APOGEE ENTERPRISES, INC.
Form 10-K
April 26, 2019

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

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended March 2, 2019
¨ TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number: 0-6365

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

| | |
|---|---|
| Minnesota | 41-0919654 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| 4400 West 78th Street – Suite 520, Minneapolis, MN | 55435 |
| (Address of principal executive offices) | (Zip Code) |

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

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

| Title of each class | Name of each exchange on which registered |
|---|---|
| Common Stock, $0.33 1/3 Par Value | The NASDAQ Stock Market LLC |

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
¨ Yes x No
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
¨ Yes x No

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. x Yes ¨ No

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

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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

| | | | |
|---|---|---|---|
| Large accelerated filer | x | Accelerated filer | ¨ |
| Non-accelerated filer | ¨ | Smaller reporting company | ¨ |
| Emerging growth company | ¨ | | |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

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

As of September 1, 2018, the last business day of the registrant's most recently completed second fiscal quarter, the approximate aggregate market value of voting and non-voting common equity held by non-affiliates of the registrant was $1,391,000,000 (based on the closing price of $49.22 per share as reported on the NASDAQ Stock Market LLC as of that date).

As of April 24, 2019, 26,599,456 shares of the registrant’s common stock, par value $0.33 1/3 per share, were outstanding.

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APOGEE ENTERPRISES, INC.
Annual Report on Form 10-K
For the fiscal year ended March 2, 2019

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PART I
ITEM 1. BUSINESS

The Company
Apogee Enterprises, Inc. (Apogee, the Company or we) was incorporated under the laws of the State of Minnesota in 1949. We are a world leader in the design and development of value-added glass and metal products and services for enclosing commercial buildings and framing and displays.

Our Company has four reporting segments, with three of the segments serving the commercial construction market:

- The Architectural Framing Systems segment designs, engineers, fabricates and finishes the aluminum frames used in customized window, curtainwall, storefront and entrance systems comprising the outside skin of buildings. For fiscal 2019, this segment accounted for approximately 51 percent of our net sales.
- The Architectural Glass segment fabricates coated, high-performance glass used globally in customized window and wall systems. For fiscal 2019, this segment accounted for approximately 22 percent of our net sales.
- The Architectural Services segment provides building glass and curtainwall installation services. For fiscal 2019, this segment accounted for approximately 21 percent of our net sales.
- The Large-Scale Optical Technologies (LSO) segment manufactures value-added coated glass and acrylic products for framing and display applications. For fiscal 2019, this segment accounted for approximately 6 percent of our net sales.

On June 12, 2017, we acquired the stock of EFCO Corporation (EFCO), a privately-held U.S. manufacturer of architectural aluminum window, curtainwall, storefront and entrance systems for commercial construction projects, for approximately $190 million. On December 14, 2016, we acquired substantially all the assets of Sotawall, Inc. (Sotawall), a privately-held Canadian designer and fabricator of high-performance, unitized curtainwall systems for commercial construction projects, for approximately $138 million. Results of operations for each of these businesses have been included in the consolidated financial statements and within the Architectural Framing Systems segment since the date of each respective acquisition.

Strategy
Our strategies are to diversify revenue streams within the commercial construction industry and structure the business to provide more stable revenue growth and profit generation over an economic cycle. Our strategies are focused on diversification of end sectors served through growth from new geographies, new products and new markets, while improving margins through productivity, project selection initiatives and rigorous cost management.

In an effort to reduce our exposure to the cyclical nature of the large-building segment of the commercial construction industry, we have expanded our focus to include mid-sized projects in the Architectural Glass segment and have grown our geographic footprint through organic growth and acquisitions in the Architectural Framing Systems segment. We have also increased our focus on retrofit and renovation of windows and curtainwall within our Architectural Framing and Architectural Glass segments as we have seen increased interest from the non-residential and high-end multi-family residential building sectors in upgrading building façades and improving energy efficiency.

In the Architectural Services segment, our emphasis is on improving margins through focused project selection, while continuing to deliver long-term organic growth through geographic expansion in line with our available project management capacity.

Within the LSO segment, our strategy is to grow in newer display markets that desire the value-added properties that our glass and acrylic products provide, while continuing to convert the domestic and international custom picture-framing and fine art markets from clear uncoated glass and acrylic products to value-added products that protect art from UV damage and minimize reflection.

Across all our segments, we also regularly evaluate business development opportunities in adjacent sectors that will complement our existing portfolio. These business development strategies can be executed organically, through acquisition or with strategic alliances.

Finally, we are constantly working to improve the efficiency and productivity of our operations by implementing lean manufacturing disciplines and automation.

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## Products and Services

### Architectural Framing Systems, Architectural Glass and Architectural Services segments

These three segments participate in various phases of the value chain to design, engineer, fabricate and install customized glass and aluminum window, curtainwall, storefront and entrance systems comprising the outside skin of buildings in the commercial, institutional and high-end multi-family residential construction sectors.

Within our Architectural Framing Systems segment, we design and fabricate window, curtainwall, storefront and entrance systems using our customized aluminum and glass, or glass supplied by others. We also provide finishing services for metal components used in windows and curtainwall, as well as plastic components for other products.

In our Architectural Glass segment, we apply ultra-thin, high-performance coatings to uncoated glass to create a variety of aesthetic characteristics, unique designs and energy efficiency, including varying levels of solar energy management to enhance energy-efficiency. We also laminate layers of glass and vinyl to protect against hurricanes and other severe impacts, and temper, or heat strengthen, glass to provide additional strength. Our high-performance glass is made-to-order and is typically fabricated into insulating and/or laminated glass units for installation into window, curtainwall, storefront or entrance systems.

By integrating technical capabilities, project management skills and field installation services, our Architectural Services segment provides design, engineering, fabrication and installation services for the outside skin of buildings. Our ability to efficiently design high-quality window and curtainwall systems and effectively manage the installation of building façades assists our customers in meeting the schedule and cost requirements of their jobs.

Our product and service offerings allow architects to create distinctive looks for commercial building such as office towers, hotels, education and athletic facilities and dormitories, health care facilities, government buildings, retail centers and multi-family residential buildings, while meeting functional requirements such as energy efficiency, hurricane, blast and other impact resistance and/or sound control.

### LSO segment

The LSO segment provides coated glass and acrylic primarily for use in wall decor and display applications. Products vary based on size and coatings applied to provide conservation-grade UV protection, anti-reflective and anti-static properties and/or security features.

## Product Demand and Distribution Channels

### Architectural Framing Systems, Architectural Glass and Architectural Services segments

Demand for the products and services offered by our Architectural segments is affected by changes in the North American commercial construction industries, as well as by changes in general economic conditions. Additionally, the Architectural Glass segment has an operation in Brazil and is, therefore, also impacted by Brazil's commercial construction industry and general economic conditions.

We look at several external indicators to analyze potential demand for our products and services, such as U.S. and Canadian job growth, office space vacancy rates, credit and interest rates available for commercial construction projects, architectural billing statistics and material costs. We also rely on internal indicators to analyze demand, including our sales pipeline, made up of contracts in review, projects awarded or committed, and bidding activity. Our sales pipeline, together with ongoing feedback, analysis and data from our customers, architects and building owners, provide visibility into near- and medium-term future demand. Additionally, we evaluate data on U.S. and Canadian non-residential construction market activity, industry analysis and longer-term trends provided by external data sources.

Our architectural products and services are used in subsets of the construction industry differentiated by building type, level of customization required, customers, geographic location and project size.

Building type - The construction industry is typically segmented into residential construction and non-residential construction, which includes commercial, industrial and institutional construction. Our products and services are primarily used in commercial buildings (office towers, hotels and retail centers) and institutional buildings (education facilities and dormitories, health care facilities and government buildings), as well as in high-end multi-family residential buildings (a subset of residential construction).

Level of customization - The large majority of our projects involve a high degree of customization, as the product or service is based on customer-specified requirements for aesthetics, performance and size, and is designed to satisfy local building codes.

Customers and distribution channels - Our customers are mainly glazing subcontractors and general contractors, with project design being influenced by architects and building owners. Our high-performance architectural glass is primarily sold using a direct sales force and independent sales representatives. Installation services are sold by a direct sales force in certain metropolitan areas in the U.S. We sell our custom and standard windows, curtainwall, storefront and entrance systems using a combination of direct sales forces, independent sales representatives and distributors.

Geographic location - We primarily supply architectural glass products to customers in North America, with some international sales of our high-performance architectural glass. We estimate the U.S. demand for architectural glass fabrication in non-residential buildings is in excess of $1.5 billion annually. Our aluminum framing systems, including windows, curtainwall, storefront and entrances, are marketed primarily in the U.S. and Canada, and we estimate demand to be in excess of $3 billion annually. In installation services, we are one of only a few architectural glass installation companies in the U.S. to have a national presence; we have the ability to provide remote installation project management throughout the U.S. We estimate the U.S. demand for installation services on commercial projects to be in excess of $10 billion.

Project size - Our Architectural Glass segment primarily serves mid-size to monumental high-profile projects. Architectural Framing Systems primarily targets small and mid-size projects, and Architectural Services primarily serves mid-size projects.

LSO segment
In our LSO segment, we have a leading brand of value-added coated glass and acrylic used in the custom picture-framing market. Under the Tru Vue brand, products are sold primarily in North America through national and regional retail chains using a direct sales force, as well as through local picture framing shops using an independent distribution network. We also supply our glass and acrylic products to museums, shops and galleries worldwide through independent distributors. We have also begun to supply to other display markets, such as digital signage, and to other wall decor sectors.

Competitive Conditions
Architectural Framing Systems, Architectural Glass and Architectural Services segments
The North American commercial construction market is highly fragmented. Competitive factors include price, product quality, product attributes and performance, reliable service, on-time delivery, lead-time, warranty and the ability to provide project management, technical engineering and design services. To protect and enhance our competitive position, we maintain strong relationships with architects, who influence the selection of products and services on a project, and with general contractors, who initiate projects and develop specifications.

The competition in the commercial window and storefront manufacturing industry is highly fragmented, and our Architectural Framing Systems segment competes against several national, regional and local aluminum window and storefront manufacturers, as well as regional paint and anodizing finishing companies. Our businesses compete by providing high-quality products, faster than average lead times, and on-time delivery.

In our Architectural Glass segment, we experience competition from regional glass fabricators who can provide certain products with attributes similar to our products. Within the market sector for large, complex projects, we encounter competition from international companies and large regional fabricators, some of which have benefited from the relative strength of the U.S. dollar and lower fabrication costs in recent years. We are able to compete with our competitors by providing high-quality, customizable products, short lead times, and responsive customer service.

Our Architectural Services segment competes against national, regional and local glass installation companies. We distinguish ourselves from these competitors through our strong project management and ability to regularly meet or exceed each project's unique execution requirements.

LSO segment

Product attributes, price, quality, marketing and service are the primary competitive factors in the LSO segment. Our competitive strengths include our excellent relationships with customers, innovative marketing programs and the performance of our value-added products. We compete with certain European and U.S. valued-added glass and acrylic products for picture framing and display.

Warranties

We offer product and service warranties that we believe are competitive for the markets in which our products and services are sold. The nature and extent of these warranties depend upon the product or service, the market and, in some cases, the customer being served. Our standard warranties are generally from two to 10 years for our architectural glass, curtainwall and window system products, while we generally offer warranties of two years or less on our other products and services.

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Sources and Availability of Raw Materials

Raw materials used within the Architectural Glass segment include flat glass, vinyl, silicone sealants and lumber. Materials used in the Architectural Framing Systems segment include aluminum billet and extrusions, fabricated glass, plastic extrusions, hardware, paint and chemicals. Within the Architectural Services segment, materials used include fabricated glass, aluminum extrusions and fabricated metal panels. The LSO segment mainly uses glass and acrylic. Most of our raw materials are readily available from a variety of domestic and international sources.

Trademarks and Patents

We have several trademarks and trade names that we believe have significant value in the marketing of our products, including APOGEE®. Trademark registrations in the U.S. are generally for a term of 10 years, renewable every 10 years as long as the trademark is used in the regular course of trade.

Within the Architectural Framing Systems segment, LINETEC®, WAUSAU WINDOW AND WALL SYSTEMS®, TUBELITE®, ADVANTAGE BY WAUSAU®, 300ES®, FINISHER OF CHOICE®, THERML=BLOCK®, MAXBLOCK®, DFG®, ECOLUMINUM®, ALUMINATE®, GET THE POINT!®, FORCEFRONT®, SOTAWALL®, HYBRID-WALL®, EFCO®, TERRASTILE®, THERMASTILE®, TRIPLE SET®, ULTRADIZE®, ULTRAFLUR®, ULTRALINE®, ULTRAPON® and XTHERM® are registered trademarks. CUSTOM WINDOW™, INVENT™, INVENT.PLUS™, INVENT RETRO™, INVISION™, CLEARSTORY™, EPIC™, HERITAGE™, VISULINE™, SEAL™, SUPERWALL™, CROSSTRAK™, HP-Wall™, VersaTherm™, E-Strut™, E-Shade Series 960 Wall™, Durastile™ and X Force™ are unregistered trademarks. ALUMICOR™, BUILDING EXCELLENCE™, TerraPorte 7600 Out-Swing accessABLE™, Integra 6000™ and ThermaSlide™ are unregistered trademarks in Canada.

