PGT, Inc.
Form 10-Q
November 05, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended October 3, 2015

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.

1070 Technology Drive

North Venice, FL 34275

Registrant s telephone number: 941-480-1600

State of Incorporation	**IRS Employer Identification No.**
Delaware	**20-0634715**

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

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

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

Large accelerated filer	¨	Accelerated filer	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 in Rule 12b-2 of the Exchange Act). Yes ¨ No x

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

Common Stock, $0.01 par value, 48,653,104 shares, as of November 4, 2015.

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Form 10-Q for the Three and Nine Months Ended October 3, 2015

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PART I FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

PGT, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands, except per share amounts)

(unaudited)

	Three Months Ended		Nine Months Ended	
	October 3, 2015	September 27, 2014	October 3, 2015	September 27, 2014
Net sales	$ 100,668	$ 77,320	$ 296,802	$ 221,666
Cost of sales	71,247	54,136	203,395	152,565
Gross profit	29,421	23,184	93,407	69,101
Selling, general and administrative expenses	16,364	14,290	50,804	40,619
Income from operations	13,057	8,894	42,603	28,482
Interest expense, net	2,934	1,020	8,787	2,809
Debt extinguishment costs		2,829		2,829
Other expense, net	131	1,019	357	918
Income before income taxes	9,992	4,026	33,459	21,926
Income tax expense	3,646	1,695	13,681	8,442
Net income	$ 6,346	$ 2,331	$ 19,778	$ 13,484
Net income per common share:				
Basic	$ 0.13	$ 0.05	$ 0.41	$ 0.29
Diluted	$ 0.13	$ 0.05	$ 0.39	$ 0.27
Weighted average shares outstanding:				
Basic	48,596	47,399	48,131	47,271
Diluted	50,563	49,792	50,290	49,728

Comprehensive income	$ 6,346	$ 3,081	$ 21,449	$ 13,992

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

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PGT, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except per share amounts)

(unaudited)

	October 3, 2015	January 3, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 54,792	$ 42,469
Accounts receivable, net	38,957	25,374
Inventories	22,992	19,970
Prepaid expenses and other current assets	6,458	6,464
Deferred income taxes	5,110	5,160
Total current assets	128,309	99,437
Property, plant and equipment, net	69,344	60,898
Trade name and other intangible assets, net	80,176	82,724
Goodwill	66,580	66,580
Other assets, net	2,370	2,110
Total assets	$ 346,779	$ 311,749
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 24,414	$ 17,328
Current portion of long-term debt	1,965	1,962
Total current liabilities	26,379	19,290
Long-term debt, less current portion	190,813	191,792
Deferred income taxes	25,956	25,956
Other liabilities	960	735
Total liabilities	244,108	237,773
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; 50,933 and 49,985 shares issued and 48,633 and 47,707 shares outstanding at October 3, 2015 and	509	498

January 3, 2015, respectively		
Additional paid-in-capital	244,430	238,229
Accumulated other comprehensive loss		(1,671)
Accumulated deficit	(132,231)	(152,009)
Shareholders equity	112,708	85,047
Less: Treasury stock at cost	(10,037)	(11,071)
Total shareholders equity	102,671	73,976
Total liabilities and shareholders equity	$ 346,779	$ 311,749

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

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PGT, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Nine Months Ended October 3, 2015	Nine Months Ended September 27, 2014
	(unaudited)	
Cash flows from operating activities:		
Net income	$ 19,778	$ 13,484
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	4,997	3,116
Amortization	2,548	468
Recovery on allowance for doubtful accounts	(257)	(484)
Stock-based compensation	1,278	888
Amortization and write-off of deferred financing costs	745	3,490
Derivative financial instruments	126	174
Deferred income taxes	50	1,096
Excess tax benefits on stock-based compensation	(4,197)	(7,322)
Loss on disposal of assets	9	
Change in operating assets and liabilities (net of the effect of the acquisition):		
Accounts receivable	(13,842)	(5,416)
Inventories	(3,022)	(3,954)
Prepaid expenses, other current and other assets	(1,693)	(687)
Accounts payable, accrued and other liabilities	14,986	12,025
Net cash provided by operating activities	21,506	16,878
Cash flows from investing activities:		
Purchases of property, plant and equipment	(13,629)	(14,486)
Business acquisition		(110,438)
Net cash used in investing activities	(13,629)	(124,924)
Cash flows from financing activities:		
Payments of long-term debt	(1,500)	(79,000)
Proceeds from issuance of long-term debt		198,000
Payments of financing costs		(5,291)
Purchases of treasury stock	(4)	(1,025)
Proceeds from exercise of stock options	1,776	1,508
Excess tax benefits on stock-based compensation	4,197	7,322

