

PGT Innovations, Inc.  
Form 10-K  
March 10, 2017  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**Form 10-K**

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

**For the fiscal year ended December 31, 2016**

**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.**

**(Exact name of registrant as specified in its charter)**

**Delaware**  
**(State or other jurisdiction of**  
**incorporation or organization)**

**20-0634715**  
**(I.R.S. Employer**  
**Identification No.)**

**1070 Technology Drive**

**North Venice, Florida**  
**(Address of principal executive offices)**

**34275**  
**(Zip Code)**

**Registrant's telephone number, including area code:**

**(941) 480-1600**

**Former name, former address and former fiscal year, if changed since last report: PGT, Inc.**

**Securities registered pursuant to Section 12(b) of the Act:**

<b>Title of Each Class</b>	<b>Name of Exchange on Which Registered</b>
<b>Common stock, par value \$0.01 per share</b>	<b>New York Stock Exchange, Inc.</b>
<b>Securities registered pursuant to Section 12 (g) of the Act: None</b>	

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes  No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant as of July 1, 2016 was approximately \$495,523,663 based on the closing price per share on that date of \$10.42 as reported on the NASDAQ Global Market.

The number of shares of the registrant's common stock, par value \$0.01, outstanding as of March 1, 2017, was 49,318,149.

#### **DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Company's Proxy Statement for the Company's 2017 Annual Meeting of Stockholders are incorporated by reference into Part III of this Form 10-K. The Company's Proxy Statement will be filed with the Securities and Exchange Commission pursuant to Regulation 14A.

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**PART I**

**Item 1. BUSINESS**

**GENERAL DEVELOPMENT OF BUSINESS**

**Description of the Company**

On December 14, 2016, we announced the unveiling of our new name, PGT Innovations, Inc. (PGTI), formerly PGT, Inc. The name change is part of our strategy to bring together under a single identity our three, go-to-market brands serving all levels of the premium impact-resistant window and door market, from mass-custom to high-end, luxury products which we believe are the most cutting-edge, technologically advanced window and door products in the industry. We pioneered the U.S. impact-resistant window and door industry. By bringing together our three brands, PGT® Custom Windows & Doors, CGI®, and WinDoor®, under the umbrella of the PGT Innovations, Inc. name, we believe solidifies our position as the leading manufacturer and supplier of residential impact-resistant windows and doors in the U.S.

Our PGT impact-resistant products, which are marketed under the WinGuard® brand name, combine heavy-duty aluminum or vinyl frames with laminated glass to provide protection from hurricane-force winds and wind-borne debris by maintaining their structural integrity and substantially reducing the likelihood of penetration by impacting objects. Impact-resistant windows and doors satisfy stringent building codes in hurricane-prone coastal states and provide an attractive alternative to shutters and other active forms of hurricane protection that require installation and removal before and after each storm. Combining the impact resistance of WinGuard, with our insulating glass creates energy efficient windows that can significantly reduce cooling and heating costs. We also manufacture non-impact resistant products in both aluminum and vinyl frames. Our current market share in Florida which is the largest U.S. impact-resistant window and door market, is greater than that of any of our competitors.

On September 22, 2014, we completed the acquisition of CGI Windows and Doors Holdings, Inc. (CGI) which became a wholly-owned subsidiary of PGT Industries, Inc. CGI was established in 1992 and has consistently built a reputation based on designing and manufacturing quality impact-resistant products that meet or exceed the stringent Miami-Dade County impact standards. Today, CGI continues to lead as an innovator in product craftsmanship, strength and style, and we believe its brands are highly recognized and respected by the architectural community. CGI product lines include the Estate Collection, Sentinel by CGI, Estate Entrances, Commercial Series and Targa by CGI. On July 25, 2016, the Company created CGI Commercial, Inc. (CGIC), a Florida corporation. CGIC is a wholly-owned subsidiary of CGI. CGIC was created for the purpose of acquiring the operations of US Impact Systems, Inc. (USI), a Florida corporation doing business primarily in the Miami area of Florida. USI is an established fabricator of storefront window and door products. CGIC, under the CGI brand, is the entity we use to market and sell our commercial storefront system products.

On February 16, 2016, we completed the acquisition of WinDoor, Incorporated (WinDoor), a provider of high-performance, impact-resistant windows and doors for five-star resorts, luxury high-rise condominiums, hotels and custom residential homes. WinDoor is now a wholly-owned subsidiary of PGT Industries, Inc. At its manufacturing and administrative facilities in Orlando, Florida, WinDoor manufactures high-end, high-quality aluminum and thermally-broken aluminum products, featuring sliding glass doors, terrace doors, and windows.

At our manufacturing facilities in North Venice, Orlando, and Miami, Florida, where collectively we have over 2,600 employees, we produce fully-customized windows and doors for the luxury, premium and mass-custom markets, and

have glass insulating, tempering and laminating facilities, which provide us with a consistent source of impact-resistant laminated and insulated glass, shorter lead times, and lower costs relative to third-party sourcing.

The geographic regions in which we currently conduct business include the Southeastern U.S., Gulf Coast, Coastal mid-Atlantic, the Caribbean, Central America, and Canada. We distribute our products through multiple channels, including approximately 1,300 window distributors, building supply distributors, window replacement dealers and enclosure contractors. This broad distribution network provides us with the flexibility to meet demand as it shifts between the residential new construction and repair and remodeling end markets.

## **History**

Our subsidiary, PGT Industries, Inc., a Florida Corporation, was founded in 1980 as Vinyl Tech, Inc. The PGT brand was established in 1987, and we introduced our WinGuard branded product line in the aftermath of Hurricane Andrew in 1992. CGI became a wholly-owned subsidiary of PGT Industries, Inc. on September 22, 2014. WinDoor became a wholly-owned subsidiary of PGT Industries, Inc. on February 16, 2016. CGIC became a wholly-owned subsidiary of CGI on August 31, 2016.

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PGT Innovations, Inc. is a Delaware corporation formed on December 16, 2003, and on June 27, 2006, we became a publicly listed company on the NASDAQ Global Market (NASDAQ) under the symbol PGTI . Prior to changing its name to PGT Innovations, Inc., which was announced on December 14, 2016, the Company was named PGT, Inc. Effective on December 28, 2016, the listing of the Company s common stock was transferred to the New York Stock Exchange (NYSE) from the NASDAQ. On that date, the Company s common stock began trading on the NYSE under its existing ticker symbol of PGTI .

**FINANCIAL INFORMATION ABOUT INDUSTRY SEGMENTS**

We operate as one segment, the manufacture and sale of windows and doors. Additional required information is included in Item 8.

**NARRATIVE DESCRIPTION OF BUSINESS**

**Our Products**

We manufacture complete lines of high-end, luxury, premium, and mass-custom fully customizable aluminum and vinyl windows and doors and porch enclosure products targeting both the residential new construction and repair and remodeling end markets. All of our products carry one of our three brand names, and our consumer-oriented products carry an additional, trademarked product name. PGT s products carry the PG® Custom Windows & Doors brand and carry the trademarked product names of WinGuard, WinGuard Vinyl and EnergyVue, and Eze-Breeze. CGI s products carry the CGI® brand and also carry the trademarked product names of Estate Collection, Sentinel by CGI, Estate Entrances, Commercial Series and Targa by CGI. Also, under CGI, CGIC sells the Company s commercial storefront system. WinDoor s products carry the WinDoor® brand and carry various product names, including its 3000 and 4000 Series aluminum windows, its 6000, 7000 and 8000 Series aluminum sliding glass doors, and its 9000 Series thermally broken windows and doors.

**PGT Custom Windows & Doors**

*WinGuard.* WinGuard is an impact-resistant product line that combines heavy-duty aluminum or vinyl frames with laminated glass to provide protection from hurricane-force winds and wind-borne debris and satisfies increasingly stringent building codes. Our marketing and sales of the WinGuard product line is primarily targeted at hurricane-prone coastal states in the U.S., as well as the Caribbean and Central America. Combining the impact resistance of WinGuard with our insulating glass creates energy efficient windows that can significantly reduce cooling and heating costs. In the first quarter of 2015, we announced the launch of our new WinGuard Vinyl line of windows and doors, our all-new impact-resistant vinyl window designed to offer some of the highest design pressures available on impact-resistant windows and doors, in an attractive modern profile, with larger sizes capable of handling the toughest hurricane codes in the country. It also protects against flying debris, intruders, outside noise and UV rays, making it a top choice for customers seeking an impact-resistant window.

*EnergyVue.* EnergyVue is our non-impact vinyl window featuring energy-efficient insulating glass and multi-chambered frames that meet or exceed ENERGY STAR® standards in all climate zones to help consumers save on energy costs. The new design has a refined modern profile combined with robust construction to make larger sizes and higher design pressures an unparalleled offering. We rounded out the line with one of the industry s most extensive selection of frame colors and a variety of hardware finishes, glass tints, grid styles and patterns for our customers. We announced the launch of EnergyVue in the first quarter of 2015.

*Aluminum.* We offer a complete line of fully customizable, non-impact-resistant aluminum frame windows and doors. These products primarily target regions with warmer climates, where aluminum is often preferred due to its ability to withstand higher structural loads. Adding our insulating glass creates energy-efficient windows that can significantly reduce cooling and heating costs.

*Eze-Breeze.* Eze-Breeze non-glass vertical and horizontal sliding panels for porch enclosures are vinyl-glazed, aluminum-framed products used for enclosing screened-in porches that provide protection from inclement weather. This line was completed with the addition of a cabana door.

**CGI**

*Estate Collection.* Our Estate Collection of windows and doors is CGI's premium, high-end aluminum impact-resistant product line. These windows and doors can be found in elegant homes, prestigious resorts, hotels, schools and office buildings. Our Estate Collection combines best-in-class performance against hurricane force damage with architectural-grade quality,



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handcrafted details and superior engineering. Similar to WinGuard, Estate windows and doors protect and insulate against many external events, from hurricanes to UV protection, outside noise and forced entry. Estate's aluminum frames are much thicker than many of our competitors' frames, making it an excellent choice for any coastal area prone to hurricanes.

*Sentinel.* Sentinel is a complete line of aluminum impact-resistant windows and doors from CGI that provides exceptional quality, craftsmanship, energy efficiency and durability at an affordable price. Sentinel windows and doors are manufactured to enhance the aesthetics of the home while delivering protection from the most extreme coastal conditions. Sentinel is custom manufactured to exact sizes within our wide range of design parameters, therefore, reducing on-site construction costs. In addition, Sentinel's frame depth is designed for both new construction and replacement applications resulting in faster, less intrusive installations.

*Targa.* Targa is CGI's line of vinyl energy-efficient, impact-resistant windows designed specifically to exceed the Florida impact codes, the most stringent impact standards in the U.S. Targa windows enhance the aesthetics of a home and are low maintenance windows with long-term durability, and environmental compatibility.

*Commercial Storefront System.* Our Commercial Storefront window system and entry doors are engineered to provide a flexible yet economical solution for a variety of applications. Our system provides easy fabrication and assembly, while also reducing installation time and challenges.

## **WinDoor**

*Aluminum Doors and Windows.* WinDoor produces a wide array of high-end, luxury aluminum doors and windows, including impact and non-impact sliding glass doors and terrace doors, fixed picture windows, single hung windows, and horizontal rolling windows. All of WinDoor's aluminum windows are available in impact and non-impact versions, and are made from heavy-duty, robust materials and meet or exceed ENERGY STAR® standards in all climate zones to help consumers save on energy costs.

*Thermally Broken Doors and Windows.* WinDoor produces a variety of aluminum thermally broken doors and windows. WinDoor's thermally broken products provide the strength of aluminum with the energy ratings usually only seen in vinyl products. All of WinDoor's thermally broken products are available in multiple shapes and sizes while earning high performance ratings on high impact and non-impact certifications, and meet or exceed ENERGY STAR® standards in all climate zones to help consumers save on energy costs.

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### **Sales and Marketing**

Our sales strategy primarily focuses on attracting and retaining distributors and dealers with an expectation of consistently providing exceptional customer service, leading product designs and quality, and competitive pricing all using our advanced knowledge of building code requirements and technical expertise.

Our marketing strategy is designed to reinforce the high quality of our products and focuses on both coastal and inland markets. We support our markets through print and web-based advertising, consumer, dealer, and builder promotions, and selling and collateral materials. We also work with our dealers and distributors to educate architects, building officials, consumers and homebuilders on the advantages of using impact-resistant and energy-efficient products. We market our products based on our expectations of quality, building code compliance, outstanding service, shorter lead times, and on-time delivery using our fleet of trucks and trailers.

### **Our Customers**

We have a highly diversified base of approximately 1,300 window distributors, building supply distributors, window replacement dealers and enclosure contractors. Our largest customer accounts for approximately 3% of net sales and our top ten customers account for approximately 20% of net sales. Our sales are comprised of residential new construction and home repair and remodeling end markets, which represented approximately 42% and 58% of our sales, respectively, during 2016. This compares to 41% and 59%, respectively, in 2015.

We do not supply our products directly to homebuilders, but believe demand for our products is also a function of our strong relationships with a number of national homebuilders.

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### **Materials and Supplier Relationships**

Our primary manufacturing materials include aluminum and vinyl extrusions, glass, ionoplast, and polyvinyl butyral. Although in many instances we have agreements with our suppliers, these agreements are generally terminable by either party on limited notice. While most of our materials are typically available from other sources, we would not be able to quickly transition to alternative sources on short-notice in many instances, due, for example, to the length of time it would take us to complete testing and certifications related to impact-resistance and for the alternative source of supply to create the customized equipment and tooling necessary to provide the materials and components to us. Aluminum and vinyl extrusions accounted for approximately 38% of our material purchases during fiscal year 2016. Sheet glass, which is sourced from two major national suppliers, accounted for approximately 13% of our material purchases during fiscal year 2016. Sheet glass that we purchase comes in various sizes, tints, and thermal properties. From the sheet glass purchased, we produce most of our own laminated glass needs. However, in 2016 and 2015 due to some temporary capacity constraints, we purchased some of our laminated glass needs from one major national supplier. This finished laminated glass made up approximately 17% of our material purchases in fiscal year 2016. Polyvinyl butyral and ionoplast, which are both used as inner layer in laminated glass, accounted for approximately 11% of our material purchases during fiscal year 2016.

### **Backlog**

As of December 31, 2016, our backlog was \$40.6 million. As of January 2, 2016, our backlog was \$31.6 million. Our backlog consists of orders that we have received from customers that have not yet shipped, and we expect that substantially all of our current backlog will be recognized as sales in the first quarter of 2017, due in part to our lead times which range from one to five weeks.

### **Intellectual Property**

We own and have registered trademarks in the United States. In addition, we own several patents and patent applications concerning various aspects of window assembly and related processes. We are not aware of any circumstances that would have a material adverse effect on our ability to use our trademarks and patents. As long as we continue to renew our trademarks when necessary, the trademark protection provided by them is perpetual.

### **Manufacturing**

Our manufacturing facilities are located in Florida where we produce customized products. The manufacturing process typically begins in our glass plant where we cut, temper, laminate, and insulate sheet glass to meet specific requirements of our customers' orders.

Glass is transported to our window and door assembly lines in a make-to-order sequence where it is combined with an aluminum or vinyl frame. These frames are also fabricated to order. We start with a piece of extruded material which is cut and shaped into a frame that fits the customers' specifications. Once complete, product is immediately staged for delivery and generally shipped on our trucking fleet within 48 hours of completion.

### **Competition**

The window and door industry is highly fragmented, and the competitive landscape is based on geographic scope. The competition falls into the following categories.

*Local and Regional Window and Door Manufacturers:* This group of competitors consists of numerous local job shops and small manufacturing facilities that tend to focus on selling products to local or regional dealers and wholesalers. Competitors in this group typically lack marketing support and the service levels and quality controls demanded by larger distributors, as well as the ability to offer a full complement of products.

*National Window and Door Manufacturers:* This group of competitors tends to focus on selling branded products nationally to dealers and wholesalers and has multiple locations.

*International Window and Door Manufacturers:* This group of competitors consists of non-U.S. companies that have created entities and established manufacturing operations within Florida, and have an increasing presence in the South Florida region as suppliers of windows and doors, primarily for high-rise buildings.

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*Active Protection:* This group of competitors consists of manufactures that produce shutters and plywood, both of which are used to actively protect openings. Our impact windows and doors represent passive protection, meaning, once installed, no activity is required to protect a home from storm related hazards.

The principal methods of competition in the window and door industry are the development of long-term relationships with window and door dealers and distributors, and the retention of customers by delivering a full range of high-quality products on time while offering competitive pricing and flexibility in transaction processing. Trade professionals such as contractors, homebuilders, architects and engineers also engage in direct interaction with manufacturers, and look to the manufacturer for training and education related to products and codes. Although some of our competitors may have greater geographic scope and access to greater resources and economies of scale than do we, we believe our leading position in the U.S. impact-resistant window and door market, and the award winning designs and high quality of our products, position us well to meet the needs of our customers.

**Environmental Considerations**

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, and we believe that our facilities are in material compliance with such laws and regulations.

**Employees**

As of the end of 2016, we employed approximately 2,600 people, none of whom were represented by a collective bargaining unit. We believe we have good relations with our employees.

**FINANCIAL INFORMATION ABOUT GEOGRAPHIC AREAS**

Our domestic and international net sales for each of the three years ended December 31, 2016, January 2, 2016, and January 3, 2015, are as follows (in millions):

	<b>Year Ended</b>		
	<b>December 31, 2016</b>	<b>January 2, 2016</b>	<b>January 3, 2015</b>
Domestic	\$ 442.7	\$ 371.0	\$ 295.8
International	15.9	18.8	10.6
Total net sales	\$ 458.6	\$ 389.8	\$ 306.4

**AVAILABLE INFORMATION**

Our Internet address is [www.pginnovations.com](http://www.pginnovations.com). Through our Internet website under Financial Information in the Investors section, we make available free of charge, as soon as reasonably practical after such information has been filed with the SEC, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed pursuant to Section 13(a) or 15(d) of the Securities Exchange Act. Also available through our Internet website under Corporate Governance in the Investors section are our Code of Business Conduct and Ethics and our supplemental Code of Ethics for Senior Officers. We are not including this or any other information on our website as a part of, nor incorporating it by reference into this Form 10-K, or any of our other SEC

filings. The SEC maintains an Internet site that contains our reports, proxy and information statements, and other information that we file electronically with the SEC at [www.sec.gov](http://www.sec.gov).

**Item 1A. RISK FACTORS**

*We are subject to regional and national economic conditions.* The economy in Florida and throughout the United States could negatively impact demand for our products as it has in the past, and macroeconomic forces such as employment rates and the availability of credit could have an adverse effect on our sales and results of operations.

*New home construction while improving, remains below average. Also repair and remodeling markets are subject to many economic factors. Accordingly, either market could decline and lower the demand for, and the pricing of, our products, which could adversely affect our results.* The window and door industry is subject to the cyclical market pressures of the larger new construction and repair and remodeling markets. In turn, these changes may be affected by adverse changes in economic conditions such as demographic trends, employment levels, interest rates, and consumer confidence. A decline in the economic environment or new home construction could negatively impact our sales and earnings.

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***Economic and credit market conditions impact our ability to collect receivables.*** Economic and credit conditions can negatively impact our bad debt expense, which can adversely impact our results of operations. If economic and credit conditions deteriorate, our results of operations may be adversely impacted by bad debts.

***We are subject to fluctuations in the prices of our raw materials.*** We experience significant fluctuations in the cost of our raw materials, including aluminum extrusion, vinyl extrusion, polyvinyl butyral and glass. A variety of factors over which we have no control, including global demand for aluminum, fluctuations in oil prices, speculation in commodities futures and the creation of new laminates or other products based on new technologies impact the cost of raw materials which we purchase for the manufacture of our products. These factors may also magnify the impact of economic cycles on our business. While we attempt to minimize our risk from severe price fluctuations by entering into aluminum forward contracts to hedge these fluctuations in the purchase price of aluminum extrusion we use in production, substantial, prolonged upward trends in aluminum prices could significantly increase the cost of the unhedged portions of our aluminum needs and have an adverse impact on our results of operations. We anticipate that these fluctuations will continue in the future. While we have entered into supply agreements with major producers of our primary raw materials that we believe provides us with reliable sources for certain of our raw materials with stable pricing on favorable terms, if one or both parties to the agreements do not satisfy the terms of the agreements, they may be terminated which could result in our inability to obtain certain raw materials on commercially reasonable terms having an adverse impact on our results of operations. While historically we have to some extent been able to pass on significant cost increases to our customers, our results between periods may be negatively impacted by a delay between the cost increases and price increases in our products.

***We rely on a limited number of outside suppliers for certain key components and materials.*** We obtain a significant portion of our key raw materials, such as glass, aluminum and vinyl components, from a few key suppliers. If any of these suppliers is unable to meet its obligations under present or any future supply agreements, we may be forced to pay higher prices to obtain the necessary raw materials, and may suffer a significant interruption in our ability to manufacture our products. Any interruption of supply or any price increase of raw materials could have a material adverse effect on our business and results of operations. If we are required to obtain an alternate source for these materials or components, we may not be able to obtain pricing on as favorable terms or on terms comparable to our competitors. Additionally, we may be forced to pay additional transportation costs or to invest in capital projects or costly product redesigns, and perform costly new product certification testing with respect to our impact-resistant products, in connection with moving to any alternate source of supply. A vendor may also choose, subject to existing contracts, to modify its relationship due to general economic concerns or concerns relating to the vendor or us, at any time. Any significant change in the terms that we have with our key suppliers could materially adversely affect our financial condition and liquidity, as could significant additional requirements from our suppliers that we provide them additional security in the form of prepayments or with letters of credit.

***Sales fluctuations to and changes in our relationships with key customers could have a material adverse effect on our financial condition, liquidity or results of operations.*** Some of our business lines and markets are dependent on a few key customers, including dealers. We generally do not enter into written or long-term agreements with our customers. The loss, reduction, or fluctuation of sales to one of these major customers, or any adverse change in our business relationship with any one or more of them, could have a material adverse effect on our financial condition, liquidity or results of operations.

***We rely on third party transportation, which subjects us to risks and costs that we cannot control, and which risks and costs may materially adversely affect our operations.*** We rely on third party trucking companies to transport raw materials to the manufacturing facilities used by each of our businesses and, to a lesser degree, to ship finished products to customers. These transport operations are subject to various hazards and risks, including extreme weather conditions, work stoppages and operating hazards, as well as interstate transportation regulations. In addition, the

methods of transportation we utilize may be subject to additional, more stringent and more costly regulations in the future. If we are delayed or unable to ship finished products or unable to obtain raw materials as a result of any such new regulations or public policy changes related to transportation safety, or these transportation companies fail to operate properly, or if there were significant changes in the cost of these services due to new or additional regulations, or otherwise, we may not be able to arrange efficient alternatives and timely means to obtain raw materials or ship goods, which could result in a material adverse effect on our revenues and costs of operations. Transportation costs represent a significant part of our cost structure. If our transportation costs increased substantially, due to prolonged increases in fuel prices or otherwise, we may not be able to control them or pass the increased costs onto customers, and our profitability would be negatively impacted.