Within the Architectural Glass segment, VIRACON®, DIGITALDISTINCTIONS®, ROOMSIDE®, EXTREMEDGE®, BUILDING DESIGN®, GLASS IS EVERYTHING®, CLEARPOINT®, CYBERSHIELD® and STORMGUARD® are registered trademarks. VIRASPAN™, VTS™ and VELOCITY, A VIRACON COMPANY™ are unregistered trademarks. In addition, GLASSECVIRACON®, GLASSEC®, INSULATTO® and BLINDATTO® are registered trademarks in Brazil.

Within the Architectural Services segment, HARMON®, H DESIGN®, HARMON GLASS®, HI-7000®, BUILDING TRUST IN EVERYTHING WE DO ® and INNOVATIVE FAÇADE SOLUTIONS® are registered trademarks. UCW-8000™, HI-8500™, HI-9000™, SMU-6000™ and HPW-250™ are unregistered trademarks.

Within the LSO segment, TRU VUE®, CONSERVATION CLEAR®, CONSERVATION REFLECTION CONTROL®, ULTRAVUE®, MUSEUM GLASS®, OPTIUM®, PREMIUM CLEAN®, REFLECTION CONTROL®, AR REFLECTION-FREE®, OPTIUM ACRYLIC®, OPTIUM MUSEUM ACRYLIC®, CONSERVATION MASTERPIECE®, STATICSHIELD®, TRULIFE®, VISTA AR® and PREMIUM CLEAR® are registered trademarks. TRULIFE INFINITY FRAME™, THE DIFFERENCE IS CLEAR™ and TRU FRAMEABLE MOMENTS™ are unregistered trademarks.

We have several patents pertaining to our glass coating methods and products, for hybrid window wall/curtainwall systems and methods of installation and for our UV coating and etch processes for anti-reflective glass for the picture framing industry and fine art market. Despite being a point of differentiation from our competitors, no single patent is considered to be material.

Seasonality

We do not experience a significant seasonal effect in our Architectural segments. However, the construction industry is highly cyclical in nature and can be influenced differently by the effects of local economies. Within the LSO segment, North American picture framing glass and acrylic sales tend to increase in the September-to-December timeframe, but the timing of customer promotional activities may offset some of this seasonal impact.

Working Capital Requirements

Trade and contract-related receivables and other contract assets are the largest components of our working capital. Inventory requirements, mainly related to raw materials, are most significant in our Architectural Framing Systems and Architectural Glass segments.

Backlog

Backlog represents the dollar amount of signed contracts or firm orders, generally as a result of a competitive bidding process, which is expected to be recognized as revenue primarily in the near-term. Backlog is not a term defined under U.S. GAAP and is not a measure of contract profitability. Backlog should not be used as the sole indicator of our future revenue because we have a substantial amount of projects with short lead times that book-and-bill within the same reporting period and are not included in backlog. We have strong visibility beyond backlog, as projects awarded, verbal commitments and bidding activities are monitored separately and not included in backlog.

Architectural Framing Systems segment backlog grew to $399.5 million at year-end, net of intersegment eliminations, compared to $378.4 million at the end of the prior year, due primarily to strong order activity, particularly of longer lead-time contracts. Approximately 70 percent of the backlog in this segment is expected to be fulfilled in fiscal 2020, with the remainder expected to be filled in fiscal 2021 and beyond.
Architectural Glass segment backlog as of year-end was $71.3 million, compared to $36.7 million in the prior year, net of intersegment eliminations, due to strong order activity and extended lead times. The backlog is all expected to be fulfilled in fiscal 2020.

Backlog in the Architectural Services segment as of year-end was $444.0 million, compared to $426.3 million in the prior year, due to timing of firm orders and signed contracts. Approximately 50 percent of the backlog in this segment is expected to be filled during fiscal 2020, with the remainder expected to be filled in fiscal 2021 and beyond.

Backlog is not a significant metric for the LSO segment, as orders are typically booked and billed within a short time-frame.

Environment

We use hazardous materials in our manufacturing operations, and have air and water emissions that require controls. As a result, we are subject to stringent federal, state and local regulations governing the storage and use of these materials and disposal of wastes. We contract with outside vendors to collect and dispose of waste at our production facilities in compliance with applicable environmental laws. In addition, we have procedures in place that we believe enable us to properly manage the regulated materials used in and wastes created by our manufacturing processes. We believe we are currently in material compliance with such laws and regulations. While we will continue to incur environmental compliance costs for our ongoing manufacturing operations, we do not expect these to be material to our consolidated financial statements. We have one manufacturing facility where we are working to remediate historical environmental impacts. The remediation activities are being conducted without significant disruption to our operations.

Employees

The Company had approximately 7,000 and 6,700 employees on March 2, 2019 and March 3, 2018, respectively. At March 2, 2019, 601 of these employees were represented by U.S. labor unions.

International Sales

Information regarding export and international sales is included in Item 8, Financial Statements and Supplementary Data, within Note 15 of our Consolidated Financial Statements.

Available Information

The Company maintains a website at www.apog.com. Through a link to a third-party content provider, our website provides free access to the Company's Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and, if applicable, amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the Exchange Act), as soon as reasonably practicable after electronic filing such material with, or furnishing it to, the Securities and Exchange Commission (SEC). These reports are also available on the SEC's website at www.sec.gov. Also available on our website are various corporate governance documents, including our Code of Business Ethics and Conduct, Corporate Governance Guidelines, and charters for the Audit, Compensation, and Nominating and Corporate Governance Committees of the Board of Directors.

ITEM 1A. RISK FACTORS

Our business faces many risks. Any of the risks discussed below, or elsewhere in this Form 10-K or our other filings with the Securities and Exchange Commission, could have a material adverse impact on our business, financial condition or results of operations.

North American economic and industry-related business conditions

Our Architectural Framing Systems, Architectural Glass and Architectural Services segments are dependent on North American economic conditions and the cyclical nature of the North American commercial construction industry. The commercial construction industry is impacted by macroeconomic trends that, in turn, affect, among other things, availability of credit, employment levels, consumer confidence, interest rates and commodity prices. To the extent changes in these factors negatively impact the overall commercial construction industry, our revenue and profits could be significantly reduced.

Our LSO segment primarily depends on the strength of the retail custom picture framing industry. This industry is highly dependent on consumer confidence and the conditions of the U.S. economy. A decline in consumer confidence, whether as a result of an

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economic slowdown, uncertainty regarding the future or other factors, could result in a decrease in net sales and operating income of this segment.

Foreign currency exchange impacts
Our international subsidiaries report their results of operations and financial position in their relevant functional currencies (local country currency), which are then translated into U.S. dollars. This translated financial information is included in our consolidated financial statements. As the relationship between these currencies and the U.S. dollar changes, there could be a negative impact on our reported results and financial position.

In addition, when the U.S. dollar strengthens against foreign currencies, imports of products into the U.S. produced by international competitors become more price competitive and exports of our U.S.-fabricated products become less price competitive. If we are not able to counteract these types of price pressures through superior quality and service, our net sales and operating income could be negatively impacted.

New competitors or specific actions of our existing competitors
All of our operating segments operate in competitive industries where the actions of our existing competitors or new competitors could result in a loss of customers or share of customers' demand. Changes in our competitors' products, prices or services could negatively impact our share of demand, net sales or margins.

Our Architectural Framing Systems and Architectural Glass segments have seen an increase in imports of competitive products into the U.S. from international suppliers due to the relative strength of the U.S. dollar. If imports of competitive products were to occur at increased levels for extended periods of time, our net sales and margins could be negatively impacted.

Our LSO segment competes with several international specialty glass manufacturers and international and domestic acrylic suppliers. If these competitors are able to successfully increase their product attributes, service capabilities and production capacity and/or increase their sales and marketing focus in the U.S. custom picture framing market, this segment's net sales and margins could be negatively impacted.

Acquisitions and related integration activities
We have completed and may complete additional acquisitions in the future to accelerate the execution of our growth strategies, including new geographies, adjacent market sectors and new product introductions. While we have a disciplined approach to assessing potential acquisition targets, conducting due diligence activities, negotiating appropriate acquisition terms and integration activities, there are risks inherent in completing acquisitions, including:

- diversion of management’s attention from existing business activities;
- difficulties or delays in integrating and assimilating information and financial systems, operations and products of an acquired business or other business venture or in realizing projected efficiencies, growth prospects, cost savings and synergies;
- potential loss of key employees, customers and suppliers of the acquired businesses or adverse effects on relationships with existing customers and suppliers;
- adverse impact on overall profitability if the acquired business does not achieve the return on investment projected at the time of acquisition; and
- with respect to the acquired assets and liabilities, inaccurate assessment of additional post-acquisition capital investments; undisclosed, contingent or other liabilities; problems executing backlog of material supply or installation projects; unanticipated costs; and an inability to recover or manage such liabilities and costs.

If one or more of these risks were to arise in a material manner, our operating results could be negatively impacted.

Goodwill and indefinite-lived intangible asset impairment
Our total assets include a significant amount of goodwill and indefinite-lived intangible assets. We test goodwill and indefinite-lived intangibles for impairment annually, or more frequently if events or changes in circumstances indicate

the potential for impairment. If future operating performance at one or more of our operating units were to fall significantly below forecast levels or if market conditions for one or more of our acquired businesses were to decline in a material and sustained manner, we could incur a non-cash impairment charge that would negatively impact our net earnings for the fiscal period in which the charge was recorded.

Effective utilization and management of our manufacturing capacity

Near-term performance depends, to a significant degree, on our ability to provide sufficient available capacity and appropriately utilize existing production capacity. The failure to successfully maintain existing capacity, successfully implement planned capacity expansions, and/or make timely investments in additional physical capacity could adversely affect our operating results.

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Loss of key personnel and inability to source sufficient labor

Our success depends on the skills of the Company's leadership, construction project managers and other key technical personnel, and our ability to secure sufficient manufacturing and installation labor. Increased activity in residential and commercial construction has caused increased competition for experienced construction project managers. Additionally, some of our manufacturing facilities are located in regions that at times have experienced low levels of unemployment. If we are unable to retain existing employees and/or recruit and train additional employees with the requisite skills and experience, our operating results could be adversely impacted.

Commodity price fluctuations, trade policy impacts and supply availability

Our Architectural Framing Systems and Architectural Services segments use aluminum as a significant input to their products. While we structure many of our supply agreements in a way to moderate the effects of fluctuations in the market for raw aluminum and we endeavor to adjust our pricing to offset potential impacts, operating results could be negatively impacted by price movements in the market for raw aluminum.

In recent years, we have seen increased volatility and tariffs impacting the cost of aluminum that we purchase from both domestic and international sources.  Due to our Architectural Framing Systems segment presence in Canada, we have significant cross-border activity, as our Canadian businesses purchase inputs from U.S.-based suppliers and sell to U.S.-based customers.  A significant change in U.S. trade policy with Canada could therefore have an adverse impact on our net sales and operating results.

Our Architectural Glass and LSO segments use raw glass as a significant input to their products. We periodically experience a tighter supply of raw glass when there is growth in automotive manufacturing and residential and non-residential construction. Although we have secured supply commitments from multiple suppliers that allow us to reach our near-term growth targets, a significant unplanned downtime or shift in strategy at one or more of our key suppliers could negatively impact our operating results.

Product quality issues

We manufacture and/or install a significant portion of our products based on the specific requirements of each customer. We believe that future orders of our products or services will depend on our ability to maintain the performance, reliability and quality standards required by our customers. If our products have performance, reliability or quality problems, or products are installed using incompatible glazing materials or installed improperly (by us or a customer), we may experience additional warranty expense; reduced or canceled orders; higher manufacturing or installation costs; or delays in the collection of accounts receivable. Additionally, performance, reliability or quality claims from our customers could result in costly and time-consuming litigation that could require significant time and attention of management and involve significant monetary damages that could negatively impact our operating results.

Project management and installation issues

The Architectural Services segment and, occasionally, the Architectural Framing Systems segment are awarded fixed-price contracts that include material supply and installation services. Often, bids are required before all aspects of a construction project are known. An underestimate in the amount of labor required and/or cost of materials for a project; a change in the timing of the delivery of product; system design errors; difficulties or errors in execution; or significant project delays, caused by us or other trades, could result in failure to achieve the expected results. Any one or more of such issues could result in losses on individual contracts that could negatively impact our operating results.