Other	(23)	
Net cash provided by financing activities	4,446	121,514
Net increase in cash and cash equivalents	12,323	13,468
Cash and cash equivalents at beginning of period	42,469	30,204
Cash and cash equivalents at end of period	$ 54,792	$ 43,672
Non-cash activity:		
Property, plant and equipment additions in accounts payable	$ (176)	$ (1,007)

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

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PGT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

NOTE 1. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements include the accounts of PGT, Inc. and its wholly-owned subsidiary, PGT Industries, Inc., and its wholly-owned subsidiary CGI Window and Holdings, Inc. (CGI) (collectively the Company), after elimination of intercompany accounts and transactions. We acquired CGI effective on September 22, 2014. The purchase price paid in the acquisition was $110.4 million, which was allocated to the net assets acquired and liabilities assumed as of the acquisition date, in accordance with ASC 805, Business Combinations . For a more detailed discussion of this acquisition, see Note 4 in the Company s Annual Report on Form 10-K for the year ended January 3, 2015.

These condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and footnotes required by United States Generally Accepted Accounting Principles (GAAP) for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the interim periods are not necessarily indicative of the results that may be expected for the remainder of the current year or for any future periods. Each of our Company s fiscal quarters ended October 3, 2015 and September 27, 2014, consisted of 13 weeks.

The condensed consolidated balance sheet as of January 3, 2015, is derived from the audited consolidated financial statements, but does not include all disclosures required by GAAP. The condensed consolidated balance sheet as of January 3, 2015, and the unaudited condensed consolidated financial statements as of and for the period ended October 3, 2015, should be read in conjunction with the more detailed audited consolidated financial statements for the year ended January 3, 2015, included in the Company s most recent Annual Report on Form 10-K. Accounting policies used in the preparation of these unaudited condensed consolidated financial statements are consistent with the accounting policies described in the Notes to Consolidated Financial Statements included in the Company s Annual Report on Form 10-K.

Recently Adopted Accounting Pronouncements

In April 2014, the FASB issued ASU No. 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity, which changes the criteria for reporting discontinued operations. Under the new guidance, a discontinued operation is defined as a disposal of a component or group of components that is disposed of, or is classified as held for sale, and represents a strategic shift that has (or will have) a major effect on an entity s operations and financial results. Major strategic shifts include disposals of a significant geographic area or line of business. The new standard allows an entity to have significant continuing involvement and cash flows with the discontinued operation. The standard requires expanded disclosures for discontinued operations and new disclosures for individually material disposal transactions that do not meet the definition of a discontinued operation. This new guidance is effective for annual reporting periods beginning on or after December 15, 2014, and interim periods within those annual periods, with early adoption permitted only for disposals (or classifications as held for sale) that have not been previously reported. The adoption of this standard did not have a significant impact on our consolidated financial statements.

NOTE 2. WARRANTY

Most of our manufactured products are sold with warranties. Warranty periods, which vary by product components, generally range from 1 to 10 years; however, the warranty period for a limited number of specifically identified components in certain applications is a lifetime. The majority of the products sold have warranties on components which range from 1 to 3 years. The reserve for warranties is based on management s assessment of the cost per service call and the number of service calls expected to be incurred to satisfy warranty obligations on the current net sales.

During the three months ended October 3, 2015, we recorded warranty expense at a rate of approximately 2.00% of sales. This rate is in line with the 2.00% of sales accrued in the third quarter of 2014.

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The following table summarizes: current period charges, adjustments to previous estimates, if necessary, as well as settlements, which represent actual costs incurred during the period for the three and nine months ended October 3, 2015, and September 27, 2014. The reserve is determined through specific identification and assessing Company history. Expected future obligations are discounted to a current value using a risk-free rate for obligations with similar maturities.

