

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
Delaware

IRS Employer Identification No.
20-0634715

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer 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

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

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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PGT, INC.

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Table of Contents**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 |

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

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

Table of Contents**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 |

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| | | |
|--|------------|------------|
| 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, | September 27, |
| | 2015 | 2014 |
| | <i>(unaudited)</i> | |
| 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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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 <i>(in thousands)</i> | Beginning of Period | Acquired | Charged to Expense | Adjustments | Settlements | End of Period |
|--|------------------------------------|-----------------|-------------------------------|--------------------|--------------------|--------------------------|
| 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 |
|------------------|----------------------------|----------------------------|
| | <i>(in thousands)</i> | |
| 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, | September 27, | October 3, | September 27, |
| | 2015 | 2014 | 2015 | 2014 |
| | <i>(in thousands, except per share amounts)</i> | | | |
| 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 |

Table of Contents**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) |
|---|-----------------------|--------------------|--|
| | <i>(in thousands)</i> | | |
| 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):

| | <i>(in thousands)</i> |
|--------------|-----------------------|
| 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 | Aluminum Forward Contracts | Interest Swap | Total |
|--|---|--------------------------|--------------|
| <i>(in thousands)</i> | | | |
| 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 | Aluminum Forward Contracts |
|--|---|
| <i>(in thousands)</i> | |
| 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

| <i>(in thousands)</i> | 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 | |
| | <i>Debit (Credit)</i> | | |
| 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 | |
| | <i>Debit (Credit)</i> | | |
| 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.

Table of Contents**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, January 3, | |
|--|-------------------------------|------------------------------|-------------|
| | | 2015 | 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 | | Net | | Gross Amounts not Offset | |
|-------------------------------|-------------------------------------|----------------------|-------------------------------------|-----------------------|--------------------------|------------|
| | Amounts of Recognized (Liabilities) | Gross Amounts Offset | Amounts of Recognized (Liabilities) | Financial Instruments | 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) | Amount of Gain or (Loss) Recognized in Income on Derivatives (Ineffective Portion) |
| | | Three Months Ended Sept. 27, 2014 | 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 (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 Sept. 27, 2014 | | Nine Months Ended Oct. 3, 2015 Sept. 27, 2014 | | Nine Months Ended 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 |

Table of Contents**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) | | |
| | | Quoted | Significant | Significant |
| | | Prices in | Other | Unobservable |
| | | Active | Observable | Inputs |
| | | Markets | Inputs | Inputs |
| | Total | (Level 1) | (Level 2) | (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.

Table of Contents***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 |
| <u>Financial assets (liabilities)</u> | | | | |
| 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, believe, may, could, or other words of similar meaning. Forward-looking statements provide our current expectations or forecasts of future events, results, circumstances or aspirations. Our disclosures in this report contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. We may also make forward-looking statements in our other documents filed or furnished with the Securities and Exchange Commission and in oral presentations. Forward-looking statements are based on assumptions and by their nature are subject to risks and uncertainties, many of which are outside of our control. Our actual results may differ materially 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)

&nbsp;ont-family:arial;">

**Effective Since
January 1, 2015****Annual Cash
Retainers⁽¹⁾**

| | |
|---|----------|
| - Board | \$95,000 |
| - Audit Committee Chair | \$20,000 |
| - Human Resources Committee Chair | \$17,500 |
| - Finance Committee Chair | \$15,000 |
| - Nominating & Governance Committee Chair | \$15,000 |
| - Other Committee Chairs | \$5,000 |
| - Lead Director | \$25,000 |

**Annual
Restricted Stock
Unit Retainer⁽²⁾**

| | |
|---------|-----------|
| - Board | \$130,000 |
|---------|-----------|

**Meeting
Attendance Fees**

| | |
|--|-----------------|
| - Regularly Scheduled Board Meeting | No meeting fees |
| - Non-regularly Scheduled Board Meetings (in person) | \$2,500 per day |
| - Non-regularly Scheduled Board Meetings (Telephonic) | \$1,000 |
| - Committee Meeting | \$1,500 |
| - Telephonic Committee Meeting | \$1,000 |

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- (1) Paid in two semiannual payments, in May and November, on a forward looking basis.
- (2) Grants are made at the time of the annual meeting.

Effective January 4, 2016, Mr. Zimpleman became a non executive Chairman of the Board, and he will be paid an annual retainer of \$200,000 for this service, in addition to the normal compensation provided to non-employee members of the Board, both prorated for the period January 1 - May 17, 2016.

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Table of Contents**Fees Earned by Directors in 2015**

| Name | Fees Earned or Paid in Cash | Stock Awards(1) | Total |
|-----------------------|--|----------------------------|--------------|
| Betsy J. Bernard | \$ 132,000 | \$ 129,990 | \$ 261,990 |
| Jocelyn Carter-Miller | \$ 133,000 | \$ 129,990 | \$ 262,990 |
| Gary E. Costley | \$ 119,000 | \$ 129,990 | \$ 248,990 |
| Michael T. Dan | \$ 130,000 | \$ 129,990 | \$ 259,990 |
| Dennis H. Ferro | \$ 127,500 | \$ 129,990 | \$ 257,490 |
| C. Daniel Gelatt Jr. | \$ 123,500 | \$ 129,990 | \$ 253,490 |
| Sandra L. Helton | \$ 142,000 | \$ 129,990 | \$ 271,990 |
| Roger C. Hochschild | \$ 126,943 | \$ 145,143 | \$ 272,086 |
| Richard L. Keyser | \$ 6,000 | \$ 0 | \$ 6,000 |
| Luca Maestri | \$ 6,000 | \$ 0 | \$ 6,000 |
| Blair C. Pickerell | \$ 83,189 | \$ 97,866 | \$ 181,055 |
| Elizabeth E. Tallett | \$ 139,000 | \$ 129,990 | \$ 268,990 |

(1)

The amounts shown in this column reflect the grant date fair value of awards made in 2015, determined in accordance with FASB Accounting Standards Codification ("ASC") Topic 718. These awards do not reflect actual amounts realized or that may be realized by the recipients.

Directors' Deferred Compensation Plan

Directors may defer the receipt of their cash compensation under the Deferred Compensation Plan for Non-Employee Directors of Principal Financial Group, Inc. This Plan has four investment options:

Phantom units tied to the Company's Common Stock;

The Principal LargeCap S&P 500 Institutional Index Fund;

The Principal Real Estate Securities Institutional Fund; and

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The Principal Bond & Mortgage Securities Institutional Fund.

All of these funds are available to participants in Principal Life's Excess Plan. The returns realized on these funds during 2015 are listed in the table, "Qualified 401(k) Plan and Excess Plan," on pages 44-45.

Restricted Stock Unit Grants

Directors receive an annual grant of Restricted Stock Units ("RSUs"). The grant made in 2015 was made under the Principal Financial Group, Inc. 2014 Directors Stock Plan. RSUs are granted at the time of the annual meeting, vest at the next annual meeting and are deferred until at least the date the Director leaves the Board. At payout, the RSUs are converted to shares of Common Stock. Dividend equivalents become additional RSUs, which vest and are converted to Common Stock at the same time and to the same extent as the underlying RSU. The Nominating and Governance Committee has the discretion to make a prorated grant of RSUs to Directors who join the Board at a time other than at the annual meeting. While the 2014 Director Stock Plan (which was approved by shareholders) affords some discretion in determining the dollar value of RSUs that may annually be awarded to each non-employee Director, it imposes a maximum limit of \$230,000 (\$500,000 for an Independent Chairman) on the size of the annual award that may be made to any non-employee Directors.

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As of December 31, 2015, each Director had the following aggregate number of outstanding RSUs as a result of Director compensation in 2015 and prior years, including additional RSUs as the result of dividend equivalents:

| Director Name | Total RSUs Outstanding Fiscal Year End 2015 (Shares) |
|-----------------------|---|
| Betsy J. Bernard | 34,373 |
| Jocelyn Carter-Miller | 36,345 |
| Gary E. Costley | 34,373 |
| Michael T. Dan | 31,913 |
| Dennis H. Ferro | 19,397 |
| C. Daniel Gelatt | 39,139 |
| Sandra L. Helton | 34,373 |
| Roger C. Hochschild | 2,839 |
| Richard L. Keyser | 0 |
| Luca Maestri | 0 |
| Blair C. Pickerell | 1,725 |
| Elizabeth E. Tallett | 38,651 |

Principal Life matches charitable gifts up to an annual amount of \$16,000 per nonemployee Director. These matching contributions are available during a Director's term and the following three years. Principal Life receives the charitable contribution tax deductions for the matching gifts.

Directors are reimbursed for travel and other business expenses they incur while performing services for the Company. Directors' spouses/partners may accompany them to the annual Board strategic retreat. Principal pays for some of the travel expenses and amenities for Directors and their spouses/partners, such as meals and social events. Directors are also covered under the Company's Business Travel Accident Insurance Policy and Directors' and Officers' insurance coverage. In 2015 the total amount of perquisites provided to nonemployee Directors was less than \$10,000 in all cases.

Directors' Stock Ownership Guidelines

To encourage Directors to accumulate a meaningful ownership level in the Company, the Board has had a "hold until retirement" stock ownership requirement since 2005. All RSU grants must be held through a Director's service on the Board, and may only be converted to Common Stock when the Director's Board service ends. The Board has a guideline that Directors own interests in Common Stock equal to five times the annual Board cash retainer within five years of joining the Board. Directors have been able to achieve this level of ownership through the RSU hold until retirement requirement. Once this guideline is met, Directors will not need to make additional share purchases if the guideline is no longer met due to a reduction in stock price, as long as the Director's ownership level is not reduced as a result of share sales.

Audit Committee Report

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The Audit Committee oversees the Company's financial reporting process. Management has the primary responsibility for the financial statements and the reporting process, including the systems of internal controls. The Committee reviewed with management the audited financial statements for the fiscal year ended December 31, 2015, and discussed the quality, not just the acceptability, of the accounting principles, the reasonableness of significant judgments and the clarity of disclosures in the financial statements.

The Committee discussed with Ernst & Young LLP, the Company's independent auditor, the matters required to be discussed by Statement on Auditing Standards ("SAS") 114, The Auditor's Communication with those Charged with Governance, as adopted by the Public Company Accounting Oversight Board (United States) ("PCAOB") in Rule 3200T. SAS 114 requires the independent auditor to communicate (i) the auditor's responsibility under standards of the PCAOB; (ii) an overview of the planned scope and timing of the audit; and (iii) significant findings from the audit, including the qualitative aspects of the entity's significant accounting practices, significant difficulties, if any, encountered in performing the audit, uncorrected misstatements identified during the audit,

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other than those the auditor believes are trivial, if any, any disagreements with management, and any other issues arising from the audit that are significant or relevant to those charged with governance.

The Committee received from Ernst & Young LLP the written disclosures and letter required by applicable requirements of the PCAOB regarding the independent auditor's communications with the Committee concerning independence. The Committee has discussed with Ernst & Young LLP its independence and Ernst & Young LLP has confirmed in its letter that, in its professional judgment, it is independent of the Company within the meaning of the federal securities laws.

The Committee discussed with the Company's internal and independent auditors the overall scope and plans for their respective audits. The Committee meets with the internal and independent auditors, with and without management present, to discuss the results of their examinations, their evaluations of the Company's internal controls and the overall quality of the Company's financial reporting.

In reliance on the reviews and discussions referred to above, the Committee recommended to the Board (and the Board approved) that the audited financial statements be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015, for filing with the SEC. The Committee has also approved, subject to shareholder ratification, the appointment of Ernst & Young LLP as the Company's independent auditors for the fiscal year ending December 31, 2016.

The Committee does not have the responsibility to plan or conduct audits or to determine that the Company's financial statements are complete and accurate and in accordance with generally accepted accounting principles. That is the responsibility of the Company's independent auditor and management. In giving our recommendation to the Board, the Committee has relied on (i) management's representation that such financial statements have been prepared with integrity and objectivity and in conformity with generally accepted accounting principles, and (ii) the report of the Company's independent auditor with respect to such financial statements.

Sandra L. Helton, Chair
Gary E. Costley
Dennis H. Ferro
C. Daniel Gelatt
Roger C. Hochschild

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Executive Compensation

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| <u>Compensation Discussion and Analysis (CD&A)</u> | |

The CD&A describes Principal Financial Group, Inc.'s Executive compensation objectives, and philosophy. It also describes our 2015 compensation program and reviews the outcomes, including the Company's financial performance in 2015. Our "Named Executive Officers" in 2015 are listed below. Talent and succession planning are a critical part of the Board's responsibilities. In 2015, Larry Zimpleman announced his retirement, and, as part of the planned succession process, Daniel J. Houston was promoted to the position of CEO. Effective May 17, 2016, Mr. Houston will also be Chairman of the Board.

Larry D. Zimpleman, Chairman. Mr. Zimpleman leads the Board of Directors. In his role as Chairman and CEO (2009 to August 18, 2015), he had overall responsibility for all of the Company's businesses, was responsible for the growth strategy, capital management and deployment and corporate functions. Mr. Zimpleman's term on the Board expires May 17, 2016.

Daniel J. Houston, President and Chief Executive Officer ("CEO"). Mr. Houston was appointed President and CEO on August 18, 2015. He has overall responsibility for all business of the organization, and is responsible for the Company's growth strategy, capital management and deployment and corporate functions. From November 2014 to August 18, 2015, Mr. Houston served as President and Chief Operating Officer, where he oversaw all global businesses, including Principal Global Investors, LLC. and Principal International, Inc, as well as the Retirement and Investor Services and U.S. Insurance Solutions segments of our operations.

Terrance J. Lillis, Executive Vice President and Chief Financial Officer. Mr. Lillis has been Executive Vice President and Chief Financial Officer of the Company and Principal Life since March of 2014.

Timothy M. Dunbar, Executive Vice President and Chief Investment Officer. Mr. Dunbar assumed his current position in 2014. He is also responsible for the Company's capital markets and corporate real estate operations.

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James P. McCaughan, President Global Asset Management. Mr. McCaughan heads the Principal Global Investors segment of our operations, overseeing all global asset management activities, including developing global strategies and identifying and analyzing market opportunities.

Luis Valdés, President International Asset Management & Accumulation. Mr. Valdés has been the head of the Principal International segment of our operations since March 2012. He is responsible for managing the Company's operations outside of the United States in our international asset management and accumulation segment.

2015 Company Highlights:

Despite external challenges in 2015, such as the volatile equity market conditions and foreign currency translation, we had strong results, with operating earnings⁽¹⁾ of \$1.27 billion in 2015 compared to \$1.32 billion in 2014. The Company continued to have strong fundamentals, solid momentum and good underlying growth.

In 2015, 93% of our investment options were above median for five-year performance at year-end, and 76 of our rated funds had 4 or 5 stars from Morningstar. This strong investment performance, responsive service, and an expanding array of offerings, resulted in our second best year of net customer cash flows on record of \$23 billion.

We also saw the growth potential (and diversification benefits) of our U.S. Insurance Solutions businesses, which delivered a 20 percent increase in pre-tax operating earnings.

In 2015, the Company's total shareholder return was slightly above the average of our Peer Group used for compensation purposes (10.5% vs. 16.6%). Our three year total shareholder return also continues to be higher, with a three year total shareholder return of 71%, compared to an average total shareholder return of 42% for companies in the Peer Group.

*Excludes The Hartford Financial, StanCorp, and Janus as they were removed from our Peer Group in 2015.

2015 Compensation Highlights

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In 2015, the Company's shareholders voted to approve the Company's Executive compensation program. Of the votes cast, over 95% supported the Executive compensation program. The Company considered the shareholders' approval of the compensation program to be approval of the Company's compensation philosophy, which has not changed since that vote. The compensation program design and structure has also not changed in the past year, and all changes to compensation levels have been consistent with the Company's compensation philosophy.

Based on our 2015 annual performance achievements, many of which are outlined above, 2015 Annual incentive payout averaged 80% of target.

(1)

See Appendix B for Non GAAP Financial Measures.

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Based on the Company's three-year average return on equity and three-year average book value per share performance, the 2013-2015 performance based RSU's ("PSU's") vested on December 31, 2015 and 103% of the target number of shares were paid out in February 2016, according to the established performance scale, and approval by the Human Resources Committee.

