

PGT Innovations, Inc.
Form 10-Q
November 01, 2018
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 29, 2018

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 001-37971

PGT Innovations, Inc.

1070 Technology Drive

North Venice, FL 34275

Registrant's telephone number: 941-480-1600

State of Incorporation
Delaware

IRS Employer Identification No.
20-0634715

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

Indicate by check mark whether the registrant has submitted electronically 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 such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. Yes No

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

Common Stock, \$0.01 par value, outstanding was 57,940,088 shares, as of October 31, 2018.

Table of Contents

PGT INNOVATIONS, INC.

TABLE OF CONTENTS

Form 10-Q for the Three and Nine Months Ended September 29, 2018

	Page Number
<u>Part I. Financial Information</u>	
<u>Item 1. Condensed Consolidated Financial Statements (unaudited):</u>	
<u>Condensed Consolidated Statements of Comprehensive Income</u>	3
<u>Condensed Consolidated Balance Sheets</u>	4
<u>Condensed Consolidated Statements of Cash Flows</u>	5
<u>Notes to Condensed Consolidated Financial Statements</u>	6
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	27
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	42
<u>Item 4. Controls and Procedures</u>	42
<u>Part II. Other Information</u>	
<u>Item 1. Legal Proceedings</u>	43
<u>Item 1A. Risk Factors</u>	43
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	43
<u>Item 3. Defaults Upon Senior Securities</u>	43
<u>Item 4. Mine Safety Disclosure</u>	43
<u>Item 5. Other Information</u>	43
<u>Item 6. Exhibits</u>	44

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

	Three Months Ended		Nine Months Ended	
	September 29,	September 30,	September 29,	September 30,
	2018	2017	2018	2017
	<i>(unaudited)</i>		<i>(unaudited)</i>	
Net sales	\$ 199,084	\$ 126,876	\$ 508,606	\$ 376,981
Cost of sales	126,086	87,128	330,888	260,941
Gross profit	72,998	39,748	177,718	116,040
Selling, general and administrative expenses	44,055	24,950	105,293	72,385
Gains on transfers of assets			(2,551)	
Income from operations	28,943	14,798	74,976	43,655
Interest expense, net	11,741	5,514	19,393	14,992
Debt extinguishment costs	296		3,375	
Income before income taxes	16,906	9,284	52,208	28,663
Income tax expense	3,335	2,992	8,749	9,117
Net income	\$ 13,571	\$ 6,292	\$ 43,459	\$ 19,546
Net income per common share:				
Basic	\$ 0.26	\$ 0.13	\$ 0.86	\$ 0.40
Diluted	\$ 0.26	\$ 0.12	\$ 0.83	\$ 0.38
Weighted average shares outstanding:				
Basic	51,682	49,629	50,619	49,455
Diluted	53,068	51,809	52,378	51,670
Comprehensive income	\$ 13,131	\$ 6,292	\$ 42,635	\$ 19,546

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

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

	September 29, 2018	December 30, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 32,159	\$ 34,029
Accounts receivable, net	92,537	60,308
Inventories	46,477	37,816
Contract assets, net	14,026	
Prepaid expenses	3,578	2,490
Other current assets	9,112	9,873
Total current assets	197,889	144,516
Property, plant and equipment, net	113,076	84,133
Trade name and other intangible assets, net	275,917	115,043
Goodwill	272,439	108,060
Other assets, net	1,217	1,367
Total assets	\$ 860,538	\$ 453,119
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 69,943	\$ 41,085
Current portion of long-term debt	238	294
Total current liabilities	70,181	41,379
Long-term debt, less current portion	373,910	212,679
Deferred income taxes	23,136	22,772
Other liabilities	16,963	964
Total liabilities	484,190	277,794
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; 60,570 and 52,486 shares issued and 57,915 and 49,805 shares outstanding at September 29, 2018 and December 30, 2017, respectively	605	525
Additional paid-in-capital	408,700	252,275

Edgar Filing: PGT Innovations, Inc. - Form 10-Q

Accumulated other comprehensive loss	(824)	
Accumulated deficit	(19,374)	(64,716)
Shareholders' equity	389,107	188,084
Less: Treasury stock at cost	(12,759)	(12,759)
Total shareholders' equity	376,348	175,325
Total liabilities and shareholders' equity	\$ 860,538	\$ 453,119

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

Table of Contents

PGT INNOVATIONS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Nine Months Ended	
	September 29, 2018	September 30, 2017
	<i>(unaudited)</i>	
Cash flows from operating activities:		
Net income	\$ 43,459	\$ 19,546
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	9,724	9,502
Amortization	6,126	4,818
Provision for allowance for doubtful accounts	1,017	249
Stock-based compensation	2,543	1,568
Amortization and write-offs of deferred financing costs and debt discount	7,086	3,065
Debt extinguishment costs	3,375	
Gains on transfers and disposals of assets	(2,611)	(59)
Change in operating assets and liabilities (net of effects of acquisitions):		
Accounts receivable	(27,598)	(15,644)
Inventories	(1,723)	(8,620)
Contract assets, net, prepaid expenses, other current and other assets	(4,448)	(261)
Accounts payable, accrued and other liabilities	27,602	20,506
Net cash provided by operating activities	64,552	34,670
Cash flows from investing activities:		
Purchases of property, plant and equipment	(21,740)	(9,650)
Business acquisition	(355,213)	
Proceeds from transfers and disposals of assets	5,866	59
Net cash used in investing activities	(371,087)	(9,591)
Cash flows from financing activities:		
Proceeds from issuance of senior notes	315,000	
Proceeds from issuance of common stock	152,653	
Payments of long-term debt	(152,220)	(20,062)
Payments of financing costs	(12,066)	
Taxes paid relating to shares withheld on employee equity awards	(637)	(181)
Proceeds from exercise of stock options	1,928	681
Proceeds from issuance of common stock under employee stock purchase plan	18	23
Other	(11)	(23)
Net cash provided by (used in) financing activities	304,665	(19,562)

Edgar Filing: PGT Innovations, Inc. - Form 10-Q

Net (decrease) increase in cash and cash equivalents	(1,870)	5,517
Cash and cash equivalents at beginning of period	34,029	39,210
Cash and cash equivalents at end of period	\$ 32,159	\$ 44,727

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

Table of Contents

PGT INNOVATIONS, 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 Innovations, Inc. and its direct and indirect wholly-owned subsidiaries, including, PGT Industries, Inc., CGI Window and Door Holdings, Inc. (CGI), CGI Commercial, Inc. (CGIC), WinDoor, Incorporated, Coyote Acquisition Co. and WWS Acquisition LLC (formerly known as GEF WW Parent LLC) (collectively, the Company), after elimination of intercompany accounts and transactions.

On August 13, 2018, PGT Innovations, Inc. completed the acquisition (the WWS acquisition) of GEF WW Parent LLC (now known as WWS Acquisition LLC) (Western Window Systems or WWS) and its subsidiaries pursuant to that certain purchase agreement (PA), dated as of July 24, 2018, by and among the Company, Coyote Acquisition Co., WWS, WWS Blocker LLC, various entities that collectively owned all the equity interests of WWS and a seller representative. Headquartered in Phoenix, Arizona, Western Window Systems designs and manufactures award winning contemporary door and window systems that unify indoor/outdoor living for the residential, commercial and multi-family markets. As a result of the PA, WWS became a wholly-owned subsidiary of PGT Innovations, Inc. and its accounts are reflected in these financial statements as of and from August 13, 2018. The purchase price paid to the sellers at the closing was \$355.2 million, which has been preliminarily allocated to the net assets acquired and liabilities assumed as of the acquisition date, in accordance with Accounting Standards Codification (ASC) 805, Business Combinations . For a more detailed discussion of this WWS acquisition, see Note 6 herein. As a result of the WWS acquisition and the expansion of our geographical footprint, we are in the process of analyzing the impact of this acquisition, if any, on the determination of our reportable segments under ASC 280, Segment Reporting.

These condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all 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 is not necessarily indicative of the results that may be expected for the remainder of the current year or for any future periods. Each of the Company s fiscal quarters ended September 29, 2018, and September 30, 2017, consisted of 13 weeks.

The condensed consolidated balance sheet as of December 30, 2017, 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 30, 2017, and the unaudited condensed consolidated financial statements as of and for the period ended September 29, 2018, should be read in conjunction with the more detailed audited consolidated financial statements for the year ended December 30, 2017, included in the Company s most recent Annual Report on Form 10-K. Except for the adoption of the guidance relating to revenue from contracts with customers discussed below, the 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 Annual Report on Form 10-K.

Recently Adopted Accounting Pronouncements

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. The amendments under ASU 2017-12 refine and expand hedge accounting requirements for both financial (e.g., interest rate) and commodity risks. Its provisions create more transparency around how economic results are presented, both on the face of the financial statements and in the footnotes. It also makes certain targeted improvements to simplify the application of hedge accounting guidance. ASU 2017-12 was effective for us in the first quarter of 2019, but we elected to early-adopt this guidance effective on December 31, 2017, the first day of our 2018 fiscal year. During the three and nine months ended September 29, 2018, we entered into several aluminum forwards contracts which we have designated as cash flow hedges and are accounting for as derivative financial instruments to which we are applying the provisions of ASU 2017-12. For additional information, see Note 13.

In February 2017, the FASB issued ASU 2017-05, Other Income - Gain and Losses from the Derecognition of Nonfinancial Assets. ASU 2017-05 clarifies the scope of Subtopic 610-20, Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets and adds guidance for partial sales of nonfinancial assets. Subtopic 610-20, which was issued in May 2014 as a part of ASU 2014-09, provides guidance for recognizing gains and losses from the transfer of nonfinancial assets in contracts with non-customers. We adopted this update effective on December 31, 2017, the first day of our 2018 fiscal year. The adoption of this guidance had no impact on our financial position, results of operations or cash flows.

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805) Clarifying the Definition of a Business. ASU 2017-01 affects all companies and other reporting organizations that must determine whether they have acquired or sold a business. The definition of a business affects many areas of accounting including acquisitions, disposals,

Table of Contents

goodwill, and consolidation. The amendments are intended to help companies and other organizations evaluate whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. ASU 2017-01 provides a more robust framework to use in determining when a set of assets and activities is a business. It also provides more consistency in applying the guidance, reduces the costs of application, and makes the definition of a business more operable. We adopted this update effective on December 31, 2017, the first day of our 2018 fiscal year. The adoption of this guidance had no impact on our financial position, results of operations or cash flows.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force). ASU 2016-15 reduces diversity in practice in how certain transactions are classified in the statement of cash flows. We adopted this update effective on December 31, 2017, the first day of our 2018 fiscal year. The adoption of this guidance had no impact on our statement of cash flows.

Adoption of ASU 2014-09, Revenue from Contracts with Customers

We adopted the new revenue recognition standard on December 31, 2017 (the first day of our 2018 fiscal year) using the modified retrospective adoption methodology, whereby the cumulative impact of all prior periods is recorded in retained earnings or other impacted balance sheet line items upon adoption. Under the modified retrospective adoption method, we elected to retroactively adjust, inclusive of all previous modifications, only those contracts that were considered open at the date of initial application. Refer to Note 2, Revenue Recognition and Contracts with Customers for further information along with our new accounting policies.

Upon adoption, we recognized a net decrease to the fiscal year 2018 opening balance of accumulated deficit of \$1.9 million related to sales in excess of billings of \$8.7 million, that would have been recognized as earned over time in our prior year ended December 30, 2017. The details of the adjustment to accumulated deficit upon adoption on December 31, 2017 (the first day of our 2018 fiscal year) is as follows (in thousands):

	Cumulative	Description of Effects on Line
	Effect	Item
Net sales	\$ 8,704	Additional contract asset sales
Cost of sales	(5,642)	Inventory classified as cost of sales
SG&A expenses	(532)	Accruals for selling costs
Income tax expense	(647)	Estimated income tax effects
Net income	\$ 1,883	Additional net income

Table of Contents

The following tables reconcile the balances as presented as of and for the three and nine months ended September 29, 2018 to the balances prior to the adjustments made to implement the new revenue recognition standard for the same period, for the accompanying condensed consolidated statement of comprehensive income, and the condensed consolidated balance sheet. Adoption of the revenue recognition standard did not impact our cash from operating, investing, or financing activities on our condensed consolidated statements of cash flows. (in thousands, except per share amounts):

	Three Months Ended September 29, 2018		
	As Presented	Impact of ASU 2014-09	Previous Standard
Net sales	\$ 199,084	\$ (1,956)	\$ 197,128
Cost of sales	126,086	(664)	125,422
Gross profit	72,998	(1,292)	71,706
Selling, general and administrative expenses	44,055	(208)	43,847
Income from operations	28,943	(1,084)	27,859
Interest expense, net	11,741		11,741
Debt extinguishment costs	296		296
Income before income taxes	16,906	(1,084)	15,822
Income tax expense	3,335	(283)	3,052
Net income	\$ 13,571	\$ (801)	\$ 12,770
Basic	\$ 0.26		\$ 0.25
Diluted	\$ 0.26		\$ 0.24
Comprehensive income	\$ 13,131	\$ (801)	\$ 12,330

	Nine Months Ended September 29, 2018		
	As Presented	Impact of ASU 2014-09	Previous Standard
Net sales	\$ 508,606	\$ (4,908)	\$ 503,698
Cost of sales	330,888	(2,550)	328,338
Gross profit	177,718	(2,358)	175,360
Selling, general and administrative expenses	105,293	(393)	104,900
Gains on transfers of assets	(2,551)		(2,551)
Income from operations	74,976	(1,965)	73,011

Edgar Filing: PGT Innovations, Inc. - Form 10-Q

Interest expense, net	19,393		19,393
Debt extinguishment costs	3,375		3,375
Income before income taxes	52,208	(1,965)	50,243
Income tax expense	8,749	(508)	8,241
Net income	\$ 43,459	\$ (1,457)	\$ 42,002
Basic	\$ 0.86		\$ 0.83
Diluted	\$ 0.83		\$ 0.80
Comprehensive income	\$ 42,635	\$ (1,457)	\$ 41,178

Table of Contents

	At September 29, 2018		
	As Presented	Impact of ASU 2014-09	Previous Standard
Cash and cash equivalents	\$ 32,159	\$	\$ 32,159
Accounts receivable, net	92,537		92,537
Inventories	46,477	8,611	55,088
Contract assets, net	14,026	(14,026)	
Prepaid expenses	3,578		3,578
Other current assets	9,112	508	9,620
Total current assets	197,889	(4,907)	192,982
Property, plant and equipment, net	113,076		113,076
Trade name and other intangible assets, net	275,917		275,917
Goodwill	272,439	533	272,972
Other assets, net	1,217		1,217
Total assets	\$ 860,538	\$ (4,374)	\$ 856,164
Accounts payable and accrued liabilities	\$ 69,943	\$ (387)	\$ 69,556
Current portion of long-term debt	238		238
Total current liabilities	70,181	(387)	69,794
Long-term debt, less current portion	373,910		373,910
Deferred income taxes	23,136	(647)	22,489
Other liabilities	16,963		16,963
Total liabilities	484,190	(1,034)	483,156
Total shareholders equity	376,348	(3,340)	373,008
Total liabilities and shareholders equity	\$ 860,538	\$ (4,374)	\$ 856,164

Amounts in the tables above presented under Previous Standard represent balances as-if ASU 2014-09 had not been adopted, which primarily reflects finished goods and certain unused glass components directly attributable to noncancelable sales orders and with no alternative future use, and therefore recognized as revenue over time under the new standard but still classified in inventory under the previous standard, and no net contract assets on the condensed consolidated balance sheet.

