

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

FORM 10-Q

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

For the quarterly period ended September 26, 2020
or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ____ to ____
Commission File Number: 001-38000

JELD-WEN Holding, Inc.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

93-1273278
(I.R.S. Employer
Identification No.)

2645 Silver Crescent Drive
Charlotte, North Carolina 28273
(Address of principal executive offices, zip code)

(704) 378-5700
(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock (par value \$0.01 per share)	JELD	New York Stock Exchange

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

Large accelerated filer	☒	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 ☐ No ☒

The registrant had 100,751,699 shares of Common Stock, par value \$0.01 per share, outstanding as of November 3, 2020.

JELD-WEN HOLDING, Inc.
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Glossary of Terms

When the following terms and abbreviations appear in the text of this report, they have the meanings indicated below:

ABL Facility	Our \$400 million asset-based loan revolving credit facility, dated as of October 15, 2014 and as amended from time to time, with JWI (as hereinafter defined) and JELD-WEN of Canada, Ltd., as borrowers, the guarantors party thereto, a syndicate of lenders, and Wells Fargo Bank, N.A., as administrative agent
ABS	American Building Supply, Inc.
Adjusted EBITDA	A supplemental non-GAAP financial measure of operating performance not based on any standardized methodology prescribed by GAAP that we define as net income (loss), adjusted for the following items: loss from discontinued operations, net of tax; equity earnings of non-consolidated entities; income tax (benefit) expense; depreciation and amortization; interest expense, net; impairment and restructuring charges; gain on previously held shares of equity investment; (gain) loss on sale of property and equipment; share-based compensation expense; non-cash foreign exchange transaction/translation (income) loss; other non-cash items; other items; and costs related to debt restructuring and debt refinancing
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
AUD	Australian Dollar
Australia Senior Secured Credit Facility	Our senior secured credit facility, dated as of October 6, 2015 and as amended from time to time, with certain of our Australian subsidiaries, as borrowers, and Australia and New Zealand Banking Group Limited, as lender
BBSY	Bank Bill Swap Bid Rate
CAP	Cleanup Action Plan
Cares Act	Coronavirus Aid, Relief, and Economic Security Act enacted on March 27, 2020
Charter	Restated Certificate of Incorporation of JELD-WEN Holding, Inc.
CMI	CraftMaster Manufacturing, Inc.
COA	Consent Order and Agreement
CODM	Chief Operating Decision Maker
Common Stock	The 900,000,000 shares of common stock, par value \$0.01 per share, authorized under our Charter
Corporate Credit Facilities	Collectively, our ABL Facility and our Term Loan Facility
COVID-19	A novel strain of the 2019-nCov coronavirus
Credit Facilities	Collectively, our Corporate Credit Facilities and our Australia Senior Secured Credit Facility as well as other acquired term loans and revolving credit facilities
DKK	Danish Krone
ERP	Enterprise Resource Planning
Exchange Act	Securities Exchange Act of 1934, as amended
FASB	Financial Accounting Standards Board
10-K	Annual Report on Form 10-K for the fiscal year ended December 31, 2019
GAAP	Generally Accepted Accounting Principles in the United States
GHGs	Greenhouse Gases
GILTI	Global Intangible Low-Taxed Income
JELD-WEN	JELD-WEN Holding, Inc., together with its consolidated subsidiaries where the context requires
JEM	JELD-WEN Excellence Model
JWH	JELD-WEN Holding, Inc., a Delaware corporation
JWI	JELD-WEN, Inc., a Delaware corporation
LIBOR	London Interbank Offered Rate
MD&A	Management's Discussion and Analysis of Financial Condition and Results of Operations
Onex	Onex Partners III LP and certain affiliates
PaDEP	Pennsylvania Department of Environmental Protection
Preferred Stock	90,000,000 shares of Preferred Stock, par value \$0.01 per share, authorized under our Charter

PSU	Performance stock unit
R&R	Repair and remodel
RSU	Restricted stock unit
SEC	Securities and Exchange Commission
Securities Act	Securities Act of 1933, as amended
Senior Notes	\$800.0 million of unsecured notes issued in December 2017 in a private placement in two tranches: \$400.0 million bearing interest at 4.625% and maturing in December 2025 and \$400.0 million bearing interest at 4.875% and maturing in December 2027
Senior Secured Notes	\$250.0 million of senior secured notes issued in May 2020 in a private placement bearing interest at 6.25% and maturing in May 2025
SG&A	Selling, general, and administrative expenses
Tax Act	Tax Cuts and Jobs Act
Term Loan Facility	Our term loan facility, dated as of October 15, 2014, and as amended from time to time with JW1, as borrower, the guarantors party thereto, a syndicate of lenders, and Bank of America, N.A., as administrative agent
U.S.	United States of America
VPI	VPI Quality Windows, Inc.
WADOE	Washington State Department of Ecology