Additionally, one of our subsidiaries is party to a large construction project that is experiencing project delays that have resulted in significant additional costs. Further delays in the project completion schedule or legal action related to such project could have additional negative impact on our operating results.

Changes in architectural trends, building codes or consumer preferences

Any change in commercial construction customer preference, architectural trends or building codes that reduce window-to-wall ratios could negatively impact net sales and operating income in our architectural-related segments. The LSO segment depends on U.S. consumers framing art and other decorative items. Any shift in customer preference away from framed art to other forms of wall decor could negatively impact future net sales and operating income in the LSO segment.

Customer dependence in the LSO segment

The LSO segment is highly dependent on a relatively small number of customers for its sales, while working to grow in new markets and with new customers. Accordingly, loss of a significant customer, a significant reduction in pricing, or a shift to a less favorable mix of value-added picture framing glass or acrylic products for one or more of those customers could materially reduce LSO net sales and operating results.

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Results can differ significantly from our expectations and the expectations of analysts
Our sales and earnings guidance and resulting external analyst estimates are largely based on our view of our business and the broader commercial construction market. Even though we have market intelligence through our contacts with real estate developers, building owners and architects, and continually monitor micro- and macro-economic indicators of future performance of the commercial construction market, we are unable to precisely predict events that can significantly change market cycles. Failure to meet our guidance or analyst expectations for net sales and earnings would likely have an adverse impact on the market price of our common stock.

Significant risk retention through self-insurance programs
We obtain third-party insurance to provide coverage for potential risk in areas such as employment practices, workers' compensation, directors and officers, automobile, architect's and engineer's errors and omissions, product rework and general liability, as well as medical insurance and various other coverages. However, a high amount of risk is retained on a self-insured basis, partially through our wholly-owned insurance subsidiary. Therefore, a material architectural product liability event could have a material adverse effect on our operating results.

Dependence on information technology systems and potential security threats
Our operations are dependent upon various information technology systems that are used to process, transmit and store electronic information, and to manage or support our manufacturing operations and a variety of other business processes and activities. We could encounter difficulties in maintaining our existing systems, and developing and implementing new systems. Such difficulties could lead to disruption in business operations and/or significant additional expenses that could adversely affect our results.

Additionally, information technology security threats are increasing in frequency and sophistication. These threats pose a risk to the security of our systems and networks, and the confidentiality, availability and integrity of our data. Should such an attack succeed, it could lead to the compromise of confidential information, manipulation and destruction of data and product specifications, production downtimes, disruption in the availability of financial data, or misrepresentation of information via digital media. The occurrence of any of these events could adversely affect our reputation and could result in litigation, regulatory action, project delay claims, and increased costs and operational consequences of implementing further data protection systems.

Use of hazardous chemicals and environmental compliance
We use hazardous chemicals in the production process of some of our products. As a result, we are subject to a variety of local, state and federal governmental regulations relating to storage, discharge, handling, emission, generation and disposal of toxic or other hazardous substances used to manufacture our products, compliance with which is expensive. Our failure to comply with current or future environmental regulations could result in the imposition of substantial fines, suspension of production, alteration of our manufacturing processes or increased costs.

## ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

## ITEM 2. PROPERTIES

The following table lists, by segment, the Company's major properties as of March 2, 2019.

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| Property Location | Owned/ Leased | Function |
|---|---|---|
| Architectural Framing Systems segment | | |
| Wausau, WI | Owned | Manufacturing/Administrative |
| Stratford, WI | Owned | Manufacturing |
| Reed City, MI | Owned | Manufacturing |
| Walker, MI | Leased | Manufacturing/Administrative |
| Dallas, TX | Leased | Manufacturing |
| Toronto, ON Canada | Leased | Manufacturing/Warehouse/Administrative |
| Toronto, ON Canada | Owned | Manufacturing |
| Brampton, ON Canada | Leased | Manufacturing/Warehouse/Administrative |
| Verona, VA | Leased | Manufacturing/Warehouse/Administrative |
| Springfield, MO | Leased | Manufacturing/Warehouse/Administrative |
| Monett, MO | Owned | Manufacturing/Warehouse/Administrative |
| Langley, BC Canada | Leased | Manufacturing |
| Architectural Glass segment | | |
| Owatonna, MN | Owned | Manufacturing/Administrative |
| Owatonna, MN | Leased | Warehouse |
| Statesboro, GA | Owned | Manufacturing/Warehouse |
| Nazaré Paulista, Brazil | Owned(1) | Manufacturing/Administrative |
| Architectural Services segment | | |
| Minneapolis, MN | Leased | Administrative |
| West Chester, OH | Leased | Manufacturing |
| Mesquite, TX | Leased | Manufacturing |
| Glen Burnie, MD | Leased | Manufacturing |
| Orlando, FL | Leased | Manufacturing |
| LSO segment | | |
| McCook, IL | Owned | Manufacturing/Warehouse/Administrative |
| Faribault, MN | Owned | Manufacturing/Administrative |
| Other | | |
| Minneapolis, MN | Leased | Administrative |

(1) This is an owned facility; however, the land is leased from the city.

## ITEM 3. LEGAL PROCEEDINGS

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

On November 5, 2018, Murray Mayer, individually and on behalf of all others similarly situated, filed a purported class action lawsuit against the Company and our Chief Executive Officer and our Chief Financial Officer in the United States District Court for the District of Minnesota. The complaint generally alleges that, throughout the purported class period of June 28, 2018 to September 17, 2018, the Company and the named executive officers made materially false and/or misleading statements and failed to disclose material adverse facts about the Company’s business, operations, and prospects, particularly with respect to our Architectural Glass business segment, and further alleges that the defendants violated Sections 10(b) and 20(a) of the Securities Exchange Act of 1934. The complaint seeks unspecified sums of damages, award of counsel fees and costs, and equitable relief. The Company intends to vigorously defend against this matter.

Justin Buley v. Apogee Enterprises, Inc. et al

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

In addition to the foregoing, the Company has been a party to various legal proceedings incidental to its normal operating activities. In particular, like others in the construction supply and services industry, the Company's construction supply and services businesses are routinely involved in various disputes and claims arising out of construction projects, sometimes involving demands for significant monetary damages or product replacement. The Company has also been subject to litigation arising out of general

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

Market Information
Apogee common stock is traded on the NASDAQ Stock Market under the ticker symbol "APOG".

As of April 11, 2019, there were 1,156 shareholders of record and approximately 14,500 shareholders for whom securities firms acted as nominees.

Dividends
Quarterly, the Board of Directors evaluates declaring dividends based on operating results, available funds and the Company's financial condition. Cash dividends have been paid each quarter since 1974. The chart below shows quarterly and annual cumulative cash dividends per share for the past three fiscal years.

| | First | Second | Third | Fourth | Total |
|---|---|---|---|---|---|
| 2019 | $0.1575 | $0.1575 | $0.1575 | $0.1750 | $0.6475 |
| 2018 | 0.1400 | 0.1400 | 0.1400 | 0.1575 | 0.5775 |
| 2017 | 0.1250 | 0.1250 | 0.1250 | 0.1400 | 0.5150 |

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

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (a) | Maximum Number of Shares that May Yet Be Purchased under the Plans or Programs (a) |
|---|---|---|---|---|
| December 2, 2018 through December 29, 2018 | 353,747 | $ 29.80 | 353,747 | 2,286,321 |
| December 30, 2018 through January 26, 2019 | 258,257 | 31.91 | 258,257 | 2,028,064 |
| January 27, 2019 through March 2, 2019 | 45,979 | 33.77 | 45,979 | 1,982,085 |
| Total | 657,983 | $ 31.59 | 657,983 | 1,982,085 |

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

Comparative Stock Performance

The graph below compares the cumulative total shareholder return on a $100 investment in our common stock for the last five fiscal years with the cumulative total return on a $100 investment in the Standard & Poor's Small Cap 600 Growth Index and the Russell 2000 Index. The graph assumes an investment at the close of trading on March 1, 2014, and also assumes the reinvestment of all dividends.

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| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|
| Apogee | $100.00 | $135.46 | $117.57 | $175.54 | $134.18 | $111.68 |
| S&P Small Cap 600 Growth Index | 100.00 | 107.27 | 98.43 | 129.09 | 145.05 | 155.75 |
| Russell 2000 Index | 100.00 | 105.63 | 90.09 | 122.98 | 136.89 | 143.84 |

We are not aware of any competitors, public or private, that are similar to us in size and scope of business activities. Most of our direct competitors are either privately owned or divisions of larger, publicly owned companies.

## ITEM 6. SELECTED FINANCIAL DATA

The following information should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations, included in Item 7 of this Report, and our consolidated financial statements and related notes, included in Item 8 of this Report.

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| (In thousands, except per share data and percentages) | Fiscal Year 2019 | 2018[1] | 2017[2][3] | 2016 | 2015 |
|---|---|---|---|---|---|
| Results of Operations Data | | | | | |
| Net sales | $1,402,637 | $1,326,173 | $1,114,533 | $981,189 | $933,936 |
| Gross profit | 293,565 | 333,518 | 292,023 | 243,570 | 208,544 |
| Operating income | 67,284 | 114,284 | 122,225 | 97,393 | 63,585 |
| Net earnings | 45,694 | 79,488 | 85,790 | 65,342 | 50,516 |
| Earnings per share - basic | 1.64 | 2.79 | 2.98 | 2.25 | 1.76 |
| Earnings per share - diluted | 1.63 | 2.76 | 2.97 | 2.22 | 1.72 |
| Cash dividends per share | 0.6475 | 0.5775 | 0.5150 | 0.4550 | 0.4100 |
| Balance Sheet Data | | | | | |
| Total assets | 1,068,168 | 1,022,320 | 784,658 | 657,440 | 612,057 |
| Long-term debt | 245,724 | 215,860 | 65,400 | 20,400 | 20,587 |
| Shareholders' equity | 496,317 | 511,355 | 470,577 | 406,195 | 382,476 |
| Other Data | | | | | |
| Gross profit as a percentage of sales | 20.9 % | 25.1 % | 26.2 % | 24.8 % | 22.3 % |
| Operating income as a percentage of sales | 4.8 % | 8.6 % | 11.0 % | 9.9 % | 6.8 % |
| Return on average invested capital[4] | 5.6 % | 9.3 % | 14.3 % | 12.7 % | 8.8 % |

(1) Includes the acquisition of EFCO in June 2017.

(2) Fiscal 2017 contained 53 weeks. Each of the other periods presented contained 52 weeks.

(3) Includes the acquisition of Sotawall in December 2016.

(4) Return on average invested capital is a non-GAAP measure that we define as [operating income x .75]/average invested capital. We believe this measure is useful in understanding operational performance over time. This non-GAAP measure should be viewed in addition to, and not as an alternative to, the reported financial results of the company prepared in accordance with GAAP. Other companies may calculate this measure differently from us, thereby limiting the usefulness of the measure for comparison with others.

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Forward-Looking Statements

This discussion contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. These statements reflect our current views with respect to future events and financial performance. The words “believe,” “expect,” “anticipate,” “intend,” “estimate,” “forecast,” “project,” “should” and similar expressions are intend identify “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. All forecasts and projections in this document are “forward-looking statements,” and are based on management's current expectations or beliefs of the Company's near-term results, based on current information available pertaining to the Company, including the risk factors noted under Item 1A in this Form 10-K. From time to time, we also may provide oral and written forward-looking statements in other materials we release to the public, such as press releases, presentations to securities analysts or investors, or other communications by the Company. Any or all of our forward-looking statements in this report and in any public statements we make could be materially different from actual results.

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

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

Overview

We are a world leader in the design and development of value-added glass and metal products and services. Our four reporting segments are: Architectural Framing Systems, Architectural Glass, Architectural Services and Large-Scale Optical Technologies (LSO).

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During fiscal 2019, we continued to focus on strategies to diversify and strengthen our revenue streams in order to improve the stability of our business throughout an economic cycle. These strategies are designed to diversify geographies, markets and project sizes served. Also in fiscal 2019, we executed a balanced capital allocation approach to invest in the business for growth and margin expansion while also returning significant capital to shareholders.

Positive market conditions, coupled with these strategies, are expected to support continued growth in fiscal 2020 and beyond.

Fiscal 2019 summary of results:

- Consolidated net sales were $1.4 billion, an increase of 6 percent over fiscal 2018.
- Operating income was $67.3 million, including $40.9 million of project-related charges on certain contracts acquired with the purchase of EFCO, which was a decline of 41 percent from $114.3 million in the prior year.
- Diluted EPS was $1.63, compared to $2.76 in the prior year, a decline of 41 percent.
- Adjusted operating income was $116.3 million, a decrease of 13 percent compared to the prior year, and adjusted diluted EPS was $2.96, a decrease of 8% compared to the prior year. Refer to the tables that follow for details of these adjusted amounts.