Recently Issued Accounting Pronouncements*Leases*

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which requires lessees to recognize leases on-balance sheet and disclose key information about leasing arrangements. ASU 2016-02 was subsequently amended by ASU 2018-01, Land Easement Practical Expedient for Transition to Topic 842; ASU 2018-10, Codification Improvements to Topic 842, Leases; and ASU 2018-11, Targeted Improvements. The new standard requires a lessee to recognize a right-of-use asset and lease liability on the balance sheet for all leases with a term longer than 12

months. Leases will be classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the income statement.

The new standard is effective for us on December 30, 2018 (the first day of our 2019 fiscal year), with early adoption permitted. We expect to adopt the new standard on its effective date. A modified retrospective transition approach is required, applying the new standard to all leases existing at the date of initial application. An entity may choose to use either (1) its effective date, or (2) the beginning of the earliest comparative period presented in the financial statements as its date of initial application. We expect to adopt the new standard on December 30, 2018 and use the effective date as our date of initial application. Consequently, financial information will not be updated, and the disclosures required under the new standard will not be provided for dates and periods prior to December 30, 2018. The new standard provides a number of optional practical expedients in transition. We expect to elect some or all of the new standard's available transition practical expedients, which we are continuing to evaluate.

The new standard also provides practical expedients for an entity's ongoing accounting. We currently expect to elect the short-term lease recognition exemption for all leases that qualify, primarily our vehicle and office equipment leases. This means, for

Table of Contents

those leases that qualify, we will not recognize right-of-use assets or lease liabilities, and this includes not recognizing right-of-use assets or lease liabilities for existing short-term leases of those assets in transition. We also currently expect to elect the practical expedient to not separate lease and non-lease components for all of our leases.

We expect that this standard will have a material effect on our financial position. While we continue to assess all of the effects of adoption, we currently believe the most significant effects relate to the recognition of new right-of-use assets and lease liabilities on our balance sheet for our real estate operating leases and providing significant new disclosures about our leasing activities. We do not expect a significant change in our leasing activities between now and adoption. On adoption, we currently expect to recognize additional operating liabilities with corresponding right-of-use assets of the same amount based on the present value of the remaining minimum rental payments under current leasing standards for existing operating leases.

Intangibles

In August 2018, the FASB issued ASU 2018-15, *Intangibles-Goodwill and Other-Internal-Use Software* (Subtopic 350-40) . The new guidance reduces complexity for the accounting for costs of implementing a cloud computing service arrangement and aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). For public companies, the amendments in this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted. Implementation should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. The Company will early-adopt this guidance in the fourth quarter of 2018. The effects of this standard on our financial position, results of operations or cash flows are not expected to be material.

Fair Value Measurement Disclosures

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820) - Disclosure Framework Changes to the Disclosure Requirements for Fair Value Measurement* . The new guidance modifies disclosure requirements related to fair value measurement. The amendments in this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Implementation on a prospective or retrospective basis varies by specific disclosure requirement. Early adoption is permitted. The standard also allows for early adoption of any removed or modified disclosures upon issuance of this ASU while delaying adoption of the additional disclosures until their effective date. The Company is currently evaluating the impact of this guidance on its fair value disclosures.

NOTE 2. REVENUE RECOGNITION AND CONTRACTS WITH CUSTOMERS

New Revenue Recognition Accounting Policy

The Company is a manufacturer of fully-customized windows and doors, and manufactures products based on design specifications, measurements, colors, finishes, framing materials, glass-types, and other options selected by the customer at the point in time an order is received from the customer. The Company has an enforceable right to payment at the time an order is received and accepted at the agreed-upon sales prices contained in our agreements with our customers for all manufacturing efforts expended by the Company on behalf of its customers. Due to the customized build-to-order nature of the Company's products, the Company's assessment is that all its finished goods and certain unused glass components have no alternative use, and that control of these products and components passes to the customer over time during the manufacturing of the products in an order, or upon our receipt of certain

pre-cut glass components from our supplier attributed to specific customer orders. Based on these factors, the Company recognizes revenue over time during the manufacturing process, and for certain unused glass components on hand, at the end of a reporting period.

Revenue recognized over time on products during the manufacturing process is based on the per-unit agreed-upon sales prices contained in our agreements with our customers, applied to each completed unit of unshipped finished product on hand at the end of the reporting period. Revenue on unused glass components on hand at the end of a reporting period is based on an allocation of the agreed-upon per-unit sales price contained in our agreements to which each glass component on hand relates, based on an estimate of the percentage of which the cost of the glass component is of the estimated total cost of the finished product.

Table of Contents**Disaggregation of Revenue from Contracts with Customers**

The following table provides information about our revenue differentiated based on product category (dollars in millions):

	Three Months Ended September 29, 2018	
	Sales	% of sales
Product category:		
Impact-resistant windows and door products	\$ 158.3	79.5%
Non-Impact window and door products	40.8	20.5%
Total net sales	\$ 199.1	100.0%

	Nine Months Ended September 29, 2018	
	Sales	% of sales
Product category:		
Impact-resistant window and door products	\$ 425.6	83.7%
Non-impact window and door products	83.0	16.3%
Total net sales	\$ 508.6	100.0%

Contract Balances

Contract assets represent sales recognized in excess of billings related to finished goods not yet shipped and certain unused glass components not yet placed into the production process for which revenue is recognized over time as noted above. Contract liabilities as reflected in the table below are customer deposits on orders related to contract assets.

The following table provides information about contract asset and liability balances as of and for the three and nine months ended September 29, 2018, and as of December 31, 2017, the first day of our 2018 fiscal year and the date of our adoption of ASU 2014-09 (in thousands):

	Contract Assets	Contract Liabilities	Contract Assets, Net
Three months ended September 29, 2018:			
At September 29, 2018	\$ 14,670	\$ (644)	\$ 14,026
Less: Acquired with WWS on August 13, 2018	1,058	(168)	890
Less: At June 30, 2018	11,656	(644)	11,012
Net increase	\$ 1,956	\$ 168	\$ 2,124

	Contract Assets	Contract Liabilities	Contract Assets, Net
Nine months ended September 29, 2018:			
At September 29, 2018	\$ 14,670	\$ (644)	\$ 14,026
Less: Acquired with WWS on August 13, 2018	1,058	(168)	890
Less: At December 31, 2017	8,704	(528)	8,176
 Net increase	 \$ 4,908	 \$ 52	 \$ 4,960

Because we used the modified-retrospective method of adopting ASU 2014-09, the accompanying condensed consolidated balance sheet as of December 30, 2017 was not revised.

Table of Contents**Policies Regarding Shipping and Handling Costs and Commissions on Contract Assets**

The Company has made a policy election to continue to recognize shipping and handling costs as a fulfillment activity. Treating shipping and handling as a fulfillment activity requires estimated shipping and handling costs for undelivered products and certain glass components on which we have recognized revenue and created a contract asset, to be accrued to match this cost with the recognized revenue. This policy is unchanged from the Company's policy for recognizing shipping and handling costs prior to the adoption of the new revenue guidance.

The newly adopted revenue guidance provides for a practical expedient which permits expensing of costs to obtain a contract when the expected amortization period is one year or less, which typically results in expensing commissions paid to employees. We continue to expense sales commissions paid to employees as sales are recognized, including sales from the creation of contract assets, as the expected amortization period is less than one year. Our unsatisfied performance obligations as of September 29, 2018, total \$104 million, and is composed of confirmed, non-cancellable orders which are scheduled for production and for which the customer has an obligation to pay.

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; however, the warranty period for a limited number of specifically identified components in certain applications is a lifetime. The majority of the products sold have warranties on components which range from 1 to 3 years. The reserve for warranties is based on management's assessment of the cost per service call and the number of service calls expected to be incurred to satisfy warranty obligations on the current net sales.

During the three months ended September 29, 2018, we recorded warranty expense at a rate of approximately 1.7% of sales, which decreased from the rate in the third quarter of 2017 of 2.0% of sales. During the nine months ended September 29, 2018, we recorded warranty expense at a rate of approximately 1.7% of sales, which decreased from the rate in the first nine months of 2017 of 2.3% of sales. We believe the decrease in warranty expense as a percentage of sales was the result of our workforce becoming more seasoned through experience and training, as well as a change in our warranty profile on PGT-branded door glass components produced by Cardinal as part of the Supply Agreement, described in Note 8, on which they provide the warranty coverage.

The following table summarizes: current period charges, adjustments to previous estimates, if necessary, as well as settlements, which represent actual costs incurred during the period for the three and nine months ended September 29, 2018, and September 30, 2017. The reserve is determined through specific identification and assessing Company history. Expected future obligations are discounted to a current value using a risk-free rate for obligations with similar maturities.

Accrued Warranty <i>(in thousands)</i>	Beginning of Period	Charged Acquired to	Expense	Adjustments	Settlements	End of Period
Three months ended September 29, 2018	\$ 5,368	\$ 509	\$ 3,307	\$ (21)	\$ (3,129)	\$ 6,034
Three months ended September 30, 2017	\$ 5,679	\$	\$ 2,593	\$ 46	\$ (2,412)	\$ 5,906
Nine months ended September 29, 2018	\$ 5,386	\$ 509	\$ 8,524	\$ (229)	\$ (8,156)	\$ 6,034
Nine months ended September 30, 2017	\$ 5,569	\$	\$ 8,681	\$ (18)	\$ (8,326)	\$ 5,906

Table of Contents**NOTE 4. INVENTORIES**

Inventories consist principally of raw materials purchased for the manufacture of our products. We have limited finished goods inventory since the substantial majority of our products are custom, made-to-order and the revenue on these products, as well as the related cost, has been fully recognized upon completion of the manufacturing process. Finished goods inventory, and work-in-progress costs include direct materials, direct labor, and overhead. All inventories are stated at the lower of cost (first-in, first-out method) or net realizable value. Inventories consisted of the following:

	September 29, 2018	December 30, 2017
	<i>(in thousands)</i>	
Raw materials	\$ 42,924	\$ 30,139
Work-in-progress	3,348	2,506
Finished goods	205	5,171
	\$ 46,477	\$ 37,816

NOTE 5. STOCK BASED-COMPENSATION**Exercises**

For the three months ended September 29, 2018, there were 183,808 options exercised at a weighted average exercise price of \$2.00 per share. For the nine months ended September 29, 2018, there were 964,780 options exercised at a weighted average exercise price of \$2.00 per share.

Issuance

On March 2, 2018, we granted 139,182 restricted stock awards to certain executives and non-executive employees of the Company. The restrictions on these stock awards lapse over time based solely on continued service. However, the quantity of restricted shares granted on half of these shares, or 69,591 shares, is fixed, whereas the quantity granted on the remaining half, or 69,591 shares, is subject to Company-specific performance criteria. The restricted stock awards have a fair value on date of grant of \$18.40 per share based on the closing New York Stock Exchange market price of the common stock on the day prior to the day the awards were granted. Those restricted shares whose quantity is fixed vest in equal amounts over a three-year period on the first, second and third anniversary dates of the grant. Those restricted shares whose quantity is subject to Company performance criteria vest in equal amounts on the second and third anniversary dates of the grant.

The performance criteria, as defined in the share awards, provides for a graded awarding of shares based on the percentage by which the Company meets earnings before interest and taxes, as defined, in our 2018 business plan. The performance percentages, ranging from less than 80% to greater than 120%, provide for the awarding of shares ranging from no shares to 150% of the original number of shares.

On May 17, 2018, we granted 30,456 restricted stock awards to the eight non-management members of the board of directors of the Company relating to their annual compensation for service on the board. The restricted stock awards have a fair value on date of grant of \$18.65 per share based on the closing New York Stock Exchange market price of

the common stock on the day prior to the day the awards were granted. The restrictions on these stock awards lapse based solely on continued service on the first anniversary date of the grant.

Stock Compensation Expense

On July 2, 2018, we granted 24,590 shares of the Company's common stock to employees of the Company who do not participate in the Company's other incentive compensation programs. The intent of the grant was to foster a sense of ownership in the Company by employees other than those who participate in the Company's long-term equity incentive program. Each employee that participated in this grant received ten shares of the Company's common stock, with full rights of ownership, including dispositive rights. The award had a fair value on the grant date of was \$20.85 per share based on the closing New York Stock Exchange market price of the common stock on the business day prior to the day the award was granted. The resulting total fair value of the grant of \$0.5 million was recognized as stock-based compensation expense classified as selling, general and administrative expense in the accompanying condensed consolidated statements of comprehensive income for the three and nine months ended September 29, 2018, as well as common stock at par value and additional paid-in capital in the accompanying condensed consolidated balance sheet at September 29, 2018.

Table of Contents

We record stock compensation expense over an equity award's vesting period based on the award's fair value at the date of grant. In addition to the employee stock grant in 2018 discussed above, we recorded compensation expense for stock-based awards of \$0.8 million for the three months ended September 29, 2018, and \$0.5 million for the three months ended September 30, 2017. In addition to the employee stock grant in 2018 discussed above, we recorded compensation expense for stock-based awards of \$2.0 million for the nine months ended September 29, 2018, and \$1.6 million for the nine months ended September 30, 2017. As of September 29, 2018, there was \$3.3 million of total unrecognized compensation cost related primarily to restricted share awards. These costs are expected to be recognized in earnings on an accelerated basis over the weighted average remaining vesting period of 1.6 years at September 29, 2018.

NOTE 6. ACQUISITION**WESTERN WINDOW SYSTEMS***Preliminary purchase price allocation*

On August 13, 2018 (the closing date), we completed the acquisition of Western Window Systems (WWS), which became a wholly-owned subsidiary of PGT Innovations, Inc. The fair value of consideration transferred in the acquisition was \$355.2 million. The acquisition was financed with proceeds of \$315.0 million from the issuance of the 2018 Senior Notes, and with \$40.2 million in cash on hand. See Note 10 for a discussion of the 2018 Senior Notes.