Compensation Program Philosophy and Policies

Compensation Philosophy our compensation programs are designed to:

Attract and retain talented Executives and motivate them to perform at the highest level and contribute significantly to the Company's long term success;

Align the interests of Executives and other stakeholders, including shareholders, customers and employees, by having a significant portion of the Executives' compensation in stock and requiring Executives to hold stock;

Reinforce the Company's pay for performance culture by making a significant portion of total compensation variable and by differentiating awards based on Company and individual performance in achieving short and long term financial and strategic objectives;

Cause a greater percentage of compensation to be at risk for Executives who bear higher levels of responsibility for the Company's performance; and

Support important corporate governance principles and established best practices.

Compensation Policies Principal's Executive compensation program incorporates the following best practices:

The Human Resources Committee's independent compensation consultant is retained by the Committee to advise on Executive and Director compensation and does no other work for the Company.

The Human Resources Committee regularly reviews an analysis of the Company's incentive compensation plans to ensure they are designed to create and maintain shareholder value, the long term performance of the Company and do not encourage excessive risk.

The majority of our Executive compensation is variable and linked to meeting our short term and long term financial and strategic goals and to the performance of the Company's stock price over time. Eighty nine percent of our CEO's 2015 target compensation and an average of 78% of our other Named Executive Officer's target total compensation are variable and tied to Company performance.

Executives receive a significant portion of their compensation in stock as noted in the chart on page 28, and are required to own a meaningful amount of stock in the Company.

Principal prohibits all employees, including Named Executive Officers, from purchasing any Principal securities on margin (except for the exercise of stock options), engaging in short sales or trading in any put or call options; and purchasing, directly or through a designee, any financial instrument (including prepaid variable forward contracts, equity swaps, collars and exchange funds) that is designed to hedge or offset any decrease in the market value of Principal securities.

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Principal has a claw back policy to recover incentive compensation paid to Executives if the compensation was based on achieving financial results that were subsequently restated, if the Committee decides that the Executive engaged in fraud or intentional misconduct that caused the restatement, and that the amount of the Executive's incentive compensation would have been lower had the financial results been properly reported.

Our change of control agreements with Executives provide market based severance protection and do not provide excise tax gross ups.

We do not provide perquisites to Executives that are not offered to all employees, except one physical examination per year, business spousal travel, and gifts of nominal value given to all sales conference attendees.

We have not repriced options that are underwater and we would not do so without shareholder approval.

Our programs are designed to be financially efficient from tax, accounting, cash flow and share dilution perspectives. We make efforts to ensure that Principal benefits from the tax deductibility of all compensation to the extent practicable. The Committee may provide compensation that is not tax deductible if it determines such action is appropriate.

Executives do not receive any income tax gross ups.

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Summary of Compensation Elements:

| Compensation Component | Objective | Description and 2015 Highlights |
|----------------------------------|--|---|
| Base Salary | Provides fixed income based on the size, scope and complexity of the Executive's role, Executive's historical performance and relative position compared to market pay information | <p>Base salaries are generally targeted at market median, but may vary from median based on the Executive's performance, work experience, role and the difficulty of replacing the Executive.</p> <p>In 2015, the Committee increased the Executives' base salaries, as detailed on page 28.</p> |
| Annual Incentive Compensation | Motivates and rewards annual corporate performance as well as the Executive's contribution to achieving our annual objectives. | <p>A range of earnings opportunity, expressed as percentages of base salary and corresponding to three levels of performance (threshold, target and maximum), is established for each Executive. Actual bonuses depend on achievement relative to the key financial measures, corporate and divisional goals, as outlined on pages 28-30.</p> <p>Based on the Committee's assessment of performance, actual bonuses for 2015 averaged 80% of target as detailed on page 31.</p> |
| Long Term Incentive Compensation | Motivates and rewards long term corporate performance as well as the Executive's contribution to achieving our long term objectives. Reinforces the link between the interests of the Executives and shareholders. Encourages retention. | <p>Each year, the Committee establishes the long term award opportunity for each Named Executive Officer. One half of the award is granted in stock options and the other half in PSUs. Using equal amounts of PSUs and options creates a balance between achieving operating performance objectives and increases in shareholder value.</p> <p>The PSUs vest based on continued service and meeting financial objectives over a three year period (with each three year period treated as a "Performance Cycle").</p> <p>The PSUs granted in 2015 for the 2015-2017 Performance Cycle will vest based on performance scales for three-year average Return on Equity ("ROE") and three-year average Book Value per Share ("BV/Share") over the performance period, as outlined on pages 31-32.</p> <p>The PSUs granted in 2013 and 2014 for the 2013-2015 and 2014-2016 Performance Cycles followed the same design as described above for 2015-2017. For the 2013-2015 Performance Cycle, the awards vested and paid out at 103% of the target number of PSUs based on our ROE performance of 15.2% and BV/Share of \$32.66.</p> |

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| Compensation Component | Objective | Description and 2015 Highlights |
|-------------------------------|--|--|
| Benefits | Protects against catastrophic expenses and provides retirement savings opportunities. | Named Executive Officers participate in most of the same benefit plans as the Company's other U.S. based employees, including health, life, disability income, vision and dental insurance, an employee stock purchase plan, 401(k) plan and pension plan. Executives also participate in non qualified retirement plans (defined benefit and defined contribution). Investment professionals, including Mr. McCaughan, do not participate in the pension or non qualified retirement plans. |
| Perquisites | Modest amount of additional benefits to help attract and retain Executive talent and enable Executives to focus on Company business with minimal disruption. | Executives are eligible for one physical examination per year, business spousal travel and gifts of nominal value given to all sales conference attendees. |
| Termination Benefits | Provides temporary income following an Executive's involuntary termination of employment, and, in the case of a change of control; helps ensure the continuity of management through the transition. | Refer to pages 33-34 for a discussion of our change of control and separation benefits. These benefits do not include excise tax gross ups. |

How We Make Compensation Decisions

Human Resources Committee Involvement

The Human Resources Committee oversees the development and administration of the Company's compensation and benefits policies and programs, approves the compensation program and compensation for Executives, and makes the compensation decisions for the CEO. In addition, the Human Resources Committee:

Reviews and approves corporate incentive goals and objectives relevant to compensation;

Evaluates Executives' performance results;

Evaluates the competitiveness of each Executive's total compensation; and

Approves changes to the Executive's total compensation package.

Cook advises the Committee on the Executive compensation program. Cook also advises the Nominating and Governance Committee on compensation for nonemployee Directors (see pages 17-19). Cook receives compensation from the Company only for its work in advising these Committees. Cook does not and would not be allowed to perform services for management. The Committee assessed the independence factors in applicable SEC rules and NYSE Listing Standards and other facts and circumstances and concluded that the services performed by Cook did not raise any conflict of interest.

Each year the CEO, with input from the Human Resources Department and Cook, recommends the amount of base salary increase (if any), annual incentive award and the long term incentive award for Executives other than himself. These recommendations are based on the Executive's performance, performance of the business areas for which the Executive is responsible (if applicable) and other considerations such as retention. The Human Resources Committee reviews these recommendations and approves compensation decisions for Executives.

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No member of management, including the CEO, has a role in determining his or her own compensation. The Human Resources Committee consults with the other independent Directors regarding the CEO's performance and then determines the compensation earned by the CEO for the current year and the CEO's compensation opportunity for the following year.

[The role of the Independent Compensation Consultant & Interaction with Management](#)

The Committee has the sole authority to hire, approve the compensation of and terminate the engagement of the compensation consultant.

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Cook conducts a comprehensive review of the Company's Executive compensation program every other year. In the years in which Cook does not conduct a compensation study, the Committee makes compensation decisions, based, in part, on survey data provided by the Human Resources Department and input provided by Cook.

A comprehensive study was undertaken by Cook in 2015 which influenced the Committee's decisions for the 2016 executive compensation program. The study reviewed all aspects of the design and structure of the Company's total Executive compensation program, and included:

Interviews with Executives and all Directors to discuss business strategy and the implications for human resources and compensation policy;

Recommendations for changes to the design and structure of the Executive compensation program to better support the Company's strategic and human resources objectives;

A competitive review of compensation opportunities for each of the Named Executive Officers compared to the pay opportunities of similarly situated executives at the Peer Group companies (see below);

An analysis to ensure that total share dilution and the economic costs of long term incentives are reasonable and affordable for the Company; and

A review of Executive compensation plans against potential risks. Cook determined that the Company's Executive compensation programs are well designed, support the Company's business strategy, and do not provide incentives to Executives to take inappropriate risks.

Cook also:

Attended four meetings of the Committee in 2015, as requested by the Committee Chair; and

Reviewed and commented on drafts of the Compensation Discussion & Analysis and related compensation tables for the proxy statement.

Use of Compensation Data

The Committee reviews the Peer Group of companies it uses to compare Executive compensation as part of Cook's biennial study. Cook recommends an appropriate Peer Group of public, similarly sized, diversified financial services, insurance and asset management companies, taking into account the Company's and the competitors' strategy, mix of business and size, as measured primarily by annual revenues, market capitalization and total assets. These companies are the major competitors in one or more of the Company's businesses, but none represent the exact business mix of the Company. Some of these companies have higher or lower market capitalization and revenue than Principal. Principal targets compensation for the Named Executive Officers at the median of the compensation of the named executive officers at the Peer Group companies. As a result of the most recent review, a decision was made to omit Hartford Financial Services due to its business mix and Janus Capital Group and StanCorp Financial as they are much smaller than Principal. Voya Financial was added, as it is similar in size and has a similar business mix as Principal. The companies in the Peer Group used in Cook's 2015 analyses to assist in decisions on 2016 compensation were:

Affiliated Managers Group

Invesco

MetLife

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Ameriprise Financial

Legg Mason

Prudential Financial

Eaton Vance

Lincoln National

Sun Life Financial

Franklin Resources

ManuLife

T. Rowe Price

Voya Financial

The Committee also uses annual data from third party industry surveys for its compensation decisions.⁽²⁾ Further, every two to three years, the Company's non cash benefit programs are compared with those of more than 100 diversified financial services companies. This is a larger group than the Peer Group because the information is used in designing and evaluating our broad based employee benefit programs. Benefit programs are also compared against those of local employers in Des Moines, Iowa due to the Company's significant employee population there.

(2)

The surveys used were the McLagan Investment Management survey, Towers Watson U.S. Financial Services Studies Executive Database, the Towers Watson Diversified Insurance Study of Executive Compensation. The names of the companies participating in these surveys are included in Appendix A.

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Each year, the Committee reviews the total compensation paid to the Executives by reviewing tally sheets, which include:

Base salaries;

Annual and long term incentive awards earned;

Deferred compensation;

Outstanding equity awards;

Benefits;

Perquisites; and

Potential payments under various termination scenarios.

The Committee uses this information to analyze the value of compensation actually delivered versus the compensation opportunities established by the Committee, and it is also used in making compensation and compensation plan design decisions. The Committee did not make any changes to the Executive compensation program in 2015 because it continues to meet the Company's objectives.

2015 Executive Compensation Decisions

The Committee made compensation decisions for the Named Executive Officers based on:

The Company's strategic and human resources objectives;

Competitive data for the Peer Group and for a broader group of diversified financial services companies (see Appendix A for a complete list of these companies);

Corporate and individual performance on key initiatives;

Economic conditions;

The CEO's compensation recommendations for other Executives;

Advice of the Committee's consultant; and

How the elements of compensation contribute to and interrelate to total compensation.

The Committee also considers the tax and accounting consequences of each element of compensation, and tries to maximize the tax deductibility to Principal of compensation under Section 162(m) of the Internal Revenue Code ("Tax Code"). This Tax Code section limits Principal from deducting annual compensation exceeding \$1,000,000 for our CEO and the three other most highly paid Named Executive Officers (other than

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our CFO) who are in office on the last day of the fiscal year ("Covered Employees"). There is an exception to this rule for performance based compensation. The Committee may provide compensation to Covered Employees that is not deductible if it determines, in its discretion, that it is appropriate to do so. For 2015, Messrs. Houston, Dunbar, McCaughan, and Valdés were Covered Employees.

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The chart below shows the 2015 target total compensation for our Named Executive Officers as well as the proportion of their compensation tied to Company performance. The majority of compensation paid to our Named Executive Officer's is variable and at risk as reflected in the chart below.

Base Salary

When determining base salary for each Executive, the Committee considers the Peer Group median for comparable executive positions as well as the survey data referenced above, the Executive's performance, work experience, the importance of the position to the Company and how difficult it would be to replace the Executive. The table below provides the historical base salaries⁽¹⁾ of the Named Executive Officers.

| Named Executive Officer | 2013(1) | 2014 | Percent Increase | |
|-------------------------|------------|--------------|------------------|----------------------|
| | | | 2015 | 2014 to 2015 |
| Zimpleman | \$ 925,000 | \$ 1,000,000 | \$ 1,000,000 | 0% |
| Houston | \$ 572,000 | \$ 675,000 | \$ 775,000 | 14.8% ⁽²⁾ |
| Dunbar | | | \$ 473,000 | 5.4% |
| Lillis | \$ 500,000 | \$ 530,000 | \$ 551,000 | 3.9% |
| McCaughan | \$ 615,000 | \$ 634,000 | \$ 653,000 | 3.0% |
| Valdés | \$ 546,000 | \$ 563,000 | \$ 580,000 | 3.0% |

(1)

Salaries displayed in the table are as of December 31 of the year noted. This information differs from salary

information in the Summary Compensation Table as the table includes salary earned and paid in the year noted. Changes in base salary are effective in March of each year.

- (2) The 18% base salary increase for Mr. Houston includes a March 2015 merit increase as well as a 13.4% promotional increase in August 2015 due to his increased responsibilities as President and CEO.

Annual Incentive Compensation

The Named Executive Officers may earn annual cash bonuses under the Principal Financial Group, Inc. Annual Incentive Plan. This plan was approved by shareholders in 2004, and complies with Section 162(m) of the Tax Code so that these incentives to Named Executive Officers are considered performance based and are therefore fully tax deductible to the Company.

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The maximum aggregate bonus amount for the Named Executive Officers is 2% of annual operating income ("Bonus Pool"). For 2015, the maximum bonuses were:

| Named Executive Officer | Maximum Award as Percentage of the Potential Award Annual Incentive Pool | Maximum Award Payment |
|--|---|--------------------------------------|
| CEO (Houston) | 35% | \$ 10.4 million |
| Second highest Paid Covered Employee (McCaughan) | 25% | \$ 7.4 million |
| Third highest Paid Covered Employee (Valdés) | 20% | \$ 5.9 million |
| Fourth highest Paid Covered Employee (Dunbar) | 10% | \$ 3.0 million |
| CFO (Lillis) | 10% | \$ 3.0 million |

The Committee sets the target and maximum annual incentive awards for each Named Executive Officer. The Committee may use its negative discretion to reduce the awards actually payable. After this reduction, maximum annual incentive opportunities are generally 200% of the target annual incentive opportunity. The Committee approved the following target awards for Named Executive Officers in each of the past three years:

Annual Incentive Targets (as a percentage of base salary)

| Named Executive Officer | 2013 | 2014 | 2015 |
|--------------------------------|-------------|-------------|---------------------|
| Zimpleman | 175% | 200% | 200% |
| Houston | 125% | 200% | 350% ⁽¹⁾ |
| McCaughan | 300% | 300% | 300% |
| Dunbar | | | 70% |
| Valdés | 75% | 75% | 75% |
| Lillis | 100% | 100% | 100% |

(1)

As of August 18, 2015. In his role as President and Chief Operating Officer, Mr. Houston's annual incentive target was 200%.

The CEO's target award opportunity is greater than that of the other Named Executive Officers because Mr. Houston (and previously Mr. Zimpleman) has overall responsibility for the Company and greater responsibilities than the other Named Executive Officers. The CEO's target award opportunity has increased over time to better align his compensation with CEOs in the Peer Group. The target award opportunity for Mr. McCaughan was established by the Committee to be competitive with award opportunities of senior executives within asset management firms, which tend to be higher than target annual incentive opportunities in other industry segments. In establishing the target award opportunity for Messrs. Dunbar, Valdés and Lillis, the Committee considered the median incentive targets for comparable executive positions in the Peer Group companies, as well as the survey data referenced above.

