

NCI BUILDING SYSTEMS INC
Form 10-Q
August 29, 2018

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

FORM 10-Q

(Mark
One)

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

For the quarterly period ended July 29, 2018

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: 1-14315

NCI BUILDING SYSTEMS, INC.
(Exact name of registrant as specified in its charter)

Delaware 76-0127701
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

10943 North Sam Houston Parkway West 77064
Houston, TX
(Address of principal executive offices) (Zip Code)

(281) 897-7788
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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, a non-accelerated filer, a 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 <input type="checkbox"/>	Accelerated filer <input checked="" type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>
	Emerging growth company <input type="checkbox"/>

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.

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

APPLICABLE ONLY TO CORPORATE ISSUERS

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

Common Stock, \$.01 par value - 66,203,841 shares as of August 22, 2018.

TABLE OF CONTENTS

	PAGE
<u>Part I — Financial Information</u>	
Item 1. <u>Unaudited Consolidated Financial Statements</u>	<u>1</u>
<u>Consolidated Statements of Operations for the Fiscal Three and Nine Month Periods Ended July 29, 2018 and July 30, 2017</u>	<u>1</u>
<u>Consolidated Statements of Comprehensive Income for the Fiscal Three and Nine Month Periods Ended July 29, 2018 and July 30, 2017</u>	<u>2</u>
<u>Consolidated Balance Sheets as of July 29, 2018 and October 29, 2017</u>	<u>3</u>
<u>Consolidated Statements of Cash Flows for the Fiscal Nine Month Periods Ended July 29, 2018 and July 30, 2017</u>	<u>4</u>
<u>Consolidated Statement of Stockholders' Equity for the Fiscal Nine Month Period Ended July 29, 2018</u>	<u>5</u>
<u>Notes to Unaudited Consolidated Financial Statements</u>	<u>6</u>
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>24</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>44</u>
Item 4. <u>Controls and Procedures</u>	<u>46</u>
<u>Part II — Other Information</u>	
Item 1. <u>Legal Proceedings</u>	<u>47</u>
Item 1A. <u>Risk Factors</u>	<u>47</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>49</u>
Item 6. <u>Exhibits</u>	<u>50</u>

PART I — FINANCIAL INFORMATION

Item 1. Unaudited Consolidated Financial Statements.

NCI BUILDING SYSTEMS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

	Fiscal Three Months		Fiscal Nine Months	
	Ended		Ended	
	July 29, 2018	July 30, 2017	July 29, 2018	July 30, 2017
Sales	\$548,525	\$469,385	\$1,426,943	\$1,281,552
Cost of sales	415,124	354,416	1,097,542	981,793
Gross profit	133,401	114,969	329,401	299,759
Engineering, selling, general and administrative expenses	79,039	76,309	228,231	220,473
Intangible asset amortization	2,412	2,405	7,237	7,215
Restructuring and impairment charges, net	(439)	) 1,009	1,143	3,587
Strategic development and acquisition related costs	3,642	1,297	5,503	1,778
(Gain) loss on disposition of business	(1,013)	) —	5,673	—
Gain on insurance recovery	(4,741)	) (148)	) (4,741)	) (9,749)
Income from operations	54,501	34,097	86,355	76,455
Interest income	48	20	118	164
Interest expense	(4,572)	) (7,373)	) (16,913)	) (21,738)
Foreign exchange (loss) gain	(258)	) 985	(92)	) 1,035
Loss on extinguishment of debt	—	—	(21,875)) —
Other income, net	345	337	1,072	1,045
Income before income taxes	50,064	28,066	48,665	56,961
Provision for income taxes	14,078	9,845	13,114	19,727
Net income	\$35,986	\$18,221	\$35,551	\$37,234
Net income allocated to participating securities	(221)	) (102)	) (248)	) (240)
Net income applicable to common shares	\$35,765	\$18,119	\$35,303	\$36,994
Income per common share:				
Basic	\$0.54	\$0.26	\$0.53	\$0.52
Diluted	\$0.54	\$0.25	\$0.53	\$0.52
Weighted average number of common shares outstanding:				
Basic	66,335	71,047	66,361	70,973
Diluted	66,438	71,183	66,477	71,134

See accompanying notes to consolidated financial statements.

NCI BUILDING SYSTEMS, INC.
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 (In thousands)
 (Unaudited)

	Fiscal Three Months Ended		Fiscal Nine Months Ended	
	July 29, 2018	July 30, 2017	July 29, 2018	July 30, 2017
Comprehensive income:				
Net income	\$35,986	\$18,221	\$35,551	\$37,234
Other comprehensive (loss) income, net of tax:				
Foreign exchange translation gains (losses) and other ⁽¹⁾	(68)	395	(92)	337
Other comprehensive (loss) income	(68)	395	(92)	337
Comprehensive income	\$35,918	\$18,616	\$35,459	\$37,571

⁽¹⁾ Foreign exchange translation gains (losses) and other are presented net of taxes of \$0 in both the three months ended July 29, 2018 and July 30, 2017 and in both the nine months ended July 29, 2018 and July 30, 2017.

See accompanying notes to consolidated financial statements.

NCI BUILDING SYSTEMS, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)
(Unaudited)

	July 29, 2018	October 29, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$43,322	\$65,658
Restricted cash	180	136
Accounts receivable, net	211,098	199,897
Inventories, net	260,879	198,296
Income taxes receivable	1,171	3,617
Investments in debt and equity securities, at market	5,785	6,481
Prepaid expenses and other	35,859	31,359
Assets held for sale	7,272	5,582
Total current assets	565,566	511,026
Property, plant and equipment, net	230,851	226,995
Goodwill	148,291	148,291
Intangible assets, net	129,933	137,148
Deferred income taxes	1,701	2,544
Other assets, net	5,352	5,108
Total assets	\$1,081,694	\$1,031,112
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	\$4,150	\$—
Note payable	994	440
Accounts payable	179,700	147,772
Accrued compensation and benefits	58,454	59,189
Accrued interest	1,488	6,414
Accrued income taxes	7,925	—
Other accrued expenses	106,204	102,233
Total current liabilities	358,915	316,048
Long-term debt, net of deferred financing costs of \$5,971 and \$6,857 on July 29, 2018 and October 29, 2017, respectively	403,842	387,290
Deferred income taxes	1,740	4,297
Other long-term liabilities	18,111	18,230
Total long-term liabilities	423,693	409,817
Stockholders' equity:		
Common stock, \$.01 par value, 100,000,000 shares authorized; 66,264,513 and 68,677,684 shares issued at July 29, 2018 and October 29, 2017, respectively; 66,203,700 and 68,386,556 shares outstanding at July 29, 2018 and October 29, 2017, respectively	663	687
Additional paid-in capital	521,059	562,277
Accumulated deficit	(213,846)	(248,046)
Accumulated other comprehensive loss, net	(7,623)	(7,531)
Treasury stock, at cost (60,813 and 291,128 shares at July 29, 2018 and October 29, 2017, respectively)	(1,167)	(2,140)
Total stockholders' equity	299,086	305,247

Total liabilities and stockholders' equity	\$1,081,694	\$1,031,112
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See accompanying notes to consolidated financial statements.

3

NCI BUILDING SYSTEMS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Fiscal Nine Months Ended		July 30,	
	July 29, 2018		2017	
Cash flows from operating activities:				
Net income	\$	35,551	\$	37,234
Adjustments to reconcile net income to net cash from operating activities:				
Depreciation and amortization		30,974		30,656
Amortization of deferred financing costs		1,140		1,398
Loss on extinguishment of debt		21,875		—
Share-based compensation expense		8,909		8,146
Gain on insurance recovery	(4,741	)	(9,749)
Loss on disposition of business, net		5,092		—
(Gains) losses on assets, net	(875	)		438
Provision for doubtful accounts	(177	)		1,145
(Benefit) provision for deferred income taxes	(1,676	)		70
Changes in operating assets and liabilities, net of effect of acquisitions and dispositions:				
Accounts receivable	(13,512	)	(8,559)
Inventories	(64,882	)	(25,909)
Income taxes	2,446		(1,284)
Prepaid expenses and other	(3,686	)	1,069	
Accounts payable	34,567		(22,212)
Accrued expenses	6,088		(10,499)
Other, net	(185	)	(1,347)
Net cash provided by operating activities		56,908		597
Cash flows from investing activities:				

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Capital expenditures	(34,867)	(15,629)
Proceeds from sale of property, plant and equipment	6,338		2,533	
Business disposition, net	(1,426)	—	
Proceeds from insurance	4,741		8,593	
Net cash used in investing activities	(25,214	)	(4,503)
Cash flows from financing activities:				
(Deposit) refund of restricted cash	(44	)	96	
Proceeds from stock options exercised	1,279		1,195	
Proceeds from ABL facility	85,000		35,000	
Payments on ABL facility	(85,000	)	(35,000)
Proceeds from term loan	415,000		—	
Payments on term loan	(145,184	)	(10,180)
Payments on senior notes	(265,470)	—	
Payments on note payable	(1,245	)	(1,096)
Payments of financing costs	(6,521)	—	
Payments related to tax withholding for share-based compensation	(5,048	)	(2,389)
Purchases of treasury stock	(46,705	)	(3,533)
Net cash used in financing activities	(53,938	)	(15,907)
Effect of exchange rate changes on cash and cash equivalents	(92	)	333	
Net decrease in cash and cash equivalents	(22,336	)	(19,480)
Cash and cash equivalents at beginning of period	65,658		65,403	
Cash and cash equivalents at end of period	\$ 43,322		\$ 45,923	

See accompanying notes to consolidated financial statements.

NCI BUILDING SYSTEMS, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands, except share data)
(Unaudited)

	Common Stock		Additional Paid-In	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Treasury Stock		Stockholders' Equity
	Shares	Amount	Capital	(Deficit)		Shares	Amount	
Balance, October 29, 2017	68,677,684	\$ 687	\$562,277	\$(248,046)	\$ (7,531)	(291,128)	\$(2,140)	\$ 305,247
Treasury stock purchases	—	—	—	—	—	(2,938,974)	(51,753)	(51,753)
Retirement of treasury shares	(2,938,974)	(29)	(51,743)	—	—	2,938,974	51,772	—
Issuance of restricted stock	410,379	4	(4)	—	—	181,439	—	—
Stock options exercised	115,424	1	1,278	—	—	—	—	1,279
Foreign exchange translation loss and other, net of taxes	—	—	(55)	—	(92)	—	—	(147)
Deferred compensation obligation	—	—	(954)	—	—	48,876	954	—
Share-based compensation	—	—	8,909	—	—	—	—	8,909
Cumulative effect of accounting change	—	—	1,351	(1,351)	—	—	—	—
Net income	—	—	—	35,551	—	—	—	35,551
Balance, July 29, 2018	66,264,513	\$ 663	\$521,059	\$(213,846)	\$ (7,623)	(60,813)	\$(1,167)	\$ 299,086

See accompanying notes to consolidated financial statements.

NCI BUILDING SYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

July 29, 2018

(Unaudited)

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited consolidated financial statements for NCI Building Systems, Inc. (together with its subsidiaries, unless otherwise indicated, the “Company,” “NCI,” “we,” “us” or “our”) have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for complete financial statements. In the opinion of management, the unaudited consolidated financial statements included herein contain all adjustments, which consist of normal recurring adjustments, necessary to fairly present our financial position, results of operations and cash flows for the periods indicated. Operating results for the fiscal three and nine month periods ended July 29, 2018 are not necessarily indicative of the results that may be expected for the fiscal year ending October 28, 2018. Our sales and earnings are subject to both seasonal and cyclical trends and are influenced by general economic conditions, interest rates, the price of steel relative to other building materials, the level of nonresidential construction activity, roof repair and retrofit demand and the availability and cost of financing for construction projects.

For further information, refer to the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended October 29, 2017 which were recast and included in our Current Report on Form 8-K dated August 6, 2018.

Reporting Periods

We use a four-four-five week calendar each quarter with our fiscal year end being on the Sunday closest to October 31. The year end for fiscal 2018 is October 28, 2018.

Pending Ply Gem Merger

On July 17, 2018, the Company entered into an Agreement and Plan of Merger (the “Merger Agreement”) with Ply Gem Parent, LLC, a Delaware limited liability company (“Ply Gem”), and for certain limited purposes set forth in the Merger Agreement, Clayton, Dubilier & Rice, LLC, a Delaware limited liability company (the “Sponsor”).

Pursuant to the terms of the Merger Agreement, at the closing of the merger, Ply Gem will be merged with and into the Company with the Company continuing its existence as a Delaware corporation (the “Merger”). At the closing of the Merger (“Closing”), all of Ply Gem’s equity interests (the “Ply Gem LLC Interests”) as of immediately prior to the Closing will be converted into the right of the holders of the Ply Gem LLC Interests (the “Ply Gem Holders”) to receive, in the aggregate with respect to all such Ply Gem LLC Interests, 58,709,067 shares of NCI common stock, par value \$0.01 per share (“Common Stock”) (collectively, the “Aggregate Merger Consideration”), with each Ply Gem Holder being entitled to receive its pro rata share of the Aggregate Merger Consideration. The shares of the Common Stock outstanding prior to the Merger will remain outstanding after the closing of the Merger.

The Closing is subject to a number of customary conditions, including, among others, (1) the approval of the Merger, at a meeting duly called for such purpose, by the affirmative vote of the stockholders of the Company holding the majority of the Common Stock outstanding as of the applicable record date (the “Stockholder Approval”), (2) the absence of any decision, injunction, decree, ruling, law or order by any governmental entity enjoining, prohibiting or making the consummation of the Merger and any related transactions illegal, (3) the termination or expiration of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and approvals under the Competition Act of Canada and the Austrian Cartel Act (Kartellgesetz) 2005 (BGB1 I 2005/61), as amended (4) subject to certain exceptions, the accuracy of representations and warranties with respect to the business of each of the Company and Ply Gem and compliance in all material respects by each of the Company, Ply Gem, and the Sponsor with its respective covenants contained in the Merger Agreement, and (5) the receipt by each of the Company and Ply Gem from its respective tax counsel of an opinion to the effect that the Merger will qualify as a “reorganization” within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended.

If the Merger Agreement is terminated under certain circumstances, the Company would be obligated to pay Ply Gem a termination fee of \$45.0 million.

The Company incurred \$3.6 million of acquisition expenses in the third quarter of fiscal 2018 related to the pending Merger, which are recorded in strategic development and acquisition related costs in the Company's consolidated statements of operations.

Change in Operating Segments

On February 22, 2018, the Company announced changes to NCI's reportable business segments, effective January 28, 2018 starting with the first quarter of fiscal 2018, to align with changes in how the Company manages its business, reviews operating performance and allocates resources.

