.

Our quarter end cash balance was \$19.7 million, and we prepaid an additional \$3.0 million of outstanding bank debt during the quarter, bringing our gross debt to \$40.5 million. During the quarter and the nine months just ended, we generated \$7.5 million and \$16.4 million in cash from operations, respectively. This shows our financial condition is strong, and we are poised to take advantage of opportunities to drive our brand awareness and drive market share gains. We expect our improved leverage to continue the momentum we have achieved as we grow sales.

During the third quarter, we had success with promotional activity designed to take market share, particularly in our Southeast and Southwest Florida markets. We will continue some of this activity into the fourth quarter, to help offset what is typically an end-of-year slowdown and accordingly expect a slight increase in 2012 annual sales over 2011.

**Performance Summary**

The following table presents financial data derived from our unaudited consolidated statements of comprehensive income (loss) as a percentage of total net sales for the periods indicated (in thousands):

|  | Three Months Ended |             |                 |        | Nine Months Ended  |             |                 |        |
|--|--------------------|-------------|-----------------|--------|--------------------|-------------|-----------------|--------|
|  | September 29, 2012 |             | October 1, 2011 |        | September 29, 2012 |             | October 1, 2011 |        |
|  |                    | (unaudited) |                 |        |                    | (unaudited) |                 |        |
| Net sales                                    | \$ 44,743          | 100.0%      | \$ 45,751       | 100.0% | \$ 129,329         | 100.0%      | \$ 131,567      | 100.0% |
| Cost of sales                                | 29,501             | 65.9%       | 32,836          | 71.8%  | 85,670             | 66.2%       | 101,418         | 77.1%  |
| Gross margin                                 | 15,242             | 34.1%       | 12,915          | 28.2%  | 43,659             | 33.8%       | 30,149          | 22.9%  |
| Selling, general and administrative expenses | 11,592             | 25.9%       | 11,524          | 25.2%  | 35,206             | 27.2%       | 36,992          | 28.1%  |
| Income (loss) from operations                | 3,650              | 8.2%        | 1,391           | 3.0%   | 8,453              | 6.5%        | (6,843)         | -5.2%  |
| Interest expense, net                        | 878                | 2.0%        | 1,114           | 2.4%   | 2,675              | 2.1%        | 3,287           | 2.5%   |
| Other expense (income), net                  | (10)               | 0.0%        | 36              | 0.1%   | (110)              | -0.1%       | 455             | 0.3%   |
| Income (loss) before income taxes            | 2,782              | 6.2%        | 241             | 0.5%   | 5,888              | 4.6%        | (10,585)        | -8.0%  |
| Income tax expense                           | 60                 | 0.1%        |                 | 0.0%   | 128                | 0.1%        |                 | 0.0%   |
| Net income (loss)                            | \$ 2,722           | 6.1%        | \$ 241          | 0.5%   | \$ 5,760           | 4.5%        | \$ (10,585)     | -8.0%  |

The following table represents total sales by product category for the three months ended September 29, 2012, and October 1, 2011, (sales in millions):

| Product category:               | Three Months Ended |            |                 |            |          |
|---------------------------------|--------------------|------------|-----------------|------------|----------|
|                                 | September 29, 2012 |            | October 1, 2011 |            | % change |
|                                 | Sales              | % of sales | Sales           | % of sales |          |
| Impact Window and Door Products | \$ 34.2            | 76.5%      | \$ 35.0         | 76.4%      | (2.3%)   |
| Other Window and Door Products  | 10.5               | 23.5%      | 10.8            | 23.6%      | (2.8%)   |
| Total net sales                 | \$ 44.7            | 100.0%     | \$ 45.8         | 100.0%     | (2.2%)   |

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Net sales of impact window and door products, which include our WinGuard, PremierVue and Architectural Systems product lines, were \$34.2 million for the third quarter of 2012, a decrease of \$0.8 million, or 2.3%, from \$35.0 million in net sales for the 2011 third quarter. The decrease was due mainly to a decrease in our PremierVue line of \$1.1 million, or 45.8%, primarily driven by reduction in low margin sales to a particular customer, and a decrease in Architectural Systems of \$0.6 million, or 50.8%, from

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the completion of a large condo retrofit project in 2011. Offsetting this decrease was an increase of \$1.1 million, or 21.2%, in Vinyl WinGuard. WinGuard product sales represented 73% and 68% of our net sales for the third quarter of 2012 and 2011, respectively.