Adjusted operating income and adjusted earnings per diluted share (adjusted diluted EPS) are supplemental non-GAAP measures provided by the Company to assess performance on a more comparable basis from period-to-period by excluding amounts that management does not consider part of core operating results. Management uses these non-GAAP measures to evaluate the company’s historical and prospective financial performance, measure operational profitability on a consistent basis, and provide enhanced transparency to the investment community. These non-GAAP measures should be viewed in addition to, and not as an alternative to, the reported financial results of the company prepared in accordance with GAAP. Other companies may calculate these measures differently, thereby limiting the usefulness of the measures for comparison with other companies.

Reconciliation of Non-GAAP Financial Information

Adjusted Operating Income and Adjusted Net Earnings per Diluted Common Share

| | Year-ended | | Diluted per share amounts Year-ended | |
|---|---|---|---|---|
| In thousands | March 2, 2019 | March 3, 2018 | March 2, 2019 | March 3, 2018 |
| Operating income | $67,284 | $114,284 | $1.63 | $2.76 |
| Amortization of short-lived acquired intangibles | 4,894 | 10,521 | 0.17 | 0.37 |
| Project-related charges | 40,948 | — | 1.46 | — |
| Impairment charge | 3,141 | — | 0.11 | — |
| Acquisition-related costs | — | 5,098 | — | 0.18 |
| Restructuring-related costs | — | 3,026 | — | 0.11 |
| Income tax impact on above adjustments | N/A | N/A | (0.41 ) | (0.18 ) |
| Adjusted operating income | $116,267 | $132,929 | $2.96 | $3.23 |

Results of Operations

Net Sales

| (Dollars in thousands) | 2019 | 2018 | 2017 | 2019 vs. 2018 | 2018 vs. 2017 |
|---|---|---|---|---|---|
| Net sales | $1,402,637 | $1,326,173 | $1,114,533 | 5.8% | 19.0% |

Fiscal 2019 Compared to Fiscal 2018

Net sales in fiscal 2019 increased by 5.8 percent compared to fiscal 2018, driven by strong project execution in the Architectural Services segment, as well as growth from our Architectural Framing segment, primarily due to the addition of EFCO (acquired in June 2017) for the full period, partially offset by a sales decline in the Architectural Glass segment.

Fiscal 2018 Compared to Fiscal 2017

Net sales in fiscal 2018 increased by 19.0 percent compared to fiscal 2017, due to the acquisition of EFCO in the second quarter of 2018. This acquisition, as well as a full year of results from Sotawall (acquired in the fourth quarter of fiscal 2017) and pricing and volume gains from our existing segment businesses, resulted in overall growth in our Architectural Framing Systems segment, which was partially offset by volume declines in our Architectural Services and Architectural Glass segments.

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Performance

The relationship between various components of operations, as a percentage of net sales, is provided below.

| (Percentage of net sales) | 2019 | 2018 | 2017 |
|---|---|---|---|
| Net sales | 100.0 % | 100.0 % | 100.0% |
| Cost of sales | 79.1 | 74.9 | 73.8 |
| Gross profit | 20.9 | 25.1 | 26.2 |
| Selling, general and administrative expenses | 16.1 | 16.5 | 15.2 |
| Operating income | 4.8 | 8.6 | 11.0 |
| Interest (expense) income and other, net | (0.6 ) | (0.3 ) | — |
| Earnings before income taxes | 4.2 | 8.3 | 11.0 |
| Income tax expense | 0.9 | 2.3 | 3.3 |
| Net earnings | 3.3 % | 6.0 % | 7.7 % |
| Effective income tax rate | 22.1 % | 27.7 % | 30.1 % |

Fiscal 2019 Compared to Fiscal 2018

Gross profit was 20.9 percent in fiscal 2019, a decline of 420 basis points from fiscal 2018, driven by $40.9 million of project-related charges on certain contracts acquired with the purchase of EFCO, higher operating costs in the Architectural Glass segment and negative leverage on reduced volumes and mix in the Architectural Framing segment, somewhat offset by volume leverage and good project performance in the Architectural Services segment.

Selling, general and administrative (SG&A) expense for fiscal 2019 was 16.1 percent, a decrease of 40 basis points but an increase of $7.0 million from fiscal 2018. This was due to the inclusion of a full year of expense for EFCO (acquired in the second quarter of fiscal 2018), partially offset by lower amortization on acquired intangible assets.

Interest and other expenses increased by 30 basis points over the prior year due to an increase in the variable interest rate on our debt and a higher average outstanding debt balance throughout fiscal 2019 compared to fiscal 2018.

The effective tax rate for fiscal 2019 was 22.1 percent, compared to 27.7 percent in fiscal 2018. The decline of 560 basis points was the result of a full year of benefits from the U.S. Tax Cuts and Jobs Act (the Act), enacted in December 2017, as well as increased research and development tax credits in the current year.

Fiscal 2018 Compared to Fiscal 2017

Gross profit was 25.1 percent percent in fiscal 2018, a decline of 110 basis points from fiscal 2017, driven by reduced operating leverage on volume within the Architectural Services and Architectural Glass segments and the inclusion of EFCO at lower margins, somewhat offset by improved productivity across all our segments.

SG&A expense for fiscal 2018 was 16.5 percent, an increase of 130 basis points, or $49.4 million, from fiscal 2017, mainly as a result of the inclusion of EFCO, as well as a full year of amortization expense on intangible assets acquired in the Sotawall transaction.

The effective tax rate for fiscal 2018 was 27.7 percent, a decline of 240 basis points compared to a rate of 30.1 percent in fiscal 2017, driven by a partial year of benefits from the Act.

Segment Analysis

Architectural Framing Systems

| (In thousands) | 2019 | 2018 | 2017 |
|---|---|---|---|
| Net sales | $720,829 | $677,198 | $385,978 |
| Operating income | 49,660 | 59,031 | 44,768 |
| Operating margin | 6.9 % | 8.7 % | 11.6 % |

Fiscal 2019 Compared to Fiscal 2018. Net sales improved 6.4 percent, or $43.6 million, over fiscal 2018, with a full year of EFCO, acquired in the second quarter of fiscal 2018, contributing approximately 60 percent of the growth. Remaining growth was driven by increased order activity in our other businesses within this segment.

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Operating margin declined 180 basis points over fiscal 2018, driven by the inclusion in the current year of a full year of EFCO at lower operating margins. In addition, we recorded a $3.1 million impairment charge on an indefinite-lived intangible asset at EFCO.

Fiscal 2018 Compared to Fiscal 2017. Net sales improved 75.4 percent, or $291.2 million, over fiscal 2017. EFCO contributed net sales of $203.7 million in fiscal 2018, or approximately 70 percent of total segment growth, and Sotawall contributed 19 percent of the growth. Net sales increased 8.7 percent over fiscal 2017 within existing businesses, due to increased pricing in order to offset raw material cost inflation, volume growth due to gains in share of demand and geographic growth in North America. Operating margin declined 290 basis points over fiscal 2017, with improved margins in legacy businesses offset by the inclusion of EFCO at lower operating margins.

Architectural Glass

| (In thousands) | 2019 | 2018 | 2017 |
|---|---|---|---|
| Net sales | $367,203 | $384,137 | $411,881 |
| Operating income | 16,503 | 32,764 | 44,656 |
| Operating margin | 4.5 % | 8.5 % | 10.8 % |

Fiscal 2019 Compared to Fiscal 2018. Fiscal 2019 net sales decreased 4.4 percent, or $16.9 million, over the prior year due to changes in timing of customer orders, as well as volume declines stemming from operational challenges in the second and third fiscal quarters. Operating margin declined 400 basis points, largely due to increased labor costs, lower productivity and higher cost of quality due to challenges in ramping-up production in a tight labor market to meet higher than expected order intake and customer demand. In the second half of our fiscal year, we made progress on improving productivity and controlling costs.

Fiscal 2018 Compared to Fiscal 2017. Fiscal 2018 net sales decreased 6.7 percent, or $27.7 million, over fiscal 2017 primarily due to volume declines on larger projects in our U.S.-based business, as a result of international competition, as well as lower pricing on a higher mix of less complex glass products for mid-size projects. Operating margin declined 230 basis points compared to fiscal 2017, driven by reduced operating leverage on lower volume, lower pricing due to project mix and restructuring-related charges associated with the closure of our Utah facility, somewhat offset by improved productivity.

Architectural Services

| (In thousands) | 2019 | 2018 | 2017 |
|---|---|---|---|
| Net sales | $286,314 | $213,757 | $270,937 |
| Operating income | 30,509 | 10,420 | 18,494 |
| Operating margin | 10.7 % | 4.9 % | 6.8 % |

Fiscal 2019 Compared to Fiscal 2018. Net sales increased 33.9 percent, or $72.6 million, over the prior year, due to strong project execution on maturing projects. Operating margin improved 580 basis points over the prior year, due to volume leverage and strong project performance.

Fiscal 2018 Compared to Fiscal 2017. Net sales decreased 21.1 percent, or $57.2 million, over fiscal 2017, due to year-on-year timing of project activity. Operating margin declined 190 basis points over fiscal 2017, as a result of lower volume leverage on fixed project management, engineering and manufacturing costs, partially offset by favorable project performance.

Large-Scale Optical Technologies (LSO)

| (In thousands) | 2019 | 2018 | 2017 |
|---|---|---|---|
| Net sales | $88,493 | $88,303 | $89,710 |

| | | | |
|---|---|---|---|
| Operating income | 23,003 | 22,000 | 22,467 |
| Operating margin | 26.0 % | 24.9 % | 25.0 % |

Fiscal 2019 Compared to Fiscal 2018. Net sales were consistent with the prior year and operating margin improved 110 basis points over the prior year, driven by a $1.0 million gain from an insurance recovery and good operational performance.

Fiscal 2018 Compared to Fiscal 2017. Net sales decreased 1.6 percent and operating margin declined 10 basis points, compared to fiscal 2017, as productivity gains were offset by unfavorable pricing, mix and volume.

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Liquidity and Capital Resources

| (In thousands) | 2019 | 2018 | 2017 |
|---|---|---|---|
| Operating Activities | | | |
| Net cash provided by operating activities | $96,423 | $127,463 | $124,001 |
| Investing Activities | | | |
| Capital expenditures | (60,717 ) | (53,196 ) | (68,061 ) |
| Proceeds on sale of property | 12,333 | 1,394 | 1,729 |
| Acquisition of business and intangibles | — | (182,849 ) | (137,932 ) |
| Financing Activities | | | |
| Borrowings on line of credit, net | 30,000 | 149,960 | 44,988 |
| Repurchase and retirement of common stock | (43,326 ) | (33,676 ) | (10,817 ) |
| Dividends paid | (17,864 ) | (16,393 ) | (14,667 ) |

Operating Activities. Cash provided by operating activities was $96.4 million in fiscal 2019, a decrease of $31.0 million from fiscal 2018, due to lower net earnings in fiscal 2019 and increased working capital needed to support the acquired project experiencing construction delays.

Investing Activities. Net cash used in investing activities was $53.7 million in fiscal 2019, compared to $233.6 million in fiscal 2018, with the year-over-year decline largely due to the acquisition of EFCO in the prior year. In fiscal 2019 and 2018, we made capital expenditures focused primarily on adding product capabilities and improving manufacturing productivity. In fiscal 2019, we also benefited from the sale of an Architectural Glass manufacturing facility in Utah that was closed at the end of fiscal 2018. In fiscal 2017, we acquired Sotawall and made capital expenditures focused on increasing our product capabilities, in particular related to our oversized glass fabrication project, and manufacturing productivity.

We estimate fiscal 2020 capital expenditures to be $60 to $65 million, as we continue to make investments to drive growth and productivity improvements.

We continually review our portfolio of businesses and their assets and how they support our business strategy and performance objectives. As part of this review, we may continue to acquire other businesses, pursue geographic expansion, take actions to manage capacity and further invest in, fully divest and/or sell parts of our current businesses.

Financing Activities. We paid dividends totaling $17.9 million in fiscal 2019. We also repurchased 1,257,983 shares under our authorized share repurchase program, at a total cost of $43.3 million. We repurchased 702,299 shares under the program in fiscal 2018 and 250,001 shares under the program in fiscal 2017. We have repurchased a total of 5,267,915 shares, at a total cost of $149.3 million, since the 2004 inception of this program. We have remaining authority to repurchase 1,982,085 shares under this program, which has no expiration date, and we will continue to evaluate making future share repurchases, depending on our cash flow and debt levels, market conditions and other potential uses of cash.

