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 July 1, 2017

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company.

Large accelerated filer		Accelerated filer
Non-accelerated filer	(Do not check if a smaller reporting company)	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 Section13(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 49,602,128 shares, as of August 3, 2017.

PGT INNOVATIONS, INC.

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Form 10-Q for the Three and Six Months Ended July 1, 2017

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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		Six Months Ended	
	July 1, 2017	July 2, 2016	July 1, 2017	July 2, 2016
	(unaudited)		*(unaudited)*	
Net sales	$ 137,384	$ 119,033	$ 250,105	$ 219,239
Cost of sales	92,831	81,563	173,813	151,786
Gross profit	44,553	37,470	76,292	67,453
Selling, general and administrative expenses	24,650	20,615	47,435	40,676
Income from operations	19,903	16,855	28,857	26,777
Interest expense, net	4,568	5,282	9,478	9,440
Debt extinguishment costs				3,431
Income before income taxes	15,335	11,573	19,379	13,906
Income tax expense	5,080	4,223	6,125	5,077
Net income	$ 10,255	$ 7,350	$ 13,254	$ 8,829
Net income per common share:				
Basic	$ 0.21	$ 0.15	$ 0.27	$ 0.18
Diluted	$ 0.20	$ 0.15	$ 0.26	$ 0.17
Weighted average shares outstanding:				
Basic	49,473	48,710	49,368	48,702
Diluted	51,664	50,473	51,607	50,465
Comprehensive income	$ 10,255	$ 7,350	$ 13,254	$ 8,829

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

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PGT INNOVATIONS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except per share amounts)

(unaudited)

	July 1, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 50,282	$ 39,210
Accounts receivable, net	57,308	41,646
Inventories	35,055	30,511
Prepaid expenses	2,608	2,645
Other current assets	6,083	8,365
Total current assets	151,336	122,377
Property, plant and equipment, net	84,375	84,209
Trade name and other intangible assets, net	117,771	120,930
Goodwill	108,060	108,060
Other assets, net	1,403	1,072
Total assets	$ 462,945	$ 436,648
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 32,986	$ 22,803
Current portion of long-term debt	705	
Total current liabilities	33,691	22,803
Long-term debt, less current portion	248,569	247,873
Deferred income taxes	31,838	31,838
Other liabilities	1,367	1,282
Total liabilities	315,465	303,796
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; 52,291 and 51,887 shares issued and 49,570 and 49,176 shares outstanding at July 1, 2017 and December 31, 2016, respectively	523	519
Additional paid-in-capital	251,017	249,647

Accumulated deficit	(91,301)		(104,555)
Shareholders equity	160,239		145,611
Less: Treasury stock at cost	(12,759)		(12,759)
Total shareholders equity	147,480		132,852
Total liabilities and shareholders equity	$ 462,945	$	436,648

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

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PGT INNOVATIONS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Six Months Ended	
	July 1, 2017	**July 2, 2016**
	(unaudited)	
Cash flows from operating activities:		
Net income	$ 13,254	$ 8,829
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	6,107	4,540
Amortization	3,159	2,878
Provision for allowance for doubtful accounts	106	25
Stock-based compensation	1,037	1,147
Amortization and write-off of deferred financing costs and debt discount	1,401	5,201
Excess tax benefits on stock-based compensation		(464)
Gain on disposal of assets	(57)	(6)
Change in operating assets and liabilities (net of the effect of the acquisition):		
Accounts receivable	(16,647)	(11,904)
Inventories	(4,544)	(566)
Prepaid expenses, other current and other assets	268	2,927
Accounts payable, accrued and other liabilities	12,933	10,991
Net cash provided by operating activities	17,017	23,598
Cash flows from investing activities:		
Purchases of property, plant and equipment	(6,324)	(8,176)
Business acquisition		(100,259)
Proceeds from sale of equipment	57	6
Net cash used in investing activities	(6,267)	(108,429)
Cash flows from financing activities:		
Payments of long-term debt		(198,850)
Proceeds from issuance of long-term debt		261,030
Payments of financing costs		(7,178)
Purchases of treasury stock		(2,722)
Taxes paid relating to shares withheld on employee equity awards	(181)	(54)
Proceeds from exercise of stock options	502	152
Proceeds from issuance of common stock under employee stock purchase plan	17	17
Excess tax benefits on stock-based compensation		464
Other	(16)	(15)