***The home building industry and the home repair and remodeling sector are regulated.*** The homebuilding industry and the home repair and remodeling sector are subject to various local, state, and federal statutes, ordinances, rules, and regulations concerning zoning, building design and safety, construction, and similar matters, including regulations that impose restrictive zoning and density requirements in order to limit the number of homes that can be built within the boundaries of a particular area. Increased regulatory restrictions could limit demand for new homes and home repair and remodeling products and could negatively affect our sales and results of operations.



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***Our operating results are substantially dependent on sales of our branded impact-resistant products.*** A majority of our net sales are, and are expected to continue to be, derived from the sales of our branded impact-resistant products. Accordingly, our future operating results will depend on the demand for our impact-resistant products by current and future customers, including additions to this product line that are subsequently introduced. If our competitors release new products that are superior to our impact-resistant products in performance or price, or if we fail to update our impact-resistant products with any technological advances that are developed by us or our competitors or introduce new products in a timely manner, demand for our products may decline. A decline in demand for our impact-resistant products as a result of competition, technological change or other factors could have a material adverse effect on our ability to generate sales, which would negatively affect results of operations.

***Changes in building codes could lower the demand for our impact-resistant windows and doors.*** The market for our impact-resistant windows and doors depends in large part on our ability to satisfy state and local building codes that require protection from wind-borne debris. If the standards in such building codes are raised, we may not be able to meet their requirements, and demand for our products could decline. Conversely, if the standards in such building codes are lowered or are not enforced in certain areas, demand for our impact-resistant products may decrease. Further, if states and regions that are affected by hurricanes but do not currently have such building codes fail to adopt and enforce hurricane protection building codes; our ability to expand our business in such markets may be limited.

***The industry in which we compete is highly competitive.*** The window and door industry is highly competitive. We face significant competition from numerous small, regional producers, as well as certain national producers. Any of these competitors may (i) foresee the course of market development more accurately than do we, (ii) develop products that are superior to our products, (iii) have the ability to produce similar products at a lower cost or compete more aggressively in pricing, or (iv) adapt more quickly to new technologies or evolving customer requirements than do we. Additionally, some of the competitors of our businesses are larger and have greater financial and other resources and less debt than we. Accordingly, these competitors may be better able to withstand changes in conditions within the industries and markets in which we operate and may have significantly greater operating and financial flexibility than we have. Moreover, barriers to entry are low in most product lines and new competitors may enter our industry, especially if the market for impact-resistant windows and doors continues to expand. An increase in competition from other window and door building products manufacturers or alternative building materials could cause us to lose customers and lead to decreases in net sales and profitability. To the extent we lose customers in the renovation and remodeling markets, we would likely have to market more to the new home construction market, which historically has experienced more significant fluctuations in demand.

***Our business is currently concentrated in one state.*** Our business is concentrated geographically in Florida. Focusing operations into manufacturing locations in Florida optimizes manufacturing efficiencies and logistics, and we believe that a focused approach to growing our share within our core wind-borne debris markets in Florida, from the Gulf Coast to the mid-Atlantic, and certain international markets, will maximize value and return. However, such a focus further concentrates our business, and another prolonged decline in the economy of the state of Florida or of certain coastal regions, a change in state and local building code requirements for hurricane protection, or any other adverse condition in the state or certain coastal regions, could cause a decline in the demand for our products, which could have an adverse impact on our sales and results of operations.

***We have incurred additional indebtedness and may incur additional indebtedness in the future.*** We have incurred additional indebtedness under our credit facilities as a result of increasing our borrowing levels to fund acquisitions, and to provide for up to \$40 million of revolving credit borrowings. We and our subsidiaries may incur additional indebtedness in the future to fund additional acquisitions and/or to borrow under our revolving credit facility to fund working capital needs. If new debt is added to our current debt levels, certain risks which we currently do not consider significant could intensify.

***Our level of indebtedness could adversely affect our ability to operate our business.*** Our level of indebtedness could have important consequences on our business. For example, it could, among other things:

require us to dedicate a portion of our cash flow from operations to payments on our debt, reducing the amount of cash flow available for other purposes, such as capital expenditures, acquisitions, dividends and working capital;

limit our flexibility in planning for, or reacting to, changes in our business and the industries in which we operate;

place us at a disadvantage compared to our competitors that have less debt and, thus, may have greater flexibility to use their cash flows to pursue business opportunities that may improve their businesses and financial performance;

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increase our cost of borrowing; and

limit the amount of additional debt we could borrow.

In addition, our current debt instruments contain various covenants that limit our ability to operate our business. Our credit facility contains various provisions that limit our ability to, among other things, transfer or sell assets, including the equity interests of our subsidiaries, or use asset sale proceeds; pay dividends or distributions on our capital stock, make certain restricted payments or investments; create liens to secure debt; enter into transactions with affiliates; merge or consolidate with another company; and engage in unrelated business activities.

Under certain circumstances and depending on the degree of borrowing we may elect to incur under the revolving credit portion of our credit facility, our credit facility requires us to maintain a net leverage ratio, as defined in our credit facility, below certain maximums which decrease over time. Our ability to comply with the requirements of this maximum net leverage ratio, as well as other provisions of our credit facility, may be affected by changes in our operating and financial performance, changes in general business and economic conditions, adverse regulatory developments, or other events beyond our control. The breach of this maximum net leverage ratio requirement, could result in a default under our indebtedness, which could cause it and other obligations to become immediately due and payable. If any of our indebtedness is accelerated, we may not be able to repay it.

***We may be adversely affected by any disruption in our information technology systems.*** Our operations are dependent upon our information technology systems, which encompass all of our major business functions. A disruption in our information technology systems for any prolonged period could result in delays in receiving inventory and supplies or filling customer orders and adversely affect our customer service and relationships.

***We depend on hiring an adequate number of hourly employees to operate our business and are subject to government regulations concerning these and our other employees, including wage and hour regulations.*** Our workforce is comprised primarily of employees who work on an hourly basis. To grow our operations and meet the needs and expectations of our customers, we must attract, train, and retain a large number of hourly associates, while at the same time controlling labor costs. These positions have historically had high turnover rates, which can lead to increased training, retention and other costs. In certain areas where we operate, there is significant competition for employees. The lack of availability of an adequate number of hourly employees, or our inability to attract and retain them, or an increase in wages and benefits to current employees could adversely affect our business, results of operations, cash flows and financial condition. We are subject to applicable rules and regulations relating to our relationship with our employees, including wage and hour regulations, health benefits, unemployment and payroll taxes, overtime and working conditions and immigration status. Accordingly, federal, state or local legislated increases in the minimum wage, as well as increases in additional labor cost components such as employee benefit costs, workers compensation insurance rates, compliance costs and fines, would increase our labor costs, which could have a material adverse effect on our business, prospects, results of operations and financial condition.

***We may be adversely affected by any disruptions to our manufacturing facilities or disruptions to our customer, supplier, or employee base.*** Our manufacturing and operating facilities are located in Florida, which is a hurricane-sensitive area. Any disruption to our facilities resulting from hurricanes and other weather-related events, fire, an act of terrorism, or any other cause could damage a significant portion of our inventory, affect our distribution of products, and materially impair our ability to distribute our products to customers. We could incur significantly higher costs and longer lead times associated with distributing our products to our customers during the time that it takes for us to reopen or replace a damaged facility. In addition, if there are disruptions to our customer and supplier base or to our employees caused by hurricanes, our business could be temporarily adversely affected by higher costs for materials, increased shipping and storage costs, increased labor costs, increased absentee rates, and scheduling

issues. Furthermore, some of our direct and indirect suppliers have unionized work forces, and strikes, work stoppages, or slowdowns experienced by these suppliers could result in slowdowns or closures of their facilities. Any interruption in the production or delivery of our supplies could reduce sales of our products and increase our costs.

***The nature of our business exposes us to product liability and warranty claims.*** We are, from time to time, involved in product liability and product warranty claims relating to the products we manufacture and distribute that, if adversely determined, could adversely affect our financial condition, results of operations, and cash flows. In addition, we may be exposed to potential claims arising from the conduct of homebuilders and home remodelers and their sub-contractors. Although we currently maintain what we believe to be suitable and adequate insurance in excess of our self-insured amounts, we may not be able to maintain such insurance on acceptable terms or such insurance may not provide adequate protection against potential liabilities. Product liability claims can be expensive to defend and can divert the attention of management and other personnel for significant periods, regardless of the ultimate outcome. Claims of this nature could also have a negative impact on customer confidence in our products and our company.

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***We are subject to potential exposure to environmental liabilities and are subject to environmental regulation.*** We are subject to various federal, state, and local environmental laws, ordinances, and regulations. Although we believe that our facilities are in material compliance with such laws, ordinances, 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. Remediation may be required in the future as a result of spills or releases of petroleum products or hazardous substances, the discovery of unknown environmental conditions, or more stringent standards regarding existing residual contamination. More burdensome environmental regulatory requirements may increase our general and administrative costs and may increase the risk that we may incur fines or penalties or be held liable for violations of such regulatory requirements.

***We conduct all of our operations through our subsidiaries, and rely on payments from our subsidiaries to meet all of our obligations.*** We are a holding company and derive all of our operating income from our subsidiary, PGT Industries, Inc., and its subsidiaries, CGI Windows and Doors, Inc., and WinDoor, Incorporated. All of our assets are held by our subsidiaries, and we rely on the earnings and cash flows of our subsidiaries to meet our obligations. The ability of our subsidiaries to make payments to us will depend on their respective operating results and may be restricted by, among other things, the laws of their jurisdictions of organization (which may limit the amount of funds available for distributions to us), the terms of existing and future indebtedness and other agreements of our subsidiaries, including our credit facilities, and the covenants of any future outstanding indebtedness we or our subsidiaries incur.

***We are exposed to risks relating to evaluations of controls required by Section 404 of the Sarbanes-Oxley Act of 2002.*** We are required to comply with Section 404 of the Sarbanes-Oxley Act of 2002. While we have concluded that at December 31, 2016, we have no material weaknesses in our internal control over financial reporting, we cannot assure you that we will not have a material weakness in the future. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. If we fail to maintain our internal control over financial reporting that meets the requirements of Section 404, we might be subject to sanctions or investigation by regulatory authorities such as the SEC or by the New York Stock Exchange. Additionally, failure to comply with Section 404 or the report by us of a material weakness may cause investors to lose confidence in our financial statements and our stock price may be adversely affected. If we fail to remedy any material weakness, our financial statements may be inaccurate, we may not have access to the capital markets, and our stock price may be adversely affected.

***We are exposed to risks relating to the continued expansion of our glass operations.*** We expanded our glass processing capacity with the completion of a new multi-million dollar facility in 2014, and are proceeding with the purchase of additional equipment. While we anticipate cost savings will result from increasing our capacity and internalizing our processing capabilities for processing glass, there is always the potential risk that we may not utilize our equipment efficiently or effectively or that we may incur other operational inefficiencies, which could negatively affect our financial results.

***We may be adversely impacted by the loss of sales or market share from being unable to keep up with demand.*** We are currently experiencing growth through higher sales volume and growth in market share. To meet the increased demand, we have been hiring and training new employees for direct and indirect support, and adding to our glass capacity. However, should we be unable to find and retain quality employees to meet demand, or should there be disruptions to the increase in capacity, we may be unable to keep up with our higher sales demand. If our lag time on delivery falls behind, or we are unable to meet customer timing demands, we could lose market share to competitors.

***We made significant acquisitions late in the third quarter of 2014, and again in February 2016 of companies that sell products similar to PGT's own impact-resistant line of products in PGT's primary market of Florida.*** Late in the third quarter of 2014, we acquired CGI Windows and Doors, Inc. CGI produces the Estate, Sentinel and Targa lines of impact-resistant branded products which are very similar to our WinGuard line of impact-resistant branded products. In February 2016, we acquired WinDoor. WinDoor produces impact-resistant windows and sliding glass and terrace doors, similar to PGT and CGI. Nearly all of CGI's and WinDoor's sales are in Florida, PGT's primary market. We believe that adding CGI's and WinDoor's branded products and presence in Florida to PGT's already successful, established line of branded products in Florida will benefit PGT through higher sales and market share. However, no assurances can be given that the combination of these three lines of branded products within a single company will not result in dilution of these brands, resulting in loss of market share and demand for these products.

***We may evaluate asset dispositions, acquisitions, joint ventures and other transactions that may impact our results of operations, and we may not achieve the expected results from these transactions.*** From time to time, and subject to the agreements governing our existing debt or otherwise, we may enter into agreements to and engage in business combinations, purchases of assets or contractual arrangements or joint ventures. Subject to the agreements governing our existing debt or otherwise, some of these transactions may be financed with our additional borrowings. The integration of any business we may acquire may be disruptive to us and may result in a significant diversion of management attention and operational resources. Additionally, we may suffer a loss of key employees, customers or suppliers, loss of revenues, increases in costs or other difficulties. If the expected efficiencies and synergies from any such transactions are not fully realized, our results of operations could be adversely affected, because of the costs associated

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with such transactions or otherwise. Other transactions may advance future cash flows from some of our businesses, thereby yielding increased short-term liquidity, but consequently resulting in lower cash flows from these operations over the longer term. In addition, if the goodwill, indefinite-lived intangible assets, or other intangible assets that we may acquire are determined to be impaired in the future, we may be required to record a non-cash charge to earnings during the period in which the impairment is determined, which could be significant. The failure to realize the expected long-term benefits of any one or more of these transactions could have a material adverse effect on our financial condition or results of operations.

**Item 1B. UNRESOLVED STAFF COMMENTS**

None.

**Item 2. PROPERTIES**

We have the following properties as of December 31, 2016:

	<b>Manufacturing</b>	<b>Support</b>	<b>Storage</b>
	(in square feet)		
<b>Owned:</b>			
Main Plant and Corporate Office, North Venice, FL	348,000	15,000	
Glass tempering and laminating, North Venice, FL	80,000		
New glass facility, North Venice, FL	96,000		
Insulated Glass, North Venice, FL	42,000		
PGT Wellness Center, North Venice, FL		3,600	
<b>Leased:</b>			
James Street Storage, Venice, FL			15,000
Center Court, Venice, FL	19,600	15,400	
Endeavor Court, Nokomis, FL		2,300	
Endeavor Court, Nokomis, FL		6,100	
Technology Park, Nokomis, FL			1,800
Sarasota Warehouse, Bradenton, FL			48,000
Plant and Administrative Offices, Miami, FL (CGI)	90,000	17,000	
Light manufacturing and Storage, Doral, FL (CGI)	5,000		30,000
Plant and Administrative Offices, Orlando, FL (WinDoor)	300,000	20,000	
Plant and Administrative Offices, Miami, FL (CGIC)	30,000	10,000	
Total square feet	1,010,600	89,400	94,800

On August 31, 2016, we acquired USI under CGIC. CGIC manufactures our commercial storefront systems products from its approximately 40,000 square foot manufacturing and administrative facility in Miami, Florida. This facility is leased by CGIC. We expect to combine the operations of CGI and CGIC into a single, new leased facility, currently being constructed in the Miami area, by the end of 2017. Facility leases of both CGI and CGIC expire at the end of 2017.

On February 16, 2016, we acquired WinDoor. WinDoor manufactures impact-resistant windows and doors from its approximately 320,000 square foot manufacturing and administrative facility in Orlando, Florida. This facility is leased by WinDoor, and we believe it has adequate space for WinDoor's current level of operating activity, as well as additional room for growth and expansion, if needed. This lease expires in February 2021.

We also own three parcels of undeveloped land in North Venice, Florida, available for any future construction needs we may have.

Our leases discussed above expire between December 2017 and February 2021. Each of the leases provides for a fixed annual rent. The leases require us to pay taxes, insurance and common area maintenance expenses associated with the properties.

All of our owned properties secure borrowings under our credit agreement. We believe all of these operating facilities are adequate in capacity and condition to service existing customer needs.



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**Item 3.    *LEGAL PROCEEDINGS***

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

**Item 4.    *MINE SAFETY DISCLOSURES***

Not Applicable

**Table of Contents****PART II****Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

Effective on December 28, 2016, our Common Stock began trading on the New York Stock Exchange under its then existing symbol of PGTI. Prior to this change, our Common Stock traded on the NASDAQ Global Market under the symbol PGTI. On March 7, 2017, the closing price of our Common Stock was \$10.10 as reported on the New York Stock Exchange. The approximate number of stockholders of record of our Common Stock on that date was 50, although we believe that the number of beneficial owners of our Common Stock is substantially greater.

The table below sets forth the price range of our Common Stock during the periods indicated:

	<b>High</b>	<b>Low</b>
<b><u>2016</u></b>		
1st Quarter	\$ 11.76	\$ 8.69
2nd Quarter	\$ 11.24	\$ 9.38
3rd Quarter	\$ 12.49	\$ 10.20
4th Quarter	\$ 12.15	\$ 9.50

	<b>High</b>	<b>Low</b>
<b><u>2015</u></b>		
1st Quarter	\$ 11.38	\$ 8.28
2nd Quarter	\$ 15.35	\$ 10.63
3rd Quarter	\$ 16.28	\$ 11.56
4th Quarter	\$ 14.05	\$ 9.77

**Dividends**

We do not pay a regular dividend. Any determination relating to dividend policy will be made at the discretion of our Board of Directors. The terms of our credit facility currently restrict our ability to pay dividends.

**Securities Authorized for Issuance under Equity Compensation Plans**

The information required by this item appears in our definitive proxy statement for our annual meeting of stockholders under the caption Security Ownership of Certain Beneficial Owners and Management and Equity Compensation Plan Information, which information is incorporated herein by reference.

**Unregistered Sales of Equity Securities**

None.

**Issuer Purchases of Equity Securities**

None.



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**Performance Graph**

The following graphs compare the percentage change in PGT Innovations, Inc.'s cumulative total stockholder return on its Common Stock with the cumulative total stockholder return of the Standard & Poor's Building Products Index and the NASDAQ Composite Index over the period from January 1, 2012, to December 31, 2016.

**COMPARISON OF 60 MONTH CUMULATIVE TOTAL RETURN  
AMONG PGT INNOVATIONS, INC., THE NASDAQ COMPOSITE INDEX,  
AND THE S&P BUILDING PRODUCTS INDEX**

- \* Graph shows returns generated as if \$100 were invested on January 1, 2012 for 60 months ending December 31, 2016, in PGTI stock or in the SPDR S&P Homebuilders EFT Fund, which is an exchange-traded fund that seeks to replicate the performance of the S&P Homebuilders Select Industry Index.
- \*\* The Company's common stock currently trades on the NYSE. Over the 5-year period covered by this comparison, the Company's common stock traded on the NASDAQ Global Market.

**Table of Contents****Item 6. SELECTED FINANCIAL DATA**

The following table sets forth selected historical consolidated financial information and other data as of and for the periods indicated and have been derived from our audited consolidated financial statements.

All information included in the following tables should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations contained in Item 7, and with the consolidated financial statements and related notes in Item 8. All years presented consisted of 52 weeks, except for the year ended January 3, 2015, which consisted of 53 weeks.

Selected Consolidated Financial Data  (in thousands except per share data)	Year	Year	Year	Year	Year
	Ended	Year Ended	Year Ended	Year Ended	Year Ended
	December 31,	January 2,	January 3,	December 28,	December 29,
	2016	2016	2015	2013	2012
Net sales	\$ 458,550	\$ 389,810	\$ 306,388	\$ 239,303	\$ 174,540
Cost of sales	318,452	270,678	213,596	159,169	114,872
Gross profit	140,098	119,132	92,792	80,134	59,668
Selling, general and administrative expenses	83,995	68,190	56,377	54,594	47,094
Fair value adjustment to contingent consideration (1)	(3,000)				
Gain on sale of assets held (2)				(2,195)	
Income from operations	59,103	50,942	36,415	27,735	12,574
Interest expense	20,125	11,705	5,960	3,520	3,437
Debt extinguishment costs	3,431		2,625	333	
Other expense, net (3)		388	1,750	437	72
Income before income taxes	35,547	38,849	26,080	23,445	9,065
Income tax expense (benefit)	11,800	15,297	9,675	(3,374)	110
Net income	\$ 23,747	\$ 23,552	\$ 16,405	\$ 26,819	\$ 8,955
Net income per common share:					
Basic	\$ 0.49	\$ 0.49	\$ 0.35	\$ 0.55	\$ 0.17
Diluted	\$ 0.47	\$ 0.47	\$ 0.33	\$ 0.51	\$ 0.16
Weighted average shares outstanding:					
Basic	48,856	48,272	47,376	48,881	53,620
Diluted	50,579	50,368	49,777	52,211	55,262
Other financial data:					
Depreciation	\$ 9,577	\$ 7,008	\$ 4,534	\$ 4,622	\$ 5,731
Amortization	6,096	3,413	1,446	6,458	6,502

	<b>As Of</b>	<b>As Of</b>	<b>As Of</b>	<b>As Of</b>	<b>As Of</b>
	<b>December 31,</b>	<b>January 2,</b>	<b>January 3,</b>	<b>December 28,</b>	<b>December 29,</b>
	<b>2016 (6)</b>	<b>2016 (4)</b>	<b>2015</b>	<b>2013 (4)</b>	<b>2012 (4)</b>
			<b>(4)(5)</b>		

Balance Sheet data:					
Cash and cash equivalents	\$ 39,210	\$ 61,493	\$ 42,469	\$ 30,204	\$ 18,743
Total assets	436,648	344,028	304,587	151,800	139,461
Total debt, including current portion	247,873	190,767	191,752	75,186	35,644
Shareholders' equity	132,519	106,961	73,976	49,075	74,210

- (1) Relates to reversal of liability for contingent consideration. See Note 4 under Acquisition of WinDoor, Inc. , in Item 8.
- (2) Relates to the sale of the Salisbury, NC facility. The net selling price of the facility was approximately \$7.5 million and the carrying value of the asset at the time of sale was \$5.3 million.
- (3) Other expense, net, includes fair value adjustments on derivative financial instruments.
- (4) Total assets and total debt, including current portion, changed from amounts previously reported due to the reclassification of deferred financing costs pursuant to ASU 2015-03. See Note 3 in Item 8.
- (5) Late in the third quarter of 2014, we acquired CGI. See Note 4 in Item 8.
- (6) Mid-first quarter of 2016, we acquired WinDoor. See Note 4 in Item 8.

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**Item 7. *MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS***

Our Management's Discussion and Analysis of Financial Condition and Results of Operations ( MD&A ) should be read in conjunction with our Consolidated Financial Statements and related Notes included in Item 8. We also advise you read the risk factors in Item 1A. Our MD&A is presented in seven sections:

Executive Overview;

Results of Operations;

Liquidity and Capital Resources;

Disclosures of Contractual Obligations and Commercial Commitments;

Critical Accounting Estimates;

Recently Issued Accounting Standards; and

Forward Outlook

**EXECUTIVE OVERVIEW**

**Sales and Operations**

Our sales grew 17.6%, to \$458.6 million, a company record. This increase resulted from the addition of WinDoor, which added \$38.2 million of sales in 2016 from its February 16, 2016, acquisition date. Our sales grew organically by 7.8% in 2016. This rate of organic growth in 2016 was lower than in recent prior years as the result of softness in the high-end, luxury market that we believe was the result of several factors, including the impacts of the strength of the dollar on the purchasing power of our international customers, and the uncertainty surrounding the effects of the outcome of the U.S. Presidential election on the stock markets and the overall economy. However, since the election, the stock markets continue to set records, and every measure of consumer sentiment indicates consumer confidence is at near record highs. We also capitalized on our core competencies by leveraging our long-standing leadership position in the mass-custom market, which drove a 44.6% percent increase in vinyl impact product sales for the year.