Net sales of other window and door products were \$10.5 million for the third quarter of 2012, a decrease of \$0.3 million, or 2.8%, from \$10.8 million in net sales for the 2011 third quarter. This decrease was due mainly to a decrease in sales of our non-impact aluminum products of \$0.5 million and non-impact vinyl products, whose sales were down \$0.1 million, offset with a \$0.4 million increase in our Eze-Breeze products.

**Gross margin**

Gross margin was \$15.2 million, or 34.1% of sales, for the third quarter of 2012, an increase of \$2.3 million, or 18.0%, from \$12.9 million, or 28.2% of sales, for the third quarter of 2011. The 2011 third quarter margin was negatively impacted by \$0.1 million in consolidation costs and \$0.6 million of related manufacturing inefficiencies. Adjusting for these charges, 2011 gross margin was 29.9%. The 4.2% increase from 2011 adjusted gross margin was driven by improved material usage (3.3%), lower cost of materials (1.2%), and product mix (1.4%), offset by the impact of promotional activity (1.7%).

**Selling, general and administrative expenses**

Selling, general and administrative expenses were \$11.6 million for the third quarter of 2012, an increase of \$0.1 million from \$11.5 million for the third quarter of 2011. This was driven by an increase of \$0.7 million for employee bonus compensation and 401(k) expenses, and an increase of \$0.3 million in advertising costs to assist our efforts to capture market share. This was offset by reduced other employee related expenses of \$0.4 million, reduced warranty related costs of \$0.3 million driven by improved quality and reduced bad debt expense of \$0.2 million.

**Interest expense, net**

Interest expense, net was \$0.9 million in the third quarter of 2012, a decrease of \$0.2 million from \$1.1 million for the third quarter of 2011. The decrease was due to a lower outstanding debt level during the third quarter and the effect of the lower interest rate associated with the credit agreement and our improved leverage.

**Other expense (income), net**

Other income, net was less than \$0.1 million in the third quarter of 2012, compared to other expense of less than \$0.1 million in the third quarter of 2011. The amount in 2012 relates to the sale of an asset offset by changes in the fair value of our interest rate cap and ineffective aluminum hedges, and the amount in 2011 related to the change in the fair value of our interest rate cap.

**Income tax expense**

Our tax rate is lower than the statutory rate in the third quarter of 2012 as we released our deferred tax asset valuation allowance to offset our regular tax expense. The \$0.1 million of tax expense included in the condensed consolidated statement of comprehensive income (loss) for the third quarter represents our expected alternative minimum tax obligation. For the third quarter of 2011, we fully reserved all tax assets and did not recognize any tax benefit.

**The following table represents total sales by product category for the nine months ended September 29, 2012, and October 1, 2011, (sales in millions):**

| Product category:               | Nine Months Ended  |            |                 |            |          |
|---------------------------------|--------------------|------------|-----------------|------------|----------|
|                                 | September 29, 2012 |            | October 1, 2011 |            | % change |
|                                 | Sales              | % of sales | Sales           | % of sales |          |
| Impact Window and Door Products | \$ 96.1            | 74.3%      | \$ 96.4         | 73.3%      | (0.3%)   |
| Other Window and Door Products  | 33.2               | 25.7%      | 35.2            | 26.7%      | (5.7%)   |
| Total net sales                 | \$ 129.3           | 100.0%     | \$ 131.6        | 100.0%     | (1.7%)   |

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Net sales of impact window and door products, which includes our WinGuard, PremierVue and Architectural Systems product lines, were \$96.1 million for the first nine months of 2012, a decrease of \$0.3 million, or 0.3%, from \$96.4 million in net sales for