Net cash provided by financing activities	322	52,844
Net increase (decrease) in cash and cash equivalents	11,072	(31,987)
Cash and cash equivalents at beginning of period	39,210	61,493
Cash and cash equivalents at end of period	$ 50,282	$ 29,506
Non-cash activity:		
Property, plant and equipment additions in accounts payable	$ 198	$ 428
Earn-out contingency in accrued liabilities	$	$ 3,000

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

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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 wholly-owned subsidiary, PGT Industries, Inc., and its wholly-owned subsidiaries CGI Window and Holdings, Inc. (CGI), which includes its wholly-owned subsidiary, CGI Commercial, Inc. (CGIC), and WinDoor, Incorporated (collectively the Company), after elimination of intercompany accounts and transactions.

These condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and footnotes required by United States Generally Accepted Accounting Principles (GAAP) for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the interim period 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 our Company s fiscal quarters ended July 1, 2017, and July 2, 2016, consisted of 13 weeks.

The condensed consolidated balance sheet as of December 31, 2016, is derived from the audited consolidated financial statements, but does not include all disclosures required by GAAP. The condensed consolidated balance sheet as of December 31, 2016, and the unaudited condensed consolidated financial statements as of and for the periods ended July 1, 2017, should be read in conjunction with the more detailed audited consolidated financial statements for the year ended December 31, 2016, included in the Company s most recent Annual Report on Form 10-K. Except for the adoption of the guidance relating to the accounting for stock-based compensation expense 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 March 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-09, Compensation - Stock Compensation, Improvements to Employee Share-Based payment Accounting (Topic 718) . This update is intended to provide simplification of the accounting for share-based payment transactions, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. We adopted this update effective for our fiscal year beginning January 1, 2017. Impacts of the adoption of ASU 2016-09 are as follows:

> ASU 2016-09 requires employers to make a policy election as to whether they will continue to use previous generally accepted accounting principles, which required employers to recognize stock-based compensation expense on grants of equity awards net of an estimate of the amount that will be forfeited, or to recognize forfeitures on an actual basis in the period they occur. We have elected to change our method of accounting for forfeitures, from one of estimating forfeitures, to recognizing forfeitures on an actual basis in the period they occur, adopted on a modified-retrospective basis. This resulted in an adjustment to increase

accumulated deficit for previously unrecognized stock compensation expense of approximately $0.1 million as of December 31, 2016, net of tax effect, with an offsetting increase in additional paid-in capital of approximately $0.2 million.

ASU 2016-09 requires that employee taxes paid when an employer withholds shares for tax-withholding purposes be reported as a financing activity. The Company withholds shares of its common stock from employees to satisfy the employee s tax withholding obligations in connection with the exercise of stock options and lapse of restrictions on stock awards, which are then immediately retired. We previously included these cash flows in financing activities, therefore, there was no impact upon adoption.

ASU 2016-09 requires that excess tax benefits resulting from the exercise of stock options and lapse of restriction on stock awards be recognized as a discrete item in tax expense, where previously such tax effects had been recognized in additional paid-in-capital. See Note 10 for a discussion of the impacts of the adoption of ASU 2016-09 on the Company s income tax expense for the three and six months ended July 1, 2017.

ASU 2016-09 requires previously unrecognized excess tax benefits to be recognized on a modified-retrospective basis, which results from taking a deduction for tax benefits relating to stock-based compensation that does not result in a reduction in taxes payable. Upon adoption, we recorded an adjustment to decrease the accumulated deficit for excess tax benefits that had not yet been recognized of approximately $0.3 million as of December 31, 2016, with an offsetting reduction in our net deferred tax liability resulting from the recognition of previously unrecorded deferred tax assets for tax credits in the state of Florida.

ASU 2016-09 requires excess tax benefits to be presented as an operating activity on the statement of cash flows, either prospectively or on a full-retrospective basis, rather than as previously required as a financing activity. We have elected to present excess tax benefits in the operating section of the statement of cash flows on a prospective basis.

