PGT, Inc.
Form 10-K
February 28, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

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

For the fiscal year ended December 28, 2013

OR

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

For the transition period from to

Commission File Number: 000-52059

PGT, Inc.

(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: Not applicable

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

Title of Each Class	Name of Exchange on Which Registered
Common stock, par value $0.01 per share	NASDAQ Global Market

Securities registered pursuant to Section 12 (g) of the Act: None

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

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 x

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 x 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	x
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 x

The aggregate market value of the registrant s common stock held by non-affiliates of the registrant as of June 28, 2013 was approximately $267,138,557 based on the closing price per share on that date of $8.67 as reported on the NASDAQ Global Market.

The number of shares of the registrant s common stock, par value $0.01, outstanding as of February 26, 2014, was 47,160,308.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company s Proxy Statement for the Company s 2014 Annual Meeting of Stockholders are incorporated by reference into Part III of this Form 10-K.

PGT, INC.

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PART I

Item 1. *BUSINESS*

GENERAL DEVELOPMENT OF BUSINESS

Description of the Company

We are the leading U.S. manufacturer and supplier of residential impact-resistant windows and doors and pioneered the U.S. impact-resistant window and door industry. Our impact-resistant products, which are marketed under the WinGuard®, PremierVue , PGT Architectural Systems and PGT Commercial Storefront System brand names, 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 preventing 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, PremierVue , PGT Architectural Systems, and PGT Commercial Storefront System 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 including our SpectraGuard line of products. Our current market share in Florida, which is the largest U.S. impact-resistant window and door market, is significantly greater than that of any of our competitors.

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 1,100 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.

Our manufacturing facility in North Venice, Florida, produces fully-customized windows and doors. We are vertically integrated with glass, insulating, tempering and laminating facilities, which provide us with a consistent source of impact-resistant laminated and insulating glass, shorter lead times, and lower costs relative to third-party sourcing.

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.

PGT, 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 under the symbol 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 premium, 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 the PGT brand, and our consumer-oriented products carry an additional, trademarked product name, including WinGuard, Eze-Breeze, SpectraGuard, and PremierVue.

Window and door products

WinGuard. WinGuard is an impact-resistant product line and combines heavy-duty aluminum or vinyl frames with laminated glass to provide protection from hurricane-force winds and wind-borne debris that satisfy increasingly stringent building codes and primarily target 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.

PremierVue. PremierVue is a complete line of impact-resistant vinyl window and door products that are tailored for the mid- to high-end of the replacement market, primarily targeting single and multi-family homes and low to mid-rise condominiums in Florida and other coastal regions of the Southeastern U.S. Combining structural strength and energy efficiency, these products are designed for flexibility in today s market, offering both laminated and laminated-insulated impact-resistant glass options which are Energy Star rated. PremierVue s large test sizes and high design pressures, combined with vinyl s inherent thermal efficiency, make these products truly unique in the window and door industry.

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.

Vinyl. We offer a complete line of fully customizable, non-impact-resistant vinyl frame windows and doors where the energy-efficient characteristics of vinyl frames are critical. It includes a line of energy efficient vinyl windows for new construction with wood-like aesthetics, such as brick-mould frames, wood-like trim detail and simulated divided lights. Also, part of this line is vinyl replacement windows with the same superior energy performance and wood-like detail and branded the product lines as SpectraGuard. All of our vinyl product lines possess options to meet the needs of the Florida market and are Energy Star rated.

Architectural Systems. Similar to WinGuard, Architectural Systems products are impact-resistant, offering protection from hurricane-force winds and wind-borne debris for mid- and high-rise buildings rather than single family homes.

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.

PGT Commercial Storefront System. PGT s Commercial Storefront window system and entry doors, launched in 2013, 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.

Sales and Marketing

Our sales strategy primarily focuses on attracting and retaining distributors and dealers by 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 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 customer base that is comprised of approximately 1,100 window distributors, building supply distributors, window replacement dealers and enclosure contractors. Our largest customer accounts for approximately 3.2% of net sales and our top ten customers account for approximately 19.5% of net sales. Our sales are comprised of residential new construction and home repair and remodeling end markets, which represented approximately 32% and 68% of our sales, respectively, during 2013. This compares to 28% and 72% in 2012.

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

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. All of our materials are typically readily available from other sources. Aluminum and vinyl extrusions accounted for approximately 31% of our material purchases during fiscal year 2013. Sheet glass, which is sourced from two major national suppliers, accounted for approximately 17% of our material purchases during fiscal year 2013. 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 2013 due to some temporary capacity constraints, we did purchase the remaining amounts of our laminated glass needs from one major national supplier. This finished laminated glass make up approximately 7% of our material purchases in fiscal year 2013. Polyvinyl butyral and ionoplast, which are both used as inner layer in laminated glass, accounted for approximately 15% of our material purchases during fiscal year 2013.

Backlog

As of December 28, 2013, our backlog was $17.6 million compared to $10.6 million at December 29, 2012. 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 2014, due in part to our lead times which range from one to three 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 facility is located in Florida where we produce fully-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 one of two 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.

Active Protection: This group of competitors consists of manufactures who 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 and look to the manufacturer for training and education of product and code. Although some of our competitors may have greater geographic scope and access to greater resources and economies of scale than do we, 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.

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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 February 20, 2014, we employed approximately 1,400 people, none of whom were represented by a union. 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 28, 2013, December 29, 2012, and December 31, 2011, are as follows (in millions):

	Year Ended		
	December 28, 2013	December 29, 2012	December 31, 2011
Domestic	$ 232.7	$ 166.9	$ 160.0
International	6.6	7.6	7.3
	$ 239.3	$ 174.5	$ 167.3

AVAILABLE INFORMATION

Our Internet address is www.pgtindustries.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.

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, and consumer confidence. Such market pressures negatively impacted operations during several recent years, and while macro-economic forces improved throughout 2013, declines in the economic environment or a decline in construction could negatively impact our sales and earnings.

Economic and credit market conditions impact our ability to collect receivables. Economic and credit conditions negatively impacted our bad debt expense in the years 2007-2011, which adversely impacted our results of operations. If these conditions return, our results of operations may again 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, 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. 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 a one-year supply agreement through December 2014 with a major producer of ionoplast inter layer that we believe provides us with a reliable, single

source for ionoplast with stable pricing on favorable terms, if one or both parties to the agreement do not satisfy the terms of the agreement it may be terminated which could result in our inability to obtain ionoplast 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 depend on third-party suppliers for our raw materials. Our ability to offer a wide variety of products to our customers depends on receipt of adequate material supplies from manufacturers and other suppliers. Generally, our raw materials and supplies are obtainable from various sources and in sufficient quantities. However, it is possible that our competitors or other suppliers may create laminates or products based on new technologies that are not available to us or are more effective than our products at surviving hurricane-force winds and wind-borne debris or that they may have access to products of a similar quality at lower prices. Although in many instances we have agreements with our suppliers, these agreements are generally terminable by either party on limited notice. Moreover, other than with our suppliers of polyvinyl butyral and aluminum, we do not have long-term contracts with the suppliers of our raw materials.

Transportation costs represent a significant part of our cost structure. Fuel prices have increased in the past, and remain volatile. A rapid and prolonged increase in fuel prices may significantly increase our costs and have an adverse impact on our results of operations.

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.

Our operating results are substantially dependent on sales of our WinGuard branded line of products. A majority of our net sales are, and are expected to continue to be, derived from the sales of our WinGuard branded line of products. Accordingly, our future operating results will depend on the demand for WinGuard 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 WinGuard products in performance or price, or if we fail to update WinGuard 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 WinGuard 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.

Our industry is competitive, and competition may increase as our markets grow or as more states adopt or enforce building codes that require impact-resistant products. 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 (iv) adapt more quickly to new technologies or evolving customer requirements than do we. Additionally, new competitors may enter our industry, and larger existing competitors may increase their efforts and devote substantially more resources to expand their presence in the impact-resistant market. If we are unable to compete effectively, demand for our products may decline. In addition, while we are skilled at creating finished impact-resistant and other window and door products, the materials we use can be purchased by any existing or potential competitor. New competitors can enter our industry, and existing competitors may increase their efforts in the impact-resistant market. Furthermore, if the market for impact-resistant windows and doors continues to expand, larger competitors could enter or expand their presence in the market and may be able to compete more effectively. Finally, we may not be able to maintain our costs at a level for us to compete effectively. If we are unable to compete effectively, demand for our products and our profitability may decline.

Our business is currently concentrated in one state. Our business is concentrated geographically in Florida. In fiscal year 2013, approximately 89% of our sales were generated in Florida, a state in which new single family housing permits remain below average. Focusing operations into a single manufacturing location 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 may incur additional indebtedness. We may incur additional indebtedness under our credit facilities, which provide for up to $25 million of revolving credit borrowings. In addition, we and our subsidiary may incur additional indebtedness in the future. If new debt is added to our current debt levels, certain risks which we currently do not consider significant could intensify.

Our 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 subsidiary, 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.

In addition, our credit facilities require us to meet specified financial ratios. These covenants may restrict our ability to expand or fully pursue our business strategies. Our ability to comply with these and other provisions of our credit facilities 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 any of these covenants, including those contained in our credit facilities, could result in a default under our indebtedness, which could cause those and other obligations to become 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.

During the second quarter of fiscal year 2012, we started the implementation of our new Enterprise Resource Planning (ERP) System. In order to maintain our leadership position in the market and efficiently process increased business volume, we are making a significant upgrade to our computer hardware, software and our ERP System. Though we expect the ERP implementation to be substantially completed by third quarter of 2014, should the ERP System upgrade be unsuccessful or take longer to implement than anticipated, our ability to maintain and grow the business could be hindered, and our operations and financial results could be adversely impacted.

We may be adversely affected by any disruptions to our manufacturing facilities or disruptions to our customer, supplier, or employee base. 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.

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 subsidiary, and rely on payments from our subsidiary to meet all of our obligations. We are a holding company and derive all of our operating income from our subsidiary, PGT Industries, Inc. All of our assets are held by our subsidiary, and we rely on the earnings and cash flows of our subsidiary to meet our debt service obligations. The ability of our subsidiary to make payments to us will depend on its respective operating results and may be restricted by, among other things, the laws of its jurisdiction 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 subsidiary, including our credit facilities, and the covenants of any future outstanding indebtedness we or our subsidiary 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 28, 2013, we have no material weaknesses in our internal controls 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 a system of internal controls 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 NASDAQ Global Market LLC. 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 building of our new glass facility. We are currently expanding our glass processing capacity by building a new multi-million dollar facility. While the plant development is progressing with no anticipated issues, there is always the potential risk of a delay in completion and of costs over-runs. Should a serious delay in the construction take place, this would impact the cost savings we expect to achieve by the fourth quarter of 2014 and negatively effect our future 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 significant 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 we are building a new glass facility. However, should we be unable to find and retain quality employees to meet demand, or should there be delays in bringing the new glass facility fully operational, 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.

Item 1B. ***UNRESOLVED STAFF COMMENTS***

None.