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the 2011 first nine months. The decrease was due mainly to a decrease in our Architectural Systems sales of \$2.5 million, or 62.9% from the completion of a large condo retrofit project for 2011 and a decrease of \$1.1 million in PremierVue, primarily driven by reduction in low margin sales to a particular customer. Offsetting these decreases was an increase of \$2.7 million, or 18.8% increase in Vinyl WinGuard and \$0.6 million, or 0.9%, in Aluminum WinGuard. WinGuard product sales represented 70% and 65% of our net sales for the first nine months of 2012 and 2011, respectively.

Net sales of other window and door products were \$33.2 million for the first nine months of 2012, a decrease of \$2.0 million, or 5.7%, from \$35.2 million in net sales for the first nine months of 2011. This decrease was due mainly to a decrease in sales of our aluminum non-impact products of \$1.4 million, or 8.4%, and non-impact vinyl, whose sales were down \$1.5 million, or 14.2%, as a result of our decision to concentrate our sales efforts on Florida, international, and certain coastal markets. This was offset by a \$0.9 million, or 10.9%, increase in our Eze-Breeze products.

***Gross margin***

Gross margin was \$43.7 million, or 33.8% of sales, for the first nine months of 2012, an increase of \$13.6 million, or 44.8%, from \$30.1 million, or 22.9% of sales, for the first nine months of 2011. The 2011 first nine months gross margin was negatively impacted by \$3.4 million in consolidation costs and \$4.0 million of related manufacturing inefficiencies. Adjusting for these charges, 2011 gross margin was 29.8%. The 5.3% increase from 2011 adjusted gross margin was driven by improved operating efficiency (2.7%), lower cost of materials and product mix (1.1%), consolidation savings (0.9%), operational improvements (0.6%), offset by a decrease of (0.1%) based on volume and promotional activities.

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

Selling, general and administrative expenses were \$35.2 million for the first nine months of 2012, a decrease of \$1.8 million from \$37.0 million for the first nine months of 2011. The first nine months of 2011 included \$0.7 million of consolidation charges. Adjusting for these charges, the 2012 decrease was \$1.1 million. This was driven mainly by consolidation savings for the first six months of \$2.1 million, reduced other employee related expenses of \$0.5 million, reduced bad debt expense of \$0.4 million and reduced warranty related costs of \$0.3 million driven by improved quality, offset by an increase of \$2.5 million of employee bonus compensation and 401(k) expenses.

***Interest expense, net***

Interest expense, net was \$2.7 million in the first nine months of 2012, a decrease of \$0.6 million from \$3.3 million for the first nine months of 2011. The decrease was due to a lower debt level outstanding during the first nine months of 2012 and the effect of the lower interest rate associated with the new credit agreement.

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

Other income, net was \$0.1 million in the first nine months of 2012 compared to other expense of \$0.4 million in the first nine months of 2011. The amount in 2012 relates to the sale of assets offset by changes in the fair value of our interest rate cap and ineffective aluminum hedges, and the amount in 2011 relates to \$0.4 million of deferred financing costs in connection with our refinancing that closed in the second quarter of 2011 and the ineffective portions of aluminum hedges.

***Income tax expense***

Our tax rate is lower than the statutory rate in the first nine months of 2012 as we released a portion of our deferred tax asset valuation allowance to offset our regular tax expense. The \$0.1 million of tax expense included in the condensed consolidated statement of comprehensive income (loss) for the nine months ended represents our expected alternative minimum tax obligation. For the first nine months of 2011, we fully reserved all tax assets and did not recognize any tax benefit.

**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.



**Table of Contents****Consolidated Cash Flows**

*Operating activities.* Cash generated by operating activities was \$16.4 million for the first nine months of 2012 compared to cash used of \$4.5 million in the first nine months of 2011. This increase in cash is mainly due to the effect of improved operating efficiencies, lower scrap, consolidation related cash outflows in 2011 and payments to vendors. More specifically, personnel related disbursements, which included consolidation related expenses and employee benefits earned in 2010, were \$12.4 million greater in 2011 than in 2012. Disbursements to vendors were lower in the first nine months of 2012 by \$9.9 million compared to 2011, due mostly to improved material utilization and reduction of scrap.