The effects on the Company s consolidated balance sheet as of December 31, 2016, relating to the adoption of ASU 2016-09 is as follows (in thousands):

	Previously Reported	After Adoption
Deferred income taxes	$ 32,171	$ 31,838
Total liabilities	$ 304,129	$ 303,796
Additional paid-in-capital	$ 249,469	$ 249,647
Accumulated deficit	$ (104,710)	$ (104,555)
Shareholders equity	$ 145,278	$ 145,611
Total shareholders equity	$ 132,519	$ 132,852

In July 2015, the FASB issued ASU No. 2015-11, Inventory (Topic 330) Simplifying the Measurement of Inventory . This guidance changed the subsequent measurement of inventory, excluding inventory accounted for under LIFO or the retail inventory method, to be at lower of cost and net realizable value. Topic 330, Inventory, previously required an entity to measure inventory at the lower of cost or market. Market could have been replacement cost, net realizable value, or net realizable value less an approximately normal profit margin. Under this ASU, an entity measures inventory within its scope at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. ASU 2015-11 was effective for us as of January 1, 2017. We prospectively adopted ASU 2015-11 effective on January 1, 2017. The adoption of ASU 2015-11 had no impact on our financial statements.

Recently Issued Accounting Pronouncements

In addition to the pronouncements issued during 2017, ASU 2016-02, Leases (Topic 842), and ASU 2014-09, Revenue from Contracts with Customers , presented below, see Note 3 to the consolidated financial statements included in our recently filed Annual Report on Form 10-K for the year ended December 31, 2016.

In January 2017, the FASB issued ASU 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. ASU 2017-04 simplifies the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. The amendment also eliminates the requirement for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. This update is effective for our fiscal year beginning after December 15, 2019, and shall be adopted prospectively. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. We do not expect the adoption of this guidance to have a significant effect on the Company s consolidated financial statements.

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, 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. This update is effective for our fiscal year beginning after December 15, 2017, including interim periods therein. We will apply the provisions of this guidance once it becomes effective.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) . This guidance supersedes the existing guidance for lease accounting, Leases (Topic 840). ASU 2016-02 requires lessees to recognize leases on their balance sheets, and leaves lessor accounting largely unchanged. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted for all entities. ASU 2016-02 requires a modified retrospective approach for all leases existing at, or entered into after, the date of initial application, with an option to elect to use certain transition relief. The Company is continuing to evaluate the impact of this new standard on its consolidated financial statements.

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

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers . ASU 2014-09 replaces the existing accounting standards for revenue recognition with a single comprehensive five-step model. The core principle is to recognize revenue upon the transfer of goods or services to customers at an amount that reflects the consideration expected to be received. The FASB also issued ASU 2015-14, Deferral of Effective Date . ASU 2015-14 deferred the effective date for the new guidance until the annual reporting period beginning after December 15, 2017, and interim periods within those annual periods. Early adoption is permitted, but not before the original effective date (periods beginning after December 15, 2016). The standard permits the use of either the full-retrospective (restating all years presented in the Company s financial statements), or modified-retrospective (recording the impact of adoption as an adjustment to retained earnings at the beginning of the year of adoption) transition methods. Since its issuance, the FASB has also amended several aspects of the new guidance, including; ASU 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net) ; which clarifies the Topic 606 guidance on principal versus agent considerations, ASU 2016-10, Revenue from Contracts with Customers (Topic 606) Identifying Performance Obligations and Licensing , which clarifies identification of a performance obligation and addresses revenue recognition associated with the licensing of intellectual property, ASU 2016-12, Revenue from Contracts with Customers (Topic 606), Narrow Scope Improvements and Practical Expedients , which clarifies assessment of collectability criterion, non-cash consideration and other technical corrections, and ASU 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers , which is the result of the FASB Board decision to issue a separate Update for technical corrections and improvements. The Company currently plans to adopt the provisions of this new accounting standard at the beginning of fiscal year 2018, using the modified-retrospective method.

The Company completed its preliminary assessment of the impact of its upcoming adoption of ASU 2014-09 on its consolidated financial statements. The Company recognizes revenue currently under existing generally accepted accounting principles, which is a model based on the transfer of the risks and rewards of ownership. Predominantly, for the Company, this has been at the point in time that possession of goods has transferred to the customer upon delivery. The model for recognizing revenue will change under ASU 2014-09, to one based on the transfer of control of the product to the customer. Under ASU 2014-09, revenue is recognized when an entity satisfies its obligation by transferring control of the goods or services to the customer, and transfer of possession of the product is not required in order for transfer of control of the product to the customer to have occurred.