Gross profit was \$140.1 million, which increased 17.6%. Our net income was \$23.7 million, an increase of \$0.1 million when compared to 2015's net income of \$23.6 million.

In terms of sales strategies, we continued to leverage our strong presence in our core market, Florida, which included the acquisition of WinDoor in 2016, which added to our market share. We also continued to establish programs and partnerships with national accounts to increase our sales presence. As a result of our efforts and the improving macro-economic conditions, specifically in Florida, sales during 2016 increased \$68.8 million, or 17.6%, compared to

2015. New construction sales increased \$32.2 million, or 20.2%, while repair and remodel sales increased by \$36.6 million, or 15.9%. By region, our sales in Florida increased \$69.5 million, or 20.2%, and sales in the out of state markets increased \$2.2 million, or 8.3%. Sales in the international markets decreased \$2.9 million, or 15.5%.

### **Liquidity and Cash Flow**

During 2016, we generated \$46.4 million in cash flow from operations, an increase of \$13.9 million over last year, and which was used to fund working capital needs, service our long-term debt, and for capital expenditures of \$17.7 million, including the addition of two new Thermal Plastic Spacer (TPS) system glass lines, and the continued addition of equipment for our glass processing facility of which we completed construction in 2014.

In February 2016, we entered into a new senior secured credit facility which increased the term loan component of our borrowings to \$270 million and has a \$40 million revolving line of credit (2016 Credit Agreement). We used proceeds under this new facility, combined with approximately \$43 million of cash on hand to acquire WinDoor, including related financing costs, and to repay then existing borrowings of \$197.5 million under our 2014 credit facility. As discussed in [Liquidity and Capital Resources](#) Subsequent Event , we amended and repriced the \$264 million term loan facility of our 2016 Credit Agreement, which resulted in a one percentage point reduction in the stated interest rate of the facility. The Company estimates that this repricing will reduce cash debt service costs by more than \$2.6 million over the next year, and by approximately \$13 million over the term of the facility.



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During 2016, we repurchased 299,988 shares of our common stock at a total cost of \$2.8 million, including 288,183 shares at a total cost of \$2.7 million under the plan approved by the Board of Directors discussed below, and 11,805 shares purchased at a total cost of approximately \$0.1 million, and immediately retired, from employees to satisfy tax withholding obligations in connection with the vesting of restricted stock awards.

On October 28, 2015, the Board of Directors authorized and approved a share repurchase program of up to \$20 million. Repurchases will be made in open market or privately negotiated transactions, subject to market conditions, applicable legal requirements, our 2016 Credit Agreement, and other relevant factors. We do not intend to repurchase any shares from directors, officers, or other affiliates. The program does not obligate us to acquire any specific number of shares. The timing, manner, price and amount of repurchases will be determined at the Company's discretion, and the program may be suspended, terminated or modified at any time for any reason. In the future, we may make opportunistic repurchases of our common stock as we see fit.

**Table of Contents****RESULTS OF OPERATIONS****Analysis of Selected Items from our Consolidated Statements of Operations**

	Year Ended			Percent Change	
	December 31, 2016	January 2, 2016	January 3, 2015	Increase / (Decrease) 2016-2015	2015-2014
<i>(in thousands, except per share amounts)</i>					
Net sales	\$ 458,550	\$ 389,810	\$ 306,388	17.6%	27.2%
Cost of sales	318,452	270,678	213,596	17.6%	26.7%
Gross profit	140,098	119,132	92,792	17.6%	28.4%
Gross margin	30.6%	30.6%	30.3%		
SG&A expenses	83,995	68,190	56,377	23.2%	21.0%
SG&A expenses as a percentage of net sales	18.3%	17.5%	18.4%		
Fair value adjustment to contingent consideration	(3,000)				
Income from operations	59,103	50,942	36,415		
Interest expense, net	20,125	11,705	5,960		
Debt extinguishment costs	3,431		2,625		
Other expenses, net		388	1,750		
Income tax expense	11,800	15,297	9,675		
Net income	\$ 23,747	\$ 23,552	\$ 16,405		
Net income per common share:					
Basic	\$ 0.49	\$ 0.49	\$ 0.35		
Diluted	\$ 0.47	\$ 0.47	\$ 0.33		

**2016 Compared with 2015****Net sales**

Net sales for 2016 were \$458.6 million, a \$68.8 million, or 17.6%, increase in sales from \$389.8 million in the prior year.

The following table shows net sales classified by major product category (in millions, except percentages):

	Year Ended				
	December 31, 2016		January 2, 2016		% change
	Sales	% of sales	Sales	% of sales	

Product category:					
Impact-resistant window and door products	\$ 381.6	83.2%	\$ 319.2	81.9%	19.6%
Non-impact window and door products	77.0	16.8%	70.6	18.1%	8.9%
Total net sales	\$ 458.6	100.0%	\$ 389.8	100.0%	17.6%

Net sales of our impact window and door products, which include our PGT WinGuard products, as well as all of CGI's products and the substantial majority of WinDoor's products, were \$381.6 million in 2016, an increase of \$62.4 million, or 19.6%, driven by an increase in sales of our WinGuard products, primarily our vinyl WinGuard products, and also the inclusion of WinDoor's impact sales of \$37.0 million during the post-acquisition period in 2016. Included in sales of our impact-resistant window and door products were \$277.9 million of aluminum impact sales, an increase of \$30.4 million, or 12.3%, and \$103.7 million of vinyl impact sales, an increase of \$32.0 million, or 44.6%.

Sales of our non-impact window and door products increased by \$6.4 million, or 8.9%, including \$1.2 million from WinDoor. Included in sales of our non-impact window and door products were \$26.9 million of aluminum non-impact sales, a decrease of \$0.1 million, or 0.6%, and \$50.1 million of vinyl non-impact sales, an increase of \$6.5 million, or 14.8%.

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**Table of Contents*****Gross profit and gross margin***

Gross profit was \$140.1 million in 2016, an increase of \$21.0 million, or 17.6%, from \$119.1 million in the prior year. The gross margin percentage was 30.6% in 2016, unchanged compared to the prior year. Adjusting for costs relating to product line relocations and terminations, and installation of our two new TPS system glass lines in 2016 totaling \$1.6 million, and costs related to our ERP systems conversion, new product launch costs, and glass line installation in the 2015 totaling \$5.1 million, gross margin was 30.9% in 2016, compared to 31.9% in 2015, respectively, representing a decrease of 1.0%. Gross margin was positively impacted by several factors, including the addition of WinDoor, which benefitted gross margin by 0.3%, lower aluminum prices, which benefitted gross margin by 0.3%, and price increases during 2016, which benefitted gross margin by 0.2%. These improvements were offset by decreases as the result of higher overhead costs as we continued to maintain support costs at WinDoor and CGI during the luxury market softness in 2016 in anticipation of the expected return of the high-end market, resulting in a margin decrease of 0.6%, product mix, which decreased gross margin by 0.5%, higher depreciation, decreasing margin by 0.5%, and scrap and inefficiencies, having a 0.2% impact.

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

Selling, general and administrative expenses were \$84.0 million, an increase of \$15.8 million, or 23.2%, from \$68.2 million in the prior year. As a percentage of net sales, these costs were 18.3%, an increase of 0.8% from 17.5% from fiscal year 2015. Selling, general, and administrative expenses includes \$7.8 million related to WinDoor. Excluding WinDoor, selling, general and administrative costs increased \$8.0 million. Contributing to the increase was a \$4.8 million increase in selling and distribution costs as the result of an increase in volume, but which is partially offset by a \$0.2 million decrease in fuel costs due to a lower average price of gasoline. There were also increases in personnel-related costs of \$2.6 million due to an increase in the Company's 401K contribution for 2016, compared to last year, and due to higher indirect labor costs on higher volume, bank credit card fees of \$0.5 million due to higher credit card collections, and of \$1.2 million related to higher acquisition-related costs incurred in 2016, as compared to last year during which there was no acquisition activity. These increases were partially offset by decreases in marketing costs, and other general and administrative costs totaling approximately \$1.1 million.

We record warranty costs as a selling expense within selling, general and administrative expenses. Our warranty expense, as a percentage of sales, increased during our 2016 fiscal year, with an average rate of 2.41%, as compared to an average rate of 2.12% for fiscal year 2015. We believe the increases in warranty expense were the result of a significant increase in the number of new manufacturing employees we have hired to support our growth over the recent past. Those employees did not have the level of experience and training as our more seasoned employees. We expect that, as those relatively newer employees gain more experience over time, and are exposed to improved training initiatives we have implemented, combined with the use of our new thermal plastic spacer system, an innovative technology for the production of insulated glass, warranty expense, as a percentage of sales, will decline from current levels.

***Fair Value Adjustment to Contingent Consideration***

The Stock Purchase Agreement (SPA) in the WinDoor acquisition provided for the potential for an earn-out contingency payment to sellers if WinDoor achieved a certain level of sales in the year ended December 31, 2016. Pursuant to the SPA, if WinDoor's 2016 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 approximately \$3.0 million. If WinDoor's 2016 sales were less than \$46.0 million, no payment was required.

The potential undiscounted amount of all future payments that could have been 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 earn-out contingency arrangement and, therefore, determined that the entire initial estimated fair value of \$3.0 million should be reversed. As a result, in the third quarter of 2016, we recorded an adjustment to the amount of contingent consideration within income from operations in the accompanying consolidated statement of operations for the year ended December 31, 2016.

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### ***Interest expense***

Interest expense was \$20.1 million in 2016, an increase of \$8.4 million from \$11.7 million in the prior year. During 2016, concurrent with the acquisition of WinDoor in the middle of the first quarter of 2016, we refinanced our then existing credit agreement into the 2016 Credit Agreement, a \$270 million senior secured credit facility, which increased our outstanding debt balance to \$270 million, from \$197.5 million at the end of 2015. The increase in interest expense was due primarily to the increase in outstanding debt under the new credit facility and resulting increase in average outstanding debt balance during 2016, compared to 2015, as well as an increase in the stated rate under the 2016 Credit Agreement. Interest expense is also being affected by higher amortization of deferred financing costs and discount. We accelerated the amortization of lenders fees and discount of \$0.2 million relating to the term-loan portion of the 2016 Credit Agreement as the result of the voluntary prepayment of \$4.0 million we made on September 30, 2016, which is included in interest expense in the accompanying consolidated statement of operations for the year ended December 31, 2016.

Effective on February 17, 2017, we repriced the term loan portion of the 2016 Credit Agreement, which resulted in a one percentage-point decrease in the stated rate. See [Liquidity and Capital Resources](#) [Subsequent Event](#) herein.

### ***Debt Extinguishment Costs***

Debt extinguishment costs were \$3.4 million in 2016. These costs related to the write-off of deferred financing costs and debt discount in connection with entering into the 2016 Credit Agreement effective on February 16, 2016, which resulted in certain then existing lenders exiting the facility, and certain continuing lenders being considered debt extinguishments in the refinancing. This resulted in the write-offs of portions of the deferred financing costs and original issue discount allocated to these lenders.

### ***Other expenses, net***

Other expenses, net, were \$0.4 million in 2015. Other expenses relates entirely to the ineffective portion of our aluminum hedging activities.

### ***Income tax expense***

Our income tax expense was \$11.8 million for 2016, representing an effective tax rate of 33.2%. Income tax expense in 2016, benefitted from tax credits totaling \$1.2 million, including federal income tax credits recognized related to our research and development efforts for tax years 2012 through 2016, and state incentive tax credits.

Income tax expense in 2015 includes a \$1.6 million discrete item of income tax expense representing income tax expense previously classified within accumulated other comprehensive losses, relating to the intraperiod income taxes on our effective aluminum hedges, which we reversed in the second quarter of 2015 as the result of the culmination of our remaining cash flow hedges. Income tax expense in 2015 also includes the beneficial effect of \$0.8 million, net of federal effect, from a Florida jobs credit we received as the result of our increased employment levels.

Excluding the effects of these discrete items in income tax expense, our effective tax rate in 2016 would have been 36.5%, compared to 37.3% in 2015, slightly lower than our combined statutory federal and state tax rate of 38.8%, primarily as the result of the section 199 domestic manufacturing deduction in both years.

### ***2015 Compared with 2014***

*Net sales*

Net sales for 2015 were \$389.8 million, a \$83.4 million, or 27.2%, increase in sales from \$306.4 million in the prior year.

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The following table shows net sales classified by major product category (in millions, except percentages):

Product category:	Year Ended				
	January 2, 2016		January 3, 2015		% change
	Sales	% of sales	Sales	% of sales	
Impact-resistant window and door products	\$ 319.2	81.9%	\$ 240.3	78.4%	32.8%
Non-impact window and door products	70.6	18.1%	66.1	21.6%	6.9%
Total net sales	\$ 389.8	100.0%	\$ 306.4	100.0%	27.2%

Net sales of our impact window and door products, which include our PGT WinGuard, Architectural Systems, Storefront and PremierVue products, as well as the Estate Collection, Sentinel and Targa products of CGI, were \$319.2 million in 2015, an increase of \$78.9 million, or 32.8%, driven by an increase in sales of our WinGuard and Storefront products, but also the inclusion of CGI's sales for the entire year, versus only the post-acquisition period in 2014, from \$240.3 million in the prior year. All of CGI's products are impact-resistant. Our Storefront products, introduced in 2013, have enjoyed steady sales increases since their introduction, and increased 59.4% from last year. Included in sales of our impact-resistant window and door products were \$247.4 million of aluminum impact sales, an increase of \$65.1 million, or 35.7%, and \$71.8 million of vinyl impact sales, an increase of \$13.8 million, or 23.8%.

Sales of our non-impact window and door products increased by \$4.5 million, or 6.9%. Included in sales of our non-impact window and door products were \$27.0 million of aluminum non-impact sales, a decrease of \$0.2 million, or 0.7%, and \$43.6 million of vinyl non-impact sales, an increase of \$4.7 million, or 12.0%.

**Gross profit and gross margin**

Gross profit was \$119.1 million in 2015, an increase of \$26.3 million, or 28.4%, from \$92.8 million in the prior year. The gross margin percentage was 30.6% in 2015 compared to 30.3% in the prior year, an increase of 0.3%. Gross margin was positively impacted by several factors, including our first quarter 2015 price increase, which benefitted gross margin by 1.0%, by the leverage provided by higher sales volume, which benefitted gross margin by 0.6%, lower glass cost due to the increase in our capacity to process our own glass, which has reduced our dependence on outsourced, higher-cost glass, which benefitted gross margin by 0.2%, and by lower aluminum prices, which benefitted gross margin by 0.2%. Also, the addition of CGI benefitted gross margin by 1.2%. These improvements were partially offset by decreases as the result of higher overhead costs, resulting in a decrease in gross margin of 2.2%, and product mix, which decreased gross margin by 0.7%. Gross margins in both periods were negatively impacted by certain costs related to labor inefficiencies and material costs relating to issues encountered during our ERP systems conversion, new product launch costs, and glass line installation costs in 2015, and glass processing facility and new product launch costs in 2014. These costs negatively impacted gross margin by 1.3% in 2015 and by 0.5% in 2014. Excluding these negative impacts, our gross margins would have been 31.9% and 30.8% in 2015 and 2014, respectively.

**Selling, general and administrative expenses**

Selling, general and administrative expenses were \$68.2 million, an increase of \$11.8 million, or 21.0%, from \$56.4 million in the prior year. As a percentage, we leveraged these costs to 17.5%, a decrease of 0.9% from 18.4% from fiscal year 2014. Selling, general, and administrative expenses includes \$12.5 million related to CGI, compared



to \$3.0 million last year. Excluding CGI, selling, general and administrative costs increased \$2.3 million. Contributing to the increase was a \$1.6 million increase in selling and distribution costs as the result of an increase in volume, but which includes a \$0.5 million decrease in fuel costs due to a decrease in the price of gasoline. There were also increases in depreciation expense of \$0.7 million due to higher levels of capital investment, stock-based compensation expenses of \$0.6 million, and bank credit card fees of \$0.5 million due to higher credit card sales. These increases were partially offset by a decrease of \$1.1 million related to acquisition-related costs incurred in 2014, which did not recur in 2015.

We record warranty costs as a selling expense within selling, general and administrative expenses. Our warranty expense, as a percentage of sales, increased during our 2015 fiscal year, with an average rate of 2.12%, as compared to an average rate of 1.80% for fiscal year 2014. We believe the increases in warranty expense were the result of a significant increase in the number of new manufacturing employees we have hired to support our growth over the recent past. Those employees did not have the level of experience and training as our more seasoned employees. We expect that, as those relatively newer employees gain more experience over time, and are exposed to improved training initiatives we have implemented, warranty expense, as a percentage of sales, will decline.

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**Table of Contents*****Interest expense***

Interest expense was \$11.7 million in 2015, an increase of \$5.7 million from \$6.0 million in the prior year. During 2014, concurrent with the acquisition of CGI late in the third quarter of 2014, we refinanced our then existing credit agreement into a new \$200 million senior secured credit facility ( 2014 Credit Agreement ) which increased our outstanding debt balance to \$200 million, up from \$79.0 million at the end of 2013. The increase in interest expense was due primarily to the increase in outstanding debt under the 2014 Credit Agreement and resulting increase in average outstanding debt balance during 2015 compared to 2014.

***Debt extinguishment costs***

In 2014, there were write-offs of deferred financing costs of \$2.6 million relating to the debt refinancing resulting from entering into the 2014 Credit Agreement.

***Other expenses, net***

Other expenses, net were \$0.4 million and \$1.8 million in 2015 and 2014, respectively. In 2015, other expenses relates entirely to the ineffective portion of our aluminum hedging activities. In 2014, other expenses includes expenses related to termination of our interest rate swap agreement of \$1.5 million and the ineffective portion of our aluminum hedging activity of \$0.2 million.

***Income tax expense (benefit)***

Our income tax expense was \$15.3 million for 2015, representing an effective tax rate of 39.4%. Income tax expense in 2015 includes a \$1.6 million discrete item of income tax expense representing income tax expense previously classified within accumulated other comprehensive losses, relating to the intraperiod income taxes on our effective aluminum hedges, which we reversed in the second quarter of 2015 as the result of the culmination of our remaining cash flow hedges. Income tax expense in 2015 also includes the beneficial effect of \$0.8 million, net of federal effect, from a Florida jobs credit we received as the result of our increased employment levels. Excluding the effects of these discrete items in income tax expense, our effective tax rate in 2015 would have been 37.3%, compared to 37.1% in 2014, slightly lower than our combined statutory federal and state tax rate of 38.8%, primarily as the result of the section 199 domestic manufacturing deduction in both years.

**LIQUIDITY AND CAPITAL RESOURCES**

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

***Consolidated Cash Flows***

*Operating activities.* Cash provided by operating activities was \$46.4 million for 2016, compared to \$32.5 million for 2015.

The increase in cash flows from operations of \$13.9 million in 2016 was primarily due to an increase of \$73.9 million in collections from customers as the result of increased sales. This increase in collections was partially offset by an increase in payments to vendors of \$46.5 million as the result of higher procurements of inventory due to increased

sales, an increase in personnel related disbursements of \$14.0 million due to the higher level of employees during 2016, compared to 2015 to support the increase in demand for our products, and an increase in debt service costs of \$4.5 million due to the higher level of debt as the result of the refinancing and acquisition of WinDoor. The refinancing also resulted in a higher stated interest rate, increasing the rate on the term loan portion of our borrowings to 6.75% under the 2016 Credit Agreement, from 5.25% under the 2014 Credit Agreement. However, see Subsequent Event later in this section. Also, in 2016 compared to last year, net tax payments decreased \$4.6 million, and other collections of cash and other cash activity, net, increased by \$0.4 million. A federal income tax receivable of \$2.6 million was included in other current assets on the accompanying consolidated balance sheet at December 31, 2016. The overpayment of estimated income taxes in 2016 was due in part to the unanticipated benefit of research and development activities credits of approximately \$1.0 million, as well as lower actual pre-tax book income than used in our estimate of taxable income for the year.

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The increase in cash flows from operations of \$10.2 million in 2015, as compared to 2014, was primarily due to an increase of \$77.4 million in collections from customers as the result of the sales level increase. This increase in collections was partially offset by an increase in payments to vendors of \$40.3 million as the result of higher procurements of inventory due to increased sales, an increase in personnel related disbursements of \$14.0 million due to the higher level of employees during 2015, compared to 2014 to support the increase in demand for our products, and an increase in debt service costs of \$7.0 million due to the higher level of debt as the result of the refinancing and acquisition of CGI.

Also, during 2015, we made estimated tax payments of \$6.8 million, of which \$3.9 million was recorded as a federal income tax receivable within other current assets on the accompanying consolidated balance sheet as of January 2, 2016. The overpayment of estimated income taxes in 2015 was the result of the delayed action by Congress to pass the extension of the bonus depreciation deduction for 2015, which occurred on December 18, 2015, as part of the Protecting Americans from Tax Hikes Act of 2015. The extension of the bonus depreciation deduction significantly reduced our previous estimate of taxable income for 2015, on which our estimated payments were based. In 2014, we made estimated tax payments of \$1.2 million.

Other collections of cash and other cash activity, net, decreased by \$0.3 million in 2015.

Direct cash flows from operations for 2016, 2015, and 2014 are presented below:

<i>(in millions)</i>	<b>Direct Operating Cash Flows</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
Collections from customers	\$ 464.7	\$ 390.8	\$ 313.4
Other collections of cash	3.8	3.6	3.0
Disbursements to vendors	(277.9)	(231.4)	(191.1)
Personnel related disbursements	(125.9)	(111.9)	(97.9)
Debt service costs	(16.0)	(11.5)	(4.5)
Income tax payments, net	(2.2)	(6.8)	(1.2)
Other cash activity, net	(0.1)	(0.3)	0.6
Cash from operations	\$ 46.4	\$ 32.5	\$ 22.3

The majority of other collections of cash are from scrap aluminum sales.

Days sales outstanding (DSO), which we calculate as accounts receivable divided by average daily sales, was 33 days on December 31, 2016, compared to 36 days on January 2, 2016, and 34 days on January 3, 2015. The decrease in DSO s in 2016 from 2015 was due to a reduction in larger, longer-payment termed projects at CGI, whereas the increase in DSO s in 2015 from 2014 was due to several larger projects at CGI at the end of 2015, which required longer payment terms.

Inventory on hand as of December 31, 2016, was \$30.5 million, an increase of nearly \$7.5 million from January 2, 2016. The increase was due primarily to the acquisitions of WinDoor and US Impact Systems, which included combined inventories of \$7.3 million. Inventory on hand as of January 2, 2016, was \$23.1 million, an increase of \$3.1 million from January 3, 2015. The increase was due primarily to an overall increase in sales at the end of 2015 compared to 2014, as well as the introduction of our new vinyl product line. Our inventory consists principally of raw materials purchased for the manufacture of our products and limited finished goods inventory as all products are

custom, made-to-order products. Our inventory levels are more closely aligned with our number of product offerings rather than our level of sales. We have maintained our inventory level to have (i) raw materials required to support new product launches; (ii) a sufficient level of safety stock on certain items to ensure an adequate supply of material given a sudden increase in demand and our short lead-times; and (iii) adequate lead times for raw materials purchased from overseas suppliers in bulk supply. Inventory turns for the year ended December 31, 2016, was 11.9 times, slightly lower than 12.6 times for the year ended January 2, 2016. Inventory turns for the year ended January 2, 2016, was 12.6 times, which decreased slightly from 13.0 times for the year ended January 3, 2015. On average, we turn our inventories approximately once per month.