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Item 2. ***PROPERTIES***

We have the following properties as of December 28, 2013:

	Manufacturing	Support	Storage
		(in square feet)	
Owned:			
Main Plant and Corporate Office, North Venice, FL	348,000	15,000	
Glass tempering and laminating, North Venice, FL	80,000		
Insulated Glass, North Venice, FL	42,000		
PGT Wellness Center, North Venice, FL		3,600	
Leased:			
James Street Storage, Venice, FL	15,000		
Endeavor Court, Nokomis, FL		2,300	
Endeavor Court, Nokomis, FL		6,100	
Fleet Maintenance Building, North Venice, FL		16,000	
Sarasota Warehouse, Bradenton, FL			48,000
	485,000	43,000	48,000

On August 16, 2013, we purchased land to build our new glass operations plant. We officially broke ground on January 9, 2014, which when completed will add 96,000 square foot to our current glass cutting, tempering and laminating process. Our expected date of completion for the facility is in third quarter of 2014. We currently own five parcels of land, with two parcels designated for the new glass plant, and three parcels available for future growth, with a combined total of over 523,000 square feet.

On December 3, 2010, we announced that our former Salisbury, North Carolina operations would be transferred to Venice, Florida to consolidate our window and door production at our Florida manufacturing facilities. This consolidation was completed during the second quarter of 2011. In October 2012, we accepted an offer to sell our former Salisbury, North Carolina facility, and on January 23, 2013, the sale closed for approximately $8.0 million in cash (approximately $7.5 million net of selling costs).

Our leases listed above expire between May 2014 and January 2016. 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.

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

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PART II

Item 5. ***MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES***

Our Common Stock is traded on the NASDAQ Global Market ® under the symbol PGTI . On February 24, 2014, the closing price of our Common Stock as reported on the NASDAQ Global Market was $12.07. 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:

	High	Low
2013		
1st Quarter	$ 8.22	$ 4.22
2nd Quarter	$ 9.25	$ 6.23
3rd Quarter	$ 11.69	$ 8.58
4th Quarter	$ 11.00	$ 8.84

	High	Low
2012		
1st Quarter	$ 1.96	$ 1.03
2nd Quarter	$ 3.05	$ 1.73
3rd Quarter	$ 3.40	$ 2.63
4th Quarter	$ 4.74	$ 3.17

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

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

share repurchase program, during 2013, we acquired 1,074,078 shares of our common stock at a cost of approximately $6.1 million, bringing our total shares acquired to 1,996,772 at a total cost of $10.0 million. These shares were placed in treasury. During the second quarter of fiscal 2013, we repurchased 6,791,171 shares of our common stock from JLL Partners Fund IV, L.P. We purchased these shares at a price per share of $7.36, which represented the offering price to the public in a concurrent secondary offering, less the underwriting discounts and commissions. These shares were cancelled and retired.

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Performance Graph

The following graphs compare the percentage change in PGT, 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 3, 2009, to December 28, 2013.

COMPARISON OF 60 MONTH CUMULATIVE TOTAL RETURN*

AMONG PGT, INC., THE NASDAQ COMPOSITE INDEX,

AND THE S&P BUILDING PRODUCTS INDEX

* $100 invested on January 3, 2009 in stock or in index-including reinvestment of dividends for 60 months ending December 28, 2013.

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.

Selected Consolidated Financial Data (in thousands except per share data)	**Year Ended December 28, 2013**	**Year Ended December 29, 2012**	**Year Ended December 31, 2011**	**Year Ended January 1, 2011**	**Year Ended January 2, 2010**
Net sales	$ 239,303	$ 174,540	$ 167,276	$ 175,741	$ 166,000
Cost of sales	159,169	114,872	128,171	125,615	121,821
Gross margin	80,134	59,668	39,105	50,126	44,179
Impairment charges (1)			5,959	5,561	742
Gain on sale of assets held (2)	(2,195)				
Selling, general and administrative expenses	54,594	47,094	48,619	53,879	51,703
Income (loss) from operations	27,735	12,574	(15,473)	(9,314)	(8,266)
Interest expense	3,520	3,437	4,168	5,123	6,698
Other expense (income), net (3)	770	72	(419)	(19)	37
Income (loss) before income taxes	23,445	9,065	(19,222)	(14,418)	(15,001)
Income tax (benefit) expense	(3,374)	110	(2,324)	77	(5,584)
Net income (loss)	$ 26,819	$ 8,955	$ (16,898)	$ (14,495)	$ (9,417)
Net income (loss) per common share:					
Basic	$ 0.55	$ 0.17	$ (0.31)	$ (0.29)	$ (0.26)
Diluted	$ 0.51	$ 0.16	$ (0.31)	$ (0.29)	$ (0.26)
Weighted average shares outstanding:					
Basic	48,881	53,620	53,659	50,174	36,241
Diluted	52,211	55,262	53,659	50,174	36,241
Other financial data:					
Depreciation	$ 4,622	$ 5,731	$ 7,590	$ 9,180	$ 10,435
Amortization	$ 6,458	$ 6,502	$ 6,502	$ 6,028	$ 5,731

	As Of December 28, 2013	**As Of December 29, 2012**	**As Of December 31, 2011**	**As Of January 1, 2011**	**As Of January 2, 2010**
Balance Sheet data:					
Cash and cash equivalents	$ 30,204	$ 18,743	$ 10,940	$ 22,012	$ 7,417
Total assets	$ 156,632	$ 141,317	$ 142,835	$ 169,119	$ 173,630
Total debt, including current portion	$ 77,255	$ 37,500	$ 45,550	$ 50,163	$ 68,268

Shareholders equity	$	49,075	$	74,210	$	67,362	$	83,042	$	68,209

(1) In 2011, amounts relate to intangible asset impairment charges. In 2010 and 2009, amounts relate to write-down of the value of our Salisbury, North Carolina and Lexington, North Carolina properties, and certain other equipment of the Company. See Notes 2 and 7 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 an the asset s carrying value at the time sale was approximately $5.3 million.

(3) In 2013, this relates to a combination of derivative financial instruments and deferred financing costs.

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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

On February 19, 2014, we issued a press release and held a conference call on February 20, 2014, to review the results of operations for our fourth quarter and fiscal year ended December 28, 2013. During the call, we also discussed current market conditions and progress made regarding certain of our initiatives. The overview and estimates contained in this report are consistent with those given in our press release and discussed on the call. We are neither updating nor confirming that information.

Resulting from the improvement in the housing market as well our marketing programs focused on taking market share with our WinGuard products, our sales grew 37.1% to $239.3 million, our highest net sales since 2007. We generated net income of $26.8 million, an increase of $17.9 million when compared to 2012 s net income of $9.0 million. The improvement in net income was driven by revenue growth, as gross margin dollars increased 34.3% and leveraging selling, general and administrative expenses as a percent of sales decreased to 22.8%, compared to 27.0% in 2012.

In terms of sales strategies, we continued our strategic focus of concentrating our resources in our core market, Florida, and implemented promotional activities to gain market share. We also established 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 2013 increased $64.8 million, or 37.1%, compared to 2012. New construction sales increased $26.6 million, or 54.1%, while repair and remodel sales increased by $38.2 million, or

30.4%. By region, our sales in Florida increased $62.6 million, or 41.3%, and sales in the out of state markets increased $3.2 million, or 20.6%. These increases were slightly offset by decreases in the international markets of $1.0 million, or 13.2%.

By product category, sales in our impact lines increased $53.3 million, or 41.0%. This increase was driven by our WinGuard products which increased $49.3 million, or 40.4%. Within WinGuard, Vinyl WinGuard products increased $14.1 million, or 60.8%, and Aluminum WinGuard products increased $35.4 million, or 35.8%. Sales in our Architectural System line increased by $2.3 million, while sales in our new Storefront product added $0.7 million. During 2013 we realized the affect of our marketing programs as our Eze-Breeze sales increased by $2.4 million. Sales of our non-impact products increased by $11.5 million overall.

Looking at 2014 and beyond, due to customer demand, we recently broke ground on our new glass facility to increase our internal capacities for glass processing and reduce our reliance on outsourced finished glass products. Moody s forecast for 2014 suggests a 44% increase in new single family home construction, while the repair and remodeling market is expected to record a slow but steady improvement. While we expect continued sales growth driven by the improving new construction market, we will continue to make investments to gain market share in both the new construction and repair and remodeling markets.

Liquidity and Cash Flow

During 2013, we generated $25.7 million in cash flow from operations, which was used to fund working capital needs, service our long term debt, repurchase common stock, and capital expenditures. In the second quarter of 2013, we entered into a new debt agreement that increased our outstanding debt to $80 million at that time. We used the proceeds from that debt to fund our stock repurchase from JLL Partners.

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Consolidation and Restructurings

On December 3, 2010, we announced that our Salisbury, North Carolina operations would be transferred to Venice, Florida to consolidate our window and door production at our Florida manufacturing facility. During 2011, we recorded consolidation charges of $4.1 million, which included $1.3 million of severance expense and $2.8 million of moving expenses. The classification of charges were $3.4 million within cost of goods sold, and the remaining $0.7 million within selling, general and administrative expenses in the accompanying consolidated statement of operations.

RESULTS OF OPERATIONS

Analysis of Selected Items from our Consolidated Statements of Operations

		Year Ended		Percent Change Increase/(Decrease)	
	December 28, 2013	December 29, 2012	December 31, 2011	2013-2012	2012-2011
(in thousands, except per share amounts and percentages)					
Net sales	$ 239,303	$ 174,540	$ 167,276	37.1%	4.3%
Cost of sales	159,169	114,872	128,171	38.6%	(10.4%)
Gross margin	80,134	59,668	39,105	34.3%	52.6%
As a percentage of sales	33.5%	34.2%	23.4%		
Impairment charges			5,959		
Gain on sales of assets held	(2,195)				
SG&A expenses	54,594	47,094	48,619	15.9%	(3.1%)
SG&A expenses as a percentage of sales	22.8%	27.0%	29.1%		
Income (loss) from operations	27,735	12,574	(15,473)		
Interest expense, net	3,520	3,437	4,168		
Other expense (income), net	770	72	(419)		
Income tax (benefit) expense	(3,374)	110	(2,324)		
Net income/(loss)	$ 26,819	$ 8,955	$ (16,898)		
Net income/(loss) per common share:					
Basic	$ 0.55	$ 0.17	$ (0.31)		
Diluted	$ 0.51	$ 0.16	$ (0.31)		

2013 Compared with 2012

Net sales

Net sales for 2013 were $239.3 million, a $64.8 million, or 37.1%, increase in sales from $174.5 million in the prior year.

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

	Year Ended				
	December 28, 2013		December 29, 2012		
	Sales	**% of sales**	**Sales**	**% of sales**	**% change**
Product category:					
Impact Window and Door Products	$ 183.4	76.6%	$ 130.1	74.5%	41.0%
Other Window and Door Products	55.9	23.4%	44.4	25.5%	25.9%
Total net sales	$ 239.3	100.0%	$ 174.5	100.0%	37.1%

Net sales of our impact window and door products, which include our WinGuard, Architectural Systems, Storefront and PremierVue products were $183.4 million in 2013, an increase of $53.3 million, or 41.0%, from $130.1 million in the prior year. This increase was driven mainly by our WinGuard products, which increased $49.5 million, or 40.4%, due to the improved new construction housing market, and our promotional and marketing activities. Within our WinGuard products, Vinyl WinGuard grew $14.1 million, or 60.8 %, and Aluminum WinGuard grew $35.4 million, or 35.8%. Also contributing to our overall increased sales was an increase in our Architectural System products, up $2.3 million, and our new product Storefront with sales of $0.7 million.

