

APOGEE ENTERPRISES, INC.  
Form 10-Q  
January 10, 2019

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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FORM 10-Q

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

For the quarterly period ended December 1, 2018

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: 0-6365

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APOGEE ENTERPRISES, INC.  
(Exact name of registrant as specified in its charter)

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Minnesota	41-0919654
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

4400 West 78 <sup>th</sup> Street – Suite 520, Minneapolis, MN	55435
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (952) 835-1874

Not Applicable  
(Former name, former address and former fiscal year, if changed since last report)

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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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).  Yes  No

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if  the registrant has elected not to use the extended transition period for complying with any new or revised financial

accounting standards provided pursuant to Section 13(a) of  
the Exchange Act.

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

As of January 9, 2019, 27,175,800 shares of the registrant's common stock, par value \$0.33 1/3 per share, were outstanding.

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## CONSOLIDATED BALANCE SHEETS

(unaudited)

In thousands, except stock data	December 1, 2018	March 3, 2018
Assets		
Current assets		
Cash and cash equivalents	\$15,043	\$19,359
Receivables, net of allowance for doubtful accounts	201,498	211,852
Inventories	79,847	80,908
Costs and earnings on contracts in excess of billings	60,140	4,120
Other current assets	16,247	20,039
Total current assets	372,775	336,278
Property, plant and equipment, net	302,209	304,063
Restricted cash	26,354	—
Goodwill	185,788	180,956
Intangible assets	153,605	167,349
Other non-current assets	40,249	33,674
Total assets	\$1,080,980	\$1,022,320
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable	\$79,072	\$68,416
Accrued payroll and related benefits	39,323	36,646
Accrued self-insurance reserves	8,060	10,933
Billings on contracts in excess of costs and earnings	26,961	12,461
Other current liabilities	59,230	79,696
Total current liabilities	212,646	208,152
Long-term debt	232,726	215,860
Long-term self-insurance reserves	19,329	16,307
Other non-current liabilities	85,405	70,646
Commitments and contingent liabilities (Note 8)		
Shareholders' equity		
Common stock of \$0.33-1/3 par value; authorized 50,000,000 shares; issued and outstanding 27,655,804 and 28,158,042 respectively	9,219	9,386
Additional paid-in capital	154,095	152,763
Retained earnings	400,289	373,259
Common stock held in trust	(745	) (922
Deferred compensation obligations	745	922
Accumulated other comprehensive loss	(32,729	) (24,053
Total shareholders' equity	530,874	511,355
Total liabilities and shareholders' equity	\$1,080,980	\$1,022,320

See accompanying notes to consolidated financial statements.

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## CONSOLIDATED RESULTS OF OPERATIONS

(unaudited)

In thousands, except per share data	Three Months Ended		Nine Months Ended	
	December 1, 2018	December 2, 2017	December 1, 2018	December 2, 2017
Net sales	\$357,718	\$ 356,506	\$1,056,382	\$ 972,721
Cost of sales	273,628	264,947	807,096	724,868
Gross profit	84,090	91,559	249,286	247,853
Selling, general and administrative expenses	52,682	57,024	167,224	161,438
Operating income	31,408	34,535	82,062	86,415
Interest income	809	106	1,719	390
Interest expense	2,941	1,594	7,514	3,689
Other (expense) income, net	(655 )	303	(459 )	560
Earnings before income taxes	28,621	33,350	75,808	83,676
Income tax expense	6,730	9,704	18,030	26,517
Net earnings	\$21,891	\$ 23,646	\$57,778	\$ 57,159
Earnings per share - basic	\$0.79	\$ 0.82	\$2.06	\$ 1.98
Earnings per share - diluted	\$0.78	\$ 0.82	\$2.04	\$ 1.98
Weighted average basic shares outstanding	27,836	28,736	28,030	28,812
Weighted average diluted shares outstanding	28,156	28,818	28,304	28,862

See accompanying notes to consolidated financial statements.

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## CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS

(unaudited)

In thousands	Three Months Ended		Nine Months Ended	
	December 2018	December 2017	December 2018	December 2017
Net earnings	\$21,891	\$ 23,646	\$57,778	\$ 57,159
Other comprehensive (loss) earnings:				
Unrealized loss on marketable securities, net of \$16, \$78, \$25 and \$28 of tax benefit, respectively	(58 )	(143 )	(90 )	(51 )
Unrealized gain (loss) on foreign currency hedge, net of \$10, \$-, (\$99) and \$- of tax expense (benefit), respectively	32	—	(327 )	—
Foreign currency translation adjustments	(3,621 )	(3,838 )	(7,518 )	10,652
Other comprehensive (loss) earnings	(3,647 )	(3,981 )	(7,935 )	10,601
Total comprehensive earnings	\$18,244	\$ 19,665	\$49,843	\$ 67,760

See accompanying notes to consolidated financial statements.

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## CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

In thousands	Nine Months Ended	
	December 2018	December 2017
Operating Activities		
Net earnings	\$57,778	\$ 57,159
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	38,378	39,774
Share-based compensation	4,724	4,645
Deferred income taxes	10,600	(3,339 )
Gain on disposal of assets	(2,499 )	(78 )
Proceeds from New Markets Tax Credit transaction, net of deferred costs	8,850	—
Other, net	(799 )	(1,286 )
Changes in operating assets and liabilities:		
Receivables	9,291	(16,131 )
Inventories	4,398	(1,915 )
Costs and earnings on contracts in excess of billings	(54,569 )	567
Accounts payable and accrued expenses	(20,072 )	(27,449 )
Billings on contracts in excess of costs and earnings	14,558	9,869
Refundable and accrued income taxes	1,831	7,108
Other	(1,825 )	(2,685 )
Net cash provided by operating activities	70,644	66,239
Investing Activities		
Capital expenditures	(33,867 )	(38,946 )
Proceeds from sales of property, plant and equipment	12,332	253
Acquisition of business, net of cash acquired	—	(184,826 )
Purchases of marketable securities	(9,006 )	(10,154 )
Sales/maturities of marketable securities	5,813	9,288
Other	(2,209 )	941
Net cash used in investing activities	(26,937 )	(223,444 )
Financing Activities		
Borrowings on line of credit	294,500	314,700
Payments on line of credit	(278,000)	(150,700 )
Shares withheld for taxes, net of stock issued to employees	(1,591 )	(1,561 )
Repurchase and retirement of common stock	(23,313 )	(10,833 )
Dividends paid	(13,180 )	(11,971 )
Other	413	2,039
Net cash (used in) provided by financing activities	(21,171 )	141,674
Increase (decrease) in cash and cash equivalents	22,536	(15,531 )
Effect of exchange rates on cash	(498 )	1,079
Cash, cash equivalents and restricted cash at beginning of year	19,359	27,297
Cash, cash equivalents and restricted cash at end of period	\$41,397	\$ 12,845
Noncash Activity		
Capital expenditures in accounts payable	\$5,771	\$ 1,859

See accompanying notes to consolidated financial statements.





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## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(unaudited)

In thousands	Common Shares Outstanding	Common Stock	Additional Paid-In Capital	Retained Earnings	Common Stock Held in Trust	Deferred Compensation Obligation	Accumulated Other Comprehensive (Loss) Income
Balance at March 3, 2018	28,158	\$9,386	\$152,763	\$373,259	\$ (922 )	\$ 922	\$ (24,053 )
Cumulative effect adjustment (see Note 1)	—	—	—	2,999	—	—	—
Reclassification of tax effects (see Note 1)	—	—	—	737	—	—	(737 )
Net earnings	—	—	—	57,778	—	—	—
Unrealized loss on marketable securities, net of \$25 tax benefit	—	—	—	—	—	—	(90 )
Unrealized loss on foreign currency hedge, net of \$99 tax benefit	—	—	—	—	—	—	(327 )
Foreign currency translation adjustments	—	—	—	—	—	—	(7,522 )
Issuance of stock, net of cancellations	125	42	126	—	177	(177 )	—
Share-based compensation	—	—	4,724	—	—	—	—
Exercise of stock options	19	6	177	—	—	—	—
Share repurchases	(600 )	(200 )	(3,436 )	(19,677 )	—	—	—
Other share retirements	(46 )	(15 )	(259 )	(1,627 )	—	—	—
Cash dividends	—	—	—	(13,180 )	—	—	—
Balance at December 1, 2018	27,656	\$9,219	\$154,095	\$400,289	\$ (745 )	\$ 745	\$ (32,729 )
Balance at March 4, 2017	28,680	\$9,560	\$150,111	\$341,996	\$ (875 )	\$ 875	\$ (31,090 )
Net earnings	—	—	—	57,159	—	—	—
Unrealized loss on marketable securities, net of \$28 tax benefit	—	—	—	—	—	—	(51 )
Foreign currency translation adjustments	—	—	—	—	—	—	10,652
Issuance of stock, net of cancellations	106	36	147	—	(33 )	33	—
Share-based compensation	—	—	4,645	—	—	—	—
Exercise of stock options	100	33	801	—	—	—	—
Share repurchases	(200 )	(67 )	(1,091 )	(9,675 )	—	—	—
Other share retirements	(45 )	(15 )	(256 )	(2,229 )	—	—	—
Cash dividends	—	—	—	(11,971 )	—	—	—
Balance at December 2, 2017	28,641	\$9,547	\$154,357	\$375,280	\$ (908 )	\$ 908	\$ (20,489 )