Management monitors and evaluates 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 our products are made-to-order, we have only a small amount of finished goods and work in progress inventory. Because of these factors, our inventories are not excessive, and we believe the value of such inventories will be realized.

*Investing activities.* Cash used in investing activities was \$119.0 million in 2016, compared to \$17.4 million in 2015, an increase in cash used of \$101.6 million. We used \$101.3 million of cash to acquire businesses in 2016, whereas in 2015 we had no acquisitions. Also, in 2016, we used cash of \$17.7 million in cash for capital expenditures, compared to \$17.4 million in 2015, an increase of \$0.3 million in cash used.

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Cash used in investing activities was \$17.4 million in 2015, and was entirely comprised of capital expenditures, a decrease in cash used of \$112.3 million compared to cash used in investing activities of \$129.7 million in 2014, which included \$110.4 million in cash used to acquire CGI, and \$19.3 million for capital expenditures.

*Financing activities.* Cash provided by financing activities was \$50.3 million in 2016, compared with just over \$3.9 million in 2015, an increase of \$46.4 million. Cash used for repayments of long-term debt in 2016 was \$203.5 million, compared to just \$2.0 million in 2015, an increase in cash used of \$201.5 million. Cash used for payments of long-term debt of \$203.5 million in 2016 was the result of the February 2016 refinancing and contemporaneous pay-down of \$197.5 million of our then existing credit facility. Since the refinancing, \$2.0 million has been repaid as scheduled debt repayments in 2016, compared to \$2.0 million in 2015. In addition, we made a voluntary prepayment of \$4.0 million on September 30, 2016.

The February 2016 refinancing resulted in \$261.0 million in net proceeds from the issuance of long-term debt. In addition, there were payments of financing costs of \$7.2 million related to the refinancing. Purchases of treasury stock were \$2.8 million in 2016, versus just \$44 thousand in 2015, an increase in cash used of \$2.8 million. Proceeds from the exercises of stock options were \$1.2 million lower, and there was a decrease in excess tax benefits from option exercises of \$1.9 million.

Cash provided by financing activities was nearly \$4.0 million in 2015, compared with \$119.8 million in 2014, a decrease of \$115.8 million. In 2015, we had no proceeds from issuances of debt, compared to \$198.0 million in 2014 from the refinancing relating to the 2014 Credit Agreement. There was an additional decrease in cash provided by financing activities of \$2.3 million in excess tax benefits recognized from exercised options. These decreases in cash provided by financing activities were partially offset by less financing activities cash used for debt repayments of \$77.5 million and for payments of financing costs of \$5.5 million, a \$1.0 million decrease in cash used to make treasury stock purchases, and a \$0.5 million increase in financing activities cash provided by proceeds from exercises of stock options.

*Capital Expenditures.* Capital expenditures vary depending on prevailing business factors, including current and anticipated market conditions. In 2016, we continued to invest in our long-term future by spending \$17.7 million for capital expenditures, primarily representing equipment purchases for the various glass processing lines in our glass processing facility, including the additions of two new TPS system glass lines. In 2015, we spent \$17.4 million on capital expenditures as we continued to equip our then new state-of-the-art glass processing facility. We spent more on capital expenditures in 2014 than in prior years due to the construction of our new glass processing facility and new ERP system. For 2014, capital expenditures were \$19.3 million. We anticipate that cash flows from operations and liquidity from the revolving credit facility, if needed, will be sufficient to execute our business plans. Management expects to spend between \$15 million and \$18 million in 2017. Our capital expenditure program is geared towards making investments in capital assets targeted at increasing both gross sales and margins.

*Capital Resources and Debt Covenants.*

**2016 Credit Agreement**

See **Subsequent Event** in this section for information regarding an amendment to the term loan facility of the 2016 Credit Agreement, which resulted in a one percentage-point reduction in the stated interest rate for borrowings under this facility. All other significant terms, restrictions, and financial and other covenants under the 2016 Credit Agreement remain unchanged.

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 will amortize on a basis of 1% annually during the 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. As of December 31, 2016, there were \$0.3 million of letters of credit outstanding and \$39.7 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. Borrowings under the term loans and the revolving credit facility accrue 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. During 2016, the applicable margin was 575 basis points in the case of LIBOR and 475 basis points in the case of the base rate. However, subsequent to the repricing amendment as discussed in Subsequent Event , these rates have been decreased to 475 basis points in the case of LIBOR and 375 basis points in the case of the base rate. We 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.

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The face value of the 2016 Credit Agreement at the time of issuance was \$270 million of which \$2.0 million has been repaid as scheduled debt repayments through December 31, 2016. In addition, we made a voluntary prepayment of \$4.0 million on September 30, 2016, using internally generated cash on hand. We elected to apply the prepayment against upcoming required principal repayments in direct order of maturity, as permitted under the 2016 Credit Agreement, resulting in no required repayments of principal until the first quarter of 2018. As of December 31, 2016, the face value of debt outstanding under the 2016 Credit Agreement was \$264.0 million, and accrued interest was \$1.7 million.

The Company incurred third-party fees and costs totaling \$1.5 million, and additional lender fees and discount of \$14.6 million in the February 2016 refinancing. As a result of the voluntary prepayment of debt discussed above, we accelerated the amortization of lenders fees and discount relating to the term-loan portion of the 2016 Credit Agreement of \$0.2 million, which is included in interest expense in the accompanying consolidated statement of operations for the year ended December 31, 2016.

The activity relating to third-party fees and costs, lender fees and discount for the year ended December 31, 2016, are as follows. With our adoption of ASU 2015-03, 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>	<b>Total</b>
At beginning of year as of January 2, 2016	\$ 6,733
Amortization expense through refinancing	(128)
At time of refinancing	6,605
Add: Fees, costs and OID relating to the 2016 Credit Agreement	16,148
Less: Debt extinguishment costs	(3,431)
Less: Third-party fees and cost classified within SG&A	(627)
Less: Amortization expense after refinancing	(2,368)
Less: Accelerated amortization relating to debt prepayment	(225)
At end of year as of December 31, 2016	\$ 16,102

Estimated amortization expense relating to third-party fees and costs, lender fees and discount for the years indicated, and which reflects the effect on the effective interest rate as a result of the repricing discussed in Subsequent Event in this section, as of December 31, 2016, is as follows:

<i>(in thousands)</i>	<b>Total</b>
2017	\$ 2,855
2018	3,036
2019	3,195
2020	3,430
2021	3,185
2022	401
Total	\$ 16,102





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As a result of the voluntary prepayment of \$4.0 million as previously mentioned, our next scheduled repayment is not until the first quarter of 2018. The contractual future maturities of long-term debt outstanding as of December 31, 2016, are as follows (at face value):

<i>(in thousands)</i>	<b>Total</b>
2017	\$
2018	2,075
2019	2,700
2020	2,700
2021	2,700
2022	253,800
<b>Total</b>	<b>\$ 263,975</b>

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), and is tested quarterly based on the last four fiscal quarters and is set at levels as described in the 2016 Credit Agreement. As of December 31, 2016, no test is required as we have not exceeded 20% of our revolving capacity. During 2016, the maximum permitted total net leverage ratio as stated in the 2016 Credit agreement is 4.50:1. We believe that our total net leverage ratio is 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 December 31, 2016, we were in compliance with all affirmative and restrictive covenants.

**2014 Credit Agreement**

On September 22, 2014, we entered into a Credit Agreement (the 2014 Credit Agreement), among us, the lending institutions identified in the 2014 Credit Agreement, and Deutsche Bank AG New York Branch, as Administrative Agent and Collateral Agent. The 2014 Credit Agreement established new senior secured credit facilities in an aggregate amount of \$235.0 million, consisting of a \$200.0 million Term B term loan facility that was to mature in seven years and amortize on a basis of 1% annually during the seven-year term, and a \$35.0 million revolving credit facility that was to mature in five years that included a swing line facility and a letter of credit facility. Our obligations under the 2014 Credit Agreement were secured by substantially all of our assets as well as our direct and indirect subsidiaries' assets. In connection with entering into the 2016 Credit Agreement, on February 16, 2016, we terminated the 2014 Credit Agreement.

*Share Repurchase Program.* On October 28, 2015, the Board of Directors authorized and approved a share repurchase program of up to \$20 million. Repurchases will be made in open market or privately negotiated transactions, subject to market conditions, applicable legal requirements, our 2016 Credit Agreement, and other relevant factors. We do not intend to repurchase any shares from directors, officers, or other affiliates. The program does not obligate us to

acquire any specific number of shares. The timing, manner, price and amount of repurchases will be determined at the Company's discretion, and the program may be suspended, terminated or modified at any time for any reason. During 2016, we made repurchases of 288,183 shares of our common stock at a total cost of \$2.7 million. In the future, we may make opportunistic repurchases of our common stock as we see fit.

***Subsequent Event***

On February 17, 2017, we entered into an amendment to our 2016 Credit Agreement (the "First Amendment"), dated as of February 16, 2016, by and among the Company, the lending institutions identified in the 2016 Credit Agreement, and Deutsche Bank AG New York Branch, as Administrative Agent and Collateral Agent. 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.

As a result of the First Amendment, we expect interest expense to decrease approximately \$2.6 million annually, with an approximate \$2.3 million decrease in 2017. There were no lenders' fees or discount relating to the First Amendment. We estimate that our total interest expense will be approximately \$18.6 million in 2017, assuming no significant increase in our borrowings, including approximately \$2.9 million of amortization of carryover deferred financing costs and original issue discount.

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Long-term debt consists of the following:

	December 31, 2016	January 2, 2016
	<i>(in thousands)</i>	
Term loan payable with a payment of \$0.675 million due quarterly. A lump sum payment of \$253.8 million is due on February 15, 2022. Interest is payable quarterly at LIBOR or the prime plus an applicable margin. At December 31, 2016, the average rate is 1.00% plus a margin of 5.75%. (1)	\$ 263,975	\$
Term loan payable with a payment of \$0.5 million due quarterly. A lump sum payment of \$186.0 million was due on September 22, 2021. Interest was payable quarterly at LIBOR or the prime plus an applicable margin. At January 2, 2016, the average rate was 1.00% plus a margin of 4.25%.		197,500
Fees, costs and original issue discount (2)	(16,102)	(6,733)
	247,873	190,767
Less current portion of long-term debt		(1,949)
Long-term debt, less current portion	\$ 247,873	\$ 188,818

- (1) Effective on February 17, 2017, the Company amended and repriced this term loan. Terms of the repriced facility include a one percentage-point reduction in the stated interest rate, to LIBOR of 1.00% plus a margin of 4.75%. The amended term loan facility has quarterly payments of principal of \$0.675 million, with a lump sum payment of \$253.8 million due February 15, 2022, each of which remained unchanged from the prior facility.
- (2) Fees, costs and original issue discount represents third-party fees, lender fees, other debt-related costs, and original issue discount, recorded as a reduction of the carrying value of the debt pursuant to ASU 2015-03, and is amortized over the life of the debt instrument.

**DISCLOSURES OF CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS**

The following summarizes our contractual obligations as of December 31, 2016 (in thousands):

Contractual Obligations	Total	Payments Due by Period			Thereafter
		Current	2-3 Years	4-5 Years	
Long-term debt (1)	\$ 342,175	\$ 15,741	\$ 34,666	\$ 35,387	\$ 256,380
Operating leases	9,068	3,889	3,733	1,446	
Supply agreements	5,262	5,262			
Equipment purchase commitments	249	249			

Total contractual cash obligations	\$ 356,754	\$ 25,141	\$ 38,399	\$ 36,833	\$ 256,380
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(1) - Includes estimated future interest expense on our long-term debt at an interest rate of 6.75% as of December 31, 2016 continues to February 17, 2017. On February 17, 2017, the effective date of the amendment and repricing of the term loan facility of the 2016 Credit Agreement, the stated interest rate decreases to 5.75%, which lowers total interest payments over the life of the facility by an estimated \$13.2 million.

The amounts reflected in the table above for operating leases represent future minimum lease payments under non-cancelable operating leases with an initial or remaining term in excess of one year at December 31, 2016. Purchase orders entered into in the ordinary course of business are excluded from the above table. Amounts for which we are liable are reflected on our consolidated balance sheet as accounts payable and accrued liabilities.

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We are obligated to purchase certain raw materials used in the production of our products from certain suppliers pursuant to stocking programs. If all of these programs were cancelled by us, as of December 31, 2016, we would be required to pay \$5.3 million for various materials.

At December 31, 2016, we had \$0.3 million in standby letters of credit related to our worker's compensation insurance coverage, and commitments to purchase equipment of \$0.2 million.

**CRITICAL ACCOUNTING ESTIMATES**

In preparing our consolidated financial statements, we follow U.S. generally accepted accounting principles. These principles require us to make certain estimates and apply judgments that affect our financial position and results of operations.

On a regular basis, we review the accounting policies, assumptions, estimates and judgments to ensure that our financial statements are presented fairly and in accordance with GAAP. However, because future events and their effects cannot be determined with certainty, actual results could differ from our assumptions and estimates, and such difference could be material. Our significant accounting policies are discussed in Item 8, Note 2. The following is a summary of our more significant accounting estimates that require the use of judgment in preparing the financial statements.

<b>Description</b>	<b>Judgments and Uncertainties</b>	<b>Effect if Actual Results Differ from Assumptions</b>
<b>Goodwill</b>		
Goodwill represents the excess of the consideration paid in a business combination over the fair value of the identifiable net assets acquired. We test goodwill for impairment at our single reporting unit level at least annually or whenever events or circumstances indicate that the carrying value of goodwill may not be recoverable from future cash flows. We have the option of performing a qualitative assessment of impairment to determine whether any further quantitative testing for impairment is necessary. If we elect to bypass the qualitative assessment or if we determine, based on qualitative factors, that it is more likely than not that the fair value of our reporting unit is less than its carrying amount, a two-step quantitative test is required. In Step 1, we	Significant judgments and estimates are used in the determination our PGTI reporting unit's fair value. Discounted cash flow analyses utilize sensitive estimates, including projections of revenues and operating costs considering historical and anticipated future results, general economic and market conditions, discount rates, as well as the impact of planned business or operational strategies. Deterioration in economic or market conditions, as well as increased costs arising from the effects of regulatory or legislative changes may result in declines in our reporting unit's performance beyond current expectations. Declines in our reporting unit's performance, increases in equity capital	Actual results can differ from our estimates, requiring adjustments to our assumptions. The result of these changes could result in a material change in our calculation.

compare the fair value of our reporting unit with its net carrying value, including goodwill. If the net carrying value of our reporting unit exceeds its fair value, we then perform Step 2 of the impairment test to measure the amount of impairment loss, if any. In Step 2, we allocate our reporting unit's fair value to all of its assets and liabilities in a manner similar to a purchase price allocation, with any residual fair value being allocated to goodwill (implied fair value of goodwill). If the carrying amount of our reporting unit's goodwill exceeds the implied fair value of that goodwill, we recognize an impairment loss in an amount equal to that excess up to the carrying value of goodwill. In performing the two-step quantitative assessment, fair value of the reporting unit is

requirements, or increases in the estimated cost of debt or equity, could cause the estimated fair value of our reporting unit or its associated goodwill to decline, which could result in an impairment charge to earnings in a future period related to some portion of the associated goodwill.

Our annual test of goodwill is done on the first day of our fourth quarter during a fiscal year.

We completed a qualitative assessment of goodwill impairment on the first day of our fourth quarter of 2016. This qualitative assessment included an evaluation of relevant events and circumstances that existed at the date of our assessment. Those events and circumstances included

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<b>Description</b>	<b>Judgments and Uncertainties</b>	<b>Effect if Actual Results Differ from Assumptions</b>
based on discounted cash flows, market multiples, and/or appraised values, as appropriate.	conditions specific to the PGTI reporting unit, such as the inputs that would be used to calculate reporting unit enterprise value, as well as events and circumstances related to the PGTI reporting unit, such as the industry in which PGTI operates, its competitive environment, the availability and costs of its raw materials and labor, the financial performance of PGTI, and factors related to the markets in which PGTI operates. We also considered that no new impairment indicators were identified since the date of our prior qualitative assessment. Based on that assessment, we concluded that it is more likely than not that the fair value of PGTI exceeded its carrying value on the first day of our fourth quarter.	Actual results can differ from our estimates, requiring adjustments to our assumptions. The result of these changes could result in a material change in our calculation and an impairment of our trade names.
<b>Indefinite Lived Intangibles</b> The impairment evaluation of the carrying amount of intangible assets with indefinite lives (which for us is our tradenames) is conducted annually, or more frequently, if events or changes in circumstances indicate that an asset might be impaired. We have the option of performing a qualitative assessment of impairment to determine whether any further quantitative testing for impairment is necessary. If we elect to bypass the qualitative assessment or if we determine, based on qualitative factors, that it is more likely than not that the fair value of our tradenames is less than the carrying amount, an evaluation is performed by comparing the carrying amount of these assets to their estimated fair values. If the estimated fair value is less than the carrying amount of the intangible asset, then an impairment	In estimating fair value, the method we use requires us to make assumptions, the most material of which are net sales projections attributable to products sold with these trade names, the anticipated royalty rate we would pay if the trade names were not owned (as a percent of net sales), and a weighted average discount rate. These assumptions are subject to change based on changes in the markets in which these products are sold, which impact our projections of future net sales and the assumed royalty rate. Factors affecting the weighted average discount rate include assumed debt to equity ratios, risk-free interest rates and equity returns, each for market participants in our industry.	



charge is recorded to reduce the asset to its estimated fair value. The estimated fair value is determined using the relief from royalty method that is based upon the discounted projected cost savings (value) attributable to ownership of our trade names, our only indefinite lived intangible assets.

We completed a qualitative assessment of our indefinite-lived intangible assets (tradenames) on the first day of our fourth quarter of 2016. This qualitative assessment included an evaluation of relevant events and circumstances that existed at the date of our assessment. Those events and circumstances included conditions specific to our tradenames, such as the inputs that would be used to calculate their fair values, as well as events and circumstances related to the tradenames, such as the industry in which we use the tradenames, our competitive environment, the availability and costs of its raw materials and labor, the financial performance of our Company, and factors related to the markets in which our Company operates. We also considered that no new impairment indicators were identified since the date of our prior

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<b>Description</b>	<b>Judgments and Uncertainties</b>	<b>Effect if Actual Results Differ from Assumptions</b>
<b>Warranty</b>	assessments, which was a quantitative assessment for the PGT tradenames and a qualitative assessment for the CGI tradename. Based on that assessment, we concluded that it is more likely than not that our trade names are not impaired.	Changes to actual warranty claims incurred could have a material impact on our estimated warranty obligations.
We have warranty obligations with respect to most of our manufactured products. Obligations vary by product components. The reserve for warranties is based on our assessment of the costs that will have to be incurred to satisfy warranty obligations on recorded net sales.	The reserve is determined after assessing our warranty history, lag time between order ship date and warranty service date, current and expected warranty costs per claim, and specific identification of our estimated future warranty obligations.	

**RECENTLY ISSUED ACCOUNTING STANDARDS**

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 do not expect adoption of this guidance to have a significant effect on the Company's consolidated financial statements.

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. The new standard will become effective for the Company beginning with the first quarter of 2018, with early adoption permitted. We do not expect

the adoption of this guidance to have a material impact on the Company's consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. ASU 2016-13 amends the impairment model to utilize an expected loss methodology in place of the currently used incurred loss methodology, which will result in the more timely recognition of losses. This update is effective for our fiscal year beginning after December 15, 2019, including interim periods within those fiscal years. ASU 2016-13 also applies to employee benefit plan accounting, with an effective date of fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. We are currently assessing the impact that adopting this new accounting standard will have on our consolidated financial statements, footnote disclosures and employee benefit plan accounting.

In March 2016, the FASB issued ASU 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. This update is effective for our fiscal year beginning January 1, 2017. Upon adoption, we will record a cumulative-effect adjustment to the accumulated deficit for excess tax benefits not previously recognized as of the beginning of our 2017 fiscal year. After adoption, the primary impact of the adoption will be that the recognition of excess tax benefits will be as a discrete component of our income tax provision, rather than as additional paid-in capital.

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In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 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 application 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 currently evaluating the impact of this new standard on its consolidated financial statements.

In July 2015, the FASB issued ASU No. 2015-11, Inventory (Topic 330) Simplifying the Measurement of Inventory. This guidance changes 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, currently requires an entity to measure inventory at the lower of cost or market. Market could be replacement cost, net realizable value, or net realizable value less an approximately normal profit margin. Under this ASU, an entity should measure 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. This ASU is effective in financial statements issued for fiscal years beginning after December 15, 2016, with early application at the beginning of interim or annual periods permitted, and is required to be adopted prospectively. We do not believe the adoption of this ASU will have a material impact on our financial statements.

In August 2014, the FASB issued ASU No. 2014-15, Presentation of Financial Statements Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern, which requires management to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures in certain circumstances. ASU 2014-15 is effective for annual and interim periods beginning after December 15, 2016, with early adoption permitted. We will make the required evaluation pursuant to this guidance and do not believe it will have any impact to our disclosures.

In May 2014, the Financial Accounting Standards Board (the FASB) issued ASU 2014-09, Revenue from Contracts with Customers that 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 that 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 retrospective (restating all years presented in the Company's financial statements) or cumulative effect (recording the impact of adoption as an adjustment to retained earnings at the beginning of the year of adoption) transition method. 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 that clarifies identification of a performance obligation and address 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 clarifying 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 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 cumulative effect method, and continues to evaluate the impact of the adoption of ASC 606 on its consolidated financial statements. The Company expects to complete its assessment of the impact of adoption of ASC

606 during the first half of 2017.

## **FORWARD OUTLOOK**

From time to time, we have made or will make forward-looking statements within the meaning of Section 21E of the Exchange Act. These statements do not relate strictly to historical or current facts. Forward-looking statements usually can be identified by the use of words such as goal , objective , plan , expect , anticipate , intend , project , believe , may , could , or other words of similar meaning. Forward-looking statements provide our current expectations or forecasts of future events, results, circumstances or aspirations. Our disclosures in this report contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. We may also make forward-looking statements in our other documents filed or furnished with the Securities and Exchange Commission and in oral presentations. Forward-looking statements are based on assumptions and by their nature are subject to risks and uncertainties, many of which are outside of our control. Our actual results may differ materially

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from those set forth in our forward-looking statements. There is no assurance that any list of risks and uncertainties or risk factors is complete. Factors that could cause actual results to differ materially from those described in our forward-looking statements include, but are not limited to:

unfavorable changes in new home starts and home remodeling trends, especially in Florida, where the substantial portion of our sales are generated;

unfavorable changes in the economy in the U.S. in general and in Florida, where the substantial portion of our sales are generated;

increases in our raw material prices, including aluminum, glass and vinyl;

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

our ability to successfully integrate businesses we may acquire;

increases in our transportation costs;

our level of indebtedness;

our dependence on our impact-resistant product lines;

product liability and warranty claims brought against us;

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

our dependence on our manufacturing facilities; and

the other risks and uncertainties discussed under "Risk Factors" in Part I. Item 1A. herein.