The following provides information with respect to our warranty accrual:

Accrued Warranty	**Beginning of Period**	**Acquired**	**Charged to Expense**	**Adjustments**	**Settlements**	**End of Period**
(in thousands)						
Three months ended October 3, 2015	$ 4,077	$	$ 1,992	$ 19	$ (1,812)	$ 4,276
Three months ended September 27, 2014	$ 2,306	$ 239	$ 1,535	$ 462	$ (1,337)	$ 3,205
Nine months ended October 3, 2015	$ 3,302	$	$ 6,168	$ 266	$ (5,460)	$ 4,276
Nine months ended September 27, 2014	$ 2,666	$ 239	$ 3,861	$ 316	$ (3,877)	$ 3,205

NOTE 3. INVENTORIES

Inventories consist principally of raw materials purchased for the manufacture of our products. We have limited finished goods inventory since all products are custom, made-to-order and usually ship upon completion. Finished goods inventory costs include direct materials, direct labor, and overhead. All inventories are stated at the lower of cost (first-in, first-out method) or market value. Inventories consisted of the following:

	October 3, 2015	**January 3, 2015**
	(in thousands)	
Raw materials	$ 19,052	$ 16,674
Work in progress	1,136	791
Finished goods	2,804	2,505
	$ 22,992	$ 19,970

NOTE 4. STOCK BASED-COMPENSATION

Exercises

For the three months ended October 3, 2015, there were 100,410 options exercised at a weighted average exercise price of $1.99 per share. For the nine months ended October 3, 2015, there were 868,750 options exercised at a weighted average exercise price of $2.04 per share.

Issuance

On March 4, 2015, we granted 178,256 restricted stock awards to certain executives and non-executive employees of the Company. The restrictions on these stock awards lapse over time based solely on continued service. However, the quantity of restricted shares granted on half of these shares, or 89,128 shares, is fixed, whereas the quantity granted on the remaining half, or 89,128 shares, is subject to Company-specific performance criteria. The restricted stock awards have a fair value on date of grant of $10.95 per share based on the closing NASDAQ market price of the common stock on the day prior to day the awards were granted. Those restricted shares whose quantity is fixed vest in equal amounts over a three-year period on the first, second and third anniversary dates of the grant. Those restricted shares whose quantity is subject to Company performance criteria vest in equal amounts over a two-year period on the second and third anniversary dates of the grant.

The performance criteria, as defined in the share awards, provides for a graded awarding of shares based on the percentage by which the Company meets earnings before interest and taxes, as defined, in our 2015 business plan. The performance percentages, ranging from less than 80% to greater than 120%, provide for the awarding of shares ranging from no shares to 150% of the original amount of shares.

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We record stock compensation expense over an award s vesting period based on the award s fair value at the date of grant. We recorded compensation expense for stock based awards of $0.3 million for the three months ended October 3, 2015 and $0.3 million for the three months ended September 27, 2014. We recorded compensation expense for stock based awards of $1.3 million for the nine months ended October 3, 2015 and $0.9 million for the nine months ended September 27, 2014. As of October 3, 2015, and September 27, 2014, there was $1.6 million and $1.4 million, respectively, of total unrecognized compensation cost related to non-vested stock option agreements and restricted share awards. These costs are expected to be recognized in earnings on a straight-line basis over the weighted average remaining vesting period of 1.6 years at October 3, 2015, and 1.5 years at September 27, 2014.

NOTE 5. NET INCOME PER COMMON SHARE

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

Weighted average shares outstanding for the three months ended October 3, 2015, and September 27, 2014, excludes underlying options and restricted stock awards of 20 thousand and 92 thousand, respectively, because their effects were anti-dilutive. Weighted average shares outstanding for the nine months ended October 3, 2015, and September 27, 2014, excludes underlying options and restricted stock awards of 20 thousand and 70 thousand, respectively, because their effects were anti-dilutive.