See accompanying notes to consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. Summary of Significant Accounting Policies

Basis of presentation

The consolidated financial statements of Apogee Enterprises, Inc. (we, us, our or the Company) have been prepared in accordance with accounting principles generally accepted in the United States. The information included in this Form 10-Q should be read in conjunction with the Company's Form 10-K for the year ended March 3, 2018. We use the same accounting policies in preparing quarterly and annual financial statements. All adjustments necessary for a fair presentation of quarterly operating results are reflected herein and are of a normal, recurring nature. The results of operations for the nine-month period ended December 1, 2018 are not necessarily indicative of the results to be expected for the full year.

Certain prior-year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the consolidated results of operations.

Significant accounting policies update

Our significant accounting policies are included in Note 1 "Summary of Significant Accounting Policies and Related Data" of our Annual Report on Form 10-K for the year ended March 3, 2018. On March 4, 2018, we adopted ASC 606, Revenue from Contracts with Customers, and as a result, made updates to our significant accounting policy for revenue recognition.

We generate revenue from the design, engineering and fabrication of architectural glass, curtainwall, window, storefront and entrance systems, and from installing those products on commercial buildings. We also manufacture value-added glass and acrylic products. Due to the diverse nature of our operations and various types of contracts with customers, we have businesses that recognize revenue over time and businesses that recognize revenue at a point in time.

In the current year-to-date period, approximately 46 percent of our total revenue is recognized at the time products are shipped from our manufacturing facilities, which is when control is transferred to our customer, consistent with past practices. These businesses do not generate contract-related assets or liabilities. Variable consideration associated with these contracts and orders, generally related to early pay discounts or volume rebates, is not considered significant.

We also have three businesses which operate under long-term, fixed-price contracts, representing approximately 33 percent of our total revenue in the current year. This includes one business which changed revenue recognition practices due to the adoption of the new guidance, moving from recognizing revenue at shipment to an over-time method of revenue recognition. The contracts for these businesses have a single, bundled performance obligation, as these businesses generally provide interrelated products and services and integrate these products and services into a combined output specified by the customer. The customer obtains control of this combined output, generally integrated window systems or installed window and curtainwall systems, over time. We measure progress on these contracts following an input method, by comparing total costs incurred to-date to the total estimated costs for the contract, and record that proportion of the total contract price as revenue in the period. Contract costs include materials, labor and other direct costs related to contract performance. We believe this method of recognizing revenue is consistent with our progress in satisfying our contract obligations.

Due to the nature of the work required under these long-term contracts, the estimation of total revenue and costs incurred throughout a project is subject to many variables and requires significant judgment. It is common for these contracts to contain potential bonuses or penalties which are generally awarded or charged upon certain project

milestones or cost or timing targets, and can be based on customer discretion. We estimate variable consideration at the most likely amount to which we expect to be entitled. We include estimated amounts in the transaction price to the extent that it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved. Our estimates of variable consideration and determination of whether to include estimated amounts in the transaction price are based largely on our assessments of anticipated performance and all information (historical, current and forecasted) that is reasonably available to us.

Long-term contracts are often modified to account for changes in contract specifications and requirements of work to be performed. We consider contract modifications to exist when the modification, generally through a change order, either creates new or changes existing enforceable rights and obligations, and we evaluate these types of modifications to determine whether they may be considered distinct performance obligations. In many cases, these contract modifications are for goods or services that are not distinct from the existing contract, due to the significant integration service provided in the context of the contract. Therefore, these modifications are accounted for as part of the existing contract. The effect of a contract modification on the transaction price and our measure of progress is recognized as an adjustment to revenue, generally on a cumulative catch-up basis.

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Typically, under these fixed-price contracts, we bill our customers following an agreed-upon schedule based on work performed. Because the progress billings do not generally correspond to our measurement of revenue on a contract, we generate contract assets when we have recognized revenue in excess of the amount billed to the customer. We generate contract liabilities when we have billed the customer in excess of revenue recognized on a contract.

Finally, we have one business, making up approximately 21 percent of our total revenue in the current year, that recognizes revenue following an over-time output method based upon units produced. The customer is considered to have control over the products at the time of production, as the products are highly customized with no alternative use, and we have an enforceable right to payment for performance completed over the production period. We believe this over-time output method of recognizing revenue reasonably depicts the fulfillment of our performance obligations under our contracts. Previously, this business recognized revenue at the time of shipment. Billings still occur upon shipment. Therefore, contract assets are generated for the unbilled amounts on contracts when production is complete. Variable consideration associated with these orders, generally related to early pay discounts, is not considered significant.

As outlined within the new accounting guidance, we elected several practical expedients in our transition to ASC 606: We have made an accounting policy election to account for shipping and handling activities that occur after control of the related goods transfers to the customer as fulfillment activities, instead of assessing such activities as performance obligations.

We have made an accounting policy election to exclude from the transaction price all sales taxes related to revenue-producing transactions that are collected from the customer for a government authority.

We generally expense incremental costs of obtaining a contract when incurred because the amortization period would be less than one year. These costs primarily relate to sales commissions and are included in selling, general and administrative expenses.

We have not adjusted contract price for a significant financing component, as we expect the period between when our goods and services are transferred to the customer and when the customer pays for those goods and services to be less than a year.

Adoption of new accounting standards

We adopted the new guidance in ASC 606 using the modified retrospective transition method applied to those contracts which were not complete as of March 4, 2018. Prior period amounts were not adjusted and therefore continue to be reported in accordance with the accounting guidance and our accounting policies in effect for those periods.

Representing the cumulative effect of adopting ASC 606, we recorded a \$3.0 million increase to the opening balance of retained earnings as of March 4, 2018. For the three- and nine-month periods ending December 1, 2018, the application of the new accounting guidance had the following impact on our consolidated financial statements:

In thousands	Three Months Ended December 1, 2018		Nine Months Ended December 1, 2018	
	As reported	Without adoption of ASC 606	As reported	Without adoption of ASC 606
Net sales	\$357,718	\$355,765	\$1,056,382	\$1,042,600
Cost of sales	273,628	272,087	807,096	796,802
Gross profit	84,090	83,678	249,286	245,798
Selling, general and administrative expenses	52,682	52,692	167,224	166,560
Operating income	\$31,408	\$30,986	\$82,062	\$79,238

Income tax expense	\$6,730	\$6,627	\$18,030	\$17,355
Net earnings	\$21,891	\$21,572	\$57,778	\$55,628

	December 1, 2018	
	As reported	Without adoption of ASC 606
Inventories	\$79,847	\$89,250
Costs and earnings on contracts in excess of billings	60,140	30,756
Billings on contracts in excess of costs and earnings	26,961	25,923
Other current liabilities	59,230	57,802
Retained earnings	400,289	398,139

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These changes are primarily a result of the transition of certain of our businesses from recognizing revenue at the time of shipment to over-time methods of revenue recognition.

In the first quarter of fiscal 2019, we elected to early adopt ASU 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. This standard permits a company to reclassify the disproportionate income tax effects of the 2017 Tax Cuts and Jobs Act on items within accumulated other comprehensive income ("AOCI") to retained earnings. The FASB refers to these amounts as "stranded tax effects." As a result of this adoption, we reclassified income tax effects of \$0.7 million resulting from tax reform from AOCI to retained earnings following a portfolio approach. These stranded tax effects are derived from the deferred tax balances on our pension obligations as a result of the lower U.S. federal corporate tax rate.