Net sales of other window and door products, which includes aluminum and vinyl non-impact, and Eze-Breeze, were $55.9 million in 2013, an increase of $11.5 million, or 25.9%, from $44.4 million for the prior year. Sales of our aluminum products increased $4.7 million, or 24.2 %, and sales of our Vinyl products increased $5.1 million, or 41.5%, due in large part to the increased new construction activity and our ability to provide customer with one stop shopping for all window and door needs. The Eze-Breeze line increased sales by $2.4 million due to improvement in market conditions and a new agreement with a large mid-western retailer.

Gross margin

Gross margin was $80.1 million in 2013, an increase of $20.5 million, or 34.3%, from $59.7 million in the prior year. The gross margin percentage was 33.5% in 2013 compared to 34.2% in the prior year. Cost of goods sold was negatively impacted by $4.2 million, or 1.7%, in excess material and labor costs resulting from the hiring and training of over 300 new manufacturing employees to meet the increased demand for our products. In addition, due to certain internal capacity constraints, cost of goods sold was negatively impacted as a result of purchasing finished glass and other material from outside suppliers by $2.6 million, or 1.1%. Lastly, we were negatively impacted by a mix change resulting in a decrease of $1.5 million, or 0.6%. These items were offset by leverage on higher sales volume of 2.5%, and a product price increase effective in the fourth quarter which impacted margins 0.2%.

Gain on sale of assets held

In 2013, we sold the North Carolina plant for a gain of $2.2 million. The $2.2 million represents the net selling price of approximately $7.5 million less the asset s carrying value at the time of the sale of approximately $5.3 million.

Selling, general and administrative expenses

Selling, general and administrative expenses were $54.6 million, an increase of $7.5 million, or 15.9%, from $47.1 million in the prior year. As a percentage, we leveraged these costs to 22.8%, a decrease of 4.2% from 27.0% from fiscal year 2012. In terms of dollars, selling, general, and administrative expenses includes increased charges related to employee compensation and insurance costs of $4.4 million. Also contributing to the increase was additional charges for trade promotions and marketing materials of $1.7 million, and credit card fees of $0.7 million resulting from increased sales. Offsetting these increased costs was a $0.7 million decrease due to improved quality control of finished products and enhanced quality control procedures before shipping.

Interest expense

Interest expense was $3.5 million in 2013, a slight increase of $0.1 million from $3.4 million in the prior year. During 2013, we entered into a new debt agreement which increased our balance to $80 million in the second quarter of 2013, up from a $37.5 million debt balance at the end of 2012. Our interest expense increased slightly from prior year due to the increased debt balance, while offset by decreased interest rates from the new agreement, and decreased deferred financing costs.

Other expenses, net

Other expenses, net were $0.8 million and $0.1 million in 2013 and 2012, respectively. In 2013, the expense relates to the write-off of deferred financing costs resulting from the new credit agreement, as well as expenses related to the ineffective portion of our aluminum hedging activity. In 2012, the expense related to the ineffective portion of our aluminum hedging activity.

Income tax (benefit) expense

Our income tax benefit was $3.4 million for the year ended December 28, 2013. As we released our valuation allowances on deferred tax assets, we released our valuation allowance as we are no longer in a cumulative loss position and it is more likely than not, that our deferred tax assets will be realized.

Excluding the impact of the 2013 reversal of the valuation allowance, as well as the impact of the valuation allowance in 2012, our 2013 and 2012 effective tax rates would have been 40.7% and 40.3% for each year, respectively.

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2012 Compared with 2011

Net sales

Net sales for 2012 were $174.5 million, a $7.3 million, or 4.3%, increase in sales from $167.3 million in the prior year.

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

	Year Ended				
	December 29, 2012		December 31, 2011		
	Sales	% of sales	Sales	% of sales	% change
Product category:					
Impact Window and Door Products	$ 130.1	74.5%	$ 120.9	72.3%	7.6%
Other Window and Door Products	44.4	25.5%	46.4	27.7%	(4.2%)
Total net sales	$ 174.5	100.0%	$ 167.3	100.0%	4.3%

Net sales of our impact window and door products, which include our WinGuard, Architectural Systems and PremierVue products were $130.1 million in 2012, an increase of $9.2 million, or 7.6%, from $120.9 million in the prior year. This increase was driven mainly by our WinGuard products, which increased $12.9 million, or 11.8%, due to the improved new construction housing market, and our promotional and marketing activities. Offsetting this increase were decreases in our Architectural System products, down $2.5 million in part due to the completion of a large condo retrofit project completed in 2011, and our PremierVue line, down $1.3 million primarily driven by the reduction of low margin sales to a particular customer. Our impact window and door products, especially in our repair and remodeling market, continue to be impacted by the lack of storm activity during the six most recent hurricane seasons in Florida.

Net sales of other window and door products, which includes aluminum and vinyl non-impact, and Eze-Breeze, were $44.4 million in 2012, a decrease of $2.0 million, or 4.2%, from $46.4 million for the prior year. Sales of our aluminum products decreased $1.3 million, due in part to the shift from aluminum to vinyl impact in the Florida market and our Vinyl products decreased $1.4 million driven by our decision to reduce our effort in the out of state market where these products were sold. However, our Eze-Breeze line increased sales by $0.8 million due to our increased focus on this line.

Gross margin

Gross margin was $59.7 million in 2012, an increase of $20.6 million, or 52.7%, from $39.1 million in the prior year. The gross margin percentage was 34.2% in 2012 compared to 23.4% in the prior year. Gross margin included charges of $3.4 million in 2011 related to the consolidation of all North Carolina operations into our Florida facilities. Cost of goods sold in 2011 was also negatively impacted by temporary excess labor and scrap expense of $4.0 million as a result of the consolidation actions taken. This amount was determined by comparing the manufacturing results during consolidation with normalized pre-consolidation results. We returned to pre-consolidation levels during the third quarter of 2011. Adjusting for these charges gross margin was 27.8% in 2011. The 6.4% increase in adjusted gross margin as a percent of sales was mainly due to a reduction of excess material and scrap of $4.7 million, or 2.7%, higher sales volume, price increases and improved mix of $4.1 million, or 1.2%, depreciation savings of $1.6 million,

or 1.0%, material price savings of $1.2 million, or 0.7%, consolidation savings of $1.1 million, or 0.6%, and savings in labor and other miscellaneous expenses of $0.4 million, or 0.2%.

Impairment charges

We performed our annual assessment of our trade names as of December 29, 2012, and December 31, 2011, which indicated that no impairment was present for the year ended 2012, and that an impairment was present for year ended 2011, which resulted in a non-cash charge of $6.0 million.

Selling, general and administrative expenses

Selling, general and administrative expenses were $47.1 million, a decrease of $1.5 million, or 3.1%, from $48.6 million in the prior year. Selling, general, and administrative expenses includes charges of $0.3 million in 2011 related to the consolidation actions taken in 2010. Excluding these charges, selling, general and administrative expenses decreased $1.2 million and as a percentage of sales were 28.9% in 2011. This decrease was due mainly to consolidation savings of $2.1 million, reduced bad debt expense of $0.8 million, decreased advertising and selling materials of $0.6 million, decreased distribution costs of $0.5 million, decreased depreciation and lease expense of $0.7 million. Offsetting these decreases was a $3.6 million increase in employee related compensation cost.

We recognized reduced bad debt expense of $0.8 million as a result of improved collection efforts and market conditions. In 2011, we experienced approximately $0.8 million in bad debt from several accounts (none individually material) in connection with the economic situation at the time. We did not incur any material write-offs in 2012, as the economy improved. This can be supported by our change in DSO s (Days Sales Outstanding) which were 32 days and 39 days for December 29, 2012, and December 31, 2011, respectively.

Interest expense

Interest expense was $3.4 million in 2012, a decrease of $0.8 million from $4.2 million in the prior year. During 2012, we prepaid $8.0 million of debt resulting in a lower average level of debt when compared to 2011. The interest rate on our debt decreased from 5.75% at the end of 2011 to 4.75% at the end of 2012 due to the refinancing of debt which decreased our interest rates in accordance with our tiered interest rate structure.

Other expenses (income), net

Other expenses (income), net were $0.1 million and income of $0.4 million in 2012 and 2011, respectively. In 2012, the expense related to the ineffective portion of our aluminum hedging activity, which was partially offset by the sales of non-essential assets from our North Carolina operations for a gain of $0.2 million. In 2011, we sold non-essential assets from our North Carolina operations for a gain of $0.9 million, which was partially offset by the expense related to the write-off of the deferred financing costs from our prior debt.

Income tax (benefit) expense

Our effective combined federal and state tax rate is lower than the statutory rate for the year ended December 29, 2012, as we released a portion of our deferred tax asset valuation allowance to offset our regular tax expense. The $0.1 million of tax expense included in the statement of operations represents our expected alternative minimum tax obligation.

Our effective combined federal and state tax rate was a benefit of 12.1%, or $2.3 million for the year ended December 31, 2011, which relates to the impairment charge on our trade names and was a deferred benefit.

All deferred tax assets created in 2012 and 2011 were fully reserved with additional valuation allowances. Excluding the effects of these items, our 2012 and 2011 effective tax rates would have been 40.3% and 38.8% for each year, respectively.

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.

C***onsolidated Cash Flows***

Operating activities. Cash provided by operating activities was $25.7 million for 2013 compared to cash provided by operating activities of $23.2 million for 2012, and cash used in operations of $1.7 million in 2011. The increase in cash flow from operations in 2013 was primarily due to the higher sales volume experienced in 2013, which after the impact of increased working capital to support the higher sales contributed approximately $13.1 million Decreasing

our cash flow was $2.9 million in increased costs from the outside purchase of finished glass and $7.7 million due to the hiring of new employees, both direct and indirect, to keep up with increased sales demand. In 2012 the increase was due mainly to a reduction in the cash paid for consolidation of approximately $4.1 million and a reduction of cash paid for 2011 manufacturing inefficiencies of $4.0 million. Also contributing to the increase in cash was savings from consolidation of $3.0 million, savings from reduced excess material and scrap of $4.7 million, and increased cash related to increased sales and net profit in 2012.

	Direct Operating Cash Flows		
(in millions)	**2013**	**2012**	**2011**
Collections from customers	$ 238.5	$ 178.1	$ 169.8
Other cash collections	5.3	2.3	3.4
Disbursements to vendors	(147.0)	(98.1)	(107.8)
Personnel related disbursements	(68.2)	(56.0)	(64.4)
Debt service costs (interest)	(2.8)	(2.8)	(2.7)
Other cash activity, net	(0.1)	(0.3)	
Cash provided (used in) by operations	$ 25.7	$ 23.2	$ (1.7)

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

Day s sales outstanding (DSO), which we calculate as accounts receivable divided by average daily sales, was 35 days on December 28, 2013, compared to 32 days on December 29, 2012, and 39 days on December 31, 2011. The increase in DSO from 2013 to 2012 was primarily due to an increase in larger commercial customers with longer payment terms and some customers changing payment plans from cash on delivery (COD) to longer payment terms. The decrease in DSO from 2011 to 2012 is the result of improved collection efforts and improved market conditions.