CERTAIN TRADEMARKS, TRADE NAMES AND SERVICE MARKS

This 10-Q includes trademarks, trade names, and service marks owned by us. Our U.S. window and door trademarks include JELD-WEN®, AuraLast®, MiraTEC®, Extira®, LaCANTINA™, MMI Door™, Karonia™, ImpactGard®, JW®, Aurora®, IWP®, True BLU™, ABS™, and VPI™. Our trademarks are either registered or have been used as common law trademarks by us. The trademarks we use outside the U.S. include the Stegbar®, Regency®, William Russell Doors®, Airlite®, Trend®, The Perfect Fit™, Aneeta®, Breezway®, Kolder™, Corinthian® and A&L™ marks in Australia, and Swedoor®, Dooria®, DANA®, Mattiovi™, Alupan® and Domoferm® marks in Europe. ENERGY STAR® is a registered trademark of the U.S. Environmental Protection Agency. This 10-Q contains additional trademarks, trade names, and service marks of others, which are, to our knowledge, the property of their respective owners. Solely for convenience, trademarks, trade names, and service marks referred to in this 10-Q appear without the ®, ™ or SM symbols, but such references are not intended to indicate, in any way, that we will not assert, to the fullest extent under applicable law, our rights or the right of the applicable licensor to these trademarks, trade names, and service marks. We do not intend our use of other parties' trademarks, trade names, or service marks to imply, and such use or display should not be construed to imply, a relationship with, or endorsement or sponsorship of us by, these other parties.

JELD-WEN HOLDING, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

(amounts in thousands, except share and per share data)	Three Months Ended		Nine Months Ended	
	September 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019
Net revenues	\$ 1,112,866	\$ 1,091,953	\$ 3,084,399	\$ 3,221,200
Cost of sales	867,972	868,168	2,426,465	2,549,067
Gross margin	244,894	223,785	657,934	672,133
Selling, general and administrative	181,963	161,424	520,874	502,109
Impairment and restructuring charges	1,319	7,935	10,130	17,388
Operating income	61,612	54,426	126,930	152,636
Interest expense, net	18,784	17,571	54,464	53,719
Other expense (income)	1,379	(2,687)	(3,450)	(1,288)
Income before taxes	41,449	39,542	75,916	100,205
Income tax expense	15,969	22,500	27,569	45,030
Net income	\$ 25,480	\$ 17,042	\$ 48,347	\$ 55,175
Weighted average common shares outstanding:				
Basic	100,609,593	100,572,016	100,587,734	100,615,006
Diluted	101,778,952	101,381,976	101,440,963	101,419,770
Net income per share				
Basic	\$ 0.25	\$ 0.17	\$ 0.48	\$ 0.55
Diluted	\$ 0.25	\$ 0.17	\$ 0.48	\$ 0.54

The accompanying notes are an integral part of these unaudited Consolidated Financial Statements.

JELD-WEN HOLDING, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(unaudited)

(amounts in thousands)	Three Months Ended		Nine Months Ended	
	September 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019
Net income	\$ 25,480	\$ 17,042	\$ 48,347	\$ 55,175
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments, net tax of (\$1,892)	32,879	(36,633)	29,136	(38,600)
Interest rate hedge adjustments, net of tax benefit of (\$88), (\$4,604), (\$518), and (\$4,831), respectively	(249)	5,050	(1,505)	6,163
Defined benefit pension plans, net of tax expense of \$730, \$851, \$2,423, and \$2,420, respectively	688	1,373	3,535	4,255
Total other comprehensive income (loss), net of tax	33,318	(30,210)	31,166	(28,182)
Comprehensive income (loss)	<u>\$ 58,798</u>	<u>\$ (13,168)</u>	<u>\$ 79,513</u>	<u>\$ 26,993</u>

The accompanying notes are an integral part of these unaudited Consolidated Financial Statements.