### Accounting standards not yet adopted

In February 2016, the FASB issued ASU 2016-02, Leases, which provides for comprehensive changes to lease accounting. The standard requires that a lessee recognize a lease obligation liability and a right-to-use asset for virtually all leases of property, plant and equipment, subsequently amortized over the lease term. The new standard is effective for fiscal years beginning after December 15, 2018, our fiscal year 2020. In July 2018, the FASB issued an additional update which allows an entity the option to adopt the guidance on a modified retrospective basis. Under the modified retrospective approach, which we plan to adopt in implementing the new guidance, an entity would recognize a cumulative effect adjustment of initially applying the guidance to the opening balance of retained earnings in the period of adoption. Prior period amounts will not be adjusted.

We are in the process of analyzing our lease arrangements and evaluating our initial right-to-use asset and lease liability balances, including determining estimates and assumptions used in the calculation of the lease asset and liability. We are also in the process of determining modifications to our business processes, accounting policies and systems and controls that are needed to support measurement, recognition and disclosure under this new standard. We expect that the adoption of this standard will result in reflecting a material right-of-use asset and lease liability on our consolidated balance sheet. In adopting the new standard, we plan to elect the package of practical expedients, as well as the practical expedient to not separate nonlease components from lease components. We plan to adopt the new guidance following the modified retrospective application approach. We do not expect this standard to have a significant impact on our consolidated results of operations or consolidated statements of cash flows.

### Subsequent events

We have evaluated subsequent events for potential recognition and disclosure through the date of this filing. Subsequent to the end of the quarter, we purchased 504,004 shares of stock under our authorized share repurchase program, at a total cost of \$14.9 million.

## 2. Acquisition

On June 12, 2017, we acquired 100 percent of the stock of EFCO Corporation, a privately held U.S. manufacturer of architectural aluminum window, curtainwall, storefront and entrance systems for commercial construction projects, for \$192 million in cash, funded through our committed revolving credit facility. EFCO's results of operations have been included in our consolidated financial statements and within the Architectural Framing Systems segment since the date of acquisition.

## 3. Revenue, Receivables and Contract Assets and Liabilities

### Revenue

The following table disaggregates total revenue by timing of recognition (see Note 13 for disclosure of revenue by segment):

	Three Months Ended December 1, 2018	Nine Months Ended December 1, 2018
In thousands		
Recognized at shipment	\$ 158,164	\$ 481,565
Recognized over time	199,554	574,817
Total	\$ 357,718	\$ 1,056,382

#### Receivables

Trade and construction accounts receivable consist of amounts billed and due from customers. The amounts due are stated at their estimated net realizable value. We maintain an allowance for doubtful accounts to provide for the estimated amount of receivables that will not be collected. This allowance is based on an assessment of customer creditworthiness, historical payment experience and the age of outstanding receivables. Retainage on construction contracts represents amounts withheld by our customers on long-term projects until the project reaches a level of completion where amounts are released.



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In thousands	December 1, 2018	March 3, 2018
Trade accounts	\$ 155,651	\$ 157,562
Construction contracts	14,229	26,545
Construction contracts - retainage	33,176	26,388
Other receivables	—	2,887
Total receivables	203,056	213,382
Less: allowance for doubtful accounts	(1,558 )	(1,530 )
Net receivables	\$ 201,498	\$ 211,852

## Contract assets and liabilities

Contract assets consist of retainage, costs and earnings in excess of billings and other unbilled amounts typically generated when revenue recognized exceeds the amount billed to the customer. Contract liabilities consist of billings in excess of costs and earnings and other deferred revenue on contracts. Retainage is classified within receivables and deferred revenue is classified within other current liabilities on our consolidated balance sheets.

The time period between when performance obligations are complete and when payment is due is not significant. In certain of our businesses that recognize revenue over time, progress billings follow an agreed-upon schedule of values, and retainage is withheld by the customer until the project reaches a level of completion where amounts are released.

In thousands	December 1, 2018	March 3, 2018
Contract assets	\$ 93,316	\$ 30,508
Contract liabilities	30,447	20,120

The increase in contract assets was due to additional businesses recognizing revenue in advance of billings, as a result of changing accounting policies for revenue recognition upon adoption of ASC 606 and the timing of costs incurred in advance of billing on a large project. The increase in contract liabilities was due to timing of project activity within our businesses that operate under long-term contracts.

In the first nine months of fiscal 2019, we recognized revenue of \$10.4 million related to contract liabilities at March 4, 2018, and revenue of \$3.8 million related to performance obligations satisfied in previous periods due to changes in contract estimates. For the third quarter of fiscal 2019, we did not recognize any revenue related to contract liabilities at March 4, 2018, and recognized revenue of \$1.5 million related to performance obligations satisfied in previous periods due to changes in contract estimates.

Some of our contracts have an expected duration of longer than a year, with performance obligations extending over that timeframe. Generally these contracts are in our businesses with long-term contracts which recognize revenue over time. As of December 1, 2018, the transaction price associated with unsatisfied performance obligations was approximately \$706.3 million. The performance obligations are expected to be satisfied, and the corresponding revenue to be recognized, over the following estimated time periods:

In thousands	December 1, 2018
Within one year	\$ 421,778
Within two years	236,037
Beyond	48,493
Total	\$ 706,308

## 4. Supplemental Balance Sheet Information

Inventories

In thousands	December 1, 2018	March 3, 2018
Raw materials	\$ 43,821	\$ 35,049
Work-in-process	16,426	17,406
Finished goods	19,600	28,453
Total inventories	\$ 79,847	\$ 80,908

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## Other current liabilities

In thousands	December 1, 2018	March 3, 2018
Warranties	\$ 12,796	\$ 18,110
Acquired contract liabilities	15,541	26,422
Deferred revenue	4,080	7,659
Other	26,813	27,505
Total other current liabilities	\$ 59,230	\$ 79,696

## Other non-current liabilities

In thousands	December 1, 2018	March 3, 2018
Deferred benefit from New Market Tax Credit transactions	\$ 26,458	\$ 16,708
Retirement plan obligations	8,997	8,997
Deferred compensation plan	10,996	10,730
Other	38,954	34,211
Total other non-current liabilities	\$ 85,405	\$ 70,646

## 5. Financial Instruments

## Marketable securities

We hold the following available-for-sale marketable securities, made up of municipal and corporate bonds:

In thousands	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 1, 2018	12,534	4	(249 )	12,289
March 3, 2018	9,183	8	(138 )	9,053

We have a wholly-owned insurance subsidiary, Prism Assurance, Ltd. (Prism), which holds these municipal and corporate bonds. Prism insures a portion of our general liability, workers' compensation and automobile liability risks using reinsurance agreements to meet statutory requirements. The reinsurance carrier requires Prism to maintain fixed-maturity investments, which are generally high-quality municipal and corporate bonds, for the purpose of providing collateral for Prism's obligations under the reinsurance agreements.

The amortized cost and estimated fair values of municipal bonds at December 1, 2018, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities, as borrowers may have the right to call or prepay obligations with or without penalty.

In thousands	Amortized Cost	Estimated Fair Value
Due within one year	\$ 447	\$ 441
Due after one year through five years	8,781	8,598
Due after five years through 10 years	2,541	2,493
Due after 10 years through 15 years	—	—
Due beyond 15 years	765	757
Total	\$ 12,534	\$ 12,289

## Fair value measurements

Financial assets and liabilities are classified in the fair value hierarchy based on the lowest level input that is significant to the fair value measurement: Level 1 (unadjusted quoted prices in active markets for identical assets or liabilities); Level 2 (observable market inputs, other than quoted prices included in Level 1); and Level 3 (unobservable inputs that cannot be corroborated by observable market data). We do not have any Level 3 financial assets or liabilities.

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In thousands	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Total Fair Value
December 1, 2018			
Cash equivalents			
Money market funds	\$ 2,145	\$ —	\$ 2,145
Commercial paper	—	400	400
Total cash equivalents	2,145	400	2,545
Short-term securities			
Municipal and corporate bonds	—	442	442
Long-term securities			
Municipal and corporate bonds	—	11,847	11,847
Total assets at fair value	\$ 2,145	\$ 12,689	\$ 14,834
March 3, 2018			
Cash equivalents			
Money market funds	\$ 2,901	\$ —	\$ 2,901
Commercial paper	—	400	400
Total cash equivalents	2,901	400	3,301
Short-term securities			
Municipal and corporate bonds	—	423	423
Long-term securities			
Municipal and corporate bonds	—	8,630	8,630
Total assets at fair value	\$ 2,901	\$ 9,453	\$ 12,354

## Cash equivalents

Fair value of money market funds was determined based on quoted prices for identical assets in active markets. Commercial paper was measured at fair value using inputs based on quoted prices for similar securities in active markets.