Statements in this annual report on Form 10-K that are forward-looking statements include, without limitation, our expectations regarding: (1) the market for high-end window and door products, and the impact that our acquisition of WinDoor, Inc. may have on our sales and performance in that market; (2) rates of new home construction in the Florida market, and the anticipated impact of slowing home price appreciation and other factors on new home construction; (3) home builder confidence and the anticipated impact it may have on demand for new home construction materials; (4) the 2017 home buying season in the Florida market; (5) the timing and impact on our

financial performance of new products that we plan to introduce during 2017; (6) the impact of our investments in our brands and operations on our anticipated growth and long-term shareholder value; and (7) our projected financial performance, results and outlook for 2017. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this annual report on Form 10-K. Except as required by law, we undertake no obligation to update these forward-looking statements to reflect subsequent events or circumstances after the date of this annual report on Form 10-K. Before making any investment decision, you should carefully consider all risks and uncertainties disclosed in all our SEC filings, including our reports on Forms 8-K, 10-Q and 10-K and our registration statements under the Securities Act of 1933, as amended, all of which are accessible on the SEC's website at [www.sec.gov](http://www.sec.gov) and at <http://ir.pgtinnovations.com/sec.cfm>

### *Net sales*

Looking ahead into 2017, we believe steady demand will continue in the market for our mass-custom products. Also, after experiencing some softness in the high-end, luxury market during 2016, which we believe was the result of several factors, previously listed, we have seen recent signs of slight improvement in sales of our high-end products. Additionally, since the election, the stock markets have set record highs, and every measure of consumer sentiment appears to indicate that consumer confidence is at near record highs. We feel these are indicators that point to future improvement in the high-end, luxury market for 2017.

Regarding housing starts, Moody's forecast for 2017 suggests single-family housing starts in Florida will be over 96,000 after finishing 2016 at nearly 78,000, a forecasted 24% increase. However, we believe the increase in single-family housing starts in Florida in 2017 compared to 2016 will be closer to the 15% increase seen in 2016, compared to 2015. This is still below the level of starts we believe Florida's run-rate is capable of supporting. In 2016, Florida solidified its position as the third largest state in the U.S., and we expect the combination of continued population expansion, job creation, declining unemployment, growth in the housing market, rational home pricing and historically low interest rates to be factors in driving our future growth. However, the strong jobs environment resulted in a contraction in the labor pool which caused construction labor market pressure on the Company and our dealer base during 2016 which we expect to continue into 2017.

Our 2017 outlook is based on our strategy to remain focused on leveraging our long-standing leadership position and strength in the mass-custom market, and identifying and capturing growth opportunities, both organically and through increasing market share, in the high-end, luxury and premium markets. We expect 2017 full-year sales to range between \$490 and \$500 million, representing an increase of between 7% and 9%, which we expect will generate consolidated EBITDA of between \$83 and \$87 million.

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***Gross profit and gross margin***

We believe the following factors, which are not all inclusive, may impact our gross profit and gross margin in 2017:

Our gross margin percentages are heavily influenced by total sales due to operating leverage of fixed costs. We expect to continue to grow revenues, both organically, as we have grown, our new, higher margin vinyl product lines, and through capturing market share, which we believe will result in benefit to gross profit and gross margin during 2017.

Gross profit and gross margin in 2016 were negatively impacted by certain costs related to product line relocations and terminations, as well as glass line start-up costs, including our two, new TPS system glass lines. In response to the significant increase in the demand for our mass-custom vinyl impact products, in 2016, we installed two new TPS systems, which is an innovative and cutting-edge technology that enables us to produce better quality insulated glass units. One TPS system is fully operational, and we expect to bring the second TPS system to fully-operational status by the end of the second quarter of 2017. While we expect that full-utilization of these TPS system glass lines has and will continue to improve the quality of our insulated glass, scrap costs resulting from learning to use this new technology could negatively impact gross margins in the first half of 2017.

We experienced some softness in the high-end, luxury market during 2016 due to several factors previously mentioned in the section titled *Net sales* above. This softness impacted us operationally in 2016, as we continued to maintain support costs at WinDoor and CGI in anticipation of the return of the high-end market. While we have seen recent signs of slight improvement in sales of our high-end, luxury WinDoor products compared to last year, possibly indicating a future return of the high-end, luxury market, we may continue to maintain support costs where we produce our high-end, luxury and premium products during 2017 if the softness in that market is prolonged.

Aluminum prices can fluctuate significantly resulting in impacts to our gross margin. To cover our future needs for aluminum, we have contracts for future purchases of aluminum with two U.S. vendors of aluminum extrusion. As of today, we are covered for approximately 51 percent of our estimated needs during the remainder of 2017, at an average delivered price of \$0.88 per pound. However, early in 2017, we have seen an increase in the per-pound cash price of aluminum per the London Metal Exchange (LME). The current delivered cash price is approximately \$0.95 per pound, which includes components for the LME and Midwest premium. We expect to increase prices of certain of our products during certain times during 2017, with the intent being to offset increases in material costs, including aluminum. However, if the increase in the cash price of aluminum exceeds our ability to increase product prices charged to customers, this could negatively impact our gross profit and gross margin.

Over the last three years we have been making significant capital investments to increase and modernize our manufacturing capabilities and capacity, including our glass plant facility and several new glass lines, including our two new TPS system glass lines. As a result, we estimate that depreciation expense in 2017 will increase nearly \$4 million from 2016, and nearly half of this increase will impact gross profit, and may



negatively affect gross margin.

Our gross profit and gross margin are also influenced by costs of material and labor. Portions of our labor force have become more tenured and, therefore, material and labor costs have begun to normalize as efficiencies are achieved. However, the strong jobs environment in Florida has resulted in a contraction in the labor pool, which has caused construction labor market pressure on the Company and a necessity to hire inexperienced labor, particularly in our new glass processing facility, resulting in labor inefficiencies that have negatively impacted gross profit and gross margin. We expect the tight construction labor market to continue during 2017.

***Selling, general and administrative expenses (SG&A) and Depreciation and Amortization***

SG&A as a percentage of sales increased to 18.3% in 2016, from 17.5% in 2015. We acquired WinDoor on February 16, 2016, and amortizable intangibles and property and equipment related to the acquisition increased amortization and depreciation expense, both non-cash expenditures, classified within SG&A by \$2.6 million and \$0.6 million, respectively, in 2016. We estimate that depreciation and amortization expense in 2017 will increase more than \$4 million from 2016, and that nearly half of this increase will impact SG&A. This expense category will also be affected by approximately \$1.0 million of first-quarter 2017 marketing-related expenses invested in our PGT Innovations three-brand roll-out, and fixed SG&A from the inclusion of WinDoor and USI acquisitions for the entire 2017 first quarter. We will continue to seek areas within this category of expenses where savings through acquisition synergies can be obtained, and we expect to be able to leverage fixed SG&A on higher sales in 2017, compared to 2016.

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***Interest expense***

Effective on February 27, 2017, we repriced the existing \$264 million term loan portion of the 2016 Credit Agreement, which reduced its stated interest rate by one full percentage-point, to 5.75%. See **Liquidity and Capital Resources** **Subsequent Event** in this section for more information. As a result of the repricing, we expect interest expense to decrease approximately \$2.6 million annually, with an approximate \$2.3 million decrease in 2017. There were no new lenders fees or discount relating to the amendment and repricing of the facility. We estimate that total interest expense will be approximately \$18.6 million in 2017, including approximately \$2.9 million of amortization of carryover deferred financing costs and original issue discount.

***Income tax expense***

We expect to continue to be profitable in 2017. If we continue to be profitable, we believe we will incur income tax expense at approximately a combined effective rate of approximately 36% to 37%, which will impact our results.

***Liquidity and capital resources***

We had \$39.2 million of cash on hand as of December 31, 2016. During 2017, we expect to continue to be able to generate sufficient cash from operations to service our debt interest and principal requirements, as well as spend between \$15 million and \$18 million in 2017 in capital expenditures. However, no assurances can be given that cash from operations will be sufficient for some or all of these purposes. Our capital expenditure program is geared towards making investments in capital assets targeted at increasing both gross sales and margins.

**Item 7A. *QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK***

Based on our debt outstanding at December 31, 2016, of \$264.0 million, a 1% increase in interest rates would result in approximately \$2.6 million of additional interest expense annually. On February 17, 2017, the stated interest rate on our outstanding debt decreased to 5.75%. The annual savings of cash interest expense are estimated to be \$2.6 million, of which \$2.3 million is estimated will be in 2017.

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**Item 8. *FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA***  
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**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Shareholders

PGT Innovations, Inc.:

We have audited the accompanying consolidated balance sheets of PGT Innovations, Inc. and subsidiaries as of December 31, 2016 and January 2, 2016, and the related consolidated statements of operations, comprehensive income, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2016. In connection with our audit of the consolidated financial statements, we have also audited the financial statement Schedule II. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of PGT Innovations, Inc. and subsidiaries as of December 31, 2016 and January 2, 2016, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2016, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), PGT Innovations, Inc.'s internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 10, 2017 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

Tampa, Florida

March 10, 2017

Certified Public Accountants

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**PGT INNOVATIONS, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

*(in thousands, except per share amounts)*

	<b>Year Ended</b>		
	<b>December 31,</b>	<b>January 2,</b>	<b>January 3,</b>
	<b>2016</b>	<b>2016</b>	<b>2015</b>
Net sales	\$ 458,550	\$ 389,810	\$ 306,388
Cost of sales	318,452	270,678	213,596
Gross profit	140,098	119,132	92,792
Selling, general and administrative expenses	83,995	68,190	56,377
Fair value adjustment to contingent consideration	(3,000)		
Income from operations	59,103	50,942	36,415
Interest expense, net	20,125	11,705	5,960
Debt extinguishment costs	3,431		2,625
Other expense, net		388	1,750
Income before income taxes	35,547	38,849	26,080
Income tax expense	11,800	15,297	9,675
Net income	\$ 23,747	\$ 23,552	\$ 16,405
Net income per common share:			
Basic	\$ 0.49	\$ 0.49	\$ 0.35
Diluted	\$ 0.47	\$ 0.47	\$ 0.33
Weighted average shares outstanding:			
Basic	48,856	48,272	47,376
Diluted	50,579	50,368	49,777

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

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**PGT INNOVATIONS, INC.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

*(in thousands)*

	<b>Year Ended</b>		
	<b>December 31, 2016</b>	<b>January 2, 2016</b>	<b>January 3, 2015</b>
Net income	\$ 23,747	\$ 23,552	\$ 16,405
<b>Other comprehensive income before tax</b>			
Change in fair value of derivatives			(212)
Reclassification to earnings		126	1,195
Other comprehensive income before tax		126	983
Income tax expense related to components of other comprehensive income		50	431
Reversal of income tax allocation		(1,595)	
Other comprehensive income, net of tax		1,671	552
Comprehensive income	\$ 23,747	\$ 25,223	\$ 16,957

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

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**PGT INNOVATIONS, INC.**  
**CONSOLIDATED BALANCE SHEETS**

*(in thousands, except per share amounts)*

	December 31, 2016	January 2, 2016
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 39,210	\$ 61,493
Accounts receivable, net	41,646	31,783
Inventories	30,511	23,053
Prepaid expenses	2,645	2,170
Other current assets	8,365	8,473
Total current assets	122,377	126,972
Property, plant and equipment, net	84,209	71,503
Trade names and other intangible assets, net	120,930	79,311
Goodwill	108,060	65,635
Other assets, net	1,072	607
Total assets	\$ 436,648	\$ 344,028
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 7,894	\$ 8,180
Accrued liabilities	14,909	11,398
Current portion of long-term debt		1,949
Total current liabilities	22,803	21,527
Long-term debt, less current portion	247,873	188,818
Deferred income taxes	32,171	25,894
Other liabilities	1,282	828
Total liabilities	304,129	237,067
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; 51,887 and 51,146 shares issued and 49,176 and 48,806 shares outstanding at December 31, 2016 and January 2, 2016, respectively	519	511
Additional paid-in-capital	249,469	244,944
Accumulated deficit	(104,710)	(128,457)

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Shareholders' equity	145,278	116,998
Less: Treasury stock at cost	(12,759)	(10,037)
Total shareholders' equity	132,519	106,961
Total liabilities and shareholders' equity	\$ 436,648	\$ 344,028

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



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

	December 31, 2016	Year Ended January 2, 2016	January 3, 2015
<b>Cash flows from operating activities:</b>			
Net income	\$ 23,747	\$ 23,552	\$ 16,405
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	9,577	7,008	4,534
Amortization	6,096	3,413	1,446
Provision for (recovery on) allowance for doubtful accounts	81	(131)	(535)
Stock-based compensation	1,769	1,774	1,214
Amortization and write-offs of deferred financing costs and debt discount	6,779	1,014	3,533
Derivative financial instruments		126	669
Deferred income taxes	6,277	5,993	3,329
Excess tax benefits on stock-based compensation	(1,872)	(3,840)	(6,064)
Fair value adjustment to contingent consideration	(3,000)		
(Gain) loss on disposal of assets	(45)	10	
Change in operating assets and liabilities (net of the effects of the acquisitions):			
Accounts receivable	(7,069)	(7,263)	(642)
Inventories	(152)	(3,083)	(3,834)
Prepaid expenses and other current assets	2,215	(1,786)	(1,628)
Accounts payable and accrued liabilities	1,962	5,669	3,823
<b>Net cash provided by operating activities</b>	<b>46,365</b>	<b>32,456</b>	<b>22,250</b>
<b>Cash flows from investing activities:</b>			
Purchases of property, plant and equipment	(17,694)	(17,391)	(19,301)
Business acquisitions	(101,338)		(110,438)
Proceeds from disposals of assets	45		
<b>Net cash used in investing activities</b>	<b>(118,987)</b>	<b>(17,391)</b>	<b>(129,739)</b>
<b>Cash flows from financing activities:</b>			
Payments of long-term debt	(203,525)	(2,000)	(79,500)
Proceeds from issuance of long-term debt	261,030		198,000
Payments of financing costs	(7,178)		(5,466)
Purchases of treasury stock	(2,847)	(44)	(1,025)
Proceeds from exercise of stock options	981	2,192	1,691

Proceeds from issuance of common stock under employee stock purchase plan	36		
Excess tax benefits on stock-based compensation	1,872	3,840	6,064
Other	(30)	(29)	(10)
Net cash provided by financing activities	50,339	3,959	119,754
Net (decrease) increase in cash and cash equivalents	(22,283)	19,024	12,265
Cash and cash equivalents at beginning of period	61,493	42,469	30,204
Cash and cash equivalents at end of period	\$ 39,210	\$ 61,493	\$ 42,469
<b>Supplemental cash flow information:</b>			
Interest paid	\$ 16,015	\$ 11,502	\$ 2,216
Income tax payments, net of refunds	\$ 2,231	\$ 6,808	\$ 1,198
<b>Non-cash activity:</b>			
Contingent consideration reversed out of accrued liabilities	\$ 3,000	\$	\$
Portion of USI purchase price held-back by PGTI	\$ 85	\$	\$
Property, plant and equipment additions in accounts payable	\$ 251	\$ 723	\$ 489

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

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## PGT INNOVATIONS, INC.

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

*(in thousands except share amounts)*

	Common stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income		Treasury Stock	Total
	Shares Outstanding	Amount		Loss	Deficit		
Balance at December 28, 2013	46,871,197	\$ 489	\$ 229,269	\$ (2,223)	\$ (168,414)	\$ (10,046)	\$ 49,075
Vesting of restricted stock	22,581						
Purchases of treasury stock	(93,081)					(1,025)	(1,025)
Stock-based compensation			1,214				1,214
Exercise of stock options	906,573	9	1,682				1,691
Tax benefit on exercised stock options			6,064				6,064
Comprehensive income, net of tax effect				552			552
Net income					16,405		16,405
Balance at January 3, 2015	47,707,270	\$ 498	\$ 238,229	\$ (1,671)	\$ (152,009)	\$ (11,071)	\$ 73,976
Grants of restricted stock		3	(3)				
Vesting of restricted stock	69,161						
Purchases of treasury stock	(3,746)					(44)	(44)
Retirement of treasury stock			(1,078)			1,078	
Stock-based compensation			1,774				1,774
Exercise of stock options	1,033,750	10	2,182				2,192
Tax benefit on exercised stock options			3,840				3,840
Comprehensive income, net of tax effect				1,671			1,671
Net income					23,552		23,552
Balance at January 2, 2016	48,806,435	\$ 511	\$ 244,944	\$	\$ (128,457)	\$ (10,037)	\$ 106,961
Grants of restricted stock		3	(3)				
Vesting of restricted stock	128,590						
		(1)	1				

Forfeitures of restricted stock							
Purchases of treasury stock	(299,988)				(2,847)		(2,847)
Retirement of treasury stock			(125)			125	
Stock-based compensation			1,769				1,769
Exercise of stock options	537,364	6	975				981
Common stock issued under Employee Stock Purchase Plan	3,748		36				36
Tax benefit on exercised stock options			1,872				1,872
Comprehensive income, net of tax effect							
Net income					23,747		23,747
Balance at December 31, 2016	49,176,149	\$ 519	\$ 249,469	\$	\$ (104,710)	\$ (12,759)	\$ 132,519

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

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**PGT INNOVATIONS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. Description of Business**

PGT Innovations, Inc. ( PGTI , we, or the Company ), formerly PGT, Inc., is a leading manufacturer of impact-resistant aluminum and vinyl-framed windows and doors and offers a broad range of fully customizable window and door products. The majority of our sales are to customers in the state of Florida; however, we also sell products in many other states, the Caribbean, Canada, Australia, and in South and Central America. Products are sold through an authorized dealer and distributor network.

On September 22, 2014 (the Closing Date), we completed the acquisition of CGI Windows and Doors Holdings, Inc. (CGI) which became a wholly-owned subsidiary of PGT Industries, Inc., which is wholly-owned by PGTI. CGI was established in 1992 and designs and manufactures quality-impact resistant products that meet or exceed the Miami-Dade County impact standards. (See Note 4).

Through PGT Industries, Inc., we purchased all of the issued and outstanding shares of common stock of WinDoor, Incorporated, a Florida corporation, and all of the issued and outstanding membership units of LTE, LLC, a Florida limited liability company (together with WinDoor Incorporated, WinDoor ) effective on February 16, 2016, pursuant to a stock purchase agreement ( SPA ) by and among PGT Industries, Inc., and the sellers as identified in the SPA. As a result, WinDoor 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 was 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 acquisition, see Note 4 herein.

On July 25, 2016, the Company created CGI Commercial, Inc. (CGIC), a Florida corporation. CGIC is a wholly-owned subsidiary of CGI. CGIC was created for the purpose of acquiring the operations and certain assets of, and assuming certain liabilities of US Impact Systems, Inc. (USI), a Florida corporation doing business primarily in the Miami area of Florida. USI, acquired by CGIC on August 31, 2016, is an established fabricator of storefront window and door products. The fair value of the consideration transferred in the acquisition was \$1.9 million, which has been preliminarily allocated to the assets acquired and liabilities assumed as of the acquisition date, in accordance with ASC 805, Business Combinations . This transaction did not have a significant impact on our financial position nor our operating result for 2016. For a more detailed discussion of this transaction, see Note 4 herein.

We were incorporated in the state of Delaware on December 16, 2003, as JLL Window Holdings, Inc., with primary operations in North Venice, Florida. On February 15, 2006, our Company was renamed PGT, Inc. On December 14, 2016, we announced that we changed our name to PGT Innovations, Inc. and, effective on December 28, 2016, the listing of our common stock was transferred to the New York Stock Exchange (NYSE) from the NASDAQ Global Market (NASDAQ), and began trading on the NYSE under its existing ticker symbol of PGTI . We have four manufacturing operations in Florida, with one in North Venice, two in the greater Miami area, and one in Orlando. Additionally, we have two glass tempering and laminating plants and one insulation glass plant, all located in North Venice.

All references to PGTI or our Company apply to the consolidated financial statements of PGT Innovations, Inc. unless otherwise noted.

## **2. Summary of Significant Accounting Policies**

### ***Basis of Presentation***

The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ( GAAP ).

### ***Fiscal period***

Our fiscal year consists of 52 or 53 weeks ending on the Saturday nearest December 31 of the related year. The years ended December 31, 2016, and January 2, 2016, consisted of 52 weeks. The year ended January 3, 2015, consisted of 53 weeks.

### ***Principles of consolidation***

The consolidated financial statements present the results of the operations, financial position and cash flows of PGTI, and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

### ***Segment information***

We operate as one operating segment, the manufacture and sale of windows and doors.

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### ***Use of estimates***

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could materially differ from those estimates.

### ***Revenue recognition***

We recognize sales when all of the following criteria have been met: a valid customer order with a fixed price has been received; the product has been delivered; and collectability is reasonably assured. All sales recognized are net of allowances for discounts and estimated credits, which are estimated using historical experience. We record provisions against gross revenues for estimated credits in the period when the related revenue is recorded. These estimates are based on factors that include, but are not limited to, analysis of credit memorandum activity.

### ***Cost of sales***

Cost of sales represents costs directly related to the production of our products. Primary costs include raw materials, direct labor, and manufacturing overhead, which consist of salaries, wages, employee benefits, utilities, maintenance, engineering and property taxes.

### ***Shipping and handling costs***

Shipping and handling costs incurred in the purchase of materials used in the manufacturing process are included in cost of sales. Costs relating to shipping and handling of our finished products are included in selling, general and administrative expenses and totaled \$18.3 million, \$15.4 million and \$13.0 million for the years ended December 31, 2016, January 2, 2016, and January 3, 2015, respectively.

### ***Advertising***

We expense advertising costs as incurred. Advertising expense included in selling, general and administrative expenses was \$0.2 million, \$0.3 million and \$0.7 million for the years ended December 31, 2016, January 2, 2016, and January 3, 2015, respectively.

### ***Research and development costs***

We expense research and development costs as incurred. Research and development costs included in cost of sales were \$1.7 million, \$2.0 million and \$1.8 million for the years ended December 31, 2016, January 2, 2016, and January 3, 2015, respectively.

### ***Cash and cash equivalents***

Cash and cash equivalents consist of cash on hand or highly liquid investments with an original maturity date of three months or less when purchased.

### ***Accounts receivable, net***

In the ordinary course of business, we extend credit to qualified dealers and distributors, generally on a non-collateralized basis. The Company maintains an allowance for doubtful accounts which is based on management's assessments of the amount which may become uncollectible in the future and is determined through consideration of our write-off history, specific identification of uncollectible accounts based in part on the customer's past due balance (based on contractual terms), and consideration of prevailing economic and industry conditions. Uncollectible accounts are written off after repeated attempts to collect from the customer have been unsuccessful.

	<b>December 31, 2016</b>	<b>January 2, 2016</b>
	<i>(in thousands)</i>	
Accounts receivable	\$ 42,045	\$ 32,119
Less: Allowance for doubtful accounts	(399)	(336)
Accounts receivable, net	\$ 41,646	\$ 31,783



**Table of Contents*****Self-insurance reserves***

We are primarily self-insured for employee health benefits and for years prior to 2010 for workers' compensation claims. Provisions for losses under these programs are recorded based on the Company's estimates of the aggregate liabilities for the claims incurred. Accruals for healthcare claims and workers' compensation are included in accrued liabilities in the accompanying consolidated balance sheets.