JELD-WEN HOLDING, INC.
CONSOLIDATED BALANCE SHEETS
(unaudited)

(amounts in thousands, except share and per share data)	September 26, 2020	December 31, 2019
ASSETS		
Current assets		
Cash and cash equivalents	\$ 605,779	\$ 225,962
Restricted cash	832	3,914
Accounts receivable, net	562,175	469,762
Inventories	509,949	505,078
Other current assets	51,033	38,562
Total current assets	1,729,768	1,243,278
Property and equipment, net	841,035	864,375
Deferred tax assets	186,423	183,837
Goodwill	613,772	602,500
Intangible assets, net	243,679	250,327
Operating lease assets, net	206,530	202,053
Other assets	31,858	34,962
Total assets	<u>\$ 3,853,065</u>	<u>\$ 3,381,332</u>
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable	\$ 290,826	\$ 294,951
Accrued payroll and benefits	152,719	109,386
Accrued expenses and other current liabilities	385,443	298,603
Current maturities of long-term debt	68,485	65,846
Total current liabilities	897,473	768,786
Long-term debt	1,698,868	1,451,526
Unfunded pension liability	100,658	107,937
Operating lease liability	169,593	164,026
Deferred credits and other liabilities	83,055	67,682
Deferred tax liabilities	10,108	9,288
Total liabilities	2,959,755	2,569,245
Commitments and contingencies (Note 21)		
Shareholders' equity		
Preferred Stock, par value \$0.01 per share, 90,000,000 shares authorized; no shares issued and outstanding	—	—
Common Stock: 900,000,000 shares authorized, par value \$0.01 per share, 100,662,383 shares outstanding as of September 26, 2020; 900,000,000 shares authorized, par value \$0.01 per share, 100,668,003 shares outstanding as of December 31, 2019	1,007	1,007
Additional paid-in capital	684,189	671,772
Retained earnings	328,223	290,583
Accumulated other comprehensive loss	(120,109)	(151,275)
Total shareholders' equity	893,310	812,087
Total liabilities and shareholders' equity	<u>\$ 3,853,065</u>	<u>\$ 3,381,332</u>

The accompanying notes are an integral part of these unaudited Consolidated Financial Statements.

JELD-WEN HOLDING, INC.
CONSOLIDATED STATEMENTS OF EQUITY
(unaudited)

(amounts in thousands, except share and per share amounts)	Three Months Ended			
	September 26, 2020		September 28, 2019	
	Shares	Amount	Shares	Amount
Preferred stock, \$0.01 par value per share	—	\$ —	—	\$ —
Common stock, \$0.01 par value per share				
Balance at beginning of period	100,553,258	\$ 1,005	100,543,160	\$ 1,005
Shares issued for exercise/vesting of share-based compensation awards	109,125	2	52,799	1
Shares surrendered for tax obligations for employee share-based transactions	—	—	(6,986)	—
Balance at period end	100,662,383	\$ 1,007	100,588,973	\$ 1,006
Additional paid-in capital				
Balance at beginning of period		\$ 680,954		\$ 666,160
Shares issued for exercise/vesting of share-based compensation awards		1,141		493
Shares surrendered for tax obligations for employee share-based transactions		—		(139)
Amortization of share-based compensation		2,767		4,097
Balance at period end		684,862		670,611
Employee stock notes				
Balance at beginning of period		(673)		(661)
Net issuances, payments and accrued interest on notes		—		(6)
Balance at period end		(673)		(667)
Balance at period end		\$ 684,189		\$ 669,944
Retained earnings				
Balance at beginning of period		\$ 302,743		\$ 265,745
Net income		25,480		17,042
Balance at period end		\$ 328,223		\$ 282,787
Accumulated other comprehensive income (loss)				
Balance at beginning of period		\$ (153,427)		\$ (142,777)
Foreign currency adjustments		32,879		(36,633)
Unrealized (loss) gain on interest rate hedges		(249)		5,050
Net actuarial pension gain		688		1,373
Balance at period end		\$ (120,109)		\$ (172,987)
Total shareholders' equity at period end		\$ 893,310		\$ 780,750

The accompanying notes are an integral part of these unaudited Consolidated Financial Statements.

JELD-WEN HOLDING, INC.
CONSOLIDATED STATEMENTS OF EQUITY
(unaudited)