## Short- and long-term securities

Mutual funds were measured at fair value based on quoted prices for identical assets in active markets. Municipal and corporate bonds were measured at fair value based on market prices from recent trades of similar securities and are classified as short-term or long-term based on maturity date.

## Foreign currency instruments

We periodically enter into forward purchase foreign currency contracts, generally with an original maturity date of less than one year, to hedge foreign currency exchange rate risk. As of December 1, 2018, we held foreign exchange forward contracts with a U.S. dollar notional value of \$16.0 million, with the objective of reducing the exposure to fluctuations in the Canadian dollar and the Euro. The fair value of these contracts was a liability of \$0.4 million as of December 1, 2018. These forward contracts are measured at fair value using unobservable market inputs, such as quotations on forward foreign exchange points and foreign currency exchange rates, and would be classified as Level 2 within the fair value hierarchy above.

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## 6. Goodwill and Other Identifiable Intangible Assets

The carrying amount of goodwill attributable to each reporting segment was:

In thousands	Architectural Framing Systems	Architectural Glass	Architectural Services	Large-Scale Optical	Total
Balance at March 4, 2017	\$ 63,701	\$ 25,956	\$ 1,120	\$ 10,557	\$ 101,334
Goodwill acquired	84,162	—	—	—	84,162
Goodwill adjustments for purchase accounting	(5,859 )	—	—	—	(5,859 )
Foreign currency translation	1,304	15	—	—	1,319
Balance at March 3, 2018	143,308	25,971	1,120	10,557	180,956
Goodwill adjustments for purchase accounting	6,267	—	—	—	6,267
Foreign currency translation	(1,110 )	(325 )	—	—	(1,435 )
Balance at December 1, 2018	\$ 148,465	\$ 25,646	\$ 1,120	\$ 10,557	\$ 185,788

The gross carrying amount of other intangible assets and related accumulated amortization was:

In thousands	Gross Carrying Amount	Accumulated Amortization	Foreign Currency Translation	Net
December 1, 2018				
Definite-lived intangible assets:				
Customer relationships	\$ 122,816	\$ (24,937 )	\$ (2,609 )	\$ 95,270
Other intangibles	41,697	(31,033 )	(899 )	9,765
Total definite-lived intangible assets	164,513	(55,970 )	(3,508 )	105,035
Indefinite-lived intangible assets:				
Trademarks	49,077	—	(507 )	48,570
Total intangible assets	\$ 213,590	\$ (55,970 )	\$ (4,015 )	\$ 153,605
March 3, 2018				
Definite-lived intangible assets:				
Customer relationships	\$ 122,816	\$ (20,277 )	\$ (56 )	\$ 102,483
Other intangibles	41,697	(25,879 )	(30 )	15,788
Total definite-lived intangible assets	164,513	(46,156 )	(86 )	118,271
Indefinite-lived intangible assets:				
Trademarks	48,461	—	617	49,078
Total intangible assets	\$ 212,974	\$ (46,156 )	\$ 531	\$ 167,349

Amortization expense on definite-lived intangible assets was \$10.5 million and \$12.8 million for the nine-month periods ended December 1, 2018 and December 2, 2017. The amortization expense associated with debt issue costs is included in interest expense while the remainder is in selling, general and administrative expenses in the consolidated results of operations. At December 1, 2018, the estimated future amortization expense for definite-lived intangible assets was:

In thousands	Remainder of Fiscal 2019	Fiscal 2020	Fiscal 2021	Fiscal 2022	Fiscal 2023
Estimated amortization expense	\$ 2,266	\$ 8,091	\$ 8,084	\$ 7,928	\$ 7,539

## 7. Debt

We maintain a committed revolving credit facility with maximum borrowings of up to \$335.0 million, maturing in November 2021. Outstanding borrowings under our committed revolving credit facility were \$211.5 million, as of December 1, 2018, and \$195.0 million, as of March 3, 2018. Under this facility, we are subject to two financial covenants that require us to stay below a maximum debt-to-EBITDA ratio and maintain a minimum ratio of interest expense-to-EBITDA. Both ratios are computed quarterly, with EBITDA calculated on a rolling four-quarter basis. At December 1, 2018, we were in compliance with both financial covenants. Additionally, at December 1, 2018, we had a total of \$25.1 million of ongoing letters of credit related to industrial revenue bonds and construction contracts that expire in fiscal 2020 and reduce availability of funds under our committed credit facility.

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At December 1, 2018, our debt also included \$20.4 million of industrial revenue bonds that mature in fiscal years 2021 through 2043 and \$0.5 million of long-term debt in Canada. The fair value of the industrial revenue bonds approximated carrying value at December 1, 2018, due to the variable interest rates on these instruments. All debt would be classified as Level 2 within the fair value hierarchy described in Note 5.

We also maintain two Canadian demand credit facilities totaling \$12.0 million Canadian dollars. As of December 1, 2018, \$0.4 million was outstanding under these facilities, and no borrowings were outstanding as of March 3, 2018. Borrowings under these facilities are made available at the sole discretion of the lenders and are payable on demand. The Company classifies any outstanding balances under these demand facilities as long-term debt, as outstanding amounts can be refinanced through our committed revolving credit facility.

Interest payments were \$7.2 million and \$3.6 million for the nine months ended December 1, 2018 and December 2, 2017, respectively.

## 8. Commitments and Contingent Liabilities

### Operating lease commitments

As of December 1, 2018, the Company was obligated under non-cancelable operating leases for buildings and equipment. Certain leases provide for increased rental payments based upon increases in real estate taxes or operating costs. Future minimum rental payments under non-cancelable operating leases are:

In thousands	Remainder of Fiscal 2019	Fiscal 2020	Fiscal 2021	Fiscal 2022	Fiscal 2023	Thereafter	Total
Total minimum payments	\$ 3,890	\$ 14,759	\$ 11,522	\$ 9,353	\$ 8,459	\$ 23,308	\$ 71,291

### Bond commitments and installation project contingencies

In the ordinary course of business, predominantly in our Architectural Services and Architectural Framing Systems segments, we are required to provide surety or performance bonds that commit payments to our customers for any non-performance. At December 1, 2018, \$224.0 million of our backlog was bonded by these types of bonds with a face value of \$478.8 million. These bonds do not have stated expiration dates, as we are generally released from the bonds upon completion of the contract. We have not been required to make any payments under these bonds with respect to our existing businesses.

Additionally, we also are subject to project management and installation-related contingencies as a result of our fixed-price material supply and installation service contracts, primarily in our Architectural Services segment and certain of our Architectural Framing Systems businesses, including those taken on with our acquisition of EFCO. We actively manage the risk of these exposures through contract negotiations, proactive project management and insurance coverages.

### Warranties

We reserve estimated exposures on known claims, as well as on a portion of anticipated claims, for product warranty and rework cost, based on historical product liability claims as a ratio of sales. Claim costs are deducted from the accrual when paid. Factors that could have an impact on the warranty accrual in any given period include the following: changes in manufacturing quality, changes in product mix and any significant changes in sales volume. A warranty rollforward follows:

In thousands	Nine Months Ended	
	December 2018	December 2, 2017



Balance at beginning of period	\$22,517	\$ 21,933
Additional accruals	3,437	3,443
Claims paid	(8,398 )	(8,254 )
Acquired reserves	—	5,571
Balance at end of period	\$17,556	\$ 22,693

Letters of credit

At December 1, 2018, we had \$25.1 million of ongoing letters of credit, all of which have been issued under our committed revolving credit facility, as discussed in Note 7.

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Purchase obligations

Purchase obligations for raw material commitments and capital expenditures totaled \$163.2 million as of December 1, 2018.