The preliminary estimated fair value of assets acquired, and liabilities assumed as of the closing date, are as follows:

	Preliminary Estimate
Accounts and notes receivable	\$ 7,555
Inventories	12,580
Contract assets, net	890
Prepaid expenses and other assets	1,190
Property and equipment	16,416
Intangible assets	167,000
Goodwill	164,379
Accounts payable	(5,622)
Accrued and other liabilities	(9,175)
Purchase price	\$ 355,213
Consideration:	
Cash	\$ 355,213
Total fair value of consideration	\$ 355,213

The fair value of certain working capital related items, including accounts receivable, prepaid expenses, and accounts payable and accrued liabilities, approximated their book values at the date of acquisition. The fair value of inventory was estimated by major category, at net realizable value. The substantial majority of inventories at the acquisition date was composed of raw materials.

The fair value of property and equipment and remaining useful lives were estimated by management, with the assistance of a third-party valuation firm, using the cost approach. Valuations of the intangible assets (See Note 9) were done using income and royalty relief approaches based on projections provided by management, which we consider to be Level 3 inputs.

Acquisition costs totaling \$2.8 million and \$3.8 million are included in selling, general, and administrative expenses on the condensed consolidated statement of operations for the three and nine months ended September 29, 2018, respectively, and relate to legal expenses, representations and warranties insurance, diligence, accounting and printing services.

The remaining consideration, after identified intangible assets and the net assets and liabilities recorded at fair value, has been preliminarily determined to be \$164.4 million, a significant portion of which is expected to be deductible for tax purposes. Goodwill represents the increased value of the combined entity through additional sales channel opportunities as well as penetration of a new geographic market with enhanced opportunities for cross-selling of our multiple brands in all markets. If our preliminary value of assets and liabilities changes, there will be an equal and offsetting change to the recorded goodwill.

Table of Contents

The PA has a post-closing working capital calculation whereby we are required to prepare, and deliver to the sellers, a final statement of purchase price, including our calculation of the amount we find net working capital actually to have been as of the closing date. We are currently preparing our calculation of closing date net working capital, as defined in the PA.

Net sales and net income included in the consolidated condensed statements of comprehensive income for the three and nine months ended September 29, 2018, from WWS from the August 13, 2018 acquisition date was \$18.7 million and \$2.3 million, respectively.

Preliminary valuation of identified intangible assets

We are in the process of finalizing the valuation of the identifiable intangible assets acquired in the WWS acquisition. The preliminary values and our estimate of their respective useful lives are as follows:

	Preliminary Valuation Amount	Initial Useful Life (in years)
<i>(in thousands)</i>		
Trade names	\$ 73,000	indefinite
Customer relationships	94,000	10
Other intangible assets, net	\$ 167,000	

Pro forma financial information

The following unaudited pro forma financial information assumes the acquisition had occurred at the beginning of the earliest period presented that does not include WWS's actual results for the entire period. Pro forma results have been prepared by adjusting our historical results to include the results of WWS adjusted for the following: amortization expense related to the amortizable intangible assets arising from the acquisition, interest expense to reflect the 2018 Senior Notes issued in connection with the acquisition. The unaudited pro forma results below do not necessarily reflect the results of operations that would have resulted had the acquisition been completed at the beginning of the earliest periods presented, nor does it indicate the results of operations in future periods. The unaudited pro forma results do not include the impact of synergies, nor any potential impacts on current or future market conditions which could alter the following unaudited pro forma results.

	Three Months Ended		Nine Months Ended	
	September 29, 2018	September 30, 2017	September 29, 2018	September 30, 2017
	<i>(unaudited)</i>		<i>(unaudited)</i>	
Net sales	\$ 213,039	\$ 150,853	\$ 585,586	\$ 451,445
Net income	\$ 12,222	\$ 3,097	\$ 39,933	\$ 11,397

Edgar Filing: PGT Innovations, Inc. - Form 10-Q

Net income per common share:								
Basic	\$	0.24	\$	0.06	\$	0.79	\$	0.23
Diluted	\$	0.23	\$	0.06	\$	0.76	\$	0.22

Table of Contents**NOTE 7. NET INCOME PER COMMON SHARE**

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

There were no anti-dilutive securities excluded from the calculation of weighted average shares outstanding for the three and nine months ended September 29, 2018, and for the three months ended September 30, 2017. The nine months ended September 30, 2017, excludes 20 thousand underlying securities 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,	September 30,	September 29,	September 30,
	2018	2017	2018	2017
	<i>(in thousands, except per share amounts)</i>			
Net income	\$ 13,571	\$ 6,292	\$ 43,459	\$ 19,546
Weighted-average common shares -				
Basic	51,682	49,629	50,619	49,455
Add: Dilutive effect of stock compensation plans	1,386	2,180	1,759	2,215
Weighted-average common shares -				
Diluted	53,068	51,809	52,378	51,670
Net income per common share:				
Basic	\$ 0.26	\$ 0.13	\$ 0.86	\$ 0.40
Diluted	\$ 0.26	\$ 0.12	\$ 0.83	\$ 0.38

NOTE 8. SALE OF ASSETS**Sale of Door Glass Processing Assets**

On September 22, 2017, we entered into an Asset Purchase Agreement (APA) with Cardinal LG Company (Cardinal) for the sale to Cardinal of certain manufacturing equipment we used in processing glass components for PGT-branded doors for a cash purchase price of \$28 million. Contemporaneously with entering into the APA, we entered into a seven-year supply agreement (SA) with Cardinal for Cardinal to supply us with glass components for PGT-branded doors. The Company determined to sell these assets and enter the SA to allow us to heighten our focus in our core areas of window and door manufacturing and, at the same time, strengthen our supply chain for high-quality door glass from a supplier with whom we have been doing business for many years.

The Company has determined that, although the APA and SA are separate agreements, they were negotiated contemporaneously. Therefore, the Company has concluded that the \$28 million of proceeds under the APA should be bifurcated between the sale of the door glass manufacturing assets, and as payment received from a vendor for the Company's agreement to buy glass components for PGT-branded doors from Cardinal under the SA. The bifurcation of the proceeds in excess of the stand-alone selling price of the assets acquired would be allocated to the SA and recognized as a reduction of cost of sales as glass components are purchased by PGTI. Based on the established stand-alone selling price of the assets sold, as determined by an independent appraisal, approximately \$7.7 million was allocated to the sale of the assets, with the remaining \$20.3 million representing consideration received from Cardinal related to the agreement to buy door glass components for PGT-branded doors from Cardinal. This consideration is being amortized over the 7-year term of the SA.

At the time we ceased using these assets in production, at which time they became available for immediate sale, their net book value was \$4.7 million, and they were reclassified from property, plant and equipment, to assets held for sale within other current assets.

The APA provided for the transfer of the assets from the Company to Cardinal in two phases, with the first date in 2017, and the second date in 2018, on dates which the Company and Cardinal agree to use. Under the APA, the cash purchase price of \$28 million was to be paid by Cardinal to the Company in three separate payments of \$3 million on or about the time of the first transfer of the assets to Cardinal, \$10 million on or about January 15, 2018, and \$15 million at or about the time of the second transfer of assets to Cardinal.

Table of Contents

Cardinal paid us \$3.0 million in cash on November 1, 2017, \$10.0 million in cash on January 16, 2018, and \$14.8 million on June 8, 2018, pursuant to the APA. The total proceeds received of \$27.8 million was \$0.2 million less than the \$28.0 million as specified in the APA as we retained certain assets that were initially identified for transfer. On December 15, 2017, machinery and equipment classified as assets held for sale with net book value of \$1.5 million, and fair value of \$1.9 million was transferred to Cardinal and their equipment rigger, and we recognized a gain for the difference. Substantially all of the remaining machinery and equipment was transferred to Cardinal during the second quarter of 2018, which had a net book value of \$3.2 million and fair value of \$5.8 million. We recognized gains on disposals for the difference totaling \$2.6 million during the nine months ended September 29, 2018, classified as a separate line item in the accompanying condensed consolidated statements of comprehensive income for the nine months ended September 29, 2018.

The SA provides that the Company will purchase, and Cardinal will supply, all the Company's requirements for certain glass components used in PGT-branded doors through the end of 2024. The terms of the manufacture by Cardinal and purchase by the Company of such glass components as to purchase orders, forecasts of purchases, pricing, invoicing, delivery and payment terms and other terms, are all as described in the SA. Early in the fourth quarter of 2017, we began purchasing and receiving glass components from Cardinal under the SA. At that time, we began amortizing the advance consideration received from Cardinal initially allocated to the SA and continued to amortize such advance consideration during the three and nine months ended September 29, 2018, recognizing \$702 thousand in the three months, and \$2.1 million in the nine months, of such gain amortization, classified as reductions to cost of sales in the accompanying condensed consolidated statements of comprehensive income for the three and nine months ended September 29, 2018, respectively. As of September 29, 2018, the remaining unamortized balance of \$17.4 million is classified in the accompanying condensed consolidated balance sheet as \$2.8 million within accrued liabilities and \$14.6 million within other liabilities.

Table of Contents**NOTE 9. GOODWILL, TRADE NAMES, AND OTHER INTANGIBLE ASSETS**

Goodwill, trade names, and other intangible assets, net, are as follows:

	September 29, 2018	December 30, 2017	Initial Useful Life (in years)
	<i>(in thousands)</i>		
Goodwill	\$ 272,439	\$ 108,060	indefinite
Trade names and other intangible assets:			
Trade names	\$ 148,841	\$ 75,841	indefinite
Customer relationships	200,647	106,647	3-10
Developed technology	3,000	3,000	9-10
Non-compete agreement	1,668	1,668	2-5
Software license	590	590	2
Less: Accumulated amortization	(78,829)	(72,703)	
Subtotal	127,076	39,202	
Other intangible assets, net	\$ 275,917	\$ 115,043	
Goodwill at December 30, 2017	\$ 108,060		
Increase in goodwill from allocation of WWS purchase price	164,379		
Goodwill at September 29, 2018	\$ 272,439		
Tradenames at December 30, 2017	\$ 75,841		
Increase in tradenames from the acquisition of WWS	73,000		
Tradenames at September 29, 2018	\$ 148,841		

Estimated amortization of our amortizable intangible assets for future years is as follows:

<i>(in thousands)</i>	Total
Remainder of 2018	\$ 4,073
2019	15,830
2020	15,859
2021	15,374
2022	14,515

Edgar Filing: PGT Innovations, Inc. - Form 10-Q

Thereafter	61,425
Total	\$ 127,076

Table of Contents**NOTE 10. LONG-TERM DEBT**

	September 29, 2018	December 30, 2017
	<i>(in thousands)</i>	
2018 Senior Notes due 2026	\$ 315,000	\$
Term loan payable under the 2016 Credit Agreement	71,975	223,975
Other debt	238	458
Fees, costs and original issue discount	(13,065)	(11,460)
Long-term debt	374,148	212,973
Less current portion of long-term debt	(238)	(294)
Long-term debt, less current portion	\$ 373,910	\$ 212,679

2018 Senior Notes

On August 10, 2018, through a special-purpose wholly-owned finance subsidiary (the Escrow Issuer), we completed the issuance of \$315.0 million aggregate principal amount of 6.75% senior notes (2018 Senior Notes), issued at 100% of their principal amount. The 2018 Senior Notes were issued to finance, together with cash on hand, the WWS acquisition. See Note 6 for further discussion. The Escrow Issuer merged with and into the Company on the closing date of the acquisition, and PGT Innovations, Inc. became the primary obligor under the 2018 Senior Notes. The 2018 Senior Notes are jointly and severally and fully and unconditionally guaranteed on a senior unsecured basis by each of the Company's existing and future restricted subsidiaries, other than any restricted subsidiary of the Company that does not guarantee the existing senior secured credit facilities or any permitted refinancing thereof. The 2018 Senior Notes are senior unsecured obligations of the Company and the guarantors, respectively, and rank pari passu in right of payment with all existing and future senior debt and senior to all existing and future subordinated debt of the Company and the guarantors. The 2018 Senior Notes were offered under Rule 144A of the Securities Act, and in transactions outside the United States under Regulation S of the Securities Act, and have not been, and will not be, registered under the Securities Act.

The 2018 Senior Notes mature on August 10, 2026. Interest on the 2018 Senior Notes is payable semi-annually, in arrears, beginning on February 1, 2019, with interest accruing at a rate of 6.75% per annum from August 10, 2018. We incurred financing costs relating to bank fees and professional services costs relating to the offering and issuance of the 2018 Senior Notes totaling \$10.4 million, which is being amortized under the effective interest method. See Deferred Financing Costs below. As of September 29, 2018, the face value of debt outstanding under the 2018 Senior notes was \$315.0 million, and accrued interest totaled \$3.0 million.

The indenture for the 2018 Senior Notes give us the ability to optionally redeem some or all of the 2018 Senior Notes at the redemption prices and on the terms specified in the indenture governing the 2018 Senior Notes. The indenture governing the 2018 Senior Notes does not require us to make any mandatory redemptions or sinking fund payments. However, upon the occurrence of a change of control, as defined in the indenture, the Company is required to offer to repurchase the notes at 101% of the aggregate principal amount thereof, plus accrued and unpaid interest, if any, to the date of purchase.

The indenture for the 2018 Senior Notes includes certain covenants limiting the ability of the Company and any guarantors to, (i) incur additional indebtedness; (ii) pay dividends on or make distributions in respect of capital stock or make certain other restricted payments or investments; (iii) enter into agreements that restrict distributions from restricted subsidiaries; (iv) sell or otherwise dispose of assets; (v) enter into transactions with affiliates; (vi) create or incur liens; merge, consolidate or sell all or substantially all of the Company's assets; (vii) place restrictions on the ability of subsidiaries to pay dividends or make other payments to the Company; and (viii) designate the Company's subsidiaries as unrestricted subsidiaries. These covenants are subject to a number of important exceptions and qualifications.

2016 Credit Agreement

On February 16, 2016, we entered into a Credit Agreement ("2016 Credit Agreement"), among us, the lending institutions identified in the 2016 Credit Agreement, and Deutsche Bank AG New York Branch, as Administrative Agent and Collateral Agent. The 2016 Credit Agreement establishes senior secured credit facilities in an aggregate amount of \$310.0 million, consisting of a \$270.0 million Term B term loan facility maturing in February 2022 that amortizes on a basis of 1% annually during its six-year term, and a \$40.0 million revolving credit facility maturing in February 2021 that includes a swing line facility and a letter of credit facility. Our obligations under the 2016 Credit Agreement are secured by substantially all of our assets as well as our direct and indirect subsidiaries' assets.