[Performance Goal Setting and Measurement Process](#)

The Board meets each September to review the Company's long term strategy. In November, the CEO, CFO and Division Presidents recommend preliminary financial goals for the Company and business units and strategic initiatives for the next year. The Finance Committee reviews the proposed goals, underlying assumptions of the goals and initiatives, key drivers of financial performance, trends and business opportunities and advises the Board and Human Resources Committee on the appropriateness of the financial goals. The Human Resources Committee reviews and approves the final goals for the Company, the CEO and the other Executives with input from the Finance Committee and Board based on prior year end financial results. All employees develop individual performance goals with their leaders that support the Company's goals.

Following the completion of fiscal 2015, the Committee reviewed 2015 performance on several key financial measures and on corporate and divisional goals to determine the 2015 annual bonus for Named Executive Officers. The Committee does not use any particular weighting for these goals; these measures are used as guideposts when the Committee exercises its discretion in its subjective evaluation of these factors.

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In determining corporate performance for 2015, the Committee reviewed Company achievements on these key financial goals:

Goal

2015 Assessment

1. Achieve appropriate operating earnings and earnings per share ("EPS").

One of management's responsibilities is to lead the Company in achieving its goals for operating earnings and earnings per diluted share. For 2015, the target for operating earnings was \$1,350M and the target for earnings per diluted share was \$4.50. Actual 2015 operating earnings were \$1,270.5M and EPS was \$4.26.

In addition, Messrs. McCaughan and Valdés had operating earnings goals specific to the business units they oversee:

| Named Executive Officer | Operating Earnings Goal | Operating Earnings Result |
|---|--------------------------------|----------------------------------|
| McCaughan Principal Global Investors | \$130M | \$128M |
| Valdés Principal International | \$265M | \$220M |

2. Capital maintain a targeted National Association of Insurance Commissioners ("NAIC") risk based capital ratio in the range of 415%-425%

At year end, the NAIC risk based capital ratio was maintained within the target range.

3. Minimize credit loss.

A metric was established to measure whether the Company's invested assets (Principal Life's General Account) was appropriately managed. Ranges were established for after-tax bond credit losses and losses on commercial mortgage loans.

| Measure | Goal | Actual Result |
|---------------------------------|-------------------|----------------------|
| Bond credit losses | 7-10 basis points | 5 basis points |
| Commercial mortgage loan losses | 3-5 basis points | 2 basis points |

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4. Achieve identified sales targets which require appropriate growth. The Company had 2015 sales growth goals as outlined below, by business area:

| Business Unit | Target | Result |
|---|---------------|---------------|
| Houston | | |
| | \$11,700M | \$8,774.2M |
| Retirement & Investor Services sales | \$205M | \$170.7M |
| Life sales | \$320M | \$314.2M |
| Specialty Benefits premium and fees | | |
| McCaughan | | |
| | 9.0% | 4.1% |
| Principal Global Investors % growth in non-affiliated management fees | \$21,550M | \$22,356.5M |
| Mutual fund asset sales | | |
| Valdés | | |
| | \$13,001.3M | \$9,342.7M |
| Principal International net cash flow | | |

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Final Annual Incentive Pay Award Determination

The following table shows the annual incentive award for each of the Named Executive Officers whose annual incentive opportunities are determined under the Annual Incentive Plan. The column "Reduction from Maximum Award" shows the amount by which the Committee reduced the maximum bonuses to the awards paid.

| Name | 2015 Salary | 2015 Target | Final Award | % of Target | Reduction From Maximum Award |
|------------------|------------------------|------------------------|------------------------|------------------------|---|
| Houston | \$ 775,000 | 350% (1) | \$ 1,482,000 | 80% | \$ 8,891,300 |
| Lillis | \$ 551,000 | 100% | \$ 440,000 | 80% | \$ 2,523,800 |
| Dunbar | \$ 473,000 | 70% | \$ 278,000 | 84% | \$ 2,685,800 |
| McCaughan | \$ 653,000 | 300% | \$ 1,563,000 | 80% | \$ 5,846,500 |
| Valdés | \$ 580,000 | 75% | \$ 329,000 | 76% | \$ 5,598,600 |

(1)

Mr. Houston's annual incentive target was 200% from January 1 August 17, 2015, and 350% for the remainder of 2015.

Executives may defer annual awards into a nonqualified supplemental savings plan ("Excess Plan"), as illustrated in the footnote to the Non Equity Incentive Compensation column of the Summary Compensation Table, on pages 36-38.

Long term Incentive Compensation

The long term incentive compensation program is designed to align the interests of Executives and shareholders. The compensation the Executives receive reflects the degree to which multiyear financial objectives are achieved and shareholder value is increased. The long term focus of the compensation programs supports the Company's businesses in which long term performance is critical, such as retirement products, life insurance and asset management. The long term incentive compensation program also encourages collaboration among Executives in pursuing corporate wide goals.

The Committee establishes a target long term incentive award opportunity for each Named Executive Officer stated as a percentage of each Named Executive Officer's base salary based on Peer Group and survey data, and on the advice of its independent compensation consultant. The Committee uses the following factors to adjust the target award and determine the actual award to be granted to each Named Executive Officer ("Award Granted"):

Current competitive market data;

The Named Executive Officer's past performance;

The Named Executive Officer's current compensation;

Retention concerns;

The importance of the Named Executive Officer to the Company over the long term;

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The potential impact the Named Executive Officer could have on the Company's results; and

The Executive's performance relative to the Named Executive Officer's peers within the Company.

The compensation ultimately received by Named Executive Officers may vary considerably from the grant date fair value of the Award Granted, due to the Company's performance and changes in share price that occur after the grant.

2015 Long Term Incentive Target & Grant (as % of base salary)

| Named Executive Officer | Target % | Award Granted |
|--------------------------------|-----------------|----------------------|
| Zimpleman | 600% | 600% |
| Houston | 425% | 425% |
| Lillis | 275% | 300% |
| Dunbar | 175% | 225% |
| McCaughan | 350% | 325% |
| Valdés | 225% | 250% |

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The long term incentive targets were established by the Committee to be market competitive with award opportunities for comparable positions in Peer Group companies. Mr. Zimpleman's award opportunity is greater than those of the other Named Executive Officers because at the time of the 2015 annual equity grant he was CEO and had overall responsibility for the Company.

Executives' long term compensation is awarded in the form of non-qualified stock options and PSUs, which each represent 50% of the total grant date fair value. PSUs entitle the Executive to earn shares of Principal Financial Group, Inc. Common Stock if certain levels of performance are achieved. The Committee uses stock options as part of the long term incentive program because options are an effective way to link an Executive's compensation to changes in shareholder value. The weighting is not based on a specific formula or algorithm, but rather is intended to create a balance between the achievement of specific operating objectives and changes in shareholder value based on the Committee's judgment, which may change from time to time.

Stock options have a ten year term and an exercise price equal to the closing price on the date of grant. Stock options vest in three equal annual installments starting on the first anniversary of the grant date.

PSUs vest based on continued service and achieving financial objectives over a three year period (with each three year period treated as a "Performance Cycle"). Executives may defer the receipt of PSUs.

For the 2015 PSUs, the performance threshold is met if either of the following goals is met:

Three year average pretax operating income ROE of 7.5%, or

\$2 billion cumulative pretax operating income ("OI")

If either the ROE or OI objective is met or exceeded, the number of units earned is determined using two performance measures, each weighted 50%, to determine the percentage of target PSUs actually earned.

Average pretax operating ROE: this measure was selected because it reflects the efficient use of Company capital in generating profits.

Average Book Value/Share ("BV/Share"): this measure was selected because it focuses on long term growth in equity needed to support the Company's growth.

In combination, the two measures selected provide a healthy tension in creating incentives to maintain a sufficient level of equity over the long term while also making sure that capital is being used effectively.

2015-2017 PSU Performance Scale

| Performance Level | Threshold Award | Target Award | Maximum Award (150% of Target) |
|-------------------------------------|------------------------|---------------------|---------------------------------------|
| Payout (% of Target) ⁽¹⁾ | 50% | 100% | 150% |
| Average ROE | 7.8% | 15.5% | 20.2% |
| Average BV/Share | \$31.66 | \$37.25 | \$48.43 |

If neither the ROE nor the OI threshold performance

objective is met, **no**
PSUs will
be earned or paid out.

- (1) Straight line interpolation is used to determine awards for performance between threshold and target and between target and maximum.

Timing of Stock Option Awards and Other Equity Incentives

Annual grants of stock options and PSUs for Principal Executives are determined by the Committee at its February meeting which occurs following the release of the prior year's results. The Committee formalized its long standing practices by adopting a policy in 2006 regarding granting stock options and other equity awards. Under this policy, the grant date for all stock options and other stock based awards shall never be earlier than the date of approval, and shall be:

For all annual awards to Executives, the date of approval by the Committee;

For new employees and promotions, the later of the date of approval or the employee's hire/promotion date;

In the event of an award connected with an established stock program for non Executives, the later of the date of approval or the grant date established by the stock program; and

For any other awards, the date of approval.

Authority of the CEO to Grant Equity Awards:

Under the 2014 Stock Incentive Plan, the Committee has delegated authority to the CEO to make certain equity awards to sales agents and non Executive employees for new hires, promotions, retention and recognizing superior

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performance. The Committee receives a report on these grants at the next regular Committee meeting. The total awards granted by the CEO may not exceed 250,000 shares per year.

Benefits

The Named Executive Officers participate in Principal Life's broad based employee benefits program, including:

- A qualified pension plan (except Mr. McCaughan⁽³⁾);
- A 401(k) plan;
- Group health, dental, vision and disability coverage and life insurance;
- A discounted employee stock purchase plan;
- Paid time off; and
- Flexible spending account plans.

Principal Life also offers all Named Executive Officers (except Mr. McCaughan) a non-qualified defined contribution plan ("Excess plan") and a defined benefit non-qualified retirement plan ("NQDB"). These benefits are offered to attract and retain talent and provide long term financial security to employees. The NQDB helps the Company attract midcareer Executives and retain Executives by providing competitive retirement benefits. The NQDB is coordinated with the qualified pension plan and is designed to restore benefits that otherwise would accrue to Executives in the absence of Tax Code limitations on the qualified pension plan. The narrative to the Pension Benefits Table on pages 41-43 provides additional information about the NQDB and the qualified pension plan. Principal Life maintains the Excess Plan to help attract and retain Executives by allowing Executives to save for retirement and to provide matching contributions on those savings, without regard to the limitations imposed by the Tax Code on 401(k) plans. The narrative to the Non-Qualified Deferred Compensation Table on pages 44-45 provides additional information about the Excess Plan.

The value of the retirement and savings plans for NonGrandfathered Participants (see page 42) is targeted to be, in the aggregate, slightly above the median of diversified financial services companies because a large portion of the Company's business centers on the sale of retirement products. The defined benefit pension plan for Grandfathered Choice Participants (see page 41) has a market value above the median and the 401(k) plan match for Grandfathered Choice Participants is below market median. These benefits were also originally designed to be slightly above market median to attract and retain employees. As retirement plans evolved in the marketplace, the Company has balanced realigning benefits to the marketplace with current market practice while not adversely impacting more tenured employees.

All other benefits are targeted at market median in the aggregate, which supports the Company's benefit strategy and aids in attracting and retaining talent.

Change of Control and Separation Pay

The Committee believes it is in the best interests of Principal and its shareholders to:

- Assure that Principal will have the continued service of its Executives;
- Reduce the distraction of these Executives that would result from the personal uncertainties caused by a pending or threatened Change of Control;
- Encourage the Executives' full attention and dedication to Principal; and
- Provide the Executives with compensation and benefits upon a termination related to Change of Control that are competitive with those of similar businesses.

For these reasons, Principal has entered into "Change of Control" Employment Agreements with each of the Executives. These agreements would help the Executives more fairly evaluate a potential acquisition of Principal, particularly when the acquisition would result in termination

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of the Executive's employment. These Change of Control Employment Agreements are based on market practice and do not affect other components of the Executives' compensation. When entering into these agreements, the Committee reviewed survey data and practices of other public insurance and financial services companies. The Committee continues to review market practices in this area for potential changes in these agreements.

All benefits provided to the Executives upon a Change of Control are paid after both a Change of Control and qualifying termination of employment have occurred (sometimes referred to as a "double trigger"), except that the

(3)

Mr. McCaughan has not participated in the qualified pension plan, NQDB Plan or Excess Plan since January 1, 2010, due to a compensation and benefit review of asset management companies that showed that these are not common benefits for executives in that industry. This change also applied to other investment professionals.

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then current value of the Executive's Excess Plan and NQDB will be paid upon a Change of Control to ensure that the value of those plans is not reduced if the Company is sold. These agreements do not provide excise tax gross ups. See pages 46-48 for details.

The Company has a severance plan to provide benefits to employees whose employment is terminated by the Company due to a reorganization or reduction in the workforce. Additional payments may be permitted in some circumstances as a result of negotiations with Executives, particularly when Principal requests additional covenants from the Executives.

Perquisites

Executives are offered one physical examination per year to protect the health of our Executives and the Company's investment in its leadership. Executives also receive gifts of nominal value provided to all sale conference attendees and spousal business travel.

Stock Ownership Guidelines

Executives are required to own stock in Principal to ensure their interests are aligned with the shareholders' interests and with the long term performance of Principal. Once the Executive achieves the required stock ownership level based on market value. Upon promotion, the Executive is required to meet the next level of stock ownership.

Until the ownership guideline is met, Executives are required to retain a portion of the "net profit shares" resulting from equity based long term incentive plan grants. Net profit shares are the shares remaining after payment of the option exercise price and taxes owed at time of exercise, vesting of RSUs or earn out of performance shares. The percentage of net profit shares that must be retained until the multiple of salary guidelines are met are shown below:

| Executive Level | Retention Ratio | Multiple of Base Salary |
|--|------------------------|--------------------------------|
| Chairman (Zimpleman) | 75% | 5 times |
| President and CEO (Houston) | 75% | 5 times |
| Division Presidents & Executive Vice Presidents (Lillis, Dunbar, McCaughan & Valdés) | 50% | 3 times |

All Named Executive Officers comply with these guidelines.

Claw Back Policy

The Committee has also adopted a compensation recovery policy that applies to Executives. Principal can recover incentive compensation if the amount of the compensation was based on achievement of financial results that were subsequently restated if the Committee decides that the Executive engaged in fraud or intentional misconduct that caused the restatement of the Company's financial statements, and that the amount of the Executive's incentive compensation or equity award would have been lower had the financial results been properly reported.

Trading Policy

Principal prohibits Directors and employees, including Executives, from:

Purchasing Principal securities "on margin" (i.e., with the proceeds of a loan from a brokerage firm when the loan is secured by Principal securities), except for the exercise of employee stock options.

Short sales;

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Trading in put or call options; and

Purchasing, directly or through a designee, any financial instrument (including prepaid variable forward contracts, equity swaps, collars and exchange funds) that is designed to hedge or offset any decrease in the market value of Principal securities.

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Succession Planning

The Human Resources Committee, the CEO and the head of Human Resources have an ongoing focus on executive development and succession planning to prepare Principal for future success. In addition to preparing for CEO succession, the succession planning process includes all key executive positions. A comprehensive review of executive talent, including assessments by an independent consulting firm, has determined participants' readiness to take on additional leadership roles and identified the developmental and coaching opportunities needed to prepare them for greater responsibilities. The CEO makes a formal succession planning presentation to the Board of Directors annually. CEO succession planning is a responsibility of the entire Board and all members participate. In addition, the Company has an emergency succession plan for the CEO that is reviewed by the Board annually. In 2015, the Company's succession plan was used when Daniel J. Houston was named CEO in conjunction with Larry D. Zimpleman's retirement. Other changes were made in the senior executive team, and all of the members of the new team are internal candidates, which speaks highly of the strength of the Board's succession planning process.

Human Resources Committee Report

The Human Resources Committee of the Company has reviewed and discussed the foregoing Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with management, and based on such review and discussion, the Committee recommended to the Board that the Compensation Discussion and Analysis be included in this Proxy Statement.

Michael T. Dan, Chair
Gary E. Costley
C. Daniel Gelatt
Roger C. Hochschild
Elizabeth E. Tallett

Risk Assessment of Employee Incentive Plans

The Human Resources Compensation Department and the chief risk officers in the business units conducted a review and analysis of the Company's employee incentive compensation plans to determine whether the plans are reasonably likely to have a material adverse effect on the Company, and reviewed their processes and conclusions with the Chief Risk Officer. The following factors, among others, were assessed:

- Plan design;
- Performance metrics and quality of goal setting;
- Administrative procedures, including governance practices and plan compliance;
- Plan communications and disclosures;
- Potential risks created by the plans;
- Risk controls factors and their effectiveness; and
- Inherent and residual risk ratings.

