

PETROHAWK ENERGY CORP
 Form 3
 August 01, 2005

FORM 3 UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

OMB APPROVAL

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INITIAL STATEMENT OF BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934,
 Section 17(a) of the Public Utility Holding Company Act of 1935 or Section
 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *		2. Date of Event Requiring Statement	3. Issuer Name and Ticker or Trading Symbol	
Â BROWN DAVID A B		(Month/Day/Year)	PETROHAWK ENERGY CORP [HAWK]	
(Last)	(First)	(Middle)	4. Relationship of Reporting Person(s) to Issuer	5. If Amendment, Date Original Filed(Month/Day/Year)
			(Check all applicable)	
1100 LOUISIANA,Â SUITE 4400			<input checked="" type="checkbox"/> Director	<input type="checkbox"/> 10% Owner
(Street)			<input type="checkbox"/> Officer	<input type="checkbox"/> Other
			(give title below)	(specify below)
HOUSTON,Â TXÂ 77002			6. Individual or Joint/Group Filing(Check Applicable Line)	
(City)	(State)	(Zip)	<input checked="" type="checkbox"/> Form filed by One Reporting Person	
			<input type="checkbox"/> Form filed by More than One Reporting Person	

Table I - Non-Derivative Securities Beneficially Owned

1. Title of Security (Instr. 4)	2. Amount of Securities Beneficially Owned (Instr. 4)	3. Ownership Form: Direct (D) or Indirect (I) (Instr. 5)	4. Nature of Indirect Beneficial Ownership (Instr. 5)
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Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

SEC 1473 (7-02)

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Table II - Derivative Securities Beneficially Owned (e.g., puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 4)	2. Date Exercisable and Expiration Date (Month/Day/Year)	3. Title and Amount of Securities Underlying Derivative Security (Instr. 4)	4. Conversion or Exercise Price of Derivative Security	5. Ownership Form of Derivative Security: Direct (D) or Indirect (I)	6. Nature of Indirect Beneficial Ownership (Instr. 5)
	Date Exercisable	Expiration Date	Title	Amount or Number of Shares	

(Instr. 5)

Option (right to buy) ⁽¹⁾	07/28/2005	10/17/2012	Common Stock	15,282	\$ 0.5	D	Â
Option (right to buy) ⁽²⁾	07/28/2005	05/20/2013	Common Stock	3,821	\$ 0.8	D	Â
Option (right to buy) ⁽³⁾	07/28/2005	05/19/2014	Common Stock	3,821	\$ 5.81	D	Â
Option (right to buy) ⁽⁴⁾	07/28/2005	12/06/2014	Common Stock	3,821	\$ 7.57	D	Â

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
BROWN DAVID A B 1100 LOUISIANA SUITE 4400 HOUSTON, TX 77002	Â X	Â	Â	Â

Signatures

David S. Elkouri, Attorney
in Fact 08/01/2005

**Signature of Reporting Person

Date

Explanation of Responses:

- * If the form is filed by more than one reporting person, *see* Instruction 5(b)(v).
- ** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).
- (1) Received in the merger of Mission Resources Corporation with and into Issuer in exchange for a stock option to acquire 20,000 shares of Mission Resources Corporation common stock for \$0.375 per share.
- (2) Received in the merger of Mission Resources Corporation with and into Issuer in exchange for a stock option to acquire 5,000 shares of Mission Resources Corporation common stock for \$0.61 per share.
- (3) Received in the merger of Mission Resources Corporation with and into Issuer in exchange for a stock option to acquire 5,000 shares of Mission Resources Corporation common stock for \$4.435 per share.
- (4) Received in the merger of Mission Resources Corporation with and into Issuer in exchange for a stock option to acquire 5,000 shares of Mission Resources Corporation common stock for \$5.78 per share.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *See* Instruction 6 for procedure. Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. :10pt;">

4,600

Gain on insurance recovery

(9,601
)

—

(9,601
)
Other, net

—

328

(323
)

328

Tax effect of applicable non-GAAP adjustments⁽¹⁾

(8,059
)

3,445

(9,883
)

2,423

Adjusted net income applicable to common shares

\$
16,440

\$
11,470

\$
25,963

\$
15,091

(1) The Company calculated the tax effect of non-GAAP adjustments by applying the applicable combined federal and state statutory tax rate for the period to each applicable non-GAAP item.