Table of Contents

On March 16, 2018, we entered into an amendment to our 2016 Credit Agreement (Second Amendment). The Second Amendment, among other things, decreases the applicable interest rate margins for the Initial Term Loans (as defined in the Credit Agreement) from (i) 3.75% to 2.50%, in the case of the Base Rate Loans (as defined in the Credit Agreement), and (ii) 4.75% to 3.50%, in the case of the Eurodollar Loans (as defined in the Credit Agreement). In addition to these changes, in the Second Amendment, SunTrust Bank replaced Deutsche Bank AG New York Branch as Administrative Agent and Collateral Agent of the 2016 Credit Agreement. On February 17, 2017, we entered into the first amendment to our 2016 Credit Agreement, which also resulted in decreases in the applicable margins, but which did not include any changes in lender positions.

In connection with the Second Amendment, certain existing lenders modified their positions in or exited the 2016 Credit Agreement, which resulted in the write-offs of portions of the deferred financing costs and original issue discount allocated to these lenders. Additionally, at the time of the issuance of the 2018 Senior Notes, certain existing lenders reduced their positions in the revolving credit portion of the 2016 Credit Agreement, which resulted in the write-offs of the deferred financing costs allocated to these lenders. As such, write-offs totaling \$3.4 million is classified as debt extinguishment costs in the accompanying condensed consolidated statement of comprehensive income for the nine months ended September 29, 2018, including \$296 thousand during the three months ended September 29, 2018.

Regarding the first amendment as described above, as there were no changes in lender positions, this action did not result in any modifications or extinguishments of debt. Therefore, there was no charge for debt extinguishment costs in the nine months ended September 30, 2017.

Interest on all loans under the 2016 Credit Agreement is payable either quarterly or at the expiration of any LIBOR interest period applicable thereto. Prior to amending the 2016 Credit Agreement on March 16, 2018, as described above, borrowings under the term loans and the revolving credit facility accrued interest at a rate equal to, at our option, LIBOR (with a floor of 100 basis points in respect of the term loan), or a base rate (with a floor of 200 basis points in respect of the term loan) plus an applicable margin. The applicable margin was 475 basis points in the case of LIBOR and 375 basis points in the case of the base rate. The weighted average all-in interest rate for borrowings under the term-loan portion of the 2016 Credit Agreement was 5.76% as of September 29, 2018, and was 5.75% at December 30, 2017.

We also pay quarterly fees on the unused portion of the revolving credit facility equal to 50 basis points per annum as well as a quarterly letter of credit fee at 575 basis points per annum plus a 12.5 basis point facing fee per annum on the face amount of any outstanding letters of credit. As of September 29, 2018, there were \$1.2 million of letters of credit outstanding and \$38.8 million available under the revolver.

The 2016 Credit Agreement contains a springing financial covenant, if we draw in excess of twenty percent (20%) of the revolving facility, which requires us to maintain a maximum total net leverage ratio (based on the ratio of total debt for borrowed money to trailing EBITDA, each as defined in the 2016 Credit Agreement). That covenant is tested quarterly based on the last four fiscal quarters and is set at levels as described in the 2016 Credit Agreement. As of September 29, 2018, no such test is required as we have not exceeded 20% of our revolving capacity. We believe that our total net leverage ratio during the third quarter of 2018 was in compliance with the 2016 Credit Agreement, and that we are in compliance with all covenants.

The 2016 Credit Agreement also contains a number of affirmative and restrictive covenants, including limitations on the incurrence of additional debt, liens on property, acquisitions and investments, loans and guarantees, mergers, consolidations, liquidations and dissolutions, asset sales, dividends and other payments in respect of our capital stock, prepayments of certain debt and transactions with affiliates. The 2016 Credit Agreement also contains customary

events of default. Upon the occurrence of an event of default, the amounts outstanding under the 2016 Credit Agreement may be accelerated and may become immediately due and payable. As of September 29, 2018, we were in compliance with all affirmative and restrictive covenants.

In connection with entering into the 2016 Credit Agreement, on February 16, 2016, we terminated our prior credit agreement, dated as of September 22, 2014, among PGT Industries, Inc., as the borrower, the Company, as guarantor, the lenders from time to time party thereto and Deutsche Bank, as administrative agent and collateral agent (2014 Credit Agreement). Along with cash on hand, proceeds from the term loan facility under the 2016 Credit Agreement were used to repay amounts outstanding under the 2014 Credit Agreement, acquire WinDoor, and pay certain fees and expenses.

Table of Contents

On September 18, 2018, contemporaneously with the 2018 Equity Issuance, we prepaid \$152.0 million of borrowings outstanding under the term loan portion of the 2016 Credit Agreement. See Note 16 for a discussion of the 2018 Equity Issuance. As of September 29, 2018, the principal amount of debt outstanding under the 2016 Credit Agreement was \$72.0 million, and accrued interest was \$0.6 million. Interest expense, net, in the condensed consolidated statements of comprehensive income in the three and nine months ended September 29, 2018 includes \$5.3 million of accelerated amortization of lenders fees and discount relating to the prepayment of \$152.0 million of borrowings under the term loan portion of the 2016 Credit Agreement we made on September 18, 2018.

Deferred Financing Costs

The activity relating to third-party fees and costs, lender fees and discount for the nine months ended September 29, 2018, are as follows. All debt-related fees, costs and original issue discount are classified as a reduction of the carrying value of long-term debt:

<i>(in thousands)</i>	Total
At beginning of year	\$ 11,460
Less: Amortization expense relating to 2016 Credit Agreement	(1,666)
Add: Second amendment of 2016 Credit Agreement refinancing costs	1,687
Less: Debt extinguishment costs relating to second amendment and revolver repositionings	(3,375)
Add: 2018 Senior Notes deferred financing costs	10,379
Less: Amortization expense relating to 2018 Senior Notes	(123)
Less: Accelerated amortization relating to prepayment under the 2016 Credit Agreement	(5,297)
At end of period	\$ 13,065

Estimated amortization expense relating to third-party fees and costs, lender fees and discount for the years indicated as of September 29, 2018, is as follows:

<i>(in thousands)</i>	Total
Remainder of 2018	\$ 446
2019	1,828
2020	1,996
2021	1,980
2022	1,365
Thereafter	5,450
Total	\$ 13,065

As a result of prepayments of the 2016 Credit Agreement, we have no future scheduled repayments until the maturity of the facility on February 21, 2022. The contractual future maturities of long-term debt outstanding, including the financing arrangement described as other debt, as of September 29, 2018, are as follows (at face value):

(in thousands)

Remainder of 2018	\$ 75
2019	163
2020	
2021	
2022	71,975
Thereafter	315,000
Total	\$ 387,213

Table of Contents**Other Debt**

In July 2017, we entered into a two-year financing arrangement for the purchase of an enterprise-wide software license relating to office productivity software. This financing arrangement requires 24 monthly payments of \$26 thousand each. We estimated the value of this financing arrangement to be \$590 thousand, using an imputed annual interest rate of 6.00%, which approximated our then borrowing rate under the 2016 Credit Agreement, a Level 3 input. At September 29, 2018, there was \$238 thousand outstanding under this financing arrangement.

NOTE 11. COMMITMENTS AND CONTINGENCIES*Litigation*

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

NOTE 12. INCOME TAXES

Income tax expense was \$3.3 million for the three months ended September 29, 2018, compared with \$3.0 million for the three months ended September 30, 2017. Our effective tax rate for the three months ended September 29, 2018, was 19.7%, and was 32.2% for the three months ended September 30, 2017. Income tax expense was \$8.7 million for the nine months ended September 29, 2018, compared with \$9.1 million for the nine months ended September 30, 2017. Our effective tax rate for the nine months ended September 29, 2018, was 16.8%, and was 31.8% for the nine months ended September 30, 2017.

Income tax expense in the three months ended September 29, 2018, and September 30, 2017, includes excess tax benefits relating to exercises of stock options and lapses of restrictions on stock awards, treated as a discrete item of income tax, totaling \$1.0 million and \$347 thousand, respectively. Income tax expense in the nine months ended September 29, 2018, and September 30, 2017, includes excess tax benefits totaling \$4.6 million and \$1.1 million, respectively. The three and nine month periods ended September 29, 2018 include other discrete items of income tax relating to various income tax credits taken on our recently filed Federal and state income tax returns totaling \$97 thousand. Excluding these discrete items, the effective tax rates for the three months ended September 29, 2018, and September 30, 2017, would have been 26.1% and 36.0%, respectively. Excluding these discrete items, the effective tax rates for the nine months ended September 29, 2018, and September 30, 2017, would have been 25.8% and 35.8%, respectively.

As a result of the Tax Cuts and Jobs Act, enacted effective on December 22, 2017, our Federal corporate income tax rate has been reduced from 35%, to 21%. This reduction in rate has lowered our overall effective tax rate. Additionally, the section 199 domestic manufacturing deduction was repealed. As such, our effective tax rate, excluding the discrete items discussed above, approximates our current combined statutory federal and state rate of 25.6%. In 2017, the effective tax rate, excluding the effect of the discrete item discussed above, was lower than our then combined statutory federal and state tax rate of 38.8% primarily as the result of the estimated impact of the section 199 domestic manufacturing deduction.

At December 30, 2017, accrued federal and state income taxes payable of \$6.5 million was classified within accrued liabilities in the accompanying condensed consolidated balance sheet. The Internal Revenue Service provided tax relief relating to taxpayers in certain designated areas of Florida impacted by Hurricane Irma, which included all

counties in Florida in which we operate. As a result, the deadline for remitting our required 2017 third quarter estimated payment for corporate income taxes, as well as the deadline for filing our 2016 fiscal year corporate income tax return, was extended to January 31, 2018. Therefore, in January 2018, we made an estimated Federal income tax payment totaling \$9.0 million relating to the 2017 tax year. We made additional estimated Federal income tax payments totaling \$6.0 million, and estimated income tax payments to Florida totaling \$2.2 million, for our 2018 tax year during the second and third quarters of 2018. During the nine months ended September 30, 2017, we did not make any payments of estimated federal or state income taxes, nor did we receive any refunds of federal or state income taxes.

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 earnings. 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 we make the election on an instrument-by-instrument basis as they are acquired or incurred.

During the three months ended September 29, 2018, or September 30, 2017, we did not make any transfers between Level 2 and Level 3 financial assets. We conduct reviews on a quarterly basis to verify pricing, assess liquidity, and determine if significant inputs have changed that would impact the fair value hierarchy disclosure.

Fair Value of Financial Instruments

Our financial instruments include cash, accounts and notes receivable, and accounts payable, accrued liabilities and other debt, whose carrying amounts approximate their fair values due to their short-term nature. Our financial instruments also include borrowings under our 2016 Credit Agreement, as well as the 2018 Senior Notes, both classified as long-term debt. The fair value of borrowings under the 2016 Credit Agreement is based on debt with similar terms and characteristics and was approximately \$72.3 million as of September 29, 2018, compared to a principal outstanding value of \$72.0 million, and \$227.3 million as of December 30, 2017, compared to a principal outstanding value of \$224.0 million. The fair value of the recently issued 2018 Senior Notes is also based on debt with similar terms and characteristics and was approximately \$327.6 million as of September 29, 2018, compared to a principal outstanding value of \$315.0 million. The 2018 Senior Notes were not outstanding at the end of our 2017 fiscal year. Fair values were determined based on observed trading prices of our debt between domestic financial institutions.

Items Measured at Fair Value on a Recurring Basis

The following 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	September 29, 2018	Fair Value Measurements Assets (Liabilities)		
		Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Aluminum forward contracts, net	\$ (1,107)	\$	\$ (1,107)	\$
	\$ (1,107)	\$	\$ (1,107)	\$

The following is a description of the methods and assumptions used to estimate the fair values of the Company's 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

Table of Contents

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.

NOTE 14. DERIVATIVES**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.

Guidance under the Financial Instruments Topic 825 of the Codification requires us to record our hedge contracts at fair value and consider our credit risk for contracts in a liability position, and our counter-party's credit risk for contracts in an asset position, in determining fair value. We assess our counter-party's risk of non-performance when measuring the fair value of financial instruments in an asset position by evaluating their financial position, including cash on hand, as well as their credit ratings. We assess our risk of non-performance when measuring the fair value of our financial instruments in a liability position by evaluating our credit ratings, our current liquidity including cash on hand and availability under our revolving credit facility as compared to the maturities of the financial liabilities.

At September 29, 2018, the fair value of our aluminum forward contracts was in a net liability position of \$1.1 million. We had 36 outstanding forward contracts for the purchase of 34.0 million pounds of aluminum through December 2019, at an average price of \$0.98 per pound, which excludes the Midwest premium, with maturity dates of between one month and fifteen months. We assessed the risk of non-performance of the Company to these contracts and determined it was insignificant and, therefore, did not record any adjustment to fair value as of September 29, 2018.

We assess the effectiveness of our aluminum forward contracts by comparing the change in the fair value of the forward contract to the change in the expected cash to be paid for the hedged item. The effective portion of the gain or loss on our aluminum forward contracts is reported as a component of accumulated other comprehensive loss and is reclassified into earnings in the same line item in the income statement as the hedged item in the same period or periods during which the transaction affects earnings. The amount of losses, net, recognized in the accumulated other comprehensive loss line item in the accompanying condensed consolidated balance sheet as of September 29, 2018, that we expect will be reclassified to earnings within the next twelve months, will be approximately \$0.9 million.

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

	Derivative Assets		Derivative Liabilities	
	September 29, 2018		September 29, 2018	
Derivatives designated as hedging				
instruments under Subtopic 815-20:	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivative instruments:				
Aluminum forward contracts	Other current assets	\$ 50	Accrued liabilities	\$ (902)
Aluminum forward contracts	Other assets	20	Other liabilities	(275)

Edgar Filing: PGT Innovations, Inc. - Form 10-Q

Total derivative instruments	Total derivative assets	\$ 70	Total derivative liabilities	\$(1,177)
------------------------------	-------------------------	-------	------------------------------	-----------

The ending accumulated balance for the aluminum forward contracts included in accumulated other comprehensive losses, net of tax, was \$824 thousand as of September 29, 2018. We had no outstanding derivative contracts as of December 30, 2017.