Inventory on hand as of December 28, 2013, was $12.9 million, an increase of $1.4 million as compared to December 29, 2012, while sales increased 37.1%. Our inventory consists principally of raw materials purchased for the manufacture of our products and limited finished goods inventory as all products are customer, 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 28, 2013, increased to 11.4 from 9.7 as compared to the year ended December 29, 2012. Inventory turns for the year ended December 29, 2012, decreased to 9.7 from 10.9 as compared to the year ended December 31, 2011

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 $0.1 million for 2013 compared to cash used in investing activities of $3.3 million for 2012. The decrease in cash used in investing activities was due to capital spending of $7.6 million offset by cash from the proceeds of sales of assets for $7.5 million.

Cash used in investing activities was $3.3 million for 2012 compared to cash used in investing activities of $1.8 million for 2011. The increase in cash used in investing activities was due to an increase in capital spending of $0.3 million along with a decrease in proceeds from sale of assets for $1.2 million.

Financing activities. Cash used in financing activities was $14.2 million in 2013. We received proceeds from the exercise of stock options of $3.6 million, the tax benefit received for stock options exercised of $0.4 million, as well as $80.0 million from the issuance of new debt. These proceeds were offset by paying off the outstanding debt under the old credit agreement of $38.5 million, deferred financing cost of $3.6 million related to the issuance of the new debt, and the payment of $56.1 million for the purchase of treasury stock.

Cash used in financing activities was $12.1 million in 2012. We prepaid an additional $8.0 million of our long term debt, paid $3.9 million for stock repurchases, and paid $0.1 million of deferred financing cost related to an amendment to our credit agreement.

Cash used in financing activities was $7.6 million in 2011. During 2011, we refinanced our debt and reduced the interest rate by 100 basis points. We also prepaid an additional $4.5 million of our long term debt and paid $3.0 million of deferred financing cost related to the refinancing.

Capital Expenditures. Capital expenditures vary depending on prevailing business factors, including current and anticipated market conditions. For 2013, capital expenditures were $7.6 million, compared to $3.8 million for 2012.

We anticipate that cash flows from operations and liquidity from the revolving credit facility will be sufficient to execute our business plans. We anticipate spending substantially more in 2014. Management expects to spend nearly $23.4 million on capital expenditures in 2014, including capital expenditures related to the new glass plant and related equipment, the new ERP system and product investments in lines targeted at increasing both gross sales and margins.

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

Interest on all loans under the Credit Agreement is payable either quarterly or at the expiration of any LIBOR interest period applicable thereto. Borrowings under the term loans and the revolving credit facility accrue interest at a rate equal to, at our option, a base rate or LIBOR plus an applicable margin. The applicable margin is based on our leverage ratio, ranging from 300 to 350 basis

points in the case of LIBOR and 200 to 250 basis points in the case of the base rate. We will pay quarterly fees on the unused portion of the revolving credit facility equal to 0.50% as well as a quarterly letter of credit fee at a rate per annum equal to the applicable margin for LIBOR loans on the face amount of any outstanding letters of credit. In connection with this refinancing, we wrote-off $0.3 million of deferred financing costs from the Old Credit Agreement, which are classified within other expense (income), net in the Consolidated Statements of Operations and Comprehensive Income for the year ended December 28, 2013.

On September 16, 2013, we entered into two interest rate caps and an interest rate swap to hedge a portion of our debt against volatility in future interest rates. The two interest rate caps are designated as cash flow hedges totaling a notional amount of $60.0 million, that protects the variable rate debt from increases of one month LIBOR of greater than 0.50%. The interest rate swap totals a notional amount of $40.0 million, and effectively converted a portion of the floating rate debt to a fixed rate of 2.15% starting on September 28, 2014. The first interest rate cap terminates on September 18, 2014, and the second on September 28, 2015, with the interest rate swap terminating on May 28, 2018.

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

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

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

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

The face value of the debt as of December 28, 2013, was $79.0 million. The Company incurred issuance costs of $3.6 million, of which $2.0 million of the costs were classified as a discount and presented in the current and long-term portion of debt on the Consolidated Balance Sheets. Approximately $1.3 million was reported as debt issuance costs in current assets and other assets on the Consolidated Balance Sheets, while the remaining $0.3 million was expensed in selling, general and administrative expense on the Consolidated Statements of Operations. The debt issuance costs and discount are being amortized to interest expense, net on the Consolidated Statements of Operations and Comprehensive Income over the term of the debt.

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Long-term debt consists of the following:

	December 28, 2013	December 29, 2012
	(in thousands)	
Term note payable with a payment of $1.0 million due quarterly. A lump sum payment of $63.0 million is due on May 28, 2018. Interest is payable monthly, or quarterly at LIBOR or the prime rate plus an applicable margin. At December 28, 2013, the average rate was 0.16% plus a margin of 3.00%.	$ 79,000	
Term note payable with a payment of $0.6 million due on April 2, 2016. A lump sum payment of $36.9 million is due on June 23, 2016. Interest is payable quarterly at LIBOR or the prime rate plus an applicable margin. At December 29, 2012, the average rate was 1.25% plus a margin of 3.50%.		$ 37,500
Debt discount (1)	(1,745)	
	$ 77,255	$ 37,500
Less current portion of long-term debt	(4,890)	
Total	$ 72,365	$ 37,500

(1) Debt discount represents fees paid to the lender at time the debt was issued, and is accounted for as a reduction in the debt proceeds 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 28, 2013 (in thousands):

		Payments Due by Period				
Contractual Obligations	**Total**	**Current**	**2-3 Years**	**4 Years**	**5 Years**	**Thereafter**
Long-term debt (1)	$ 89,517	$ 7,644	$ 12,802	$ 5,210	$ 63,861	$
Operating leases	4,194	1,145	1,907	597	545	
Supply agreements	2,493	2,493				
Capital purchase commitments	1,876	1,876				
Total contractual cash obligations	$ 98,080	$ 13,158	$ 14,709	$ 5,807	$ 64,406	$

(1)

Includes estimated future interest expense on our long-term debt assuming the weighted average interest rate of 3.16% as of December 28, 2013, does not change. We entered into LIBOR hedges on September 16, 2013, to offset the changes in cash flows of the debt interest rate payments that are attributed to the fluctuations of LIBOR rates.

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 28, 2013. 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.

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, we would be required to pay $2.5 million for various materials.

At December 28, 2013, we had $0.6 million in standby letters of credit related to our worker s compensation insurance coverage.

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.

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Description	Judgments and Uncertainties	Effect if Actual Results Differ from Assumptions
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, based on management estimates.	Estimates made by management are subject to change and include such things as how future growth assumptions, operating and capital expenditure requirements, asset useful lives and other factors, affect forecasted cash flows associated with the long lived assets. Additionally, fair value estimates, if required, can be affected by discount rates and/or estimates of the value of similar assets.	We do not believe there is a reasonable likelihood that there will be a material change in the estimates or assumptions we use to calculate long-lived asset impairment losses. However, if actual results are not consistent with our estimates and assumptions used in estimating future cash flows and asset fair values, we may be exposed to losses that could be material.
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.		
Allowances for doubtful accounts and notes receivable and related reserves		
Losses for allowances for doubtful accounts and notes receivable and related reserves are recognized when they are probable, which requires us to make our best estimate of probable losses inherent in our receivables.	We evaluate the allowance for doubtful accounts and notes receivable based on specific identification of troubled balances and historical collection experience adjusted for current conditions such as the economic climate.	Actual collections can differ from our estimates, requiring adjustments to the allowances. A 10% difference between actual losses and estimated losses derived from the estimated reserve for accounts and notes receivable would impact net income by approximately $0.1 million.

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Indefinite lived Intangibles

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

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

Our year-end test of trade names, performed as of December 28, 2013, utilized a weighted average royalty rate of 4.0% and a discount rate of 16.1%. Net sales used in the analysis were based on historical experience and a modest growth over the next six years. We believe our projected sales are reasonable based on the available information regarding our industry and the core markets that we serve. We also believe the royalty rate is appropriate and could improve over time based on the market trends and information, including that which is set forth above. The discount rate was based on the current financial market trends and will remain dependent on such trends in the future.

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.

As of December 28, 2013, the estimated fair value of the trade names exceeded book value by approximately 79% or $30.3 million. We believe our projected sales are reasonable based on, among other things, available information regarding our industry. We also believe the royalty rate is appropriate. The weighted average discount rate is impacted by current financial market trends and will remain dependent on such trends in the future. Absent offsetting changes in other factors, a 1% increase in the discount rate would decrease the estimated fair value of our trademarks by approximately $4.9 million but would not result in impairment.

Income Taxes   Valuation Allowance

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

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

- future reversals of existing taxable temporary differences;
- taxable income in prior carryback years;
- tax planning strategies; and
- future taxable income exclusive of reversing temporary differences and carryforwards.

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

- a strong earnings history exclusive of the loss that created the deductible temporary differences, coupled with evidence indicating that the loss is the result of an aberration rather than a continuing condition;
- an excess of appreciated asset value over the tax basis of a company s net assets in an amount sufficient to realize the deferred tax asset; and
- existing backlog that will produce sufficient taxable income to realize the deferred tax asset based on existing sales prices and cost structures.

As of December 28, 2013, we no longer have a valuation allowance against our deferred tax assets, due to the fact that we are no longer in a cumulative loss position. For 2012, we had a full valuation allowance of $12.9 million recorded against our net deferred assets, primarily due to our experiencing a three-year cumulative operating loss as of December 29, 2012, and December 31, 2011. The release of the valuation allowance was a result of recent earnings and forecasted income which provide sufficient positive evidence that our deferred tax assets will more likely than not be realized. In the future, changes in our valuation allowance may result from, among other things, additional pre-tax operating losses resulting in the establishment of a valuation allowance.

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Examples of negative evidence may include:

- the existence of cumulative losses (generally defined as a pretax cumulative loss for the current and previous two years);
- an expectation of being in a cumulative loss position in a future reporting period;
- a carryback or carryforward period that is so brief that it would limit the realization of tax benefits;
- a history of operating loss or tax credit carryforwards expiring unused; and
- unsettled circumstances that, if unfavorably resolved, would adversely affect future operations and profit levels on a continuing basis.

The weight given to the potential effect of negative and positive evidence should be commensurate with the extent to which it can be objectively verified. A company must use judgment in considering the relative impact of positive and negative evidence.

Warranty

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.	Changes to actual warranty claims incurred could have a material impact on our estimated warranty obligations.
Self Insurance Reserves		
We are primarily self-insured for employee health benefits and for years prior to 2010 for workers compensation. For 2010-2013 we are fully insured with respect to workers compensation.	Our workers compensation reserves, for the self-insured periods 2009 and prior are accrued based on third-party actuarial valuations of the expected future liabilities. Health benefits are self-insured by us up to pre-determined stop loss limits. These reserves, including incurred but not reported claims, are based on internal computations. These computations consider our historical claims experience, independent statistics, and trends.	Changes to actual health benefit claims on workers compensation incurred and interest rates could have a material impact on our estimated self-insurance reserves.
Stock-Based Compensation		
We utilize a fair-value based approach for measuring stock-based compensation to recognize the cost of employee services received in exchange for our Company s equity instruments. We determine the fair value of our stock option awards at the date of grant using the Black-Sholes model.	Option-pricing models and generally accepted valuation techniques require management to make assumptions and to apply judgment to determine the fair value of our awards. These assumptions and judgments include estimating the future volatility of our stock price, expected	We do not believe there is a reasonable likelihood there will be a material change in the future estimates or assumptions we use to determine stock-based compensation expense.
		However, if actual results are not

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We record compensation expense over an award s vesting period based on the award s fair value at the date of grant. As of December 28, 2013, our awards vest based only on service conditions and compensation expense is recognized on a straight-line basis for each separately vesting portion of an award.

dividend yield, future employee forfeiture rates and future employee stock option exercise behaviors. Changes in these assumptions can materially affect the fair value estimate.