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

	Three Months Ended		**Nine Months Ended**	
	October 3, 2015	**September 27, 2014**	**October 3, 2015**	**September 27, 2014**
	(in thousands, except per share amounts)			
Net income	$ 6,346	$ 2,331	$ 19,778	$ 13,484
Weighted-average common shares - Basic	48,596	47,399	48,131	47,271
Add: Dilutive effect of stock compensation plans	1,967	2,393	2,159	2,457
Weighted-average common shares - Diluted	50,563	49,792	50,290	49,728
Net income per common share:				
Basic	$ 0.13	$ 0.05	$ 0.41	$ 0.29
Diluted	$ 0.13	$ 0.05	$ 0.39	$ 0.27

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NOTE 6. GOODWILL, TRADE NAMES, AND OTHER INTANGIBLE ASSETS

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

	October 3, 2015	January 3, 2015	Initial Useful Life (in years)
	(in thousands)		
Goodwill	$ 66,580	$ 66,580	indefinite
Trade names and other intangible assets:			
Trade names	$ 57,441	$ 57,441	indefinite
Customer relationships	79,700	79,700	8-10
Developed technology	1,700	1,700	10
Non-compete agreement	600	600	2
Less: Accumulated amortization	(59,265)	(56,717)	
Subtotal	22,735	25,283	
Other intangible assets, net	$ 80,176	$ 82,724	

NOTE 7. LONG-TERM DEBT

On September 22, 2014, we entered into a Credit Agreement (the 2014 Credit Agreement), among us, the lending institutions identified in the 2014 Credit Agreement, and Deutsche Bank AG New York Branch, as Administrative Agent and Collateral Agent. For further discussion of the significant terms of the 2014 Credit Agreement, see Note 8 in the Company s Annual Report on Form 10-K for the year ended January 3, 2015. As of October 3, 2015, there were $0.5 million of letters of credit outstanding and $34.5 million available under the revolving credit portion of the 2014 Credit Agreement.

The 2014 Credit Agreement contains a springing financial covenant, if we draw in excess of twenty percent (20%) of the revolving facility, which requires us to maintain a maximum total net leverage ratio (based on the ratio of total debt for borrowed money to trailing EBITDA, each as defined in the 2014 Credit Agreement), and is tested quarterly based on the last four fiscal quarters and is set at levels as described in the 2014 Credit Agreement. As of October 3, 2015, no such test is required as we have not exceeded 20% of our revolving capacity.

The 2014 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 2014 Credit Agreement also contains customary events of default. Upon the occurrence of an event of default, the amounts outstanding under the 2014 Credit

Agreement may be accelerated and may become due and payable.

The face value of the debt as of October 3, 2015, was $198.0 million. Related debt issuance costs and the debt discount are being amortized to interest expense, net on the condensed consolidated statements of comprehensive income over the term of the debt.

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The contractual future maturities of long-term debt outstanding as of October 3, 2015, are as follows (excluding unamortized debt discount and issuance costs):

	(in thousands)
2015	$ 500
2016	2,000
2017	2,000
2018	2,000
2019	2,000
Thereafter	189,500
Total	$ 198,000

NOTE 8. ACCUMULATED OTHER COMPREHENSIVE LOSS

The following table shows the components of accumulated other comprehensive loss for the three months ended September 27, 2014 and nine months ended October 3, 2015, and September 27, 2014. There was no activity for the three months ended October 3, 2015:

Three months ended September 27, 2014 *(in thousands)*	**Aluminum Forward Contracts**	**Interest Swap**	**Total**
Balance at June 28, 2014	$ (1,676)	$ (789)	$ (2,465)
Amounts reclassified from accumulated other comprehensive loss	63	1,188	1,251
Tax effect	(102)	(399)	(501)
Net current-period other comprehensive income (loss)	(39)	789	750
Balance at September 27, 2014	$ (1,715)	$	$ (1,715)

Nine months ended October 3, 2015 *(in thousands)*	**Aluminum Forward Contracts**
Balance at January 3, 2015	$ (1,671)
Amounts reclassified from accumulated other comprehensive loss	126
Tax effect	(50)
Reversal of income tax allocation	1,595

Net current-period other comprehensive income		1,671
Balance at October 3, 2015	$	

Nine months ended September 27, 2014 *(in thousands)*	Aluminum Forward Contracts	Interest Swap	Total
Balance at December 28, 2013	$ (1,837)	$ (386)	$ (2,223)
Other comprehensive income (loss) before reclassification	345	(557)	(212)
Amounts reclassified from accumulated other comprehensive loss	(65)	1,188	1,123
Tax effect	(158)	(245)	(403)
Net current-period other comprehensive income	122	386	508
Balance at September 27, 2014	$ (1,715)	$	$ (1,715)