New Markets Tax Credit transactions

In September 2018, we entered into a transaction with SunTrust Community Capital (STCC) under a qualified New Markets Tax Credit (NMTC) program related to an investment in plant and equipment within our Architectural Framing Systems segment. STCC contributed \$3.2 million to this project, which is included in other non-current liabilities on our consolidated balance sheets. We have completed two NMTC transactions this fiscal year. Under the terms of these arrangements, we are required to hold cash dedicated to fund the related capital projects which is classified as restricted cash on our consolidated balance sheets.

Since fiscal 2014, we have entered into four separate NMTC programs to support our operational expansion. The NMTC arrangements are subject to 100 percent tax credit recapture for a period of seven years from the date of each respective transaction. Therefore, upon the termination of each arrangement at the end of the seven-year period, proceeds received from investors will be recognized in earnings in exchange for the transfer of tax credits. Direct and incremental costs incurred in structuring these arrangements have been deferred and will be recognized in conjunction with the recognition of the related profits.

Variable-interest entities have been created as a result of the transaction structure, which have been included within our consolidated financial statements as investors in the program do not have a material interest in the underlying economics of the respective projects.

Litigation

In November 2018, a purported class action lawsuit was filed claiming the Company and certain named executive officers made materially false and/or misleading statements and failed to disclose material adverse facts about the Company's business and operations during the period June 28, 2018 to September 17, 2018. In December 2018, a derivative lawsuit was filed against certain of our executive officers and directors claiming breach of fiduciary duty, waste of corporate assets and unjust enrichment. We intend to vigorously defend against these matters. Due to the preliminary nature of these matters, we are unable to estimate any potential loss at this time.

In addition to the foregoing, the Company is a party to various legal proceedings incidental to its normal operating activities. In particular, like others in the construction supply and services industry, the Company is routinely involved in various disputes and claims arising out of construction projects, sometimes involving significant monetary damages or product replacement. The Company is also subject to litigation arising out of areas such as employment practices, workers compensation and general liability matters. Although it is very difficult to accurately predict the outcome of any such proceedings, facts currently available indicate that no matters will result in losses that would have a material adverse effect on the results of operations, cash flows or financial condition of the Company.

9. Share-Based Compensation

Total share-based compensation expense included in the results of operations was \$4.7 million for the nine-month period ended December 1, 2018 and \$4.6 million for the nine-month period ended December 2, 2017.

Stock options and SARs

Stock option and SAR activity for the current nine-month period is summarized as follows:

Stock options and SARs	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining	Aggregate Intrinsic Value
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			Contractual Life	
Outstanding at March 3, 2018	129,901	\$ 11.10		
Awards exercised	(29,560 )	20.43		
Outstanding and exercisable at December 1, 2018	100,341	8.34	2.8 years	\$ 2,820,586

Cash proceeds from the exercise of stock options were \$0.2 million and \$0.8 million for the nine months ended December 1, 2018 and December 2, 2017, respectively. The aggregate intrinsic value of securities exercised (the amount by which the stock price on the date of exercise exceeded the stock price of the award on the date of grant) was \$0.6 million during the nine months ended December 1, 2018 and \$4.8 million during the prior-year period.

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## Nonvested shares and share units

Nonvested share activity for the current nine-month period is summarized as follows:

Nonvested shares and units	Number of Shares and Units	Weighted Average Grant Date Fair Value
Nonvested at March 3, 2018	266,180	\$ 49.22
Granted	152,487	43.50
Vested	(116,266 )	46.57
Canceled	(17,942 )	48.65
Nonvested at December 1, 2018	284,459	47.24

At December 1, 2018, there was \$7.9 million of total unrecognized compensation cost related to nonvested share and nonvested share unit awards, which is expected to be recognized over a weighted average period of approximately 20 months. The total fair value of shares vested during the nine months ended December 1, 2018 was \$4.9 million.

## 10. Employee Benefit Plans

The Company sponsors two frozen defined-benefit pension plans: an unfunded Officers' Supplemental Executive Retirement Plan and the Tubelite Inc. Hourly Employees' Pension Plan. Components of net periodic benefit cost were:

In thousands	Three Months Ended		Nine Months Ended	
	December 2018	December 2017	December 2018	December 2017
Interest cost	\$127	\$ 133	\$381	\$ 399
Expected return on assets	(10 )	(10 )	(30 )	(30 )
Amortization of unrecognized net loss	57	57	171	171
Net periodic benefit cost	\$174	\$ 180	\$522	\$ 540

## 11. Income Taxes

The Company files income tax returns in the U.S. federal jurisdiction, various U.S. state jurisdictions, Canada, Brazil and other international jurisdictions. The Company is no longer subject to U.S. federal tax examinations for years prior to fiscal 2016, or state and local income tax examinations for years prior to fiscal 2012. The Company is not currently under U.S. federal examination for years subsequent to fiscal year 2015, and there is very limited audit activity of the Company's income tax returns in U.S. state jurisdictions or international jurisdictions.

The total liability for unrecognized tax benefits was approximately \$5.3 million at December 1, 2018 and \$5.1 million at March 3, 2018. Penalties and interest related to unrecognized tax benefits are recorded in income tax expense. The total liability for unrecognized tax benefits is expected to decrease by approximately \$0.6 million during the next 12 months due to lapsing of statutes.

## 12. Earnings per Share

The following table presents a reconciliation of the share amounts used in the computation of basic and diluted earnings per share:

In thousands	Three Months Ended	Nine Months Ended
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	December 2018	December 2017	December 2018	December 2017
Basic earnings per share – weighted average common shares outstanding	27,836	28,736	28,030	28,812
Weighted average effect of nonvested share grants and assumed exercise of stock options	320	82	274	50
Diluted earnings per share – weighted average common shares and potential common shares outstanding	28,156	28,818	28,304	28,862
Stock awards excluded from the calculation of earnings per share because the effect was anti-dilutive (award price greater than average market price of the shares)	170	—	92	—

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## 13. Segment Information

The Company has four reporting segments: Architectural Framing Systems, Architectural Glass, Architectural Services and Large-Scale Optical (LSO).

The Architectural Framing Systems segment designs, engineers, fabricates and finishes the aluminum frames used in customized aluminum and glass window, curtainwall, storefront and entrance systems comprising the outside skin and entrances of commercial, institutional and high-end multi-family residential buildings. The Company has aggregated six operating segments into this reporting segment based on their similar products, customers, distribution methods, production processes and economic characteristics.

The Architectural Glass segment fabricates coated, high-performance glass used in customized window and wall systems comprising the outside skin of commercial, institutional and high-end multi-family residential buildings.

The Architectural Services segment designs, engineers, fabricates and installs the walls of glass, windows and other curtainwall products making up the outside skin of commercial and institutional buildings.

The LSO segment manufactures value-added glass and acrylic products primarily for framing and display applications.

In thousands	Three Months Ended		Nine Months Ended	
	December 1, 2018	December 2, 2017	December 1, 2018	December 2, 2017
Net sales from operations				
Architectural Framing Systems	\$ 181,306	\$ 194,157	\$ 550,193	\$ 493,672
Architectural Glass	98,524	96,940	263,533	292,026
Architectural Services	72,828	49,077	220,051	146,056
Large-Scale Optical	23,377	26,003	64,522	64,897
Intersegment eliminations	(18,317 )	(9,671 )	(41,917 )	(23,930 )
Net sales	\$ 357,718	\$ 356,506	\$ 1,056,382	\$ 972,721
Operating income (loss) from operations				
Architectural Framing Systems	\$ 12,903	\$ 18,452	\$ 43,554	\$ 46,958
Architectural Glass	5,851	9,107	9,168	28,687
Architectural Services	8,659	2,547	21,435	4,102
Large-Scale Optical	6,628	6,724	15,845	15,022
Corporate and other	(2,633 )	(2,295 )	(7,940 )	(8,354 )
Operating income	\$ 31,408	\$ 34,535	\$ 82,062	\$ 86,415

Due to the varying combinations and integration of individual window, storefront and curtainwall systems, it is impractical to report product revenues generated by class of product, beyond the segment revenues currently reported.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

## Forward-looking statements

This discussion contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements reflect our current views with respect to future events and financial performance. The words "believe," "expect," "anticipate," "intend," "estimate," "forecast," "project," "should" and similar expressions are intended to identify "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. All forecasts and projections in this document are "forward-looking statements," and are based on management's current expectations or beliefs of the Company's near-term results, based on current information available pertaining to the Company, including the risk factors noted under Item 1A of the Company's Annual Report on Form 10-K for the fiscal year ended March 3, 2018. From time to time, we may also provide oral and written forward-looking statements in other materials we release to the public, such as press releases, presentations to securities analysts or investors, or

other communications by the Company. Any or all of our forward-looking statements in this report and in any public statements we make could be materially different from actual results.