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, based mostly on historical experience, 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.

consistent with our estimates or assumptions, we may be exposed to changes in stock-based compensation expense that could be material.

A 10% change in our stock-based compensation expense for the year ended December 28, 2013, would have affected net income by approximately $0.1 million.

RECENTLY ISSUED ACCOUNTING STANDARDS

In July 2013, the Financial Accounting Standards Board (FASB) issued ASU No. 2013-11, Income Taxes: Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward Exists, which requires tax benefits to be presented in the financial statement as a reduction to deferred tax asset for a net operating loss carryforward or a tax credit carryforward. The provisions of the guidance will be effective for us beginning in first quarter of 2014. We do not expect the adoption of this accounting pronouncement to have a material impact on our disclosures.

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 , bel may , could , or other words of similar meaning. Forward-looking statements provide our current expectations or forecasts of future events, results, circumstances or aspirations. Our disclosures in this report contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. We may also make forward-looking statements in our other documents filed or furnished with the Securities and Exchange Commission and in oral presentations. Forward-looking statements are based on assumptions and by their nature are subject to risks and uncertainties, many of which are outside of our control. Our actual results may differ materially from those set forth in our forward-looking statements. There is no assurance that any list of risks and uncertainties or risk factors is complete. Factors that could cause actual results to differ materially from those described in our forward-looking statements include, but are not limited to:

- Changes in new home starts and home remodeling trends
- The economy in the U.S. generally or in Florida where the substantial portion of our sales are generated
- Raw material prices, especially aluminum
- Transportation costs
- Level of indebtedness
- Dependence on our WinGuard branded product lines
- Product liability and warranty claims
- Federal and state regulations
- Dependence on our manufacturing facilities

Any forward-looking statements made by us or on our behalf speak only as of the date they are made and we do not undertake any obligation to update any forward-looking statement to reflect the impact of subsequent events or circumstances. Before making any investment decision, you should carefully consider all risks and uncertainties disclosed in all our SEC filings, including our reports on Forms 8-K, 10-Q and 10-K and our registration statements under the Securities Act of 1933, as amended, all of which are accessible on the SEC s website at www.sec.gov and at http://ir.pgtindustries.com/sec.cfm

Net sales

We recorded increased sales of $64.8 million, or 37.1% in 2013, which was up over 2012. This growth was driven by an increase in our WinGuard products which were up $49.3 million, or 40.4% versus 2012. This increase was driven by our promotional and marketing activities along with the continued strengthening of the new construction market. Moody s is forecasting an increase in new single family home construction market of 44% for 2014. However, the repair and remodel market is forecasted to have a slow but steady improvement into 2014. At this time, we expect sales for the first quarter to be approximately $62 to $65 million.

Gross margin

We believe the following factors, which are not all inclusive, may impact our gross margin in 2014:

Our gross margin percentages are heavily influenced by total sales due to operating leverage of fixed costs as well as product mix of impact and non-impact products and vinyl frame versus aluminum frame products.

Our margin is also influenced by costs of material and labor. As our labor force becomes more tenured, material and labor costs will normalize as efficiencies are achieved. Our future rate of hiring will be impacted by the rate of sales growth.

Due to sales above certain internal glass capacities, we are currently purchasing finished laminated glass. We expect to finish construction of our new glass plant by the end of third quarter 2014, which will favorably impact our gross margins on sales currently serviced with purchased finished glass units.

We also announced a 3% price increase in third quarter of 2013 on substantially all our products. This will have a favorable impact on margins in 2014.

Selling, general and administrative expenses

An increase in selling and marketing costs aimed at gaining market share and increased brand awareness would result in increased selling, general, and administrative costs. In addition, economic and credit conditions may negatively impact our bad debt expense. We continue to monitor our customers credit profiles carefully and make changes in our terms where necessary in response to this heightened risk. Favorably impacting our selling, general, and administrative expenses, will be the reduction of amortization expense. After the first quarter of 2014, we will have fully amortized our amortizable intangible asset.

Interest expense

On May 28, 2013, we entered into a Credit Agreement, which establishes new senior secured credit facilities in an aggregate amount of $105.0 million, consisting of an $80.0 million Tranche A term loan facility maturing in five years that will amortize on a basis of 5% annually during the five-year term, and a $25.0 million revolving credit facility maturing in five years that includes a $5.0 million swing line facility and a $10.0 million letter of credit facility. Interest expense will increase in 2014, as a result of the increased debt. Also, our interest will be impacted by our forward starting forty two month interest rate swap agreement with a notional value of $40.0 million that effectively

converts the LIBOR portion of the floating rate debt to a fixed rate of 2.15%, beginning on September 28, 2014.

Income tax expense

As we became more profitable in 2013, we fully released our valuation allowance on deferred tax assets. As we continue to be profitable, we will incur income tax expense, which will impact our results.

Liquidity and capital resources

We had $30.2 million of cash on hand as of December 28, 2013. Management expects to spend nearly $23.4 million on capital expenditures in 2014, including capital expenditures related to the new glass plant and related equipment, the new ERP system and product investments in lines targeted at increasing sales. We intend to use cash generated from operations to fund such capital expenditures, however no assurance can be given in this regard. We expect depreciation to be approximately $4.8 million and amortization to be approximately $0.4 million in 2014. On December 28, 2013, we had outstanding purchase commitments on capital projects of approximately $1.9 million.

Summary

In 2013, new home construction in the nation and Florida in particular improved, but is still below historic norms. We continue to gain market share in the repair and remodel market, and as consumers transition to a more energy efficient home, our products position us to take advantage of this transition and continue to gain share in this market. However, as a percentage of top-line sales, we expect EBITDA, a non-GAAP internal metric used for measurement, to remain in the mid-teens, until our new glass facility is fully functional at the end of third quarter 2014, and our material and labor costs normalize.

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

We utilize derivative financial instruments to hedge price movements in our aluminum materials. We are exposed to changes in the price of aluminum as set by the trades on the London Metal Exchange. We currently have entered into 35 forward aluminum contracts. These settle at various times throughout 2014 and 2015 for 10.5 million pounds at an average price of $0.88 per pound. The fair value of our aluminum forward contracts is less than $0.5 million and is included in other current liabilities in the accompanying consolidated balance sheets as of December 28, 2013.

For forward contracts for the purchase of aluminum at December 28, 2013, a 10% decrease in the price of aluminum would decrease the fair value of our forward contracts of aluminum by $0.8 million. This calculation utilizes our actual commitment of 9.5 million pounds under contract (to be settled throughout 2014-2015) and the market price of aluminum as of December 28, 2013, which was approximately $0.89 per pound.

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

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

Based on our debt outstanding at December 28, 2013, of $79.0 million, of which $60.0 million is covered by our interest rate cap, a 1% increase in interest rates above our interest rate floor established in the Credit Agreement would result in approximately $0.6 million of additional interest expense annually, including impact of interest rate swaps entered into in 2013.

Item 8. ***FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA***

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of

PGT, Inc.

We have audited the accompanying consolidated balance sheets of PGT, Inc. and subsidiary as of December 28, 2013 and December 29, 2012, and the related consolidated statements of operations, comprehensive income (loss), shareholders equity, and cash flows for each of the three fiscal years in the period ended December 28, 2013. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and schedule 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of PGT, Inc. and subsidiary at December 28, 2013 and December 29, 2012, and the consolidated results of their operations and their cash flows for each of the three fiscal years in the period ended December 28, 2013, 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 financial statements taken as a whole, presents fairly in all material respects the information set forth herein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), PGT Inc. and subsidiary s internal control over financial reporting as of December 28, 2013, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) and our report dated February 28, 2014 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Certified Public Accountants

Tampa, Florida

February 28, 2014

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PGT, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

	Year Ended		
	December 28, 2013	**December 29, 2012**	**December 31, 2011**
Net sales	$ 239,303	$ 174,540	$ 167,276
Cost of sales	159,169	114,872	128,171
Gross margin	80,134	59,668	39,105
Impairment charges			5,959
Gain on sale of assets held	(2,195)		
Selling, general and administrative expenses	54,594	47,094	48,619
Income (loss) from operations	27,735	12,574	(15,473)
Interest expense, net	3,520	3,437	4,168
Other expense (income), net	770	72	(419)
Income (loss) before income taxes	23,445	9,065	(19,222)
Income tax (benefit) expense	(3,374)	110	(2,324)
Net income (loss)	$ 26,819	$ 8,955	$ (16,898)
Net income (loss) per common share:			
Basic	$ 0.55	$ 0.17	$ (0.31)
Diluted	$ 0.51	$ 0.16	$ (0.31)
Weighted average shares outstanding:			
Basic	48,881	53,620	53,659
Diluted	52,211	55,262	53,659

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

PGT, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in thousands)

	Year Ended		
	December 28, 2013	**December 29, 2012**	**December 31, 2011**
Net income (loss)	$ 26,819	$ 8,955	$ (16,898)
Other comprehensive (loss) income before tax			
Change in fair value of derivatives	(1,391)	(24)	(220)
Reclassification to earnings	145	408	(335)
Other comprehensive (loss) income before tax	(1,246)	384	(555)
Income tax expense related to components of other comprehensive income	437		
Other comprehensive (loss) income, net of tax	(809)	384	(555)
Comprehensive income (loss)	$ 26,010	$ 9,339	$ (17,453)

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

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PGT, INC.

CONSOLIDATED BALANCE SHEETS

(in thousands)

	December 28, 2013	December 29, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$ 30,204	$ 18,743
Accounts receivable, net	20,821	13,997
Inventories	12,908	11,529
Prepaid expenses	1,538	916
Other current assets	3,166	2,886
Assets held for sale		5,259
Deferred income taxes, net	2,763	
Total current assets	71,400	53,330
Property, plant and equipment, net	44,123	41,220
Trade name and other intangible assets, net	38,869	45,327
Other assets, net	2,240	1,440
Total assets	$ 156,632	$ 141,317
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 3,834	$ 5,405
Accrued liabilities	11,688	7,874
Deferred income taxes		46
Current portion of long-term debt	4,890	
Total current liabilities	20,412	13,325
Long-term debt	72,365	37,500
Deferred income taxes	13,380	14,858
Other liabilities	1,400	1,424
Total liabilities	107,557	67,107
Shareholders equity:		
Preferred stock; par value $.01 per share; 10,000 shares authorized; none outstanding		
Common stock; par value $.01 per share; 200,000 shares authorized; 48,868 and 53,737 shares issued and 46,871 and 52,814 shares outstanding at December 28, 2013, and December 29, 2012, respectively	489	537
Additional paid-in-capital	229,269	274,275

Accumulated other comprehensive loss		(2,223)		(1,414)
Accumulated deficit		(168,414)		(195,233)
Subtotal shareholders equity		59,121		78,165
Less Treasury stock at cost		(10,046)		(3,955)
Total shareholders equity		49,075		74,210
Total liabilities and shareholders equity	$	156,632	$	141,317