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The following tables reconcile adjusted operating income (loss) and adjusted EBITDA to operating income (loss) for the periods indicated below:

Consolidated

(In thousands)	Fiscal Three Months Ended				Fiscal Six	Trailing	
	July 30, 2017	October 29, 2017	January 28, 2018	April 29, 2018	Months Ended April 29, 2018	Twelve Months April 29, 2018	
Total Net Sales	\$469,385	\$488,726	\$421,349	\$457,069	\$878,418	\$1,836,529	
Operating Income, GAAP	34,097	33,325	12,898	18,956	31,854	99,276	
Restructuring and impairment	1,009	1,709	1,094	488	1,582	4,300	
Strategic development and acquisition related costs	1,297	193	727	1,134	1,861	3,351	
Loss on disposition of business	—	—	—	6,686	6,686	6,686	
Acceleration of CEO retirement benefits	—	—	4,600	—	4,600	4,600	
Gain on insurance recovery	(148)	—	—	—	—	(148)	
Unreimbursed business interruption costs	235	28	—	—	—	263	
Goodwill impairment	—	6,000	—	—	—	6,000	
Adjusted Operating Income	36,490	41,255	19,319	27,264	46,583	124,328	
Other income and expense	1,322	(62)	928	(34)	894	2,154	
Depreciation and amortization	10,278	10,664	10,358	10,442	20,800	41,742	
Share-based compensation expense	2,284	2,084	2,270	1,998	4,268	8,636	
Adjusted EBITDA	\$50,374	\$53,941	\$32,875	\$39,670	\$72,545	\$176,860	
Year over year growth, Total Net Sales	1.5	% 1.8	% 7.6	% 8.7	% 8.2	% 4.7	%
Operating Income Margin	7.3	% 6.8	% 3.1	% 4.1	% 3.6	% 5.4	%
Adjusted Operating Income Margin	7.8	% 8.4	% 4.6	% 6.0	% 5.3	% 6.8	%
Adjusted EBITDA Margin	10.7	% 11.0	% 7.8	% 8.7	% 8.3	% 9.6	%

	Fiscal Three Months Ended				Fiscal Six	Trailing
	July 31, 2016	October 30, 2016	January 29, 2017	April 30, 2017	Months Ended April 30, 2017	Twelve Months April 30, 2017
Total Net Sales	\$462,353	\$480,314	\$391,703	\$420,464	\$812,167	\$1,754,834
Operating Income, GAAP	43,535	39,391	9,886	32,472	42,358	125,284
Restructuring and impairment	778	815	2,264	315	2,579	4,172
Strategic development and acquisition related costs	819	590	357	124	481	1,890
(Gain) loss on sale of assets and asset recovery	(52)	62	—	137	137	147
Gain on insurance recovery	—	—	—	(9,601)	(9,601)	(9,601)
Unreimbursed business interruption costs	—	—	—	191	191	191
Adjusted Operating Income	45,080	40,858	12,507	23,638	36,145	122,083

Explanation of Responses:

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Other income and expense	(508) (192) 309	449	758	58	
Depreciation and amortization	10,595	9,815	10,315	10,062	20,377	40,787	
Share-based compensation expense	2,661	3,181	3,042	2,820	5,862	11,704	
Adjusted EBITDA	\$57,828	\$53,662	\$26,173	\$36,969	\$63,142	\$174,632	
Operating Income Margin	9.4	%8.2	%2.5	%7.7	% 5.2	% 7.1	%
Adjusted Operating Income Margin	9.8	%8.5	%3.2	%5.6	% 4.5	% 7.0	%
Adjusted EBITDA Margin	12.5	%11.2	%6.7	%8.8	% 7.8	% 10.0	%