Accordingly, we wish to caution investors that any forward-looking statements made by or on behalf of the Company are subject to uncertainties and other factors that could cause actual results to differ materially from such statements. These uncertainties and other risk factors include, but are not limited to, the risks and uncertainties set forth under Item 1A of the Company's Annual Report on Form 10-K for the fiscal year ended March 3, 2018.

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We wish to caution investors that other factors might in the future prove to be important in affecting the Company's results of operations. New factors emerge from time to time; it is not possible for management to predict all such factors, nor can it assess the impact of each such factor on the business or the extent to which any factor, or a combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. We undertake no obligation to update publicly or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

## Overview

We are a world leader in certain technologies involving the design and development of value-added glass and metal products and services for enclosing commercial buildings and framing and displays. Our four reporting segments are: Architectural Framing Systems, Architectural Glass, Architectural Services and Large-Scale Optical (LSO).

The following selected financial data should be read in conjunction with the Company's Form 10-K for the year ended March 3, 2018 and the consolidated financial statements, including the notes to consolidated financial statements, included therein.

## Highlights of Third Quarter and First Nine Months of Fiscal 2019 Compared to Third Quarter and First Nine Months of Fiscal 2018

## Net sales

Consolidated net sales increased 0.3 percent, or \$1.2 million, for the third quarter ended December 1, 2018, and 8.6 percent, or \$83.7 million, for the nine-month period, compared to the same periods in the prior year. In the three-month period, sales growth was driven by the Architectural Services segment, largely offset by volume-related declines in the Architectural Framing and Large Scale Optical segments. In the nine-month period, the increase in sales was primarily driven by the Architectural Services segment, as well as growth from our Architectural Framing segment, partially offset by lower sales in Architectural Glass.

The relationship between various components of operations, as a percentage of net sales, is presented below:

	Three Months Ended		Nine Months Ended	
	December 1, 2018	December 2, 2017	December 1, 2018	December 2, 2017
Net sales	100.0 %	100.0 %	100.0 %	100.0 %
Cost of sales	76.5	74.3	76.4	74.5
Gross profit	23.5	25.7	23.6	25.5
Selling, general and administrative expenses	14.7	16.0	15.8	16.6
Operating income	8.8	9.7	7.8	8.9
Interest and other (expense) income, net	(0.8 )	(0.3 )	(0.6 )	(0.3 )
Earnings before income taxes	8.0	9.4	7.2	8.6
Income tax expense	1.9	2.7	1.7	2.7
Net earnings	6.1 %	6.6 %	5.5 %	5.9 %
Effective tax rate	23.5 %	29.1 %	23.8 %	31.7 %

## Gross profit

Gross profit as a percent of sales was 23.5 percent and 23.6 percent for the three- and nine-month periods, respectively, ended December 1, 2018, compared to 25.7 percent and 25.5 percent for each of the three- and nine-month periods ended December 2, 2017. Gross profit as a percent of sales declined from the prior-year periods primarily due to higher operating costs in the Architectural Glass segment and negative leverage on reduced volumes in the Architectural Framing segment, somewhat offset by volume leverage and good project performance in the Architectural Services segment.

Selling, general and administrative (SG&A) expenses



SG&A expenses as a percent of sales declined to 14.7 percent and 15.8 percent for the three- and nine-month periods, respectively, ended December 1, 2018, compared to 16.0 percent and 16.6 percent in the three- and nine-month periods, respectively, last year. The decline as a percent of sales in both periods was primarily due to reduced amortization on short-lived intangibles and a gain on the sale of a property. In the year-to-date period, SG&A expense as a percent of sales also decreased due to the acquisition-related costs incurred in the prior year.

Income tax expense

The effective tax rate in the third quarter of fiscal 2019 was 23.5 percent, compared to 29.1 percent in the same period last year, and 23.8 percent for the first nine months of fiscal 2019, compared to 31.7 percent in the prior-year period.

The reduction in the effective tax rate in both periods was primarily driven by the provisions of the Tax Cuts and Jobs Act, enacted in December 2017.

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## Segment Analysis

## Architectural Framing Systems

In thousands	Three Months Ended			Nine Months Ended		
	December 1, 2018	December 2, 2017	Change %	December 1, 2018	December 2, 2017	Change %
Net sales	\$181,306	\$194,157	(6.6)%	\$550,193	\$493,672	11.4%
Operating income	12,903	18,452	(30.1)%	43,554	46,958	(7.2)%
Operating margin	7.1%	9.5%		7.9%	9.5%	

Architectural Framing Systems net sales decreased \$12.9 million, or 6.6 percent, for the three-month period ended December 1, 2018, and increased \$56.5 million, or 11.4 percent, for the nine-month period this year, compared to the respective prior year periods. The sales decline in the current-year third quarter was primarily due to lower volumes reflecting project timing delays in some of the segment's end markets. For the nine-month period, the sales increase was primarily due to the addition of EFCO (acquired in June 2017) for the full period.

Operating margin decreased 240 and 160 basis points, respectively, for the three- and nine-month periods of the current year, compared to the same periods in the prior year. For the three-month period, the operating margin decline compared to the prior year was primarily driven by negative operating leverage on reduced volume. For the nine-month period, the decline in operating margin was driven by the inclusion in the current year of a full period of EFCO at lower operating margins, partially offset by operating improvements in our businesses existing prior to our acquisitions of Sotawall (in December 2016) and EFCO.

As of December 1, 2018, segment backlog was approximately \$392 million, compared to approximately \$406 million last quarter.

## Architectural Glass

In thousands	Three Months Ended			Nine Months Ended		
	December 1, 2018	December 2, 2017	Change %	December 1, 2018	December 2, 2017	Change %
Net sales	\$98,524	\$96,940	1.6%	\$263,533	\$292,026	(9.8)%
Operating income	5,851	9,107	(35.8)%	9,168	28,687	(68.0)%
Operating margin	5.9%	9.4%		3.5%	9.8%	

Net sales increased \$1.6 million, or 1.6 percent, and declined \$28.5 million, or 9.8 percent, for the three- and nine-month periods, respectively, ended December 1, 2018, compared to the same periods in the prior year. The decline in the year-to-date period was the result of changes in the timing of customer orders as well as volume declines stemming from operational challenges within the segment (described in the next paragraph).

Operating margin declined 350 and 630 basis points, respectively, for the three- and nine-month periods of the current year, compared to the same periods in the prior year, primarily driven by significantly increased labor costs, continued lower productivity and higher cost of quality, as the segment has been challenged to efficiently ramp-up production in a tight labor market to meet higher than expected order intake and customer demand. In the third quarter of fiscal 2019, we made progress toward overcoming these operational challenges, resulting in operating margin improvement compared to the prior quarter and we expect these improvements to continue into early fiscal 2020.

## Architectural Services

In thousands	Three Months Ended			Nine Months Ended		
	December 1, 2018	December 2, 2017	Change %	December 1, 2018	December 2, 2017	Change %
Net sales	\$72,828	\$49,077	48.4%	\$220,051	\$146,056	50.7%
Operating income	8,659	2,547	240.0%	21,435	4,102	422.5%
Operating margin	11.9%	5.2%		9.7%	2.8%	

Architectural Services net sales increased \$23.8 million, or 48.4 percent, and \$74.0 million, or 50.7 percent, for the three- and nine- month periods, respectively, ended December 1, 2018, over the same periods in the prior year, as the business continued to experience strong execution on projects.

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Operating margin increased 670 and 690 basis points, respectively, for the three- and nine-month periods of the current year, compared to the same periods in the prior year, due to volume leverage and strong project execution. As of December 1, 2018, segment backlog was approximately \$419 million, compared to approximately \$405 million last quarter.

## Large-Scale Optical (LSO)

In thousands	Three Months Ended			Nine Months Ended		
	December 1, 2018	December 2, 2017	Change	December 1, 2018	December 2, 2017	Change
Net sales	\$23,377	\$26,003	(10.1)%	\$64,522	\$64,897	(0.6)%
Operating income	6,628	6,724	(1.4)%	15,845	15,022	5.5%
Operating margin	28.4%	25.9%		24.6%	23.1%	

LSO net sales decreased \$2.6 million, or 10.1 percent, and \$0.4 million, or 0.6 percent, for the three- and nine-month periods ended December 1, 2018, over the same periods in the prior year.