Some key factors that mitigate risks of the Company's incentive plans are the Company's stock ownership guidelines for Executives, the compensation recovery policy and the Human Resources Committee's ability to exercise its judgment in evaluating the quality of performance achievements when determining earned compensation. Principal prohibits employees from purchasing Principal securities on margin (except for the exercise of stock options), engaging in short sales or trading in any put or call options; and purchasing, directly or through a designee, any financial instrument (including prepaid variable forward contracts, equity swaps, collars and exchange funds) designed to hedge or offset any decrease in the market value of Company securities.

A summary of the assessment process and conclusions was reviewed with the Human Resources Committee. Based on this analysis, Principal has determined that the Company's employee incentive compensation plans are designed to encourage behaviors that create and maintain shareholder value, do not encourage excessive risk, and are not reasonably likely to have a material adverse effect on Principal.

Table of Contents**Summary Compensation Table**

The following table sets forth the compensation paid to the Named Executive Officers for services provided to the Company and its subsidiaries during 2013, 2014 and 2015.

| Year | Salary(1)(2) | Bonus | Stock Awards(3)(4) | Option Awards(3) | Non Equity Incentive Compensation(5) | Change in Pension Value and Non-Qualified Deferred Compensation Earnings(6)(7) | All Other Compensation(8) |
|-------------|---------------------|--------------|---------------------------|-------------------------|---|---|----------------------------------|
| 2015 \$ | 1,038,462 \$ | 0 \$ | 2,999,982 \$ | 3,000,043 \$ | 1,596,000 \$ | 1,517,176 \$ | 119,887 \$ |
| 2014 \$ | 982,692 \$ | 0 \$ | 3,000,004 \$ | 3,000,015 \$ | 2,280,000 \$ | 7,549,888 \$ | 106,789 \$ |
| 2013 \$ | 919,231 \$ | 0 \$ | 2,428,124 \$ | 2,428,121 \$ | 2,137,000 \$ | 1,041,951 \$ | 80,474 \$ |
| 2015 \$ | 735,577 \$ | 0 \$ | 1,434,366 \$ | 1,434,390 \$ | 1,482,000 \$ | 0 \$ | 118,193 \$ |
| 2014 \$ | 592,769 \$ | 0 \$ | 1,115,627 \$ | 1,115,643 \$ | 962,000 \$ | 1,579,560 \$ | 106,984 \$ |
| 2013 \$ | 566,923 \$ | 0 \$ | 1,072,505 \$ | 1,072,513 \$ | 858,000 \$ | 0 \$ | 79,460 \$ |
| 2015 \$ | 567,346 \$ | 0 \$ | 826,516 \$ | 826,496 \$ | 440,000 \$ | 0 \$ | 51,482 \$ |
| 2014 \$ | 523,077 \$ | 0 \$ | 795,004 \$ | 794,986 \$ | 604,000 \$ | 2,921,717 \$ | 47,410 \$ |
| 2013 \$ | 494,231 \$ | 0 \$ | 750,001 \$ | 749,982 \$ | 630,000 \$ | 811,848 \$ | 42,651 \$ |
| 2015 \$ | 673,731 \$ | 0 \$ | 1,061,145 \$ | 1,061,134 \$ | 1,563,000 \$ | 46,816 \$ | 13,702 \$ |
| 2014 \$ | 629,616 \$ | 0 \$ | 3,030,265 \$ | 1,030,261 \$ | 2,060,000 \$ | 123,802 \$ | 13,221 \$ |
| 2013 \$ | 611,539 \$ | 0 \$ | 999,377 \$ | 999,379 \$ | 2,325,000 \$ | 80,742 \$ | 13,290 \$ |
| 2015 \$ | 598,385 \$ | 0 \$ | 724,984 \$ | 724,959 \$ | 329,000 \$ | 113,838 \$ | 68,003 \$ |
| 2014 \$ | 559,077 \$ | 0 \$ | 1,703,763 \$ | 703,747 \$ | 481,000 \$ | 143,136 \$ | 75,211 \$ |
| 2013 \$ | 541,154 \$ | 0 \$ | 641,538 \$ | 641,536 \$ | 467,000 \$ | 90,767 \$ | 63,008 \$ |
| 2015 \$ | 483,577 \$ | 0 \$ | 532,138 \$ | 532,099 \$ | 278,000 \$ | 0 \$ | 54,824 \$ |

- (1) There were 27 pay periods in 2015, rather than the standard 26 pay periods.
- (2) Includes 2015 salary deferred into the qualified 401(k) Plan and the Excess Plan, as shown below (information on deferrals for 2014 was included in last year's proxy statement):

| Named Executive Officer | 401(k) Employee | Excess Plan Employee | Total Employee |
|--------------------------------|------------------------|-----------------------------|-----------------------|
|--------------------------------|------------------------|-----------------------------|-----------------------|

Contribution Contributions Contributions

| | | | |
|-----------|-----------|-----------|------------|
| Zimpleman | \$ 24,000 | \$ 85,154 | \$ 109,154 |
| Houston | \$ 18,462 | \$ 58,846 | \$ 77,308 |
| Lillis | \$ 18,231 | \$ 34,041 | \$ 52,272 |
| Dunbar | \$ 22,586 | \$ 24,179 | \$ 46,765 |
| McCaughan | \$ 18,000 | \$ 0 | \$ 18,000 |
| Valdés | \$ 24,000 | \$ 29,674 | \$ 53,674 |

(3)

Amounts represent the aggregate grant date fair value amounts for awards and options granted in the year noted. The assumptions for the valuation of stock option awards under the ASC Topic 718 for awards included in the Summary Compensation Table are as follows:

| Grant Date | Exercise Price | Volatility | Expected Term | Dividend Yield | Risk Free Interest Rate |
|-------------------|-----------------------|-------------------|----------------------|-----------------------|--------------------------------|
| February 25, 2013 | \$ 30.70 | 53.30% | 6.5 year | 2.997% | 1.13% |
| February 24, 2014 | \$ 44.88 | 53.21% | 6.5 year | 2.496% | 2.04% |
| February 23, 2015 | \$ 51.33 | 52.21% | 6.5 year | 2.805% | 1.80% |

The grant date fair value per share of each RSU or PSU granted on the same date as an option listed in the above table was equal to the exercise price reported for options granted on such date.

(4)

PSUs will be earned and paid in shares of Common Stock only if performance requirements are met or exceeded. The PSUs are eligible for dividend equivalents, and the dividend equivalents are subject to the same performance requirements as the corresponding PSUs and are only earned if the performance measures are met or exceeded. The maximum payout for the 2013, 2014, and 2015 PSUs is 150% of the target number of PSUs. If the

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PSUs granted in 2015 are earned at the maximum payout, the grant date value of such PSUs would be as shown in the following table, and the amounts reported in the Stock Awards column, above, would be increased by the amount shown in the column to the far right of the following table.

| Named Executive Officer | Amount by Which Aggregate Grant Date Values Reported Would be Increased |
|--------------------------------|--|
| Zimpleman | \$ 1,499,991 |
| Houston | \$ 530,573 |
| Lillis | \$ 717,183 |
| Dunbar | \$ 266,069 |
| McCaughan | \$ 362,492 |
| Valdés | \$ 413,258 |

(5)

The amounts shown represent annual incentive compensation awards earned in 2015 and paid in 2016 and include the following amounts deferred into the qualified 401(k) Plan and Excess Plan:

| Named Executive Officer | Employee Contributions on Incentive Pay |
|--------------------------------|--|
| Zimpleman | \$ 0 |
| Houston | \$ 125,137 |
| Lillis | \$ 34,104 |
| Dunbar | \$ 0 |
| McCaughan | \$ 0 |

Valdés

\$ 26,545

(6)

Assumptions underlying the determination of the amount of increase in actuarial value for both the qualified and nonqualified pension plans are disclosed on page 43. Changes in these assumptions and compensation changes will impact this value annually. There are no above market earnings on deferred compensation.

In past proxies, the same actuarial assumptions have been used regardless of whether a Named Executive Officer has elected to receive their nonqualified defined benefit (NQDB) plan distribution in the form of an annuity or as a lump sum payment. Because a different discount rate is used for determining lump sum payments, the company has changed the assumptions used to value the NQDB reflected in the Summary Compensation Table to reflect the Named Executive Officer's elected form of distribution. This is a better reflection of the value of the benefit that will ultimately be paid to the Named Executive Officer.

(7)

For Messrs. Houston, Lillis and Dunbar, the 2015 Change in Pension Values are (\$306,688), (\$1,160,093) and (\$378,794) respectively. For Mr. Houston, the 2013 Change in Pension Value is (\$50,354). Pursuant to SEC reporting rules, a negative Change in Pension Value is reported in the Summary Compensation Table as a zero.

(8)

All Other Compensation for the Named Executive Officers consists of the following:

| Name | Perquisites & Contributions Other Personal Benefits(a) | Principal Life to Defined Contribution Plans(b) | Total |
|-------------|---|--|--------------|
| Zimpleman | \$ 20,333 | \$ 99,554 | \$ 119,887 |
| Lillis | \$ 16,342 | \$ 35,140 | \$ 51,482 |
| Houston | \$ 16,339 | \$ 101,854 | \$ 118,193 |
| McCaughan | \$ 202 | \$ 13,500 | \$ 13,702 |
| Valdés | \$ 4,033 | \$ 63,970 | \$ 68,003 |
| Dunbar | \$ 6,479 | \$ 48,345 | \$ 54,824 |

(a)

Represents the incremental aggregate cost to Principal for all perquisites provided during the year. Amounts include the value of an annual physical examination, business spousal travel, and gifts given to all sales conference attendees.

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(b)

The amounts shown below are Principal Life's matching contributions to the 401(k) Plan and the Excess Plan. The Excess Plan's matching contributions are also included in Principal Life's Contributions in the NonQualified Deferred Compensation table on page 44.

| Named Executive Officer | 401(k) Matching Contribution Made by Principal Life | Excess Plan Matching Contribution Made by Principal Life | Total |
|--------------------------------|--|---|--------------|
| Zimpleman | \$ 7,950 | \$ 91,604 | \$ 99,554 |
| Houston | \$ 13,500 | \$ 88,354 | \$ 101,854 |
| Lillis | \$ 6,554 | \$ 28,586 | \$ 35,140 |
| Dunbar | \$ 13,500 | \$ 34,845 | \$ 48,345 |
| McCaughan | \$ 13,500 | \$ 0 | \$ 13,500 |
| Valdés | \$ 13,500 | \$ 50,470 | \$ 63,970 |

(9)

Sum of the total dollar value of the other columns in this table.

Grants of Plan Based Awards for Fiscal Year End December 31, 2015

| Grant | Estimated Future Payouts Under Non Equity Incentive Plan Awards | | | Estimated Future Payouts Under Equity Incentive Plan Awards(2) | | | Other Stock Awards | Other Option Awards(3) | Exercise Price(4) |
|--------------|--|------------------|---------------|---|------------------|---------------|-----------------------------------|---------------------------------------|------------------------------|
| | Date | Threshold | Target | Maximum(1) | Threshold | Target | | | |
| 02/23/2015 | N/A | \$ 2,000,000 | | NA | | | | | |
| 02/23/2015 | | | | 14,611 | 58,445 | 87,668 | | 146,845 | \$ 51.33 |
| 02/23/2015 | N/A | \$ 551,000 | \$ 3,000,000 | | | | | | |
| 02/23/2015 | | | | 4,026 | 16,102 | 24,153 | | 40,455 | \$ 51.33 |
| 02/23/2015 | N/A | \$ 1,858,212 | \$ 10,400,000 | | | | | | |
| 02/23/2015 | | | | 6,986 | 27,944 | 41,916 | | | |

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| | | | | | | | | |
|------------|--------|--------------|-----------|-------|--------|--------|-----------|----------|
| 02/23/2015 | | | | | | | 70,210 \$ | 51.33 \$ |
| | N/A \$ | 1,959,000 \$ | 7,400,000 | | | | | |
| 02/23/2015 | | | | 5,168 | 20,673 | 31,010 | | |
| 02/23/2015 | | | | | | | 51,940 \$ | 51.33 \$ |
| | N/A \$ | 435,000 \$ | 5,930,000 | | | | | |
| 02/23/2015 | | | | 3,531 | 14,124 | 21,186 | | |
| 02/23/2015 | | | | | | | 35,485 \$ | 51.33 \$ |
| | N/A \$ | 331,100 \$ | 3,000,000 | | | | | |
| 02/23/2015 | | | | 2,592 | 10,367 | 15,551 | | |
| 02/23/2015 | | | | | | | 26,045 \$ | 51.33 \$ |

(1)

The maximum award shown is the maximum aggregate award payable under the Annual Incentive Pay Plan for the Named Executive Officers, based on the Bonus Pool. In determining the actual annual incentive award payable, the Human Resources Committee exercises negative discretion to reduce the amount payable from the maximum award determined under the Annual Incentive Pay Plan as described on pages 28-31.

(2)

These columns reflect PSUs granted on February 23, 2015. These PSUs will vest, if at all, according to the 2015-2017 PSU performance scale outlined on page 32. The maximum payout for the 2015 PSUs is 150% of the target number of PSUs.

(3)

The options vest in three equal annual installments beginning on the first anniversary of the grant date. The options are not eligible for dividend equivalents. The number of stock options awarded to each Named Executive Officer in a given year is calculated by dividing the grant date fair value of one option into the portion of the Adjusted Target Award Opportunity (50%) to be delivered in options, using the Black-Scholes model.

(4)

The per-share option exercise price is the closing price of the Common Stock on the date of grant.

(5)

Represents the grant date fair value of the award at target.

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Outstanding Equity Awards at Fiscal Year End December 31, 2015

| Name | Option Awards | | | Stock Awards | Equity Incentive Plan Awards: Market or | Equity Incentive Plan Awards: Market or |
|-----------|--|---|--|--|---|---|
| | Number of Securities Underlying Unexercised Options Available for Exercise (1) | Number of Securities Underlying Exercised Options (1) | Number of Shares or Units of Stock that have not expired (2) | Value of Shares or Units of Stock that have not vested (3) | Number of Shares or Units of Stock that have not vested (3) | payout value of Shares, Units, or Other Rights that have not vested (4) |
| Zimpleman | 82,885 | 0 | \$ 09/23/2016 | | | |
| | 1,120 | 0 | \$ 06/05/2016 | | | |
| | 74,935 | 0 | \$ 02/06/2017 | | | |
| | 142,985 | 0 | \$ 02/16/2018 | | | |
| | 368,615 | 0 | \$ 01/07/2019 | | | |
| | 144,700 | 0 | \$ 02/23/2020 | | | |
| | 105,915 | 0 | \$ 04/28/2021 | | | |
| | 178,615 | 0 | \$ 07/27/2022 | | | |
| | 135,460 | 67,730 | \$ 02/16/2023 | 88,231 | \$ | 3,968,630 |
| | 52,938 | 05,877 | \$ 04/28/2024 | 70,672 | \$ | 3,178,827 |
| | 046,845 | \$ 01/33/2025 | 60,255 | \$ | 2,710,270 | |
| Houston | 24,870 | 0 | \$ 02/06/2017 | | | |
| | 37,080 | 0 | \$ 02/16/2018 | | | |
| | 72,350 | 0 | \$ 02/23/2020 | | | |
| | 50,200 | 0 | \$ 04/28/2021 | | | |
| | 81,865 | 0 | \$ 07/27/2022 | | | |
| | 59,833 | 29,917 | \$ 02/16/2023 | 38,971 | \$ | 1,752,916 |
| | 19,686 | 39,374 | \$ 04/28/2024 | 26,281 | \$ | 1,182,119 |
| | 070,210 | \$ 01/33/2025 | 28,809 | \$ | 1,295,829 | |
| Lillis | 5,525 | 0 | \$ 02/06/2017 | | | |
| | 7,380 | 0 | \$ 02/16/2018 | | | |
| | 13,505 | 0 | \$ 05/19/2018 | | | |
| | 25,655 | 0 | \$ 04/28/2021 | | | |
| | 41,840 | 20,920 | \$ 02/16/2023 | 27,252 | \$ | 1,225,795 |
| | 14,028 | 28,057 | \$ 04/28/2024 | 18,728 | \$ | 842,385 |
| | 040,455 | \$ 01/33/2025 | 16,600 | \$ | 746,668 | |
| McCaughan | 15,940 | 0 | \$ 09/23/2016 | | | |

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| | | | | | |
|--------|---------|-----------|------------------------|--------|--------------|
| | 48,990 | 0 \$ | 02/26 /2017 | | |
| | 60,590 | 0 \$ | 02/16 /2018 | | |
| | 27,555 | 0 \$ | 01/04 /2019 | | |
| | 79,365 | 0 \$ | 02/23 /2020 | | |
| | 50,355 | 0 \$ | 01/28 /2021 | | |
| | 77,400 | 0 \$ | 01/26 /2022 | | |
| | 55,753 | 27,877 \$ | 02/16 /2023 | 36,314 | \$ 1,633,404 |
| | 18,180 | 36,360 \$ | 01/28 /2024 | 24,270 | \$ 1,091,665 |
| | | | | 38,486 | \$ 1,731,100 |
| | 051,940 | \$ | 01/33 /2025 | 21,313 | \$ 958,659 |
| Valdés | 7,480 | 0 \$ | 02/26 /2017 | | |
| | 10,375 | 0 \$ | 02/16 /2018 | | |
| | 18,390 | 0 \$ | 01/28 /2021 | | |
| | 35,790 | 17,895 \$ | 02/16 /2023 | 23,311 | \$ 1,048,529 |
| | 12,418 | 24,837 \$ | 01/28 /2024 | 16,578 | \$ 745,678 |
| | | | | 19,243 | \$ 865,550 |
| | 035,485 | \$ | 01/33 /2025 | 14,561 | \$ 654,954 |
| Dunbar | 026,045 | \$ | 01/33 /2025 | 10,688 | \$ 480,746 |

(1)

All options vest in three equal installments on the first, second and third anniversaries of the grant date. Each of these options is also subject to accelerated vesting in certain events, such as the Named Executive Officer's death, disability or retirement, or upon the occurrence of a Change of Control.