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The following table shows the reclassification out of accumulated other comprehensive loss for the three and nine months ended October 3, 2015, and September 27, 2014 (in thousands):

	Amounts Reclassified From Accumulated Other Comprehensive Loss		Affected Line Item in Statement Where Net Income is Presented
	Three Months Ended		
	October 3, 2015	September 27, 2014	
	Debit (Credit)		
Aluminum forward contracts - effective portion	$	$ 101	Cost of sales
Aluminum forward contracts - ineffective portion		(38)	Other expense, net
Interest rate swap - de-designation		1,188	Other expense, net
Tax effect		(501)	Tax expense
	Nine Months Ended		
	October 3, 2015	September 27, 2014	
	Debit (Credit)		
Aluminum forward contracts - effective portion	$ 126	$ (27)	Cost of sales
Aluminum forward contracts - ineffective portion		(38)	Other expense, net
Interest rate swap - de-designation		1,188	Other expense, net
Tax effect	(50)	(588)	Tax expense

NOTE 9. COMMITMENTS AND CONTINGENCIES

Litigation

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

NOTE 10. INCOME TAXES

Income tax expense was $3.6 million for the three months ended October 3, 2015, compared with $1.7 million for the three months ended September 27, 2014. Our effective tax rate for the three months ended October 3, 2015, was

36.5%, and was 42.1% for the three months ended September 27, 2014. Income tax expense for the nine months ended October 3, 2015, was $13.7 million, compared with $8.4 million for the nine months ended September 27, 2014. Our effective tax rate for the nine months ended October 3, 2015, was 40.9%, and was 38.5% for the nine months ended September 27, 2014.

Income tax expense in the nine month period ended October 3, 2015, includes a $1.6 million discrete item of income tax expense representing income tax expense previously classified within accumulated other comprehensive losses, relating to the intraperiod income taxes on our effective aluminum hedges, allocated to other comprehensive income in the year ended January 2, 2010, which we reversed in the second quarter of 2015, as the result of the culmination of our remaining cash flow hedges. Excluding this discrete item of income tax expense, the effective tax rate for the nine month period ended October 3, 2015, would have been 36.1%. The effective tax rates in all periods of both 2015 and 2014, excluding the effect of the discrete income tax item in the nine months ended October 3, 2015, were lower than our combined statutory federal and state tax rate of 38.8% primarily as the result of the estimated impact of the section 199 domestic manufacturing deduction.

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NOTE 11. DERIVATIVES

Derivative Financial Instruments Aluminum Contracts

We enter into aluminum forward contracts to hedge the fluctuations in the purchase price of aluminum extrusion we use in production. Certain of our contracts are designated as cash flow hedges since they are highly effective in offsetting changes in the cash flows attributable to forecasted purchases of aluminum. For further discussion of our derivative financial instruments relating to aluminum contracts, see Note 9 in the Company s Annual Report on Form 10-K for the year ended January 3, 2015.

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 October 3, 2015, no amounts were borrowed under this line of credit.

At October 3, 2015, the fair value of our aluminum forward contracts was in a net liability position of $167 thousand, and had two outstanding forward contracts for the purchase of 0.8 million pounds of aluminum through December 2015, at an average price of $0.93 per pound, which excludes the Midwest premium, with maturity dates of between one month and two months. We assessed the risk of non-performance of the Company to these contracts and recorded a de minimis adjustment to fair value as of October 3, 2015.

For the three and nine months ended October 3, 2015, and September 27, 2014, our outstanding contracts did not qualify as effective. In the case of our two outstanding contracts as of October 3, 2015, these contracts were never evaluated for or considered as qualifying for accounting as cash flow hedges. 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 accumulated other comprehensive loss and is reclassified into earnings in the same line item in the income statement as the hedged item in the same period or periods during which the transaction affects earnings. When a cash flow hedge becomes ineffective, and if the forecasted hedged transaction is still probable of occurrence, amounts previously recorded in accumulated other comprehensive loss remain in accumulated other comprehensive loss and are recognized in earnings in the period in which the hedged transaction affects earnings. The changes in value of the aluminum forward contracts occurring after ineffectiveness and the contracts that had not been evaluated for or considered as qualifying for accounting as cash flow hedges, are recognized in other expense, net, on the condensed consolidated statements of comprehensive income. The adjustments relating to changes in value of aluminum forward contracts occurring after ineffectiveness were other income of $54 thousand for the three months ended and September 27, 2014, and other expenses of $224 thousand and other income of $182 thousand for the nine months ended October 3, 2015, and September 27, 2014, respectively. The adjustments relating to changes in value of aluminum contracts that had not been evaluated for or considered as qualifying for accounting as cash flow hedges were $131 thousand in the three and nine months ended October 3, 2015. As of October 3, 2015, we have no remaining accumulated other comprehensive income or loss.