As of the first quarter, the Company began reporting results under four reportable segments: Engineered Building Systems; Metal Components; Insulated Metal Panels; and Metal Coil Coating. Previously, operating results for the Insulated Metal Panel product line were included in the Metal Components segment. In addition, CENTRIA's coil coating operations, which had also been included in the Metal Components segment since the Company's acquisition of CENTRIA in January 2015, will now be reported within the Metal Coil Coating segment. The Company began reporting its financial results under the new reportable segments with the filing of our Form 10-Q for the quarter ended January 28, 2018, filed with the SEC on March 8, 2018. Additionally, the financial statements and notes for the fiscal year ended October 29, 2017 were recast and included in our Current Report on Form 8-K dated August 6, 2018.

Gain on Insurance Recovery

In June 2016, the Company experienced a fire at a facility in the Insulated Metal Panels segment. During the second quarter of fiscal 2017, the Company settled the property damage claims with the insurers for actual cash value of \$18.0 million. Of this amount, the Company received proceeds of \$10.0 million from our insurers during the fourth quarter of fiscal 2016. The remaining \$8.0 million was received in May 2017.

Approximately \$8.8 million was previously recognized in our consolidated statement of operations to offset the loss on involuntary conversion and other amounts incurred related to the incident. The remaining \$9.2 million was recognized as a gain on insurance recovery in the consolidated statement of operations during the quarter ended April 30, 2017.

The Company's property insurance policy is a replacement cost policy. During the third quarter of fiscal 2018, the Company received final proceeds of \$4.7 million as reimbursement for new assets acquired and recognized a \$4.7 million gain on insurance recovery in the consolidated statements of operations.

Disposition of Business

In the second quarter of fiscal 2018, the Company closed on the sale of CENTRIA International LLC, which owned our manufacturing facility in China. The Company recognized a \$6.7 million loss on the sale in the Insulated Metal Panels segment during the second quarter of fiscal 2018. The disposition does not represent a strategic shift that has or will have a major effect of the Company's operations or financial results.

NOTE 2 — ACCOUNTING PRONOUNCEMENTS

Adopted Accounting Pronouncements

In July 2015, the FASB issued ASU 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory. ASU 2015-11 requires that inventory that is accounted for using first-in, first-out (FIFO) or average cost method be measured at the lower of cost or net realizable value. We adopted this guidance in our first quarter of fiscal 2018 on a prospective basis. The adoption of this guidance did not have a material impact on our financial position or results of operations.

In November 2015, the FASB issued ASU 2015-17, Balance Sheet Classification of Deferred Taxes. ASU 2015-17 requires all deferred tax assets and liabilities to be presented on the balance sheet as noncurrent. This guidance did not change the requirement that deferred tax assets and liabilities be offset and presented by tax jurisdiction. We adopted ASU 2015-17 in our first quarter in fiscal 2018 on a retrospective basis. As a result deferred tax assets of \$20.1 million that were presented on our October 29, 2017 consolidated balance sheet have been reclassified to non-current deferred tax liabilities and the remaining \$2.5 million deferred tax assets have been reclassified to non-current deferred tax assets to be consistent with the current year classification.

In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting, which simplifies certain aspects of the accounting for share-based payment transactions, including income tax effects, forfeitures, minimum statutory tax withholding requirements, classification as either equity or liability, and classification on the statement of cash flows. We adopted ASU 2016-09 in our first quarter in fiscal 2018. ASU 2016-09 requires all excess tax benefits and tax deficiencies be recognized as income tax expense or benefit in the

income statement, thus eliminating additional paid-in capital pools. The Company applied the new standard guidance prospectively to all excess tax benefits and tax deficiencies resulting from settlements after October 29, 2017. The standard also requires a policy election to either estimate the number of awards that are expected to vest or account for forfeitures when they occur. The Company recognized a cumulative effect adjustment of \$1.4 million to increase accumulated deficit on a modified retrospective basis as of October 29, 2017 and has elected to account for forfeitures when they occur on a prospective basis. The standard requires that excess tax benefits should be classified along with other income tax cash flows as an operating activity on the statement of cash flows, which differs from the Company's historical classification of the excess tax benefits as cash inflows from financing activities. The Company elected to apply this provision using the retrospective

7

transition method and reclassified \$1.5 million of excess tax benefits from financing activities to operating activities on the statement of cash flows for the fiscal nine months ended July 30, 2017. Additionally, the standard requires cash paid by an employer when directly withholding shares for tax withholding purposes to be classified in the statement of cash flows as a financing activity. Payments for shares withheld for tax withholding purposes of \$5.0 million and \$2.4 million are classified on the consolidated statements of cash flows for the nine months ended July 29, 2018 and July 30, 2017, respectively.

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business. This ASU adds guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. Under the new guidance, if a single asset or group of similar identifiable assets comprise substantially all of the fair value of the gross assets acquired (or disposed of) in a transaction, the assets and related activities are not a business. Also, a minimum of an input process and a substantive process must be present and significantly contribute to the ability to create outputs in order to be considered a business. We early adopted ASU 2017-01 in the third quarter of fiscal 2018, as permitted. The adoption of this guidance did not have a material impact on our consolidated financial position or results of operations.

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 supersedes the revenue recognition requirements in ASC Topic 605, Revenue Recognition, and most industry-specific guidance. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. During 2016, the FASB also issued ASU 2016-08, Revenue from Contracts with Customers: Principal versus Agent Considerations (Reporting Revenue Gross versus Net); ASU 2016-10, Revenue from Contracts with Customers: Identifying Performance Obligations and Licensing; ASU 2016-11, Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16 Pursuant to Staff Announcements at the March 3, 2016 EITF Meeting; and ASU 2016-12, Revenue from Contracts with Customers: Narrow-Scope Improvements and Practical Expedients; and ASU 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers (collectively, the “new revenue standard”), all of which were issued to improve and clarify the guidance in ASU 2014-09. These ASUs are effective for our fiscal year ending November 3, 2019, including interim periods within that fiscal year, using either a full or modified retrospective approach. We performed an assessment of the differences between the new revenue standard and current accounting practices. As part of our implementation process, we identified significant revenue streams and evaluated a sample of contracts within each significant revenue stream in order to determine the effect of the standard on our revenue recognition practices. We are substantially complete with this evaluation. We are in the process of establishing new policies, procedures, and internal controls to be put in place upon adoption of the standard. To adopt the new revenue standard, we will apply the modified retrospective approach, pursuant to which we will record an adjustment to the opening balance of accumulated deficit as of October 29, 2018 (the first day of our fiscal year ending November 3, 2019) for the impact of applying the new revenue standard to all contracts existing as of the date of application. Although this is still under review and not finalized, we expect that, based on the implementation efforts performed to-date, the adjustment will relate to changes in the timing of revenue recognition for: tolling services within the Metal Coil Coating segment, fixed price contracts within the Insulated Metal Panels segment, and our weathertightness warranties offered in the Engineered Building Systems and Metal Components segments. Management’s assessment is that the new revenue standard is not expected to materially impact our consolidated financial statements; however, we do anticipate the adoption will have a material impact on our financial statement disclosures.

In February 2016, the FASB issued ASU 2016-02, Leases, which will require lessees to record most leases on the balance sheet and modifies the classification criteria and accounting for sales-type leases and direct financing leases for lessors. ASU 2016-02 is effective for our fiscal year ending November 1, 2020, including interim periods within that fiscal year. ASU 2016-02, as amended by ASU 2018-11, Leases: Targeted Improvements, requires entities to use a modified retrospective approach, either, for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements, or under an alternative transition option, for leases existing at, or

entered into after, the adoption date. While we are evaluating the impact that the adoption of this guidance will have on our consolidated financial statements, we currently believe that most of our operating leases will be reflected on the consolidated balance sheet upon adoption.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. This ASU requires an entity to measure all expected credit losses for financial assets, including trade receivables, held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Entities will now incorporate forward-looking information based on expected losses to estimate credit losses. ASU 2016-13 is effective for our fiscal year ending October 31, 2021, including interim periods within that fiscal year. We are evaluating the impact that the adoption of this ASU will have on our consolidated financial position, result of operations and cash flows.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, which provides guidance on eight cash flow classification issues with the objective of reducing differences in practice. We will be required to adopt the amendments in this ASU in annual and interim periods for our fiscal year ending November 3, 2019, with early adoption permitted. Adoption is required to be on a retrospective basis, unless impracticable for any of the amendments, in which case a prospective application is permitted. We are evaluating the impact that ASU 2016-15 will have on our consolidated financial statements.

In October 2016, the FASB issued ASU 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other than Inventory, which eliminates the exception that prohibits the recognition of current and deferred income tax effects for intra-entity transfers of assets other than inventory until the asset has been sold to an outside party. We will be required to adopt the amendments in this ASU in the annual and interim periods for our fiscal year ending November 3, 2019, with early adoption permitted. The application of the amendments will require the use of a modified retrospective basis through a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption. We are evaluating the standard and the impact it will have on our consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force), which clarifies how entities should present restricted cash and restricted cash equivalents in the statement of cash flows. Entities will no longer present transfers between cash and cash equivalents and restricted cash and restricted cash equivalents in the statement of cash flows. An entity with a material balance of restricted cash and restricted cash equivalents must disclose information about the nature of the restrictions. We will be required to adopt this guidance on a retrospective basis in the annual and interim periods for our fiscal year ending November 3, 2019, with early adoption permitted. We are evaluating the impact that ASU 2016-18 will have on our consolidated financial statements.

In March 2017, the FASB issued ASU 2017-07, Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, which amends the requirements related to the income statement presentation of the components of net periodic benefit cost for employer sponsored defined benefit pension and other postretirement benefit plans. Under the new guidance, an entity must disaggregate and present the service cost component of net periodic benefit cost in the same income statement line items as other employee compensation costs arising from services rendered during the period, and only the service cost component will be eligible for capitalization. Other components of net periodic benefit cost will be presented separately from the line items that include the service cost. We will be required to adopt this guidance in the annual and interim periods for our fiscal year ending November 3, 2019, with early adoption permitted. Entities must use a retrospective transition method to adopt the requirement for separate presentation of the income statement service cost and other components, and a prospective transition method to adopt the requirement to limit the capitalization of benefit cost to the service component. We are evaluating the impact of adopting this guidance.

In May 2017, the FASB issued ASU 2017-09, Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting, which provides clarity on the accounting for modifications of stock-based awards. We will be required to adopt this guidance on a prospective basis in the annual and interim periods for our fiscal year ending November 3, 2019 for share-based payment awards modified on or after the adoption date. We are evaluating the impact ASU 2017-09 will have on our consolidated financial statements.

NOTE 3 —RESTRUCTURING

The Company developed plans in the fourth quarter of fiscal 2015 primarily to improve engineering, selling, general and administrative (“ESG&A”) and manufacturing cost efficiency and to optimize our combined manufacturing footprint given the Company’s acquisitions, dispositions and restructuring efforts. Total restructuring costs under these plans were reduced by \$0.4 million during the three months ended July 29, 2018, primarily due to a gain on the sale of a facility in the Engineering Building Systems segment. During the three months ended July 30, 2017, we incurred restructuring charges of \$1.0 million, including \$0.9 million and \$0.1 million, in the Engineered Building Systems segment and Metal Components segment, respectively.

For the nine months ended July 29, 2018, we incurred restructuring charges of \$1.1 million, including \$1.0 million and \$1.4 million in the Engineered Building Systems segment and Insulated Metals Panel segment, respectively,

partially offset by a net gain of \$1.3 million on sales of facilities in our Metal Components segment. For the nine months ended July 30, 2017, we incurred restructuring charges of \$3.6 million, primarily consisting of severance related costs, including approximately \$3.0 million and \$0.6 million in the Engineered Building Systems segment and Metal Components segment, respectively.

The following table summarizes the costs and charges associated with the restructuring plans during the three and nine months ended July 29, 2018, as well as the cost incurred to date (since inception), which are recorded in restructuring and impairment charges in the Company's consolidated statements of operations (in thousands):

	Fiscal Three Months Ended July 29, 2018	Fiscal Nine Months Ended July 29, 2018	Cost Incurred To Date (since inception)
General severance	\$ 155	\$ 1,888	\$ 10,850
Plant closing severance	31	31	3,310
Asset impairments	—	1,171	7,140
Gain on sale of facility	(625)	(2,049)	(2,049)
Other restructuring costs	—	102	1,415
Total restructuring costs	\$ (439)	\$ 1,143	\$ 20,666

The following table summarizes our severance liability and cash payments made pursuant to the restructuring plans from inception through July 29, 2018 (in thousands):

	General Severance	Plant Closing Severance	Total
Balance at November 2, 2014	\$ —	\$ —	\$ —
Costs incurred	3,887	1,575	5,462
Cash payments	(2,941)	(1,575)	(4,516)
Accrued severance ⁽¹⁾	739	—	739
Balance at November 1, 2015	\$ 1,685	\$ —	\$ 1,685
Costs incurred ⁽¹⁾	2,725	165	2,890
Cash payments	(3,928)	(165)	(4,093)
Balance at October 30, 2016	\$ 482	\$ —	\$ 482
Costs incurred	2,350	1,539	3,889
Cash payments	(2,549)	(1,539)	(4,088)
Balance at October 29, 2017	\$ 283	\$ —	\$ 283
Costs incurred	1,888	31	1,919
Cash payments	(2,116)	(31)	(2,147)
Balance at July 29, 2018	\$ 55	\$ —	\$ 55

During the second and fourth quarters of fiscal 2015, we entered into transition and separation agreements with certain executive officers. Each terminated executive officer was entitled to severance benefit payments issuable in (1) two installments. The termination benefits were measured initially at the separation dates based on the fair value of the liability as of the termination date and were recognized ratably over the future service period. Costs incurred during fiscal 2016 exclude \$0.7 million of amortization expense associated with these termination benefits.

We expect to be substantially complete with our current restructuring plans in the next 6 months and estimate that we will incur future additional restructuring charges associated with these plans. We are unable at this time to make a good faith determination of cost estimates, or ranges of cost estimates, associated with these plans.

NOTE 4 — INVENTORIES

The components of inventory are as follows (in thousands):

	July 29, 2018	October 29, 2017
Raw materials	\$ 207,364	\$ 150,919
Work in process and finished goods	53,515	47,377
	\$ 260,879	\$ 198,296

NOTE 5 — ASSETS HELD FOR SALE

We record assets held for sale at the lower of the carrying value or fair value less costs to sell. The following criteria are used to determine if property is held for sale: (i) management has the authority and commits to a plan to sell the property; (ii) the

10

property is available for immediate sale in its present condition; (iii) there is an active program to locate a buyer and the plan to sell the property has been initiated; (iv) the sale of the property is probable within one year; (v) the property is being actively marketed at a reasonable sale price relative to its current fair value; and (vi) it is unlikely that the plan to sell will be withdrawn or that significant changes to the plan will be made.

In determining the fair value of the assets less cost to sell, we consider factors including current sales prices for comparable assets in the area, recent market analysis studies, appraisals and any recent legitimate offers. If the estimated fair value less cost to sell of an asset is less than its current carrying value, the asset is written down to its estimated fair value less cost to sell. The total carrying value of assets held for sale was \$7.3 million and \$5.6 million as of July 29, 2018 and October 29, 2017, respectively. All of these assets continued to be actively marketed for sale or were under contract as of July 29, 2018.