Direct cash flows from operations for the first nine months of 2012 and 2011 are as follows (in millions):

|  | <b>Direct Cash Flows</b>      |                            |
|--|-------------------------------|----------------------------|
|  | <b>Nine Months Ended</b>      |                            |
|  | <b>September 29,<br/>2012</b> | <b>October 1,<br/>2011</b> |
| Collections from customers                   | \$ 130.1                      | \$ 129.9                   |
| Other collections of cash                    | 1.6                           | 2.6                        |
| Disbursements to vendors                     | (74.2)                        | (84.1)                     |
| Personnel related disbursements              | (38.8)                        | (51.2)                     |
| Debt service costs (interest)                | (2.2)                         | (1.9)                      |
| Other activity, net                          | (0.1)                         | 0.2                        |
| <b>Cash provided by (used in) operations</b> | <b>\$ 16.4</b>                | <b>\$ (4.5)</b>            |

Days sales outstanding (DSO), which we calculate as accounts receivable divided by quarterly average daily sales, was 34 days at September 29, 2012, compared to 41 days at October 1, 2011.

Inventory on hand as of September 29, 2012, decreased \$0.4 million compared to October 1, 2011. Inventory turns during the first nine months of 2012 decreased to 9.6 from 11.4 for the first nine months of 2011.

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

*Investing activities.* Cash used for investing activities was \$2.7 million for the first nine months of 2012, compared to cash used for investing activities of \$2.0 million for the first nine months of 2011. The increase of \$0.7 million in cash used in investing activities was due to \$0.5 million higher capital spending for 2012 and lower proceeds from the sale of assets of \$0.2 million.

*Financing activities.* 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. Cash used in financing activities was \$7.6 million in the first nine months of 2011, including \$4.5 million in debt prepayment and \$3.0 million debt financing costs associated with the refinancing completed in 2011.

*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 4.5X to 2.0X. 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 29, 2012, we were in compliance and expect to be in the future.

*Capital Resources.* On June 23, 2011, PGT Industries, Inc. entered into a credit agreement (the Credit Agreement) with three lenders; General Electric Capital Corporation, GE Capital Financial, Inc., and SunTrust Bank. The Credit Agreement provides for a \$15.0 million revolving credit

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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 Credit Agreement will mature five years from the date of the execution of the Credit Agreement. As of September 29, 2012, there were \$1.6 million of letters of credit outstanding and \$13.4 million available on the revolver.



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The Credit Agreement imposes certain restrictions on us, including restrictions on our ability to: incur debt or provide guarantees; grant or suffer to exist liens; sell certain material assets; pay dividends or make other distributions in respect of capital stock; prepay certain indebtedness, make loans, advances, investments and acquisitions; change our line of business; engage in affiliate transactions; consummate mergers, consolidations or other fundamental transactions; and enter into agreements with negative pledge clauses. The Credit Agreement also requires us to maintain certain minimum interest coverage ratios and maximum leverage ratios, which are tested at the end of each fiscal quarter. We were in compliance with all covenants as of September 29, 2012.

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.

During 2012, an optional prepayment of \$2.0 million was made in June 2012 and another optional prepayment \$3.0 million was paid in August 2012. Accordingly, no mandatory payments are required until April 2015. Contractual future maturities of long-term debt as of September 29, 2012, are as follows (in millions):

|                   |         |
|-------------------|---------|
| Remainder of 2012 | \$      |
| 2013              |         |
| 2014              |         |
| 2015              | 2.7     |
| 2016              | 37.8    |
| Total             | \$ 40.5 |

On Thursday, November 1, 2012, we made an additional optional prepayment of \$3.0 million, which reduced our gross debt to \$37.5 million at that time.