(amounts in thousands, except share and per share amounts)	Nine Months Ended			
	September 26, 2020		September 28, 2019	
	Shares	Amount	Shares	Amount
Preferred stock, \$0.01 par value per share	—	\$ —	—	\$ —
Common stock, \$0.01 par value per share				
Balance at beginning of period	100,668,003	\$ 1,007	101,310,862	\$ 1,013
Shares issued for exercise/vesting of share-based compensation awards	284,265	4	523,346	6
Shares repurchased	(265,589)	(3)	(1,192,419)	(12)
Shares surrendered for tax obligations for employee share-based transactions	(24,296)	(1)	(52,816)	(1)
Balance at period end	<u>100,662,383</u>	<u>\$ 1,007</u>	<u>100,588,973</u>	<u>\$ 1,006</u>
Additional paid-in capital				
Balance at beginning of period		\$ 672,445		\$ 659,241
Shares issued for exercise/vesting of share-based compensation awards		1,218		1,970
Shares surrendered for tax obligations for employee share-based transactions		(464)		(1,057)
Amortization of share-based compensation		11,663		10,457
Balance at period end		<u>684,862</u>		<u>670,611</u>
Employee stock notes				
Balance at beginning of period		(673)		(648)
Net issuances, payments and accrued interest on notes		—		(19)
Balance at period end		<u>(673)</u>		<u>(667)</u>
Balance at period end		<u>\$ 684,189</u>		<u>\$ 669,944</u>
Retained earnings				
Balance at beginning of period		\$ 290,583		\$ 246,833
Share repurchased		(4,997)		(19,982)
Adoption of new accounting standard ASU No. 2016-02		—		761
Adoption of new accounting standard ASU No. 2016-13		(5,710)		—
Net income		48,347		55,175
Balance at period end		<u>\$ 328,223</u>		<u>\$ 282,787</u>
Accumulated other comprehensive income (loss)				
Balance at beginning of period		\$ (151,275)		\$ (144,805)
Foreign currency adjustments		29,136		(38,600)
Unrealized (loss) gain on interest rate hedges		(1,505)		6,163
Net actuarial pension gain		3,535		4,255
Balance at period end		<u>\$ (120,109)</u>		<u>\$ (172,987)</u>
Total shareholders' equity at period end		<u>\$ 893,310</u>		<u>\$ 780,750</u>

The accompanying notes are an integral part of these unaudited Consolidated Financial Statements.

JELD-WEN HOLDING, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

(amounts in thousands)	Nine Months Ended	
	September 26, 2020	September 28, 2019
OPERATING ACTIVITIES		
Net income	\$ 48,347	\$ 55,175
Adjustments to reconcile net income to cash used in operating activities:		
Depreciation and amortization	99,755	99,749
Deferred income taxes	(1,844)	14,428
Gain on sale of business units, property and equipment	(2,697)	(1,428)
Adjustment to carrying value of assets	5,675	5,669
Amortization of deferred financing costs	1,890	1,446
Stock-based compensation	11,662	10,585
Contributions to U.S. pension plan	(4,399)	(6,198)
Amortization of U.S. pension expense	5,175	6,675
Other items, net	20,034	3,649
Net change in operating assets and liabilities, net of effect of acquisitions:		
Accounts receivable	(97,179)	(98,525)
Inventories	(2,045)	(6,798)
Other assets	(3,668)	(1,905)
Accounts payable and accrued expenses	114,748	72,785
Change in short term and long-term tax liabilities	15,127	9,585
Net cash provided by operating activities	210,581	164,892
INVESTING ACTIVITIES		
Purchases of property and equipment	(50,628)	(76,397)
Proceeds from sale of business units, property and equipment	9,248	7,542
Purchase of intangible assets	(16,268)	(28,174)
Purchases of businesses, net of cash acquired	—	(57,264)
Cash received for notes receivable	538	353
Net cash used in investing activities	(57,110)	(153,940)
FINANCING ACTIVITIES		
Change in long-term debt	221,642	25,068
Common stock issued for exercise of options	1,222	1,976
Common stock repurchased	(5,000)	(19,994)
Payments to tax authorities for employee share-based compensation	(756)	(986)
Net cash provided by financing activities	217,108	6,064
Effect of foreign currency exchange rates on cash	6,156	(2,981)
Net increase in cash and cash equivalents	376,735	14,035
Cash, cash equivalents and restricted cash, beginning	229,876	117,623
Cash, cash equivalents and restricted cash, ending	\$ 606,611	\$ 131,658

For further information see Note 23 - *Supplemental Cash Flow*.

The accompanying notes are an integral part of these unaudited Consolidated Financial Statements.

JELD-WEN HOLDING, INC. NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Description of Company and Summary of Significant Accounting Policies

Nature of Business – JELD-WEN Holding, Inc., along with its subsidiaries, is a vertically integrated global manufacturer and distributor of windows and doors that derives substantially all of its revenues from the sale of its door and window products. Unless otherwise specified or the context otherwise requires, all references in these notes to “JELD-WEN,” “we,” “us,” “our,” or the “Company” are to JELD-WEN Holding, Inc. and its subsidiaries.