Table of Contents

The following represents the gains (losses) on derivative financial instruments, and their classifications within the accompanying condensed consolidated financial statements (in thousands):

	Derivatives in Cash Flow Hedging Relationships				
	Amount of Gain (Loss) Recognized in OCI on Derivatives (Effective Portion) Three Months Ended		Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) Three Months Ended	
	September 29, 2018	September 30, 2017		September 29, 2018	September 30, 2017
Aluminum contracts	\$ (649)	\$	Cost of sales	\$ (58)	\$

	Location of Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion)	Amount of Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion) Three Months Ended
		September 29, 2018
		September 30, 2017
Aluminum contracts		\$

	Derivatives in Cash Flow Hedging Relationships				
	Amount of Gain (Loss) Recognized in OCI on Derivatives (Effective Portion) Nine Months Ended		Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) Nine Months Ended	
	September 29, 2018	September 30, 2017		September 29, 2018	September 30, 2017
Aluminum contracts	\$ (1,122)	\$	Cost of sales	\$ (15)	\$

	Location of Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion)	Amount of Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion)

	Nine Months Ended	
	September 29,	September 30,
	2018	2017
Aluminum contracts	\$	\$

Table of Contents**NOTE 15. ACCUMULATED OTHER COMPREHENSIVE LOSS**

The following table shows the components of accumulated other comprehensive loss for the three and nine months ended September 29, 2018:

Three months ended September 29, 2018 <i>(in thousands)</i>	Aluminum Forward Contracts
Balance at June 30, 2018	\$ (384)
Other comprehensive loss before reclassification	(649)
Amounts reclassified from other comprehensive loss	58
Tax effect	151
Net current-period other comprehensive loss	(440)
Balance at September 29, 2018	\$ (824)
Nine months ended September 29, 2018 <i>(in thousands)</i>	Aluminum Forward Contracts
Balance at December 30, 2017	\$
Other comprehensive loss before reclassification	(1,122)
Amounts reclassified from other comprehensive loss	15
Tax effect	283
Net current-period other comprehensive loss	(824)
Balance at September 29, 2018	\$ (824)

NOTE 16. EQUITY ISSUANCE

On September 18, 2018, we completed an underwritten, public offering of 7,000,000 shares of our common stock, at a public offering price of \$23.00 per share. Pursuant to the offering, we granted the underwriters an option for a 30-day period to purchase up to an additional 1,050,000 shares of common stock. The 30-day option period expired with no additional shares issued.

The offering resulted in gross proceeds to the Company of \$161.0 million. Net of an underwriting fee of \$1.15 per share, net cash proceeds to the Company approximated \$153.0 million. We used \$152.0 million of these proceeds to prepay borrowings outstanding under the term loan portion of the 2016 Credit Agreement. The remainder of the proceeds were used for working capital or general corporate purposes, including payment of offering expenses of approximately \$0.3 million, classified as a reduction of additional paid-in capital in the accompanying condensed consolidated balance sheet as of September 29, 2018.

Table of Contents

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

The following discussion of our financial condition and results of operations should be read in conjunction with the Management's Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and notes thereto for the year ended December 30, 2017, included in our most recent Annual Report on Form 10-K as filed with the Securities and Exchange Commission on March 14, 2018. All amounts herein are unaudited.

Special Note Regarding Forward-Looking Statements

Except for historical information contained herein, the matters set forth in this Quarterly Report on Form 10-Q are forward-looking statements. These statements are based on management's current expectations and plans, which involve risks and uncertainties. Such forward-looking statements generally can be identified by the use of forward-looking terminology such as may, will, believe, expect, forecast, guidance, intend, could, anticipate, should, and similar terminology. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the filing date of this Quarterly Report and which involve risks and uncertainties that may cause our actual results to differ materially from those set forth in the forward-looking statements. Those risks and uncertainties that could cause actual results to differ materially from those described in our forward-looking statements include, but are not limited to:

the ability to successfully integrate the operations of Western Window Systems into our existing operations and the diversion of management's attention from ongoing business and regular business responsibilities to effect such integration;

the effects of increased expenses or unanticipated liabilities incurred as a result of, or due to activities related to, the WWS acquisition;

the risk that the anticipated cost savings, synergies, revenue enhancement strategies and other benefits from the WWS acquisition may not be fully realized or may take longer to realize than expected or that our actual integration costs may exceed our estimates;

disruption from the WWS acquisition making it more difficult to maintain relationships with customers or suppliers of Western Window Systems;

our level of indebtedness, which increased in connection with the WWS acquisition;

adverse changes in new home starts and home repair and remodeling trends, especially in the state of Florida, where the substantial portion of our sales are currently generated, and in the western United States, where the substantial portion of the sales of Western Window Systems' operations are generated, and in the U.S. generally;

Edgar Filing: PGT Innovations, Inc. - Form 10-Q

macroeconomic conditions in Florida, where the substantial portion of our sales are generated, and in California, Texas, Arizona, Nevada, Colorado, Oregon, Washington and Hawaii, where the substantial portion of the sales of Western Window Systems are currently generated, and in the U.S. generally;

raw material prices, especially for aluminum, glass and vinyl, including, price increases due to the implementation of tariffs and other trade-related restrictions;

our dependence on a limited number of suppliers for certain of our key materials;

sales fluctuations to and changes in our relationships with key customers;

in addition to the WWS acquisition, our ability to successfully integrate businesses we may acquire, or that any business we acquire may not perform as we expected at the time we acquired it;

increases in transportation costs, including due to increases in fuel prices;

our dependence on our impact-resistant product lines and contemporary indoor/outdoor window and door systems, and on consumer preferences for those types and styles of products;

product liability and warranty claims brought against us;

federal, state and local laws and regulations, including unfavorable changes in local building codes and environmental and energy code regulations;

our dependence on our limited number of geographically concentrated manufacturing facilities;

risks associated with our information technology systems, including cybersecurity-related risks, such as unauthorized intrusions into our systems by hackers and theft of data and information from our systems, and the risks that our information technology systems do not function as intended or experience temporary or long-term failures to perform as intended; and risks associated with our information technology systems, including cybersecurity-related risks, such as unauthorized intrusions into our systems by hackers and theft of data and information from our systems, and,

the other risks and uncertainties discussed under **Risk Factors** in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2018.

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

Table of Contents

EXECUTIVE OVERVIEW

Sales and Operations

We reported another quarter of solid financial results, reflecting strength in our markets and continued growth in all of our product segments. For the third quarter of 2018, we delivered sales of \$199.1 million, which was a 57% increase over the third quarter of 2017. The biggest driver of the increase was continuing growth in our repair and remodeling channel, and also increases in our new construction channel. The comparison of sales versus the third quarter of 2017 was impacted by Hurricane Irma in 2017, which caused an approximate \$13 million shift in sales from the third quarter to the fourth quarter of 2017 due to the business interruption caused by the storm. For the nine months ended September 29, 2018, we recorded sales of \$508.6 million, up \$131.6 million, or 35%, compared to the first nine months of 2017. The increase in sales also reflects the addition of sales from Western Windows Systems, which contributed sales of \$18.7 million in our 2018 third quarter.

With the acquisition of Western Windows Systems, we believe we have positioned PGT Innovations as a national leader in the premium window and door space. The addition of Western Window Systems' complementary footprint supports our strategic vision of expanding outside of Florida with niche products that allow us to maintain and strengthen our margin profile. Western Window Systems shares our commitment to developing innovative products and our continuous improvement culture that we believe drives operational excellence and profitability.

Our strong gross profit contributed to our solid operating performance in the third quarter of 2018 due to our increased ability to leverage fixed costs, which resulted in improved margins, as compared to last year's third quarter. We used this leverage combined with manufacturing and operating efficiencies to deliver a 5.4 percentage-point increase in gross margin in this year's third quarter compared to last year. However, we continued to experience higher costs for aluminum. We acted to offset the unfavorable impact of higher costs, announcing a price increase during the first quarter of 2018, the benefits of which we continued to see in the third quarter of 2018.

For the third quarter of 2018, we delivered an 82% increase in income before taxes, and net income per diluted share of \$0.26, compared to \$0.12 per diluted share in the same period last year. We are pleased with these metrics, which confirm our ability to profitably leverage our growth.

As previously discussed, in August 2018, we completed the acquisition of Western Window Systems. In addition to the strategic benefits we anticipate being achieved by this acquisition, including expansion outside of Florida, we made enhancements to our balance sheet in coordination with the transaction. For the first time in our history, we entered the bond markets, raising \$315 million at an attractive fixed rate of 6.75%. Shortly thereafter, we completed a stock offering, the proceeds of which allowed us to pay down \$152 million of borrowings under the term loan portion of the 2016 Credit Agreement.

Looking to the balance of 2018, given the increase in demand for our products, as well as the solid execution we have experienced throughout 2018, we have determined to increase our guidance for our 2018 fiscal year. This revised guidance includes Western Window Systems operating results for the post-acquisition period beginning August 13, 2018. We expect to finish 2018 with consolidated sales in a range of \$675 million to \$685 million, an increase from the previous guidance range for consolidated sales of \$580 million to \$600 million.

Table of Contents**Performance Summary**

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

	Three Months Ended			
	September 29, 2018		September 30, 2017	
	<i>(unaudited)</i>			
Net sales	\$ 199,084	100.0%	\$ 126,876	100.0%
Cost of sales	126,086	63.3%	87,128	68.7%
Gross profit	72,998	36.7%	39,748	31.3%
Selling, general and administrative expenses	44,055	22.1%	24,950	19.7%
Income from operations	28,943	14.5%	14,798	11.7%
Interest expense, net	11,741	5.9%	5,514	4.3%
Debt extinguishment costs	296	0.1%		
Income before income taxes	16,906	8.5%	9,284	7.3%
Income tax expense	3,335	1.7%	2,992	2.4%
Net income	\$ 13,571	6.8%	\$ 6,292	5.0%

	Nine Months Ended			
	September 29, 2018		September 30, 2017	
	<i>(unaudited)</i>			
Net sales	\$ 508,606	100.0%	\$ 376,981	100.0%
Cost of sales	330,888	65.1%	260,941	69.2%
Gross profit	177,718	34.9%	116,040	30.8%
Selling, general and administrative expenses	105,293	20.7%	72,385	19.2%
Gains on transfers of assets	(2,551)	(0.5)%		
Income from operations	74,976	14.7%	43,655	11.6%
Interest expense, net	19,393	3.8%	14,992	4.0%
Debt extinguishment costs	3,375	0.7%		
Income before income taxes	52,208	10.3%	28,663	7.6%
Income tax expense	8,749	1.7%	9,117	2.4%
Net income	\$ 43,459	8.5%	\$ 19,546	5.2%

Table of Contents**RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED SEPTEMBER 29, 2018 AND SEPTEMBER 30, 2017**

The following table represents total sales by product category for the three months ended September 29, 2018, and September 30, 2017 (in millions, except percentages):

	Three Months Ended				
	September 29, 2018		September 30, 2017		% change
Product category:	Sales	% of sales	Sales	% of sales	
Impact-resistant windows and door products	\$ 158.3	79.5%	\$ 108.8	85.7%	45.4%
Non-Impact window and door products	40.8	20.5%	18.1	14.3%	124.8%
Total net sales	\$ 199.1	100.0%	\$ 126.9	100.0%	56.9%

Total net sales during the third quarter of 2018 were \$199.1 million, an increase of \$72.2 million, or 56.9%, from \$126.9 million in total net sales for the third quarter of 2017. Total net sales in the third quarter of 2018 includes \$18.7 million from our acquisition of WWS effective on August 13, 2018. Comparisons of total net sales in the third quarter of 2018, to the third quarter of 2017 are also affected by Hurricane Irma in early September 2017. Irma caused disruption to our ability to manufacture and distribute our products, and also affected our customers' ability to accept deliveries of our products. We estimate that lost sales directly attributable to the disruption caused by Irma for the three months ended September 30, 2017, totaled approximately \$13 million.

Net sales of impact-resistant window and door products were \$158.3 million for the third quarter of 2018, an increase of \$49.5 million, or 45.4%, from \$108.8 million in net sales for the third quarter of 2017. Included in sales of our impact-resistant window and door products were \$110.9 million of aluminum impact sales, an increase of \$33.8 million, or 43.8%, and \$47.4 million of vinyl impact sales, an increase of \$15.7 million, or 49.6%.

Net sales of non-impact window and door products were \$40.8 million for the third quarter of 2018, an increase of \$22.7 million, or 124.8%. Net sales of non-impact window and door products in the third quarter of 2018 includes \$18.7 million from our acquisition of WWS effective on August 13, 2018.

Gross profit and gross margin

Gross profit was \$73.0 million in the third quarter of 2018, an increase of \$33.3 million, or 83.7%, from \$39.7 million in the third quarter of 2017. The gross margin percentage was 36.7% in the third quarter of 2018, compared to 31.3% in the prior year third quarter, an increase of 5.4%. Adjusting for an opening balance sheet inventory adjustment of \$392 thousand in the third quarter of 2018, gross margin was 36.9%. Adjusting for costs relating to Hurricane Irma, and transition costs associated with WinDoor leadership and the glass supply-chain in the third quarter of 2017, which combined totaled \$1.0 million, gross margin was 32.1%, an increase of 4.8%. Margin improvements in the third quarter of 2018, compared to last year's third quarter, related to higher contribution margins on the increased sales volume, which benefitted gross margin by 1.8%, better scrap rates and efficiencies, which benefitted gross margin by 1.1%, price increases, which benefitted gross margin by 0.9%, and a change in mix towards a higher portion of repair and remodeling sales, which benefitted gross margin by 0.5%. These improvements were partially offset by decreases due to higher overall material prices, which decreased gross margin by 0.9%, and which included higher aluminum prices compared to last year's third quarter, partially offset by lower glass costs as a result of our supply agreement

with Cardinal Glass Industries, and by slightly higher overhead costs, which decreased gross margin by 0.3%. The addition of WWS benefitted gross margin by 1.7%.

Selling, general and administrative expenses

Selling, general and administrative (SG&A) expenses were \$44.1 million in the third quarter of 2018, an increase of \$19.1 million, from \$25.0 million in the third quarter of 2017. SG&A in the third quarter of 2018 includes \$2.8 million of acquisition costs relating to our recent acquisition of WWS, and in the third quarter of 2017 includes \$0.7 million in higher costs related to Hurricane Irma. Adjusting for the acquisition costs in 2018, and Hurricane Irma costs in 2017, SG&A was \$41.3 million in the third quarter of 2018, or 20.7% of net sales, compared to \$24.2 million in the third quarter of 2017, or 19.1% of net sales, an increase of 1.6%. The adjusted increase in SG&A is primarily the result of the inclusion of the SG&A expenses of WWS in the third quarter of 2018 since the acquisition, which totaled \$6.9 million, including \$1.1 million in non-cash amortization of the amortizable intangible asset acquired in the acquisition. This represents 37.0% of the total sales contribution of WWS of \$18.7 million in the third quarter of 2018. Excluding these items, SG&A of the legacy business was \$34.4 million in the third quarter of 2018, or 19.1% of legacy business net sales, compared to \$24.2 million in the third quarter of 2017, or 19.1%, an increase of \$10.2 million.

Table of Contents

This increase in SG&A spending is consistent with the higher level of sales, including higher distribution costs, and also includes higher personnel-related costs of approximately \$3.2 million, which includes higher incentive compensation reflecting the improved performance in the third quarter of 2018 compared to last year, an increase of \$1.1 million due to our strategic investment in additional marketing and advertising initiatives during 2018, as well as an increase in stock-based compensation expenses of \$0.8 million in the third quarter of 2018, compared to the third quarter of last year.