During the nine months ended July 29, 2018, we completed the sale of idle facilities in the Metal Components and Engineered Building Systems segments which had previously been classified in assets held for sale. In connection with the sale of the facilities, during the three and nine months ended July 29, 2018, we received net cash proceeds of \$3.7 million and \$4.1 million, respectively and recognized net gains of approximately \$0.6 million and \$0.5 million, respectively, which are included in restructuring and impairment charges in our consolidated statements of operations. Due to uncertainties in the estimation process, actual results could differ from the estimates used in our historical analysis. Our assumptions about property sales prices require significant judgment because the current market is highly sensitive to changes in economic conditions. We determined the estimated fair values of assets held for sale based on current market conditions and assumptions made by management, which may differ from actual results and may result in impairments if market conditions deteriorate. Certain assets held for sale are valued at fair value and are measured at fair value on a nonrecurring basis. Assets held for sale are reported at fair value, if, on an individual basis, the fair value of the asset is less than carrying value. The fair value of assets held for sale is estimated using Level 3 inputs, such as broker quotes for like-kind assets or other market indications of a potential selling value that approximates fair value. Assets held for sale, reported at fair value, less costs to sell, totaled \$5.0 million as of July 29, 2018.

NOTE 6 — SHARE-BASED COMPENSATION

Our 2003 Long-Term Stock Incentive Plan (the “Incentive Plan”) is an equity-based compensation plan that allows us to grant a variety of types of awards, including stock options, restricted stock, restricted stock units, stock appreciation rights, performance share units (“PSUs”), phantom stock awards, long-term incentive awards with performance conditions (“Performance Share Awards”) and cash awards. Awards are generally granted once per year, with the amounts and types of awards determined by the Compensation Committee of our Board of Directors (the “Committee”). As a general rule, option awards terminate on the earlier of (i) 10 years from the date of grant, (ii) 30 days after termination of employment or service for a reason other than death, disability or retirement, (iii) one year after death or (iv) one year for incentive stock options or five years for other awards after disability or retirement. Awards are non-transferable except by disposition on death or to certain family members, trusts and other family entities as the Committee may approve. Awards may be paid in cash, shares of our Common Stock or a combination, in lump sum or installments and currently or by deferred payment, all as determined by the Committee.

As of July 29, 2018, and for all periods presented, our share-based awards under this plan have consisted of restricted stock grants, PSUs and stock option grants, none of which can be settled through cash payments, and Performance Share Awards. Both our stock options and restricted stock awards are subject only to vesting requirements based on continued employment at the end of a specified time period and typically vest in annual increments over three to four years or earlier upon death, disability or a change of control. Restricted stock awards issued after December 15, 2013 do not vest upon attainment of a specified retirement age, as provided by the agreements governing such awards. The vesting of our Performance Share Awards is described below.

Our time-based restricted stock awards are typically subject to graded vesting over a service period, which is typically three or four years. Our performance-based and market-based restricted stock awards are typically subject to cliff vesting at the end of the service period, which is typically three years. We recognize compensation cost for these awards on a straight-line basis over the requisite service period for each annual award grant. In the case of performance-based awards, expense is recognized based upon management’s assessment of the probability that such

performance conditions will be achieved. Certain of our awards provide for accelerated vesting upon qualified retirement, after a change of control or upon termination without cause or for good reason. We recognize compensation cost for such awards over the period from grant date to the date the employee first becomes eligible for retirement.

We adopted the provisions of ASU 2016-09, Improvements to Employee Share-Based Payment Accounting, in our first quarter in fiscal 2018. For additional information see Note 2 - Accounting Pronouncements.

Stock option awards

During the nine month period ended July 30, 2017, we granted 10,424 stock options. The grant date fair value of options granted during the nine month period ended July 30, 2017 was \$6.59 per share. We did not grant stock options during the nine month period ended July 29, 2018.

There were 0.1 million options with an intrinsic value of \$0.8 million exercised during the nine month period ended July 29, 2018. Cash received from options exercised was \$1.3 million during the nine month period ended July 29, 2018.

Restricted stock and performance awards

Long-term incentive awards granted to our senior executives generally have a three-year performance period. Long-term incentive awards include restricted stock units and PSUs representing 40% and 60% of the total value, respectively. The restricted stock units vest upon continued employment. Vesting of the PSUs is contingent upon continued employment and the achievement of targets with respect to the following metrics, as defined by management: (1) cumulative free cash flow (weighted 40%); (2) cumulative earnings per share (weighted 40%); and (3) total shareholder return (weighted 20%), in each case during the performance period. At the end of the performance period, the number of actual shares to be awarded varies between 0% and 200% of target amounts. The PSUs vest pro rata if an executive's employment terminates prior to the end of the performance period due to death, disability, or termination by the Company without cause or by the executive for good reason. If an executive's employment terminates for any other reason prior to the end of the performance period, all outstanding unvested PSUs, whether earned or unearned, will be forfeited and cancelled. If a change of control occurs prior to the end of the performance period, the PSU payout will be calculated and paid assuming that the maximum benefit had been achieved. If an executive's employment terminates due to death or disability while any of the restricted stock is unvested, then all of the unvested restricted stock will become vested. If an executive's employment is terminated by the Company without cause or after reaching normal retirement age, the unvested restricted stock will be forfeited. If a change of control occurs prior to the end of the performance period, the restricted stock will fully vest. The fair value of the awards is based on the Company's stock price as of the date of grant. During the nine month periods ended July 29, 2018 and July 30, 2017, we granted PSUs with a total fair value of approximately \$3.8 million and \$4.6 million, respectively, to the Company's senior executives.

Long-term incentive awards granted to our key employees generally have a three-year performance period. Long-term incentive awards are granted 50% in restricted stock units and 50% in PSUs. Vesting of PSUs is contingent upon continued employment and the achievement of free cash flow and earnings per share targets, as defined by management, over a three-year performance period. At the end of the performance period, the number of actual shares to be awarded varies between 0% and 150% of target amounts. The PSUs vest earlier upon death, disability or a change of control. A portion of the awards also vests upon termination without cause or after reaching normal retirement age prior to the vesting date, as defined by the agreements governing such awards. The fair value of PSUs is based on the Company's stock price as of the date of grant. During the nine month periods ended July 29, 2018 and July 30, 2017, we granted awards to key employees with equity fair values of \$2.8 million and \$2.0 million, respectively, and during the nine month period ended July 30, 2017 we granted awards to key employees with cash values of \$2.0 million. We did not grant awards with cash value to key employees during the nine month period ended July 29, 2018.

On December 15, 2017, the performance period ended for certain PSUs granted to senior executives and key employees in December 2014. The PSUs vested at 69.4%, and resulted in the issuance of 0.1 million shares, net of shares withheld for taxes.

During the nine month periods ended July 29, 2018 and July 30, 2017, we granted time-based restricted stock units with a fair value of \$6.8 million, representing 0.3 million shares, and \$4.5 million, representing 0.3 million shares, respectively.

During the nine month periods ended July 29, 2018 and July 30, 2017, we recorded share-based compensation expense for all awards of \$8.9 million and \$8.1 million, respectively. Included in the share-based compensation expense during the nine month period ended July 29, 2018 were accelerated awards of \$3.6 million due to the retirement of the Company's former CEO.

Deferred Compensation

In accordance with the Company's Deferred Compensation Plan, amounts deferred into the Company Stock Fund must remain invested in the Company Stock Fund until distribution. The deferred compensation obligation related to the Company's stock may only be settled by the delivery of a fixed number of the Company's common shares held on the participant's behalf. As a result, we have a deferred compensation obligation of \$0.7 million related to the Company Stock Fund that is recorded within equity in additional paid-in capital on the consolidated balance sheet as of July 29, 2018. Subsequent changes in the fair value of the deferred compensation obligation classified within equity are not recognized. Additionally, the Company currently holds 60,813 shares in treasury shares, relating to deferred, vested PSU awards, until participants are eligible to receive benefits under the terms of the Deferred Compensation Plan.

NOTE 7 — EARNINGS PER COMMON SHARE

Basic earnings per common share is computed by dividing net income allocated to common shares by the weighted average number of common shares outstanding. Diluted earnings per common share, if applicable, considers the dilutive effect of common stock equivalents. The reconciliation of the numerator and denominator used for the computation of basic and diluted earnings per common share is as follows (in thousands, except per share data):

	Fiscal Three Months Ended July 29, July 30, 2018 2017		Fiscal Nine Months Ended July 29, July 30, 2018 2017	
Numerator for Basic and Diluted Earnings Per Common Share				
Net income applicable to common shares	\$35,765	\$18,119	\$35,303	\$36,994
Denominator for Basic and Diluted Income Per Common Share				
Weighted average basic number of common shares outstanding	66,335	71,047	66,361	70,973
Common stock equivalents:				
Employee stock options	95	127	98	130
PSUs and Performance Share Awards	8	9	18	32
Weighted average diluted number of common shares outstanding	66,438	71,183	66,477	71,134
Basic income per common share	\$0.54	\$0.26	\$0.53	\$0.52
Diluted income per common share	\$0.54	\$0.25	\$0.53	\$0.52

Incentive Plan securities excluded from dilution⁽¹⁾ — — — 1

(1) Represents securities not included in the computation of diluted earnings per common share because their effect would have been anti-dilutive.

We calculate earnings per share using the “two-class” method, whereby unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents are “participating securities” and, therefore, these participating securities are treated as a separate class in computing earnings per share. The calculation of earnings per share presented here excludes the income attributable to unvested restricted stock units related to our Incentive Plan from the numerator and excludes the dilutive impact of those shares from the denominator. Awards subject to the achievement of performance conditions or market conditions for which such conditions had been met at the end of any of the fiscal periods presented are included in the computation of diluted earnings per common share if their effect was dilutive.

NOTE 8 — WARRANTY

We sell weathertightness warranties to our customers for protection from leaks in our roofing systems related to weather. These warranties generally range from 2 years to 20 years. We sell two types of warranties, standard and Single Source™, and three grades of coverage for each. The type and grade of coverage determines the price to the customer. For standard warranties, our responsibility for leaks in a roofing system begins after 24 consecutive leak-free months. For Single Source™ warranties, the roofing system must pass our inspection before warranty coverage will be issued. Inspections are typically performed at three stages of the roofing project: (i) at the project start-up; (ii) at the project mid-point; and (iii) at the project completion. These inspections are included in the cost of the warranty. If the project requires or the customer requests additional inspections, those inspections are billed to the customer. Upon the sale of a warranty, we record the resulting revenue as deferred revenue, which is included in other accrued expenses on our consolidated balance sheets.

The following table represents the rollforward of our accrued warranty obligation and deferred warranty revenue activity for the fiscal nine months ended July 29, 2018 and July 30, 2017 (in thousands):

	Fiscal Nine Months Ended	
	July 29, 2018	July 30, 2017
Beginning balance	\$27,016	\$27,200
Warranties sold	2,616	1,654
Revenue recognized	(1,971)	(1,585)
Ending balance	\$27,661	\$27,269

NOTE 9 — DEFINED BENEFIT PLANS

RCC Pension Plan — With the acquisition of Robertson-Ceco II Corporation (“RCC”) on April 7, 2006, we assumed a defined benefit plan (the “RCC Pension Plan”). Benefits under the RCC Pension Plan are primarily based on years of service and the employee’s compensation. The RCC Pension Plan is frozen and, therefore, employees do not accrue additional service benefits. Plan assets of the RCC Pension Plan are invested in broadly diversified portfolios of government obligations, mutual funds, stocks, bonds, fixed income securities and master limited partnerships.

CENTRIA Benefit Plans — As a result of the CENTRIA Acquisition on January 16, 2015, we assumed noncontributory defined benefit plans covering certain hourly employees (the “CENTRIA Benefit Plans”) and are closed to new participants. Benefits under the CENTRIA Benefit Plans are calculated based on fixed amounts for each year of service rendered, although benefits accruals for one of the plans previously ceased. Plan assets of the CENTRIA Benefit Plans are invested in broadly diversified portfolios of domestic and international equity mutual funds, bonds, mortgages and other funds. CENTRIA also sponsors postretirement medical and life insurance plans that cover certain of its employees and their spouses (the “OPEB Plans”).

In addition to the CENTRIA Benefit Plans, CENTRIA contributes to a multi-employer plan, the Steelworkers Pension Trust. The minimum required annual contribution to this plan is \$0.3 million. The current contract expires on June 1, 2019. If we were to withdraw our participation from this multi-employer plan, CENTRIA may be required to pay a withdrawal liability representing an amount based on the underfunded status of the plan. The plan is not significant to the Company’s consolidated financial statements.

We refer to the RCC Pension Plan and the CENTRIA Benefit Plans collectively as the “Defined Benefit Plans” in this Note.

The following tables sets forth the components of the net periodic benefit cost, before tax, and funding contributions, for the periods indicated (in thousands):

	Fiscal Three Months Ended July 29, 2018			Fiscal Three Months Ended July 30, 2017		
	Defined Benefit Plans	OPEB Plans	Total	Defined Benefit Plans	OPEB Plans	Total
Service cost	\$22	\$ 7	\$29	\$24	\$ 9	\$33
Interest cost	494	62	556	513	64	577
Expected return on assets	(729)	—	(729)	(700)	—	(700)
Amortization of prior service credit	15	—	15	(2)	—	(2)
Amortization of net actuarial loss	248	—	248	344	—	344
Net periodic benefit cost	\$50	\$ 69	\$119	\$179	\$ 73	\$252
Funding contributions	\$399	\$ —	\$399	\$591	\$ —	\$591

	Fiscal Nine Months Ended			Fiscal Nine Months Ended		
	July 29, 2018			July 30, 2017		
	Defined Benefit Plans	OPEB Plans	Total	Defined Benefit Plans	OPEB Plans	Total
Service cost	\$65	\$ 21	\$86	\$73	\$ 27	\$100
Interest cost	1,481	185	1,666	1,541	193	1,734
Expected return on assets	(2,187)	—	(2,187)	(2,099)	—	(2,099)
Amortization of prior service credit	43	—	43	(7)	—	(7)
Amortization of net actuarial loss	743	—	743	1,031	—	1,031
Net periodic benefit cost	\$145	\$ 206	\$351	\$539	\$ 220	\$759

Funding contributions \$1,309 \$ — \$1,309 \$1,416 \$ — \$1,416

We expect to contribute an additional \$1.2 million to the Defined Benefit Plans for the remainder of fiscal 2018. Our policy is to fund the CENTRIA Benefit Plans as required by minimum funding standards of the Internal Revenue Code. The contributions to the OPEB Plans by retirees vary from none to 25% of the total premiums paid.