(2)

All RSUs vest on the third anniversary of the grant date.

(3)

The PSUs granted in 2013 vested on December 31, 2015 and are disclosed at 103% of target in accordance with ASC Topic 718. The PSUs granted in 2014 will vest on December 31, 2016 and will pay out based on performance against certain ROE and BV/Share performance goals, but only if either

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the ROE or operating income threshold performance measure is met as approved by the Human Resources Committee. PSUs granted in 2015 will vest on December 31, 2017 and will pay out based on performance against certain ROE and BV/Share performance goals, but only if either the ROE or operating income threshold is met as approved by the Human Resources Committee.

(4)

Assumes a stock price of \$44.98 per share, the closing price of a share of Common Stock on the last trading day of the year, December 31, 2015, reported for the New York Stock Exchange-Composite Transactions.

Named Executive Officers may defer PSUs that are earned and would otherwise be paid shortly after the performance period. Annual cash incentive awards, as shown in the NonEquity Incentive Compensation column of the Summary Compensation Table, may also be deferred into the Excess Plan.

Option Exercises and Stock Vesting

The following table provides information concerning the exercise of stock options and the vesting of RSUs and PSUs during calendar year 2015 for each Named Executive Officer on an aggregated basis.

| Named Executive Officer | Option Awards | | Stock Awards | |
|-------------------------|---------------------------------------|-------------------------------|--------------------------------------|------------------------------|
| | Number of Shares Acquired on Exercise | Value Realized on Exercise(1) | Number of Shares Acquired on Vesting | Value Realized on Vesting(2) |
| Zimpleman | 0 | \$ 0 | 88,232 | \$ 3,298,098 |
| Houston | 1,610 | \$ 4,508 | 38,972 | \$ 1,456,766 |
| Lillis | 55,085 | \$ 1,371,202 | 27,253 | \$ 1,018,720 |
| Dunbar | 8,275 | \$ 47,851 | 7,849 | \$ 293,394 |
| McCaughan | 96,958 | \$ 1,606,164 | 36,315 | \$ 1,357,457 |
| Valdés | 20,162 | \$ 364,422 | 23,312 | \$ 871,396 |

(1)

Represents the difference between the market price of the underlying shares of Common Stock on the date of exercise and the exercise price of the exercised option.

(2)

Represents the market value of PSUs granted in 2013 that settled on February 22, 2016, at \$37.38 upon Committee approval of the final performance modifier of 103%. The actual payout was determined applying negative discretion.

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Pension Plan Information

Participant Group

Pension Benefit Formula

Grandfathered Participants

Grandfathered Participants were age 47 or older with at least ten years of service on December 31, 2005, and elected to retain the prior benefit provisions under the DB Plan and the NQDB Plan and to forego receipt of the additional matching contributions offered under the 401(k) and Excess Plans.

Defined Benefit Plan ("DB") (Traditional Formula)

39.2% of Average Compensation (the highest five consecutive years' total Pay out of the past ten years of Pay. "Pay" is the Named Executive Officer's base salary and annual incentive bonus up to the Tax Code limits) below the Integration Level (1) plus 61.25% of Average Compensation above the Integration Level.

Cash Balance Plan The Annual Pay Credits are calculated using the table below

| Age+ Service Years (Points) | Annual Pay Credit Contribution on All Pay | Contribution on Pay Above Taxable Wage Base(2) |
|--|--|---|
| < 40 | 4.00% | 2.00% |
| 40 - 49 | 5.50% | 2.75% |
| 50 - 59 | 7.00% | 3.50% |
| 60 - 69 | 9.00% | 4.50% |
| 70 - 79 | 11.50% | 5.75% |
| 80 or more | 14.00% | 7.00% |

Messrs. Zimpleman and Lillis' benefit at retirement will be the greater of the benefit under the Traditional or Cash Balance Formulas.

NO Defined Benefit

The NQDB benefit formula for Grandfathered Participants hired before January 1, 2002 is the greater of:

65% of Average Compensation, offset by Social Security and DB Plan benefits; or

The greater of the traditional or cash balance DB Plan benefit for Grandfathered Participants without regard to Tax Code limits, offset by the benefit that can be provided under the DB Plan.

(1) The Covered Compensation Table in the Tax Code.

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Participant Group

Pension Benefit Formula

Non Grandfathered Participants

Non Grandfathered Participants will receive the greater of the benefit provided under the Traditional Benefit Formula or the Cash Balance Formula.

Defined Benefit Plan ("DB") (Traditional Formula)

35% of Average Compensation below the Integration Level plus 55% of Average Compensation above the Integration Level.

Cash Balance Plan The Annual Pay Credits are calculated using the table below

| Age+ Service Years (Points) | Annual Pay Credit Contribution on All Pay | Contribution on Pay above Taxable Wage Base(2) |
|-----------------------------------|---|--|
| < 40 | 3.00% | 1.50% |
| 40 - 59 | 4.00% | 2.00% |
| 60 - 79 | 5.50% | 2.75% |
| 80 or more | 7.00% | 3.5% |

NO Defined Benefit

Mr. Houston's retirement benefit will be the greater of the Traditional or Cash Balance Formulas.

The NQDB benefit formula for Non Grandfathered Participants hired before January 1, 2002 is:

Mr. Valdés retirement benefit will be the Cash Balance Formula. Mr. Valdés will also have a small benefit under the Traditional Formula due to service prior to January 1, 2006.

The traditional or cash balance pension plan benefit for Non Grandfathered Choice Participants (whichever is greater) without regard to Tax Code limits, offset by the benefit that can be provided under the DB Plan.

For employees who were active participants in the plan on December 31, 2005, their accrued benefit will not be less than their accrued benefit determined as of that date.

Mr. McCaughan's retirement benefit will be the Cash Balance Formula. He has not accrued any benefits under this plan since January 1, 2010.

For both groups, there is a reduction if payments start earlier than Normal Retirement Age (Traditional Benefit Formula only):

Mr. Dunbar's retirement benefit will be the Cash Balance Formula. Mr. Dunbar will also have a benefit under the Traditional Formula due to service prior to January 1, 2011.

Principal subsidizes early retirement if the Named Executive Officer remains employed until Early Retirement Age (age 57 with 10 years of service), which is the earliest date an employee may begin receiving retirement benefits.

The early retirement benefits for Grandfathered Choice Participants (and Non Grandfathered Choice Participants for benefits accrued prior to January 1, 2006) range from 75% at age 57 to 100% at age 62. The early retirement benefits for Non Grandfathered Choice Participants for benefits accrued after December 31, 2005 range from 75% at age 57 to 97% at age 64.

If the Named Executive Officer terminates employment before reaching Early Retirement Age, Principal Life does not subsidize early retirement. The early retirement benefits range from 58.6% at age 57 to 92.8% at age 64.

Benefits under the Traditional Formula are eligible for a Cost of Living Adjustment (COLA) after retirement benefits begin. For Non Grandfathered Participants only benefits accrued as of December 31, 2005 receive this adjustment. The COLA is based on the Consumer Price Index.

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Pension Distributions

Participants receive an annuity under the traditional benefit formula in the DB Plan. The qualified cash balance benefit formula in the DB Plan allows for benefits as an annuity or lump sum.

NQDB benefits may be paid as a lump sum at termination/retirement, or as an annuity. Distributions may also be allowed at death or a change of control. For participants in the plan prior to January 1, 2010, a mandatory payment occurs at age 65, and they may elect for payments on a specified date between age 60 and 65.

Pension Benefits

| Named Executive Officer | Plan Name | Number of Years Credited Service(1) | Present Value of Accumulated Benefit at Normal Retirement Age(2) | Payments During Last Fiscal Year |
|--------------------------------|-------------------|--|---|---|
| Zimpleman | Qualified Pension | 42 | \$ 2,169,802 | \$0 |
| | NQDB | | \$ 24,422,262 | \$0 |
| Houston | Qualified Pension | 31 | \$ 799,735 | \$0 |
| | NQDB | | \$ 2,959,958 | \$0 |
| Lillis | Qualified Pension | 33 | \$ 2,112,923 | \$0 |
| | NQDB | | \$ 4,992,360 | \$0 |
| Dunbar | Qualified Pension | 29 | \$ 988,056 | \$0 |
| | NQDB | | \$ 1,602,358 | \$0 |
| McCaughan | Qualified Pension | 7 | \$ 205,699 | \$0 |
| | NQDB | | \$ 1,699,619 | \$0 |
| Valdés | Qualified Pension | 5 | \$ 139,421 | \$0 |
| | NQDB | | \$ 289,164 | \$0 |

(1) As of December 31, 2015.

(2) Benefit calculations have been made using the following assumptions:

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Annuity Basis Discount Rate: 4.0% for December 31, 2014 and 4.5% for December 31, 2015 benefits;

Lump Sum Basis Discount Rate: for December 31, 2015 benefits, 6.45% for expected lump sums in 2017 or later; 7.20% for lump sum payments expected to be made in 2016.

Mortality: Total mortality rates (annuitant and non-annuitant) from RP 2006, updated for historical data to 2009. Mortality Improvement: RPEC_2014_v2011 model, reflecting actual historical data to 2009, with the following assumptions:

Convergence period of 7 years

Long-term mortality improvement is the sex-distinct and the age-based assumption calibrated to the annual improvement averages, for the period 2010-2088 published in the Social Security Administration Trustees Report 2014.;

Cost of living increase: 1.6875% for December 31, 2014 benefits and December 31, 2015 benefits;

No disability;

Retirement age of 63 for Messrs. Zimpleman and Lillis (early retirement eligible) who would then receive unreduced benefits. Retirement age of 65 for Mr. Houston, who will not have unreduced benefits prior to that point. Retirement age of 65 for Messrs. Valdés and Dunbar frozen traditional benefit plus current cash balance account. Current cash balance account for Mr. McCaughan;

A spouse 3 years younger; and

Cash balance interest crediting rate of 5.5% for December 31, 2014 and for December 31, 2015.

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Table of Contents**Non Qualified Deferred Compensation**

| Named Executive Officer | Executive Contributions in Last Fiscal year(1) | Principal Life Contributions in Last Fiscal Year(2) | Aggregate Earnings in Last Fiscal Year | Aggregate Withdrawals / Distributions | Aggregate Balance at Last Fiscal Year End(3) |
|--------------------------------|---|--|---|--|---|
| Zimpleman | \$ 313,154 | \$ 91,604 | \$ 117,418 | \$0 | \$ 4,137,245 |
| Houston | \$ 135,806 | \$ 88,354 | \$ 28,416 | \$0 | \$ 2,158,240 |
| Lillis | \$ 70,281 | \$ 28,586 | \$ 8,294 | \$0 | \$ 780,348 |
| Dunbar | \$ 51,876 | \$ 34,845 | \$ 31,685 | \$0 | \$ 401,333 |
| McCaughan | \$ 0 | \$ 0 | \$ 201,994 | \$0 | \$ 2,470,085 |
| Valdés | \$ 68,154 | \$ 50,470 | \$ 5,743 | \$0 | \$ 384,436 |

(1)

The amounts shown as "Executive Contributions" have either been included in the Salary column of the Summary Compensation Table on page 36 or represent annual incentive payment deferrals earned in 2014 and credited to the Named Executive Officers' accounts during 2015.

(2)

The amounts shown as "Principal Life Contributions" are included in the "All Other Compensation Column" of the Summary Compensation table on page 36.

(3)

The end of year 2015 aggregate balances includes the following deferrals and matching contributions from years prior to 2015:

| Named Executive Officer | Employee Deferral Prior to 1/1/2015 | Principal Life Match Prior to 1/1/2015 | Total |
|--------------------------------|--|---|--------------|
| Zimpleman | \$ 2,109,171 | \$ 556,314 | \$ 2,665,485 |
| Houston | \$ 750,676 | \$ 468,712 | \$ 1,219,388 |
| Lillis | \$ 296,305 | \$ 136,691 | \$ 432,996 |
| Dunbar | \$ 159,250 | \$ 100,594 | \$ 259,844 |

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| | | | | | | |
|-----------|----|---------|----|---------|----|-----------|
| McCaughan | \$ | 998,343 | \$ | 581,568 | \$ | 1,579,911 |
| Valdés | \$ | 141,929 | \$ | 101,757 | \$ | 243,686 |

Qualified 401(k) Plan and Excess Plan

| Plan Feature | Qualified 401(k) Plan | Excess Plan |
|---------------------------|---|---|
| Deferrals | 1-15% of base salary and up to 100% of annual incentive compensation awards (1-100% of base pay if not contributing to the Excess Plan) up to the limits imposed by the Tax Code. | 1-15% of base salary and up to 100% of annual incentive compensation awards. |
| Investment Options | There are 20 investment options and investment and investment return is based on the participant's investment direction. | The investment options are listed on page 45 and investment return is based on the participant's investment direction. |
| Distributions | Allowed at various times including termination, death and disability. | Allowed at various times including termination, death, specified date, change of control, unforeseen emergency and mandatory payment at age 65. |
| Vesting | 3 year cliff | Immediate |

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The following are the investment options available to all participants in the Excess Plan:

| Investment Option | 1 Year Rate Of Return (12/31/2015) |
|---|---|
| Principal Equity Income Institutional Fund | 3.88% |
| Principal LargeCap Value Institutional Fund | 0.93% |
| Principal LargeCap S&P 500 Index Institutional Fund | 1.22% |
| Principal LargeCap Growth Institutional Fund | 4.91% |
| Principal LargeCap Growth I Institutional Fund | 8.17% |
| Principal MidCap Institutional Fund | 1.47% |
| Principal SmallCap Value II Institutional Fund | 4.01% |
| Principal SmallCap S&P 600 Index Institutional Fund | 2.22% |
| Principal Small Cap Growth I Institutional Fund | 1.19% |
| Principal Real Estate Securities Institutional Fund | 4.22% |
| Principal International Emerging Markets Institutional Fund | 13.63% |
| Principal Diversified International Institutional Fund | 0.36% |
| Principal LifeTime Strategic Income Institutional Fund | 0.87% |
| Principal LifeTime 2010 Institutional Fund | 1.06% |
| Principal LifeTime 2020 Institutional Fund | 1.17% |
| Principal LifeTime 2030 Institutional Fund | 0.95% |
| Principal LifeTime 2040 Institutional Fund | 0.79% |
| Principal LifeTime 2050 Institutional Fund | 0.74% |
| Principal LifeTime 2060 Institutional Fund | 0.80% |
| Principal Money Market Institutional Fund | 0.00% |
| Principal Core Plus Bond Institutional Fund | 0.30% |
| Principal Inflation Protection Institutional Fund | 2.15% |
| Principal Government & High Quality Bond Institutional Fund | 0.90% |
| Principal Financial Group, Inc. Employer Stock Fund | 10.51% |
| Principal Diversified Real Asset Institutional Fund | 12.40% |

Employment Agreement

Principal had an employment agreement dated May 1, 2008, with Mr. Zimpleman with an initial term through May 1, 2011, and the term of the agreement automatically extended to create a new one year term unless either party provided notice of an intention not to extend the agreement. This agreement terminated on January 4, 2016, upon Mr. Zimpleman's retirement. Mr. Zimpleman was entitled to benefits, including a lump sum severance payment equal to two times the sum of his annual base salary and target annual bonus, if his employment involuntarily terminated under certain circumstances other than upon a Change of Control. The severance provisions were based on market practice and did not affect the decisions made regarding other components of his compensation. Mr. Houston does not have an employment contract.