We maintain a $335.0 million committed revolving credit facility that expires in November 2021, as further described in Note 8 of the Notes to Consolidated Financial Statements. $225.0 million was outstanding under this credit facility as of March 2, 2019, as we used this facility to finance the EFCO acquisition. As defined within the credit facility, we have two financial covenants which require us to stay below a maximum leverage ratio and to maintain a minimum interest expense-to-EBITDA ratio. At March 2, 2019, we were in compliance with both financial covenants.

Other Financing Activities. The following summarizes our significant contractual obligations that impact our liquidity as of March 2, 2019:

| | Payments Due by Fiscal Period | | | | | | |
|---|---|---|---|---|---|---|---|
| (In thousands) | 2020 | 2021 | 2022 | 2023 | 2024 | Thereafter | Total |
| Debt obligations | $121 | $5,521 | $227,121 | $1,082 | $— | $ 12,000 | $245,845 |
| Operating leases (undiscounted) | 14,888 | 11,787 | 9,669 | 8,772 | 6,735 | 16,806 | 68,657 |
| Purchase obligations | 121,271 | 9,777 | 1,179 | — | — | — | 132,227 |
| Total cash obligations | $136,280 | $27,085 | $237,969 | $9,854 | $6,735 | $ 28,806 | $446,729 |

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In addition to the committed revolving credit facility discussed above, we also have industrial revenue bond obligations of $20.4 million that mature in fiscal years 2021 through 2043 and $0.4 million of other debt that matures in August 2022.

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

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

We expect to make contributions of approximately $0.7 million to our defined-benefit pension plans in fiscal 2020, which will equal or exceed our minimum funding requirements.

As of March 2, 2019, we had reserves of $4.6 million and $1.2 million for long-term unrecognized tax benefits and environmental liabilities, respectively. We expect approximately $0.5 million of the unrecognized tax benefits to lapse during the next 12 months. We are unable to reasonably estimate in which future periods the remaining unrecognized tax benefits and environmental liabilities will ultimately be settled.

At March 2, 2019, we had ongoing letters of credit of $25.1 million related to industrial revenue bonds and construction contracts that expire in fiscal 2020 and that reduce availability of funds under our committed credit facility.

In addition to the above standby letters of credit, we are required, in the ordinary course of business, to provide surety or performance bonds that commit payments to our customers for any non-performance. At March 2, 2019, $313.2 million of our backlog was bonded by performance bonds with a face value of $570.6 million. These bonds do not have stated expiration dates, as we are released from the bonds upon completion of the contract. We have not been required to make any payments under these bonds with respect to our existing businesses.

We had total cash and short-term marketable securities of $17.1 million, and $84.9 million available under our committed revolving credit facility, at March 2, 2019. Due to our ability to generate cash from operations and our borrowing capacity under our committed revolving credit facility, we believe that our sources of liquidity will continue to be adequate to fund our working capital requirements, planned capital expenditures and dividend payments for at least the next 12 months.

Off-balance Sheet Arrangements. With the exception of operating leases, we had no off-balance sheet arrangements at March 2, 2019 or March 3, 2018.

Outlook

The following statements are based on our current expectations for fiscal 2020 results. These statements are forward-looking, and actual results may differ materially.

- Revenue growth of 1.0 to 3.0 percent over fiscal 2019.
- Operating margin of 8.2 to 8.6 percent.
- Earnings per diluted share of $3.00 to $3.20.
- Capital expenditures of approximately $60 to $65 million.
- Effective annual tax rate of approximately 24.5 percent.

Recently Issued Accounting Pronouncements

See Note 1 of the Notes to Consolidated Financial Statements within Item 8 of this Form 10-K for information pertaining to recently issued accounting pronouncements, incorporated herein by reference.

## Critical Accounting Policies

Our analysis of operations and financial condition is based on our consolidated financial statements prepared in accordance with U.S. GAAP. Preparation of these consolidated financial statements requires us to make estimates and assumptions affecting the reported amounts of assets and liabilities at the date of the consolidated financial statements, reported amounts of revenues and expenses during the reporting period and related disclosures of contingent assets and liabilities. In developing these estimates and assumptions, a collaborative effort is undertaken involving management across the organization, including finance, sales, project management, quality, risk, legal and tax, as well as outside advisors, such as consultants, engineers, lawyers and actuaries. Our estimates are evaluated on an ongoing basis and are drawn from historical experience and other assumptions that we believe to be reasonable under the circumstances. Actual results could differ under other assumptions or circumstances.

We consider the following items in our consolidated financial statements to require significant estimation or judgment.

Revenue recognition

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

We have three businesses which operate under long-term, fixed-price contracts, representing approximately 34 percent of our total revenue in fiscal 2019. This includes one business which changed revenue recognition practices due to the adoption of the new guidance in ASC 606, moving from recognizing revenue at shipment to an over-time method of revenue recognition. The contracts for these businesses have a single, bundled performance obligation, as these businesses generally provide interrelated products and services and integrate these products and services into a combined output specified by the customer. The customer obtains control of this combined output, generally integrated window systems or installed window and curtainwall systems, over time. We measure progress on these contracts following an input method, by comparing total costs incurred to-date to the total estimated costs for the contract, and record that proportion of the total contract price as revenue in the period. Contract costs include materials, labor and other direct costs related to contract performance. We believe this method of recognizing revenue is consistent with our progress in satisfying our contract obligations.

Due to the nature of the work required under these long-term contracts, the estimation of total revenue and costs incurred throughout a project is subject to many variables and requires significant judgment. It is common for these contracts to contain potential bonuses or penalties which are generally awarded or charged upon certain project milestones or cost or timing targets, and can be based on customer discretion. We estimate variable consideration at the most likely amount to which we expect to be entitled. We include estimated amounts in the transaction price to the extent that it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved. Our estimates of variable consideration and determination of whether to include estimated amounts in the transaction price are based largely on our assessments of anticipated performance and all information (historical, current and forecasted) that is reasonably available to us.

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

Goodwill and indefinite-lived intangible asset impairment

Goodwill

We evaluate goodwill for impairment annually at our year-end, or more frequently if events or changes in circumstances indicate that the asset might be impaired. This year we elected to bypass the qualitative assessment process and to proceed directly to comparing the fair value of each of our reporting units to carrying value, including goodwill. If the fair value exceeds the carrying value, goodwill impairment is not indicated. Each of our nine businesses (or business units) represents a reporting unit for the goodwill impairment analysis. For our goodwill impairment testing beginning in fiscal 2018, we elected to early adopt Accounting Standards Update No. 2017-04, Simplifying the Test for Goodwill Impairment. As a result of this election, if the carrying amount of a reporting unit would be determined to be higher than its estimated fair value, an impairment loss is recognized for the excess.

We base our determination of fair value on a discounted cash flow methodology that involves significant judgment and projections of future performance. Assumptions about future revenues and expenses, capital expenditures and changes in working capital are based on the annual operating plan and long-term business plan for each business unit. These plans take into consideration numerous factors, including historical experience, anticipated future economic conditions and growth expectations for the industries and end markets in which we participate. Growth rates for revenues and operating profits vary for each reporting unit. The discount rate assumption is consistent across business units and takes into consideration an estimated weighted-average cost of capital.

Based on our analysis, the estimated fair value of each reporting unit exceeded its carrying value and, therefore, goodwill impairment was not indicated. However, for two of our businesses within the Architectural Framing Systems segment with goodwill of approximately $111.5 million, fair value did not exceed carrying value by a significant margin. We utilized a discount rate of 10.9 percent in determining the discounted cash flows in our fair value analysis and a perpetual growth rate of 3.0 percent. If our

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discount rate were to increase by 120 basis points, the fair value of these reporting units could fall below carrying value, which would indicate impairment of the goodwill.

Indefinite-lived intangible assets
We hold intangible assets for certain acquired tradenames and trademarks which are determined to have indefinite useful lives. We evaluate the reasonableness of the useful life and test indefinite-lived intangible assets for impairment annually at our year-end, or more frequently if events or changes in circumstances indicate that it is more likely than not that the asset is impaired. We bypassed a qualitative assessment and performed a quantitative impairment test to compare the fair value of each indefinite-lived intangible asset with its carrying amount. If the carrying amount of an indefinite-lived intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess. After an impairment loss is recognized, the adjusted carrying amount becomes the asset's new accounting basis.

Fair value is measured using the relief-from-royalty method. This method assumes the trade name or mark has value to the extent that the owner is relieved of the obligation to pay royalties for the benefits received from them. This method requires us to estimate the future revenue from the related asset, the appropriate royalty rate, and the weighted average cost of capital. The assessment of fair value involves significant judgment and projections about future performance. In determining the discounted future revenue in our fair value analysis, we assumed a discount rate of 10.9 percent, a royalty rate of 1.0 percent, and a perpetual growth rate of 3.0 percent. Based on our analysis, the fair value of one of our tradenames, with a carrying value of $32.4 million, was below its estimated fair value by $3.1 million and therefore we recorded this amount as an impairment charge in fiscal 2019. We continue to conclude that the useful life of our indefinite-lived intangible assets is appropriate.

Reserves for disputes and claims regarding product liability, warranties and other project-related contingencies
We are subject to claims associated with our products and services, principally as a result of disputes with our customers involving the performance or aesthetics of our products, some of which may be covered under our warranty policies. We also are subject to project management and installation-related contingencies as a result of our fixed-price material supply and installation service contracts, primarily in our Architectural Services segment and certain of our Architectural Framing Systems businesses, including those taken on with our acquisition of EFCO. The time period from when a claim is asserted to when it is resolved, either by dismissal, negotiation, settlement or litigation, can be several years. While we maintain various types of product liability insurance, the insurance policies include significant self-retention of risk in the form of policy deductibles. In addition, certain claims could be determined to be uninsured. We also actively manage the risk of these exposures through contract negotiations and proactive project management.

We reserve estimated exposures on known claims, as well as on a portion of anticipated claims for product warranty and rework costs, based on historical product liability claims, as a ratio of sales. We also reserve for estimated exposures on other claims as they are known and reasonably estimable.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to ongoing market risk related to changes in interest rates and foreign currency exchange rates.

A rise in interest rates could negatively affect the fair value of our fixed income investments, while serving to provide greater long-term return potential on these investments. To manage our direct risk from changes in market interest rates, we actively monitor the interest-sensitive components of our balance sheet, primarily available-for-sale securities, fixed income securities and debt obligations, and maintain a diversified portfolio in order to minimize the impact of changes in interest rates on net earnings and cash flow. We do not hold any financial instruments for trading purposes, and we currently do not use derivative financial instruments to manage interest rate risk. We also diversify and manage our investment portfolio in order to limit the impact of potential credit risk.

The primary measure of interest rate risk is the simulation of net income under different interest rate environments. If interest rates were to increase or decrease over the next 12 months by 200 basis points, net earnings would be impacted by approximately $1.5 million. Our debt exceeded investments at March 2, 2019, so as interest rates increase, net earnings decrease; as interest rates decrease, net earnings increase.

In addition to the market risk related to interest rate changes on our financial instruments, the commercial construction markets in which our businesses operate are highly affected by changes in interest rates. Increases in interest rates could adversely impact activity in the commercial construction industry and our operating results.

We are subject to market risk due to changes in the value of foreign currencies in relation to our reporting currency, the U.S. dollar.

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We have operations in Canada and Brazil, which primarily transact business in local currencies. We manage these operating activities locally. Revenues, costs, assets and liabilities of these operations are generally denominated in local currencies, thereby mitigating some of the risk associated with changes in foreign exchange rates. However, our consolidated financial results are reported in U.S. dollars. Thus, changes in exchange rates between the Canadian dollar and Brazilian real, on the one hand, and the U.S. dollar, on the other, will impact our results. From time to time, we enter into forward purchase foreign currency contracts, generally with an original maturity date of less than one year, to hedge foreign currency risk (refer to additional discussion within Note 5 of the Notes to Consolidated Financial Statements). Sales from our domestic operations are generally denominated in U.S. dollars.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Management's Annual Report on Internal Control over Financial Reporting

Management of Apogee Enterprises, Inc. and its subsidiaries (the Company) is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) of the Securities Exchange Act of 1934. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company's internal control over financial reporting includes those policies and procedures that (1) pertain to maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of the financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of the effectiveness of internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of March 2, 2019, using criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control - Integrated Framework (2013). The Company's management believes that, as of March 2, 2019, the Company's internal control over financial reporting was effective based on those criteria.

Following this report are reports from the Company's independent registered public accounting firm, Deloitte & Touche LLP, on the Company's consolidated financial statements and on the effectiveness of the Company's internal control over financial reporting as of March 2, 2019.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Apogee Enterprises, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Apogee Enterprises, Inc. and subsidiaries (the "Company") as of March 2, 2019 and March 3, 2018, and the related consolidated results of operations, statements of comprehensive earnings, statements of cash flows, and statements of shareholders' equity, for each of the three years in the period ended March 2, 2019, and the related notes and the financial statement schedule listed in the Table of Contents at Item 15 (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of March 2, 2019 and March 3, 2018, and the results of its operations and its cash flows for each of the three years in the period ended March 2, 2019, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of March 2, 2019, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated April 26, 2019, expressed an unqualified opinion on the Company's internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Deloitte & Touche LLP

Minneapolis, MN
April 26, 2019

We have served as the Company's auditor since 2003.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Apogee Enterprises, Inc.