NOTE 10 — LONG-TERM DEBT AND NOTE PAYABLE

Debt is comprised of the following (in thousands):

	July 29, 2018	October 29, 2017
Term loan credit facility, due February 2025 and June 2022, respectively	\$413,963	\$ 144,147
8.25% senior notes, due January 2023	—	250,000
Asset-based lending credit facility, due February 2023 and June 2019, respectively	—	—
Less: unamortized deferred financing costs ⁽¹⁾	5,971	6,857
Total long-term debt, net of deferred financing costs	407,992	387,290
Less: current portion of long-term debt	4,150	—
Total long-term debt, less current portion	\$403,842	\$ 387,290

Includes the unamortized deferred financing costs associated with the term loan credit facilities and Notes. The unamortized deferred financing costs associated with the asset-based credit lending facilities of \$1.2 million and ⁽¹⁾\$0.7 million as of July 29, 2018 and October 29, 2017, respectively, are classified in other assets on the consolidated balance sheets.

Debt Redemption and Refinancing

On February 8, 2018, the Company entered into a Term Loan Credit Agreement and ABL Credit Agreement (each defined below), the proceeds of which, together, were used to redeem the 8.25% senior notes and to refinance the Company's existing term loan credit facility and the Company's existing asset-based revolving credit facility.

Term Loan Credit Agreement

On February 8, 2018, the Company entered into a Term Loan Credit Agreement (the "Term Loan Credit Agreement") which provides for a term loan credit facility in an original aggregate principal amount of \$415.0 million ("Term Loan Credit Facility"). Proceeds from borrowings under the Term Loan Credit Facility were used, together with cash on hand, (i) to refinance the existing term loan credit agreement, (ii) to redeem and repay the Notes and (iii) to pay any fees, premiums and expenses incurred in connection with the refinancing.

The term loans under the Term Loan Credit Agreement will mature on February 7, 2025 and, prior to such date, will amortize in nominal quarterly installments equal to one percent of the aggregate initial principal amount thereof per annum.

The term loans under the Term Loan Credit Agreement may be prepaid at the Company's option at any time, subject to minimum principal amount requirements. Prepayments in connection with a repricing transaction (as defined in the Term Loan Credit Agreement) during the first six months after the closing of the Term Loan Credit Facility will be subject to a prepayment premium equal to 1% of the principal amount of the term loans being prepaid. Prepayments

may otherwise be made without premium or penalty (other than customary breakage costs). The Company will also have the ability to repurchase a portion of the term loans under the Term Loan Credit Agreement subject to certain terms and conditions set forth in the Term Loan Credit Agreement.

Subject to certain exceptions, the term loans under the Term Loan Credit Agreement will be subject to mandatory prepayment in an amount equal to:

the net cash proceeds of (1) certain asset sales (subject to reduction to 50% or 0%, if specified leverage ratio targets are met), (2) certain debt offerings, and (3) certain insurance recovery and condemnation events; and 50% of annual excess cash flow (as defined in the Term Loan Credit Agreement), subject to reduction to 0% if specified leverage ratio targets are met.

The obligations under the Term Loan Credit Agreement are guaranteed by each direct and indirect U.S. restricted subsidiary of the Company, other than certain excluded subsidiaries, and are secured by:

a perfected security interest in substantially all tangible and intangible assets of the Company and each guarantor (other than ABL Priority Collateral (as defined below)), including the capital stock of each direct material domestic subsidiary owned by the Company and each guarantor, and 65% of the capital stock of any non-U.S. subsidiary held directly by the Company or any guarantor, subject to customary exceptions (the "Term Loan Priority Collateral"), which security interest will be senior to the security interest in the foregoing assets securing the ABL Credit Facility (as defined below); and

a perfected security interest in the ABL Priority Collateral, which security interest will be junior to the security interest in the ABL Priority Collateral securing the ABL Credit Facility.

At the Company's election, the interest rates applicable to the term loans under the Term Loan Credit Agreement will be based on a fluctuating rate of interest measured by reference to either (i) an adjusted LIBOR plus a borrowing margin of 2.00% per annum or (ii) an alternative base rate not less than 1.00% plus a borrowing margin of 1.00% per annum. At July 29, 2018, the interest rate on the Term Loans was 4.09%.

ABL Credit Agreement

On February 8, 2018, the subsidiaries of the Company, NCI Group, Inc. and Robertson-Ceco II Corporation, and the Company as a guarantor, entered into an ABL Credit Agreement (the "ABL Credit Agreement"). The ABL Credit Agreement provides for an asset-based revolving credit facility (the "ABL Credit Facility") which allows aggregate maximum borrowings by the ABL borrowers of up to \$150 million, letters of credit of up to \$30 million and up to \$20 million for swingline borrowings. Borrowing availability is determined by a monthly borrowing base collateral calculation that is based on specified percentages of the value of accounts receivable, eligible credit card receivables and eligible inventory, less certain reserves and subject to certain other adjustments. Availability is reduced by issuance of letters of credit as well as any borrowings. All borrowings under the ABL Credit Facility mature on February 8, 2023.

The obligations under the ABL Credit Agreement are guaranteed by each direct and indirect U.S. restricted subsidiary of the Company, other than certain excluded subsidiaries, and are secured by:

a perfected security interest in all present and after-acquired inventory, accounts receivable, deposit accounts, securities accounts, and any cash or other assets in such accounts (and, to the extent evidencing or otherwise related to such items, all general intangibles, intercompany debt, insurance proceeds, letter of credit rights, commercial tort claims, chattel paper, instruments, supporting obligations, documents, investment property and payment intangibles) and the proceeds of any of the foregoing and all books and records relating to, or arising from, any of the foregoing, except to the extent such proceeds constitute Term Loan Priority Collateral, and subject to customary exceptions (the "ABL Priority Collateral"), which security interest is senior to the security interest in the foregoing assets securing the Term Loan Credit Facility; and

a perfected security interest in the Term Loan Priority Collateral, which security interest will be junior to the security interest in the Term Loan Priority Collateral securing the Term Loan Credit Facility.

At July 29, 2018 and October 29, 2017, the Company's excess availability under its asset-based lending credit facilities was \$141.1 million and \$140.0 million, respectively. At July 29, 2018 and October 29, 2017, the Company had no revolving loans outstanding under its asset-based lending credit facilities. In addition, at July 29, 2018 and October 29, 2017, standby letters of credit related to certain insurance policies totaling approximately \$8.9 million and \$10.0 million, respectively, were outstanding but undrawn under the Company's asset-based lending credit facilities.

The ABL Credit Agreement includes a minimum fixed charge coverage ratio of 1.00:1.00, which will apply if we fail to maintain a specified minimum borrowing capacity. The minimum level of borrowing capacity as of July 29, 2018

was \$14.1 million. Although the ABL Credit Agreement does not require any financial covenant compliance, at July 29, 2018 NCI's fixed charge coverage ratio, which is calculated on a trailing twelve month basis, was 5.07:1.00. Loans under the ABL Credit Facility bear interest, at NCI's option, as follows:

- (1) Base Rate loans at the Base Rate plus a margin. The margin ranges from 0.25% to 0.75% depending on the quarterly average excess availability under such facility; and

(2) LIBOR loans at LIBOR plus a margin. The margin ranges from 1.25% to 1.75% depending on the quarterly average excess availability under such facility.

A commitment fee is paid on the ABL Credit Facility at an annual rate of 0.25% or 0.35%, depending on the average daily used percentage, based on the amount by which the maximum credit exceeds the average daily principal balance of outstanding loans and letter of credit obligations. Additional customary fees in connection with the ABL Credit Facility also apply.

Redemption of 8.25% Senior Notes

On January 16, 2015, the Company issued \$250.0 million in aggregate principal of 8.25% senior notes due 2023 (the "Notes"). On February 8, 2018, the Company redeemed the outstanding \$250.0 million aggregate principal amount of the Notes for approximately \$265.5 million using the proceeds from borrowings under the new Term Loan Facility. During the three months ended April 29, 2018, the Company incurred a pretax loss, primarily on the extinguishment of the Notes, of \$21.9 million, of which approximately \$15.5 million represents the premium paid on the redemption of the Notes.

Debt Covenants

The Company's outstanding debt agreements contain a number of covenants that, among other things, limit or restrict the ability of the Company and its subsidiaries to incur additional indebtedness, make dividends and other restricted payments, create liens securing indebtedness, engage in mergers and acquisitions, enter into restrictive agreements, amend certain documents in respect of other indebtedness, change the nature of the business and engage in certain transactions with affiliates. As of July 29, 2018, the Company was in compliance with all covenants that were in effect on such date.

Insurance Note Payable

As of July 29, 2018 and October 29, 2017, the Company had an outstanding note payable in the amount of \$1.0 million and \$0.4 million, respectively, related to financed insurance premiums. Insurance premium financings are generally secured by the unearned premiums under such policies.

NOTE 11 — CD&R FUNDS

On August 14, 2009, the Company entered into an Investment Agreement (as amended, the "Investment Agreement"), by and between the Company and Clayton, Dubilier & Rice Fund VIII, L.P. ("CD&R Fund VIII"). In connection with the Investment Agreement and the Stockholders Agreement dated October 20, 2009 (the "Stockholders Agreement"), the CD&R Fund VIII and the CD&R Friends & Family Fund VIII, L.P. (collectively, the "CD&R Funds") purchased convertible preferred stock, which was converted into shares of our common stock on May 14, 2013. Among other provisions, the Stockholders Agreement entitles the CD&R Funds to certain nomination or designation rights with respect to our board of directors; subscription rights with respect to future issuances of common stock by us; corporate governance rights; and consent rights with respect to certain types of transactions we may enter into in the future. In connection with the closing of the Merger, the Company will enter into a new stockholders agreement with the CD&R Funds and other investors.

On December 11, 2017, the CD&R Funds completed a registered underwritten offering of 7,150,000 shares of the Company's Common Stock at a price to the public of \$19.36 per share (the "2017 Secondary Offering"). Pursuant to the underwriting agreement, at the CD&R Funds request, the Company purchased 1.15 million of the 7.15 million shares of the Common Stock from the underwriters in the 2017 Secondary Offering at a price per share equal to the price at which the underwriters purchased the shares from the CD&R Funds. The total amount the Company spent on these repurchases was \$22.3 million.

As of July 29, 2018, and October 29, 2017, the CD&R Funds owned approximately 34.4% and 43.8%, respectively, of the outstanding shares of our common stock. The CD&R Funds are affiliates of the Sponsor, which is, for limited purposes, party to the Merger Agreement. For additional information, see Note 1 — Summary of Significant Accounting Policies.

NOTE 12 — STOCK REPURCHASE PROGRAM

On September 8, 2016, the Company announced that its board of directors authorized a stock repurchase program for the repurchase of up to an aggregate of \$50.0 million of the Company's outstanding Common Stock. On October 10, 2017 and March 7, 2018, the Company announced that its board of directors authorized new stock repurchase

programs for the repurchase of up to an aggregate of \$50.0 million and \$50.0 million, respectively, of the Company's outstanding Common Stock. Under these repurchase programs, the Company is authorized to repurchase shares, if at all, at times and in amounts that it deems appropriate in accordance with all applicable securities laws and regulations. Shares repurchased pursuant to the repurchase programs are usually retired. There is no time limit on the duration of the programs.

During the nine months ended July 29, 2018, the Company repurchased approximately 2.7 million shares for \$46.7 million under the stock repurchase programs announced on September 8, 2016 and October 10, 2017, which included 1.15 million shares for \$22.3 million purchased pursuant to the CD&R Funds 2017 Secondary Offering (see Note 11 — CD&R Funds). As of July 29,

2018, approximately \$55.6 million remained available for stock repurchases under the programs announced on October 10, 2017 and March 7, 2018. The timing and method of any repurchases, which will depend on a variety of factors, including market conditions, are subject to results of operations, financial conditions, cash requirements and other factors, and may be suspended or discontinued at any time.

The Company canceled the 2.7 million shares repurchased under the stock repurchase programs during the nine months ended July 29, 2018, resulting in a \$46.7 million decrease in both additional paid in capital and treasury stock. In addition to the common stock repurchased during the nine months ended July 29, 2018, the Company also withheld 0.3 million shares of stock to satisfy minimum tax withholding obligations arising in connection with the vesting of stock awards, which are included in treasury stock purchases in the consolidated statements of stockholders' equity. The Company also cancelled these shares during the nine months ended July 29, 2018, resulting in a \$5.1 million decrease in both additional paid in capital and treasury stock.

NOTE 13 — FAIR VALUE OF FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS

Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, restricted cash, trade accounts receivable, accounts payable and notes payable approximate fair value as of July 29, 2018 and October 29, 2017, respectively, because of their relatively short maturities. The carrying amount of revolving loans outstanding under the asset-based lending facilities approximates fair value as the interest rates are variable and reflective of market rates. The fair values of the remaining financial instruments not currently recognized at fair value on our consolidated balance sheets at the respective fiscal period ends were (in thousands):

	July 29, 2018		October 29, 2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Term Loan Credit Facility, due February 2025	\$413,963	\$413,963	\$ —	—
Credit Agreement, due June 2022	—	—	144,147	144,147
8.25% senior notes, due January 2023	—	—	250,000	267,500

The fair values of the Term Loan Credit Facility, Credit Agreement and the Notes were based on recent trading activities of comparable market instruments, which are level 2 inputs.

Fair Value Measurements

ASC Subtopic 820-10, Fair Value Measurements and Disclosures, requires us to use valuation techniques to measure fair value that maximize the use of observable inputs and minimize the use of unobservable inputs. These inputs are prioritized as follows:

Level 1: Observable inputs such as quoted prices for identical assets or liabilities in active markets.

Level 2: Other inputs that are observable directly or indirectly, such as quoted prices for similar assets or liabilities or market-corroborated inputs.

Level 3: Unobservable inputs for which there is little or no market data and which require us to develop our own assumptions about how market participants would price the assets or liabilities.

The following is a description of the valuation methodologies used for assets and liabilities measured at fair value.

There have been no changes in the methodologies used as of July 29, 2018 and October 29, 2017.

Money market: Money market funds have original maturities of three months or less. The original cost of these assets approximates fair value due to their short-term maturity.

Mutual funds: Mutual funds are valued at the closing price reported in the active market in which the mutual fund is traded.

Assets held for sale: Assets held for sale are valued based on current market conditions, prices of similar assets in similar condition and expected proceeds from the sale of the assets, representative of Level 3 inputs.

Deferred compensation plan liability: Deferred compensation plan liability is comprised of phantom investments in the deferred compensation plan and is valued at the closing price reported in the active markets in which the money market and mutual funds are traded.