Severance Plans

Messrs. Houston, Dunbar, Lillis and Valdés are eligible for severance under the Company's severance plan if they are terminated as a result of layoffs, position elimination or similar reasons. Executives do not receive severance benefits if they take a comparable job with Principal Life, fail to sign a release of claims against Principal Life, and/or other specified reasons. The benefit payable under the severance plan is the greater of one week of base salary for each year of service with Principal Life or two weeks of base salary for each \$10,000 of annual base salary (rounded to the nearest \$10,000). Each of the Named Executive Officers would be eligible for 52 weeks of severance under this plan. The severance plan has a minimum benefit of six weeks and a maximum benefit of 52 weeks of base pay, and also provides for three months of reimbursement of premium for continuation of medical, dental and vision insurance under the Retiree plan if the Executive is eligible to retire or COBRA if the Executive is not eligible to

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retire. In circumstances in which the severance plan does not apply, the Human Resources Committee would determine whether any severance benefits would be paid to Messrs. Houston, Lillis and Valdés.

An agreement made with Mr. McCaughan when he was hired provides that if he is terminated without "Cause", as that term is defined in the Change of Control Employment Agreements (see below), he will be paid (i) one year's base compensation and one year's annual bonus at target, and (ii) all other accrued entitlements, in accordance with the terms of the relevant plan.

The following table illustrates the severance or contractual benefits that the Named Executive Officers would have received had they qualified for such benefits on December 31, 2015:

| Named Executive Officer | Outplacement | | COBRA | Total |
|-------------------------|--------------|-----------|---------------|--------------|
| | Severance | Services | Reimbursement | |
| Zimpleman | \$ 6,000,000 | \$ 10,000 | \$ 0 | \$ 6,010,000 |
| Houston | \$ 775,000 | \$ 10,500 | \$ 5,243 | \$ 790,743 |
| Lillis | \$ 551,000 | \$ 10,500 | \$ 2,058 | \$ 563,558 |
| Dunbar | \$ 473,000 | \$ 10,500 | \$ 5,101 | \$ 488,601 |
| McCaughan | \$ 2,612,000 | \$ 0 | \$ 0 | \$ 2,612,000 |
| Valdés | \$ 580,000 | \$ 10,500 | \$ 7,791 | \$ 598,291 |

Change of Control Employment Agreements

Principal has Change of Control Employment Agreements with each of the Named Executive Officers except Mr. Zimpleman, whose agreement terminated upon his retirement on January 4, 2016. These Agreements have a term of two years and will automatically renew for successive one year periods unless Principal provides a notice electing not to extend the term. If during the term of these agreements a "Pre-Change of Control Event" or a "Change of Control" occurs, the term of the agreements will extend until the second anniversary of a Change of Control. These agreements provide that if payments upon termination of employment related to a Change of Control would be subjected to the excise tax imposed by Section 4999 of the Code, and if reducing the amount of the payments would result in greater benefits to the Named Executive Officer (after taking into consideration the payment of all income and excise taxes that would be owed as a result of the Change of Control payments), Principal will reduce the Change of Control payments by the amount necessary to maximize the benefits received, determined on an after tax basis.

The severance and other benefits provided under these agreements will be available to Named Executive Officers upon a Change of Control if their employment is terminated following or in connection with a Pre-Change of Control Event, or if any third party ends or adversely changes the terms and conditions of their employment. For a termination prior to a Change of Control, such termination or change in employment is deemed to have occurred immediately following the date on which a Change of Control occurs, rather than at the time the termination or change in employment actually occurs.

Under these Agreements, a "Pre-Change of Control Event" means:

An offer that would result in a third party owning 40% or more of the Company's voting securities;

A proxy solicitation or contest for the election of one or more members of the Company's Board; or

An agreement that would result in a Change of Control.

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Under these Agreements, a Change of Control means:

Any person becoming an owner of 40% or more of the Company's Common Stock;

Directors on the Board on the date of the Agreements (or those thereafter nominated for election, or elected to replace such Directors by certain incumbent Directors) are no longer a majority of the Board;

A merger, reorganization, consolidation or similar transaction in which the shareholders of Principal do not continue to own more than 60% of the voting securities of the surviving corporation or its ultimate parent corporation; or

Approval by the shareholders of Principal of a sale of its assets or a plan of liquidation.

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These Agreements also provide:

That the Named Executive Officers receive specified salary, annual incentive compensation and benefits for two years following a Change of Control if their employment continues after the Change of Control;

That if the successor to Principal agrees to issue equity to replace the equity awards they received from Principal, the outstanding equity awards will continue or will become equity related to the common stock of the successor company ("Successor"). Any outstanding performance based equity awards will be converted into time vesting restricted stock or RSUs for Principal stock (or the stock of the Successor). If the Successor does not or cannot agree to such substitution, then any such awards that are not converted will become fully vested, exercisable and/or distributable upon the Change of Control. In addition, the Agreements and equity award agreements specify that the Human Resources Committee (as made up immediately prior to the Change of Control) determines whether awards will be settled in cash;

For severance and other benefits if their employment is terminated without "Cause" or by the Named Executive Officer voluntarily for "Good Reason." Termination without cause or by the Named Executive Officer for good reason is referred to as a "qualifying termination;" and

That they will vest in all benefits previously accrued under the NQDB and Excess Plans, and these benefits will be paid in accordance with these plans.

The benefits received upon a Change of Control without termination of employment include the current vested account balance in the Excess Plan and the current vested benefit in the NQDB, according to change of control distribution elections on file for these plans.

For purposes of the Agreements, "Good Reason" means negative changes in the terms and conditions of the Named Executive Officer's employment, consisting of:

Failure to pay base salary;

Failure to pay the annual bonus or a reduction in annual bonus opportunity;

Material adverse change in position, authority or duties;

Material reduction in the aggregate compensation and benefits;

Relocation to any office or location more than 50 miles from where the Named Executive Officer worked immediately before the Change of Control;

Any material breach of the Change of Control Employment Agreement;

Any purported termination the Company claims is for Cause, but fails to satisfy the requirements for a Cause termination; or

The failure of the Successor to be bound by the Agreements.

"Cause" means any one or more of the following:

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Commission of certain crimes;

Misconduct or habitual neglect of duties; or

Willful or intentional breach of the Change of Control Agreement.

The benefits to be paid or provided under the Agreements if termination occurs for Good Reason or without Cause consist of:

Lump sum severance benefits equal to two times the sum of the annual base salary and target annual bonus;

Immediate vesting of all stock options, stock appreciation rights, shares of restricted stock, PSAs, PSUs, performance units, RSUs and deferred stock units;

A prorated annual bonus for the year of termination minus the amount paid for the bonus at the time of the Change of Control; and

The reimbursement for legal fees and other related expenses to enforce the Agreements.

In addition, until the third anniversary of the date of the Named Executive Officer's termination, he and his eligible family members will receive medical, prescription drug, dental, vision, group term life insurance, and accidental death and dismemberment coverages comparable to those received by Executives whose employment continues.

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Pursuant to these Agreements, the Named Executive Officers agreed that for one year following a termination of employment that results in the Named Executive Officer receiving the severance benefits described above, he will not work for a competing business, solicit employees or customers, or interfere with the relationships of the Company, its affiliates and subsidiaries with their employees or customers.

Potential Payments Upon Termination Related to a Change of Control

The following table describes the potential payments upon involuntary termination without Cause or voluntary termination for Good Reason following a Change of Control. The calculations provided in the table assume:

termination occurred on December 31, 2015;

per share price of the Company's Common Stock was \$44.98, the closing price as of December 31, 2015, the last trading day of the year.

| Named Executive Officer | Cash Severance(1) | Previously Unvested Options | Value of Spread on Restricted Stock & Performance Shares(2) | Accelerated Benefits(3) | Pension Benefit(4) | Total Termination Benefits (before taxes) |
|-------------------------|-------------------|-----------------------------|---|-------------------------|--------------------|---|
| | | | | | | |
| Zimpleman | \$ 6,000,000 | \$ 977,772 | \$ 9,857,727 | \$ 46,109 | \$ 0 | \$ 16,881,608 |
| Lillis | \$ 2,204,000 | \$ 301,543 | \$ 2,814,848 | \$ 31,334 | \$ 0 | \$ 5,351,725 |
| Houston | \$ 6,975,000 | \$ 431,152 | \$ 4,230,864 | \$ 61,050 | \$ 0 | \$ 11,698,066 |
| McCaughan | \$ 5,224,000 | \$ 401,720 | \$ 5,414,827 | \$ 48,668 | \$ 0 | \$ 11,089,215 |
| Valdés | \$ 2,030,000 | \$ 258,024 | \$ 3,314,711 | \$ 61,050 | \$ 0 | \$ 5,663,785 |
| Dunbar | \$ 1,608,200 | \$ 130,436 | \$ 1,241,700 | \$ 61,050 | \$ 0 | \$ 3,041,386 |

(1) Cash severance equals two times the sum of base salary and target annual bonus. In addition, the Named Executive Officers would be entitled to a pro rata bonus for the year of termination.

(2) Equals the full value of unvested restricted shares and unearned performance shares as of December 31, 2015, where vesting would be accelerated, at a stock price of \$44.98. Performance shares granted in 2014 and 2015 are valued at target, based on our performance to date as of December 31, 2015.

(3) Includes the estimated cost of continued medical, dental, vision, and life insurance coverage for three years after the Named Executive Officer's termination and outplacement services.

(4)

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Represents the lump sum present value of the accelerated vesting of unvested retirement benefits. All of the Named Executive Officers are fully vested in their pension benefit.

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Proposal Two Advisory Vote to Approve Executive Compensation

Say on pay votes will be held annually until the next vote on the frequency of this advisory vote is conducted in 2017, or until the Board determines that a different frequency would be in the best interests of the Company's shareholders.

The Company's Executive compensation program is designed to reward Executives who contribute to the achievement of the Company's business objectives and to attract, retain and motivate talented Executives to perform at the highest level and contribute significantly to the Company's success. The program is designed to tie the delivery of Executive compensation to the achievement of the Company's long and short term financial and strategic goals and to align the interests of Executives and shareholders. The purposes and objectives of, and the rationale behind, the Company's compensation program are described in significant detail in the Compensation Discussion and Analysis, starting on page 21. Of particular note are the following policies and practices aligned with recognized corporate governance best practice:

Our Executive compensation is, in large measure, highly variable and directly linked to our short term and long term financial and strategic goals and the performance of the Company's stock price over time.

Executives receive a significant portion of total compensation opportunity in the form of equity based long term incentives and are required to own stock in Principal to ensure their interests are aligned with the shareholders' interests and long term performance of Principal.

Principal prohibits all employees, including Executives, from: purchasing Company securities on margin, except for the exercise of employee stock options; short sales; trading in put or call options; and purchasing, directly or through a designee, any financial instrument (including prepaid variable forward contracts, equity swaps, collars and exchange funds) that is designed to hedge or offset any decrease in the market value of Company securities.

Principal has a compensation recovery policy to recover incentive compensation paid to Executives if the amount of the compensation was based on achievement of financial results that were subsequently restated, if, in the opinion of the Committee, the Executive engaged in fraud or intentional misconduct that caused the restatement of the Company's financial statements, and that the amount of the Executive's incentive compensation or equity award would have been lower had the financial results been properly reported.

Our Executive Change of Control Employment Agreements provide market-based service protection and do not contain excise tax gross ups.

We provide limited perquisites to Executives – one physical examination per year, business spousal travel, and gifts of nominal value given to all sales conference attendees.

Our programs are designed to be financially efficient from tax, accounting, cash flow and share dilution perspectives. We make efforts to ensure tax deductibility to Principal of all compensation to the extent practicable.

Shareholders are being asked to vote on the Company's compensation policies and procedures for the Named Executive Officers, as described in the Compensation Discussion and Analysis and the compensation tables and the accompanying narratives in this Proxy Statement.

This vote is not intended to address any specific item of compensation, but the Company's overall compensation related to our Named Executive Officers. Because your vote is advisory, it will not be binding on the Board and will not overrule any decision by the Board or require the Board to take any action. However, the Human Resources Committee, which is responsible for designing and administering the Company's Executive compensation program, values shareholder opinions and will consider the outcome of the vote when making future compensation decisions for the Named Executive Officers.

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This proposal, commonly known as a "say on pay" proposal, gives shareholders the opportunity to vote on an advisory, nonbinding basis to approve the compensation of our Named Executive Officers as disclosed in this proxy statement pursuant to SEC rules through the following resolution:

RESOLVED, that the compensation paid to the Company's Named Executive Officers, as disclosed pursuant to Item 402 of Regulation S-K, including the Compensation Discussion and Analysis, compensation tables and narrative discussion, is hereby approved.

The Board of Directors recommends that shareholders vote "For" this resolution.

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Proposal Three Ratification of Appointment of Independent Registered Public Accountants

Subject to shareholder ratification, the Audit Committee has appointed the firm of Ernst & Young LLP to audit the consolidated financial statements of the Company for the fiscal year ending December 31, 2016. In order to assure continuing auditor independence, the Audit Committee periodically considers the advisability and potential impact of selecting a different independent external audit firm. Ernst & Young LLP has served as the Company's independent registered public accountant since it became a publicly traded company in 2001, and Principal Life has used Ernst & Young LLP as its independent registered public accountant for many years prior thereto. The Audit Committee and the Board of Directors believe that the continued retention of Ernst & Young LLP is in the best interest of the Company and its shareholders. Ratification of the appointment of the independent registered public accountants requires the affirmative vote of a majority of the shares represented at the meeting and voting on the matter. If the shareholders do not ratify this appointment, the Audit Committee will consider the matter of the appointment of the independent registered public accountants.

RESOLVED, that the appointment of Ernst & Young, LLP to audit the consolidated financial statements of the Company for the fiscal year ending December 31, 2016 be ratified.

The Board of Directors recommends that shareholders vote "For" this resolution.

Representatives of Ernst & Young LLP will be present at the Annual Meeting, will be given an opportunity to make a statement if they so desire and will be available to respond to appropriate questions relating to the audit of the Company's 2015 consolidated financial statements.

Audit Fees

The aggregate fees billed by the Company's independent registered public accounting firm in 2015 and 2014 for professional services rendered in connection with regulatory audits in accordance with US GAAP, statutory, or foreign accounting principles; consultation on matters addressed during these audits; review of documents filed with regulators including the SEC; other engagements required by statute; or engagements that generally only the Company's independent registered public accounting firm can reasonably provide, such as comfort letters or consents, were approximately \$10,352,000 in 2015 and \$8,984,000 in 2014.

Audit Related Fees

The aggregate fees billed by the Company's independent registered public accounting firm in 2015 and 2014 for professional services rendered in connection with audit related services such as financial statement audits of employee benefit plans, financial statement audits not required by statute or regulation, accounting consultations in connection with proposed transactions or emerging accounting standards, and other attest and related advisory services not required by statute or regulation totaled approximately \$1,397,000 in 2015 and \$1,530,000 in 2014

Tax Fees

The aggregate fees billed by the Company's independent registered public accounting firm for professional services rendered in connection with tax services consisting primarily of tax compliance totaled approximately \$88,000 in 2015 and \$223,000 in 2014. Tax compliance generally involves preparation, assistance or attestation related to tax filings in various domestic and non-domestic jurisdictions. Tax consultation generally involves assistance in connection with tax audits, filing appeals, and compliance with new tax related regulations.

All Other Fees

The aggregate fees billed by the Company's independent registered public accounting firm for professional services rendered in connection with other services consisting primarily of software licensing totaled approximately \$27,000 in 2015 and \$3,000 in 2014.