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

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PGT, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Year Ended		
	December 28, 2013	**December 29, 2012**	**December 31, 2011**
Cash flows from operating activities:			
Net income (loss)	$ 26,819	$ 8,955	$ (16,898)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation	4,622	5,731	7,590
Amortization	6,458	6,502	6,502
Provision for allowances for doubtful accounts	29	37	880
Stock-based compensation	970	1,363	1,773
Amortization and write-offs of deferred financing costs	1,660	857	1,233
Derivative financial instruments	(16)	136	37
Deferred income taxes	(3,460)	(82)	(2,324)
Tax benefit for stock options exercised	(396)		
Impairment charges			5,959
Gain on disposal of assets	(2,186)	(266)	(996)
Change in operating assets and liabilities:			
Accounts receivable	(8,234)	(667)	(1,560)
Inventories	(1,379)	73	(1,068)
Prepaid expenses and other current assets	(1,267)	87	367
Accounts payable and accrued liabilities	2,111	462	(3,167)
Net cash provided by/(used in) operating activities	25,731	23,188	(1,672)
Cash flows from investing activities:			
Purchases of property, plant and equipment	(7,550)	(3,792)	(3,496)
Acquisition of intangible assets			(200)
Net change in margin account for derivative financial instruments			250
Proceeds from disposal of asset	7,478	454	1,672
Net cash used in investing activities	(72)	(3,338)	(1,774)
Cash flows from financing activities:			
Payments of long-term debt	(38,500)	(8,000)	(52,500)
Proceeds from issuance of long-term debt	80,000		48,000
Payments of financing costs	(3,583)	(143)	(3,013)
Payments of capital leases		(50)	(113)
Purchases of treasury stock	(56,091)	(3,946)	
Tax benefit for stock options exercised	396		

Issuance of common stock	3,580	92	
Net cash (used in) financing activities	(14,198)	(12,047)	(7,626)
Net increase/(decrease) in cash and cash equivalents	11,461	7,803	(11,072)
Cash and cash equivalents at beginning of period	18,743	10,940	22,012
Cash and cash equivalents at end of period	$ 30,204	$ 18,743	$ 10,940
Supplemental cash flow information:			
Interest paid	$ 2,662	$ 2,767	$ 2,411
Income tax payments	$ 135	$ 200	$

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

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PGT, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

(in thousands except share amounts)

	Common stock		Additional Paid-in Capital	Treasury Stock	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
	Shares Outstanding	Amount					
Balance at January 1, 2011	53,654,496	$ 537	$ 271,047	$ (9)	$ (187,290)	$ (1,243)	$ 83,042
Vesting of restricted stock	5,000						
Stock-based compensation			1,773				1,773
Comprehensive loss, net of tax effect						(555)	(555)
Net loss					(16,898)		(16,898)
Balance at December 31, 2011	53,659,496	$ 537	$ 272,820	$ (9)	$ (204,188)	$ (1,798)	$ 67,362
Vesting of restricted stock	10,639						
Acquisition of treasury stock	(922,694)			(3,946)			(3,946)
Stock-based compensation			1,363				1,363
Exercise of stock options, including tax benefit of $0	66,838		92				92
Comprehensive income, net of tax effect						384	384
Net income					8,955		8,955
Balance at December 29, 2012	52,814,279	$ 537	$ 274,275	$ (3,955)	$ (195,233)	$ (1,414)	$ 74,210
Acquisition of treasury stock	(7,865,249)			(56,091)			(56,091)
Retirement of treasury stock		(68)	(49,932)	50,000			
Stock-based compensation			970				970
Exercise of stock options	1,922,167	20	3,560				3,580
Excess tax benefit on stock-based compensation			396				396
Comprehensive (loss), net of tax effect						(809)	(809)

Net income					26,819		26,819
Balance at December 28, 2013	46,871,197	$ 489	$ 229,269	$ (10,046)	$ (168,414)	$ (2,223)	$ 49,075

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

PGT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business

PGT, Inc. (PGTI , we, or the Company) 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 (89%) of our sales, are to customers in the state of Florida; however, we also sell products in over 48 states, the Caribbean, Canada, Australia, and in South and Central America. Products are sold through an authorized dealer and distributor network.

We were incorporated in the state of Delaware on December 16, 2003, as JLL Window Holdings, Inc., in North Venice, Florida. On February 15, 2006, our Company was renamed PGT, Inc. We have one manufacturing operation, one glass tempering and laminating plant, one insulation glass plant, and broke ground in 2014 on a second glass tempering and laminating plant, all in North Venice.

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

2. Summary of Significant Accounting Policies

Basis of Presentation

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

Reclassifications

Certain prior year amounts have been reclassified in the accompanying financial statements to conform with current year classifications.

Fiscal period

Our fiscal year consists of 52 or 53 weeks ending on the Saturday nearest December 31 of the related year. The periods ended December 28, 2013, December 29, 2012, and December 31, 2011, consisted of 52 weeks.

Principles of consolidation

The consolidated financial statements present the results of the operations, financial position and cash flows of PGTI and its wholly owned subsidiary. 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.

Use of estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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. Critical accounting estimates involved in applying our accounting policies are those that require management to make assumptions about matters that are uncertain at the time the accounting estimate is made and those for which different estimates reasonably could have been used for the current period. Critical accounting estimates are also those which could have a material impact on the presentation of PGTI s financial condition, changes in financial condition or results of operations. 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 accepted by the customer; 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. Manufacturing overhead and related expenses primarily include salaries, wages, employee benefits, utilities, maintenance, engineering and property taxes.

Cost of sales was impacted negatively by $4.1 million by consolidation and restructuring charges recorded for the year ending December 31, 2011, related to plant consolidation.

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 total $10.6 million, $9.0 million, and $11.6 million for the years ended December 28, 2013, December 29, 2012, and December 31, 2011, respectively.

Advertising

We expense advertising costs as incurred. Advertising expense included in selling, general and administrative expenses was $0.7 million, $0.7 million and $0.7 million for the years ended December 28, 2013, December 29, 2012, and December 31, 2011, respectively.

Research and development costs

We expense research and development costs as incurred. Research and development costs included in cost of sales were $1.3 million, $1.4 million and $1.4 million for the years ended December 28, 2013, December 29, 2012, and December 31, 2011, 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.

Accounts and notes receivable and allowance for doubtful accounts

We extend credit to qualified dealers and distributors, generally on a non-collateralized basis. Accounts receivable and notes receivable are recorded at their gross receivable amount, reduced by an allowance for doubtful accounts that results in the receivable being recorded at its net realizable value. The allowance for doubtful accounts is based on management s assessments of the amount which may become uncollectable in the future and is determined through consideration of our write-off history, specific identification of uncollectable accounts based in part on the customer s past due balance (based on contractual terms), and consideration of prevailing economic and industry conditions. Uncollectable accounts are written off after repeated attempts to collect from the customer have been unsuccessful.

	December 28, 2013	December 29, 2012
	(in thousands)	
Accounts receivable	$ 21,334	$ 14,513
Less: Allowance for doubtful accounts	(513)	(516)

	$ 20,821	$ 13,997

As of December 28, 2013, December 29, 2012, and December 31, 2011, there were $0.6 million, $0.2 million, and $0.9 million of trade notes receivable, respectively, for which there was an allowance of $0.3 million, $0.2 million, and $0.8 million, respectively, included in other current assets and other assets in the accompanying consolidated balance sheets.

Self-insurance reserves

We are primarily self-insured for employee health benefits and for years prior to 2010 for workers compensation claims. Our workers compensation reserves are accrued based on third-party actuarial valuations of the expected future liabilities. Health benefits are self-insured by us up to pre-determined stop loss limits. These reserves, including incurred but not reported claims, are based on internal computations. These computations consider our historical claims experience, independent statistics, and trends. Changes to actual workers compensation or health benefit claims incurred and interest rates could have a material impact on our estimated self-insurance reserves. For 2013, 2012, and 2011 we are fully insured with respect to workers compensation.

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 reserve for warranties is based on management s assessment of the cost per service call, the lag time between order ship dates and warranty service dates, and the number of service calls expected to be incurred to satisfy warranty obligations on recorded net sales. The reserve is determined after assessing Company history and through specific identification. Expected future obligations are discounted to a current value using a risk-free rate for obligations with similar maturities. The following provides information with respect to our warranty accrual.

During the year, we recorded warranty expense at an average rate of 1.30% of sales. This rate is lower than the average rate of 1.81% of sales accrued in fiscal year 2012, due to improved quality and lower costs of service claims experienced in the recent past few years. 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.

Accrued Warranty	**Beginning of Period**	**Charged to Expense**	**Adjustments**	**Settlements**	**End of Period**
			(in thousands)		
Year ended December 28, 2013	$ 3,858	$ 2,992	$ (419)	$ (3,765)	$ 2,666
Year ended December 29, 2012	$ 4,406	$ 3,157	$ (512)	$ (3,193)	$ 3,858
Year ended December 31, 2011	$ 4,326	$ 3,346	$ 188	$ (3,454)	$ 4,406

The accrual for warranty is included in accrued liabilities and other liabilities on the consolidated balance sheets as of December 28, 2013, and December 29, 2012. The portion of warranty expense related to the issuance of product is $1.6 million, $0.7 million, and $1.1 million and is included in cost of sales on the consolidated statements of operations for the years ended December 28, 2013, December 29, 2012, and December 31, 2011, respectively. The portion related to servicing warranty claims including costs of the service department personnel is included in selling, general and administrative expenses on the consolidated statements of operations, and is $2.2 million, $2.3 million, and $2.5 million, respectively, for the years ended December 28, 2013, December 29, 2012, and December 31, 2011.

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. Finished goods inventory costs include direct materials, direct labor, and overhead. All inventories are stated at the lower of cost (first-in, first-out method) or market. 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:

	December 28, 2013	December 29, 2012
	(in thousands)	
Raw materials	$ 11,305	$ 10,477
Work in progress	329	256
Finished goods	1,274	796
Total Inventories	$ 12,908	$ 11,529

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
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.

In January 2011, as part of the North Carolina consolidation, we reviewed the fair value of the Salisbury property based on an appraisal of the value of the property which we consider, Level 2 inputs, and the value of furniture and fixtures and machinery and equipment for impairment. As a result, we recorded an impairment charge of $4.6 million to adjust the carrying value of the property and an impairment charge of $0.9 million to write-off the value of certain personal property that was abandoned. Also, in 2011, we sold the Lexington, North Carolina facility and the selling price less the closing costs resulted in an additional impairment of less than $0.1 million.

In the second quarter of 2012, we entered into an agreement to list the Salisbury, North Carolina facility for sale with an agent, at which time the asset was moved to assets held for sale in the accompanying balance sheet. We closed on the sale of the property in the first quarter of 2013. In that the purchase price less closing costs was in excess of the current carrying cost, no change to the carrying cost was necessary.

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 28, 2013, and December 29, 2012, was $13.7 million and $13.0 million, respectively. Accumulated depreciation of capitalized software was $12.9 million and $12.1 million as of December 28, 2013, and December 29, 2012, respectively.

Depreciation expense for capitalized software was $0.8 million, $1.0 million, and $0.9 million for the years ended December 28, 2013, December 29, 2012, and December 31, 2011, 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.

Other intangibles

Other intangible assets consist of trade names, customer-related and intellectual intangible assets. The useful lives of trade names were determined to be indefinite and, therefore, these assets are not being amortized. Customer-related intangible assets are being amortized over their estimated useful lives of ten years. Intellectual intangible assets are being amortized over their estimated useful lives of three years. The impairment evaluation of intangible assets with indefinite lives is conducted annually, or more frequently, if events or changes in circumstances indicate that an asset might be impaired. The evaluation is performed by comparing the carrying amount of these assets to their estimated fair value.