The following tables summarize information regarding our financial assets and liabilities that are measured at fair value on a recurring basis as of July 29, 2018 and October 29, 2017, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value (in thousands):

	July 29, 2018			Total
	Level 1	Level 2	Level 3	
Assets:				
Short-term investments in deferred compensation plan: ⁽¹⁾				
Money market	\$584	\$—	\$	—\$584
Mutual funds – Growth	1,173	—	—	1,173
Mutual funds – Blend	2,146	—	—	2,146
Mutual funds – Foreign blend	936	—	—	936
Mutual funds – Fixed income	—	946	—	946
Total short-term investments in deferred compensation plan	4,839	946	—	5,785
Total assets	\$4,839	\$946	\$	—\$5,785
Liabilities:				
Deferred compensation plan liability	\$—	\$4,882	\$	—\$4,882
Total liabilities	\$—	\$4,882	\$	—\$4,882
	October 29, 2017			Total
	Level 1	Level 2	Level 3	
Assets:				
Short-term investments in deferred compensation plan: ⁽¹⁾				
Money market	\$1,114	\$—	\$	—\$1,114
Mutual funds – Growth	958	—	—	958
Mutual funds – Blend	1,948	—	—	1,948
Mutual funds – Foreign blend	915	—	—	915
Mutual funds – Fixed income	—	1,546	—	1,546
Total short-term investments in deferred compensation plan	4,935	1,546	—	6,481
Total assets	\$4,935	\$1,546	\$	—\$6,481
Liabilities:				
Deferred compensation plan liability	\$—	\$4,923	\$	—\$4,923
Total liabilities	\$—	\$4,923	\$	—\$4,923

Unrealized holding gain for the three months ended July 29, 2018 and July 30, 2017 was \$0.2 million and \$0.2 million, respectively. Unrealized holding gain (loss) for the nine months ended July 29, 2018 and July 30, 2017 was \$0.3 million and \$(0.2) million, respectively. These unrealized holding gains (losses) were substantially offset by changes in the deferred compensation plan liability.

NOTE 14 — INCOME TAXES

The reconciliation of income tax computed at the statutory tax rate to the effective income tax rate is as follows:

	Fiscal Three Months Ended July 29, July 30, 2018 2017		Fiscal Nine Months Ended July 29, July 30, 2018 2017	
Statutory federal income tax rate	23.3 %	35.0 %	23.3 %	35.0 %
State income taxes	4.0 %	3.7 %	4.0 %	3.9 %
Domestic production activities deduction	(1.3)%	(3.2)%	(1.3)%	(3.2)%
Non-deductible expenses	1.1 %	0.7 %	1.1 %	0.7 %
Tax credits	(0.9)%	(0.7)%	(0.9)%	(1.0)%
China valuation allowance	— %	(0.4)%	— %	(0.4)%
Revaluation of U.S. deferred income tax due to statutory rate reduction	1.3 %	— %	(0.8)%	— %
One-time repatriation tax on foreign earnings	— %	— %	1.5 %	— %
Other	0.6 %	— %	— %	(0.4)%
Effective tax rate	28.1 %	35.1 %	26.9 %	34.6 %

The decrease in the effective tax rate for the nine months ended July 29, 2018 is a result of the net impact of the Tax Cuts and Jobs Act (“U.S. Tax Reform”) which was enacted by the United States on December 22, 2017. U.S. Tax Reform incorporates significant changes to U.S. corporate income tax laws including, among other things, a reduction in the federal statutory corporate income tax rate from 35% to 21%, an exemption for dividends received from certain foreign subsidiaries, a one-time repatriation tax on deemed repatriated earnings from foreign subsidiaries, immediate expensing of certain depreciable tangible assets, limitations on the deduction for net interest expense and certain executive compensation and the repeal of the Domestic Production Activities Deduction. The majority of these changes will be effective for the Company’s fiscal year beginning October 29, 2018. However, the corporate income tax rate reduction is effective December 22, 2017. As such, the Company’s statutory federal corporate income tax rate for the fiscal year ending October 28, 2018 will be 23.3%. In addition, the one-time repatriation tax will be recognized by the Company for the tax year ending October 28, 2018.

Under ASC Topic 740, Income Taxes (“ASC 740”), a company is generally required to recognize the effect of changes in tax laws in its financial statements in the period in which the legislation is enacted. U.S. income tax laws are deemed to be effective on the date the president signs tax legislation. The President signed the U.S. Tax Reform legislation on December 22, 2017. As such, the Company is required to recognize the related impacts to the financial statements in the quarter ended January 28, 2018. In acknowledgment of the substantial changes incorporated in the U.S. Tax Reform, in conjunction with the timing of the enactment being just weeks before the majority of the provisions became effective, the SEC staff issued Staff Accounting Bulletin 118 (“SAB 118”) to provide certain guidance in determining the accounting for income tax effects of the legislation in the accounting period of enactment as well as provide a measurement period within which to finalize and reflect such final effects associated with U.S. Tax Reform. Further, SAB 118 summarizes a three-step approach to be applied each reporting period within the overall measurement period: (1) amounts should be reflected in the period including the date of enactment for those items which are deemed to be complete, (2) to the extent the effects of certain changes due to U.S. Tax Reform for which the accounting is not deemed complete but for which a reasonable estimate can be determined, such provisional amount(s) should be reflected in the period so determined and adjusted in subsequent periods as such effects are finalized and (3) to the extent a reasonable estimate cannot be determined for a specific effect of the tax law change associated with U.S. Tax Reform, no provisional amount should be recorded but rather, continue to apply ASC 740 based upon the tax law in effect prior to the enactment of U.S. Tax Reform. Such measurement period is deemed to end when all necessary information has been obtained, prepared and analyzed such that a final accounting determination can be concluded, but in no event should the period extend beyond one year.

In consideration of this guidance, the Company obtained, prepared and analyzed various information associated with the enactment of U.S. Tax Reform. Based upon this review, the Company recognized a discrete estimated net income tax benefit with respect to U.S. Tax Reform for the first quarter of fiscal 2018 of \$0.3 million. This net income tax

benefit reflects a \$1.0 million net estimated income tax benefit associated with the remeasurement of the Company's net U.S. deferred tax liability, partially offset with a \$0.7 million estimated income tax expense associated with the impact of the deemed repatriated earnings from the Company's foreign subsidiaries, including the one-time repatriation tax of \$2.1 million. In the third quarter of fiscal 2018, the Company recognized an additional discrete expense of \$0.6 million related to the remeasurement of the Company's net U.S. deferred tax liability upon the filing of the federal income tax return. Due to the Company's fiscal year-end of October 28, 2018 and the timing of the various technical provisions provided for under U.S. Tax Reform, the financial statement impacts recorded in the first and third quarters of fiscal 2018 relating to U.S. Tax Reform are not deemed to be complete but rather are deemed to

be reasonable, provisional estimates based upon the current available information. As such, the Company will continue to update and finalize the accounting for the tax effect of the enactment of U.S. Tax Reform in future quarters in accordance with the guidance as outlined in SAB 118, as deemed necessary.

NOTE 15 — OPERATING SEGMENTS

Operating segments are defined as components of an enterprise that engage in business activities and by which discrete financial information is available and is evaluated on a regular basis by the chief operating decision maker to make decisions regarding the allocation of resources to the segment and assess the performance of the segment. On February 22, 2018, the Company announced changes to NCI's reportable business segments, effective January 28, 2018 for the first quarter of fiscal 2018, to align with changes in how the Company manages its business, reviews operating performance and allocates resources. We have revised our segment reporting to represent how we now manage our business, recasting prior periods to conform to the current segment presentation.

We have four operating segments: Engineered Building Systems; Metal Components; Insulated Metal Panels; and Metal Coil Coating. All operating segments operate primarily in the nonresidential construction market. Sales and earnings are influenced by general economic conditions, the level of nonresidential construction activity, metal roof repair and retrofit demand and the availability and terms of financing available for construction. Products of our operating segments use similar basic raw materials enabling us to leverage our supply chain. The Metal Coil Coating segment consists of cleaning, treating, painting and slitting continuous steel coils before the steel is fabricated for use by construction and industrial users. The Metal Components segment products include metal roof and wall panels, doors, metal partitions, metal trim, and other related accessories. The Insulated Metal Panels segment produces panels consisting of rigid foam encased between two sheets of coated metal in a variety of modules, lengths and reveal combinations which are used in architectural, commercial, industrial and cold storage market applications. The Engineered Building Systems segment manufactures custom designed and engineered products such as structural frames, Long Bay® Systems, metal roofing and wall systems, and the related value-added engineering and drafting, to provide customers a complete building envelope solution. The operating segments follow the same accounting policies used for our consolidated financial statements.

We evaluate a segment's performance based primarily upon operating income before corporate expenses. Intersegment sales are recorded based on standard material costs plus a standard markup to cover labor and overhead and consist of (i) structural framing provided by the Engineered Building Systems segment to the Metal Components segment; (ii) building components provided by the Metal Components and Insulated Metal Panels segment to the Engineered Building Systems segment; and (iii) hot-rolled, light gauge painted and slit material and other services provided by the Metal Coil Coating segment to the Engineered Building Systems, Metal Components and Insulated Metal Panels segments.

Corporate assets consist primarily of cash, investments, prepaid expenses, current and deferred taxes and property, plant and equipment associated with our headquarters in Houston, Texas. These items (and income and expenses related to these items) are not allocated to the operating segments. Corporate unallocated expenses include share-based compensation expenses, and executive, legal, finance, tax, treasury, human resources, information technology, strategic sourcing, and corporate travel expenses. Additional unallocated amounts primarily include interest income, interest expense and other (expense) income.

The following table represents summary financial data attributable to these operating segments for the periods indicated (in thousands):

	Fiscal Three Months Ended		Fiscal Nine Months Ended	
	July 29, 2018	July 30, 2017	July 29, 2018	July 30, 2017
Total sales:				
Engineered Building Systems	\$230,098	\$191,910	\$554,302	\$505,797
Metal Components	186,421	166,305	501,709	455,373
Insulated Metal Panels	133,740	119,730	357,947	317,862
Metal Coil Coating	116,440	95,261	299,973	270,330
Intersegment sales	(118,174)	(103,821)	(286,988)	(267,810)
Total sales	\$548,525	\$469,385	\$1,426,943	\$1,281,552
External sales:				
Engineered Building Systems	\$218,614	\$182,164	\$524,038	\$481,641
Metal Components	165,697	140,639	440,886	389,486
Insulated Metal Panels	106,605	98,026	\$303,910	267,240
Metal Coil Coating	57,609	48,556	158,109	143,185
Total sales	\$548,525	\$469,385	\$1,426,943	\$1,281,552
Operating income (loss):				
Engineered Building Systems	\$24,296	\$14,948	\$41,830	\$28,345
Metal Components	28,688	23,276	67,859	55,649
Insulated Metal Panels	17,859	11,468	\$26,470	33,037
Metal Coil Coating	9,121	7,107	21,626	20,040
Corporate	(25,463)	(22,702)	(71,430)	(60,616)
Total operating income	\$54,501	\$34,097	\$86,355	\$76,455
Unallocated other expense, net	(4,437)	(6,031)	(37,690)	(19,494)
Income before income taxes	\$50,064	\$28,066	\$48,665	\$56,961

	July 29, 2018	October 29, 2017
Total assets:		
Engineered Building Systems	\$218,085	\$195,426
Metal Components	226,550	186,369
Insulated Metal Panels	373,262	380,308
Metal Coil Coating	186,795	175,046
Corporate	77,002	93,963
Total assets	\$1,081,694	\$1,031,112

NOTE 16 — CONTINGENCIES

As a manufacturer of products primarily for use in nonresidential building construction, the Company is inherently exposed to various types of contingent claims, both asserted and unasserted, in the ordinary course of business. As a result, from time to time, the Company and/or its subsidiaries become involved in various legal proceedings or other contingent matters arising from claims, or potential claims. The Company insures against these risks to the extent deemed prudent by its management and to the extent insurance is available. Many of these insurance policies contain deductibles or self-insured retentions in amounts the Company deems prudent and for which the Company is responsible for payment. In determining the amount of self-insurance, it is the Company's policy to self-insure those losses that are predictable, measurable and recurring in nature, such as claims for automobile liability and general liability. The Company regularly reviews the status of ongoing proceedings and other contingent matters along with legal counsel. Liabilities for such items are recorded when it is probable that the liability has been incurred and when

the amount of the liability can be reasonably estimated. Liabilities are adjusted when additional information becomes available. Management believes that the ultimate disposition of these matters will not have a material adverse effect on the

22

Company's results of operations, financial position or cash flows. However, such matters are subject to many uncertainties and outcomes are not predictable with assurance.

23

NCI BUILDING SYSTEMS, INC.

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

The following information should be read in conjunction with the unaudited consolidated financial statements included herein under "Item 1. Unaudited Consolidated Financial Statements" and the audited consolidated financial statements and the notes thereto and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" included in our Current Report on Form 8-K, dated August 6, 2018.

FORWARD LOOKING STATEMENTS

This Quarterly Report includes statements concerning our expectations, beliefs, plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements that are not historical facts. These statements are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Actual results may differ materially from those expressed or implied by these statements. In some cases, our forward-looking statements can be identified by the words "anticipate," "believe," "continue," "could," "estimate," "expect," "forecast," "goal," "intend," "may," "objective," "plan," "potential," "predict," "projection," "should," "will" or other similar words. We based our forward-looking statements on our management's beliefs and assumptions based on information available to our management at the time the statements are made. We caution you that assumptions, beliefs, expectations, intentions and projections about future events may and often do vary materially from actual results. Therefore, we cannot assure you that actual results will not differ materially from those expressed or implied by our forward-looking statements. Accordingly, investors are cautioned not to place undue reliance on any forward-looking information, including any earnings guidance, if applicable. Although we believe that the expectations reflected in the forward-looking statements are reasonable, these expectations and the related statements are subject to risks, uncertainties, and other factors that could cause the actual results to differ materially from those projected. These risks, uncertainties, and other factors include, but are not limited to:

- risks and uncertainties relating to the Merger, including the possibility that the Merger does not close when expected or at all because the conditions to closing are not satisfied on a timely basis or at all;
- potential adverse reactions or changes to business or employee relationships, including those resulting from the announcement or completion of the Merger;
- diversion of management's attention from ongoing business operations and opportunities as a result of the pending Merger;
- our ability to secure stockholder and regulatory approvals for the Merger in a timely manner or on the terms desired or anticipated;
- retention and replacement of key personnel in connection with the pendency of the Merger;
- industry cyclicality and seasonality and adverse weather conditions;
- challenging economic conditions affecting the nonresidential construction industry;
- volatility in the United States ("U.S.") economy and abroad, generally, and in the credit markets;
- substantial indebtedness and our ability to incur substantially more indebtedness;
- our ability to generate significant cash flow required to service or refinance our existing debt, and obtain future financing;
- our ability to comply with the financial tests and covenants in our existing and future debt obligations;
- operational limitations or restrictions in connection with our debt;
- increases in interest rates;
- recognition of asset impairment charges;
- commodity price increases and/or limited availability of raw materials, including steel;
- our ability to make strategic acquisitions accretive to earnings;
- retention and replacement of key personnel;
- our ability to carry out our restructuring plans and to fully realize the expected cost savings;

enforcement and obsolescence of intellectual property rights;
fluctuations in customer demand;

24

- costs related to environmental clean-ups and liabilities;
- competitive activity and pricing pressure;
- increases in energy prices;
- volatility of the Company's stock price;
- dilutive effect on the Company's common stockholders of potential future sales of the Company's Common Stock held by our sponsor;
- substantial governance and other rights held by our sponsor;
- breaches of our information system security measures and damage to our major information management systems;
- hazards that may cause personal injury or property damage, thereby subjecting us to liabilities and possible losses, which may not be covered by insurance;
- changes in laws or regulations, including the Dodd–Frank Act;
- costs and other effects of legal and administrative proceedings, settlements, investigations, claims and other matters;
- timing and amount of any stock repurchases; and
- other risks detailed under the caption “Risk Factors” in this Quarterly Report on Form 10-Q, and in Part I, Item 1A in our most recent Annual Report on Form 10-K and other filings we make with the SEC.