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Apogee Enterprises, Inc. and subsidiaries (the “Company”) as of March 2, 2019, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of March 2, 2019, based on criteria established in Internal Control - Integrated Framework (2013) issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended March 2, 2019, of the Company and our report dated April 26, 2019, expressed an unqualified opinion on those financial statements.

Basis for Opinion

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Deloitte & Touche LLP

Minneapolis, MN
April 26, 2019

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CONSOLIDATED BALANCE SHEETS

| (In thousands, except per share data) | March 2, 2019 | March 3, 2018 |
|---|---|---|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | $17,087 | $19,359 |
| Restricted cash | 12,154 | — |
| Receivables, net of allowance for doubtful accounts | 192,767 | 211,852 |
| Inventories | 78,344 | 80,908 |
| Costs and earnings on contracts in excess of billings | 55,095 | 4,120 |
| Other current assets | 16,451 | 20,039 |
| Total current assets | 371,898 | 336,278 |
| Property, plant and equipment, net | 315,823 | 304,063 |
| Goodwill | 185,832 | 180,956 |
| Intangible assets | 148,235 | 167,349 |
| Other non-current assets | 46,380 | 33,674 |
| Total assets | $1,068,168 | $1,022,320 |
| Liabilities and Shareholders' Equity | | |
| Current liabilities | | |
| Accounts payable | $72,219 | $68,416 |
| Accrued payroll and related benefits | 41,119 | 36,646 |
| Accrued self-insurance reserves | 9,537 | 10,933 |
| Billings in excess of costs and earnings on uncompleted contracts | 21,478 | 12,461 |
| Other current liabilities | 83,159 | 79,696 |
| Total current liabilities | 227,512 | 208,152 |
| Long-term debt | 245,724 | 215,860 |
| Long-term self-insurance reserves | 21,433 | 16,307 |
| Other non-current liabilities | 77,182 | 70,646 |
| Commitments and contingent liabilities (Note 10) | | |
| Shareholders' equity | | |
| Common stock of $0.33-1/3 par value; authorized 50,000,000 shares; issued and outstanding 27,015,127 and 28,158,042 shares, respectively | 9,005 | 9,386 |
| Additional paid-in capital | 151,842 | 152,763 |
| Retained earnings | 367,597 | 373,259 |
| Common stock held in trust | (755) | (922) |
| Deferred compensation obligations | 755 | 922 |
| Accumulated other comprehensive loss | (32,127) | (24,053) |
| Total shareholders' equity | 496,317 | 511,355 |
| Total liabilities and shareholders' equity | $1,068,168 | $1,022,320 |

See accompanying notes to consolidated financial statements.

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CONSOLIDATED RESULTS OF OPERATIONS

| | Year-Ended | | |
|---|---|---|---|
| (In thousands, except per share data) | March 2, 2019 (52 weeks) | March 3, 2018 (52 weeks) | March 4, 2017 (53 weeks) |
| Net sales | $1,402,637 | $1,326,173 | $1,114,533 |
| Cost of sales | 1,109,072 | 992,655 | 822,510 |
| Gross profit | 293,565 | 333,518 | 292,023 |
| Selling, general and administrative expenses | 226,281 | 219,234 | 169,798 |
| Operating income | 67,284 | 114,284 | 122,225 |
| Interest income | 355 | 538 | 1,008 |
| Interest expense | 8,449 | 5,508 | 971 |
| Other (expense) income, net | (528) | 566 | 543 |
| Earnings before income taxes | 58,662 | 109,880 | 122,805 |
| Income tax expense | 12,968 | 30,392 | 37,015 |
| Net earnings | $45,694 | $79,488 | $85,790 |
| Earnings per share - basic | $1.64 | $2.79 | $2.98 |
| Earnings per share - diluted | $1.63 | $2.76 | $2.97 |
| Weighted average basic shares outstanding | 27,802 | 28,534 | 28,781 |
| Weighted average diluted shares outstanding | 28,082 | 28,804 | 28,893 |

See accompanying notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS

| (In thousands) | Year-Ended March 2, 2019 (52 weeks) | March 3, 2018 (52 weeks) | March 4, 2017 (53 weeks) |
|---|---|---|---|
| Net earnings | $45,694 | $79,488 | $85,790 |
| Other comprehensive (loss) earnings: | | | |
| Unrealized gain (loss) on marketable securities, net of $17, $(29) and $(45) of tax expense (benefit), respectively | 64 | (95) | (83) |
| Unrealized (loss) gain on foreign currency hedge, net of $(172), $47 and $- of tax (benefit) expense, respectively | (565) | 156 | — |
| Unrealized gain on pension obligation, net of $72, $87 and $74 of tax expense, respectively | 229 | 284 | 130 |
| Foreign currency translation adjustments | (7,065) | 6,692 | 234 |
| Other comprehensive (loss) earnings | (7,337) | 7,037 | 281 |
| Total comprehensive earnings | $38,357 | $86,525 | $86,071 |

See accompanying notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS

| (In thousands) | Year-Ended March 2, 2019 (52 weeks) | March 3, 2018 (52 weeks) | March 4, 2017 (53 weeks) |
|---|---|---|---|
| Operating Activities | | | |
| Net earnings | $45,694 | $79,488 | $85,790 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | | |
| Depreciation and amortization | 49,798 | 54,843 | 35,607 |
| Share-based compensation | 6,286 | 6,205 | 5,986 |
| Deferred income taxes | (5,506) | 3,195 | (1,065) |
| (Loss) gain on disposal of assets | (2,475) | 1,037 | (371) |
| Impairment on intangible assets | 3,141 | — | — |
| Proceeds from new markets tax credit transaction, net of deferred costs | 8,850 | — | 5,109 |
| Other, net | (2,179) | (1,431) | (2,331) |
| Changes in operating assets and liabilities: | | | |
| Receivables | 18,164 | 18,172 | 3,460 |
| Inventories | 5,114 | 10,387 | (10,318) |
| Costs and earnings on contracts in excess of billings | (48,712) | 1,134 | 3,931 |
| Accounts payable and accrued expenses | 7,600 | (25,627) | 17,449 |
| Billings in excess of costs and earnings on uncompleted contracts | 9,026 | (16,541) | (9,991) |
| Refundable and accrued income taxes | 3,680 | 315 | (9,647) |
| Other, net | (2,058) | (3,714) | 392 |
| Net cash provided by operating activities | 96,423 | 127,463 | 124,001 |
| Investing Activities | | | |
| Capital expenditures | (60,717) | (53,196) | (68,061) |
| Purchases of marketable securities | (9,213) | (10,244) | (3,705) |
| Sales/maturities of marketable securities | 6,110 | 10,476 | 36,433 |
| Proceeds from sales of property, plant and equipment | 12,333 | 1,394 | 1,729 |
| Acquisition of business and intangibles | — | (182,849) | (137,932) |
| Other, net | (2,209) | 851 | (4,388) |
| Net cash used in investing activities | (53,696) | (233,568) | (175,924) |
| Financing Activities | | | |
| Borrowings on line of credit | 363,000 | 385,700 | 121,000 |
| Payments on line of credit | (333,000) | (235,740) | (76,012) |
| Shares withheld for taxes, net of stock issued to employees | (1,531) | (1,712) | (446) |
| Repurchase and retirement of common stock | (43,326) | (33,676) | (10,817) |
| Dividends paid | (17,864) | (16,393) | (14,667) |
| Other, net | 395 | 155 | (396) |
| Net cash (used in) provided by financing activities | (32,326) | 98,334 | 18,662 |
| Increase (decrease) in cash and cash equivalents | 10,401 | (7,771) | (33,261) |
| Effect of exchange rates on cash | (519) | (167) | 88 |
| Cash, cash equivalents and restricted cash at beginning of year | 19,359 | 27,297 | 60,470 |
| Cash, cash equivalents and restricted cash at end of period | $29,241 | $19,359 | $27,297 |
| Noncash Activity | | | |
| Capital expenditures in accounts payable | $1,703 | $1,784 | $3,254 |
| Deferred payments on acquisition of business | — | 7,500 | — |

See accompanying notes to consolidated financial statements.

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Consolidated Statements of Shareholders' Equity

| (In thousands, except per share data) | Common Shares Outstanding | Common Stock | Additional Paid-In Capital | Retained Earnings | Common Stock Held in Trust | Deferred Compensation Obligation | Accumulated Other Comprehensive (Loss) Income |
|---|---|---|---|---|---|---|---|
| Balance at February 27, 2016 | 28,684 | $9,561 | $145,528 | $282,477 | $(837) | $ 837 | $ (31,371) |
| Net earnings | — | — | — | 85,790 | — | — | — |
| Unrealized loss on marketable securities, net of $45 tax benefit | — | — | — | — | — | — | (83) |
| Unrealized gain on pension obligation, net of $74 tax expense | — | — | — | — | — | — | 130 |
| Foreign currency translation adjustments | — | — | — | — | — | — | 234 |
| Issuance of stock, net of cancellations | 140 | 47 | 105 | 36 | (38) | 38 | — |
| Share-based compensation | — | — | 5,986 | — | — | — | — |
| Tax deficit associated with stock plans | — | — | (1,745) | — | — | — | — |
| Exercise of stock options | 163 | 54 | 1,893 | — | — | — | — |
| Share repurchases | (250) | (83) | (1,357) | (9,377) | — | — | — |
| Other share retirements | (57) | (19) | (299) | (2,263) | — | — | — |
| Cash dividends ($0.515 per share) | — | — | — | (14,667) | — | — | — |
| Balance at March 4, 2017 | 28,680 | $9,560 | $150,111 | $341,996 | $(875) | $ 875 | $ (31,090) |
| Net earnings | — | — | — | 79,488 | — | — | — |
| Unrealized loss on marketable securities, net of $29 tax benefit | — | — | — | — | — | — | (95) |
| Unrealized gain on foreign currency hedge, net of $47 tax expense | — | — | — | — | — | — | 156 |
| Unrealized gain on pension obligation, net of $87 tax expense | — | — | — | — | — | — | 284 |
| Foreign currency translation adjustments | — | — | — | — | — | — | 6,692 |
| Issuance of stock, net of cancellations | 128 | 43 | (186) | 208 | (47) | 47 | — |
| Share-based compensation | — | — | 6,205 | — | — | — | — |
| Tax deficit associated with stock plans | — | — | — | — | — | — | — |
| Exercise of stock options | 102 | 34 | 800 | — | — | — | — |
| Share repurchases | (702) | (234) | (3,886) | (29,556) | — | — | — |
| Other share retirements | (50) | (17) | (281) | (2,484) | — | — | — |
| Cash dividends ($0.5775 per share) | — | — | — | (16,393) | — | — | — |
| Balance at March 3, 2018 | 28,158 | $9,386 | $152,763 | $373,259 | $(922) | $ 922 | $ (24,053) |
| Net earnings | — | — | — | 45,694 | — | — | — |
| Cumulative effect adjustment (see Note 1) | — | — | — | 2,999 | — | — | — |
| Unrealized gain on marketable securities, net of $17 tax expense | — | — | — | — | — | — | 64 |
| | — | — | — | — | — | — | (565) |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Unrealized loss on foreign currency hedge, net of $172 tax benefit | | | | | | | |
| Unrealized gain on pension obligation, net of $72 tax expense | — | — | — | — | — | — | 229 |
| Foreign currency translation adjustments | — | — | — | — | — | — | (7,065) |
| Reclassification of tax effects (see Note 1) | — | — | — | 737 | — | — | (737) |
| Issuance of stock, net of cancellations | 135 | 45 | 80 | 145 | 167 | (167) | — |
| Share-based compensation | — | — | 6,286 | — | — | — | — |
| Exercise of stock options | 19 | 6 | 177 | — | — | — | — |
| Share repurchases | (1,258) | (419) | (7,204) | (35,703) | — | — | — |
| Other share retirements | (39) | (13) | (260) | (1,670) | — | — | — |
| Cash dividends ($0.6475 per share) | — | — | — | (17,864) | — | — | — |
| Balance at March 2, 2019 | 27,015 | $9,005 | $151,842 | $367,597 | $(755) | $ 755 | $(32,127) |

See accompanying notes to consolidated financial statements.

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# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 1. Summary of Significant Accounting Policies and Related Data

### Basis of consolidation

The consolidated financial statements include the balances of Apogee Enterprises, Inc. and its subsidiaries (Apogee, we, us, our or the Company) after elimination of intercompany balances and transactions. We consolidate variable interest entities related to our New Market Tax Credit transactions as it has been determined that the Company is the primary beneficiary of those entities' operations (refer to Note 10 for more information).