***Warranty expense***

We have warranty obligations with respect to most of our manufactured products. Warranty periods, which vary by product components, generally range from 1 to 10 years, although the warranty period for a limited number of specifically identified components in certain applications is a lifetime. However, the majority of the products sold have warranties on components which range from 1 to 3 years. The Company has recorded a reserve for estimated warranty and related costs, based on historical experience and periodically adjusts these provisions to reflect actual experience. Expected future obligations are discounted to a current value using a risk-free rate for obligations with similar maturities.

During 2016, we recorded warranty expense at an average rate of 2.41% of sales. This rate is higher than the average rate of 2.12% of sales accrued in fiscal year 2015. We assess the adequacy of our warranty accrual on a quarterly, and yearly basis, and adjust the previous amounts recorded, if necessary, to reflect the change in estimate of the future costs of claims yet to be serviced. The following provides information with respect to our warranty accrual.

<b>Accrued Warranty</b>	<b>Beginning of Period</b>	<b>Acquired</b>	<b>Charged to Expense</b>	<b>Adjustments</b>	<b>Settlements</b>	<b>End of Period</b>
	<i>(in thousands)</i>					
Year ended December 31, 2016	\$ 4,237	\$ 274	\$ 11,064	\$ 754	\$ (10,760)	\$ 5,569
Year ended January 2, 2016	\$ 3,302	\$	\$ 8,256	\$ 332	\$ (7,653)	\$ 4,237
Year ended January 3, 2015	\$ 2,666	\$ 239	\$ 5,492	\$ 473	\$ (5,568)	\$ 3,302

The accrual for warranty is included in accrued liabilities and other liabilities, depending on estimated settlement date, in the consolidated balance sheets as of December 31, 2016, and January 2, 2016. The portion of warranty expense related to the issuance of product of \$6.8 million, \$4.8 million and \$3.1 million is included in cost of sales in the consolidated statements of operations for the years ended December 31, 2016, January 2, 2016, and January 3, 2015, respectively. The portion related to servicing warranty claims including costs of the service department personnel is included in selling, general and administrative expenses in the consolidated statements of operations, and is \$5.0 million, \$3.8 million and \$2.9 million, respectively, for the years ended December 31, 2016, January 2, 2016, and January 3, 2015.

***Inventories***

Inventories consist principally of raw materials purchased for the manufacture of our products. We have limited finished goods inventory as all products are custom, made-to-order products. All inventories are stated at the lower of cost (first-in, first-out method) or market (net realizable value). The reserve for obsolescence is based on management's assessment of the amount of inventory that may become obsolete in the future and is determined through company history, specific identification and consideration of prevailing economic and industry conditions. Inventories consist of the following:

	<b>December 31, 2016</b>	<b>January 2, 2016</b>
	<i>(in thousands)</i>	
Raw materials	\$ 24,946	\$ 18,609
Work in progress	2,521	1,246
Finished goods	3,044	3,198
Inventories	\$ 30,511	\$ 23,053

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**Table of Contents*****Property, plant and equipment***

Property, plant and equipment are recorded at cost and depreciated using the straight-line method over the estimated useful lives of the related assets. Depreciable assets are assigned estimated lives as follows:

Building and improvements	5 to 40 years
Leasehold improvements	Shorter of lease term or estimated useful life
Furniture and equipment	3 to 10 years
Vehicles	5 to 10 years
Computer software	3 years

Maintenance and repair expenditures are charged to expense as incurred.

***Long-lived assets***

We review long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of long-lived assets to future undiscounted net cash flows expected to be generated. If such assets are considered to be impaired, the impairment recognized is the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less cost to sell, and depreciation is no longer recorded.

***Computer software***

We capitalize costs associated with software developed or obtained for internal use when both the preliminary project stage is completed and it is probable that computer software being developed will be completed and placed in service. Capitalized costs include:

- (i) external direct costs of materials and services consumed in developing or obtaining computer software,
- (ii) payroll and other related costs for employees who are directly associated with and who devote time to the software project, and
- (iii) interest costs incurred, when material, while developing internal-use software.

Capitalization of such costs ceases no later than the point at which the project is substantially complete and ready for its intended purpose.

Capitalized software as of December 31, 2016, and January 2, 2016, was \$16.6 million and \$16.3 million, respectively. Accumulated depreciation of capitalized software was \$15.4 million and \$14.5 million as of December 31, 2016, and January 2, 2016, respectively.

Amortization expense for capitalized software was \$0.9 million, \$1.1 million, and \$0.5 million for the years ended December 31, 2016, January 2, 2016, and January 3, 2015, respectively.

We review the carrying value of capitalized software and development costs for impairment in accordance with our policy pertaining to the impairment of long-lived assets.

***Goodwill***

Goodwill represents the excess of the consideration paid in a business combination over the fair value of the identifiable net assets acquired. We test goodwill for impairment at the reporting unit level at least annually or whenever events or circumstances indicate that the carrying value of goodwill may not be recoverable from future cash flows. Our annual test for impairment is done on the first date of our fiscal fourth quarter. We consider various qualitative factors, including macroeconomic and industry conditions, financial performance of the company and changes in the stock price of the company to determine whether it is necessary to perform a quantitative test for goodwill impairment. If we believe, as a result of our qualitative assessment, that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, the quantitative impairment test is required. Under the quantitative test, goodwill is tested under a two-step method for impairment at a level of reporting referred to as a reporting unit. Step one of the quantitative analysis involves identifying potential impairment by comparing the fair value of each reporting unit with its carrying amount and, if applicable, step two involves estimation of the impairment loss, which is the amount of excess of carrying amount of goodwill over the implied fair value of the reporting unit goodwill. For all periods presented, based on a qualitative assessment, we concluded that a quantitative two-step assessment was not required to be performed.

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### ***Tradenames***

The Company has indefinite-lived intangible assets in the form of tradenames. The impairment evaluation of the carrying amount of our tradenames is conducted annually, or more frequently, if events or changes in circumstances indicate that they might be impaired. We have the option of performing a qualitative assessment of impairment to determine whether any further quantitative testing for impairment is necessary. If we elect to bypass the qualitative assessment or if we determine, based on qualitative factors, that it is more likely than not that the fair value of our tradenames is less than the carrying amount, an evaluation is performed by comparing their carrying amount to their estimated fair values. If the estimated fair value is less than the carrying amount of the tradename, then an impairment charge is recorded to reduce the carrying value to its estimated fair value. The estimated fair value is determined using the relief from royalty method that is based upon the discounted projected cost savings (value) attributable to ownership of our tradenames, our only indefinite lived intangible assets. For all periods presented, based on a qualitative assessment, we concluded that a quantitative two-step assessment was not required to be performed for our tradenames.

### ***Derivative financial instruments***

We utilize certain derivative instruments, from time to time, including forward contracts and interest rate swaps and caps to manage variability in cash flow associated with commodity market price risk exposure in the aluminum market and interest rates. We do not enter into derivatives for speculative purposes. As of December 31, 2016, and January 2, 2016, we did not have any open forward contracts for the purchase of aluminum, or any interest rate caps or swaps. Additional information with regard to derivative instruments is contained in Note 9.

### ***Concentrations of credit risk***

Financial instruments, which potentially subject us to concentrations of credit risk, consist principally of cash and cash equivalents and trade accounts receivable. Accounts receivable are due primarily from dealers and distributors of building materials, and other companies in the construction industry, primarily located in Florida. Credit is extended based on an evaluation of the customer's financial condition and credit history, and generally collateral is not required. The Company maintains an allowance for potential credit losses on trade receivables.

We maintain our cash with several financial institutions. The balance exceeds federally insured limits. At December 31, 2016, and January 2, 2016, such balance exceeded the insured limit by \$37.5 million and \$61.0 million, respectively.

### ***Comprehensive income***

The Company reports comprehensive income, defined as the total of net income and other comprehensive income, which is composed of all other non-owner changes in equity, and the components thereof, in its consolidated statements of comprehensive income.

The components of other comprehensive income relate to gains and losses on cash flow hedges, to the extent effective. Reclassification adjustments reflecting such gains and losses are recorded as income in the same period as the hedged items affect earnings.

### ***Stock compensation***

We use a fair-value based approach for measuring stock-based compensation and record compensation expense over an award's vesting period based on the award's fair value at the date of grant. Our Company's awards vest based on service conditions and compensation expense is recognized on a straight-line basis for each separately vesting portion of an award. Stock-based compensation expense is recognized only for those awards that are ultimately expected to vest, and we have applied an estimated forfeiture rate to unvested awards for the purpose of calculating compensation cost. These estimates will be revised in future periods if actual forfeitures differ from the estimates. Changes in forfeiture estimates impact compensation cost in the period in which the change in estimate occurs.

***Income and Sales Taxes***

We account for income taxes utilizing the liability method. Deferred income taxes are recorded to reflect consequences on future years of differences between financial reporting and the tax basis of assets and liabilities measured using the enacted statutory tax rates and tax laws applicable to the periods in which differences are expected to affect taxable earnings. We have no liability for unrecognized tax benefits. However, should we accrue for such liabilities, when and if they arise in the future, we will recognize interest and penalties associated with uncertain tax positions as part of our income tax provision. Refer to Note 11 for additional information regarding the Company's income taxes.

Sales taxes collected from customers have been recorded on a net basis.

**Table of Contents*****Net income per common share***

Basic earnings per share is computed using the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed using the weighted average number of common shares outstanding during the period, plus the dilutive effect of common stock equivalents using the treasury stock method.

Our weighted average shares outstanding excludes underlying securities of 20 thousand, 66 thousand, and 16 thousand for the years ended December 31, 2016, January 2, 2016, and January 3, 2015, respectively, because their effects were anti-dilutive.

The table below presents the calculation of basic and diluted earnings per share, including a reconciliation of weighted average common shares:

	<b>Year Ended</b>		
	<b>December 31, 2016</b>	<b>January 2, 2016</b>	<b>January 3, 2015</b>
<i>(in thousands, except per share amounts)</i>			
<b>Numerator:</b>			
Net income	\$ 23,747	\$ 23,552	\$ 16,405
<b>Denominator:</b>			
Weighted-average common shares Basic	48,856	48,272	47,376
Add: Dilutive effect of stock compensation plans	1,723	2,096	2,401
Weighted-average common shares Diluted	50,579	50,368	49,777
<b>Net income per common share:</b>			
Basic	\$ 0.49	\$ 0.49	\$ 0.35
Diluted	\$ 0.47	\$ 0.47	\$ 0.33

**3. Recent Accounting Pronouncements***Accounting Pronouncements Recently Adopted*

In September 2015, the FASB issued ASU No. 2015-16, *Business Combinations (Topic 805) Simplifying the Accounting for Measurement-Period Adjustments*. This guidance eliminates the requirement to revise prior period financial statements for measurement period adjustments in a business combination. This guidance requires that the cumulative impact of a measurement-period adjustment (including the impact on prior periods) be recognized in the reporting period in which the adjustment is identified. This ASU was effective for the Company on January 3, 2016. The adoption of this ASU did not have an impact on our financial statements.

In April 2015, the FASB issued ASU No. 2015-03, *Interest Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*, (ASU 2015-03) which will require debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts (original issue discount or OID). The recognition and measurement guidance for debt

issuance costs are not affected by the amendments in this ASU. This ASU is effective in financial statements issued for fiscal years beginning after December 15, 2015. In August 2015, the FASB issued ASU No. 2015-15, Interest Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements Amendments to SEC Paragraphs Pursuant to Staff Announcement at June 18, 2015, EITF Meeting, which amends Subtopic 835-30 to add SEC paragraphs pursuant to the SEC Staff Announcement at the June 18, 2015, Emerging Issues Task Force (EITF) meeting about the presentation and subsequent measurement of debt issuance costs associated with line-of-credit arrangements, regarding the SEC's views of the classification of debt issuance costs relating to line-of-credit arrangements as deferred assets when no borrowings exist under the arrangement. We retrospectively adopted ASU 2015-03 in the interim period ended April 2, 2016, with respect to all deferred financing costs, lender fees and original issue discount, including those associated with the revolving credit portion of the 2016 Credit Agreement (see Note 8). The effect of this change did not have a material impact on the Company's consolidated financial condition. The effects on the Company's consolidated balance sheet as of January 2, 2016, relating to the reclassification of deferred financing costs is as follows (in thousands):



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	<b>Previously Reported</b>	<b>As Reclassified</b>
Other current assets	\$ 8,490	\$ 8,473
Total current assets	\$ 126,989	\$ 126,972
Other assets	\$ 2,291	\$ 607
Total assets	\$ 345,729	\$ 344,028
Current portion of long-term debt	\$ 1,966	\$ 1,949
Total current liabilities	\$ 21,544	\$ 21,527
Long-term debt, less current portion	\$ 190,502	\$ 188,818
Total liabilities	\$ 238,768	\$ 237,067
Total liabilities and shareholders' equity	\$ 345,729	\$ 344,028

In June 2014, the Financial Accounting Standards Board (FASB) issued ASU No. 2014-12, Compensation - Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period (a consensus of the FASB Emerging Issues Task Force). The new standard requires that a performance target that affects vesting, and that could be achieved after the requisite service period, be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant date fair value of the award. The update further clarifies that compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the periods for which the requisite service has already been rendered. We prospectively adopted ASU 2014-12 in the first quarter ended April 2, 2016. The adoption of this ASU did not have an impact on our consolidated financial statements.

*Accounting Pronouncements Recently Issued*

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 do not expect adoption of this guidance to have a significant effect on the Company's consolidated financial statements.

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. The new standard will become effective for the Company beginning with the first quarter of 2018, with early adoption permitted. We do not expect the adoption of this guidance to have a material impact on the Company's consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. ASU 2016-13 amends the impairment model to utilize an expected loss methodology in place of the currently used incurred loss methodology, which will result in the more timely recognition of losses. This update is effective for our fiscal year beginning after December 15, 2019, including interim periods within those fiscal years. ASU 2016-13 also applies to

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employee benefit plan accounting, with an effective date of fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. We are currently assessing the impact that adopting this new accounting standard will have on our consolidated financial statements, footnote disclosures and employee benefit plan accounting.

In March 2016, the FASB issued ASU 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. This update is effective for our fiscal year beginning January 1, 2017. Upon adoption, we will record a cumulative-effect adjustment to the accumulated deficit for excess tax benefits not previously recognized as of the beginning of our 2017 fiscal year. After adoption, the primary impact of the adoption will be that the recognition of excess tax benefits will be as a discrete component of our income tax provision, rather than as additional paid-in capital.

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 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 application 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 currently evaluating the impact of this new standard on its consolidated financial statements.

In July 2015, the FASB issued ASU No. 2015-11, Inventory (Topic 330) Simplifying the Measurement of Inventory . This guidance changes 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, currently requires an entity to measure inventory at the lower of cost or market. Market could be replacement cost, net realizable value, or net realizable value less an approximately normal profit margin. Under this ASU, an entity should measure 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. This ASU is effective in financial statements issued for fiscal years beginning after December 15, 2016, with early application at the beginning of interim or annual periods permitted, and is required to be adopted prospectively. We do not believe the adoption of this ASU will have a material impact on our financial statements.

In August 2014, the FASB issued ASU No. 2014-15, Presentation of Financial Statements Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity s Ability to Continue as a Going Concern, which requires management to evaluate whether there is substantial doubt about an entity s ability to continue as a going concern and to provide related footnote disclosures in certain circumstances. ASU 2014-15 is effective for annual and interim periods beginning after December 15, 2016, with early adoption permitted. We will make the required evaluation pursuant to this guidance and do not believe it will have any impact to our disclosures.

In May 2014, the Financial Accounting Standards Board (the FASB ) issued ASU 2014-09, Revenue from Contracts with Customers that 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 that 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

retrospective (restating all years presented in the Company's financial statements) or cumulative effect (recording the impact of adoption as an adjustment to retained earnings at the beginning of the year of adoption) transition method. 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 that clarifies identification of a performance obligation and address 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 clarifying 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 is the result of the FASB Board decision to issue a separate Update for technical corrections and improvements. The Company expects to complete its assessment of the impact of adoption of ASC 606 during the first half of 2017. The Company currently plans to adopt the provisions of this new accounting standard at the beginning of fiscal year 2018, using the cumulative effect method, and continues to evaluate the impact of the adoption of ASC 606 on its consolidated financial statements. The Company expects to complete its assessment of the impact of adoption of ASC 606 during the first half of 2017.

**Table of Contents****4. Acquisitions****WinDoor, Inc.**

On February 16, 2016 (the closing date), we completed the acquisition of WinDoor, Inc., 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, are as follows:

	<b>Current Estimate</b>
<b>Preliminary allocation:</b>	
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)
<b>Purchase price</b>	<b>\$ 102,571</b>
<b>Consideration:</b>	
Cash	\$ 99,571
Contingent consideration	3,000
<b>Total fair value of consideration</b>	<b>\$ 102,571</b>

The fair value of working capital related items, such as accounts and notes receivable, inventories, prepaid expenses, 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 using a cost approach. The intangible assets (See Note 6) 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 consolidated statement of operations for the year ended December 31, 2016, and relate to legal expenses, representations and warranties insurance, diligence, and accounting services. These costs are being deferred and amortized for tax purposes over the same period as tax deductible goodwill.

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 going concern value of an established business, and our expectation of future economic benefits from the acquisition.

The SPA provided for the potential for an earn-out contingency payment to sellers should WinDoor achieve a certain level of sales in the calendar year ended December 31, 2016. Pursuant to the SPA, had 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 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 earn-out contingency arrangement and, therefore, determined that the entire initial estimated fair value of \$3.0 million should be reversed. As a result, in the 2016 third quarter, we recorded an adjustment to the amount of contingent consideration within income from continuing operations in the accompanying consolidated statement of operations for the year ended December 31, 2016. Consistent with our conclusion reached in the 2016 third quarter, WinDoor's 2016 calendar-year sales did not reach at least \$46 million.

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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 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.

<b>Pro Forma Results (unaudited)</b> <i>(in thousands, except per share amounts)</i>	<b>Year Ended</b>	
	<b>December 31, 2016</b>	<b>January 2, 2016</b>
Net sales	\$ 461,011	\$ 430,626
Net income	\$ 22,402	\$ 17,912
<b>Net income per common share:</b>		
Basic	\$ 0.46	\$ 0.37
Diluted	\$ 0.44	\$ 0.36

**US Impact Systems, Inc.**

On August 31, 2016, CGIC, a wholly-owned subsidiary of CGI, which is wholly-owned by the Company, entered into an asset purchase agreement (APA) with USI and its stockholders whereby CGIC purchased the operations and certain assets of, and assumed certain liabilities of USI. USI is an established fabricator of storefront window and door products. The fair value of the consideration transferred in the acquisition was \$1.9 million, which has been allocated to current and other assets totaling \$1.8 million and amortizable intangible assets totaling \$0.6 million, and goodwill of \$0.6 million, less the assumption of accounts payable and accrued liabilities with estimated fair values totaling \$1.2 million, in accordance with ASC 805, Business Combinations. This transaction did not have a significant impact on our financial position or operating results for 2016.

**CGI Windows and Doors**

On September 22, 2014, we completed the acquisition of CGI. The transaction, valued at \$110.4 million, is consistent with our plan to grow strategically while contributing to earnings growth through targeted acquisitions of complementary specialty products. This acquisition was financed with borrowings under the 2014 Credit Agreement. The final allocation of fair value of assets acquired and liabilities assumed are as follows:





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	<b>Final Allocation</b>
Accounts receivable	\$ 4,156
Inventories	3,229
Prepaid expenses	303
Property, plant and equipment	1,709
Intangible assets	45,300
Other assets	65
Goodwill	65,635
Deferred income taxes	(5,472)
Accounts payable and accrued liabilities	(4,136)
Other liabilities	(351)
<b>Purchase price</b>	<b>\$ 110,438</b>

The purchase price paid was allocated to the net assets acquired based on their fair value on September 22, 2014, in accordance with ASC 805 Business Combinations. The allocation of the purchase price is considered final based on events and circumstances that existed on the acquisition date. During the measurement period, the Company made adjustments to increase the acquired deferred tax assets by approximately \$0.9 million, with a corresponding decrease to goodwill. No other adjustments were made during the measurement period. 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. Valuations of the intangible assets (See Note 6) 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 \$1.7 million are included in selling, general, and administrative expenses on the consolidated statement of operations for the year ended January 3, 2015, and relate to legal expenses, diligence, and accounting services. Net sales and net income included in the consolidated statement of operations for the year ended January 3, 2015, from CGI for the period from the Closing Date to January 3, 2015, were \$13.3 million and \$148 thousand, respectively.

The remaining consideration, after identified intangible assets and the net assets and liabilities recorded at fair value, was determined to be \$65.6 million, of which \$9.3 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 going concern value of an established business, and our expectation of future economic benefits from the acquisition.

The following unaudited pro forma financial information assumes the acquisition had occurred at the beginning of our 2014 fiscal year. Pro forma results have been prepared by adjusting our historical results to include the results of CGI adjusted for the following: amortization expense related to the estimated intangible assets arising from the acquisition and interest expense to reflect the 2014 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 our 2014 fiscal year, 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.

	<b>Year Ended January 3, 2015</b>
<b>Pro Forma Results (unaudited)</b>	
<i>(in thousands, except per share amounts)</i>	
Net sales	\$ 337,369
Net income	\$ 15,209
<b>Net income per common share:</b>	
Basic	\$ 0.32
Diluted	\$ 0.31

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The following table presents the composition of property, plant and equipment as of:

	<b>December 31, 2016</b>	<b>January 2, 2016</b>
	<i>(in thousands)</i>	
Land	\$ 6,298	\$ 6,298
Buildings and improvements	51,681	46,229
Machinery and equipment	79,421	63,290
Vehicles	11,415	9,478
Software	16,640	16,278
Construction in progress	6,319	8,317
Property, plant and equipment	171,774	149,890
Less: Accumulated depreciation	(87,565)	(78,387)
Property, plant and equipment, net	\$ 84,209	\$ 71,503

**6. Goodwill, Trade Names and Other Intangible Assets**

Trade names and other intangible assets are as follows as of:

	<b>December 31, 2016</b>	<b>January 2, 2016</b>	<b>Initial Useful Life (in years)</b>
	<i>(in thousands)</i>		
Goodwill	\$ 108,060	\$ 65,635	indefinite
<b>Other intangible assets:</b>			
Trade names	\$ 75,841	\$ 57,441	indefinite
Customer relationships	106,647	79,700	3-10
Developed technology	3,000	1,700	9-10
Non-compete agreement	1,668	600	2-5
Less: Accumulated amortization	(66,226)	(60,130)	
Subtotal	45,089	21,870	
Other intangible assets, net	\$ 120,930	\$ 79,311	
Goodwill at January 2, 2016	\$ 65,635		
	41,856		

Increase in goodwill from allocation of WinDoor purchase price	
Increase in goodwill from allocation of USI purchase price	569
Goodwill at December 31, 2016	\$ 108,060
Tradenames at January 2, 2016	\$ 57,441
Increase in tradenames from the acquisition of WinDoor	18,400
Tradenames at December 31, 2016	\$ 75,841

### **Amortizable Intangible Assets**

We test amortizable intangible assets for impairment when indicators of impairment exist. No impairment testing was performed during the years ended December 31, 2016, January 2, 2016, and January 3, 2015, as we determined that there were no impairment indicators at any time during that three-year period.