We record warranty costs as a selling expense within selling, general and administrative expenses. During the three months ended September 29, 2018, we recorded warranty expense at a rate of 1.7% of sales, which decreased when compared to the rate in the third quarter of 2017 of 2.0% of sales. We believe the decrease in warranty expense as a percentage of sales was the result of our workforce becoming more seasoned through experience and training, as well as a change in our warranty profile on PGT-branded door glass components due to those components now being produced by Cardinal as part of the SA under which it provides the warranty coverage.

Interest expense, net

Interest expense was \$11.7 million in the third quarter of 2018, an increase of \$6.2 million, or 112.9%, from \$5.5 million in the third quarter of 2017. Interest expense in the third quarter of 2018 includes \$5.3 million of accelerated amortization of lenders fees and discount relating to the prepayment of \$152.0 million of borrowings under the term loan portion of the 2016 Credit Agreement we made on September 18, 2018. The remaining increase in interest expense is due primarily to the issuance of the 2018 Senior Notes, composed of \$315.0 million aggregate principal amount of 6.75% unsecured senior notes due 2026. The 2018 Senior Notes carry a higher per-annum interest rate and have a higher principal amount outstanding than borrowings under the term loan portion of the 2016 Credit Agreement. This increase in interest expense was partially offset by a decrease in the average level of outstanding borrowings under the term loan portion of the 2016 Credit Agreement during the third quarter of 2018, compared to the third quarter of 2017, as the result of a total of \$40 million in voluntary prepayments of borrowings under our 2016 Credit Agreement made at various times during the second half of 2017.

Debt extinguishment costs

Debt extinguishment costs were \$296 thousand in the third quarter of 2018. At the time of the issuance of the 2018 Senior Notes, certain existing lenders reduced their positions in the revolving credit portion of the 2016 Credit Agreement, which resulted in the write-offs of the deferred financing costs allocated to these lenders. As such, write-offs totaling \$296 thousand is classified as debt extinguishment costs in the accompanying condensed consolidated statement of comprehensive income for the three months ended September 29, 2018.

Effective on February 17, 2017, we repriced and amended our 2016 Credit Agreement for the first time. As there were no changes in lender positions, this action did not result in any modifications or extinguishments of debt. Therefore, there was no charge for debt extinguishment costs in the three months ended September 30, 2017.

Income tax expense

Our income tax expense was \$3.3 million for the third quarter of 2018, compared with \$3.0 million for the third quarter of 2017. Our effective tax rate for the three months ended September 29, 2018, was 19.7%, and was 32.2% for the three months ended September 30, 2017.

Income tax expense in the three months ended September 29, 2018, and September 30, 2017, includes excess tax benefits relating to exercises of stock options and lapses of restrictions on stock awards, treated as a discrete item of

income tax, totaling \$1.0 million and \$347 thousand, respectively. The three months ended September 29, 2018 includes other discrete items of income tax relating to various income tax credits taken on our recently filed Federal and state income tax returns totaling \$97 thousand. Excluding these discrete items, the effective tax rates for the three months ended September 29, 2018, and September 30, 2017, would have been 26.1% and 36.0%, respectively.

As a result of the Tax Cuts and Jobs Act, enacted effective on December 22, 2017, our Federal corporate income tax rate has been reduced from 35%, to 21%. This reduction in rate has lowered our overall effective tax rate. Additionally, the section 199 domestic manufacturing deduction was repealed. As such, our effective tax rate, excluding the discrete items discussed above, approximates our current combined statutory federal and state rate of 25.6%. In 2017, the effective tax rate, excluding the effect of the discrete item discussed above, was lower than our then combined statutory federal and state tax rate of 38.8% primarily as the result of the estimated impact of the section 199 domestic manufacturing deduction.

Table of Contents**RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 29, 2018 AND SEPTEMBER 30, 2017**

The following table represents total sales by product category for the nine months ended September 29, 2018, and September 30, 2017 (in millions, except percentages):

	Nine Months Ended		September 30,		% change
	September 29, 2018		September 30, 2017		
Product category:	Sales	% of sales	Sales	% of sales	
Impact-resistant window and door products	\$ 425.6	83.7%	\$ 320.2	84.9%	32.8%
Non-impact window and door products	83.0	16.3%	56.8	15.1%	46.1%
Total net sales	\$ 508.6	100.0%	\$ 377.0	100.0%	34.9%

Total net sales during the first nine months of 2018 were \$508.6 million, an increase of \$131.6 million, or 34.9%, from \$377.0 million in total net sales for the first nine months of 2017. Total net sales in the first nine months of 2018 includes \$18.7 million from our acquisition of WWS effective on August 13, 2018. Comparisons of total net sales in the first nine months of 2018, to the first nine months of 2017 are also affected by Hurricane Irma in early September 2017. Irma caused disruption to our ability to manufacture and distribute our products, and also affected our customers ability to accept deliveries of our products. We estimate that lost sales directly attributable to the disruption caused by Irma for the nine months ended September 30, 2017, totaled approximately \$13 million.

Net sales of impact-resistant window and door products were \$425.6 million for the first nine months of 2018, an increase of \$105.4 million, or 32.8%, from \$320.2 million in net sales for the first nine months of 2017. Included in sales of our impact-resistant window and door products were \$292.9 million of aluminum impact sales, an increase of \$65.6 million, or 28.8%, and \$132.7 million of vinyl impact sales, an increase of \$39.8 million, or 42.8%. The increase in aluminum impact sales was primarily driven by growth in our aluminum WinGuard and Sentinel impact products. The increase in vinyl impact sales was primarily driven by growth in our vinyl WinGuard impact products.

Net sales of non-impact window and door products were \$83.0 million for the first nine months of 2018, an increase of \$26.2 million, or 46.1%, from \$56.8 million in net sales for the first nine months of 2017. Net sales of non-impact window and door products in the first nine months of 2018 includes \$18.7 million from our acquisition of WWS effective on August 13, 2018.

Gross profit and gross margin

Gross profit was \$177.7 million in the first nine months of 2018, an increase of \$61.7 million, or 53.2%, from \$116.0 million in the first nine months of 2017. The gross margin percentage was 34.9% in the first nine months of 2018, compared to 30.8% in the first nine months of last year, an increase of 4.1%. Adjusting for an opening balance sheet inventory adjustment relating to our acquisition of WWS in the third quarter of 2018, as well as costs in the first nine months of 2018 relating to machinery and equipment relocations, for a total of \$0.8 million, and costs in the first nine months of 2017 relating to the start-up of our Thermal Plastic Spacer system line, Hurricane Irma costs, and transition costs associated with WinDoor leadership and the glass supply-chain totaling \$1.5 million, our adjusted gross margin was 35.1% in the first nine months of 2018, compared to 31.2%, an increase of 3.9%. There were

improvements in the first nine months of 2018, compared to the first nine months of last year, relating to higher contribution margins on the increased sales volume, which benefitted gross margin by 1.4%, price increases, which benefitted gross margin by 1.2%, in scrap rates and efficiencies, which benefitted gross margin by 1.1%, a change in mix towards a higher portion of repair and remodeling sales, which benefitted gross margin by 0.9%. These increases were partially offset by decreases due to higher overall material prices, which decreased gross margin by 1.1%, and which included higher aluminum prices compared to the first nine months of last year, partially offset by lower glass costs as a result of our supply agreement with Cardinal Glass Industries, and by slightly higher overhead costs, which decreased gross margin by 0.2%. The addition of WWS benefitted gross margin by 0.6%.

Table of Contents***Selling, general and administrative expenses***

SG&A was \$105.3 million in the first nine months of 2018, an increase of \$32.9 million, from \$72.4 million in the first nine months of 2017. SG&A in the first nine months of 2018 includes \$3.8 million of acquisition costs relating to our recent acquisition of WWS, and in the first nine months of 2017 includes \$0.7 million in higher costs related to Hurricane Irma and \$0.7 million of costs related to management reorganization actions. Adjusting for these costs in both periods, SG&A was \$101.5 million in the first nine months of 2018, or 20.0% of net sales, compared to \$70.9 million in the first nine months of 2017, or 18.8% of net sales, an increase of 1.2%. The adjusted increase in SG&A is primarily the result of the inclusion of the SG&A expenses of WWS in the third quarter of 2018 since the acquisition, which totaled \$6.9 million, including \$1.1 million in non-cash amortization of the amortizable intangible asset acquired in the acquisition. This represents 37.0% of the total sales contribution of WWS of \$18.7 million in the third quarter of 2018. Excluding these items, SG&A of the legacy business was \$94.6 million in the first nine months of 2018, or 19.3% of legacy business net sales, compared to \$70.9 million in the first nine months of 2017, or 18.8%, an increase of \$23.7 million.

This increase in SG&A spending is consistent with the higher level of sales, including higher distribution costs, and also includes higher personnel-related costs of approximately \$8.0 million, which includes higher incentive compensation reflecting the improved performance in 2018 compared to last year, an increase of \$2.7 million due to our strategic investment in additional marketing and advertising initiatives during 2018, as well as an increase in stock-based compensation expenses of \$1.0 million in the first nine months of 2018, compared to last year.

We record warranty costs as a selling expense within selling, general and administrative expenses. During the first nine months ended September 29, 2018, we recorded warranty expense at a rate of 1.7% of sales, which decreased when compared to the rate in the first nine months of 2017 of 2.3% of sales. We believe the decrease in warranty expense as a percentage of sales was the result of our workforce becoming more seasoned through experience and training, as well as a change in our warranty profile on PGT-branded door glass components produced by Cardinal as part of the SA on which they provide the warranty coverage.

Gains on transfers of assets

On September 22, 2017, we entered into an Asset Purchase Agreement (APA) with Cardinal LG Company (Cardinal) for the sale to Cardinal of certain manufacturing equipment we used in processing glass components for PGT-branded doors. Substantially all of the remaining machinery and equipment was transferred to Cardinal during the second quarter of 2018, which had a net book value of \$3.2 million and fair value of \$5.8 million. We recognized gains on disposals for the difference totaling \$2.6 million during the nine months ended September 29, 2018, classified as a separate line item in the accompanying condensed consolidated statements of comprehensive income for the nine months ended September 29, 2018.

Interest expense, net

Interest expense was \$19.4 million in the first nine months of 2018, an increase of \$4.4 million, from \$15.0 million in the first nine months of 2017. Interest expense in the first nine months of 2018 includes \$5.3 million of accelerated amortization of lenders fees and discount relating to the prepayment of \$152.0 million of borrowings under the term loan portion of the 2016 Credit Agreement we made on September 18, 2018. Excluding this amount, interest expense decreased due to a decrease in the average level of outstanding borrowings under the term loan portion of the 2016 Credit Agreement during the first nine months of 2018, as the result of a total of \$40 million in voluntary prepayments of borrowings under our 2016 Credit Agreement made at various times during the second half of 2017.

The lower average level of borrowings under the 2016 Credit Agreement was partially offset by interest expense from the issuance of the 2018 Senior Notes, composed of \$315.0 million aggregate principal amount of 6.75% unsecured senior notes due 2026. The 2018 Senior Notes carry a higher per-annum interest rate and have a higher principal amount outstanding than borrowings under the term loan portion of the 2016 Credit Agreement.

Debt extinguishment costs

Debt extinguishment costs were \$3.4 million in the first nine months of 2018. In connection with the Second Amendment, certain existing lenders modified their positions in or exited the 2016 Credit Agreement, which resulted in the write-offs of portions of the deferred financing costs and original issue discount allocated to these lenders. Additionally, at the time of the issuance of the 2018 Senior Notes, certain existing lenders reduced their positions in the revolving credit portion of the 2016 Credit Agreement, which resulted in the write-offs of the deferred financing costs allocated to these lenders. As such, write-offs

Table of Contents

totaling \$3.4 million is classified as debt extinguishment costs in the accompanying condensed consolidated statement of comprehensive income for the nine months ended September 29, 2018, including \$296 thousand during the three months ended September 29, 2018.

Effective on February 17, 2017, we repriced and amended our 2016 Credit Agreement for the first time. As there were no changes in lender positions, this action did not result in any modifications or extinguishments of debt. Therefore, there was no charge for debt extinguishment costs in the nine months ended September 30, 2017.

Income tax expense

Our income tax expense was \$8.7 million for the first nine months of 2018, compared with \$9.1 million for the first nine months of 2017. Our effective tax rate for the first nine months of 2018 was 16.8%, and was 31.8% for the first nine months of 2017.

Income tax expense in the nine months ended September 29, 2018, and September 30, 2017, includes excess tax benefits relating to exercises of stock options and lapses of restrictions on stock awards, treated as a discrete item of income tax, totaling \$4.6 million and \$1.1 million, respectively. The nine months ended September 29, 2018 includes other discrete items of income tax relating to various income tax credits taken on our recently filed Federal and state income tax returns totaling \$97 thousand. Excluding these discrete items, the effective tax rates for the nine months ended September 29, 2018, and September 30, 2017, would have been 25.8% and 35.8%, respectively.

As a result of the Tax Cuts and Jobs Act, enacted effective on December 22, 2017, our Federal corporate income tax rate has been reduced from 35%, to 21%. This reduction in rate has lowered our overall effective tax rate. Additionally, the section 199 domestic manufacturing deduction was repealed. As such, our effective tax rate, excluding the discrete items discussed above, approximates our current combined statutory federal and state rate of 25.6%. In 2017, the effective tax rate, excluding the effect of the discrete item discussed above, was lower than our then combined statutory federal and state tax rate of 38.8% primarily as the result of the estimated impact of the section 199 domestic manufacturing deduction. The effective tax rates in all periods, excluding the effect of the discrete item relating to the treatment of excess tax benefits as discussed above, were lower than our combined statutory federal and state tax rate of 38.8% primarily as the result of the estimated impact of the section 199 domestic manufacturing deduction, partially offset by the 50% deductibility-disallowance of meals and entertainment expenses.

LIQUIDITY AND CAPITAL RESOURCES

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

Consolidated Cash Flows

Operating activities. Cash provided by operating activities during the first nine months of 2018 was \$64.6 million, compared to cash provided of \$34.7 million in the first nine months of 2017. The increase in cash provided by operating activities for the first nine months of 2018, as compared to the first nine months of 2017, of \$29.9 million, was due to the factors set forth in the table below.