If the estimated fair value is less than the carrying amount of the indefinite-lived intangible assets, then an impairment charge is recorded to reduce the asset to its estimated fair value. The estimated fair value is generally determined on the basis of discounted future projected cost savings attributable to ownership of the intangible assets with indefinite lives which, for us, are our trade names. (See Note 5)

The assumptions used in the estimate of fair value are generally consistent with past performance and are also consistent with the projections and assumptions that are used in our current operating plans. Such assumptions are subject to change as a result of changing economic and competitive conditions.

The determination of fair value used in that assessment is highly sensitive to differences between estimated and actual cash flows and changes in the related discount rate used to evaluate fair value. Estimated cash flows are sensitive to changes in the Florida housing market and changes in the economy among other things.

Deferred financing costs

Deferred financing costs are amortized using the effective interest method over the life of the debt instrument to which they relate. Unamortized deferred financing costs totaled $2.1 million and $1.9 million at December 28, 2013, and December 29, 2012, respectively.

On May 28, 2013, we entered into a Credit Agreement (the Credit Agreement) with the various financial institutions and other persons from time to time parties thereto as lenders (the Lenders), SunTrust Bank, as administrative agent (in such capacity, the Administrative Agent), as collateral agent, as swing line lender and as a letter of credit issuer, and the other agents and parties thereto. The Credit Agreement establishes new senior secured credit facilities in an aggregate amount of $105.0 million, consisting of an $80.0 million Tranche A term loan facility maturing in five years that will amortize on a basis of 5% annually during the five-year term, and a $25.0 million revolving credit facility maturing in five years that includes a $5.0 million swing line facility and a $10.0 million letter of credit facility. (See Note 7)

As part of the new debt agreement, we incurred $3.6 million in total issue costs. Of the total costs, $2.0 million was capitalized as debt discount, $1.3 million was included in our deferred financing costs, and $0.3 million was expensed in selling, general, and administrative expenses. As we incurred the new debt, we reviewed the amount of unamortized deferred financing costs from the previous debt. Of the remaining unamortized balance, we expensed in other expense, net $0.3 million, and the remaining amount of the unamortized balance will continue to be amortized over the term of the new debt.

Amortization of deferred financing costs is included in interest expense in the accompanying consolidated statements of operations. There was $1.0 million of amortization for the year ended December 28, 2013, $0.9 million for the year ended December 29, 2012, and $0.8 million for the year ended December 31, 2011.

Estimated amortization of deferred financing costs is as follows for future fiscal years:

	(in thousands)
2014	$ 501
2015	477
2016	463
2017	449
2018	179
Total	$ 2,069

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. Additional information with

regard to derivative instruments is contained in Note 8.

We account for derivative instruments in accordance with the guidance under the *Derivatives and Hedging* topic of the Codification which requires us to recognize all of our derivative instruments as either assets or liabilities in the consolidated balance sheet at fair value. The accounting for changes in the fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship based on its effectiveness in hedging against the exposure and further, on the type of hedging relationship. For those derivative instruments that are designated and qualify as hedging instruments, we must designate the hedging instrument, based upon the exposure being hedged, as a fair value hedge or a cash flow hedge.

Our forward contracts are designated and accounted for as cash flow hedges (i.e., hedging the exposure to variability in expected future cash flows that is attributable to a particular risk). The *Derivatives and Hedging* topic of the Codification provides that the effective portion of the gain or loss on a derivative instrument designated and qualifying as a cash flow hedging instrument be reported as a component of other comprehensive income and be reclassified into earnings in the same line item in the income statement as the hedged item in the same period or periods during which the transaction affects earnings. The ineffective portion of the gain or loss on these derivative instruments, if any, is recognized in other income/expense in current earnings during the period of change.

On occasion, cash flow hedges may no longer qualify to be designated as hedging instruments; at that time future changes in fair value are recognized in earnings. When a cash flow hedge is terminated, if the forecasted hedged transaction is still probable of occurrence, amounts previously recorded in other comprehensive income remain in other comprehensive income and are recognized in earnings in the period in which the hedged transaction affects earnings.

As of December 28, 2013, we did not have cash on deposit with our commodities broker related to funding of margin calls on open forward contracts for the purchase of aluminum. The net liability position of $479 thousand on December 28, 2013, is included in accrued liabilities and other liabilities in the accompanying consolidated balance sheet as it relates to open contracts with scheduled prompt dates in 2014 and 2015.

For statement of cash flows presentation, we present net cash receipts from and payments to the margin account as investing activities.

On September 16, 2013, we entered into two interest rate caps and one interest rate swap. The first is a one year interest rate cap agreement with a notional amount of $40.0 million that was designated as a cash flow hedge that protects the variable rate debt from an increase in the floating one month LIBOR rate of greater than 0.50%. The second is a two year interest rate cap agreement with a notional amount of $20.0 million that was designated as a cash flow hedge that protects the variable rate debt from an increase in the floating one month LIBOR rate of greater than 0.50%. The swap is a forward starting forty two months interest rate swap agreement with a notional amount of $40.0 million that effectively converted a portion of the floating rate debt to a fixed rate of 2.15% that starts September 28, 2014, with a termination date of May 18, 2018. At December 28, 2013, the fair value of our interest rate caps was in an asset position of $34 thousand and our interest rate swap was a liability position of $0.6 million. (See Note 8)

Financial instruments

Our financial instruments, not including derivative financial instruments discussed in Note 9, include cash, accounts and notes receivable, and accounts payable 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 $77.3 million as of December 28, 2013, and approximately $37.5 million as of December 29, 2012, both of which approximate carrying value as of those dates.

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 companies in the construction industry located in Florida and the eastern half of the United States. Credit is extended based on an evaluation of the customer s financial condition and credit history, and generally collateral is not required.

We maintain our cash with several financial institutions. The balance exceeds federally insured limits. At December 28, 2013, and December 29, 2012, such balance exceeded the insured limit by $29.7 million and $18.7 million, respectively.

Comprehensive income (loss)

Comprehensive income (loss) is reported on the consolidated statements of comprehensive income (loss). Accumulated other comprehensive loss is reported on the consolidated balance sheets and the consolidated statements of shareholders equity.

Gains and losses on cash flow hedges, to the extent effective, are included in other comprehensive income (loss). Reclassification adjustments reflecting such gains and losses are recorded as income in the same period as the hedged items affect earnings. Additional information with regard to accounting policies associated with derivative instruments is contained in Note 8.

Stock compensation

We use a fair-value based approach for measuring stock-based compensation and, therefore, 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 only 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. We recorded compensation expense for stock based awards of $1.0 million before tax, or $0.01 per diluted share after-tax effect, $1.4 million before income tax, or $0.02 per diluted share after-tax effect, and $1.8 million before income tax, or $0.03 per diluted share after-tax effect, in the years ended December 28, 2013, December 29, 2012, and December 31, 2011, respectively.

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Income and other 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 material 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.

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

Net income (loss) per common share

We present basic and diluted earnings per 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. We follow the two class method of accounting for earnings per share due to the fact that our unvested restricted stock awards, which are immaterial as of December 28, 2013, are participating securities.

Our weighted average shares outstanding excludes underlying options of 0.5 million and 5.5 million for the years ended December 29, 2012, and December 31, 2011, 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:

	Year Ended		
(in thousands, except per share amounts)	**December 28, 2013**	**December 29, 2012**	**December 31, 2011**
Numerator:			
Net income (loss)	$ 26,819	$ 8,955	$ (16,898)
Denominator:			
Weighted-average common shares Basic	48,881	53,620	53,659
Add: Dilutive effect of stock compensation plans	3,330	1,642	
Weighted-average common shares Diluted	52,211	55,262	53,659
Net income (loss) per common share:			
Basic	$ 0.55	$ 0.17	$ (0.31)
Dilutive	$ 0.51	$ 0.16	$ (0.31)

3. Recently Adopted Accounting Pronouncements

In December 2011, the Financial Accounting Standards Board (FASB) issued ASU 2011-11 *Disclosures about Offsetting Assets and Liabilities*. Subsequently, in February 2013, the FASB issued ASU 2013-1, *Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities.* These updates amended the guidance related to disclosures about offsetting assets and liabilities, including recognized financial instruments and derivatives. We have adopted the guidance effective on December 29, 2012, and have provided the required information in Note 8.

In February 2013, the FASB issued ASU 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*. The guidance amends the requirements of ASC 220, *Comprehensive Income*. The goal behind the amendments is to improve the transparency of reporting reclassifications out of accumulated other comprehensive income. It does not change current requirements for reporting net income or other comprehensive income in the financial statements. We have adopted the guidance effective December 29, 2012, and have provided the required information in Note 16.

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4. Property, Plant and Equipment and Asset Held for Sale

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

	December 28, 2013	December 29, 2012
	(in thousands)	
Land	$ 5,641	$ 3,802
Buildings and improvements	36,686	36,572
Machinery and equipment	45,058	44,337
Vehicles	6,453	6,006
Software	13,730	12,965
Construction in progress	3,552	1,087
	111,120	104,769
Less accumulated depreciation	(66,997)	(63,549)
	$ 44,123	$ 41,220

In the second quarter of 2012, we entered into an agreement to list the Salisbury, North Carolina facility for sale with an agent, at which time the asset was moved to assets held for sale in the accompanying consolidated balance sheets. During the fourth quarter we accepted an offer to sell the property and the sale closed in the first quarter of 2013. The purchase price less closing costs is in excess of the current carrying costs. The facility s carrying value was $5.3 million as of December 29, 2012. On January 23, 2013, the sale closed for approximately $8.0 million in cash (approximately $7.5 million net of selling costs), and as such we recognized a gain of $2.2 million related to the sale in 2013.

5. Trade Names and Other Intangible Assets

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

	December 28, 2013	December 29, 2012	Useful Life (in years)
	(in thousands)		
Other Intangible Assets			
Trade names	$ 38,441	$ 38,441	indefinite
Customer relationships	55,700	55,700	10
Less: Accumulated amortization	(55,272)	(49,701)	
Subtotal	428	5,999	
Other intellectual assets	2,797	2,797	3

Less: Accumulated amortization	(2,797)	(1,910)
		887
Other intangible assets, net	$ 38,869	$ 45,327

Indefinite Lived Intangible Asset

The impairment evaluation of the carrying amount of intangible assets with indefinite lives is conducted annually, or more frequently, if events or changes in circumstances indicate that an asset might be impaired. Although a qualitative assessment is permitted, we will continue to perform a quantitative test given recent fluctuations in the markets we serve. This test is performed by comparing the carrying amount of these assets to their estimated fair value. If the estimated fair value is less than the carrying amount of the intangible assets, then an impairment charge is recorded to reduce the asset to its estimated fair value. The estimated fair value is determined using the relief from royalty method that is based upon the discounted projected cost savings (value) attributable to ownership of our trade names, our only indefinite lived intangible assets. We categorize these trade names as being valued using Level 3 inputs.

Given the decline in housing starts in 2011, the overall tightening of the credit markets, and our revised forecasts in 2011, all of which are impairment indicators, we performed the assessment of our trade names and an impairment was present. The assessment resulted in an impairment charge of $6.0 million for 2011. After this charge, intangible assets not subject to amortization totaled $38.4 million at December 31, 2011. No additional impairment has been recorded through year end December 28, 2013.