A forward-looking statement may include a statement of the assumptions or bases underlying the forward-looking statement. We believe that we have chosen these assumptions or bases in good faith and that they are reasonable. However, we caution you that assumed facts or bases almost always vary from actual results, and the differences between assumed facts or bases and actual results can be material, depending on the circumstances. When considering forward-looking statements, you should keep in mind the risk factors and other cautionary statements in this report, including those described under the caption “Risk Factors” in our most recent Annual Report on Form 10-K as filed with the SEC and other risks described in documents subsequently filed by the Company from time to time with the SEC. We expressly disclaim any obligations to release publicly any updates or revisions to these forward-looking statements to reflect any changes in our expectations unless the securities laws require us to do so.

OVERVIEW

NCI Building Systems, Inc. (together with its subsidiaries, unless the context requires otherwise, the “Company,” “NCI,” “we,” “us” or “our”) is one of North America's largest integrated manufacturers and marketers of metal products for the nonresidential construction industry. We design, engineer, manufacture and market Engineered Building Systems, Metal Components and Insulated Metal Panels primarily for nonresidential construction use. We manufacture and distribute extensive lines of metal products for the nonresidential construction market under multiple brand names through a nationwide network of plants and distribution centers. We sell our products for both new construction and repair and retrofit applications. We also provide Metal Coil Coating services for commercial and construction applications, servicing both internal and external customers.

Engineered Building Systems offer a number of advantages over traditional construction alternatives, including shorter construction time, more efficient use of materials, lower construction costs, greater ease of expansion and lower maintenance costs. Similarly, Metal Components and Insulated Metal Panels offer builders, designers, architects and end-users several advantages, including lower long-term costs, longer life, attractive aesthetics and design flexibility.

We use a 52/53 week year with our fiscal year end on the Sunday closest to October 31. In fiscal 2018, our year end will be October 28, 2018.

We assess performance across our operating segments by analyzing and evaluating, among other indicators, gross profit and operating income, as well as whether each segment has achieved its projected sales goals. In assessing our overall financial performance, we regard return on adjusted operating assets, as well as growth in earnings, as key indicators of shareholder value.

Pending Merger

On July 17, 2018, the Company entered into an Agreement and Plan of Merger (the “Merger Agreement”) with Ply Gem Parent, LLC, a Delaware limited liability company (“Ply Gem”), and for certain limited purposes set forth in the Merger Agreement, Clayton, Dubilier & Rice, LLC, a Delaware limited liability company (the “Sponsor”).

Pursuant to the terms of the Merger Agreement, at the closing of the merger, Ply Gem will be merged with and into the Company with the Company continuing its existence as a Delaware corporation (the “Merger”). At the closing of the Merger (“Closing”), all of Ply Gem’s equity interests (the “Ply Gem LLC Interests”) as of immediately prior to the Closing will be converted into the right of the holders of the Ply Gem LLC Interests (the “Ply Gem Holders”) to receive, in the aggregate with respect to all such Ply Gem LLC Interests, 58,709,067 shares of NCI common stock, par value \$0.01 per share (“Common Stock”) (collectively,

25

the “Aggregate Merger Consideration”), with each Ply Gem Holder being entitled to receive its pro rata share of the Aggregate Merger Consideration. The shares of the Common Stock outstanding prior to the Merger will remain outstanding after the closing of the Merger.

The Closing is subject to a number of customary conditions, including, among others, (1) the approval of the Merger, at a meeting duly called for such purpose, by the affirmative vote of the stockholders of the Company holding the majority of the Common Stock outstanding as of the applicable record date (the “Stockholder Approval”), (2) the absence of any decision, injunction, decree, ruling, law or order by any governmental entity enjoining, prohibiting or making the consummation of the Merger and any related transactions illegal, (3) the termination or expiration of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and approvals under the Competition Act of Canada and the Austrian Cartel Act (Kartellgesetz) 2005 (BGB1 I 2005/61), as amended (4) subject to certain exceptions, the accuracy of representations and warranties with respect to the business of each of the Company and Ply Gem and compliance in all material respects by each of the Company, Ply Gem, and the Sponsor with its respective covenants contained in the Merger Agreement, and (5) the receipt by each of the Company and Ply Gem from its respective tax counsel of an opinion to the effect that the Merger will qualify as a “reorganization” within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended.

In connection with the closing of the Merger, the Company will enter into a new stockholders agreement (the “New Stockholders Agreement”) and a new Registration Rights Agreement (the “New Registration Rights Agreement”), each with entities affiliated with the Sponsor, including the CD&R Funds, and other investors. For additional information about the New Stockholders Agreement and the New Registration Rights Agreement, see the Company’s Current Report on Form 8-K, filed on July 19, 2018, which describes both agreements and attaches a form of the New Stockholders Agreement as an exhibit thereto.

If the Merger Agreement is terminated under certain circumstances, the Company would be obligated to pay Ply Gem a termination fee of \$45.0 million.

The Company incurred \$3.6 million of acquisition expenses in the third quarter of fiscal 2018 related to the pending Merger, which are recorded in strategic development and acquisition related costs in the Company’s consolidated statements of operations.

Change in Operating Segments

On February 22, 2018, the Company announced changes to NCI’s reportable business segments, effective January 28, 2018 for the first quarter of fiscal 2018, to align with changes in how the Company manages its business, reviews operating performance and allocates resources.

During the first quarter of fiscal 2018, the Company began reporting results under four reportable segments, which are Engineered Building Systems, Metal Components, Insulated Metal Panels and Metal Coil Coating. Previously, operating results for the Insulated Metal Panel product line were included in the Metal Components segment. In addition, CENTRIA’s coil coating operations, which had been included in the Metal Components segment since the Company’s acquisition of CENTRIA in January 2015, are now reported within the Metal Coil Coating segment. Prior periods have been recasted to conform to the current segment presentation.

Third Fiscal Quarter

During the third quarter of fiscal 2018, the Company has continued to realize the benefits of our focus on commercial discipline in the pass-through of material costs and the Company’s ongoing cost reduction initiatives.

Overall, year-over-year comparisons in most of our financial metrics reflect the pass-through of higher material input costs, as well as operational improvements over the previous three years to better leverage our fixed cost structure. We achieved year-over-year growth in both consolidated sales and gross profit.

Consolidated revenues increased by approximately 16.9% from the same period in the prior year. The year-over-year improvement was primarily driven by continued commercial discipline in the pass-through of higher costs in a rising cost environment across each of our segments and underlying volume growth in the Engineered Building Systems and Metal Components segments.

The Company’s gross margin in the current period was 24.3% as compared to 24.5% in the third quarter of fiscal 2017. The lower margins in the current period were primarily driven by less favorable product mix in the Insulated Metal Panels segment and Metal Coil Coating segments. Engineering, selling, general and administrative expenses as a

percentage of revenues decreased by 190 basis points to 14.4% of sales compared to the same period last year, as we continue to execute on our strategic initiatives and restructuring activities.

Industry Conditions

Our sales and earnings are subject to both seasonal and cyclical trends and are influenced by general economic conditions, interest rates, the price of steel relative to other building materials, the level of nonresidential construction activity, roof repair and retrofit demand and the availability and cost of financing for construction projects. Our sales are normally lower in the first half of each fiscal year compared to the second half because of unfavorable weather conditions for construction and typical business planning cycles affecting construction.

The nonresidential construction industry is highly sensitive to national and regional macroeconomic conditions. Following a significant downturn in 2008 and 2009, the current recovery of low-rise construction has been uneven and slow but is now showing some signs of steady growth. We believe that the economy is recovering and that the nonresidential construction industry will return to mid-cycle levels of activity over the next several years. The graph below shows the annual nonresidential new construction starts, measured in square feet, since 1968, as compiled and reported by Dodge Data & Analytics:

Current market data continues to show uneven activity across the nonresidential construction markets. According to Dodge Data & Analytics, low-rise nonresidential new construction starts, as measured in square feet and comprising buildings of up to five stories, were up approximately 1% during fiscal 2017 as compared to fiscal 2016. Even though this measure tends to be revised upward in succeeding periods, we believe the underlying growth we are achieving is outpacing market activity. Leading indicators for low-rise, nonresidential construction activity indicate continued positive momentum in fiscal 2018.

The leading indicators that we follow and that typically have the most meaningful correlation to nonresidential low-rise construction starts are the American Institute of Architects' ("AIA") Architecture Mixed Use Index, Dodge Residential single family starts and the Conference Board Leading Economic Index ("LEI"). Historically, there has been a very high correlation to the Dodge low-rise nonresidential starts when the three leading indicators are combined and then seasonally adjusted. The combined forward projection of these metrics, based on a 9- to 14-month historical lag for each metric, indicates low single-digit growth for low-rise new construction starts in fiscal 2018.

We normally do not maintain an inventory of steel in excess of our current production requirements. However, from time to time, we may purchase steel in advance of announced steel price increases. We can give no assurance that steel will be readily available or that prices will not continue to be volatile. While most of our sales contracts have escalation clauses that allow us, under certain circumstances, to pass along all or a portion of increases in the price of steel after the date of the contract but prior to delivery, for competitive or other reasons, we may not be able to pass such price increases along. If the available supply of steel declines, we could experience price increases that we are not able to pass on to the end users, a deterioration of service from our suppliers or interruptions or delays that may cause us not to meet delivery schedules to our customers. Any of these problems could adversely affect our results of operations and financial condition. For additional discussion, see "Item 3. Quantitative and Qualitative Disclosures About Market Risk — Steel Prices."

Restructuring

We continue to execute on our plans to improve cost efficiency through the optimization of our combined manufacturing plant footprint and the elimination of certain fixed and indirect ESG&A costs. Total restructuring costs were reduced by \$0.4 million during the three months ended July 29, 2018, primarily due to a gain on the sale of a facility in the Engineering Building Systems segment.

We are currently unable to make a good faith determination of cost estimates, or range of cost estimates, for actions associated with the plans. Restructuring charges will be recorded for the plans as they become estimable and probable. See Note 3 — Restructuring in the notes to the unaudited consolidated financial statements for additional information.

RESULTS OF OPERATIONS

Operating segments are defined as components of an enterprise that engage in business activities and by which discrete financial information is available that is evaluated on a regular basis by the chief operating decision maker to make decisions about how to allocate resources to the segment and assess the performance of the segment. We have four operating segments: (i) Engineered Building Systems; (ii) Metal Components; (iii) Insulated Metal Panels; and (iv) Metal Coil Coating. All operating segments operate primarily in the nonresidential construction market. Sales and earnings are influenced by general economic conditions, the level of nonresidential construction activity, metal roof repair and retrofit demand and the availability and terms of financing available for construction. Our operating segments are vertically integrated and benefit from similar basic raw materials. The Metal Coil coating segment consists of cleaning, treating, painting and slitting continuous steel coils before the steel is fabricated for use by construction and industrial users. The Metal Components segment products include metal roof and wall panels, doors, metal partitions, metal trim, and other related accessories. The Insulated Metal Panels segment produces panels consisting of rigid foam encased between two sheets of coated metal in a variety of modules, lengths and reveal combinations which are used in architectural, commercial, industrial and cold storage market applications. The Engineered Building Systems segment manufactures custom designed and engineered products such as structural frames, Long Bay® Systems, metal roofing and wall systems, and the related value-added engineering and drafting, to provide customers a complete building envelope solution. The operating segments follow the same accounting policies used for our consolidated financial statements.

We evaluate a segment's performance based primarily upon operating income before corporate expenses. Intersegment sales are recorded based on standard material costs plus a standard markup to cover labor and overhead and consist of: (i) structural framing provided by the Engineered Building Systems segment to the Metal Components segment; (ii) building components provided by the Metal Components and Insulated Metal Panels segments to the Engineered Building Systems segment; and (iii) hot-rolled, light gauge painted, and slit material and other services provided by the Metal Coil Coating segment to the Engineered Building Systems, Metal Components and Insulated Metal Panels. Corporate assets consist primarily of cash, investments, prepaid expenses, current and deferred taxes and property, plant and equipment associated with our headquarters in Houston, Texas. These items (and income and expenses related to these items) are not allocated to the operating segments. Corporate unallocated expenses include share-based compensation expenses, and executive, legal, finance, tax, treasury, human resources, information technology, purchasing, marketing and corporate travel expenses. Additional unallocated amounts primarily include interest income, interest expense and other (expense) income. See Note 15 — Operating Segments in the notes to the unaudited consolidated financial statements for more information on our segments.

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We have revised our segment reporting to represent how we now manage our business, recasting prior periods to conform to the current segment presentation. The following table represents sales and operating income (loss) attributable to these operating segments for the periods indicated (in thousands):

	Fiscal Three Months Ended		Fiscal Nine Months Ended	
	July 29, 2018	July 30, 2017	July 29, 2018	July 30, 2017
Total sales:				
Engineered Building Systems	\$230,098	\$191,910	\$554,302	\$505,797
Metal Components	186,421	166,305	501,709	455,373
Insulated Metal Panels	133,740	119,730	357,947	317,862
Metal Coil Coating	116,440	95,261	299,973	270,330
Intersegment sales	(118,174)	(103,821)	(286,988)	(267,810)
Total sales	\$548,525	\$469,385	\$1,426,943	\$1,281,552
External sales:				
Engineered Building Systems	\$218,614	\$182,164	\$524,038	\$481,641
Metal Components	165,697	140,639	440,886	389,486
Insulated Metal Panels	106,605	98,026	\$303,910	267,240
Metal Coil Coating	57,609	48,556	158,109	143,185
Total sales	\$548,525	\$469,385	\$1,426,943	\$1,281,552
Operating income (loss):				
Engineered Building Systems	\$24,296	\$14,948	\$41,830	\$28,345
Metal Components	28,688	23,276	67,859	55,649
Insulated Metal Panels	17,859	11,468	26,470	33,037
Metal Coil Coating	9,121	7,107	21,626	20,040
Corporate	(25,463)	(22,702)	(71,430)	(60,616)
Total operating income	\$54,501	\$34,097	\$86,355	\$76,455
Unallocated other expense	(4,437)	(6,031)	(37,690)	(19,494)
Income before income taxes	\$50,064	\$28,066	\$48,665	\$56,961

FISCAL THREE MONTHS ENDED JULY 29, 2018 COMPARED TO FISCAL THREE MONTHS ENDED JULY 30, 2017

Consolidated sales increased by 16.9%, or \$79.1 million, for the three months ended July 29, 2018, compared to the three months ended July 30, 2017. The increase in revenue resulted from continued commercial discipline, as well as the pass-through of material and other input costs in an inflationary environment, predominantly in the Engineered Building Systems, Metal Components, and Insulated Metal Panels segments, and underlying volume growth in the Engineered Building Systems and Metal Components segments.