Table of Contents

Direct cash flows from operations for the first nine months of 2018 and 2017 are as follows:

<i>(in millions)</i>	Direct Operating Cash Flows	
	September 29, 2018	September 30, 2017
Collections from customers	\$ 490.7	\$ 373.4
Other collections of cash	5.2	3.9
Disbursements to vendors	(308.8)	(230.2)
Personnel related disbursements	(114.5)	(99.1)
Income taxes paid, net	(17.2)	
Debt service payments	(9.8)	(13.3)
Cash received from Cardinal under the SA	19.0	
 Cash from operations	 \$ 64.6	 \$ 34.7

Days sales outstanding (DSO), which we calculate as accounts receivable divided by quarterly average daily sales, was 39 days at September 29, 2018, compared to 37 days at September 30, 2017.

Inventory on hand as of September 29, 2018, was \$46.5 million, compared to \$37.8 million at December 30, 2017, an increase of \$8.7 million. Inventory on hand as of September 29, 2018 includes \$12.3 million relating to our WWS acquisition. Excluding the inventory of WWS, the decrease in inventory includes a decrease of \$5.6 million relating to the adoption of ASU 2014-09, which resulted in our recognizing revenue and, therefore, cost of sales, on inventory that was previously considered to be finished goods and work-in-process.

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 work-in-process inventory. As a result of these factors, our inventories are not excessive, and we believe the value of such inventories will be realized through sales.

Investing activities. Cash used in investing activities was \$371.1 million for the first nine months of 2018, compared to cash used in investing activities of \$9.6 million for the first nine months of 2017. In the third quarter of 2018, we used \$355.2 million in cash to acquire WWS. There was also an increase in cash used in investing activities due to an increase in capital expenditures of \$12.0 million, which went from \$9.7 million in the first nine months of 2017, to \$21.7 million in the first nine months of 2018. Proceeds from sales of assets in the first nine-month period of 2018 was \$5.9 million and was almost entirely composed of cash received from Cardinal under the terms of the APA. Proceeds from disposals of assets in the first nine months of 2017 were less than \$0.1 million.

Financing activities. Cash provided by financing activities was \$304.7 million in the first nine months of 2018, compared to cash used in financing activities of \$19.6 million in the first nine months of 2017, an increase in cash provided of \$324.3 million. In the third quarter of 2018, we issued the 2018 Senior Notes, which provided proceeds of \$315.0 million. Also in the third quarter of 2018, we issued Company common stock in the 2018 Equity Issuance, which provided net proceeds of \$152.7 million. Using primarily the proceeds from the 2018 Equity Issuance, we made repayments of long-term debt of nearly \$152.2 million in the first nine months of 2018, compared to \$20.1 million in the first nine months of 2017.

There were payments of financing costs totaling \$12.1 million in the first nine months of 2018, related to both the Second Amendment and the 2018 Senior Notes. Taxes paid relating to common stock withheld from employees to satisfy tax withholding obligations in connection with the vesting of restricted stock awards were \$0.6 million in the first nine months of 2018, versus \$0.2 million in the first nine months of 2017, an increase in cash used of \$0.4 million. Proceeds from the exercises of stock options were \$1.9 million in the first nine months of 2018, compared to \$0.7 million in the first nine months of 2017, an increase in cash provided of \$1.2 million.

Table of Contents

At December 30, 2017, accrued federal and state income taxes payable of \$6.5 million was classified within accrued liabilities in the accompanying condensed consolidated balance sheet. The Internal Revenue Service provided tax relief relating to taxpayers in certain designated areas of Florida impacted by Hurricane Irma, which included all counties in Florida in which we operate. As a result, the deadline for remitting our required 2017 third quarter estimated payment for corporate income taxes, as well as the deadline for filing our 2016 fiscal year corporate income tax return, was extended to January 31, 2018. Therefore, in January 2018, we made an estimated Federal income tax payment totaling \$9.0 million relating to the 2017 tax year. We made additional estimated Federal income tax payments totaling \$6.0 million, and estimated income tax payments to Florida totaling \$2.2 million, for our 2018 tax year during the second and third quarters of 2018. During the nine months ended September 30, 2017, we did not make any payments of estimated federal or state income taxes, nor did we receive any refunds of federal or state income taxes.

*Capital Resources and Debt Covenant.***2018 Equity Issuance**

On September 18, 2018, we completed an underwritten, public offering of 7,000,000 shares of our common stock, at a public offering price of \$23.00 per share. Pursuant to the offering, we granted the underwriters an option for a 30-day period to purchase up to an additional 1,050,000 shares of common stock. The 30-day option period expired with no additional shares issued.

The offering resulted in gross proceeds to the Company of \$161.0 million. Net of an underwriting fee of \$1.15 per share, net cash proceeds to the Company approximated \$153.0 million. We used \$152.0 million of these proceeds to prepay borrowings outstanding under the term loan portion of the 2016 Credit Agreement. The remainder of the proceeds were used for working capital or general corporate purposes, including payment of offering expenses of approximately \$0.3 million, classified as a reduction of additional paid-in capital in the accompanying condensed consolidated balance sheet as of September 29, 2018.

2018 Senior Notes

On August 10, 2018, through a special-purpose wholly-owned finance subsidiary (the Escrow Issuer), we completed the issuance of \$315.0 million aggregate principal amount of 6.75% senior notes (2018 Senior Notes), issued at 100% of their principal amount. The 2018 Senior Notes were issued to finance, together with cash on hand, the WWS acquisition. See Note 6 for further discussion. The Escrow Issuer merged with and into the Company on the closing date of the acquisition, and PGT Innovations, Inc. became the primary obligor under the 2018 Senior Notes. The 2018 Senior Notes are jointly and severally and fully and unconditionally guaranteed on a senior unsecured basis by each of the Company's existing and future restricted subsidiaries, other than any restricted subsidiary of the Company that does not guarantee the existing senior secured credit facilities or any permitted refinancing thereof. The 2018 Senior Notes are senior unsecured obligations of the Company and the guarantors, respectively, and rank pari passu in right of payment with all existing and future senior debt and senior to all existing and future subordinated debt of the Company and the guarantors. The 2018 Senior Notes were offered under Rule 144A of the Securities Act, and in transactions outside the United States under Regulation S of the Securities Act, and have not been, and will not be, registered under the Securities Act.

The 2018 Senior Notes mature on August 10, 2026. Interest on the 2018 Senior Notes is payable semi-annually, in arrears, beginning on February 16, 2019, with interest accruing at a rate of 6.75% per annum from August 10, 2018. We incurred financing costs relating to bank fees and professional services costs relating to the offering and issuance of the 2018 Senior Notes totaling \$10.4 million, which is being amortized under the effective interest method. See

Deferred Financing Costs below. As of September 29, 2018, the face value of debt outstanding under the 2018 Senior notes was \$315.0 million, and accrued interest totaled \$3.0 million.

The indenture for the 2018 Senior Notes give us the ability to optionally redeem some or all of the 2018 Senior Notes at the redemption prices and on the terms specified in the indenture governing the 2018 Senior Notes. The indenture governing the 2018 Senior Notes does not require us to make any mandatory redemptions or sinking fund payments. However, upon the occurrence of a change of control, as defined in the indenture, the Company is required to offer to repurchase the notes at 101% of the aggregate principal amount thereof, plus accrued and unpaid interest, if any, to the date of purchase.

The indenture for the 2018 Senior Notes includes certain covenants limiting the ability of the Company and any guarantors to, (i) incur additional indebtedness; (ii) pay dividends on or make distributions in respect of capital stock or make certain other restricted payments or investments; (iii) enter into agreements that restrict distributions from restricted subsidiaries; (iv) sell or otherwise dispose of assets; (v) enter into transactions with affiliates; (vi) create or incur liens; merge, consolidate or sell all or substantially all of the Company's assets; (vii) place restrictions on the ability of subsidiaries to pay dividends or make other payments to the Company; and (viii) designate the Company's subsidiaries as unrestricted subsidiaries. These covenants are subject to a number of important exceptions and qualifications.

Table of Contents

2016 Credit Agreement

On February 16, 2016, we entered into the 2016 Credit Agreement, among us, the lending institutions identified in the 2016 Credit Agreement, and Deutsche Bank AG New York Branch, as Administrative Agent and Collateral Agent. The 2016 Credit Agreement establishes new senior secured credit facilities in an aggregate amount of \$310.0 million, consisting of a \$270.0 million Term B term loan facility maturing in February 2022 that amortizes on a basis of 1% annually during its six-year term, and a \$40.0 million revolving credit facility maturing in February 2021 that includes a swing line facility and a letter of credit facility. Our obligations under the 2016 Credit Agreement are secured by substantially all of our assets as well as our direct and indirect subsidiaries' assets.

On March 16, 2018, we entered into an amendment of our 2016 Credit Agreement. The Second Amendment, among other things, decreases the applicable interest rate margins for the Initial Term Loans (as defined in the Credit Agreement) from (i) 3.75% to 2.50%, in the case of the Base Rate Loans (as defined in the Credit Agreement), and (ii) 4.75% to 3.50%, in the case of the Eurodollar Loans (as defined in the Credit Agreement). In addition to these changes, in the Second Amendment, SunTrust Bank replaced Deutsche Bank AG New York Branch as Administrative Agent and Collateral Agent of the 2016 Credit Agreement. On February 17, 2017, we entered into the first amendment to our 2016 Credit Agreement, which also resulted in decreases in the applicable margins, but which did not include any changes in lender positions.

In connection with the Second Amendment, certain existing lenders modified their positions in or exited the 2016 Credit Agreement, which resulted in the write-offs of portions of the deferred financing costs and original issue discount allocated to these lenders. Additionally, at the time of the issuance of the 2018 Senior Notes, certain existing lenders reduced their positions in the revolving credit portion of the 2016 Credit Agreement, which resulted in the write-offs of the deferred financing costs allocated to these lenders. As such, write-offs totaling \$3.4 million is classified as debt extinguishment costs in the accompanying condensed consolidated statement of comprehensive income for the nine months ended September 29, 2018, including \$296 thousand during the three months ended September 29, 2018.

Regarding the first amendment as described above, as there were no changes in lender positions, this action did not result in any modifications or extinguishments of debt. Therefore, there was no charge for debt extinguishment costs in the nine months ended September 30, 2017.

Interest on all loans under the 2016 Credit Agreement is payable either quarterly or at the expiration of any LIBOR interest period applicable thereto. Prior to amending the 2016 Credit Agreement on March 16, 2018, as described above, borrowings under the term loans and the revolving credit facility accrued interest at a rate equal to, at our option, LIBOR (with a floor of 100 basis points in respect of the term loan), or a base rate (with a floor of 200 basis points in respect of the term loan) plus an applicable margin. The applicable margin was 475 basis points in the case of LIBOR and 375 basis points in the case of the base rate. The weighted average all-in interest rate for borrowings under the term-loan portion of the 2016 Credit agreement was 5.76% as of September 29, 2018, and was 5.75% at December 30, 2017.

We also pay quarterly fees on the unused portion of the revolving credit facility equal to 50 basis points per annum as well as a quarterly letter of credit fee at 575 basis points per annum plus a 12.5 basis-point facing fee per annum on the face amount of any outstanding letters of credit. As of September 29, 2018, there were \$1.2 million of letters of credit outstanding and \$38.8 million available under the revolver.

The 2016 Credit Agreement contains a springing financial covenant, if we draw in excess of twenty percent (20%) of the revolving facility, which requires us to maintain a maximum total net leverage ratio (based on the ratio of total

debt for borrowed money to EBITDA, each as defined in the 2016 Credit Agreement). That covenant is tested quarterly based on the last four fiscal quarters and is set at levels as described in the 2016 Credit Agreement. As of September 29, 2018, no test is required as we have not exceeded 20% of our revolving capacity. During 2018, the maximum permitted total net leverage ratio as stated in the 2016 Credit Agreement is 4.25:1. We believe that our total net leverage ratio during the third quarter of 2018 has been and during the remainder of 2018 will continue to be in compliance with the 2016 Credit Agreement, and that we are in compliance with all covenants.

The 2016 Credit Agreement also contains a number of affirmative and restrictive covenants, including limitations on the incurrence of additional debt, liens on property, acquisitions and investments, loans and guarantees, mergers, consolidations, liquidations and dissolutions, asset sales, dividends and other payments in respect of our capital stock, prepayments of certain debt and transactions with affiliates. The 2016 Credit Agreement also contains customary events of default. Upon the occurrence of an event of default, the amounts outstanding under the 2016 Credit Agreement may be accelerated and may become immediately due and payable. As of September 29, 2018, we were in compliance with all affirmative and restrictive covenants.

Table of Contents

On September 18, 2018, contemporaneously with the 2018 Equity Issuance, we prepaid \$152.0 million of borrowings outstanding under the term loan portion of the 2016 Credit Agreement. As of September 29, 2018, the principal amount of debt outstanding under the 2016 Credit Agreement was \$72.0 million, and accrued interest was \$0.6 million. Interest expense, net, in the condensed consolidated statements of comprehensive income in the three and nine months ended September 29, 2018 includes \$5.3 million of accelerated amortization of lenders fees and discount relating to the prepayment of \$152.0 million of borrowings under the term loan portion of the 2016 Credit Agreement we made on September 18, 2018.

Deferred Financing Costs

The activities relating to third-party fees and costs, lender fees and discount for the nine months ended September 29, 2018, are as follows. All debt-related fees, costs and original issue discount are classified as a reduction of the carrying value of long-term debt:

<i>(in thousands)</i>	Total
At beginning of year	\$ 11,460
Less: Amortization expense relating to 2016 Credit Agreement	(1,666)
Add: Second amendment of 2016 Credit Agreement refinancing costs	1,687
Less: Debt extinguishment costs relating to second amendment and revolver repositionings	(3,375)
Add: 2018 Senior Notes deferred financing costs	10,379
Less: Amortization expense relating to 2018 Senior Notes	(123)
Less: Accelerated amortization relating to prepayment under the 2016 Credit Agreement	(5,297)
At end of period	\$ 13,065

Estimated amortization expense relating to third-party fees and costs, lender fees and discount for the years indicated as of September 29, 2018, is as follows:

<i>(in thousands)</i>	Total
Remainder of 2018	\$ 446
2019	1,828
2020	1,996
2021	1,980
2022	1,365
Thereafter	5,450
Total	\$ 13,065

As a result of prepayments of the 2016 Credit Agreement on February 16, 2016, we have no future scheduled repayments until the maturity of the facility on February 21, 2022. The contractual future maturities of long-term debt outstanding, including the financing arrangement described as other debt, as of September 29, 2018, are as follows (at

face value):

<i>(in thousands)</i>	
Remainder of 2018	\$ 75
2019	163
2020	
2021	
2022	71,975
Thereafter	315,000
Total	\$ 387,213

Capital Expenditures. Capital expenditures vary depending on prevailing business factors, including current and anticipated market conditions. For the first nine months of 2018, capital expenditures were \$21.7 million, compared to \$9.7 million for the first nine months of 2017. In 2018, including the capital expenditures of WWS, which we acquired on August 13, 2018, we expect to spend approximately \$25 to \$30 million on capital expenditures, primarily including machinery and equipment, and distribution equipment such as tractors and trailers.