In estimating fair value, the method we use requires us to make assumptions, the most material of which are net sales projections attributable to products sold with these trade names, the anticipated royalty rate we would pay if the trade names were not owned (as a percent of net sales), and a weighted average discount rate. These assumptions are subject to change based on changes in

the markets in which these products are sold, which impact our projections of future net sales and the assumed royalty rate. Factors affecting the weighted average discount rate include assumed debt to equity ratios, risk-free interest rates and equity returns, each for market participants in our industry.

Our year-end test of trade names performed as of December 28, 2013, utilized net sales, which reflected the current market conditions and include modest growth in future years, a weighted average royalty rate of 4.0% and a discount rate of 16.1%. As of December 28, 2013, the estimated fair value of the trade names exceeded book value by approximately 79%, or $30.3 million. We believe our projected sales are reasonable based on available information regarding our industry. We also believe the royalty rate is appropriate and could improve over time based on market trends and information, including that which is set forth above. The discount rate was based on current financial market trends and will remain dependent on such trends in the future.

Amortizable Intangible Assets

As a result of the impairment indicators in 2011 described above, we tested our amortizable intangible assets, which are our customer relationships and Hurricane intellectual assets, for impairment by comparing the estimated future undiscounted net cash flows expected to be generated by the asset group containing these assets to their carrying values and determined that there was no impairment for the year ended December 31, 2011. No impairment testing was performed during the years ended December 28, 2013, and December 29, 2012, due to the fact that there were no impairment indicators.

Estimated amortization of our customer relationships assets is as follows for future fiscal year:

	(in thousands)
2014	$ 428
Total	$ 428

6. Accrued liabilities consisted of the following:

	December 28, 2013	December 29, 2012
	(in thousands)	
Accrued payroll and benefits	$ 6,019	$ 2,521
Accrued warranty	1,923	2,802
Unearned revenue	1,451	408
Accrued health claims insurance payable	743	388
Aluminum forward contracts	441	
Accrued interest	246	475
Accrued property tax	4	814
Other	861	466
Total	$ 11,688	$ 7,874

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

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7. Long-Term Debt

Long-term debt consists of the following:

	December 28, 2013	December 29, 2012
	(in thousands)	
Term note payable with a payment of $1.0 million due quarterly. A lump sum payment of $63.0 million is due on May 28, 2018. Interest is payable monthly, or quarterly at LIBOR or the prime rate plus an applicable margin. At December 28, 2013, the average rate was 0.16% plus a margin of 3.00%.	$ 79,000	
Term note payable with a payment of $0.6 million due on April 2, 2016. A lump sum payment of $36.9 million is due on June 23, 2016. Interest is payable quarterly at LIBOR or the prime rate plus an applicable margin. At December 29, 2012, the average rate was 1.25% plus a margin of 3.50%.		$ 37,500
Debt discount (1)	(1,745)	
	$ 77,255	$ 37,500
Less current portion of long-term debt	(4,890)	
Total	$ 72,365	$ 37,500

(1) Debt discount represents fees paid to the lender at time the debt was issued, and is accounted for as a reduction in the debt proceeds and is amortized over the life of the debt instrument.

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

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

Consolidated Statements of Operations.

On September 16, 2013, we entered into two interest rate caps and one interest rate swap to hedge a portion of our debt against volatility in future interest rates. (See Note 8)

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

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

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

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

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

The face value of the debt as of December 28, 2013, was $79.0 million. The Company incurred issuance costs of $3.6 million, of which $2.0 million of the costs were classified as a discount and presented in the current and long-term portion of debt on the Consolidated Balance Sheets. Approximately $1.3 million was reported as debt issuance costs in current assets and other assets on the Consolidated Balance Sheets, while the remaining $0.3 million was expensed in selling, general and administrative expense on the Consolidated Statements of Income and Comprehensive Income. The debt issuance costs and discount are being amortized to interest expense, net on the Consolidated Statements of Income and Comprehensive Income over the term of the debt.

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

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

	(in thousands)
2014	$ 5,000
2015	4,000
2016	4,000
2017	3,000
2018	63,000
Total	$ 79,000

Interest expense, net consisted of the following (in thousands):

	Year Ended		
	December 28, 2013	December 29, 2012	December 31, 2011
Long-term debt	$ 2,295	$ 2,396	$ 3,040
Debt fees	235	213	410
Amortization of deferred financing costs	1,021	857	813
Interest income	(25)	(20)	(59)
Interest expense	3,526	3,446	4,204
Capitalized interest	(6)	(9)	(36)
Interest expense, net	$ 3,520	$ 3,437	$ 4,168

8. Derivatives

Aluminum Forward Contracts

We enter into aluminum forward contracts to hedge the fluctuations in the purchase price of aluminum extrusion we use in production. Our contracts are 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.

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

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

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

As of December 28, 2013, the fair value of our aluminum forward contracts was in a net liability position of approximately $479 thousand. We had 33 outstanding forward contracts for the purchase of 9.5 million pounds of aluminum at an average price of $0.89 per pound with maturity dates of between less than one month and 18 months through June 2015. We assessed our risk of non-performance of the Company on these contracts and recorded an immaterial adjustment to fair value as of December 28, 2013.

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

Interest Rate Contracts

On September 16, 2013, we entered into two interest rate caps and one interest rate swap. The first is a one year interest rate cap agreement with a notional amount of $40.0 million that was designated as a cash flow hedge that protects the variable rate debt from an increase in the floating one month LIBOR rate of greater than 0.50%. The second is a two year interest rate cap agreement with a notional amount of $20.0 million that was designated as a cash flow hedge that protects the variable rate debt from an increase in the floating one month LIBOR rate of greater than 0.50%. Effectiveness for the interest rate caps will be measured by comparing the changes in the intrinsic value of the cap with the change in the fair value of the forecasted interest payments due to changes in the LIBOR interest rate

when LIBOR is greater than 0.5%. The intrinsic value portion of the interest rate caps are expected to be highly effective due to the critical terms of the cap exactly matching those of the hedge debt. The time value portion of the caps are deemed ineffective and will be marked to market in the reporting period.

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

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

Derivatives in a net asset (liability) position	Balance Sheet Location	December 28, 2013	December 29, 2012
Hedging instruments:			
Aluminum forward contracts	Other Current Asset	$	$ 20
Aluminum forward contracts	Accrued Liabilities	(441)	
Aluminum forward contracts	Other Liabilities	(38)	
Interest rate cap	Other Current Asset	21	
Interest rate cap	Other Asset	13	
Interest rate swap	Other Liabilities	(630)	
Total hedging instruments		$ (1,075)	$ 20

Although it is our intent to have our aluminum hedges qualify as highly effective for reporting purposes, for the year ended December 29, 2012, they did not qualify as effective. Effectiveness of aluminum forward contracts is determined by comparing the change in the fair value of the forward contract to the change in the expected cash to be paid for the hedged item. The effective portion of the gain or loss on our aluminum forward contracts is reported as a component of other comprehensive income (loss) and is reclassified into earnings in the same line item in the income statement as the hedged item in the same period or periods during which the transaction affects earnings. During the third and fourth quarter of 2012, these contracts became ineffective and no longer qualified for hedge accounting. When a cashflow hedge becomes ineffective, and if the forecasted hedged transaction is still probable of occurrence, amounts previously recorded in other comprehensive income remain in other comprehensive income and are recognized in earnings in the period in which the hedged transaction affects earnings. The change in value of the aluminum forward contracts occurring after termination is recognized in other expense (income), net on the consolidated statements of operations.

The ending accumulated balance for the aluminum forward contracts and interest rate swaps included in accumulated other comprehensive expense, net of tax, is $0.7 million as of December 28, 2013. In December 29, 2012, the ending accumulated balance for the aluminum forward contracts included in accumulated other comprehensive income, net of tax, was $0.1 million.

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The impact of the offsetting derivative instruments are depicted below:

As of December 28, 2013

(in thousands)				Gross Amounts not offset in Balance Sheet		
Description	Gross Amounts of Recognized Assets	Gross Amounts offset in Balance Sheet	Net amounts of Assets Presented in Balance Sheet	Financial Instruments	Cash Collateral Received	Net Amount
Aluminum Forward Contract	$	$	$	$	$	$
Interest Rate Caps	$ 34	$	$ 34	$	$	$ 34

As of December 28, 2013

(in thousands)				Gross Amounts not offset in Balance Sheet		
Description	Gross Amounts of Recognized Liabilities	Gross Amounts offset in Balance Sheet	Net amounts of Liabilities Presented in Balance Sheet	Financial Instruments	Cash Collateral Pledged	Net Amount
Aluminum Forward Contract	$ 479	$	$ 479	$	$	$ 479
Interest Rate Swap	$ 630	$	$ 630	$	$	$ 630

As of December 29, 2012

(in thousands)				Gross Amounts not offset in Balance Sheet		
Description	Gross Amounts of Recognized Assets	Gross Amounts offset in Balance Sheet	Net amounts of Assets Presented in Balance Sheet	Financial Instruments	Cash Collateral Received	Net Amount
Aluminum Forward Contract	$ 53	$ (33)	$ 20	$	$	$ 20

As of December 29, 2012

(in thousands)				Gross Amounts not offset in Balance Sheet		
Description	Gross Amounts of Recognized Liabilities	Gross Amounts offset in Balance Sheet	Net amounts of Liabilities Presented	Financial Instruments	Cash Collateral Pledged	Net Amount

			in Balance Sheet			
Aluminum Forward Contract	$ 33	$ (33)	$	$	$	$

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The following represents the gains (losses) on derivative financial instruments for the years ended December 28, 2013, December 29, 2012, and December 31, 2011, and their classifications within the accompanying consolidated financial statements (in thousands):

Derivatives in Cash Flow Hedging Relationships

	Amount of (loss) Recognized in OCI on Derivatives (Effective Portion) Year Ended			Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain Reclassified from Accumulated OCI into Income (Effective Portion) Year Ended		
	December 28, 2013	December 29, 2012	December 31, 2011		December 28, 2013	December 29, 2012	December 31, 2011
Aluminum contracts	$ (761)	$ (24)	$ (220)	Cost of sales	$ 145	$ 408	$ (335)
Interest Rate Swap	$ (630)	$	$	Interest Expense	$	$	$

Derivatives in Cash Flow Hedging Relationships

	Location of Gain or (Loss) Recognized in Income on Derivatives (Ineffective Portion)	Amount of Gain or (Loss) Recognized in Income on Derivatives (Ineffective Portion) Year Ended		
		December 28, 2013	December 29, 2012	December 31, 2011
Aluminum contracts	Other income or other expense	$ (358)	$ 208	$
Interest rate swap	Other income or other expense	$	$	$

9. 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 fiscal 2013, we did not make any transfers between Level 1 and Level 2 financial assets. Furthermore, during fiscal 2012 and 2011, we did not have any 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.

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Items Measured at Fair Value on a Recurring Basis

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

	Fair Value Measurements at Reporting Date of Net Asset (Liabilities) Using:			
Description	**December 28, 2013**	**Quoted Prices in Active Markets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
(in thousands)				
Aluminum forward contracts	$ (479)	$	$ (479)	$
Interest rate cap	34		34	
Interest rate swap	(630)			