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Engineered Building Systems

(In thousands)	Fiscal Three Months Ended				Fiscal Six	Trailing	
	July 30, 2017	October 29, 2017	January 28, 2018	April 29, 2018	Months Ended April 29, 2018	Twelve Months April 29, 2018	
Total Sales	\$ 191,910	\$ 188,183	\$ 156,964	\$ 167,240	\$ 324,204	\$ 704,297	
External Sales	182,164	178,222	148,288	157,136	305,424	665,810	
Operating Income, GAAP	14,948	13,043	8,263	9,271	17,534	45,525	
Restructuring and impairment	941	695	1,136	280	1,416	3,052	
Strategic development and acquisition related costs	—	—	173	—	173	173	
Adjusted Operating Income	15,889	13,738	9,572	9,551	19,123	48,750	
Other income and expense	1,291	(694)	733	(88)	645	1,242	
Depreciation and amortization	2,255	2,198	2,077	2,323	4,400	8,853	
Adjusted EBITDA	\$ 19,435	\$ 15,242	\$ 12,382	\$ 11,786	\$ 24,168	\$ 58,845	
Year over year growth, Total sales	6.0	% (7.8)	% 3.8	% 2.8	% 3.3	% 0.7	%
Year over year growth, External Sales	3.8	% (9.3)	% 2.3	% 1.7	% 2.0	% (0.9)	%
Operating Income Margin	7.8	% 6.9	% 5.3	% 5.5	% 5.4	% 6.5	%
Adjusted Operating Income Margin	8.3	% 7.3	% 6.1	% 5.7	% 5.9	% 6.9	%
Adjusted EBITDA Margin	10.1	% 8.1	% 7.9	% 7.0	% 7.5	% 8.4	%

	Fiscal Three Months Ended				Fiscal Six	Trailing	
	July 31, 2016	October 30, 2016	January 29, 2017	April 30, 2017	Months Ended April 30, 2017	Twelve Months April 30, 2017	
Total Sales	\$ 181,029	\$ 204,208	\$ 151,263	\$ 162,624	\$ 313,887	\$ 699,124	
External Sales	175,471	196,596	145,021	154,456	299,477	671,544	
Operating Income, GAAP	19,561	22,830	6,503	6,894	13,397	55,788	
Restructuring and impairment	106	211	1,910	186	2,096	2,413	
(Gain) loss on sale of assets and asset recovery	(52)	62	—	137	137	147	
Adjusted Operating Income	19,615	23,103	8,413	7,217	15,630	58,348	
Other income and expense	(931)	(362)	(41)	(125)	(166)	(1,459)	
Depreciation and amortization	2,438	2,399	2,276	2,285	4,561	9,398	
Adjusted EBITDA	\$ 21,122	\$ 25,140	\$ 10,648	\$ 9,377	\$ 20,025	\$ 66,287	
Operating Income Margin	10.8	% 11.2	% 4.3	% 4.2	% 4.3	% 8.0	%
Adjusted Operating Income Margin	10.8	% 11.3	% 5.6	% 4.4	% 5.0	% 8.3	%
Adjusted EBITDA Margin	11.7	% 12.3	% 7.0	% 5.8	% 6.4	% 9.5	%

Metal Components

(In thousands)	Fiscal Three Months Ended				Fiscal Six	Trailing		
	July 30, 2017	October 29, 2017	January 28, 2018	April 29, 2018	Months Ended April 29, 2018	Twelve Months April 29, 2018		
Total Sales	\$166,305	\$181,288	\$146,832	\$168,456	\$315,288	\$662,881		
External Sales	140,639	155,183	127,528	147,661	275,189	571,011		
Operating Income, GAAP	23,276	23,119	17,089	22,082	39,171	85,566		
Restructuring and impairment	60	69	(1,403)	120	(1,283)	(1,154)		
Gain on insurance recovery	(148)	—	—	—	—	(148)		
Adjusted Operating Income	23,188	23,188	15,686	22,202	37,888	84,264		
Other income and expense	55	84	53	67	120	259		
Depreciation and amortization	1,266	1,422	1,576	1,444	3,020	5,708		
Adjusted EBITDA	\$24,509	\$24,694	\$17,315	\$23,713	\$41,028	\$90,231		
Year over year growth, Total sales	(0.1)	% 8.9	% 9.4	% 8.8	% 9.1	% 6.6	%	
Year over year growth, External Sales	0.1	% 10.9	% 10.4	% 10.8	% 10.6	% 7.9	%	
Operating Income Margin	14.0	% 12.8	% 11.6	% 13.1	% 12.4	% 12.9	%	
Adjusted Operating Income Margin	13.9	% 12.8	% 10.7	% 13.2	% 12.0	% 12.7	%	
Adjusted EBITDA Margin	14.7	% 13.6	% 11.8	% 14.1	% 13.0	% 13.6	%	