The Audit Committee has adopted a policy on auditor independence that calls for the Committee to preapprove any service the Company's independent registered public accountant proposes to provide to the Company, its majority owned subsidiaries, employee benefit plans or affiliates. The policy also calls for the Committee to preapprove any audit service any independent auditor proposes to provide to these entities. The purpose of the policy is to assure that the provision of such services does not impair any auditor's independence. The policy provides for the

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general preapproval of specific types of Audit and Audit Related services and fees up to an established individual

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engagement and annual threshold. The policy requires specific preapproval of all other services. Pursuant to the policy, each quarter Principal management presents to the Committee a detailed description of each particular service that meets the definition of services that have been generally approved and each service for which specific preapproval is sought, and an estimate of fees for each service. The policy accords the Audit Committee Chair authority to preapprove services and fees for those services that arise between regularly scheduled meetings of the Audit Committee. In considering whether to preapprove the provision of non audit services by the independent registered public accountant, the Audit Committee will consider whether the services are compatible with the maintenance of the independent registered public accountant's independence. The Audit Committee does not delegate its responsibilities to preapprove services performed by an independent auditor to management.

The Audit Committee did not approve the services described above under the captions "Audit Related Fees," "Tax Fees" and "All Other Fees" by utilizing the de minimis exception of SEC Rule 2-01(c)(7)(i)(C).

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Except as otherwise indicated below, the following table shows, as of March 14, 2016, beneficial ownership of shares of Common Stock by (i) the only shareholders known to the Company to beneficially own more than 5% of the outstanding shares of Common Stock, (ii) each Director, (iii) each Named Executive Officer and (iv) all current Directors and Executive Officers as a group. Except as otherwise indicated below, each of the individuals named in the table has sole voting and investment power, or shares such powers with his or her spouse, for the shares set forth opposite his or her name.

| Name | Number of Shares Beneficially Owned(1) | Percent of Common Stock Outstanding |
|--|---|--|
| The Vanguard Group ⁽²⁾ 100 Vanguard Boulevard Malvern, Pennsylvania 19355 | 24,297,072 | 8.29 |
| Wellington Management Group LLP ⁽³⁾ c/o Wellington Management Company LLP 280 Congress Street Boston, MA 02210 | 19,825,898 | 6.77 |
| Nippon Life Insurance Company ⁽⁴⁾ 3-5-12 Imabashi Chuo-ku Osaka, 541-8501, Japan | 18,137,000 | 6.17 |
| BlackRock Inc. ⁽⁵⁾ 55 East 52 nd Street New York, NY 10055 | 15,747,569 | 5.40 |
| Capital Research Global Investors ⁽⁶⁾ 333 South Hope Street Los Angeles, California 90071 | 9,000,600 | 3.10 |
| Betsy J. Bernard | 33,493 | * |
| Jocelyn Carter-Miller | 34,080 | * |
| Gary E. Costley | 35,970 | * |
| Michael T. Dan | 39,378 | * |
| Dennis H. Ferro | 17,862 | * |
| C. Daniel Gelatt ⁽⁷⁾ | 368,111 | * |
| Sandra L. Helton | 41,092 | * |
| Roger C. Hochschild | 304 | |
| Richard L. Keyser | 0 | * |

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| | | |
|--|-----------|------|
| Luca Maestri | 0 | * |
| Blair C. Pickerell | 0 | * |
| Elizabeth E. Tallett | 38,750 | * |
| Timothy M. Dunbar | 148,682 | * |
| Daniel J. Houston | 551,799 | * |
| Terrance J. Lillis | 254,808 | * |
| James P. McCaughan | 590,875 | * |
| Luis Valdés | 207,916 | * |
| Larry D. Zimpleman | 1,782,143 | * |
| All Directors and Executive Officers as a group (24 persons) | 5,170,534 | 1.78 |

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*

The number of shares represents less than one percent of the number of shares of Common Stock outstanding.

(1)

Includes beneficial ownership of shares which each person named in this table has the right to acquire on or before May 13, 2016 pursuant to previously awarded stock options, RSUs, and performance units that, although scheduled to be paid in shares in more than 60 days, would be paid immediately upon termination of service, as follows: Ms. Bernard, 31,838; Ms. Carter Miller, 33,810; Dr. Costley, 31,838; Mr. Dan, 29,378; Mr. Ferro, 16,862; Mr. Gelatt, 36,604; Ms. Helton, 31,838; Mr. Hochschild, 304; Mr. Keyser, 0; Mr. Maestri, 9,340; Mr. Pickerell, 0; Ms. Tallett, 36,111; Mr. Dunbar, 122,126; Mr. Houston, 418,891; Mr. Lillis, 177,294; Mr. McCaughan, 439,558; Mr. Valdés, 126,594; Mr. Zimpleman, 1,525,735; and all other executive officers as a group, 705,258.

(2)

The information regarding beneficial ownership by The Vanguard Group is based solely on an amended Schedule 13G filed by it with the SEC on February 10, 2016, which provided information as of December 31, 2015. According to the Schedule 13G, Vanguard has sole voting power with respect to 513,087 shares; shared voting power with respect to 29,300 shares; sole investment power with respect to 23,748,912 shares; and shared investment power with respect to 548,160 shares.

(3)

The information regarding beneficial ownership by Wellington Management Group LLP is based solely on a Schedule 13G filed by it with the SEC on February 11, 2016, which provided information as of December 31, 2015. According to the Schedule 13G, Wellington has sole voting power with respect to 0 shares; shared voting power with respect to 11,526,961 shares; sole investment power with respect to 0 shares; and shared investment power with respect to 19,825,898 shares.

(4)

The information regarding beneficial ownership by Nippon Life Insurance Company is based solely on a Schedule 13G filed by it with the SEC on February 28, 2008, which provided information as of February 21, 2008. According to the Schedule 13G, Nippon Life has sole voting power with respect to 18,137,000 shares; shared voting power with respect to 0 shares; sole investment power with respect to 18,137,000 shares; and shared investment power with respect to 0 shares.

(5)

The information regarding beneficial ownership by BlackRock Inc. is based solely on a Schedule 13G filed by it with the SEC on February 10, 2016, which provided information as of December 31, 2015. According to the Schedule 13G, BlackRock has sole voting power with respect to 13,332,266 shares; shared voting power with respect to 0 shares; sole investment power with respect to 15,747,569 shares; and shared investment power with respect to 0 shares.

(6)

The information regarding beneficial ownership by Capital Research Global Investors is based solely on an amended Schedule 13G filed by it with the SEC on February 16, 2016, which provided information as of December 31, 2015. According to the Schedule 13G, Capital Research Global Investors has sole voting power with respect to 9,000,600 shares; shared voting power with respect to 0 shares; sole investment power with respect to 9,000,600 shares; and shared investment power with respect to 0 shares.

(7)

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Includes 331,506 shares held by Gingko LLC of which Dr. Gelatt is a controlling shareholder, director and executive officer.

In addition to beneficial ownership of Common Stock, the Company's Directors and Executive Officers also hold different forms of "stock units" that are not reported in the security ownership table but represent additional financial interests that are subject to the same market risk as Common Stock. These units include shares that may be acquired after May 13, 2016, pursuant to previously awarded stock options, RSUs, performance share units and nontransferable accounting entry units such as phantom stock units issued pursuant to Company stock based compensation and benefit plans. The value of such units is the same as the value of the corresponding number of shares of Common Stock.

See "Directors' Compensation" on pages 17-19 for a discussion of the options and RSUs granted to Directors under the Principal Financial Group, Inc. 2014 Directors Stock Plan and the phantom stock units credited to Directors who participate in the Deferred Compensation Plan for Non Employee Directors of Principal Financial Group, Inc. See "Compensation Discussion and Analysis" beginning on page 21 for a discussion of the performance units credited to officers who defer receipt of awards under a long term performance plan, the options and RSUs granted under the 2014 Stock Incentive Plan, and phantom stock units credited to officers that defer salary into an employer stock fund available under the Excess Plan.

As of March 14, 2016, the Directors and Executive Officers named in the security ownership table hold a pecuniary interest in the following number of units: Ms. Bernard, 2,535; Ms. Carter Miller, 2,535; Dr. Costley, 9,832; Mr. Dan, 15,133; Mr. Ferro, 18,966; Dr. Gelatt, 2,535; Ms. Helton, 2,535; Mr. Hochschild, 5,404; Mr. Keyser, 0; Mr. Maestri, 2,582; Mr. Pickerell, 1,725; Ms. Tallett, 8,523; Mr. Dunbar, 98,992; Mr. Houston, 292,292; Mr. Lillis, 136,697; Mr. McCaughan, 231,909; Mr. Valdés, 138,304; and Mr. Zimpleman, 14,232.

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Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's Directors, Executive Officers and persons who own more than ten percent of a registered class of the Company's equity securities to file with the SEC and the New York Stock Exchange reports of ownership of the Company's securities and changes in reported ownership. Directors, Executive Officers and greater than ten percent shareholders are required by SEC rules to furnish the Company with copies of all Section 16(a) reports they file.

Based solely on a review of the reports furnished to the Company, or written representations from reporting persons that all reportable transactions were reported, the Company believes that during the fiscal year ended December 31, 2015, the Company's Directors, Executive Officers and greater than ten percent owners timely filed all reports they were required to file under Section 16(a), except for one report for one Director. Principal discovered that one report for Roger C. Hochschild was inadvertently not timely filed to disclose restricted stock units granted by the Company as director compensation.

Principal undertakes to prepare Section 16(a) reports on behalf of its Directors and Executive Officers. A lack of communication within the Company caused the report to be inadvertently filed two business days after the two-day filing requirement for Section 16(a) reports.

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Questions and Answers About the Annual Meeting

Why didn't I receive a copy of the paper proxy materials?

The Securities and Exchange Commission ("SEC") rules allow companies to deliver a notice of Internet availability of proxy materials to shareholders and provide Internet access to those proxy materials. Shareholders may obtain paper copies of the proxy materials free of charge by following the instructions provided in the notice of Internet availability of proxy materials.

Why did I receive notice of and access to this proxy statement?

The Board of Directors ("Board") is soliciting proxies to be voted at the annual meeting of shareholders to be held on May 17, 2016, at 9:00 a.m., Central Daylight Savings Time, at 750 Park Street, Des Moines, Iowa, and at any adjournment or postponement of the meeting ("Annual Meeting"). When the Board asks for your proxy, it must send or provide you access to proxy materials that contain information required by law. These materials were first made available, sent or given to shareholders on April 7, 2016.

What is a proxy?

It is your legal designation of another person to vote the stock you own. The other person is called a proxy. When you designate someone as your proxy in a written document, that document is also called a proxy or a proxy card. Principal has designated three of the Company's officers to act as proxies for the 2016 Annual Meeting: Timothy M. Dunbar, Executive Vice President and Chief Investment Officer; Terrance J. Lillis, Executive Vice President and Chief Financial Officer; and Karen E. Shaff, Executive Vice President, General Counsel and Secretary.

What will the shareholders vote on at the Annual Meeting?

Election of four Directors for three year terms;

An advisory vote to approve named executive officer compensation; and

Ratification of the appointment of independent auditors.

Will there be any other items of business on the agenda?

Principal does not expect any other items of business because the deadline for shareholder proposals and nominations has passed. However, if any other matter should properly come before the meeting, the people authorized by proxy will vote according to their best judgment.

Who can vote at the Annual Meeting?

Shareholders as of the close of business on March 22, 2016 ("Record Date") can vote at the Annual Meeting.

How many votes do I have?

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You will have one vote for every share of Company common stock ("Common Stock") you owned on the Record Date.

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What constitutes a quorum?

One third of the outstanding shares of Common Stock as of the Record Date. On the Record Date, there were 290,583,227 shares of Common Stock outstanding. A quorum must be present, in person or by proxy, before any action can be taken at the Annual Meeting, except an action to adjourn the meeting.

How many votes are required for the approval of each item?

Each nominee for Director will be elected if there are more votes for the nominee than votes against the nominee. Directors are elected by the majority of votes cast in uncontested Director elections.

The advisory vote to approve the Company's Named Executive Officer compensation will be approved if there are more votes for the proposal than against the proposal.

The appointment of the independent auditors will be ratified if there are more votes for the proposal than votes against the proposal.

Abstentions and broker non votes will be treated as being present at the meeting for the purpose of determining a quorum but will not be counted as votes for the proposals. They have no impact on the Director nominees, the advisory vote to approve named executive officer compensation or ratification of independent auditors.

What are Broker Non votes?

If your shares are held in a brokerage account, your broker will ask you how you want your shares to be voted. If you give your broker directions, your shares will be voted as you direct. If you do not give directions, the broker may vote your shares on routine items of business, but not on non routine items. Proxies that are returned by brokers because they did not receive directions on how to vote on non routine items are called "broker non votes."

How do I vote by proxy?

Shareholders of record may vote by mail, by telephone or through the Internet. Shareholders may vote "for," "against" or "abstain" from voting for each of the Director nominees, the advisory vote to approve named executive officer compensation, and the proposal to ratify the appointment of the independent auditors.

By Mail. Sign and date each proxy or voting instruction card you receive and return it in the prepaid envelope. Sign your name exactly as it appears on the proxy. If you are signing as a representative (for example, as an attorney in fact, executor, administrator, guardian, trustee or an officer or agent of a corporation or partnership), indicate your name and your title or capacity. If the stock is held in custody for a minor, the custodian should sign, not the minor. If the stock is held in joint ownership, one owner may sign on behalf of all owners.

By Telephone. Follow the instructions on the proxy or voting instruction card or the instructions in the email message that notified you of the availability of the proxy materials. If you vote by telephone, do not return your proxy or voting instruction card. Telephone voting for proxy cards will be available until 1:00 a.m., Central Daylight Time, on May 17, 2016 and until 1:00 a.m., Central Daylight Time, on May 13, 2016, for voting instruction cards.

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Through the Internet. You may vote on line at www.investorvote.com. Follow the instructions provided in the notice of Internet availability of proxy materials or on the proxy or voting instruction card. If you vote through the Internet, do not return your proxy or voting instruction card. Internet voting for proxy cards will be available until 1:00 a.m., Central Daylight Time, on May 17 2016, and until 1:00 a.m., Central Daylight Time, on May 13, 2016, for voting instruction cards.

How do I vote shares that are held by my broker?

If you own shares held by a broker, you may direct your broker or other nominee to vote your shares by following the instructions that your broker provides to you. Most brokers offer voting by mail, telephone and through the Internet.

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How do I vote in person?

If you are going to attend the Annual Meeting, you may vote your shares in person. However, we encourage you to vote in advance of the meeting by mail, telephone or through the Internet even if you plan to attend the meeting.

How do I vote my shares held in the Company's 401(k) plan?

The trustees of the plan will vote your shares in accordance with the directions you provide by voting on the voting instruction card or the instructions in the email message that notified you of the availability of the proxy materials. Shares for which voting instructions are not received are voted in the discretion of the trustees.

How are shares held in the Demutualization separate account voted?

Principal became a public company on October 26, 2001, when Principal Mutual Holding Company converted from a mutual insurance holding company to a stock company (the "Demutualization") and the initial public offering of shares of the Company's Common Stock was completed. Principal issued Common Stock to Principal Life, and Principal Life allocated this Common Stock to a separate account that was established to fund policy credits received as Demutualization compensation by certain employee benefit plans that owned group annuity contracts. Although Principal Life will vote these shares, the plans may give Principal Life voting directions. A plan may give voting directions by following the instructions on the voting instruction card or the instructions in the message that notified you of the availability of proxy materials. Principal Life will vote the shares as to which it received no direction in the same manner, proportionally, as the shares in the Demutualization separate account for which it has received directions.

Who counts the votes?

Votes will be counted by Computershare Trust Company, N.A.

What happens if I do not vote on an issue when returning my proxy?

If no specific instructions are given, proxies that are signed and returned will be voted as the Board of Directors recommends:

"For" the election of all Director nominees;

"For" approval of the Company's named executive officer compensation and

"For" the ratification of Ernst & Young LLP as independent auditors.

How do I revoke my proxy?

If you hold your shares in street name, you must follow the instructions of your broker or bank to revoke your voting instructions. Otherwise, you can revoke your proxy or voting instructions by voting a new proxy or instruction card or by voting at the meeting.

What should I do if I want to attend the Annual Meeting?