ASU 2014-09 states that if any one of three criteria is met, it is likely that an entity will be required to recognize revenue over time, where previously the entity has recognized revenue at the point in time which possession of the goods or services pass to the customer. Pursuant to our preliminary assessment, we believe that, of these three criteria, the Company meets the criteria which states that an entity s performance (i.e. creation of a good or service for the customer) does not create an asset with an alternative use to the entity, and the entity has an enforceable right to payment for performance completed to-date. ASU 2014-09 further states that, when evaluating whether or not the goods or services have an alternative use, an entity should consider the level of customization of the goods or services. A high level of customization is a strong indicator that the goods or services do not have an alternative use and, therefore, revenue would be recognized over time as an entity performs.

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 s initial assessment is that its goods have no alternative use, as that term is defined in ASU 2014-09, and that control of the product passes to the customer no later than completion of the manufacturing of each or all of the products in an order, but before delivery of the products to the customer. Additionally, the Company has an enforceable right to payment 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.

Based on this initial assessment, the Company believes that it will be required to change its method of recognizing revenue, to one of potentially recognizing revenue as products are manufactured, but no later than completion of the manufacturing process, from its current method of recognizing revenue upon delivery of the product to the customer. The Company is continuing to evaluate its manufacturing processes in order to assess at what point the products have no alternative use and the recognition of revenue should begin. However, because revenue will have been recognized on at least all products for which manufacturing has been completed, the Company believes that upon adoption of ASU 2014-09, inventories on its consolidated balance sheets will no longer include finished goods. The Company also believes that it will recognize revenue at an earlier point than prior to the adoption of ASU 2014-09, but that such effect may not materially affect its consolidated statements of operations due to the fact that such effects will exist at both the beginning and end of fiscal periods.

ASU 2014-09 also requires entities, primarily in the manufacturing segment, to make policy elections relating to shipping and handling charges. Entities may elect to treat shipping and handling as a separate performance activity, and recognize revenue from shipping and handling as performance occurs. Conversely, entities may also elect to treat shipping and handling as a fulfillment activity, which will require shipping and handling costs for undelivered products to be accrued in order to match this cost with the revenue previously recognized over time. The Company currently recognizes shipping and handling costs as a fulfillment activity, and has preliminarily determined to continue to treat such costs as a fulfillment activity.

The Company expects to continue to evaluate the impact of the adoption of ASU 2014-09 on its consolidated financial statements, and will provide updates and additional information as the effective date of adoption approaches.

NOTE 2. WARRANTY

Most of our manufactured products are sold with warranties. Warranty periods, which vary by product components, generally range from 1 to 10 years; 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 July 1, 2017, we recorded warranty expense at a rate of approximately 2.22% of sales, which decreased from the rate in the first quarter of 2017 of 2.70%. During the three months ended July 2, 2016, we recorded warranty expense at a rate of approximately 2.44% of sales.

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 six months ended July 1, 2017, and July 2, 2016. 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	**Beginning of Period**	**Acquired**	**Charged to Expense**	**Adjustments**	**Settlements**	**End of Period**
(in thousands)						
Three months ended July 1, 2017	$ 5,614	$	$ 3,045	$ (153)	$ (2,827)	$ 5,679
Three months ended July 2, 2016	$ 4,713	$	$ 2,908	$ 413	$ (2,931)	$ 5,103
Six months ended July 1, 2017	$ 5,569	$	$ 6,088	$ (64)	$ (5,914)	$ 5,679

Six months ended July 2, 2016	$ 4,237	$ 264	$ 5,236	$ 770	$ (5,404)	$ 5,103

NOTE 3. INVENTORIES

Inventories consist principally of raw materials purchased for the manufacture of our products. We have limited finished goods inventory since all products are custom, made-to-order and usually ship upon completion. Finished goods inventory and

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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:

	July 1, 2017	December 31, 2016
	(in thousands)	
Raw materials	$ 27,687	$ 24,946
Work-in-progress	3,415	2,521
Finished goods	3,953	3,044
	$ 35,055	$ 30,511

NOTE 4. STOCK BASED-COMPENSATION

Exercises

For the three months ended July 1, 2017, there were 108,910 options exercised at a weighted average exercise price of $2.00 per share. For the six months ended July 1, 2017, there were 250,910 options exercised at a weighted average exercise price of $2.00 per share.