Operating margin increased 250 basis points for the three months ended December 1, 2018, compared to the third quarter of last year and increased 150 basis points for the nine-month period of the current year compared to the same period in the prior year, driven by good operational performance and an insurance recovery.

## Liquidity and Capital Resources

Selected cash flow data	Nine Months Ended	
	December 1, 2018	December 2, 2017
Operating Activities		
Net cash provided by operating activities	\$70,644	\$66,239
Investing Activities		
Capital expenditures	(33,867)	(38,946)
Acquisition of business, net of cash acquired	—	(184,826)
Proceeds from sale of property, plant and equipment	12,332	253
Financing Activities		
Proceeds from issuance of debt	294,500	314,700
Payments on debt	(278,000)	(150,700)
Repurchase and retirement of common stock	(23,313)	(10,833)
Dividends paid	(13,180)	(11,971)

**Operating Activities.** Cash provided by operating activities was \$70.6 million for the first nine months of fiscal 2019, increasing \$4.4 million compared to the prior-year period, primarily due to proceeds received on our two New Market Tax Credit transactions.

**Investing Activities.** Net cash used in investing activities was \$26.9 million for the first nine months of fiscal 2019, primarily due to capital expenditures and net purchases of marketable securities, offset by proceeds received from the sale of property, while in the first nine months of the prior year, net cash used by investing activities was \$223.4 million, driven by the EFCO acquisition. We estimate fiscal 2019 capital expenditures to be approximately \$60 million, as we continue to make investments in projects that will add capabilities, improve productivity and expand capacity.

We continue to review our portfolio of businesses and their assets in comparison to our internal strategic and performance objectives. As part of this review, we may take actions to adjust capacity, pursue geographic expansion, further invest in, fully divest or sell parts of our current businesses and/or acquire other businesses.

Financing Activities. At December 1, 2018, we had outstanding borrowings under our credit facility of \$211.5 million and \$25.1 million of ongoing letters of credit that reduce availability of funds under our \$335.0 million committed credit facility. As defined within our amended committed revolving credit facility, we are required to comply with two financial covenants. These financial covenants require us to stay below a maximum leverage ratio and to maintain a minimum interest coverage ratio. At December 1, 2018, we were in compliance with both financial covenants.

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We paid dividends totaling \$13.2 million (\$0.4725 per share) in the first nine months of fiscal 2019. As of December 1, 2018, we repurchased 600,000 shares under our authorized share repurchase program, for a total cost of \$23.3 million; all such purchases were made in the third quarter. In the first nine months of fiscal 2018, we repurchased 200,000 shares under our authorized share repurchase program, for a total cost of \$10.8 million. Subsequent to the end of the quarter, we purchased 504,004 shares under the program, at a total cost of \$14.9 million. Including these shares, we have purchased a total of 5,113,936 shares, at a cost of \$144.1 million, since the fiscal 2004 inception of this program. We currently have remaining authority to repurchase an additional 2,136,064 shares under this program.

Other Financing Activities. The following summarizes our significant contractual obligations that impact our liquidity as of December 1, 2018:

In thousands	Payments Due by Fiscal Period						Total
	of Fiscal 2019	Fiscal 2020	Fiscal 2021	Fiscal 2022	Fiscal 2023	Thereafter	
Debt obligations	\$30	\$120	\$5,520	\$214,091	\$1,084	\$12,000	\$232,845
Operating leases (undiscounted)	3,890	14,759	11,522	9,353	8,459	23,308	71,291
Purchase obligations	54,913	99,393	7,625	1,231	—	—	163,162
Total cash obligations	\$58,833	\$114,272	\$24,667	\$224,675	\$9,543	\$35,308	\$467,298

We acquire the use of certain assets through operating leases, such as warehouses, vehicles, forklifts, office equipment, hardware, software and some manufacturing equipment. While many of these operating leases have termination penalties, we consider the risk related to termination penalties to be minimal.

Purchase obligations in the table above relate to raw material commitments and capital expenditures.

We expect to make contributions of \$1.0 million to our defined-benefit pension plans in fiscal 2019, which will equal or exceed our minimum funding requirements.

As of December 1, 2018, we had reserves of \$5.3 million and \$1.2 million for unrecognized tax benefits and environmental liabilities, respectively. We currently expect approximately \$0.6 million of the unrecognized tax benefits to lapse during the next 12 months. We are unable to reasonably estimate in which future periods the remaining unrecognized tax benefits and environmental liabilities will ultimately be settled.

We are required, in the ordinary course of business, to provide surety or performance bonds that commit payments to our customers for any non-performance. At December 1, 2018, \$224.0 million of our backlog was bonded by these types of bonds with a face value of \$478.8 million. These bonds do not have stated expiration dates, as we are generally released from the bonds upon completion of the contract. We have not been required to make any payments under these bonds with respect to our existing businesses.

Due to our ability to generate strong cash from operations and borrowing capability under our committed revolving credit facility, we believe that our sources of liquidity will continue to be adequate to fund our working capital requirements, planned capital expenditures and dividend payments for at least the next 12 months.

## Non-GAAP measures

We analyze non-GAAP measures for adjusted net earnings, adjusted earnings per diluted common share, adjusted EBITDA and adjusted operating income. These measures are used by management to evaluate the Company's

financial performance on a more consistent basis and improve comparability of results from period to period, because they exclude certain amounts that management does not consider to be part of the Company's core operating results. Examples of items excluded to arrive at these adjusted measures may include the impact of acquisition-related costs, amortization of short-lived acquired intangibles associated with backlog and non-recurring restructuring costs. We also monitor and disclose a non-GAAP measure for backlog, which represents the dollar amount of signed contracts or firm orders which we expect to recognize as revenue in the future. Backlog is used as one of the metrics to evaluate sales trends in our longer lead time operating segments. These non-GAAP measures should be viewed in addition to, and not as an alternative to, the reported financial results of the Company prepared in accordance with GAAP. The non-GAAP measures presented below may differ from similar measures used by other companies.

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The following table reconciles net earnings to adjusted net earnings and earnings per diluted common share to adjusted earnings per diluted common share.

In thousands, except per share data	Three Months Ended		Nine Months Ended	
	December 2018	December 2017	December 2018	December 2017
Net earnings	\$21,891	\$ 23,646	\$57,778	\$ 57,159
Amortization of short-lived acquired intangibles	717	2,924	4,655	7,608
Acquisition-related costs	—	423	—	4,840
Income tax impact on above adjustments <sup>(1)</sup>	(168 )	(974 )	(1,108 )	(4,120 )
Adjusted net earnings	\$22,440	\$ 26,019	\$61,325	\$ 65,487
Earnings per diluted common share	\$0.78	\$ 0.82	\$2.04	\$ 1.98
Amortization of short-lived acquired intangibles	0.03	0.10	0.16	0.26
Acquisition-related costs	—	0.01	—	0.17
Income tax impact on above adjustments <sup>(1)</sup>	(0.01 )	(0.03 )	(0.04 )	(0.14 )
Adjusted earnings per diluted common share	\$0.80	\$ 0.90	\$2.17	\$ 2.27

<sup>(1)</sup> Income tax impact on adjustments was calculated using our effective income tax rates of 23.5% and 29.1% for the quarters ended December 1, 2018 and December 2, 2017, respectively, and 23.8% and 33.1% for the nine-month periods ended December 1, 2018 and December 2, 2017, respectively.

The following table reconciles earnings before interest, income taxes and depreciation and amortization, or EBITDA, to adjusted EBITDA.

In thousands	Three Months Ended		Nine Months Ended	
	December 2018	December 2017	December 2018	December 2017
Net earnings	\$21,891	\$ 23,646	\$57,778	\$ 57,159
Income tax expense	6,730	9,704	18,030	26,517
Other expense (income), net	655	(303 )	459	(560 )
Interest expense, net	2,132	1,488	5,795	3,299
Depreciation and amortization	11,921	14,712	38,378	39,774
EBITDA	43,329	49,247	120,440	126,189
Acquisition-related costs	—	423	—	4,840
Adjusted EBITDA	\$43,329	\$ 49,670	\$ 120,440	\$ 131,029





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The following table reconciles operating income (loss) to adjusted operating income (loss).