*Capital Expenditures.* Capital expenditures vary depending on prevailing business factors, including current and anticipated market conditions. For the first nine months of 2012, capital expenditures were \$3.1 million, compared to \$2.7 million for the first nine months of 2011. We expect to spend nearly \$4.4 million on capital expenditures in 2012, including capital expenditures related to a new enterprise resource planning ( ERP ) system. 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.

**Contractual Obligations**

Other than the new ERP system as described in *Capital Expenditures* above, whose contractual obligation is limited to \$0.3 million, 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 Form 10-K annual report for year ended December 31, 2011, as filed with the Securities and Exchange Commission on March 15, 2012.

**Significant Accounting Policies and Critical Accounting Estimates**

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



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We identified our significant accounting policies in our Form 10-K annual report for the year ended December 31, 2011, as filed with the Securities and Exchange Commission on March 15, 2012. There have been no changes to our critical accounting policies during the first nine months of 2012.

**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 December 2013 and cover approximately 45% of our anticipated need through December 2013 at an average price of \$0.95 per pound. For forward contracts for the purchase of aluminum on September 29, 2012, a 10% decrease in the price of aluminum per pound would decrease the fair value of our forward contracts of aluminum by \$0.5 million. This calculation utilizes our actual commitment of 5.2 million pounds under contract (to be settled throughout December 2013) and the market price of aluminum as of September 29, 2012, which was approximately \$0.95 per pound.

On August 8, 2011, we entered into a two year interest rate cap to offset the interest rate fluctuation associated with 50% of our initial outstanding debt. We are exposed to changes in the LIBOR rate should it increase over our floor established in the Credit Agreement of 1.25%. The cap indexes to quarterly LIBOR with a notional amount of \$24.0 million, based on a strike rate of 1.25% payable quarterly, which will effectively fix our LIBOR rate at a maximum of 1.25% for that amount of debt. Changes in the intrinsic value of the cap are expected to offset the changes in cash flow (changes in interest payments) attributable to fluctuations in interest rates above 1.25%. This interest rate cap was not designated as a hedge; therefore, changes in the fair value and changes in intrinsic value are included in the current period earnings as other expense (income), net in the consolidated statements of comprehensive income (loss). Based on our debt outstanding at September 29, 2012, of \$40.5 million, of which \$24.0 million is covered by our interest rate cap, a 1% increase in interest rates above our interest rate floor established in the Credit Agreement would result in approximately \$0.2 million of additional interest expense annually.

**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 nine to twelve months. The implementation of this ERP System has effected and will continue to effect 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 31, 2011, 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.

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

**Unregistered Sales of Equity Securities**

None.

**Use of Proceeds**

Not applicable.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. MINE SAFETY DISCLOSURE**

Not applicable

**ITEM 5. OTHER INFORMATION**

None.

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**ITEM 6. EXHIBITS**

The following items are attached or incorporated herein by reference:

- 3.1 Amended and Restated Certificate of Incorporation of PGT, Inc. (incorporated herein by reference to Exhibit 3.1 to the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 18, 2010, Registration No. 000-52059)
- 3.2 Amended and Restated By-Laws of PGT, Inc. (incorporated herein by reference to Exhibit 3.2 to the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 18, 2010, Registration No. 000-52059)
- 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 between PGT, Inc., PGT Industries, Inc., General Electric Capital Corporation, as administrative agent, collateral agent, swing line lender, L/C issuer and lender, GE Capital Markets, Inc. and SunTrust Robinson Humphrey, Inc. as joint lead arrangers and bookrunners, and SunTrust Bank, as syndication agent, L/C issuer, and lender, and the other lender named therein, dated as of June 23, 2011, (incorporated herein by reference to Exhibit 10.1 to Current Report on Form 8-K dated June 23, 2011, filed with the Securities and Exchange Commission on June 23, 2011, 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 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. 000-5205)
- 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.

\*\* Furnished herewith.





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**SIGNATURES**

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

**PGT, INC.**

**(Registrant)**

Date: November 2, 2012

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

Date: November 2, 2012

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