Derivative Financial Instruments Interest Rate Contract

We had an interest rate cap agreement we entered into on September 16, 2013. It is a two-year agreement with a notional amount of $20.0 million; and was initially designated as a cash flow hedge to protect the variable rate debt from an increase in the floating, one-month LIBOR rate of greater than 0.50%. Upon entering into the 2014 Credit Agreement, effective on September 22, 2014, it was de-designated as a cash flow hedge and has since been marked-to-market in other expense, net, on the condensed consolidated statements of comprehensive income, and were either zero or de minimis for the three and nine months ended October 3, 2015, and September 27, 2014, respectively.

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

Derivatives in a net asset (liability) position	**Balance Sheet Location**	**October 3, 2015**	**January 3, 2015**
Derivative instruments:			
Aluminum forward contracts	Accrued liabilities	$ (167)	$ (491)
Interest rate cap	Other current assets		2
Total derivative instruments		$ (167)	$ (489)

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The impact of the offsetting derivative instruments are depicted below (in thousands):

	Gross Amounts of Recognized (Liabilities)	Gross Amounts Offset	Net Amounts of Recognized (Liabilities)	Gross Amounts not Offset: Financial Instruments	Gross Amounts not Offset: Cash Collateral Pledged	Net Amount
As of October 3, 2015:						
Aluminum forward contracts	$ (167)	$	$ (167)	$	$	$ (167)
As of January 3, 2015:						
Aluminum forward contracts	$ (491)	$	$ (491)	$	$	$ (491)
Interest rate cap	$ 2	$	$ 2	$	$	$ 2

The following represents the gains (losses) on derivative financial instruments for the three and nine months ended October 3, 2015 and September 27, 2014, and their classifications within the accompanying condensed consolidated statements of comprehensive income. There were no amounts recognized in accumulated OCI(L) for either the three or nine months ended October 3, 2015, or the three months ended September 27, 2014. There were no amounts reclassified from accumulated OCI(L), or recognized in income for the three months ended October 3, 2015 (in thousands):

	Derivatives in Cash Flow Hedging Relationships		
	Location of Gain or (Loss)	Amount of Gain or (Loss) Reclassified from Accumulated OCI(L) into Income (Effective Portion) Three Months Ended Sept. 27, 2014	Amount of Gain or (Loss) Recognized in Income on Derivatives (Ineffective Portion) Three Months Ended Sept. 27, 2014
Aluminum contracts	Cost of sales	$ (101)	$
Aluminum contracts	Other expense, net	38	16
Interest rate swap	Other expense, net	(1,188)	115
		$ (1,251)	$ 131

	Derivatives in Cash Flow Hedging Relationships			
	Amount of Gain or (Loss) Recognized in	Location of Gain or (Loss)	Amount of Gain or (Loss) Reclassified from	Amount of Gain or (Loss) Recognized in Income on

	Accumulated OCI(L) on Derivatives (Effective Portion)		**Accumulated OCI(L) into Income (Effective Portion)**		**Derivatives (Ineffective Portion)**	
	Nine Months Ended		**Nine Months Ended**		**Nine Months Ended**	
	Sept. 27, 2014		**Oct. 3, 2015**	**Sept. 27, 2014**	**Oct. 3, 2015**	**Sept. 27, 2014**
Aluminum contracts	$ 345	Cost of sales	$ (126)	$ 27	$ (224)	$
Aluminum contracts		Other expense, net		38		144
Interest rate cap		Other expense, net			(2)	(27)
Interest rate swap	(557)	Other expense, net		(1,188)		115
	$ (212)		$ (126)	$ (1,123)	$ (226)	$ 232

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NOTE 12.FAIR VALUE

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A three-tier fair value hierarchy is used to prioritize the inputs used in measuring fair value. The hierarchy gives the highest priority to unadjusted quoted market prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. A financial instrument s level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The three levels of the fair value hierarchy are as follows:

Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

The accounting guidance concerning fair value allows us to elect to measure financial instruments at fair value and report the changes in fair value through the condensed consolidated statements of comprehensive income. This election can only be made at certain specified dates and is irrevocable once made. We do not have a policy regarding specific assets or liabilities to elect to measure at fair value, but rather make the election on an instrument-by-instrument basis as they are acquired or incurred.