	Fiscal Three Months Ended				Fiscal Six	Trailing		
	July 31, 2016	October 30, 2016	January 29, 2017	April 30, 2017	Months Ended April 30, 2017	Twelve Months April 30, 2017		
Total Sales	\$166,512	\$166,532	\$134,173	\$154,895	\$289,068	\$622,112		
External Sales	140,560	139,968	115,557	133,290	248,847	529,375		
Operating Income, GAAP	26,803	21,254	12,376	19,997	32,373	80,430		
Restructuring and impairment	202	103	305	129	434	739		
Gain on insurance recovery	—	—	—	(420)	(420)	(420)		
Adjusted Operating Income	27,005	21,357	12,681	19,706	32,387	80,749		
Other income and expense	92	(27)	28	52	80	145		
Depreciation and amortization	1,365	1,406	1,334	1,302	2,636	5,407		
Adjusted EBITDA	\$28,462	\$22,736	\$14,043	\$21,060	\$35,103	\$86,301		
Operating Income Margin	16.1	% 12.8	% 9.2	% 12.9	% 11.2	% 12.9	%	
Adjusted Operating Income Margin	16.2	% 12.8	% 9.5	% 12.7	% 11.2	% 13.0	%	
Adjusted EBITDA Margin	17.1	% 13.7	% 10.5	% 13.6	% 12.1	% 13.9	%	

Insulated Metal Panels

(In thousands)	Fiscal Three Months Ended				Fiscal Six	Trailing	
	July 30, 2017	October 29, 2017	January 28, 2018	April 29, 2018	Months Ended April 29, 2018	Twelve Months April 29, 2018	
Total Sales	\$119,730	\$123,542	\$110,794	\$113,413	\$224,207	\$467,479	
External Sales	98,026	105,064	97,513	99,792	197,305	400,395	
Operating Income, GAAP	11,468	14,895	7,071	1,540	8,611	34,974	
Restructuring and impairment	8	683	1,284	88	1,372	2,063	
Strategic development and acquisition related costs	—	90	300	61	361	451	
Loss on disposition of business	—	—	—	6,686	6,686	6,686	
Unreimbursed business interruption costs	235	28	—	—	—	263	
Adjusted Operating Income	11,711	15,696	8,655	8,375	17,030	44,437	
Other income and expense	(211)	356	(273)	223	(50)	95	
Depreciation and amortization	4,516	4,742	4,388	4,335	8,723	17,981	
Adjusted EBITDA	\$16,016	\$20,794	\$12,770	\$12,933	\$25,703	\$62,513	
Year over year growth, Total sales	13.3	% 12.3	% 16.4	% 10.2	% 13.2	% 13.0	%
Year over year growth, External Sales	4.2	% 13.4	% 18.3	% 15.0	% 16.6	% 12.5	%
Operating Income Margin	9.6	% 12.1	% 6.4	% 1.4	% 3.8	% 7.5	%
Adjusted Operating Income Margin	9.8	% 12.7	% 7.8	% 7.4	% 7.6	% 9.5	%
Adjusted EBITDA Margin	13.4	% 16.8	% 11.5	% 11.4	% 11.5	% 13.4	%

	Fiscal Three Months Ended				Fiscal Six	Trailing	
	July 31, 2016	October 30, 2016	January 29, 2017	April 30, 2017	Months Ended April 30, 2017	Twelve Months April 30, 2017	
Total Sales	\$105,694	\$110,001	\$95,195	\$102,937	\$198,132	\$413,827	
External Sales	94,059	92,648	82,441	86,773	169,214	355,921	
Operating Income, GAAP	8,911	7,513	2,192	19,377	21,569	37,993	
Restructuring and impairment	59	404	—	—	—	463	
Strategic development and acquisition related costs	9	—	—	—	—	9	
Gain on insurance recovery	—	—	—	(9,181)	(9,181)	(9,181)	
Unreimbursed business interruption costs	—	—	—	191	191	191	
Adjusted Operating Income	8,979	7,917	2,192	10,387	12,579	29,475	
Other income and expense	32	270	35	340	375	677	
Depreciation and amortization	4,357	3,926	4,392	4,258	8,650	16,933	
Adjusted EBITDA	\$13,368	\$12,113	\$6,619	\$14,985	\$21,604	\$47,085	
Operating Income Margin	8.4	% 6.8	% 2.3	% 18.8	% 10.9	% 9.2	%

Explanation of Responses:

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Adjusted Operating Income Margin	8.5	% 7.2	% 2.3	% 10.1	% 6.3	% 7.1	%
Adjusted EBITDA Margin	12.6	% 11.0	% 7.0	% 14.6	% 10.9	% 11.4	%

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Metal Coil Coating

(In thousands)	Fiscal Three Months Ended				Fiscal Six	Trailing	
	July 30, 2017	October 29, 2017	January 28, 2018	April 29, 2018	Months Ended April 29, 2018	Twelve Months April 29, 2018	
Total Sales	\$95,261	\$98,550	\$88,343	\$95,190	\$183,533	\$377,344	
External Sales	48,556	50,257	48,020	52,480	100,500	199,313	
Operating Income, GAAP	7,107	1,419	5,376	7,129	12,505	21,031	
Goodwill impairment	—	6,000	—	—	—	6,000	
Adjusted Operating Income	7,107	7,419	5,376	7,129	12,505	27,031	
Depreciation and amortization	2,063	2,065	2,058	2,085	4,143	8,271	
Adjusted EBITDA	\$9,170	\$9,484	\$7,434	\$9,214	\$16,648	\$35,302	
Year over year growth, Total sales	(1.5)%2.7	%0.0	%9.8	%4.8	%2.6	%
Year over year growth, External Sales	(7.1)%(1.7	%(1.4	%)14.2	%6.2	%0.7	%
Operating Income Margin	7.5	%1.4	%6.1	%7.5	%6.8	%5.6	%
Adjusted Operating Income Margin	7.5	%7.5	%6.1	%7.5	%6.8	%7.2	%
Adjusted EBITDA Margin	9.6	%9.6	%8.4	%9.7	%9.1	%9.4	%

	Fiscal Three Months Ended				Fiscal Six	Trailing	
	July 31, 2016	October 30, 2016	January 29, 2017	April 30, 2017	Months Ended April 30, 2017	Twelve Months April 30, 2017	
Total Sales	\$96,684	\$95,987	\$88,340	\$86,729	\$175,069	\$367,740	
External Sales	52,263	51,102	48,684	45,945	94,629	197,994	
Operating Income, GAAP	10,531	9,310	6,706	6,227	12,933	32,774	
Adjusted Operating Income	10,531	9,310	6,706	6,227	12,933	32,774	
Other income and expense	2	—	31	—	31	33	
Depreciation and amortization	2,214	1,849	2,106	2,009	4,115	8,178	
Adjusted EBITDA	\$12,747	\$11,159	\$8,843	\$8,236	\$17,079	\$40,985	
Operating Income Margin	10.9	%9.7	%7.6	%7.2	%7.4	%8.9	%
Adjusted Operating Income Margin	10.9	%9.7	%7.6	%7.2	%7.4	%8.9	%
Adjusted EBITDA Margin	13.2	%11.6	%10.0	%9.5	%9.8	%11.1	%

Corporate

(In thousands)	Fiscal Three Months Ended				Fiscal Six	Trailing
	July 30, 2017	October 29, 2017	January 28, 2018	April 29, 2018	Months Ended	Twelve Months
Operating Loss, GAAP	\$(22,702)	\$(19,151)	\$(24,901)	\$(21,066)	\$ (45,967)	\$ (87,820)
Restructuring and impairment	—	262	77	—	77	339
Strategic development and acquisition related costs	1,297	103	254	1,073	1,327	2,727
Acceleration of CEO retirement benefits	—	—	4,600	—	4,600	4,600
Adjusted Operating Loss	(21,405)	(18,786)	(19,970)	(19,993)	(39,963)	(80,154)
Other income and expense	187	192	415	(236)	179	558
Depreciation and amortization	178	237	259	255	514	929
Share-based compensation expense	2,284	2,084	2,270	1,998	4,268	8,636
Adjusted EBITDA	\$(18,756)	\$(16,273)	\$(17,026)	\$(17,976)	\$ (35,002)	\$ (70,031)
					Fiscal Six	Trailing
					Months	Twelve
					Ended	Months
	July 31, 2016	October 30, 2016	January 29, 2017	April 30, 2017	April 30, 2017	April 30, 2017
Operating Loss, GAAP	\$(22,271)	\$(21,516)	\$(17,891)	\$(20,023)	\$ (37,914)	\$ (81,701)
Restructuring and impairment	411	97	49	—	49	557
Strategic development and acquisition related costs	810	590	357	124	481	1,881
Adjusted Operating Loss	(21,050)	(20,829)	(17,485)	(19,899)	(37,384)	(79,263)
Other income and expense	297	(73)	256	182	438	662
Depreciation and amortization	221	235	207	208	415	871
Share-based compensation expense	2,661	3,181	3,042	2,820	5,862	11,704
Adjusted EBITDA	\$(17,871)	\$(17,486)	\$(13,980)	\$(16,689)	\$ (30,669)	\$ (66,026)