Issuance

On March 4, 2017, we granted 251,474 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 125,737 shares, is fixed, whereas the quantity granted on the remaining half, or 125,737 shares, is subject to Company-specific performance criteria. The restricted stock awards have a fair value on date of grant of $10.20 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 2017 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 amount of shares.

On May 19, 2017, we granted 34,699 restricted stock awards to the seven 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 $11.60 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

We record stock compensation expense over an award s vesting period based on the award s fair value at the date of grant. Effective on January 1, 2017, we adopted the provisions of ASU 2016-09, pursuant to which we elected to change our method of accounting for forfeitures, from one of estimating forfeitures, to recognizing forfeitures on an actual basis in the period they occur. For more information, see Note 1 under Recently Adopted Accounting Pronouncements . We recorded compensation expense for stock based awards of $0.6 million for the three months ended July 1, 2017, and $0.6 million for the three months ended July 2, 2016. We recorded compensation expense for stock based awards of $1.0 million for the six months ended July 1, 2017, and $1.1 million for the six months ended July 2, 2016. As of July 1, 2017, and July 2, 2016, there was $3.0 million and $2.7 million, respectively, 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 1.7 years at July 1, 2017.

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NOTE 5. 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.

Weighted average shares outstanding for the three and six months ended July 1, 2017, and July 2, 2016, excludes underlying options and restricted stock awards of 20 thousand 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		Six Months Ended	
	July 1, 2017	**July 2, 2016**	**July 1, 2017**	**July 2, 2016**
	(in thousands, except per share amounts)			
Net income	$ 10,255	$ 7,350	$ 13,254	$ 8,829
Weighted-average common shares - Basic	49,473	48,710	49,368	48,702
Add: Dilutive effect of stock compensation plans	2,191	1,763	2,239	1,763
Weighted-average common shares - Diluted	51,664	50,473	51,607	50,465
Net income per common share:				
Basic	$ 0.21	$ 0.15	$ 0.27	$ 0.18
Diluted	$ 0.20	$ 0.15	$ 0.26	$ 0.17

Effective on January 1, 2017, we adopted ASU 2016-09. ASU 2016-09 changes the accounting for excess tax benefits by requiring that they be treated as discrete items of income tax expense in the period they occur. For the three and six months ended July 1, 2017, income tax expense has been reduced by $407 thousand and $795 thousand, respectively, relating to excess tax benefits on the exercise of stock options and the lapse of restrictions on stock awards. ASU 2016-09 also changed the treasury stock method of calculating diluted shares outstanding to exclude the presumption that common stock equivalents can be reduced by repurchasing shares using excess tax benefits. For the three and six months ended July 1, 2017, diluted shares outstanding includes 710 thousand and 720 thousand shares, respectively, that prior to the adoption of ASU 2016-09 would have been presumed to be bought-back, and therefore not outstanding, using the proceeds of excess tax benefits. For the three and six months ended July 2, 2016, diluted shares outstanding would have increased by 839 thousand and 827 thousand shares, respectively, if we had adopted ASU 2016-09 at the beginning of our 2016 fiscal year.

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NOTE 6. ACQUISITIONS

WINDOOR

On February 16, 2016 (closing date), we completed the acquisition of WinDoor, which became a wholly-owned subsidiary of PGT Industries, Inc. The fair value of consideration transferred in the acquisition was $102.6 million, including the then estimated fair value of contingent consideration of $3.0 million, which has been allocated to the net assets acquired and liabilities assumed as of the acquisition date, in accordance with ASC 805, Business Combinations . The cash portion of the acquisition was financed with borrowings under the 2016 Credit Agreement, and with $43.5 million of cash on hand.

The estimated fair value of assets acquired and liabilities assumed as of the closing date, were as follows (in thousands):

	Final Allocation
Accounts and notes receivable	$ 3,882
Inventories	6,778
Prepaid expenses	246
Property and equipment	5,029
Intangible assets	47,100
Goodwill	41,856
Accounts payable and accrued liabilities	(2,320)
Purchase price	$ 102,571
Consideration:	
Cash	$ 99,571
Earn-out contingency	3,000
Total fair value of consideration	$ 102,571

The fair value of working capital related items, such as accounts receivable, inventories, prepaids, and accounts payable and accrued liabilities, approximated their book values at the date of acquisition. The fair value of property and equipment and remaining useful lives were estimated by management using its knowledge of machinery and equipment in the window and door manufacturing industry, neither of which significantly differed from the net book values and remaining book lives of WinDoor s property and equipment at the acquisition date. Valuations of the intangible assets (See Note 7) were valued using income and royalty relief approaches based on projections provided by management, which we consider to be Level 3 inputs.