Items Measured at Fair Value on a Recurring Basis

The following assets and liabilities are measured in the condensed consolidated balance sheets at fair value on a recurring basis and are categorized in the table below based upon the lowest level of significant input to the valuation (in thousands):

		Fair Value Measurements Assets (Liabilities)		
	Total	**Quoted Prices in Active Markets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
As of October 3, 2015:				
Aluminum forward contracts	$ (167)	$	$ (167)	$
	$ (167)	$	$ (167)	$
As of January 3, 2015:				
Aluminum forward contracts	$ (491)	$	$ (491)	$
Interest rate cap	2		2	

	$ (489)	$	$ (489)	$

The following is a description of the methods and assumptions used to estimate the fair values of our assets and liabilities measured at fair value on a recurring basis, as well as the basis for classifying these assets and liabilities as Level 2.

Aluminum forward contracts identical to those held by us trade on the London Metal Exchange (LME). The LME provides a transparent forum and is the world s largest center for the trading of futures contracts for non-ferrous metals. The prices are used by the metals industry worldwide as the basis for contracts for the movement of physical material throughout the production cycle. Based on this high degree of volume and liquidity in the LME, we believe the valuation price at any measurement date for contracts with identical terms as to prompt date, trade date and trade price as those we hold at any time represents a contract s exit price to be used for purposes of determining fair value.

Interest rate cap and swap contracts identical to that held by us are sold by financial institutions. The valuation price at any measurement date for a contract with identical terms, exercise price, expiration date, settlement date, and notional quantities, as the one we hold, is used for determining the fair value.

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Fair Value of Financial Instruments

The following table presents the carrying values and estimated fair values of financial assets and liabilities that are required to be recorded or disclosed at fair value at October 3, 2015, and January 3, 2015 (in thousands):

	October 3, 2015		January 3, 2015	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets (liabilities)				
Cash and cash equivalents	$ 54,792	$ 54,792	$ 42,469	$ 42,469
Accounts receivable, net	$ 38,957	$ 38,957	$ 25,374	$ 25,374
Accounts payable and accrued liabilities	$ (24,414)	$ (24,414)	$ (17,328)	$ (17,328)
Long-term debt (including current portion)	$ (192,778)	$ (192,778)	$ (193,754)	$ (193,754)

The following provides a description of the methods and significant assumptions used in estimating the fair value of our financial instruments that are not measured at fair value on a recurring basis.

Cash and cash equivalents The estimated fair value of these financial instruments approximates their carrying amounts due to their highly liquid or short-term nature.

Accounts receivable, net The estimated fair value of these financial instruments approximates their carrying amounts due to their short-term nature.

Accounts payable and accrued liabilities The estimated fair value of these financial instruments approximate their carrying amounts due to their short-term nature.

Debt The estimated fair value of this debt is based on Level 2 inputs of debt with similar terms and characteristics.

NOTE 13. SUBSEQUENT EVENT

On October 28, 2015, we announced that our Board of Directors authorized a share buyback program of up to $20 million. Repurchases under the program, the timing, manner, price and amounts of which will be determined by the Company, will be made in open market or privately negotiated transactions, subject to market conditions, applicable legal requirements, our credit facility, and other relevant factors. The program may be suspended, terminated or modified at any time for any reason.

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

The following discussion of our financial condition and results of operations should be read in conjunction with the Management s Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and notes thereto for the year ended January 3, 2015, included in our most recent Form 10-K annual report as well as our reports on Forms 10-Q and 8-K and other publicly available information. All amounts herein are unaudited.

Special Note Regarding Forward-Looking Statements

From time to time, we have made or will make forward-looking statements within the meaning of Section 21E of the Exchange Act. These statements do not relate strictly to historical or current facts. Forward-looking statements usually can be identified by the use of words such as goal , objective , plan , expect , anticipate , intend , project , 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

Integration of acquisition(s)

&nbs