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Estimated amortization of our customer relationships, developed technology and non-compete agreement intangible assets is as follows for future fiscal years:

<i>(in thousands)</i>	<b>Total</b>
2017	\$ 6,329
2018	6,341
2019	6,282
2020	6,278
2021	5,974
Thereafter	13,885
<b>Total</b>	<b>\$ 45,089</b>

**7. Accrued Liabilities**

Accrued liabilities consisted of the following as of:

	<b>December 31, 2016</b>	<b>January 2, 2016</b>
	<i>(in thousands)</i>	
Accrued payroll and benefits	\$ 4,384	\$ 4,326
Accrued warranty	4,494	3,484
Customer deposits	2,176	1,334
Accrued health claims insurance payable	668	827
Accrued interest	1,660	133
Other	1,527	1,294
	<b>\$ 14,909</b>	<b>\$ 11,398</b>

Other accrued liabilities are comprised primarily of state sales taxes and customer rebates.

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Long-term debt consists of the following:

	December 31, 2016	January 2, 2016
	<i>(in thousands)</i>	
Term loan payable with a payment of \$0.675 million due quarterly. A lump sum payment of \$253.8 million is due on February 15, 2022. Interest is payable quarterly at LIBOR or the prime plus an applicable margin. At December 31, 2016, the average rate is 1.00% plus a margin of 5.75%. (1)	\$ 263,975	\$
Term loan payable with a payment of \$0.5 million due quarterly. A lump sum payment of \$186.0 million was due on September 22, 2021. Interest was payable quarterly at LIBOR or the prime plus an applicable margin. At January 2, 2016, the average rate was 1.00% plus a margin of 4.25%.		197,500
Fees, costs and original issue discount (2)	(16,102)	(6,733)
	247,873	190,767
Less current portion of long-term debt		(1,949)
Long-term debt, less current portion	\$ 247,873	\$ 188,818

- (1) Effective on February 17, 2017, the Company amended and repriced this term loan. Terms of the repriced facility include a one percentage-point reduction in stated interest rate to LIBOR of 1.00% plus a margin of 4.75%. The amended term loan facility has quarterly payments of principal of \$0.675 million, with a lump sum payment of \$253.8 million due February 15, 2022, each of which remained unchanged from the prior facility (See Note 20.).
- (2) Fees, costs and original issue discount represents third-party fees, lender fees, other debt-related costs, and original issue discount, recorded as a reduction of the carrying value of the debt pursuant to ASU 2015-03, and is amortized over the life of the debt instrument.

**2016 Credit Agreement**

See Note 20, Subsequent Event for information regarding an amendment to the term loan facility of the 2016 Credit Agreement, which resulted in a one percentage-point reduction in the stated interest rate for borrowings under this facility. All other significant terms, restrictions, and financial and other covenants under the 2016 Credit Agreement remain unchanged.

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 will amortize on a basis of

1% annually during the 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. As of December 31, 2016, there were \$0.3 million of letters of credit outstanding and \$39.7 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. Borrowings under the term loans and the revolving credit facility accrue 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. However, subsequent to the repricing amendment as discussed in Subsequent Event, these rates have been decreased to 475 basis points in the case of LIBOR and 375 basis points in the case of the base rate. We 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.

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The face value of the 2016 Credit Agreement at the time of issuance was \$270 million of which \$2.0 million has been repaid as scheduled debt repayments through December 31, 2016. In addition, we made a voluntary prepayment of \$4.0 million on September 30, 2016, using internally generated cash on hand. We elected to apply the prepayment against upcoming required principal repayments in direct order of maturity, as permitted under the 2016 Credit Agreement, resulting in no required repayments of principal until the first quarter of 2018. As of December 31, 2016, the face value of debt outstanding under the 2016 Credit Agreement was \$264.0 million, and accrued interest was \$1.7 million.

The Company incurred third-party fees and costs totaling \$1.5 million, and additional lender fees and discount of \$14.6 million in the February 2016 refinancing. As a result of the voluntary prepayment of debt discussed above, we accelerated the amortization of lenders fees and discount relating to the term-loan portion of the 2016 Credit Agreement of \$0.2 million, which is included in interest expense in the accompanying consolidated statement of operations for the year ended December 31, 2016.

With our adoption of ASU 2015-03, all debt-related fees, costs and original issue discount, including those related to the revolving credit portion of the facility, is classified as a reduction of the carrying value of long-term debt. The activity relating to third-party fees and costs, lender fees and discount for the year ended December 31, 2016, are as follows:

<i>(in thousands)</i>	<b>Total</b>
At beginning of year as of January 2, 2016	\$ 6,733
Amortization expense through refinancing	(128)
<b>At time of refinancing</b>	<b>6,605</b>
Add: Fees, costs and OID relating to the 2016 Credit Agreement	16,148
Less: Debt extinguishment costs	(3,431)
Less: Third-party fees and cost classified within SG&A	(627)
Less: Amortization expense after refinancing	(2,368)
Less: Accelerated amortization relating to debt prepayment	(225)
<b>At end of year as of December 31, 2016</b>	<b>\$ 16,102</b>

Estimated amortization expense relating to third-party fees and costs, lender fees and discount for the years indicated, and which reflects the effect on the effective interest rate as a result of the repricing discussed in Subsequent Event in this section, as of December 31, 2016, is as follows:

<i>(in thousands)</i>	<b>Total</b>
2017	\$ 2,855
2018	3,036
2019	3,195
2020	3,430
2021	3,185
2022	401



Total	\$ 16,102
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As a result of the voluntary prepayment of \$4.0 million as discussed above, our next scheduled repayment is not due until the first quarter of 2018. The contractual future maturities of long-term debt outstanding as of December 31, 2016, are as follows (at face value):

<i>(in thousands)</i>	<b>Total</b>
2017	\$
2018	2,075
2019	2,700
2020	2,700
2021	2,700
2022	253,800
<b>Total</b>	<b>\$ 263,975</b>

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), and is tested quarterly based on the last four fiscal quarters and is set at levels as described in the 2016 Credit Agreement. As of December 31, 2016, no test is required as we have not exceeded 20% of our revolving capacity.

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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.

**2014 Credit Agreement**

On September 22, 2014, we entered into the 2014 Credit Agreement, among us, the lending institutions identified in the 2014 Credit Agreement, and Deutsche Bank AG New York Branch, as Administrative Agent and Collateral Agent. The 2014 Credit Agreement established new senior secured credit facilities in an aggregate amount of \$235.0 million, consisting of a \$200.0 million Term B term loan facility that was to mature in seven years and amortize on a basis of 1% annually during the seven-year term, and a \$35.0 million revolving credit facility that was to mature in five years that included a swing line facility and a letter of credit facility. Our obligations under the 2014 Credit Agreement were secured by substantially all of our assets as well as our subsidiaries' assets. In connection with entering into the 2016 Credit Agreement, on February 16, 2016, we terminated the 2014 Credit Agreement.

Interest expense, net consisted of the following:

	<b>December 31, 2016</b>	<b>Year Ended January 2, 2016</b>	<b>January 3, 2015</b>
<i>(in thousands)</i>			
Long-term debt	\$ 17,351	\$ 10,562	\$ 4,841
Debt fees	296	269	240
Amortization of deferred financing costs and debt discount	2,721	1,014	945
Interest income	(105)	(70)	(37)
Interest expense	20,263	11,775	5,989
Capitalized interest	(138)	(70)	(29)
Interest expense, net	\$ 20,125	\$ 11,705	\$ 5,960

**Table of Contents****9. Derivatives*****Aluminum Forward Contracts***

From time to time we use aluminum forward contracts to hedge the fluctuations in the purchase price of aluminum extrusions we use in production. These contracts are initially designated as cash flow hedges since they are believed to be highly effective in offsetting changes in the cash flows attributable to forecasted purchases of aluminum. However, in 2014, we designated all of our then existing aluminum hedges as ineffective. The change in value of those aluminum forward contracts was recognized in other expense, net, on the consolidated statement of operations for the year ended January 2, 2016, and January 3, 2015, and totaled \$0.4 million and \$0.2 million, respectively.

***Interest Rate Contracts***

In 2013, relating to our then existing credit facility, we entered into certain interest rate derivative contracts. As a result of the termination of the related credit agreement in 2014, we marked-to-market certain of these interest rate derivative products, and terminated one such product with a payment of \$1.4 million.

There were no derivative financial instruments or related activity during the year ended December 31, 2016. The following represents the gains (losses) on derivative financial instruments for the years ended January 2, 2016, and January 3, 2015, and their classifications within the accompanying consolidated financial statements (in thousands):

	<b>Derivatives in Cash Flow Hedging Relationships</b>				
	<b>Amount of Gain or (Loss) Recognized in OCI on Derivatives (Effective Portion) Year Ended</b>		<b>Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)</b>	<b>Amount of Loss Reclassified from Accumulated OCI into Income (Effective Portion) Year Ended</b>	
	<b>January 2, 2016</b>	<b>January 3, 2015</b>		<b>January 2, 2016</b>	<b>January 3, 2015</b>
Aluminum contracts	\$ 126	\$ 346	Cost of sales	\$	\$ (7)
Interest rate swap	\$	\$ (558)	Interest expense, net	\$	\$
Interest rate swap	\$	\$	Other expense, net	\$	\$ (1,188)

<b>Location of Gain or (Loss) Recognized in Income on Derivatives (Ineffective Portion)</b>	<b>Amount of Gain or (Loss) Recognized in Income on Derivatives (Ineffective Portion) Year Ended</b>

		<b>January 2, 2016</b>	<b>January 3, 2015</b>
Aluminum contracts	Other expense, net	\$ (388)	\$ (221)
Interest rate swap	Other expense, net	\$	\$ (314)
Interest rate cap	Other expense, net	\$	\$ (27)

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**Table of Contents****10. 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 2016, 2015, or 2014, we did not make any transfers between Level 1, Level 2 or 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, not including derivative 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 \$264.6 million as of December 31, 2016, compared to a principal outstanding value of \$264.0 million, and \$192.5 million as of January 2, 2016, compared to a principal outstanding value of \$197.5 million. Fair value at January 2, 2016, was estimated based on face value, less term-loan lender fees and discount.

**11. Income Taxes**

We consider all income sources, including other comprehensive income, in determining the amount of tax expense allocated to continuing operations.

The components of income tax expense are as follows (in thousands):

	<b>Year Ended</b>		
	<b>December 31,</b>	<b>January 2,</b>	<b>January 3,</b>

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	2016	2016	2015
<b>Current:</b>			
Federal	\$ 4,602	\$ 8,861	\$ 6,346
State	921	443	
	5,523	9,304	6,346
<b>Deferred:</b>			
Federal	5,371	4,893	2,379
State	906	1,100	950
	6,277	5,993	3,329
<b>Income tax expense</b>	<b>\$ 11,800</b>	<b>\$ 15,297</b>	<b>\$ 9,675</b>

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The aggregate amount of income taxes included in the consolidated statements of operations and consolidated statements of shareholders' equity are as follows (in thousands):

	<b>December 31, 2016</b>	<b>Year Ended January 2, 2016</b>	<b>January 3, 2015</b>
<b>Consolidated statements of income:</b>			
Income tax expense relating to continuing operations	\$ 11,800	\$ 15,297	\$ 9,675
<b>Consolidated statements of shareholders' equity:</b>			
Reversal of intraperiod tax allocation	\$	\$ (1,595)	\$
Income tax expense relating to derivative financial instruments	\$	\$ 50	\$ 431
Income tax benefit relating to share-based compensation	\$ (1,872)	\$ (3,840)	\$ (6,064)

The reversal of intra-period income tax allocation of \$1.6 million in the year ended January 2, 2016, represents income tax expense previously classified within accumulated other comprehensive losses, relating to the intra-period income taxes on our effective aluminum hedges, which we reversed in the second quarter of 2015 as the result of the culmination of our remaining cash flow hedges.

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A reconciliation of the statutory federal income tax rate to our effective rate is provided below:

	<b>December 31, 2016</b>	<b>Year Ended January 2, 2016</b>	<b>January 3, 2015</b>
Statutory federal income tax rate	35.0%	35.0%	35.0%
State income taxes, net of federal income tax benefit	3.8%	3.8%	3.8%
Reversal of intraperiod tax allocation		4.1%	
Research activities credits	(2.8)%		
Domestic manufacturing deduction	(1.8)%	(2.2)%	(2.1)%
Florida jobs creation incentive credits	(0.6)%	(2.0)%	
Non-deductible acquisition costs			0.6%
Change in valuation allowance on deferred tax assets	(0.2)%	0.3%	
Non-deductible expenses	0.2%	0.2%	
Other	(0.4)%	0.2%	(0.2)%
	33.2%	39.4%	37.1%

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of our net deferred tax liability are as follows:

	<b>December 31, 2016</b>	<b>January 2, 2016</b>
	<i>(in thousands)</i>	
Deferred tax assets:		
State and federal net operating loss carryforwards	\$ 2,000	\$ 4,735
Stock-based compensation expense	2,646	2,735
Accrued warranty	2,149	1,643
Obsolete inventory and UNICAP adjustment	503	607
Other deferrals and accruals, net	899	682
Allowance for doubtful accounts	195	152
Acquisition costs	537	261
<b>Total deferred tax assets</b>	<b>8,929</b>	<b>10,815</b>
Deferred tax liabilities:		
Trade names and other intangible assets, net	(26,007)	(26,631)
Property, plant and equipment	(10,492)	(9,202)
Goodwill	(3,193)	(619)
Deferred financing costs	(1,241)	(131)
Prepaid expenses	(167)	(126)



Total deferred tax liabilities	(41,100)	(36,709)
Total deferred tax liabilities, net	\$ (32,171)	\$ (25,894)

Regarding tax goodwill, the amount of goodwill deductible for tax purposes was \$63.8 million at the time of the 2004 PGT acquisition, which was fully amortized in the year ended January 2, 2016.

We acquired goodwill deductible for tax purposes in the CGI acquisition as the transaction was treated as an acquisition of stock for tax purposes. At the date of the acquisition, the amount of goodwill deductible for tax purposes from the CGI acquisition was \$9.3 million. At the time of the acquisition, this goodwill was the same amount for both book and tax purposes and, therefore, no deferred tax asset or liability was recognized. As we amortize this goodwill for tax purposes over its remaining life, which was approximately 7.4 years at the time of the acquisition, we will recognize a deferred tax liability. The unamortized amount of this goodwill was \$6.5 million and \$7.7 million at December 31, 2016, and January 2, 2016, respectively.

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We have goodwill deductible for tax purposes in the WinDoor acquisition as the transaction was treated as an acquisition of stock treated as a step-up acquisition of assets and assumption of liabilities pursuant to our election under section 338(h)(10) of the Internal Revenue Code. We expect to be able to deduct goodwill for tax purposes of \$38.9 million from the WinDoor transaction. The unamortized amount of this goodwill was \$36.5 million at December 31, 2016.

Also, acquisition costs totaling \$0.9 million included in selling, general, and administrative expenses on the consolidated statement of operations for the year ended December 31, 2016, and relating to legal expenses, representations and warranties insurance, diligence, and accounting services, are being deferred and amortized for tax purposes over the same period as tax deductible goodwill. See Note 4, Acquisitions WinDoor, Inc. .

We have goodwill deductible for tax purposes in the USI acquisition as the transaction was treated as an acquisition of assets and assumption of liabilities for both book and tax purposes. We expect to be able to deduct goodwill for tax purposes of \$0.6 million from the USI transaction. See Note 4, Acquisitions US Impact Systems, Inc. . The unamortized amount of this goodwill was \$0.6 million at December 31, 2016

We estimate that we have \$1.2 million of tax affected federal net operating loss carryforwards, composed entirely of net operating loss carryforwards acquired in the CGI acquisition, and \$0.8 million of state operating loss carryforwards, as of December 31, 2016, expiring at various dates through 2027. Use of the net operating loss carryforwards acquired in the CGI acquisition is subject to annual limitations for federal tax purposes. However, we believe they will be fully utilized prior to expiration.

As the result of tax deductible compensation expense in excess of stock-based compensation expense recorded for book purposes relating to the exercise of stock options, concurrent with the full utilization of all of our regular net operating loss carry-forwards during 2013, for the years ended December 31, 2016, January 2, 2016, and January 2, 2015, we recognized \$1.9 million, \$3.8 million, and \$6.1 million, respectively, of excess tax benefits (ETBs) in additional paid-in capital. Our policy with regard to providing for income tax expense when ETBs are utilized is to follow the with-and-without approach as described in ASC 740-20 and ASC 718 and include in the measurement the indirect effects of the excess tax deduction.

At January 2, 2016, we provided for a valuation allowance against net operating losses of approximately \$0.2 million we have to carryforward in North Carolina as we concluded it is not more likely than not that we will realize the full benefit of the net operating losses before expiration. During the year ended December 31, 2016, we reduced this valuation allowance by approximately \$0.1 million to reflect an increase in our estimate of net operating losses we will be able to realize in North Carolina. For financial reporting purposes, we classified this valuation allowance as a reduction of state and federal net operating loss carryforwards in the above table. We had no valuation allowance on deferred tax assets at January 3, 2015, as management's assessment of our ability to realize our deferred tax assets is that it is more likely than not that we will generate sufficient future taxable income to realize all of our deferred tax assets.

The tax years 2011 to 2016 remain open for examination by the IRS due to the statute of limitations and net operating losses utilized in prior tax years.

**12. Commitments and Contingencies**

*Leases*

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We lease certain of our manufacturing facilities under operating leases. We also lease production equipment, vehicles, computer equipment, storage units and office equipment under operating leases. Our operating leases expire at various times through 2021. Lease expense was \$4.2 million, \$2.3 million and \$1.6 million for the years ended December, 31, 2016, January 2, 2016, and January 3, 2015, respectively. Future minimum lease commitments for non-cancelable operating leases are as follows at December 31, 2016 (in thousands):

2017	\$ 3,889
2018	2,064
2019	1,669
2020	1,303
2021	143
Total	\$ 9,068

Through the terms of certain of our leases, we have the option to purchase the leased equipment for cash in an amount equal to its then fair market value plus all applicable taxes.

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*Purchase Commitments*

We are obligated to purchase certain raw materials used in the production of our products from certain suppliers pursuant to stocking programs. If these programs were cancelled by us, as of December 31, 2016, we would be required to pay \$5.3 million for various materials. During the years ended December 31, 2016, January 2, 2016, and January 3, 2015, we made purchases under these programs totaling \$132.8 million, \$122.0 million and \$108.7 million, respectively.

At December 31, 2016, we had \$0.3 million in standby letters of credit related to our worker s compensation insurance coverage, and commitments to purchase equipment of \$0.2 million.

*Legal Proceedings*

We are 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 on a combined basis, will not have a materially adverse effect on our operations, financial position or cash flows.

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**Table of Contents****13. Employee Benefit Plans**

We have a 401(k) plan covering substantially all employees 18 years of age or older who have at least three months of service. Employees may contribute up to 100% of their annual compensation subject to Internal Revenue Code maximum limitations. We currently make matching contributions based on our operating results. During the years ended December 31, 2016, January 2, 2016, and January 3, 2015, there was a matching contribution of up to 3%, in each year made at various times during the year. Company contributions and earnings thereon vest at the rate of 20% per year of service with us when at least 1,000 hours are worked within the Plan year. We recognized expenses of \$1.9 million, \$0.7 million and \$1.1 million for the years ended December 31, 2016, January 2, 2016, and January 3, 2015, respectively.

**14. Related Parties**

In the ordinary course of business, we sell windows to Builders FirstSource, Inc. One of our directors, Floyd F. Sherman, is the president, chief executive officer, and a director of Builders FirstSource, Inc., and another, Brett Milgrim, is also a director of Builders FirstSource, Inc. Total net sales to Builders FirstSource, Inc. were \$12.8 million, \$7.9 million and \$6.7 million for the years ended December 31, 2016, January 2, 2016, and January 3, 2015, respectively. As of December 31, 2016, and January 2, 2016, there was \$1.7 million and \$0.7 million due from Builders FirstSource, Inc. included in accounts receivable in the accompanying consolidated balance sheets.

**15. Shareholders Equity**

During 2016, we repurchased 299,988 shares of our common stock at a total cost of \$2.8 million, including 288,183 shares at a total cost of \$2.7 million under the plan approved by the Board of Directors discussed below, and 11,805 shares purchased at a total cost of approximately \$0.1 million, and immediately retired, from employees to satisfy tax withholding obligations in connection with the vesting of restricted stock awards.

On October 28, 2015, the Board of Directors authorized and approved a share repurchase program of up to \$20 million. Repurchases will be made in open market or privately negotiated transactions, subject to market conditions, applicable legal requirements, our 2016 Credit Agreement, and other relevant factors. We do not intend to repurchase any shares from directors, officers, or other affiliates. The program does not obligate us to acquire any specific number of shares. The timing, manner, price and amount of repurchases will be determined at the Company's discretion, and the program may be suspended, terminated or modified at any time for any reason. In the future, we may make opportunistic repurchases of our common stock as we see fit.

**16. Employee Stock Based Compensation****2014 Plan**

On March 28, 2014, we adopted the 2014 Omnibus Equity Incentive Plan (the "2014 Plan") whereby equity-based awards may be granted by the Board to eligible non-employee directors, selected officers and other employees, advisors and consultants of ours. On May 7, 2014, our stockholders approved the 2014 Plan.

*2014 Omnibus Equity Incentive Plan*

total number of shares of common stock available for grant thereunder, 1,500,000,

sets forth the types of awards eligible under the plan, including issuances of options, share appreciation rights, restricted shares, restricted share units, share bonuses, other share-based awards and cash awards, and

set forth 1,500,000 as the maximum number of shares that may be made subject to awards in any calendar year to any covered employee (within the meaning of Section 162(m) of the Internal Revenue Code).  
There were 976,633 shares available for grant under the 2014 Plan at December 31, 2016.

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**Table of Contents****2006 Plan**

On June 5, 2006, we adopted the 2006 Equity Incentive Plan (the 2006 Plan ) whereby equity-based awards may be granted by the Board to eligible non-employee directors, selected officers and other employees, advisors and consultants of ours. On April 6, 2010, our stockholders approved the PGT Innovations, Inc. (formerly PGT, Inc.) Amended and Restated 2006 Equity Incentive Plan (the Amended and Restated 2006 Equity Incentive Plan ). With the adoption of the 2014 Plan effective on March 28, 2014, no further shares will be granted and, therefore, no shares are available under the 2006 Plan.

***New Issuances***

During 2016, we issued a total of 292,110 shares of restricted stock awards to certain directors, executives and non-executive employees of the Company, all from the 2014 Plan. The restrictions on these awards lapse at various time periods through 2019 and had a weighted average fair value on the dates of the grants of \$9.38, as described below.

On March 3, 2016, we issued 251,370 shares of restricted stock to certain executive and non-executive employees of the company. The final number of shares awarded under the issuance on March 3, 2016, is subject to adjustment based on the performance of the Company for the 2016 fiscal year and will become final after December 31, 2016. The performance criteria, as defined in the share awards, provided for a graded awarding of shares based on the percentage by which the Company meets earnings before interest and taxes, as defined, in our 2016 business plan. The percentages, ranging from less than 80% to greater than 120%, provide for the awarding of shares ranging from 0% to 150% of the target amount and only related to half of the initial March 3, 2016, issuance of 251,370 shares, or 125,685 shares. The final award is also affected by forfeitures upon the termination of a grantee's employment with the Company. The remaining 125,685 shares from the March 3, 2016, issuance were not subject to adjustment based on any performance or other criteria. The grant date fair value of the March 3, 2016, award was \$9.23.