Consolidated cost of sales increased by 17.1%, or \$60.7 million, for the three months ended July 29, 2018, compared to the three months ended July 30, 2017. The increase in cost of sales resulted from the increase in volume discussed above, as well as higher input costs, including transportation, materials and skilled labor.

Gross margin percentage was 24.3% for the three months ended July 29, 2018, compared to 24.5% for the same period in the prior year. The slightly lower margins in the current period were driven by product mix in the Insulated Metal Panels and Metal Coil Coating segments.

Engineered Building Systems sales increased by 19.9%, or \$38.2 million, to \$230.1 million in the three months ended July 29, 2018, from \$191.9 million in the same period in the prior year. Sales to third parties for the three months ended July 29, 2018 increased by \$36.5 million to \$218.6 million from \$182.2 million in the same period in the prior year, due to increased tonnage volume as well as the pass-through of higher input costs and improved product mix. Engineered Building Systems third-party sales accounted for 39.9% of total consolidated third-party sales in the three months ended July 29, 2018, compared to 38.8% in the three months ended July 30, 2017.

Operating income of the Engineered Building Systems segment increased to \$24.3 million in the three months ended July 29, 2018, from \$14.9 million in the same period in the prior year. The \$9.4 million, or 62.5%, increase resulted primarily from improved product mix and lower engineering, selling, general and administrative expenses resulting from the execution of prior year cost reduction initiatives.

Metal Components sales increased by 12.1%, or \$20.1 million, to \$186.4 million in the three months ended July 29, 2018, from \$166.3 million in the same period in the prior year. Sales to third parties for the three months ended July 29, 2018 increased by \$25.1 million to \$165.7 million from \$140.6 million in the same period in the prior year, primarily driven by higher external volumes and the pass-through of increasing materials costs. The increase in external volume was driven mostly by an increase in the demand for our commercial panel and doors products. Metal Components third-party sales accounted for 30.2% of total consolidated third-party sales in the three months ended July 29, 2018, compared to 30.0% in the three months ended July 30, 2017.

Operating income of the Metal Components segment increased to \$28.7 million in the three months ended July 29, 2018, compared to \$23.3 million in the same period in the prior year. The \$5.4 million, or 23.3%, increase was driven by commercial discipline, improvement in product mix and improved operating leverage across the cost structure on higher volumes.

Insulated Metal Panels sales increased by 11.7%, or \$14.0 million, to \$133.7 million in the three months ended July 29, 2018, compared to \$119.7 million in the same period in the prior year. Sales to third parties for the three months ended July 29, 2018 increased by \$8.6 million to \$106.6 million from \$98.0 million in the same period in the prior year, primarily as a result of strong demand for our cold storage products. In addition, sales were also driven by a \$5.4 million increase in internal sales, or 25.0%, primarily through the Engineered Building Systems and Metal Components divisions as we continue to execute on our adjacency initiatives. Insulated Metal Panel third-party sales accounted for 19.4% of total consolidated third-party sales in the three months ended July 29, 2018, compared to 20.9% in the three months ended July 30, 2017.

Operating income of the Insulated Metal Panels segment increased to \$17.9 million in the three months ended July 29, 2018, from \$11.5 million in the same period in the prior year. The \$6.4 million, or 55.7%, increase was primarily due to \$4.7 million gain relating to the final settlement of insurance claims for property that was damaged in a fire at a facility during fiscal 2016.

Metal Coil Coating sales were \$116.4 million and \$95.3 million in the three months ended July 29, 2018 and July 30, 2017, respectively. Sales to third parties for the three months ended July 29, 2018 increased by \$9.0 million to \$57.6 million from \$48.6 million in the same period in the prior year, primarily as a result of higher tonnage volume in package sales. Metal Coil Coating third-party sales accounted for 10.5% of total consolidated third-party sales in the three months ended July 29, 2018, compared to 10.3% in the three months ended July 30, 2017.

Operating income of the Metal Coil Coating segment increased to \$9.1 million in the three months ended July 29, 2018, from \$7.1 million in the same period in the prior year. The \$2.0 million, or 28.3%, increase was primarily due to increase in external sales of package products.

Consolidated engineering, selling, general and administrative expenses increased to \$79.0 million in the three months ended July 29, 2018, compared to \$76.3 million in the same period in the prior year primarily from the support of the increase in sales, continued execution of Corporate initiatives and general inflation company-wide, offset by cost-reduction initiatives and a decrease in stock-based compensation from current year executive retirements. As a percentage of sales, engineering, selling, general and administrative expenses decreased 190 basis points to 14.4% for the three months ended July 29, 2018, as compared to 16.3% for the three months ended July 30, 2017.

Consolidated intangible amortization remained consistent period over period at \$2.4 million in the three months ended July 29, 2018, compared to \$2.4 million in the same period in the prior year.

Consolidated restructuring and impairment charges for the three months ended July 29, 2018 and July 30, 2017 were a net credit of \$0.4 million and a net charge of \$1.0 million, respectively. Each period generally includes severance-related costs, related to our actions taken to streamline our management and engineering and drafting activities, and also to optimize our overall manufacturing structure and footprint. The current period charges are offset by a \$0.6 million gain on the sale of a facility that was previously designated as "held for sale".

Consolidated strategic development and acquisition related costs for the three months ended July 29, 2018 were \$3.6 million, compared to \$1.3 million for the three months ended July 30, 2017. These non-operational costs primarily include banking fees and external legal, financial and due-diligence costs associated with the pending merger with Ply Gem.

(Gain) loss on disposition of business for the three months ended July 29, 2018 was a \$1.0 million gain, related to the disposal of a non-strategic product line previously consolidated within the Insulated Metal Panels segment. There was no corresponding gain in the three months ended July 30, 2017.

Consolidated gain on insurance recovery for the three months ended July 29, 2018 and July 30, 2017 was \$4.7 million and \$0.1 million, respectively, as a result of settlements with the Company's insurers. The current year gain represents proceeds from the final settlement for property damage at a facility in the Insulated Metal Panels segment.

Consolidated interest expense decreased to \$4.6 million for the three months ended July 29, 2018, compared to \$7.4 million for the same period of the prior year. The 38.0% decrease in interest expense is a primarily due to the redemption of our 8.25%

Senior Notes and lower variable rates on our Term Loan Credit Facility, both results of activities to strengthen our capital structure that were completed in February 2018.

Consolidated foreign exchange gain (loss) for the three months ended July 29, 2018 was a \$0.3 million loss, compared to a gain of \$1.0 million for the same period of the prior year, due to exchange rate fluctuations in the Mexican peso and Canadian dollar relative to the U.S. dollar.

Consolidated provision for income taxes was \$14.1 million for the three months ended July 29, 2018, compared to \$9.8 million for the same period in the prior year. The effective tax rate for the three months ended July 29, 2018 was 28.1%, compared to 35.1% for the same period in the prior year. The change in the effective tax rate was primarily driven by the continuing effects associated with the enactment of U.S. Tax Reform.

FISCAL NINE MONTHS ENDED JULY 29, 2018 COMPARED TO FISCAL NINE MONTHS ENDED JULY 30, 2017

Consolidated sales increased by 11.3%, or \$145.4 million, for the nine months ended July 29, 2018, compared to the nine months ended July 30, 2017. The increase in revenue resulted from continued commercial discipline, as well as the pass-through of material and other input costs in an inflationary environment, predominantly in the Engineered Building Systems, Metal Components and Insulated Metal Panels segments.

Consolidated cost of sales increased by 11.8%, or \$115.7 million, for the nine months ended July 29, 2018, compared to the nine months ended July 30, 2017. The increase in cost of sales resulted primarily from higher input costs, including transportation, materials and skilled labor.

Gross margin percentage was 23.1% for the nine months ended July 29, 2018, compared to 23.4% for the same period in the prior year. The lower margins in the current period were primarily driven by material and supply chain disruptions from severe winter weather during the late first quarter and early second quarter of fiscal 2018, which resulted in higher freight costs and lower manufacturing efficiencies.

Engineered Building Systems sales increased by 9.6%, or \$48.5 million, to \$554.3 million in the nine months ended July 29, 2018, from \$505.8 million in the same period in the prior year. Sales to third parties for the nine months ended July 29, 2018 increased by \$42.4 million to \$524.0 million from \$481.6 million in the same period in the prior year, primarily due to commercial discipline and the pass through of higher materials costs. Engineered Building Systems third-party sales accounted for 36.7% of total consolidated third-party sales in the nine months ended July 29, 2018, compared to 37.6% in the nine months ended July 30, 2017.

Operating income of the Engineered Building Systems segment increased to \$41.8 million in the nine months ended July 29, 2018, from \$28.3 million in the same period in the prior year. The \$13.5 million, or 47.6%, increase resulted primarily from commercial discipline, improved product mix and lower engineering, selling, general and administrative expenses resulting from the execution of prior year cost reduction initiatives.

Metal Components sales increased by 10.2%, or \$46.3 million, to \$501.7 million in the nine months ended July 29, 2018, from \$455.4 million in the same period in the prior year, driven by higher external volumes and the pass-through of increasing materials costs. The increase in sales was primarily driven by higher external volumes due to higher demand for our commercial panels and doors products. Sales to third parties for the nine months ended July 29, 2018 increased by \$51.4 million to \$440.9 million from \$389.5 million in the same period in the prior year. Metal Components third-party sales accounted for 30.9% of total consolidated third-party sales in the nine months ended July 29, 2018, compared to 30.4% in the nine months ended July 30, 2017.

Operating income of the Metal Components segment increased to \$67.9 million in the nine months ended July 29, 2018, compared to \$55.6 million in the same period in the prior year. The \$12.3 million, or 21.9%, increase was driven primarily by commercial discipline improved operating leverage across the cost structure on higher volumes, offset by higher transportation costs. Prior period operating income includes \$0.6 million of gain on insurance recovery for settlements on damaged or destroyed plant and equipment. There was no corresponding gain in the nine months ended July 29, 2018.

Insulated Metal Panels sales increased by 12.6%, or \$40.0 million, to \$357.9 million in the nine months ended July 29, 2018, compared to \$317.9 million in the same period in the prior year. Sales to third parties for the nine months ended July 29, 2018 increased by \$36.7 million to \$303.9 million from \$267.2 million in the same period in the prior year due to continued high demand, predominantly within our cold storage and industrial, commercial, and institutional

products. In addition, sales were also driven by a \$3.4 million increase in internal sales, or 6.7%, primarily through the Engineered Building Systems and Metal Components divisions as we continue to execute on our adjacency initiatives. Insulated Metal Panel third-party sales accounted for 21.3% of total consolidated third-party sales in the nine months ended July 29, 2018, compared to 20.9% in the nine months ended July 30, 2017.

Operating income of the Insulated Metal Panels segment decreased to \$26.5 million in the nine months ended July 29, 2018, from \$33.0 million in the same period in the prior year. The \$6.5 million, or 19.9%, decrease was primarily due to a \$6.7 million loss recognized on the sale of the China manufacturing facility. Increased volume and better leverage of our fixed cost structure

was offset by impacts from a change in product mix during the current year. Prior period operating income includes \$9.2 million of gain on insurance recovery for settlements on damaged or destroyed plant and equipment. We reached final settlement on this matter during the nine months ended July 29, 2018 and recorded a gain of \$4.7 million.

Metal Coil Coating sales increased by 11.0%, or \$29.7 million, to \$300.0 million in the nine months ended July 29, 2018, compared to \$270.3 million in the same period in the prior year. Sales to third parties for the nine months ended July 29, 2018 increased by \$14.9 million to \$158.1 million from \$143.2 million in the same period in the prior year, primarily because of an increase in tonnage volume, primarily with our package product sales to third parties. Metal Coil Coating third-party sales remained consistent and accounted for 11.1% and 11.2% of total consolidated third-party sales in the nine-month periods ended July 29, 2018 and July 30, 2017, respectively.

Operating income of the Metal Coil Coating segment increased to \$21.6 million in the nine months ended July 29, 2018, from \$20.0 million in the same period in the prior year. The \$1.6 million, or 7.9%, increase was primarily due to the increase in package product sales and lower engineering, selling, general and administrative expenses resulting from the execution of prior year cost reduction initiatives.

Consolidated engineering, selling, general and administrative expenses increased \$7.7 million, or 3.5%, to \$228.2 million in the nine months ended July 29, 2018, compared to \$220.5 million in the same period in the prior year.

Consolidated engineering, selling, general and administrative expenses for the nine months ended July 29, 2018 includes a \$4.6 million charge related to the acceleration of retirement benefits of our former CEO. Excluding the effects of the acceleration of CEO retirement benefits, as a percentage of sales, engineering, selling, general and administrative expenses were 15.7% for the nine months ended July 29, 2018, as compared to 17.2% for the nine months ended July 30, 2017. The decrease was primarily due to continued execution of our cost reduction integration initiatives and lower stock-based compensation related to the third quarter 2018 executive retirement.

Consolidated intangible amortization remained consistent period over period at \$7.2 million in the nine months ended July 29, 2018, compared to \$7.2 million in the nine months ended July 30, 2017.

Consolidated restructuring and impairment charges for the nine months ended July 29, 2018 and July 30, 2017 were \$1.1 million and \$3.6 million, respectively. Each period generally includes severance-related costs, related to our actions taken to streamline our management and engineering and drafting activities, and also to optimize our overall manufacturing structure and footprint. The current period charges are offset by a \$0.6 million gain on the sale of a facility that was previously designated as "held for sale".

Consolidated strategic development and acquisition related costs for the nine months ended July 29, 2018 were \$5.5 million, compared to \$1.8 million for the nine months ended July 30, 2017. These non-operational costs include external legal, financial and due diligence costs incurred to pursue specific acquisition targets or costs directly associated with integrating previous acquisitions.

(Gain) loss on disposition of business for the nine months ended July 29, 2018 was \$5.7 million. During the second quarter of fiscal 2018 we recorded a loss of \$6.7 million on the sale of our China manufacturing facility included in the Insulated Metal Panels segment. During the third quarter of fiscal 2018 we recorded a \$1.0 million gain related to the disposal of a non-strategic product line previously consolidated within the Insulated Metal Panels segment. There was no corresponding loss in the nine months ended July 30, 2017.

Consolidated gain on insurance recovery for the nine months ended July 29, 2018 and July 30, 2017 was \$4.7 million and \$9.7 million, respectively, which related to settlements with the Company's insurers for property damage to two facilities in the Metal Components and Insulated Metal Panels segment.