Acquisition costs totaling $0.9 million are included in selling, general, and administrative expenses on the condensed consolidated statement of comprehensive income for the six months ended July 2, 2016, and relate to legal expenses, representations and warranties insurance, diligence, and accounting services.

The remaining consideration, after identified intangible assets and the net assets and liabilities recorded at fair value, was determined to be $41.9 million, of which $38.9 million 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 operational efficiencies.

The stock purchase agreement for the acquisition of WinDoor (SPA) provided for the potential for an earn-out contingency payment to sellers had WinDoor achieved a certain level of sales in the calendar year ended December 31, 2016. Pursuant to the SPA, if WinDoor s 2016 calendar-year sales (including both the pre-acquisition and post-acquisition periods of 2016) reached at least $46.0 million, the Company was required to pay 5.9% of WinDoor s sales, or approximately $2.7 million, up to a maximum sales amount of $51.0 million, or a maximum of approximately $3.0 million. If WinDoor s 2016 calendar-year sales were less than $46.0 million, no payment was required.

The potential undiscounted amount of all future payments that could be required to be paid under the contingent earn-out consideration arrangement was between $0 and $3.0 million. We had recorded an earn-out contingency liability of $3.0 million on the closing date, which represented its then estimated fair value using undiscounted cash flows, based on probability adjusted level of revenues with a range whose minimum was $51.0 million. Based on revised estimates using actual sales through the end of the 2016 third quarter, we concluded the probability was remote that WinDoor s actual sales for 2016 would reach the $46.0 million minimum level required for the minimum payment of $2.7 million possible under the

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earn-out contingency arrangement and, therefore, determined that the entire initial estimated fair value of $3.0 million should be reversed. Estimated sales is a significant input that is not observable in the market, which ASC 820 considers to be a Level 3 input. For tax purposes, contingent consideration does not become part of tax goodwill until paid. As such, the amount of goodwill deductible for tax purposes is $3.0 million less than the amount recorded for book purposes.

The SPA had a post-closing working capital calculation whereby we were 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. During the third quarter of 2016, the Company and the sellers reached agreement on the calculation of net working capital, which resulted in a payment of $0.7 million to the Company from sellers, resulting in a decrease in the purchase price which we recorded as a reduction in goodwill.

The following unaudited pro forma financial information assumes the acquisition had occurred at the beginning of the earliest period presented that does not include WinDoor s actual results for the entire period. Pro forma results have been prepared by adjusting our historical results to include the results of WinDoor adjusted for the following: amortization expense related to the intangible assets arising from the acquisition and interest expense to reflect the 2016 Credit Agreement entered into 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.

(in thousands, except per share amounts)	**Six Months Ended July 2, 2016**
Pro Forma Results	
Net sales	$ 221,700
Net income	$ 7,484
Net income per common share:	
Basic	$ 0.15
Diluted	$ 0.15

NOTE 7. GOODWILL, TRADE NAMES, AND OTHER INTANGIBLE ASSETS

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

	July 1, 2017	**December 31, 2016**	**Initial Useful Life (in years)**
	(in thousands)		
Goodwill	$ 108,060	$ 108,060	indefinite

Trade names and other intangible assets:			
Trade names	$ 75,841	$ 75,841	indefinite
Customer relationships	106,647	106,647	3-10
Developed technology	3,000	3,000	9-10
Non-compete agreement	1,668	1,668	2-5
Less: Accumulated amortization	(69,385)	(66,226)	
Subtotal	41,930	45,089	
Other intangible assets, net	$ 117,771	$ 120,930	

NOTE 8. LONG-TERM DEBT

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 six years that will amortize on a basis of 1% annually during the six-year term, and a $40.0 million revolving credit facility maturing in five years 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. As of July 1, 2017, there were $0.2 million of letters of credit outstanding and $39.8 million available on the revolver.

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 February 17, 2017, as described below, 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 575 basis points in the case of LIBOR and 475 basis points in the case of the base rate. We will pay quarterly fees on the unused portion of the revolving credit facility equal to 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. The weighted average all-in interest rate for borrowings under the term-loan portion of the 2016 Credit agreement was 6.01% as of July 1, 2017, and was 5.75% at December 31, 2016.