OFF-BALANCE SHEET ARRANGEMENTS

As part of our ongoing business, we do not participate in transactions that generate relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities (“SPEs”), which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As of April 29, 2018, we were not involved in any material unconsolidated SPE transactions.

CONTRACTUAL OBLIGATIONS

In general, purchase orders issued in the normal course of business can be terminated in whole or in part for any reason without liability until the product is received.

On February 8, 2018, the Company entered into a Term Loan Credit Agreement and ABL Credit Agreement.

Proceeds from the borrowing under the Term Loan Credit Facility, together with cash on hand, was used to refinance the Company’s existing term loan credit facility, redeem and repay the Notes and pay any fees, premiums and expenses incurred in connection with the refinancing.

The following table shows our debt contractual obligations as of April 29, 2018 (in thousands):

Contractual Obligation	Total	Payments due by period			
		Less than 1 year	1 – 3 years	4 – 5 years	More than 5 years
Total debt ⁽¹⁾	\$415,000	\$—	\$—	\$—	\$415,000
Interest payments on debt ⁽²⁾	112,714	11,558	48,306	32,204	20,646
Total	\$527,714	\$11,558	\$48,306	\$32,204	\$435,646

(1) Reflects amounts outstanding under the Term Loan Credit Facility.

(2) Interest payments were calculated based on the variable rate in effect at April 29, 2018 for the Term Loan Credit Facility.

There have been no other material changes in our future contractual obligations since the end of fiscal 2017. See Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended October 29, 2017 for more information on our contractual obligations. See Note 10 — Long-Term Debt and Note Payable in the notes to the unaudited consolidated financial statements for more information on the material terms of our Term Loan Credit Agreement and ABL Facility.

CRITICAL ACCOUNTING POLICIES

Critical accounting policies are those that are most important to the portrayal of our financial position and results of operations. These policies require our most subjective judgments, often employing the use of estimates about the effect of matters that are inherently uncertain. Our most critical accounting policies include those that pertain to revenue recognition, insurance accruals, share-based compensation, income taxes, accounting for acquisitions, intangible assets and goodwill, allowance for doubtful accounts, inventory valuation, property, plant and equipment valuation and contingencies, which are described in Item 7 of our Annual Report on Form 10-K for the year ended October 29, 2017.

RECENT ACCOUNTING PRONOUNCEMENTS

See Note 2 — Accounting Pronouncements in the notes to the unaudited consolidated financial statements for information on recent accounting pronouncements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Steel Prices

We are subject to market risk exposure related to volatility in the price of steel. For the fiscal six months ended April 29, 2018, material costs (predominantly steel costs) constituted approximately 64% of our cost of sales. Our business is heavily dependent on the price and supply of steel. Our various products are fabricated from steel produced by mills to forms including bars, plates, structural shapes, sheets, hot-rolled coils and galvanized or Galvalume® — coated coils (Galvalume® is a registered trademark of BIEC International, Inc.). The steel industry is highly cyclical in nature, and steel prices have been volatile in recent years and may remain volatile in the future. Steel prices are influenced by numerous factors beyond our control, including general economic conditions, domestically and internationally, the availability of raw materials, competition, labor costs, freight and transportation costs, production costs, import duties and other trade restrictions. Based on the cyclical nature of the steel industry, we expect steel prices will continue to be volatile.

Although we have the ability to purchase steel from a number of suppliers, a production cutback by one or more of our current suppliers could create challenges in meeting delivery schedules to our customers. Because we have periodically adjusted our contract prices, particularly in the Engineered Building Systems segment, we have generally been able to pass increases in our raw material costs through to our customers.

We normally do not maintain an inventory of steel in excess of our current production requirements. However, from time to time, we may purchase steel in advance of announced steel price increases. In addition, it is our current practice to purchase all steel inventory that has been ordered but is not in our possession. Therefore, our inventory may increase if demand for our products declines. We can give no assurance that steel will remain available or that prices will not continue to be volatile.