Consolidated interest expense decreased to \$16.9 million for the nine months ended July 29, 2018, compared to \$21.7 million for the same period of the prior year. The 22.2% decrease in interest expense is a primarily due to the redemption of our 8.25% Senior Notes and lower variable rates on our Term Loan Credit Facility, both results of activities to strengthen our capital structure that were completed in February 2018.

Consolidated foreign exchange gain (loss) for the nine months ended July 29, 2018 was a \$0.1 million loss, compared to \$1.0 million gain for the same period of the prior year, due to exchange rate fluctuations in the Mexican peso and Canadian dollar relative to the U.S. dollar.

Loss on debt extinguishment for the nine months ended July 29, 2018 was \$21.9 million. There was no corresponding amount recorded in the same period of the prior year. During our second quarter of fiscal 2018, we recognized a

pretax loss, primarily on the extinguishment of our 8.25% senior notes due 2023, of \$21.9 million, of which approximately \$15.5 million represented the call premium paid on the redemption of the notes.

Consolidated provision for income taxes was \$13.1 million for the nine months ended July 29, 2018, compared to \$19.7 million for the same period in the prior year. The effective tax rate for the nine months ended July 29, 2018 was 26.9%, compared

to 34.6% for the same period in the prior year. The change in the effective tax rate was primarily driven by the effects associated with the enactment of U.S. Tax Reform.

LIQUIDITY AND CAPITAL RESOURCES

General

Our cash and cash equivalents decreased from \$65.7 million as of October 29, 2017 to \$43.3 million as of July 29, 2018. The following table summarizes our consolidated cash flows for the nine months ended July 29, 2018 and July 30, 2017 (in thousands):

	Fiscal Nine Months	
	Ended	
	July 29, 2018	July 30, 2017
Net cash provided by operating activities	\$56,908	\$597
Net cash used in investing activities	(25,214)	(4,503)
Net cash used in financing activities	(53,938)	(15,907)
Effect of exchange rate changes on cash and cash equivalents	(92)	333
Net decrease in cash and cash equivalents	(22,336)	(19,480)
Cash and cash equivalents at beginning of period	65,658	65,403
Cash and cash equivalents at end of period	\$43,322	\$45,923

Operating Activities

Our business is both seasonal and cyclical and cash flows from operating activities may fluctuate during the year and from year-to-year due to economic conditions. We rely on cash and short-term borrowings, when needed, to meet cyclical and seasonal increases in working capital needs. These needs generally rise during periods of increased economic activity or increasing raw material prices due to higher levels of inventory and accounts receivable. During economic slowdowns, or periods of decreasing raw material costs, working capital needs generally decrease as a result of the reduction of inventories and accounts receivable.

Net cash provided by operating activities was \$56.9 million during the nine months ended July 29, 2018 compared to net cash provided by operating activities of \$0.6 million in the nine months ended July 30, 2017. The improved cash flow from operations is due to current period operations and normal seasonal trends in the timing of working capital turns during the first nine months of fiscal 2018.

Net cash used in accounts receivable was \$13.5 million for the nine months ended July 29, 2018, compared to \$8.6 million for the nine months ended July 30, 2017. Our days sales outstanding as of July 29, 2018 and July 30, 2017 were 33.6 days and 35.5 days, respectively.

For the nine months ended July 29, 2018, the change in cash flows relating to inventory was \$64.9 million compared to 25.9 million for the nine months ended July 30, 2017. The increase resulted primarily from purchases of materials to support higher sales and the continued increase in material costs, particularly steel. Our days inventory on-hand was unchanged at 54.3 days as of July 29, 2018 as compared to 54.3 days as of July 30, 2017.

Net cash provided by accounts payable for the nine months ended July 29, 2018 was \$34.6 million, whereas net cash used by accounts payable was \$22.2 million in the nine months ended July 30, 2017. Our vendor payments can significantly fluctuate based on the timing of disbursements, inventory purchases and vendor payment terms. Our days payable outstanding as of July 29, 2018 increased to 35.5 days from 33.0 days as of July 30, 2017.

Investing Activities

Net cash used in investing activities increased to \$25.2 million during the nine months ended July 29, 2018 compared to \$4.5 million in the nine months ended July 30, 2017. In the nine months ended July 29, 2018, we used \$34.9 million for capital expenditures, sold a business in China, resulting in a net use of \$4.4 million of cash and sold a business in our Insulated Metal Panels segment for \$3.0 million. Additionally, we sold one manufacturing facility in our Engineered Building Systems segment and two manufacturing facilities in our Metal Components segment for total cash consideration of \$6.3 million and we received insurance proceeds of \$4.7 million as reimbursement for new assets acquired for a facility in the Insulated Metal Panels segment that experienced a fire in June 2016. We used \$15.6 million for capital expenditures in the nine months ended July 30, 2017. These cash outflows were partially

offset by \$2.5 million proceeds from the sale of assets previously classified as held for sale and \$8.6 million of insurance proceeds received in connection with involuntary conversions at two of our facilities.

Financing Activities

Net cash used in financing activities was \$53.9 million during the nine months ended July 29, 2018 compared to \$15.9 million in the comparable prior year period. During the nine months ended July 29, 2018, we borrowed \$85.0 million under our ABL

Facility and repaid \$85.0 million of that amount as of the end of the period, used \$51.8 million to repurchase shares of our outstanding common stock under programs approved by the Board of Directors in September 2016 and October 2017 and for the purchases of shares related to restricted stock that were withheld to satisfy minimum tax withholding obligations arising in connection with the vesting of restricted stock awards and units. Net cash used in the redemption of our Senior Notes and refinancing of long-term debt, including payments of financing costs was \$2.2 million. We received \$1.3 million in cash proceeds from the exercises of stock options.

During the nine months ended July 30, 2017, we used \$5.9 million to repurchase shares of our outstanding common stock under the program approved by the Board of Directors in September 2016, as well as shares of restricted stock that were withheld to satisfy minimum tax withholding obligations arising in connection with the vesting of awards of restricted stock, and \$10.2 million to make a voluntary principal prepayment on borrowings under our Credit Agreement. We received \$1.2 million in cash proceeds from the exercises of stock options.

We invest our excess cash in various overnight investments which are issued or guaranteed by the U.S. federal government.

Debt

On February 8, 2018, the Company entered into a Term Loan Credit Agreement and ABL Credit Agreement, the proceeds of which, together, were used to redeem the 8.25% senior notes and to refinance the Company's existing term loan credit facility and the Company's existing asset-based revolving credit facility.

The Term Loan Credit Agreement provides for an aggregate principal amount of \$415.0 million (the "Term Loan Credit Facility"). Proceeds from borrowings under the Term Loan Credit Facility were used, together with cash on hand, (i) to refinance the existing term loan credit agreement, (ii) to redeem and repay the Notes (the foregoing, collectively, the "Refinancing") and (iii) to pay any fees, premiums and expenses incurred in connection with the Refinancing.

The ABL Credit Agreement provides for an asset-based revolving credit facility which allows aggregate maximum borrowings by the ABL Borrowers of up to \$150.0 million (the "ABL Credit Facility"). As set forth in the ABL Credit Agreement, extensions of credit under the ABL Credit Facility are limited by a borrowing base calculated periodically based on specified percentages of the value of eligible accounts receivable, eligible credit card receivables and eligible inventory, less certain reserves and certain adjustments. Availability will be reduced by issuance of letters of credit as well as any borrowings.

As of July 29, 2018, we had an aggregate principal amount of \$414.0 million of outstanding indebtedness, comprising \$414.0 million of borrowings under our Term Loan Credit Facility. We had no of revolving loans outstanding under the ABL Credit Facility. Our excess availability under the ABL Credit Facility was \$141.1 million as of July 29, 2018. In addition, standby letters of credit related to certain insurance policies totaling approximately \$8.9 million were outstanding but undrawn under the ABL Credit Facility.

For additional information, see Note 10 — Long-Term Debt and Note Payable in the notes to the unaudited consolidated financial statements.

Equity Investment

On August 14, 2009, the Company entered into an Investment Agreement (as amended, the "Investment Agreement"), by and between the Company and Clayton, Dubilier & Rice Fund VIII, L.P. ("CD&R Fund VIII"). In connection with the Investment Agreement and the Stockholders Agreement dated October 20, 2009 (the "Stockholders Agreement"), the CD&R Fund VIII and the CD&R Friends & Family Fund VIII, L.P. (collectively, the "CD&R Funds") purchased convertible preferred stock, which was converted into shares of our Common Stock on May 14, 2013. Among other provisions, the Stockholders Agreement entitles the CD&R Funds to certain nomination or designation rights with respect to our board of directors; subscription rights with respect to future issuances of common stock by us; corporate governance rights; and consent rights with respect to certain types of transactions we may enter into in the future. In connection with the closing of the Merger, the Company will enter into a new stockholders agreement with the CD&R Funds and other investors.

On December 11, 2017, the CD&R Funds completed a registered underwritten offering of 7,150,000 shares of the Company's Common Stock at a price to the public of \$19.36 per share (the "2017 Secondary Offering"). Pursuant to the underwriting agreement, at the CD&R Funds request, the Company purchased 1.15 million of the 7.15 million shares

of the Common Stock from the underwriters in the 2017 Secondary Offering at a price per share equal to the price at which the underwriters purchased the shares from the CD&R Funds. The total amount the Company spent on these repurchases was \$22.3 million.

At July 29, 2018 and October 29, 2017, the CD&R Funds owned approximately 34.4% and 43.8%, respectively, of the outstanding shares of our common stock. The CD&R Funds are affiliates of the Sponsor, which is, for limited purposes, party to the Merger Agreement. For additional information, see Note 1 — Summary of Significant Accounting Policies in the notes to the unaudited consolidated financial statements.

Cash Flow

We periodically evaluate our liquidity requirements, capital needs and availability of resources in view of inventory levels, expansion plans, debt service requirements and other operating cash needs. To meet our short-term and long-term liquidity requirements, including payment of operating expenses and repayment of debt, we rely primarily on cash from operations. Beyond cash generated from operations, \$141.1 million is available with our ABL Credit Facility at July 29, 2018 and we have a cash balance of \$43.3 million as of July 29, 2018.

We expect to contribute \$1.2 million to our defined benefit plans during the remainder of fiscal 2018.

We expect that cash generated from operations and our availability under the ABL Credit Facility will be sufficient to provide us the ability to fund our operations and to provide the increased working capital necessary to support our strategy and fund planned capital expenditures of between approximately \$45 million and \$55 million for fiscal 2018 and expansion when needed.

Our corporate strategy seeks potential acquisitions that would provide additional synergies in our Engineered Building Systems, Metal Components, Insulated Metal Panels and Metal Coil Coating segments. From time to time, we may enter into letters of intent or agreements to acquire assets or companies in these business lines. The consummation of these transactions could require substantial cash payments and/or issuance of additional debt.

From time to time, we have used available funds to repurchase shares of our common stock under our stock repurchase programs. On September 8, 2016, our Board of Directors authorized a stock repurchase program for the repurchase of up to an aggregate of \$50.0 million of the Company's outstanding Common Stock. On October 10, 2017 and March 7, 2018, the Company announced that its Board of Directors authorized new stock repurchase programs for the repurchase of up to an aggregate of \$50.0 million and \$50.0 million, respectively, of the Company's outstanding Common Stock. Under these repurchase programs, the Company is authorized to repurchase shares, if at all, at times and in amounts that we deem appropriate in accordance with all applicable securities laws and regulations. Shares repurchased are usually retired. There is no time limit on the duration of the program. During the nine months ended July 29, 2018, the Company repurchased approximately 2.7 million shares for \$46.7 million under the stock repurchase programs, which included 1.15 million shares for \$22.3 million purchased pursuant to the CD&R Funds 2017 Secondary Offering. As of July 29, 2018, approximately \$55.6 million remained available for stock repurchases, all under the programs announced on October 10, 2017 and March 7, 2018. In addition to the common stock repurchased during the nine months ended July 29, 2018, we also withheld shares of restricted stock to satisfy minimum tax withholding obligations arising in connection with the vesting of awards of restricted stock related to our 2003 Long-Term Stock Incentive Plan.

The Company may from time to time take steps to reduce the Company's debt or otherwise improve the Company's financial position. These actions could include prepayments, opportunistic refinancing of debt and raising additional capital. The amount of prepayments or the amount of debt that may be refinanced, if any, will depend on market conditions, the Company's cash position, compliance with debt covenants and other considerations.

NON-GAAP MEASURES

Set forth below are certain non-GAAP measures which include adjusted operating income (loss), adjusted EBITDA, adjusted net income per diluted common share and adjusted net income applicable to common shares. We define adjusted operating income (loss) as operating income (loss) adjusted for items broadly consisting of selected items which management does not consider representative of our ongoing operations. We define adjusted EBITDA as net income (loss) before interest expense, income tax expense (benefit) and depreciation and amortization, adjusted for items broadly consisting of selected items which management does not consider representative of our ongoing operations and certain non-cash items of the Company. Such measurements are not prepared in accordance with U.S. GAAP and should not be construed as an alternative to reported results determined in accordance with U.S. GAAP. Management believes the use of such non-GAAP measures on a consolidated and operating segment basis assists investors in understanding the ongoing operating performance by presenting the financial results between periods on a more comparable basis. You are encouraged to evaluate these adjustments and the reasons we consider them appropriate for supplemental analysis. In evaluating these measures, you should be aware that in the future we may incur expenses that are the same as, or similar to, some of the adjustments in these non-GAAP measures. In addition, certain financial covenants related to our term loan and asset-based lending credit agreements are based on similar non-GAAP measures. The non-GAAP information provided is unique to the Company and may not be consistent with the methodologies used by other companies.

The following tables reconcile adjusted net income per diluted common share to net income per diluted common share and adjusted net income applicable to common shares to net income applicable to common shares for the periods indicated (in thousands):

	Fiscal Three Months Ended July 29, July 30, 2018 2017		Fiscal Nine Months Ended July 29, July 30, 2018 2017	
Net income per diluted common share, GAAP basis	\$0.54	\$ 0.25	\$0.53	\$ 0.52
Loss on extinguishment of debt	—	—	0.33	—
(Gain) loss on disposition of business	(0.02)	—	0.09	—
Restructuring and impairment charges, net	(0.01)	0.01	0.01	0.05
Strategic development and acquisition related costs	0.06	0.02	0.08	0.02
Acceleration of CEO retirement benefits	—	—	0.07	—
Gain on insurance recovery	(0.07)	0.00	(0.07)	(0.14)
Other, net	—	0.00	0.00	0.01
Tax effect of applicable non-GAAP adjustments ⁽¹⁾	0.01	(0.01)	(0.14)	0.02
Adjusted net income per diluted common share	\$0.51	\$ 0.27	\$0.90	\$ 0.48
Fiscal Three Months Ended July 29, 2018	Fiscal Nine Months Ended July 30, 2018			