### Fiscal year

Our fiscal year ends on the Saturday closest to the last day of February, or as determined by the Board of Directors. Fiscal 2019 and 2018 each consisted of 52 weeks, while fiscal 2017 consisted of 53 weeks.

### Accounting estimates

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts in the consolidated financial statements and accompanying notes. Actual results could differ significantly from those estimates.

### Cash equivalents

Highly liquid investments with an original maturity of three months or less are included in cash equivalents and are stated at cost, which approximates fair value.

### Marketable securities

Our marketable securities are classified as available for sale, and we test for other-than-temporary losses on a quarterly basis or whenever events or changes in circumstances indicate that the carrying amount of a security may not be recoverable. We consider all unrealized losses to be temporary in nature. We intend to hold our securities until the full principal amount can be recovered, and we have the ability to do so based on other sources of liquidity. Marketable securities are included in other current and non-current assets on the consolidated balance sheets and gross realized gains and losses are included in other income (expense) in our consolidated results of operations.

### Inventories

Inventories, which consist primarily of purchased glass and aluminum, are valued at lower of cost or market using the first-in, first-out (FIFO) method.

### Property, plant and equipment

Property, plant and equipment (PP&E) is recorded at cost. Significant improvements and renewals that extend the useful life of the asset are capitalized. Repairs and maintenance are charged to expense as incurred. When an asset is retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any related gains or losses are included in selling, general and administrative expenses. Long-lived assets to be held and used, such as PP&E, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Depreciation is computed on a straight-line basis, based on estimated useful lives of 10 to 25 years for buildings and improvements; 3 to 15 years for machinery and equipment; and 3 to 7 years for office equipment and furniture.

### Goodwill and intangible assets

Goodwill represents the excess of the cost over the net tangible and identified intangible assets of acquired businesses. We evaluate goodwill for impairment annually at our year-end, or more frequently if impairment indicators exist. This year we elected to bypass the qualitative assessment process and to proceed directly to comparing the fair value of each of our reporting units to carrying value, including goodwill. If the fair value exceeds the carrying value, goodwill impairment is not indicated. Each of our nine business units represents a reporting unit for the goodwill impairment analysis. We have followed a consistent discounted cash flow methodology to evaluate goodwill in all periods presented.

We base our determination of fair value on a discounted cash flow methodology that involves significant judgment and projections of future performance. Assumptions about future revenues and expenses, capital expenditures and changes in working capital are based on the annual operating plan and long-term business plan for each reporting unit. These plans take into consideration numerous factors, including historical experience, anticipated future economic conditions and growth expectations for the industries and end markets in which we participate. Growth rates for revenues and operating profits vary for each reporting unit. The discount

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rate assumption for each reporting unit takes into consideration our assessment of risks inherent in the future cash flows of our business and an estimated weighted-average cost of capital.

Intangible assets with indefinite useful lives are tested for impairment annually at our year-end, or more frequently if events or changes in circumstances indicate that it is more likely than not that the asset is impaired. If the carrying amount of an indefinite-lived intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess. Fair value is measured using the relief-from-royalty method. This method assumes the trade name or mark has value to the extent that the owner is relieved of the obligation to pay royalties for the benefits received from them. This method requires us to estimate the future revenue from the related asset, the appropriate royalty rate, and the weighted average cost of capital. The assessment of fair value involves significant judgment and projections about future performance.

Definite-lived intangible assets are amortized based on estimated useful lives ranging from 18 months to 20 years and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The estimated useful lives of all intangible assets are reviewed annually, and we have determined that the remaining lives were appropriate.

Self-Insurance
We obtain commercial insurance to provide coverage for potential losses in areas such as employment practices, workers' compensation, directors and officers, automobile, architect's and engineer's errors and omissions, product rework and general liability. A substantial portion of this risk is retained on a self-insured basis through our wholly-owned insurance subsidiary. We establish a reserve for estimated ultimate losses on reported claims and those incurred but not yet reported utilizing actuarial projections. Reserves are classified within accrued or long-term self-insurance reserves based on expectations of when the estimated loss will be paid.

Additionally, we maintain a self-insurance reserve for health insurance programs offered to eligible employees, included within accrued self-insurance reserves. The reserve includes an estimate for losses on reported claims as well as for amounts incurred but not yet reported, based on historical trends.

Warranty and project-related contingencies
We are subject to claims associated with our products and services, principally as a result of disputes with our customers involving the performance or aesthetics of our architectural products and services. We reserve estimated exposures on known claims, as well as on a portion of anticipated claims for product warranty and rework costs, based on historical product liability claims as a ratio of sales. We also reserve for estimated exposures on other claims as they are known and reasonably estimable. Reserves are included in other current and non-current liabilities based on the estimated timing of dispute resolution.

Foreign currency
Local currencies are considered the functional currencies for our subsidiaries outside of the United States. Assets and liabilities of these subsidiaries are translated at the exchange rates at the balance sheet date. Income and expense items are translated using average monthly exchange rates. Translation adjustments are included in accumulated other comprehensive loss in the consolidated balance sheets.

Derivatives and hedging activities
We periodically enter into forward purchase foreign currency contracts, generally with an original maturity date of less than one year, to hedge foreign currency exchange rate risk. All derivative instruments within the scope of ASC 815, Derivatives and Hedging, are recorded on the consolidated balance sheets at fair value. All hedging instruments that qualify for hedge accounting are designated and effective as hedges. Instruments that do not qualify for hedge accounting are marked to market with changes recognized in current earnings. Cash flows from derivative instruments

are classified in the statements of cash flows in the same category as the cash flows from the items subject to designated hedge or undesignated (economic) hedge relationships.We do not hold or issue derivative financial instruments for trading purposes and are not a party to leveraged derivatives.

Revenue recognition

On March 4, 2018, we adopted ASC 606, Revenue from Contracts with Customers, and as a result, made updates to our significant accounting policy for revenue recognition. We generate revenue from the design, engineering and fabrication of architectural glass, curtainwall, window, storefront and entrance systems, and from installing those products on commercial buildings. We also manufacture value-added glass and acrylic products. Due to the diverse nature of our operations and various types of contracts with customers, we have businesses that recognize revenue over time and businesses that recognize revenue at a point in time.

During fiscal 2019, approximately 44 percent of our total revenue is recognized at the time products are shipped from our manufacturing facilities, which is when control is transferred to our customer, consistent with past practices. These businesses do not generate contract-related assets or liabilities. Variable consideration associated with these contracts and orders, generally related to early pay discounts or volume rebates, is not considered significant.

We also have three businesses which operate under long-term, fixed-price contracts, representing approximately 34 percent of our total revenue in the current year. This includes one business which changed revenue recognition practices due to the adoption of the new guidance, moving from recognizing revenue at shipment to an over-time method of revenue recognition. The contracts for these businesses have a single, bundled performance obligation, as these businesses generally provide interrelated products and services and integrate these products and services into a combined output specified by the customer. The customer obtains control of this combined output, generally integrated window systems or installed window and curtainwall systems, over time. We measure progress on these contracts following an input method, by comparing total costs incurred to-date to the total estimated costs for the contract, and record that proportion of the total contract price as revenue in the period. Contract costs include materials, labor and other direct costs related to contract performance. We believe this method of recognizing revenue is consistent with our progress in satisfying our contract obligations.

Due to the nature of the work required under these long-term contracts, the estimation of total revenue and costs incurred throughout a project is subject to many variables and requires significant judgment. It is common for these contracts to contain potential bonuses or penalties which are generally awarded or charged upon certain project milestones or cost or timing targets, and can be based on customer discretion. We estimate variable consideration at the most likely amount to which we expect to be entitled. We include estimated amounts in the transaction price to the extent that it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved. Our estimates of variable consideration and determination of whether to include estimated amounts in the transaction price are based largely on our assessments of anticipated performance and all information (historical, current and forecasted) that is reasonably available to us.

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

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

Finally, we have one business, making up approximately 22 percent of our total revenue in the current year, that recognizes revenue following an over-time output method based upon units produced. The customer is considered to have control over the products at the time of production, as the products are highly customized with no alternative use, and we have an enforceable right to payment for performance completed over the production period. We believe this over-time output method of recognizing revenue reasonably depicts the fulfillment of our performance obligations under our contracts. Previously, this business recognized revenue at the time of shipment. Billings still occur upon shipment. Therefore, contract assets are generated for the unbilled amounts on contracts when production is complete. Variable consideration associated with these orders, generally related to early pay discounts, is not considered significant.

As outlined within the new accounting guidance, we elected several practical expedients in our transition to ASC 606:

- We have made an accounting policy election to account for shipping and handling activities that occur after control of the related goods transfers to the customer as fulfillment activities, instead of assessing such activities as performance obligations.
- We have made an accounting policy election to exclude from the transaction price all sales taxes related to revenue-producing transactions that are collected from the customer for a government authority.
- We generally expense incremental costs of obtaining a contract when incurred because the amortization period would be less than one year. These costs primarily relate to sales commissions and are included in selling, general and administrative expenses.
- We have not adjusted contract price for a significant financing component, as we expect the period between when our goods and services are transferred to the customer and when the customer pays for those goods and services to be less than a year.

Revenue excludes sales taxes as the Company considers itself a pass-through conduit for collecting and remitting sales taxes.

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Shipping and handling
Amounts billed to a customer in a sales transaction related to shipping and handling are reported as revenue. Costs incurred by the Company for shipping and handling are reported as cost of sales.

Research and development
Research and development costs are expensed as incurred and were $19.5 million, $14.0 million and $8.6 million for fiscal 2019, 2018 and 2017, respectively. Of these amounts, $6.5 million, $1.5 million and $2.2 million, respectively, were focused primarily upon design of custom window and curtainwall systems in accordance with customer specifications and are included in cost of sales. The remainder of the expense is included within selling, general and administrative expenses.

Advertising
Advertising costs are expensed as incurred within selling, general and administrative expenses, and were $1.5 million in fiscal 2019, $1.4 million in fiscal 2018 and $1.1 million in fiscal 2017.

Income taxes
The Company recognizes deferred tax assets and liabilities based upon the future tax consequences of temporary differences between financial statement carrying amounts of assets and liabilities and their respective tax bases. See Note 13 for additional information regarding income taxes.

Subsequent events
We have evaluated subsequent events for potential recognition and disclosure through the date of this filing. Subsequent to the end of the year, we purchased 437,671 shares of stock under our authorized share repurchase program, at a total cost of $16.2 million.

Adoption of new accounting standards
We adopted the new guidance in ASC 606, Revenue from Contracts with Customers, using the modified retrospective transition method applied to those contracts which were not complete as of March 4, 2018, the beginning of our fiscal year 2019. Prior period amounts were not adjusted and therefore continue to be reported in accordance with the accounting guidance and our accounting policies in effect for those periods.

Representing the cumulative effect of adopting ASC 606, we recorded a $3.0 million increase to the opening balance of retained earnings as of March 4, 2018. For the three- and twelve-month periods ending March 2, 2019, the application of the new accounting guidance had the following impact on our consolidated financial statements:

| | Three Months Ended March 2, 2019 | | Twelve Months Ended March 2, 2019 | |
|---|---|---|---|---|
| In thousands | As reported | Without adoption of ASC 606 | As reported | Without adoption of ASC 606 |
| Net sales | $346,255 | $339,673 | $1,402,637 | $1,382,274 |
| Cost of sales | 301,976 | 297,945 | 1,109,072 | 1,094,747 |
| Gross profit | 44,279 | 41,728 | 293,565 | 287,527 |
| Selling, general and administrative expenses | 59,057 | 58,726 | 226,281 | 225,286 |
| Operating income (loss) | $(14,778 ) | $(16,998 ) | $67,284 | $62,241 |
| | | | | |
| Income tax expense (benefit) | $(5,062 ) | $(5,713 ) | $12,968 | $11,850 |
| Net earnings (loss) | (12,083 ) | (13,653 ) | 45,694 | 41,769 |

| | March 2, 2019 | |
| --- | --- | --- |
| | As reported | Without adoption of ASC 606 |
| Inventories | $78,344 | $89,676 |
| Costs and earnings on contracts in excess of billings | 55,095 | 19,515 |
| Billings on contracts in excess of costs and earnings | 21,478 | 21,022 |
| Other current liabilities | 83,159 | 81,467 |
| Retained earnings | 367,597 | 363,672 |

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

In the first quarter of fiscal 2019, we also adopted ASU 2016-15, Statement of Cash Flows, and ASU 2016-18, Restricted Cash. Both standards provide guidance for presentation of certain topics within the statement of cash flows, including presenting restricted cash within cash and cash equivalents, and they have been applied retrospectively for comparability across all periods. The adoption of these standards did not have a significant impact on our consolidated statements of cash flows.