Please bring photo identification and, if your stock is held by a broker or bank, evidence of your ownership of Common Stock as of March 22, 2016. The notice of Internet availability of proxy materials you received in the mail, a letter from your broker or bank or a photocopy of a current account statement will be accepted as evidence of ownership.

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How do I contact the Board?

Principal has a process for shareholders and all other interested parties to send communications to the Board through the Lead Director. You may contact the Lead Director of the Board through the Investor Relations section of the Company's website at www.principal.com, or by writing to:

Lead Director, c/o Karen E. Shaff
Executive Vice President, General Counsel and Secretary
Principal Financial Group, Inc.
Des Moines, Iowa 50392-0300

All emails and letters received will be categorized and processed by the Company's Secretary and then sent to the Company's Lead Director.

How do I submit a shareholder proposal for the 2017 Annual Meeting?

The Company's next annual meeting is scheduled for May 16, 2017. Proposals should be sent to the Company's Secretary. Proposals to be considered for inclusion in next year's proxy statement must be received by December 8, 2016. In addition, the Company's By-Laws provide that any shareholder wishing to propose any other business at the annual meeting must give Principal written notice between January 17, 2017 and February 21, 2017. That notice must provide other information as described in the Company's By-Laws, which are on the Company's website, www.principal.com.

What is "householding?"

We send shareholders of record at the same address one copy of the proxy materials unless we receive instructions from a shareholder requesting receipt of separate copies of these materials.

If you share the same address as multiple shareholders and would like Principal to send only one copy of future proxy materials, please contact Computershare Trust Company, N.A. at 866-781-1368, or P.O. Box 43078, Providence, RI 02940-3078. You can also contact Computershare to receive individual copies of all documents.

Where can I receive more information about the Company?

We file reports and other information with the SEC. This information is available on the Company's website at www.principal.com and at the Internet site maintained by the SEC at www.sec.gov. You may also contact the SEC at 1-800-SEC-0330. The Audit, Finance, Human Resources and Nominating and Governance Committee charters, the Company's Corporate Governance Guidelines, and the Corporate Code of Business Conduct and Ethics are also available on the Company's website, www.principal.com.

The Board urges you to exercise your right to vote by using the Internet or telephone or by returning the proxy or **voting instruction card**.

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Appendix A

Towers Watson 2015 Financial Services Executive Compensation Survey Participants

| | |
|--|--|
| AAA Northern California, Nevada & Utah | CSAA Insurance Group |
| ACE Limited | Cullen Frost Bankers |
| AFLAC | Delta Dental of California |
| AgriBank, FCB | Delta Dental Plan of Michigan |
| AgStar Financial Services | Dollar Bank |
| AIG | Eastern Bank |
| Alliant Credit Union | East West Bank |
| Allianz Life Insurance | Element Fleet Management |
| Allstate | Emblem Health |
| Ally Financial | Employers Mutual Casualty Company |
| American Express | Erie Insurance |
| Ameritas Life | Ernst & Young |
| Arthur J Gallagher & Company | Eventide Asset Management, LLC |
| Aspen Specialty | EverBank |
| Associated Banc-Corp | Farm Credit Bank of Texas |
| Assurant | Farmers Group |
| Athene | Federal Home Loan Bank of Atlanta |
| Auto Club Group | Federal Home Loan Bank of San Francisco |
| AXA Group | Federal Reserve Bank of Atlanta |
| Bank of Montreal | Federal Reserve Bank of Cleveland |
| Bank of the West | Federal Reserve Bank of San Francisco |
| Barclays | Federal Reserve Bank of St. Louis |
| BB&T | Federal Reserve Board |
| BBVA | Fidelity Investments (FMR) |
| BECU | Fifth Third Bancorp |
| Behringer | FINRA |
| Blue Cross Blue Shield of Arizona | First Data |
| Blue Cross Blue Shield of Florida | First Financial Bancorp |
| Blue Cross Blue Shield of Louisiana | First Horizon National |
| Blue Shield of California | First Interstate Bank |
| BOK Financial | First Midwest Bancorp |
| Bremer Financial | First National of Nebraska |
| Cadence Bank | Franklin Resources |
| Capital One Financial | Freddie Mac |
| Caterpillar Financial Services | GATX |
| CBRE Global Investors | GE Capital |
| Centene | Genpact |
| Charles Schwab | Genworth Financial |
| Chubb | Gray Insurance Company |
| Cigna | Great American Insurance |
| Citizens Property Insurance | Great-West Financial |
| City National Bank | Guardian Life |
| CLS | Hartford Financial Services Group |
| CME Group | Health Net |
| CNA Insurance | Hitachi Capital America |
| CNO Financial | Horizon Blue Cross Blue Shield of New Jersey |
| Comerica | H&R Block |
| Commerce Bancshares | HSBC Bank |

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| | |
|------------------------------------|-----------------------------------|
| Humana | Principal Financial Group |
| Huntington Bancshares | Progressive |
| Iberia Bank | Protective Life |
| Indiana Farm Bureau Insurance | Prudential Financial |
| Inland Bancorp | Radian Group |
| Jackson National Life | Realogy |
| JJB Hilliard, WL Lyons, LLC | Regions Financial |
| John Hancock | Reinsurance Group of America |
| Johnson Financial Group | RLI |
| KeyCorp | Rockland Trust Company |
| Knights of Columbus | Sallie Mae |
| Liberty Mutual | Santander Bank |
| Lincoln Financial | SBLI of Massachusetts |
| Loews | Securian Financial Group |
| LPL Financial | Society Insurance |
| Manulife Financial | Springleaf Financial Services |
| MAPFRE USA | StanCorp Financial Group |
| Markel | State Farm Insurance |
| Marsh & McLennan | State Street |
| Massachusetts Mutual | Sun Life Financial |
| MB Financial | SunTrust Banks |
| McGraw-Hill Financial | SVB Financial |
| Mercedes-Benz Financial Services | Synchrony Financial |
| MetLife | Synovus Financial Corporation |
| Moody's | TD Ameritrade |
| M&T Bank | TD Bank Financial Group |
| Munich Re Group | Thrivent Financial for Lutherans |
| Mutual of Omaha | TIAA-CREF |
| Nasdaq | TigerRisk Partners |
| Nationwide | Tinker Federal Credit Union |
| Navy Federal Credit Union | Transamerica |
| NCCI Holdings | Travelers |
| NC State Employees' Credit Union | United Federal Credit Union |
| New York Life | Universal Insurance North America |
| Northwestern Mutual | University FCU |
| Ohio National Financial Services | Unum |
| OneAmerica Financial Partners | USAA |
| OneBeacon Insurance | U.S. Bancorp |
| Pacific Life | Visa |
| PayPal | Voya Financial Services |
| Penn Mutual Life | Webster Bank |
| Pentagon Federal Credit Union | Wellpoint |
| People's Bank | Wells Fargo |
| Phoenix Companies | Western Union |
| PlainsCapital | Willis North America |
| Plymouth Rock Assurance | World Bank |
| Portfolio Recovery Associates | Zurich North America |
| Preferred Mutual Insurance Company | |

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**Towers Watson
2015 Diversified Insurance Compensation Survey Participants**

| | |
|-----------------------------------|----------------------------------|
| AFLAC | Northwestern Mutual |
| AIG | OneAmerica Financial Partners |
| Allstate | Pacific Life |
| AXA Group | Phoenix Companies |
| Cigna | Principal Financial Group |
| CNO Financial | Prudential Financial |
| Genworth Financial | Securian Financial Group |
| Guardian Life | Sun Life Financial |
| Hartford Financial Services Group | Thrivent Financial for Lutherans |
| John Hancock | TIAA-CREF |
| Lincoln Financial | Transamerica |
| Massachusetts Mutual | Unum Group |
| MetLife | USAA |
| Nationwide | Voya Financial Services |
| New York Life | |

**McLagan
2015 Investment Management Survey Participants**

| | |
|---|---|
| AB (formerly AllianceBernstein L.P.) | Denver Investments |
| Aberdeen Asset Management | Deutsche Asset & Wealth Management |
| Acadian Asset Management, LLC | Diamond Hill Investment Group Inc. |
| Adams Funds | Dimensional Fund Advisors Inc. |
| Advisory Research, Inc. (Piper Jaffray) | Driehaus Capital Management LLC |
| AEW Capital Management | DuPont Capital Management |
| Allianz Global Investors | Duff & Phelps Investment Management Co. |
| Alpine Woods Capital Investors, LLC | Eaton Vance Management |
| American Beacon Advisors | Epoch Investment Partners, Inc. |
| American Century Investments | F-Squared Investments |
| AMG Funds LLC | Federated Investors, Inc. |
| AMP Capital Investors Limited | Fidelity Investments |
| Amundi Smith Breeden LLC | Fiera Capital Corporation |
| Analytic Investors, LLC | First Quadrant, L.P. |
| AQR Capital Management, LLC | First Eagle Investment Management, LLC |
| Arrowstreet Capital, L.P. | Franklin Templeton Investments |
| Artisan Partners Limited Partnership | Fred Alger & Company, Incorporated |
| Ashmore Equities Investment Management (US) LLC | Fund Evaluation Group, LLC |
| AXA Investment Managers | GE Asset Management |
| Babson Capital Management LLC | Geode Capital Management, LLC |
| Baring Asset Management, Inc. | Glenmede Trust Company |
| Barrow, Hanley, Mewhinney & Strauss | GMO LLC |
| Behringer | Goldman Sachs Asset Management |
| BlackRock, Inc. | Guggenheim Investments |
| BNP Paribas Investment Partners | Harding Loevner Management L.P. |
| BNY Mellon Cash Investment Strategies | Harris Associates |
| Boston Company Asset Management, LLC, The | Heartland Advisors, Inc. |
| Brandes Investment Partners, L.P. | Heitman |
| Brandywine Global Investment Management, LLC | Henderson Global Investors |
| Bridgewater Associates, Inc. | Hennessy Advisors, Inc. |
| Bridgeway Capital Management, Inc. | Institutional Capital LLC (ICAP) |
| Brown Advisory | INTECH |
| Brown Brothers Harriman & Co. | Intermediate Capital Group |

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| | |
|--|---|
| Calamos Investments | Invesco Plc |
| Capital Group | Investment Counselors of Maryland, LLC |
| Causeway Capital Management LLC | Jacobs Levy Equity Management, Inc. |
| CBRE Global Investors | Janus Capital Group |
| Charles Schwab Investment Management, Inc. | Jennison Associates, LLC |
| ClearBridge Investments | Jensen Investment Management, Inc. |
| Cohen & Steers, Inc. | JPMorgan Global Investment Management |
| Columbia Threadneedle Investments | Kayne Anderson Rudnick Investment Management, LLC |
| CommonFund | Lazard Asset Management LLC |
| Conning Holdings Corp. | Logan Circle Partners, L.P. |
| Copper Rock Capital Partners, LLC | Loomis, Sayles & Company, L.P. |
| Cornerstone Capital Management | Lord, Abbett & Co., LLC |
| Cornerstone Investment Partners, LLC | Luther King Capital Management |
| Delaware Investments | MacKay Shields LLC |
| Matthews International Capital Management | Vaughan Nelson Investment Management, L.P. |
| McDonnell Investment Management, LLC | Virtus Investment Partners, Inc. |
| Mellon Capital Management | Vontobel Asset Management, Inc. |
| Mercer Global Investments | Waddell & Reed Investment Management Co. |
| MFS Investment Management | Wellington Management Company, LLP |
| Morgan Stanley Investment Management | Western Asset Management Company |
| Neuberger Berman Group | Westwood Holdings Group, Inc. |
| Newfleet Asset Management, LLC | Why Investment Management, Inc. |
| Nikko Asset Management Americas, Inc | William Blair & Company, L.L.C. |
| Numerific Investors LLC | Wisdom Tree Investments, Inc. |
| Nuveen Investments | |
| NWQ Investment Management Company, LLC | |
| Oaktree Capital Management, LLC | |
| Oppenheimer Funds | |
| Orbis Investment Management Limited | |
| O'Shaughnessy Asset Management, LLC | |
| Pacific Investment Management Company LLC | |
| PanAgora Asset Management, Inc. | |
| PineBridge Investments | |
| Pioneer Investment Management | |
| Principal Global Investors | |
| ProShare Advisors LLC | |
| Putnam Investments | |
| Pyramis Global Advisors | |
| Pzena Investment Management LLC | |
| Rafferty Asset Management LLC (Direxion) | |
| Raymond James Financial Services, Inc. | |
| Research Affiliates LLC | |
| RidgeWorth Capital Management LLC | |
| River Road Asset Management, LLC | |
| RMB Capital Management, LLC | |
| Rockefeller & Co., Inc. | |
| Russell Investments | |
| Sands Capital Management, LLC | |
| Santa Barbara Asset Management, LLC | |
| Schroder Investment Management NA Inc. | |
| Sit Investment Associates, Inc. | |
| Standish Mellon Asset Management Company LLC | |
| State Street Global Advisors | |
| Symphony Asset Management LLC | |
| T. Rowe Price Associates, Inc. | |
| Third Avenue Management LLC | |

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Thompson, Siegel & Walmsley, LLC
Thornburg Investment Management, Inc.
Tradewinds Global Investors, LLC
Trilogy Global Advisors, LLC
Trust Company of the West
UBS Global Asset Management
Van Eck Associates Corporation
Vanguard Group, Inc., The

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APPENDIX B

Non-GAAP Financial Measures

Operating earnings versus U.S. GAAP (GAAP) net income available to common stockholders

Management uses operating earnings, which excludes the effect of net realized capital gains and losses, as adjusted, and other after-tax adjustments the company believes are not indicative of overall operating trends, for goal setting, as a basis for determining employee compensation, and evaluating performance on a basis comparable to that used by investors and securities analysts. Note: it is possible these adjusting items have occurred in the past and could recur in future reporting periods. While these items may be significant components in understanding and assessing our consolidated financial performance, management believes the presentation of operating earnings enhances the understanding of results of operations by highlighting earnings attributable to the normal, ongoing operations of the company's businesses.

| | Years Ended Dec. 31, | | | | |
|--|-----------------------------|-------------|-------------|-------------|-------------|
| (In millions, except as noted) | 2015 | 2014 | 2013 | 2012 | 2011 |
| Net income available to common stockholders per diluted share | | | | | |
| Operating earnings per diluted share | \$ 4.26 | \$ 4.41 | \$ 3.55 | \$ 2.69 | \$ 2.61 |
| Net realized capital gains (losses) | (0.44) | (0.34) | (0.60) | 0.14 | (0.44) |
| Other after-tax adjustments | 0.24 | (0.36) | | (0.25) | (0.26) |
| Adjustment for redeemable noncontrolling interest | | (0.06) | | | |
| Net income available to common stockholders per diluted share | \$ 4.06 | \$ 3.65 | \$ 2.95 | \$ 2.58 | \$ 1.91 |
| Net income available to common stockholders | | | | | |
| Operating earnings | \$ 1,270.5 | \$ 1,317.9 | \$ 1,059.9 | \$ 808.8 | \$ 829.3 |
| Net realized capital gains (losses) | (133.8) | (100.5) | (179.1) | 39.0 | (141.7) |
| Other after-tax adjustments | 72.6 | (106.3) | (1.1) | (74.2) | (82.3) |
| Net income available to common stockholders | \$ 1,209.3 | \$ 1,111.1 | \$ 879.7 | \$ 773.6 | \$ 605.3 |
| Net income ROE available to common stockholders (including AOCI) | | | | | |
| Operating earnings ROE (x-AOCI, other than foreign currency translation adjustment) | 14.2% | 15.1% | 12.5% | 9.8% | 10.2% |
| Net realized capital gains (losses) | (1.5)% | (1.2)% | (2.1)% | 0.5% | (1.8)% |
| Other after-tax adjustments | 0.8% | (1.2)% | 0.0% | (0.9)% | (1.0)% |
| Net income ROE available to common stockholders (x-AOCI, other than for currency translation adjustment) | 13.5% | 12.7% | 10.4% | 9.4% | 7.4% |
| Net unrealized capital gains (losses) | (1.3)% | (1.2)% | (1.2)% | (1.0)% | (0.5)% |
| Net unrecognized postretirement benefit obligation | 0.6% | 0.3% | 0.4% | 0.4% | 0.2% |
| Net income ROE available to common stockholders (including AOCI) | 12.8% | 11.8% | 9.6% | 8.8% | 7.1% |

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