Table of Contents

Sale of Door Glass Processing Assets. On September 22, 2017, we entered into an Asset Purchase Agreement (APA) with Cardinal LG Company (Cardinal) for the sale to Cardinal of certain manufacturing equipment we used in processing glass components for PGT-branded doors for a cash purchase price of \$28 million. Contemporaneously with entering into the APA, we entered into a seven-year supply agreement (SA) with Cardinal for Cardinal to supply us with glass components for PGT-branded doors. The Company determined to sell these assets and enter the SA to allow us to heighten our focus in our core areas of window and door manufacturing and, at the same time, strengthen our supply chain for high-quality door glass from a supplier with whom we have been doing business for many years.

The Company has determined that, although the APA and SA are separate agreements, they were negotiated contemporaneously. Therefore, the Company has concluded that the \$28 million of proceeds under the APA should be bifurcated between the sale of the door glass manufacturing assets, and as payment received from a vendor for the Company's agreement to buy glass components for PGT-branded doors from Cardinal under the SA. The bifurcation of the proceeds in excess of the stand-alone selling price of the assets acquired would be allocated to the SA and recognized as a reduction of cost of sales as glass components are purchased by PGTI. Based on the established stand-alone selling price of the assets sold, as determined by an independent appraisal, approximately \$7.7 million was allocated to the sale of the assets, with the remaining \$20.3 million representing consideration received from Cardinal related to the agreement to buy door glass components for PGT-branded doors from Cardinal. This consideration is being amortized to income over the 7-year term of the SA.

At the time we ceased using these assets in production, at which time they became available for immediate sale, their net book value was \$4.7 million, and they were reclassified from property, plant and equipment, to assets held for sale within other current assets.

The APA provided for the transfer of the assets from the Company to Cardinal in two phases, with the first date in 2017, and the second date in 2018, on dates which the Company and Cardinal agree to use. Under the APA, the cash purchase price of \$28 million was to be paid by Cardinal to the Company in three separate payments of \$3 million on or about the time of the first transfer of the assets to Cardinal, \$10 million on or about January 15, 2018, and \$15 million at or about the time of the second transfer of assets to Cardinal.

Cardinal paid us \$3.0 million in cash on November 1, 2017, \$10.0 million in cash on January 16, 2018, and \$14.8 million on June 8, 2018, pursuant to the APA. The total proceeds received of \$27.8 million was \$0.2 million less than the \$28.0 million as specified in the APA as we retained certain assets that were initially identified for transfer. On December 15, 2017, machinery and equipment classified as assets held for sale with net book value of \$1.5 million, and fair value of \$1.9 million was transferred to Cardinal and their equipment rigger, and we recognized a gain on disposal for the difference. Substantially all of the remaining machinery and equipment was transferred to Cardinal during the second quarter of 2018, which had a net book value of \$3.2 million and fair value of \$5.8 million. We recognized gains on disposals for the difference totaling \$2.6 million during the three months ended September 29, 2018, classified within selling, general and administrative expenses in the accompanying condensed consolidated statements of comprehensive income for the three and nine months ended September 29, 2018.

The SA provides that the Company will purchase, and Cardinal will supply, all the Company's requirements for certain glass components used in PGT-branded doors through the end of 2024. The terms of the manufacture by Cardinal and purchase by the Company of such glass components as to purchase orders, forecasts of purchases, pricing, invoicing, delivery and payment terms and other terms, are all as described in the SA. Early in the fourth quarter of 2017, we began purchasing and receiving glass components from Cardinal under the SA. At that time, we began amortizing the advance consideration received from Cardinal initially allocated to the SA and continued to amortize such advance consideration during the three and nine months ended September 29, 2018, recognizing \$702 thousand in the three months, and \$2.1 million in the nine months, of such gain amortization, classified as reductions to cost of sales in the

accompanying condensed consolidated statements of comprehensive income for the three and nine months ended September 29, 2018, respectively. As of September 29, 2018, the remaining unamortized balance of \$17.4 million is classified in the accompanying condensed consolidated balance sheet as \$2.8 million within accrued liabilities and \$14.6 million within other liabilities.

Aluminum Forward Contracts. We enter into aluminum forward contracts to hedge the fluctuations in the purchase price of aluminum extrusions we use in production. At September 29, 2018, the fair value of our aluminum forward contracts was in a net liability position of \$1.1 million. We had 36 outstanding forward contracts for the purchase of 34.0 million pounds

Table of Contents

of aluminum through December 2019, at an average price of \$0.98 per pound, which excludes the Midwest premium, with maturity dates of between one month and fifteen months. We assessed the risk of non-performance of the Company to these contracts and determined it was insignificant and, therefore, did not record any adjustment to fair value as of September 29, 2018.

We assess the effectiveness of our aluminum forward contracts by comparing the change in the fair value of the forward contract to the change in the expected cash to be paid for the hedged item. The effective portion of the gain or loss on our aluminum forward contracts is reported as a component of accumulated other comprehensive loss and is reclassified into earnings in the same line item in the income statement as the hedged item in the same period or periods during which the transaction affects earnings. The amount of losses, net, recognized in the accumulated other comprehensive loss line item in the accompanying condensed consolidated balance sheet as of September 29, 2018, that we expect will be reclassified to earnings within the next twelve months, will be approximately \$0.9 million.

Contractual Obligations

There have been changes to the Disclosures of Contractual Obligations and Commercial Commitments table in Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations of our Annual Report on Form 10-K for the year ended December 30, 2017, including the addition of our commitment under the 2018 Senior Notes composed of \$315.0 million aggregate principal amount of 6.75% unsecured senior notes due 2026. The 2018 Senior Notes requires us to make semi-annual interest payments commencing on February 1, 2019, which began to accrue effective on the date of issuance of August 10, 2018. Our commitment for interest payments under the 2018 Senior Notes totals approximately \$21.3 million per year. Partially offsetting this addition to our contractual obligations was our prepayment of \$152.0 million of borrowings outstanding under the term loan portion of the 2016 Credit Agreement on September 18, 2018. We estimate that our commitment for interest payments under the 2016 Credit Agreement will decrease by approximately \$8.8 million annually.

We also assumed the operating lease commitments of Western Window Systems (WWS) as the result of our acquisition of WWS on August 13, 2018. The following table represents the operating lease commitments of WWS as of December 31, 2017 (in thousands):

<u>Contractual Obligations</u>	Payments Due by Period				
	<u>Total</u>	<u>Current</u>	<u>2-3 Years</u>	<u>4-5 Years</u>	<u>Thereafter</u>
Operating leases	\$ 13,412	\$ 1,644	\$ 3,013	\$ 2,620	\$ 6,135
Total contractual cash obligations	\$ 13,412	\$ 1,644	\$ 3,013	\$ 2,620	\$ 6,135

Significant Accounting Policies and Critical Accounting Estimates

Our consolidated financial statements are prepared in accordance with U.S. Generally Accepted Accounting Principles (GAAP). Significant accounting policies are those that are both important to the accurate portrayal of a Company's financial condition and results, and those that 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 condensed consolidated financial statements and accompanying notes. Certain estimates are particularly sensitive due to their significance to the condensed consolidated financial statements and the possibility that future events may be significantly different from our expectations.

We identified our significant accounting policies in our Form 10-K annual report for the year ended December 30, 2017. Except for the adoption of the guidance relating to revenue recognition pursuant to ASU 2014-09, and business combinations pursuant to ASU 2017-01, there have been no changes to our critical accounting policies during the first nine months of 2018.

Table of Contents**Recently Issued Accounting Pronouncements***Leases*

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which requires lessees to recognize leases on-balance sheet and disclose key information about leasing arrangements. ASU 2016-02 was subsequently amended by ASU 2018-01, *Land Easement Practical Expedient for Transition to Topic 842*; ASU 2018-10, *Codification Improvements to Topic 842, Leases*; and ASU 2018-11, *Targeted Improvements*. The new standard requires a lessee to recognize a right-of-use asset and lease liability on the balance sheet for all leases with a term longer than 12 months. Leases will be classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the income statement.

The new standard is effective for us on December 30, 2018 (the first day of our 2019 fiscal year), with early adoption permitted. We expect to adopt the new standard on its effective date for us. A modified retrospective transition approach is required, applying the new standard to all leases existing at the date of initial application. An entity may choose to use either (1) its effective date, or (2) the beginning of the earliest comparative period presented in the financial statements as its date of initial application. We expect to adopt the new standard on December 30, 2018 and use the effective date as our date of initial application. Consequently, financial information will not be updated, and the disclosures required under the new standard will not be provided for dates and periods before December 30, 2018, as would be required had we elected to adopt pursuant to (2) above. The new standard provides a number of optional practical expedients in transition. We expect to elect some or all of the new standard's available transition practical expedients, which we are continuing to evaluate.

The new standard also provides practical expedients for an entity's ongoing accounting. We currently expect to elect the short-term lease recognition exemption for all leases that qualify, primarily our vehicle and office equipment leases. This means, for those leases that qualify, we will not recognize right-of-use assets or lease liabilities, and this includes not recognizing right-of-use assets or lease liabilities for existing short-term leases of those assets in transition. We also currently expect to elect the practical expedient to not separate lease and non-lease components for all of our leases.

We expect that this standard will have a material effect on our financial position. While we continue to assess all of the effects of adoption, we currently believe the most significant effects relate to the recognition of new right-of-use assets and lease liabilities on our balance sheet for our real estate operating leases and providing significant new disclosures about our leasing activities. We do not expect a significant change in our leasing activities between now and adoption. On adoption, we currently expect to recognize additional operating liabilities with corresponding right-of-use assets of the same amount based on the present value of the remaining minimum rental payments under current leasing standards for existing operating leases.

Intangibles

In August 2018, the FASB issued ASU 2018-15, *Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40)*. The new guidance reduces complexity for the accounting for costs of implementing a cloud computing service arrangement and aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). For public companies, the amendments in this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted. Implementation should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. The Company will

early-adopt this guidance in the fourth quarter of 2018. The effects of this standard on our financial position, results of operations or cash flows are not expected to be material.

Fair Value Measurement Disclosures

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820) - Disclosure Framework Changes to the Disclosure Requirements for Fair Value Measurement . The new guidance modifies disclosure requirements related to fair value measurement. The amendments in this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Implementation on a prospective or retrospective basis varies by specific disclosure requirement. Early adoption is permitted. The standard also allows for early adoption of any removed or modified disclosures upon issuance of this ASU while delaying adoption of the additional disclosures until their effective date. The Company is currently evaluating the impact of this guidance on its fair value disclosures.

Table of Contents

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. Combined with our forward-buy contracts for aluminum, which are not derivative financial instruments, but which provide us with protection from increases in aluminum prices, as of October 22, 2018, we are covered for approximately 67% of our anticipated needs through December 2019 at an average price of \$0.98 per pound.

Regarding only our aluminum hedging instruments for the purchase of aluminum as of October 22, 2018, a 10% decrease in the price of aluminum per pound would decrease the fair value of our forward contracts of aluminum by an estimated \$3.0 million. This calculation utilizes our actual commitment of 33.0 million pounds under contract (to be settled throughout December 2019) and the market price of aluminum as of October 22, 2018. All calculations include estimates for the Midwest premium.

We experience changes in interest expense when market interest rates change. Changes in our debt could also increase these risks. Based on debt outstanding with a variable rate as of the date of filing of this Quarterly Report on Form 10-Q, of \$72.0 million, a 100 basis-point increase in interest rate would result in approximately \$0.7 million of additional interest costs 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 (Evaluation Date). Based on that evaluation, our chief executive officer and chief financial officer concluded that, as of the Evaluation Date, our disclosure controls and procedures were effective for the purposes of ensuring that information required to be disclosed in our reports filed under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting.

During the period covered by this report, there have been no changes in our internal control over financial reporting identified in connection with the evaluation described above that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. However, during the quarter ended September 29, 2018,

we acquired Western Window Systems (WWS). We are currently integrating WWS into our operations, compliance programs and internal control processes. As permitted by SEC guidance, our management intends to exclude WWS from its assessment of internal controls over financial reporting as of December 29, 2018, the end of our 2018 fiscal year.

Table of Contents

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 the matters pending or threatened against us at this time 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

Our operations are subject to a number of risks. When considering an investment in our securities, you should carefully read and consider these risks, together with all other information in this Quarterly Report on Form 10-Q and our other filings with the Securities and Exchange Commission, including the risk factors set forth in Part 1, Item 1A. Risk Factors of our Annual Report on Form 10-K for the year ended December 30, 2017, and as set forth in Part II, Item 1A. Risk Factors of our Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2018. If any of the events described in the risk factors actually occur, our business, financial condition or operating results, as well as the market price of our securities, could be materially adversely affected.

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

Unregistered Sales of Equity Securities and Use of Proceeds

None during the quarter.

Issuer Purchases of Equity

None during the quarter.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURE

Not applicable.

ITEM 5. OTHER INFORMATION

None.

Table of Contents

ITEM 6. EXHIBITS

2.1	<u>Purchase Agreement, dated as of July 24, 2018, by and among the Company, Coyote Acquisition Co., GRF WW Parent LLC, WWS Blocker LLC, and the Sellers and Additional Sellers named in the Purchase Agreement and the Seller Representative (incorporated by reference to Exhibit 2.1 of the Registrant's Current Report on Form 8-K, filed with the SEC on July 24, 2018).</u>
4.1	<u>Indenture, dated as of August 10, 2018, between PGT Escrow Issuer, Inc. and U.S. Bank National Association, as Trustee (incorporated by reference to Exhibit 4.1 of the Registrant's Current Report on Form 8-K, filed with the SEC on August 13, 2018).</u>
4.2	<u>First Supplemental Indenture, dated as of August 13, 2018, between U.S. Bank National Association and the Guarantors party thereto (incorporated by reference to Exhibit 4.3 of the Registrant's Current Report on Form 8-K, filed with the SEC on August 13, 2018).</u>
4.3	<u>Form of 6.75% Senior Note due 2026 (incorporated by reference to Exhibit 4.1 of the Registrant's Current Report on Form 8-K, filed with the SEC on August 13, 2018).</u>
31.1*	<u>Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
31.2*	<u>Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
32.1**	<u>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</u>
32.2**	<u>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</u>
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase
101.DEF*	XBRL Taxonomy Definition Linkbase
101.LAB*	XBRL Taxonomy Extension Label Linkbase
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase

* Filed herewith.

** Furnished herewith.

Table of Contents

SIGNATURE

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 INNOVATIONS, INC.
(Registrant)

Date: November 1, 2018

/s/ Brad West
Brad West
Chief Financial Officer and Senior Vice President