On February 17, 2017, we entered into an amendment of our 2016 Credit Agreement (First Amendment). The First Amendment, among other things, (a) decreases the applicable interest rate margins for the Initial Term Loans (as defined in the Credit Agreement) from (i) 4.75% to 3.75%, in the case of the Base Rate Loans (as defined in the Credit Agreement), and (ii) 5.75% to 4.75%, in the case of the Eurodollar Loans (as defined in the Credit Agreement), and (b) adds a soft call premium equal to 1.0% of the principal repaid or repriced if the Initial Term Loans are voluntarily refinanced or repriced pursuant to certain refinancing transactions within [twelve months] of the effective date of the First Amendment.

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), and will be tested quarterly based on the last four fiscal quarters and is set at levels as described in the 2016 Credit Agreement. As of July 1, 2017, 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 second quarter of 2017 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 July 1, 2017, 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.

As of July 1, 2017, the face value of debt outstanding under the 2016 Credit Agreement was $264.0 million, and accrued interest was $0.1 million. On July 7, 2017, we made a voluntary prepayment of $12.0 million of outstanding borrowings under the term-loan portion of the 2016 Credit Agreement. For additional information, see Note 12, Subsequent Event.

The activity relating to third-party fees and costs, lender fees and discount for the three months ended July 1, 2017, 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:

(in thousands)	**Total**
At beginning of year	$ 16,102
Amortization expense through February 17, 2017	(359)
At time of repricing	15,743
Less: Amortization expense after repricing	(1,042)
At end of period	$ 14,701

Estimated amortization expense relating to third-party fees and costs, lender fees and discount for the years indicated as of July 1, 2017, is as follows:

(in thousands)	**Total**
Remainder of 2017*	$ 1,974
2018	2,873
2019	3,054
2020	3,312
2021	3,096
2022	392
Total	$ 14,701

* Includes $0.6 million of acceleration of amortization of lenders fees and discount relating to the $12 million voluntary prepayment of borrowings under the 2016 Credit Agreement as discussed in Note 12, Subsequent Event.

As a result of a voluntary prepayment of $12.0 million we made on July 7, 2017, in the third quarter of 2017, 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, adjusted to reflect the prepayment made on July 7, 2017, as well as the application of the prepayment to all future scheduled repayments, as of July 1, 2017, are as follows (at face value):

	(in thousands)
Remainder of 2017**	$ 12,000
2018	
2019	
2020	
2021	
2022	251,975

Total	$	263,975

** Represents the $12 million voluntary prepayment of borrowings under the 2016 Credit Agreement as discussed in Note 12, Subsequent Event.

NOTE 9. COMMITMENTS AND CONTINGENCIES

Litigation

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

NOTE 10. INCOME TAXES

Income tax expense was $5.1 million for the three months ended July 1, 2017, compared with $4.2 million for the three months ended July 2, 2016. Our effective tax rate for the three months ended July 1, 2017, was 33.1%, and was 36.5% for the three months ended July 2, 2016. Income tax expense was $6.1 million for the six months ended July 1, 2017, compared with $5.1 million for the six months ended July 2, 2016. Our effective tax rate for the six months ended July 1, 2017, was 31.6%, and was 36.5% for the six months ended July 2, 2016.

Income tax expense in the three and six months ended July 1, 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 upon our adoption of ASU 2016-09 effective on January 1, 2017, totaling $407 thousand and $795 thousand, respectively. Excluding this discrete item of income tax expense, the effective tax rates for the three and six months ended July 1, 2017, would have been 35.8% and 35.7%, respectively.

The effective tax rates in all periods, excluding the effect of the discrete item discussed above in the 2017 periods, 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.

At July 1, 2017, an accrued federal income tax payable of $3.6 million was classified within accrued liabilities in the accompanying condensed consolidated balance sheet. At December 31, 2016, a federal income tax receivable of $2.6 million was classified within other current assets in the accompanying condensed consolidated balance sheet. During the three or six months ended July 1, 2017, we did not make a payment of estimated federal income taxes or receive any refunds of federal income taxes. During the three months ended July 2, 2016, we received a federal income tax refund of $2.4 million.