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

In January 2016, the FASB issued ASU 2016-01, Financial Instruments—Overall: Recognition and Measurement of Financial Assets and Financial Liabilities. Among other areas, the new guidance changes the current accounting related to the classification and measurement of certain equity investments and changes certain disclosures associated with the fair value of financial instruments. Most notably, ASU 2016-01 requires that equity investments be measured at fair value with changes in fair value recognized in net income as opposed to other comprehensive income. For equity investments considered to be without a readily determinable fair value (and which do not qualify for the net asset value practical expedient), entities will be permitted to elect a measurement alternative and measure the investment at cost less impairment plus or minus observable price changes (in orderly transactions). We adopted ASU 2016-01 in our fiscal year 2019, which did not have a material impact on the Company’s consolidated financial position, results of operations, equity or cash flows as we have historically held limited amounts of equity investments, and we have not elected the fair value option with respect to material financial liabilities.

In March 2017, the FASB issued ASU 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. This ASU changes how employers that sponsor defined benefit pension and/or other postretirement benefit plans present the net periodic benefit cost in the income statement. Under the new standard, only the service cost component of net periodic benefit cost would be included in operating expenses while all other net periodic benefit costs components would be reported outside of operating income. We adopted this standard in fiscal 2019 and as a result, costs of $0.5 million were included within other expense in our consolidated results of operations. The components of our net periodic defined benefit pension costs are presented in Note 9.

Accounting standards not yet adopted
In February 2016, the FASB issued ASU 2016-02, Leases, which provides for comprehensive changes to lease accounting. The standard requires that a lessee recognize a lease obligation liability and a right-to-use asset for virtually all leases of property, plant and equipment, subsequently amortized over the lease term.

We adopted this standard in the first quarter of fiscal 2020, following the modified retrospective application approach. We are substantially complete with our implementation efforts, which have included identification and analysis of our lease portfolio, analysis and evaluation of the new reporting and disclosure requirements of the new guidance, and an evaluation of our lease-related processes and internal controls. The adoption of this standard will result in reflecting a right-of-use asset and lease liability on our consolidated balance sheet in the first quarter of fiscal 2020 of approximately $50 million. In adopting the new standard, we elected the package of practical expedients, as well as the practical expedient not to separate nonlease components from lease components. We do not expect this standard to have a significant impact on our consolidated results of operations, consolidated statements of cash flows, our liquidity, or on our debt covenant compliance under our current agreements. We have identified new and updated existing internal controls and process to support measurement, recognition and disclosure under this new standard, but such changes were not deemed to be material to our overall system of internal controls.

In June 2016, the FASB issued ASU 2016-13, Measurement of Credit Losses on Financial Instruments, which revises guidance for the accounting for credit losses on financial instruments within its scope. The new standard introduces an approach, based on expected losses, to estimate credit losses on certain types of financial instruments and modifies the impairment model for available-for-sale debt securities. This ASU is effective for our fiscal year 2021. Entities are required to apply the standard’s provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is adopted. We are currently assessing this ASU’s impact on our consolidated financial statements.

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2. Acquisitions

EFCO

On June 12, 2017, we acquired 100 percent of the stock of EFCO Corporation, a privately-held U.S. manufacturer of architectural aluminum window, curtainwall, storefront and entrance systems for commercial construction projects, for approximately $190 million. Purchase accounting related to this acquisition was completed during the first quarter of fiscal 2019, with final purchase price allocation as follows:

| (In thousands) | |
|---|---|
| Net working capital | $1,422 |
| Property, plant and equipment | 44,641 |
| Goodwill | 90,429 |
| Other intangible assets | 71,500 |
| Less: Long-term liabilities acquired, net | 17,643 |
| Net assets acquired | $190,349 |

Other intangible assets reflect the following:

| (In thousands) | Estimated fair value | Estimated useful life (in years) |
|---|---|---|
| Customer relationships | $ 34,800 | 16 |
| Tradename | 32,400 | Indefinite |
| Backlog | 4,300 | 1.5 |
| | $ 71,500 | |

Sotawall

On December 14, 2016, we acquired substantially all the assets of Sotawall, Inc. ("Sotawall"), for approximately $138 million. Purchase accounting related to this acquisition was completed during the first quarter of fiscal 2018, with final purchase price allocation as follows:

| (In thousands) | |
|---|---|
| Net working capital | $10,682 |
| Property, plant and equipment | 7,993 |
| Goodwill | 21,380 |
| Other intangible assets | 94,630 |
| Net assets acquired | $134,685 |

The following table provides certain unaudited pro forma consolidated information for the combined company for the fourth quarters and fiscal years 2018 and 2017, as if the EFCO and Sotawall acquisitions were consummated pursuant to each of their respective same terms at the beginning of the fiscal year preceding their respective acquisition dates.

| | Three Months Ended | | Twelve Months Ended | |
|---|---|---|---|---|
| (In thousands, except per share data) | March 3, 2018 | March 4, 2017 | March 3, 2018 | March 4, 2017 |
| Net sales | $353,453 | $390,669 | $1,398,733 | $1,474,021 |
| Net earnings | 23,157 | 26,624 | 81,653 | 98,795 |
| Earnings per share | | | | |
| Basic | 0.82 | 0.93 | 2.86 | 3.44 |
| Diluted | 0.81 | 0.92 | 2.83 | 3.43 |

Unaudited pro forma information has been provided for comparative purposes only and the information does not necessarily reflect what the combined results of operations actually would have been had the acquisitions occurred at the beginning of fiscal year 2017. The information does not reflect the effect of any synergies or integration costs that we expect to result from the acquisitions.

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3. Revenue, Receivables and Contract Assets and Liabilities

Revenue

The following table disaggregates total revenue by timing of recognition (see Note 15 for disclosure of revenue by segment):

| (In thousands) | Three Months Ended March 2, 2019 | Twelve Months Ended March 2, 2019 |
|---|---|---|
| Recognized at shipment | $141,793 | $623,357 |
| Recognized over time | 204,462 | 779,280 |
| Total | $346,255 | $1,402,637 |

Receivables

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

| (In thousands) | 2019 | 2018 |
|---|---|---|
| Trade accounts | $145,693 | $157,562 |
| Construction contracts | 19,050 | 26,545 |
| Contract retainage | 32,396 | 26,388 |
| Other receivables | — | 2,887 |
| Total receivables | 197,139 | 213,382 |
| Less: allowance for doubtful accounts | (4,372 ) | (1,530 ) |
| Net receivables | $192,767 | $211,852 |

Contract assets and liabilities

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

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

| (In thousands) | March 2, 2019 | March 3, 2018 |
|---|---|---|
| Contract assets | $87,491 | $30,508 |
| Contract liabilities | 24,083 | 20,120 |

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

During fiscal 2019, we recognized revenue of $10.4 million related to contract liabilities at March 4, 2018, and revenue of $5.9 million related to performance obligations satisfied in previous periods due to changes in contract estimates. For the fourth quarter of fiscal 2019, we did not recognize any revenue related to contract liabilities at March 4, 2018, and recognized revenue of $2.1 million related to performance obligations satisfied in previous periods due to changes in contract estimates.

Some of our contracts have an expected duration of longer than a year, with performance obligations extending over that timeframe. Generally these contracts are in our businesses with long-term contracts which recognize revenue over time. As of March 2, 2019, the transaction price associated with unsatisfied performance obligations was approximately $734.1 million. The performance obligations are expected to be satisfied, and the corresponding revenue to be recognized, over the following estimated time periods:

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| (In thousands) | March 2, 2019 |
|---|---|
| Within one year | $376,027 |
| Within two years | 264,390 |
| Beyond | 93,660 |
| Total | $734,077 |

4. Supplemental Balance Sheet Information

Inventories

| (In thousands) | 2019 | 2018 |
|---|---|---|
| Raw materials | $43,890 | $35,049 |
| Work-in-process | 15,533 | 17,406 |
| Finished goods | 18,921 | 28,453 |
| Total inventories | $78,344 | $80,908 |

Other current liabilities

| (In thousands) | 2019 | 2018 |
|---|---|---|
| Warranties | $12,475 | $18,110 |
| Accrued project losses | 37,085 | 26,422 |
| Taxes | 8,026 | 5,342 |
| Other | 25,573 | 29,822 |
| Total other current liabilities | $83,159 | $79,696 |

Other non-current liabilities

| (In thousands) | 2019 | 2018 |
|---|---|---|
| Deferred benefit from New Markets Tax Credit transactions | $26,458 | $16,708 |
| Retirement plan obligations | 7,633 | 8,997 |
| Deferred compensation plan | 10,408 | 10,730 |
| Other | 32,683 | 34,211 |
| Total other non-current liabilities | $77,182 | $70,646 |

5. Financial Instruments

Marketable Securities

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

| (In thousands) | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
|---|---|---|---|---|
| March 2, 2019 | $ 12,481 | $ 59 | $ (108 ) | $ 12,432 |
| March 3, 2018 | 9,183 | 8 | (138 ) | 9,053 |

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

The amortized cost and estimated fair values of our municipal and corporate bonds at March 2, 2019, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities, as borrowers may have the right to call or prepay obligations with or without penalty. Gross realized gains and losses were insignificant for all periods presented.

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| (In thousands) | Amortized Cost | Estimated Market Value |
|---|---|---|
| Due within one year | $ 405 | $ 402 |
| Due after one year through five years | 9,479 | 9,439 |
| Due after five years through 10 years | 1,834 | 1,834 |
| Due after 10 years through 15 years | — | — |
| Due beyond 15 years | 763 | 757 |
| Total | $ 12,481 | $ 12,432 |

Fair value measurements

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

Financial assets and liabilities measured at fair value on a recurring basis were:

| (In thousands) | Quoted Prices in Active Markets (Level 1) | Other Observable Inputs (Level 2) | Total Fair Value |
|---|---|---|---|
| March 2, 2019 | | | |
| Cash equivalents | | | |
| Money market funds | $ 2,015 | $ — | $ 2,015 |
| Commercial paper | — | 300 | 300 |
| Total cash equivalents | 2,015 | 300 | 2,315 |
| Short-term securities | | | |
| Municipal and corporate bonds | — | 402 | 402 |
| Long-term securities | | | |
| Municipal and corporate bonds | — | 12,030 | 12,030 |
| Total assets at fair value | $ 2,015 | $ 12,732 | $ 14,747 |
| March 3, 2018 | | | |
| Cash equivalents | | | |
| Money market funds | $ 2,901 | $ — | $ 2,901 |
| Commercial paper | — | 400 | 400 |
| Total cash equivalents | 2,901 | 400 | 3,301 |
| Short-term securities | | | |
| Municipal and corporate bonds | — | 423 | 423 |
| Long-term securities | | | |
| Municipal and corporate bonds | — | 8,630 | 8,630 |
| Total assets at fair value | $ 2,901 | $ 9,453 | $ 12,354 |

Cash equivalents

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

Short- and long-term securities

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

Foreign currency instruments

We periodically enter into forward purchase foreign currency contracts, generally with an original maturity date of less than one year, to hedge foreign currency exchange rate risk. At March 2, 2019, we held foreign exchange forward contracts with a U.S. dollar notional value of $17.5 million, with the objective of reducing the exposure to fluctuations in the Canadian dollar and the

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Euro. The fair value of these contracts at year-end was a net liability of $0.5 million. These forward contracts are measured at fair value using unobservable market inputs, such as quotations on forward foreign exchange points and foreign currency exchange rates, and would be classified as Level 2 within the fair value hierarchy above.

Nonrecurring fair value measurements

Certain assets are measured at fair value on a nonrecurring basis and are subject to fair value adjustments in certain circumstances. These include certain long-lived assets that are written down to estimated fair value when they are determined to be impaired, utilizing a valuation approach incorporating Level 3 inputs. See Note 7 for information regarding this impairment.

6. Property, Plant and Equipment

| (In thousands) | 2019 | 2018 |
|---|---|---|
| Land | $7,101 | $7,251 |
| Buildings and improvements | 196,057 | 172,468 |
| Machinery and equipment | 375,700 | 380,952 |
| Office equipment and furniture | 56,366 | 56,752 |
| Construction in progress | 40,846 | 44,095 |
| Total property, plant and equipment | 676,070 | 661,518 |
| Less accumulated depreciation | (360,247 ) | (357,455 ) |
| Net property, plant and equipment | $315,823 | $304,063 |

Depreciation expense was $37.1 million in each of fiscal 2019 and 2018 and $31.6 million in 2017. The land and building associated with the closure of our St. George, UT Architectural Glass segment manufacturing facility was carried at estimated fair value and classified as available-for-sale at the end of fiscal 2018. This property was sold in fiscal 2019 for $11.4 million.

7. Goodwill and Other Intangible Assets

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