With material costs (predominantly steel costs) accounting for approximately 64% of our cost of sales for the six months ended April 29, 2018, a one percent change in the cost of steel would have resulted in a pre-tax impact on cost of sales of approximately \$4.4 million for the six months ended April 29, 2018. The impact to our financial results of operations of such an increase would be significantly dependent on the competitive environment and the costs of other alternative building products, which could impact our ability to pass on these higher costs.

Other Commodity Risks

In addition to market risk exposure related to the volatility in the price of steel, we are subject to market risk exposure related to volatility in the price of natural gas. As a result, we occasionally enter into both index-priced and fixed-price contracts for the purchase of natural gas. We have evaluated these contracts to determine whether the contracts are derivative instruments. Certain contracts that meet the criteria for characterization as a derivative instrument may be exempted from hedge accounting treatment as normal purchases and normal sales and, therefore, these forward contracts are not marked to market. At April 29, 2018, all of our contracts for the purchase of natural gas met the scope exemption for normal purchases and normal sales.

Interest Rates

We are subject to market risk exposure related to changes in interest rates on our Term Loan Credit Facility and the ABL Credit Facility. These instruments bear interest at an agreed upon percentage point spread from either the prime interest rate or LIBOR. Under our Term Loan Credit Facility, we may, at our option, fix the interest rate for certain borrowings based on a spread over LIBOR for 30 days to 6 months. At April 29, 2018, we had \$415.0 million outstanding under our Term Loan Credit Facility. Based on this balance, an immediate change of one percent in the interest rate would cause a change in interest expense of approximately \$4.2 million on an annual basis. The fair value of our term loan credit facility at April 29, 2018 and October 29, 2017 was approximately \$415.5 million and \$144.1 million, respectively, compared to a face value of approximately \$415.0 million and \$144.1 million, respectively. See Note 10 — Long-Term Debt and Note Payable in the notes to the unaudited consolidated financial statements for information on the material terms of our long-term debt.

Foreign Currency Exchange Rates

We are exposed to the effect of exchange rate fluctuations on the U.S. dollar value of foreign currency denominated operating revenue and expenses. The functional currency for our Mexico operations is the U.S. dollar. Adjustments

resulting from the re-measurement of the local currency financial statements into the U.S. dollar functional currency, which uses a combination of current and historical exchange rates, are included in net income in the current period. Net foreign currency re-measurement (loss) gain was \$(0.1) million and \$0.4 million, for the three-month periods ended April 29, 2018 and April 30, 2017, respectively. Net foreign currency re-measurement gain (loss) was \$0.1 million and \$(0.1) million, for the six-month periods ended April 29, 2018 and April 30, 2017, respectively. The functional currency for our Canada operations is the Canadian dollar. Translation adjustments resulting from translating the functional currency financial statements into U.S. dollar equivalents are reported separately in accumulated other comprehensive

(loss) income in stockholders' equity. The net foreign currency exchange loss included in net income for the three month periods ended April 29, 2018 and April 30, 2017 was \$0.2 million and \$0.3 million, respectively. The net foreign currency exchange gain included in net income for the six month periods ended April 29, 2018 and April 30, 2017 was \$0.1 million and \$0.1 million, respectively. Net foreign currency translation adjustment, net of tax, and included in other comprehensive income (loss) for the three-month periods ended April 29, 2018 and April 30, 2017 was \$(0.3) million and \$(0.1) million, respectively. Net foreign currency translation adjustment, net of tax, and included in other comprehensive income (loss) for the six-month period ended April 30, 2017 was \$(0.1) million. Net foreign currency translation adjustment, net of tax, and included in other comprehensive income (loss) for the six-month period ended April 29, 2018 was insignificant.

On January 29, 2018, we closed on the sale of CENTRIA International LLC, which owned our China manufacturing facility and are therefore no longer exposed to fluctuations in the foreign currency exchange rate between the U.S. dollar and Chinese yuan. The functional currency for our China operations was the Chinese yuan. The net foreign currency translation adjustment was insignificant for the three and six-month periods ended April 29, 2018 and April 30, 2017.

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Item 4. Controls and Procedures.

Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures as of April 29, 2018. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding the required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Management believes that our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives and based on the evaluation of our disclosure controls and procedures as of April 29, 2018, our chief executive officer and chief financial officer concluded that, as of such date, our disclosure controls and procedures were effective at such reasonable assurance level.

Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during quarter ended April 29, 2018 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

NCI BUILDING SYSTEMS, INC.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings.

See Part I, Item 1, “Unaudited Consolidated Financial Statements”, Note 16, which is incorporated herein by reference.

Item 1A. Risk Factors.

In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the factors discussed in Part I, Item 1A, “Risk Factors” in our Annual Report on Form 10-K for the year ended October 29, 2017. The risks disclosed in our previous Annual Report on Form 10-K and information provided elsewhere in this report, could materially affect our business, financial condition or results of operations. Additional risks and uncertainties not currently known, or we currently deem to be immaterial may materially adversely affect our business, financial condition or results of operations. We are providing the following information regarding changes that have occurred to previously disclosed risk factors from our Annual Report on Form 10-K for the year ended October 29, 2017. Except for such additional information, we believe there have been no material changes in our risk factors from those disclosed in our Annual Report on Form 10-K for the fiscal year ended October 29, 2017.

New tariffs on steel imports could result in increased steel prices and adversely affect our results of operations. On March 1, 2018, President Trump announced his administration’s intention to place a 25% tariff on imports of steel into the United States. Although the parameters and timing of any such tariff are not known as of the date of this filing, such a tariff, if enacted, could result in both increased steel prices and a decreased available supply of steel. We may not be able to pass such price increases on to our customers and may not be able to secure adequate alternative sources of steel on a timely basis. Either of these occurrences could adversely affect our results of operations and financial condition.

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

The following table shows our purchases of our Common Stock during the second quarter of fiscal 2018:

Period	(a) Total Number of Shares Purchased ⁽¹⁾	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Programs	(d) Maximum Dollar Value of Shares that May Yet be Purchased Under Publicly Programs ⁽²⁾ (in thousands)
January 29, 2018 to February 25, 2018	104	\$ 17.10	—	\$ 5,573
February 26, 2018 to March 25, 2018	—	\$ —	—	55,573
March 26, 2018 to April 29, 2018	—	\$ —	—	55,573
Total	104	\$ 17.10	—	

(1) The total number of shares purchased includes our Common Stock repurchased under the programs described below as well as shares of restricted stock that were withheld to satisfy minimum tax withholding obligations arising in connection with the vesting of awards of restricted stock. The required withholding is calculated using the closing sales price on the previous business day prior to the vesting date as reported by the NYSE.

(2) On October 10, 2017, the Company announced that its Board of Directors authorized a stock repurchase program for the repurchase of up to an aggregate of \$50.0 million of the Company’s outstanding Common Stock. On March 7, 2018, the Company announced that its Board of Directors authorized a new stock repurchase program for the repurchase of up to an aggregate of \$50.0 million of the Company’s outstanding Common Stock. Under these

repurchase programs, the Company is authorized to repurchase shares, if at all, at times and in amounts that we deem appropriate in accordance with all applicable securities laws and regulations. Shares repurchased are usually retired. There is no time limit on the duration of these programs. As of April 29, 2018, approximately \$55.6 million remained available for stock repurchases under the programs announced on October 10, 2017 and March 7, 2018.

Item 6. Exhibits.

Index to Exhibits

Exhibit Number	Description
*31.1	<u>Rule 13a-14(a)/15d-14(a) Certifications (Section 302 of the Sarbanes-Oxley Act of 2002)</u>
*31.2	<u>Rule 13a-14(a)/15d-14(a) Certifications (Section 302 of the Sarbanes-Oxley Act of 2002)</u>
**32.1	<u>Certifications pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code (Section 906 of the Sarbanes-Oxley Act of 2002)</u>
**32.2	<u>Certifications pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code (Section 906 of the Sarbanes-Oxley Act of 2002)</u>
*101.INS	XBRL Instance Document
*101.SCH	XBRL Taxonomy Extension Schema Document
*101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
*101.DEF	XBRL Taxonomy Definition Linkbase Document
*101.LAB	XBRL Taxonomy Extension Label Linkbase Document
*101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith

** Furnished herewith

Management contracts or compensatory plans or arrangements

SIGNATURE

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

NCI BUILDING SYSTEMS, INC.

Date: June 6, 2018 By: /s/ Mark E. Johnson

Mark E. Johnson

Executive Vice President, Chief Financial Officer
and Treasurer

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