In thousands	Framing Systems Segment		Corporate	Consolidated		
	Operating income	Operating margin		Operating income (loss)	Operating income	Operating margin
Three Months Ended December 1, 2018						
Operating income (loss)	\$12,903	7.1 %	\$(2,633)	\$31,408	8.8 %	
Amortization of short-lived acquired intangibles	717	0.4	—	717	0.2	
Acquisition-related costs	—	—	—	—	—	
Adjusted operating income (loss)	\$13,620	7.5 %	\$(2,633)	\$32,125	9.0 %	
Three Months Ended December 2, 2017						
Operating income (loss)	\$18,452	9.5 %	\$(2,295)	\$34,535	9.7 %	
Amortization of short-lived acquired intangibles	2,924	1.5	—	2,924	0.8	
Acquisition-related costs	—	—	423	423	0.1	
Adjusted operating income (loss)	\$21,376	11.0 %	\$(1,872)	\$37,882	10.6 %	
Nine Months Ended December 1, 2018						
Operating income (loss)	\$43,554	7.9 %	\$(7,940)	\$82,062	7.8 %	
Amortization of short-lived acquired intangibles	4,655	0.8	—	4,655	0.4	
Acquisition-related costs	—	—	—	—	—	
Adjusted operating income (loss)	\$48,209	8.8 %	\$(7,940)	\$86,717	8.2 %	
Nine Months Ended December 2, 2017						
Operating income (loss)	\$46,958	9.5 %	\$(8,354)	\$86,415	8.9 %	
Amortization of short-lived acquired intangibles	7,608	1.5	—	7,608	0.8	
Acquisition-related costs	—	—	4,840	4,840	0.5	
Adjusted operating income (loss)	\$54,566	11.1 %	\$(3,514)	\$98,863	10.2 %	

**Outlook**

The following statements are based on our current expectations for full-year fiscal 2019 results. These statements are forward-looking, and actual results may differ materially. We are currently expecting:

• Revenue growth of 6 to 7 percent.

• Operating margin of approximately 8.4 percent.

• Earnings per diluted share of approximately \$3.00.

• Adjusted operating margin of approximately 8.7 percent and adjusted earnings per diluted common share of approximately \$3.13<sup>(1)</sup>.

• Capital expenditures of approximately \$60 million.

<sup>(1)</sup>Adjusted operating margin and adjusted earnings per diluted share exclude the impact of amortization of short-lived acquired intangible assets associated with the acquired backlog of Sotawall and EFCO of \$3.8 million (after tax, \$0.13 per diluted common share). These non-GAAP measures are used by management to evaluate the Company's historical and prospective financial performance, measure operational profitability on a more consistent basis, and provide enhanced transparency to the investment community. These non-GAAP measures should be viewed in addition to, and not as an alternative to, the financial results of the company prepared in accordance with GAAP.

**Related Party Transactions**

No material changes have occurred in the disclosure with respect to our related party transactions set forth in our Annual Report on Form 10-K for the fiscal year ended March 3, 2018.

**Critical Accounting Policies**

Refer to an update to our critical accounting policies included within Item 1, Notes to the Consolidated Financial Statements (Note 1). No other changes have occurred to the critical accounting policies set forth in our Annual Report on Form 10-K for the fiscal year ended March 3, 2018.

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### Item 3. Quantitative and Qualitative Disclosures About Market Risk

No material changes have occurred to the disclosures of quantitative and qualitative market risk set forth in our Annual Report on Form 10-K for the fiscal year ended March 3, 2018.

### Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures. As of the end of the period covered by this report (the Evaluation Date), we carried out an evaluation, under the supervision and with the participation of management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) of the Securities Exchange Act of 1934, as amended (the Exchange Act)). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the Evaluation Date, our disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in applicable rules and forms, and (ii) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

Changes in internal controls: There was no change in the Company's internal control over financial reporting that occurred during the fiscal quarter ended December 1, 2018, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

#### Murray Mayer v. Apogee Enterprises, Inc., et al

On November 5, 2018, Murray Mayer, individually and on behalf of all others similarly situated, filed a purported class action lawsuit against the Company and our Chief Executive Officer and our Chief Financial Officer in the United States District Court for the District of Minnesota. The complaint generally alleges that, throughout the purported class period of June 28, 2018 to September 17, 2018, the Company and the named executive officers made materially false and/or misleading statements and failed to disclose material adverse facts about the Company's business, operations, and prospects, particularly with respect to our Architectural Glass business segment and alleges that the defendants violated Sections 10(b) and 20(a) of the Securities Exchange Act of 1934. The complaint seeks unspecified sums of damages, award of counsel fees and costs, and equitable relief. As of the date of filing of this Report, this complaint has not been served on any named defendant. If and when the complaint is served on the Company, we intend to vigorously defend against this matter.

#### Justin Buley v. Apogee Enterprises, Inc. et al

On December 17, 2018, Justin Buley filed a derivative lawsuit, purportedly on behalf of the Company, against our Chief Executive Officer, our Chief Financial Officer and eight of the nine non-executive members of our Board of Directors, in the Fourth Judicial District of the State of Minnesota. The complaint alleges claims for breach of fiduciary duty, waste of corporate assets and unjust enrichment, arising from substantially similar allegations as those described above. The complaint seeks an unspecified sum of damages and equitable relief, including requiring the Company to offer our shareholders the opportunity to vote for certain amendments to our Bylaws or Articles of Incorporation purporting to improve identified corporate governance practices. We intend to vigorously defend against this matter.

#### Other Matters

In addition to the foregoing, the Company is a party to various legal proceedings incidental to its normal operating activities. In particular, like others in the construction supply and services industry, the Company is routinely involved in various disputes and claims arising out of construction projects, sometimes involving significant monetary damages or product replacement. The Company is also subject to litigation arising out of areas such as employment practices,

workers compensation and general liability matters. Although it is very difficult to accurately predict the outcome of any such proceedings, facts currently available indicate that no matters will result in losses that would have a material adverse effect on the results of operations, cash flows or financial condition of the Company.

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## Item 1A. Risk Factors

There have been no material changes or additions to our risk factors discussed in our Annual Report on Form 10-K for the fiscal year ended March 3, 2018.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table provides information with respect to purchases made by the Company of its own stock during the third quarter of fiscal 2019:

Period	Total Number of Shares Purchased (a)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (b)	Maximum Number of Shares that May Yet Be Purchased under the Plans or Programs (b)
September 2, 2018 to September 30, 2018	4,327	\$ 49.22	—	1,240,068
October 1, 2018 to October 28, 2018	—	—	500,000	2,740,068
October 29, 2018 to December 1, 2018	—	—	100,000	2,640,068
Total	4,327	\$ 49.22	600,000	2,640,068

(a) The shares in this column represent the total number of shares that were surrendered to us by plan participants to satisfy stock-for-stock option exercises or withholding tax obligations related to share-based compensation.

(b) In fiscal 2004, announced on April 10, 2003, the Board of Directors authorized the repurchase of 1,500,000 shares of Company stock. The Board increased the authorization by 750,000 shares, announced on January 24, 2008; by 1,000,000 shares on each of the announcement dates of October 8, 2008, January 13, 2016 and January 9, 2018; and by 2,000,000 shares, announced on October 3, 2018. The repurchase program does not have an expiration date.

## Item 6. Exhibits

31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.

31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.

32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101 The following materials from Apogee Enterprises, Inc.'s Quarterly Report on Form 10-Q for the quarter ended December 1, 2018 are furnished herewith, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Balance Sheets as of December 1, 2018 and March 3, 2018, (ii) the Consolidated Results of Operations for the three- and nine-months ended December 1, 2018 and December 2, 2017, (iii) the Consolidated Statements of Comprehensive Earnings for the three- and nine-months ended December 1, 2018 and December 2, 2017, (iv) the Consolidated Statements of Cash Flows for the nine months ended December 1, 2018 and December 2, 2017, (v) the Consolidated Statements of Shareholders' Equity for the nine months ended December



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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

APOGEE ENTERPRISES,  
INC.

Date: January 10, 2019 By: /s/ Joseph F. Puishys  
Joseph F. Puishys  
President and Chief  
Executive Officer  
(Principal Executive Officer)

Date: January 10, 2019 By: /s/ James S. Porter  
James S. Porter  
Executive Vice President and  
Chief Financial Officer (Principal Financial and  
Accounting Officer)