NOTE 11. 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 July 1, 2017, or July 2, 2016, 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, and accrued liabilities whose carrying amounts approximate their fair values due to their short-term nature. Our financial instruments also include long-term debt. The fair value of our long-term debt is based on debt with similar terms and characteristics and was approximately $267.9 million as of July 1, 2017, compared to a principal outstanding value of $264.0 million, and $264.6 million as of December 31, 2016, compared to a principal outstanding value of $264.0 million. Fair values were determined based on observed trading prices of our debt between domestic financial institutions.

NOTE 12. SUBSEQUENT EVENT

On July 7, 2017, we elected to make a voluntary prepayment of $12 million of outstanding borrowings under the term-loan portion of the 2016 Credit Agreement. This voluntary prepayment was made with cash on hand generated from operations, and reduced borrowings under the term-loan portion of the 2016 Credit Agreement to $252.0 million as of the date of filing of this Quarterly Report on Form 10-Q. As permitted under the 2016 Credit Agreement, we have elected to apply this prepayment to all future minimum required quarterly scheduled principal payments. As a result, we will not have a future minimum required scheduled principal payments due under the 2016 Credit Agreement until the maturity of the facility on February 21, 2022. We estimate that this voluntary prepayment of $12 million will reduce future cash debt service by more than $3 million over the remaining life of the 2016 Credit Agreement. The 2016 Credit Agreement permits us to make voluntary prepayments of borrowings with no prepayment penalties or other fees. However, as a result of this voluntary prepayment, we accelerated amortization of $0.6 million of lenders fees and discount relating to the term-loan portion of the 2016 Credit Agreement, which will be included in interest expense in the Company s condensed consolidated statements of operations for the three- and nine-month periods ended September 30, 2017.

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

The following discussion of our financial condition and results of operations should be read in conjunction with the Management s Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and notes thereto for the year ended December 31, 2016, included in our most recent Annual Report on Form 10-K as well as our reports on Forms 10-Q and 8-K and other publicly available information. All amounts herein are unaudited.

Special Note Regarding Forward-Looking Statements

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, pro 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:

Changes in new home starts and home remodeling trends

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

Raw material prices, especially for aluminum, glass and vinyl

Transportation costs

Our level of indebtedness

Dependence on our impact-resistant product lines

Integration of acquisition(s), including our acquisition of WinDoor, Inc.

Product liability and warranty claims made against us

Federal, state and local regulations, including changes to state and local building codes

Dependence on our limited number of manufacturing facilities

The risks and uncertainties discussed under Item 1A, Risk Factors, in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

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.

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EXECUTIVE OVERVIEW

Sales and Operations

We delivered a Company record for sales in a quarter at $137.4 million, up 15.4 percent compared to the second quarter of 2016. We also achieved a record for sales in a first half-year period at $250.1 million for the six-month period ended July 1, 2017.

Sales growth in the second quarter of 2017 was led by a 27 percent increase in our vinyl impact products, driven by an increase in sales of our mass-custom vinyl WinGuard line, sales of which are up 35 percent quarter-over-quarter, as demand in that product category continues to be strong. Since 2014, our vinyl WinGuard products have grown at a compound rate of more than 35 percent per year.

Our focus on continually striving to improve operations resulted in a higher level of efficient manufacturing execution during the second quarter of 2017, particularly at our PGT and CGI locations. The improved manufacturing operations at PGT and CGI helped drive the increase in gross margin for the second quarter of 2017, which came in at 32.4 percent, compared to last year s second quarter gross margin of 31.5 percent, an increase of nearly one full percentage point.

Despite strong growth in both quarter-over-quarter sales and orders, our backlog remained a healthy $61 million at the end of the second quarter of 2017. This is the result of a decrease in lead times due to our improved execution which enabled us to get products to the customer at a faster pace.

Last quarter, we made certain planned changes in our management structure to align our organization to better capitalize on market opportunities. These changes were effective and helped drive our performance during the second quarter. We took certain additional actions at our WinDoor brand directed towards creating an environment for sustainable growth, which caused some expected, but temporary, production challenges in WinDoor s second-quarter operations. These improvements included putting new leaders and production processes into place, as well as adding to our bench of glass suppliers to diversify our supply-chain for glass. While we expect the transition period for these improvements to continue into the third quarter, we believe they will result in a stronger WinDoor brand, part of a strong three-brand suite of high-quality residential and commercial products. These improvements are in alignment