On May 20, 2016, we issued a total of 39,004 shares of restricted stock awards to the seven board members of the Company as the non-cash portion of their annual compensation for participation on the Company's Board of Directors. The restrictions on these awards lapse in one year, and have a weighted average fair value on date of grant of \$10.32 based on the NASDAQ market price of the common stock on the close of business on the day the awards were granted.

On February 1, 2016, one member of the board received 1,736 shares of restricted stock representing the prorated non-cash portion of the board member's annual compensation from the prior year, having been newly appointed to the board of directors on February 1, 2016. The restrictions on these awards lapsed on May 22, 2016, and had a weighted average fair value on date of grant of \$9.80 based on the NASDAQ market price of the common stock on the close of business on the day the awards were granted.

The compensation cost that was charged against income for stock compensation plans was \$1.8 million, \$1.8 million and \$1.2 million, respectively, for the years ended December 31, 2016, January 2, 2016, and January 3, 2015, and is included in selling, general and administrative expenses in the accompanying consolidated statements of operations. We recognized \$1.9 million, \$3.8 million, and \$6.1 million in excess income tax benefits for share-based compensation in the years ended December 31, 2016, January 2, 2016, and January 3, 2015, respectively. We currently expect to satisfy share-based awards with registered shares available to be issued.

We have not granted options since 2014. The fair value of stock options granted in 2014 were estimated using a Black-Scholes option-pricing model with the following weighted average assumptions:

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2014: dividend yield of 0%, expected volatility of 51.19%, risk-free interest rate of 1.54%, and expected life of 5 years

The expected life of options granted represents the period of time that options granted are expected to be outstanding and was determined based on historical experience. The expected volatility is based on the Company's common stock. The risk-free rate for periods within the contractual term of the options is based on U.S. Treasury yield for instruments with a maturity equal to the life of the option in effect at the time of grant.

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**Table of Contents****Stock Options**

A summary of the status of our stock options as of December 31, 2016, and changes during the year then ended, is presented below:

	<b>Number of Shares</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Life</b>
Outstanding at January 2, 2016	3,170,314	\$ 2.04	
Exercised	(537,364)	\$ 1.82	
Forfeited/Expired	(8,000)	\$ 3.25	
Outstanding at December 31, 2016	2,624,950	\$ 2.08	3.4
Exercisable at December 31, 2016	2,606,950	\$ 2.03	3.4

The following table summarizes information about employee stock options outstanding at December 31, 2016, (dollars in thousands, except per share amounts):

<b>Exercise Price</b>	<b>Remaining Contractual Life</b>	<b>Outstanding</b>	<b>Outstanding Intrinsic Value</b>	<b>Exercisable</b>	<b>Exercisable Intrinsic Value</b>
\$1.60-\$2.31	3.2 Years	2,604,950	\$ 24,610	2,598,950	\$ 24,553
\$11.81	7.2 Years	20,000		8,000	
		2,624,950	\$ 24,610	2,606,950	\$ 24,553

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The weighted average fair value of options granted during the year ended January 3, 2015, was \$5.37. The aggregate intrinsic value of options outstanding and of options exercisable as of January 2, 2016, was \$29.7 million and \$29.5 million, respectively. The aggregate intrinsic value of options outstanding and of options exercisable as of January 3, 2015, was \$32.5 million and \$24.3 million, respectively. The total grant date fair value of options vested during the years ended December 31, 2016, January 2, 2016, and January 3, 2015, was \$32 thousand, \$1.2 million and \$1.3 million, respectively.

For the year ended December 31, 2016, we received approximately \$1.0 million in proceeds from the exercise of 537,364 options for which we recognized \$1.9 million in excess tax benefits through additional paid in capital. The aggregate intrinsic value of stock options exercised during the year ended December 31, 2016, was \$5.1 million. For the year ended January 2, 2016, we received \$2.2 million in proceeds from the exercise of 1,033,750 options for which we recognized \$3.8 million in excess tax benefits through additional paid in capital. The aggregate intrinsic value of stock options exercised during the year ended January 2, 2016, was \$10.8 million. For the year ended January 3, 2015, we received \$1.7 million in proceeds from the exercise of 906,573 options for which we recognized \$6.1 million in excess tax benefits through additional paid in capital. The aggregate intrinsic value of stock options exercised during the year ended January 3, 2015, was \$7.9 million.

**Restricted Share Awards**

There were 292,110 restricted share awards granted in the year ended December 31, 2016, which will vest at various time periods through 2019.

A summary of the status of restricted share awards as of December 31, 2016, and changes during the year then ended, are presented below:

	<b>Number of Shares</b>	<b>Weighted Average Fair Value</b>
Outstanding at January 2, 2016	342,878	\$ 11.19
Granted	292,110	\$ 9.38
Vested	(128,590)	\$ 11.39
Forfeited/Performance adjustment	(80,096)	\$ 10.31
Outstanding at December 31, 2016	426,302	\$ 10.05

As of December 31, 2016, the remaining compensation cost related to non-vested share awards was \$1.0 million which is expected to be recognized in earnings straight-line over a weighted average period of 1.2 years.

**Table of Contents****17. Accumulated Other Comprehensive Income (Loss)**

There was no activity within accumulated other comprehensive income during the year ended December 31, 2016. The following table shows the components of accumulated other comprehensive loss for 2015 and 2014:

<i>(in thousands)</i>	<b>Aluminum Forward Contracts</b>	<b>Interest Swap</b>	<b>Total</b>
Balance at December 28, 2013	\$ (1,837)	\$ (386)	\$ (2,223)
Other comprehensive income (loss) before reclassification	346	(558)	(212)
Amounts reclassified from other comprehensive loss	7	1,188	1,195
Tax effect	(187)	(244)	(431)
Net current-period other comprehensive income	166	386	552
Balance at January 3, 2015	(1,671)		(1,671)
Other comprehensive income before reclassification	126		126
Tax effect	(50)		(50)
Reclassification of income tax allocation	1,595		1,595
Net current-period other comprehensive income	1,671		1,671
Balance at January 2, 2016	\$	\$	\$

There was no reclassification activity from accumulated other comprehensive income (loss) in 2016. The follow table shows reclassifications out of accumulated other comprehensive loss for 2015, and 2014:

<i>(in thousands)</i>	<b>Year Ended</b>		<b>Affected Line Item in Statement Where Net Income is Presented</b>
	<b>January 2, 2016</b>	<b>January 3, 2015</b>	
Aluminum forward contracts	\$ 126	\$ 7	Cost of sales
Tax effect	(50)	(3)	Tax expense
Interest rate swap	\$	\$ 1,188	Other expense, net
Tax effect		(461)	Tax expense
Income tax allocation	1,595		Tax expense



**Table of Contents****18. Sales by Product Group**

The FASB has issued guidance under ASC 280, *Segment Reporting* topic of the Codification which requires us to disclose certain information about our operating segments. Operating segments are defined as components of an enterprise with separate financial information which are evaluated regularly by the chief operating decision maker and are used in resource allocation and performance assessments.

We operate as a single operating segment that manufactures windows and doors. Our chief operating decision maker evaluates performance by reviewing a few major categories of product sales and then considering costs on a total company basis. Sales by product group are as follows:

	<b>Year Ended</b>		
	<b>December 31, 2016</b>	<b>January 2, 2016</b>	<b>January 3, 2015</b>
<i>(in millions)</i>			
<b>Product category:</b>			
Impact-resistant window and door products	\$ 381.6	\$ 319.2	\$ 240.3
Non-impact window and door products	77.0	70.6	66.1
 Total net sales	 \$ 458.6	 \$ 389.8	 \$ 306.4

**19. Unaudited Quarterly Financial Data**

The following tables summarize the consolidated quarterly results of operations for 2016, and 2015 (in thousands, except per share amounts):

		<b>2016</b>			
		<b>First Quarter</b>	<b>Second Quarter</b>	<b>Third Quarter</b>	<b>Fourth Quarter</b>
Net sales		\$ 100,206	\$ 119,033	\$ 129,807	\$ 109,504
Gross profit		29,983	37,470	41,086	31,559
Net income		1,479	7,350	10,796	4,122
Net income per share	basic	\$ 0.03	\$ 0.15	\$ 0.22	\$ 0.08
Net income per share	diluted	\$ 0.03	\$ 0.15	\$ 0.21	\$ 0.08

		<b>2015</b>			
		<b>First Quarter</b>	<b>Second Quarter</b>	<b>Third Quarter</b>	<b>Fourth Quarter</b>
Net sales		\$ 95,301	\$ 100,833	\$ 100,668	\$ 93,008
Gross profit		31,047	32,939	29,421	25,725
Net income		6,652	6,780	6,346	3,774
Net income per share	basic	\$ 0.14	\$ 0.14	\$ 0.13	\$ 0.08
Net income per share	diluted	\$ 0.13	\$ 0.13	\$ 0.13	\$ 0.07

Earnings per share are computed independently for each of the quarters presented; therefore, the sum of the quarterly earnings per share may not equal the annual earnings per share. Each of our fiscal quarters above consists of 13 weeks.

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**20. Subsequent Event**

On February 17, 2017, we entered into an amendment to our 2016 Credit Agreement (the **First Amendment** ), dated as of February 16, 2016, by and among the Company, the lending institutions identified in the 2016 Credit Agreement, and Deutsche Bank AG New York Branch, as Administrative Agent and Collateral Agent. 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.

As a result of the First Amendment, we expect interest expense to decrease approximately \$2.6 million annually, with an approximate \$2.3 million decrease in 2017. There were no lenders' fees or discount relating to the First Amendment. We estimate that our total interest expense will be approximately \$18.6 million in 2017, assuming no significant increase in our borrowings, including approximately \$2.9 million of amortization of carryover deferred financing costs and original issue discount.

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**Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

**Item 9A. CONTROLS AND PROCEDURES**

Disclosure Controls and Procedures

Our management, under the supervision and with the participation of our principal executive officer and principal financial officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(c) of the Securities and Exchange Act of 1934, as amended, or the Exchange Act) as of December 31, 2016. Our disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported, within the time periods specified in the rules and forms of the SEC. These disclosure controls and procedures include, among other things, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, management is required to apply its judgment in evaluating the benefits of possible disclosure controls and procedures relative to their costs to implement and maintain.

Based on management's evaluation, our principal executive officer and principal financial officer concluded that, as of December 31, 2016, our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Internal Control over Financial Reporting

*Management's annual report on internal control over financial reporting.*

Internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) refers to the process designed by, or under the supervision of, our Chief Executive Officer and Chief Financial Officer, and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Management is responsible for establishing and maintaining adequate internal control over our financial reporting.

We have evaluated the effectiveness of our internal control over financial reporting as of December 31, 2016. The evaluation was performed based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on such evaluation, management concluded that, as of such date, our internal control over financial reporting is effective.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2016, has been audited by KPMG LLP, an independent registered public accounting firm, which also audited the Company's



Consolidated Financial Statements for the year ended December 31, 2016. KPMG LLP's report on internal control over financial reporting is set forth below.

#### Changes in Internal Control over Financial Reporting

We substantially completed the implementation of our new Enterprise Resource Planning ( ERP ) system during the fourth quarter of the year ended January 2, 2016. The implementation of that ERP system has, among other things, improved user access security and automated a number of accounting, back office and reporting processes and activities, thereby decreasing the amount of manual processes previously required. The implementation of the new ERP system changed our internal control over financial reporting.

Our internal control over financial reporting (as defined in Rules 13a-15(f) and 15(d)-15(f) under the Exchanges Act) include WinDoor, acquired on February 16, 2016, in our financial reporting structure.

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Other than as described above, 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.

*b. Attestation report of the registered public accounting firm.*

### **Report of Independent Registered Public Accounting Firm**

The Board of Directors and Shareholders

PGT Innovations, Inc.:

We have audited PGT Innovations, Inc.'s and subsidiaries internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). PGT Innovations, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management's annual report on internal control over financial reporting* included in item 9A. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, PGT Innovations, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of PGT Innovations, Inc. and subsidiaries as of December 31, 2016 and January 2, 2016, and the related consolidated statements of operations, comprehensive income, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2016. In connection with our audits of the consolidated financial statements, we have also audited the financial statement schedule. Our report dated March 10, 2017 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Tampa, Florida

March 10, 2017

Certified Public Accountants

**Item 9B. OTHER INFORMATION**

None.

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**PART III**

**Item 10. *DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE***

**Executive Officers**

The information required by this item with respect to our executive officers is set forth in our 2017 Proxy Statement under the caption "Governance of the Company" and is incorporated herein by reference.

**Directors**

The information required by this item with respect to our board of directors and committees thereof is set forth in our 2017 Proxy Statement under the caption "Governance of the Company" and is incorporated herein by reference.

**Section 16(a) Beneficial Ownership Reporting Compliance**

The information required by this item with respect to Section 16(a) beneficial ownership reporting compliance is set forth in our 2017 Proxy Statement under the caption "Compliance with Section 16(a) of the Securities Exchange Act of 1934" and is incorporated herein by reference.

**Item 11. *EXECUTIVE COMPENSATION***

The information required by this item appears in our definitive proxy statement for our annual meeting of stockholders under the captions "Executive Compensation," "Employment Agreements," and "Change in Control Agreements," "Information Regarding the Board and its Committees," "Information on the Compensation of Directors," "Compensation Committee Report," and "Compensation Committee Interlocks and Insider Participation," which information is incorporated herein by reference.

**Item 12. *SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS***

The information required by this item appears in our definitive proxy statement for our annual meeting of stockholders under the caption "Security Ownership of Certain Beneficial Owners and Management" and "Equity Compensation Plan Information," which information is incorporated herein by reference.

**Item 13. *CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE***

The information required by this item appears in our definitive proxy statement for our annual meeting of stockholders under the caption "Certain Relationships and Related Transactions," which information is incorporated herein by reference.

**Item 14. *PRINCIPAL ACCOUNTANT FEES AND SERVICES***

The information required by this item appears in our definitive proxy statement for our annual meeting of stockholders under the caption "Audit Committee Report - Fees Paid to the Principal Accountant," which information is incorporated herein by reference.

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**Table of Contents****PART IV****Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES**

(a)(1) See the index to consolidated financial statements and schedule provided in Item 8 for a list of the financial statements filed as part of this report.

(2) Schedule II Valuation and Qualifying Accounts

<b>Allowance for Doubtful Accounts</b>	<b>Balance at Beginning of Period</b>	<b>Added in Acquisition</b>	<b>Costs and expenses</b>	<b>Deductions (1)</b>	<b>Balance at End of Period</b>
			<i>(in thousands)</i>		
Year ended December 31, 2016	\$ 336	\$ 159	\$ 67	\$ (163)	\$ 399
Year ended January 2, 2016	\$ 306	\$	\$ 43	\$ (13)	\$ 336
Year ended January 3, 2015	\$ 513	\$ 85	\$ (216)	\$ (76)	\$ 306

(1) Represents uncollectible accounts charged against the allowance for doubtful accounts, net of recoveries.

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- (3) The following documents are filed, furnished or incorporated by reference as exhibits to this report as required by Item 601 of Regulation S-K

**Exhibit**

<b>Number</b>	<b>Description</b>
3.1	Amended and Restated Certificate of Incorporation of PGT Innovations, Inc. (incorporated herein by reference to Exhibit 3.1 to the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 18, 2010, Registration No. 000-52059)
3.2	Amended and Restated By-Laws of PGT Innovations, Inc. (incorporated herein by reference to Exhibit 3.2 to the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 18, 2010, Registration No. 000-52059)
4.1	Form of Specimen Certificate (incorporated herein by reference to Exhibit 4.1 to Amendment No. 2 to the Registration Statement of the Company on Form S-1, filed with the Securities and Exchange Commission on May 26, 2006, Registration No. 333-132365)
4.3	PGT Savings Plan (incorporated herein by reference to Exhibit 4.5 to the Company's Form S-8 Registration Statement, filed with the Securities and Exchange Commission on October 15, 2007, Registration No. 000-52059)
10.1	Credit Agreement, dated February 16, 2016, among PGT Innovations, Inc., the lending institutions from time to time party thereto, and Deutsche Bank AG New York Branch, as Administrative Agent, Collateral Agent, Swing Line Lender and Letter of Credit Issuer. (incorporated herein by reference to Exhibit 10.1 to Current Report on Form 8-K dated February 16, 2016, filed with the Securities and Exchange Commission on February 17, 2016, Registration No. 000-52059)
10.2	Supply Agreement, executed on January 24, 2014, by and between Keymark Corporation and PGT Industries, Inc. (incorporated herein by reference to Exhibit 10.1 to Current Report on Form 8-K dated January 24, 2014, filed with the Securities and Exchange Commission on January 28, 2014, Registration No. 000-52059)
10.3	Supply Agreement, executed on January 20, 2016, by and between PPG Industries, Inc. and PGT Industries, Inc. (incorporated herein by reference to Exhibit 10.1 to Current Report on Form 8-K dated January 20, 2016, filed with the Securities and Exchange Commission on January 21, 2016, Registration No. 000-52059)
10.4	Supply Agreement, executed on December 17, 2014, by and between PGT Industries, Inc. and Kuraray America, Inc. (incorporated herein by reference to Exhibit 10.1 to Current Report on Form 8-K dated December 17, 2014, filed with the Securities and Exchange Commission on December 18, 2014, Registration No. 000-52059)
10.5	Supply Agreement, executed on January 25, 2016, by and between, PGT Industries, Inc. and SAPA Extruder, Inc. (incorporated herein by reference to Exhibit 10.1 to Current Report on Form 8-K dated January 25, 2016, filed with the Securities and Exchange Commission on January 25, 2016, Registration No. 000-52059)
10.6	PGT Innovations, Inc. Amended and Restated 2006 Equity Incentive Plan (incorporated herein by reference to Exhibit 10.7 to the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 18, 2010, Registration No. 000-52059)

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- 10.7 Form of PGT Innovations, Inc. 2006 Equity Incentive Plan Non-Qualified Stock Option Agreement (incorporated herein by reference to Exhibit 10.8 to Amendment No. 3 to the Registration Statement of the Company on Form S-1, filed with the Securities and Exchange Commission on June 8, 2006, Registration No. 333-132365)
- 10.8 Form of Employment Agreement, between PGT Industries, Inc. and, individually, Rodney Hershberger, Jeffery T. Jackson, and Bradley West (incorporated herein by reference to Exhibit 10.1 to Current Report on Form 8-K dated February 20, 2009, filed with the Securities and Exchange Commission on February 26, 2009, Registration No. 000-52059)
- 10.9\* Form of PGT Innovations, Inc. Director Indemnification Agreement
- 10.10 Form of PGT Innovations, Inc. 2006 Equity Incentive Plan Replacement Non-Qualified Stock Option Agreement (incorporated herein by reference to Exhibit 10.17 to the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 18, 2010, Registration No. 000-52059)
- 10.11 PGT Innovations, Inc. 2014 Omnibus Equity Incentive Plan (incorporated herein by reference to Appendix A to Definitive Proxy Statement on Form DEF 14A dated March 28, 2014, filed with the Securities and Exchange Commission on April 2, 2014)

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<b>Exhibit</b>	
<b>Number</b>	<b>Description</b>
10.12	Supply Agreement, executed on December 3, 2014, by and between PGT Industries, Inc. and Quanex IG Systems, Inc. (incorporated herein by reference to Exhibit 10.1 to Current Report on Form 8-K dated December 3, 2014, filed with the Securities and Exchange Commission on December 4, 2014, Registration No. 000-52059)
10.13	Agreement and Plan of Merger, executed on July 25, 2015, with CGI Windows and Doors Holdings, Inc., and PGT Industries, Inc., and Cortec Group IV, L.P., solely in its capacity as the representatives of the equity holders of CGI (incorporated herein by reference to Exhibit 10.1 to Current Report on Form 8-K dated July 25, 2014, filed with the Securities and Exchange Commission on July 28, 2014, Registration No. 000-52059)
10.14	Supply Agreement, executed on April 29, 2014, by and between and PGT Industries, Inc. and Royal Group, Inc., for its Window & Door Profiles division (incorporated herein by reference to Exhibit 10.1 to Current Report on Form 8-K dated April 29, 2014, filed with the Securities and Exchange Commission on May 5, 2014, Registration No. 000-52059)
10.15	Stock Purchase Agreement, by and among PGT Industries, Inc., WinDoor, Incorporated, LTE, LLC, the Sellers indentified therein and R. Frank Lukens Revocable Trust dated December 20, 2005, as the Representative, dated November 25, 2015 (incorporated herein by reference to Exhibit 2.1 to Current Report on Form 8-K dated November 25, 2015, filed with the Securities and Exchange Commission on November 30, 2015, Registration No. 000-52059)
10.16	First Amendment to Credit Agreement, dated as of February 17, 2017, among PGT Innovations, Inc., the lending institutions from time to time party thereto, and Deutsche Bank AG New York Branch, as Administrative Agent, Collateral Agent, Swing Line Lender and Letter of Credit Issuer. (incorporated herein by reference to Exhibit 10.1 to Current Report on Form 8-K dated February 17, 2017, filed with the Securities and Exchange Commission on February 22, 2017, Registration No. 000-52059)
21.1*	List of Subsidiaries
23.1*	Consent of KPMG LLP, Independent Registered Public Accounting Firm
24.1*	Power of Attorney (included on the signature page of this Annual Report on Form 10-K)
31.1*	Certification of chief executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of chief financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certification of chief executive officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2*	Certification of chief financial officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document*
101.SCH	XBRL Taxonomy Extension Schema*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase*
101.DEF	XBRL Taxonomy Extension Definition*
101.LAB	XBRL Taxonomy Extension Label Linkbase*

101.PRE XBRL Taxonomy Extension Presentation Linkbase\*

\* Filed herewith.

**Item 16. 10-K SUMMARY**

None.

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Pursuant to the requirements of Section 13 or 15(d) of the Exchange Act, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

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

Date: March 10, 2017

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

Date: March 10, 2017

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

The undersigned hereby constitute and appoint Todd King and his substitutes our true and lawful attorneys-in-fact with full power to execute in our name and behalf in the capacities indicated below any and all amendments to this report and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, and hereby ratify and confirm all that such attorney-in-fact or his substitutes shall lawfully do or cause to be done by virtue thereof. Pursuant to the requirements of the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<b><u>Signature</u></b>	<b><u>Title</u></b>	<b><u>Date</u></b>
/s/ Rodney Hershberger Rodney Hershberger	Chairman and Chief Executive Officer (Principal Executive Officer and Director)	March 10, 2017
/s/ Jeffrey T. Jackson  Jeffrey T. Jackson	President, Chief Operating Officer  and Director	March 10, 2017
/s/ Bradley West Bradley West	Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	March 10, 2017
/s/ Alexander R. Castaldi Alexander R. Castaldi	Director	March 10, 2017
/s/ Richard D. Feintuch Richard D. Feintuch	Director	March 10, 2017
/s/ M. Joseph McHugh M. Joseph McHugh	Director	March 10, 2017
/s/ Floyd F. Sherman	Director	March 10, 2017

Floyd F. Sherman

/s/ Brett N. Milgrim  
Brett N. Milgrim

Director

March 10, 2017

/s/ William J. Morgan  
William J. Morgan

Director

March 10, 2017

/s/ Sheree L. Bargabos  
Sheree L. Bargabos

Director

March 10, 2017

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