We have facilities located in the U.S., Canada, Europe, Australia, Asia, and Mexico. Our products are marketed primarily under the JELD-WEN brand name in the U.S. and Canada and under JELD-WEN and a variety of acquired brand names in Europe, Australia, and Asia.

Our revenues are affected by the level of new housing starts and remodeling activity in each of our markets. Our sales typically follow seasonal new construction and repair and remodeling industry patterns. The peak season for home construction and remodeling in many of our markets generally corresponds with the second and third calendar quarters, and therefore, sales volume is typically higher during those quarters. Our first and fourth quarter sales volumes are generally lower due to reduced repair and remodeling activity and reduced activity in the building and construction industry as a result of colder and more inclement weather in certain of our geographic end markets.

Basis of Presentation – The accompanying unaudited consolidated financial statements as of September 26, 2020 and for the three and nine months ended September 26, 2020 and September 28, 2019, respectively, have been prepared in accordance with GAAP for interim financial information and pursuant to the rules and regulations of the SEC. In the opinion of management, the unaudited consolidated financial statements have been prepared on the same basis as the audited financial statements and include all adjustments, consisting only of normal recurring adjustments, necessary for the fair statement of the Company’s financial position for the periods presented. The results for the three and nine months ended September 26, 2020 are not necessarily indicative of the results to be expected for the year ending December 31, 2020, or any other period. The accompanying consolidated balance sheet as of December 31, 2019 was derived from audited financial statements included in the Company’s Form 10-K. The accompanying consolidated financial statements do not include all of the information and footnotes required by GAAP for annual financial statements. Accordingly, they should be read in conjunction with the audited financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2019.

Certain prior year amounts have been reclassified to conform to current year presentation.

All U.S. dollar and other currency amounts, except per share amounts, are presented in thousands unless otherwise noted.

Fiscal Year – We operate on a fiscal calendar year, and each interim quarter is comprised of two 4-week periods and one 5-week period, with each week ending on a Saturday. Our fiscal year always begins on January 1 and ends on December 31. As a result, our first and fourth quarters may have more or fewer days included than a traditional 91-day fiscal quarter.

Use of Estimates – The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates, assumptions, and allocations that affect amounts reported in the consolidated financial statements and related notes. Significant items that are subject to such estimates and assumptions include, but are not limited to, long-lived assets including goodwill and other intangible assets, employee benefit obligations, income tax uncertainties, contingent assets and liabilities, provisions for bad debt, inventory, warranty liabilities, legal claims, valuation of derivatives, environmental remediation and claims relating to self-insurance. Actual results could differ due to the uncertainty inherent in the nature of these estimates.

Factoring Arrangements – Our ABS subsidiary, acquired in March 2018, has entered into factoring agreements with a U.S.-based financial institution under which it can elect to sell certain of its accounts receivable under non-recourse agreements. These transactions are treated as a sale and are accounted for as a reduction in accounts receivable because the agreements transfer effective control over and risk of non-collection to the factor. Thus, cash proceeds from these arrangements are reflected as operating activities, including the change of accounts receivable on our statement of cash flows each period. We do not service any factored accounts after the factoring has occurred and do not have any servicing assets or liabilities. The aggregate gross amount factored under these arrangements was \$62.7 million and \$57.4 million for the nine months ended September 26, 2020 and September 28, 2019, respectively. The cost of factoring is reflected in the accompanying unaudited consolidated statements of operations as interest expense and was \$0.1 million and \$0.1 million for the three months ended September 26, 2020 and September 28, 2019, respectively, and \$0.2 million and \$0.4 million for the nine months ended September 26, 2020 and September 28, 2019, respectively.

COVID 19 – The CARES Act includes measures to assist companies in response to the COVID-19 pandemic. These measures include a provision that allows employers to defer the remittance of the employer portion of the social security tax. The deferred employment tax must be paid over two years, with half of the amount required to be paid by December 31, 2021 and the other half by December 31, 2022. Through the nine months ended September 26, 2020, the Company deferred \$12.7 million of the employer portion of social security tax, which is included in deferred credits and other liabilities in the consolidated balance sheet. The \$12.7 million deferral is included in other items, net in our consolidated statements of cash flows. The impact of the CARES Act in prospective periods may differ from our estimate as of September 26, 2020 due to changes in interpretations and assumptions, guidance that may be issued, and actions we may take in respect to the CARES Act. The CARES Act is highly detailed and we will continue to assess the impact that various provisions will have on our business.

Recently Adopted Accounting Standards – In January 2017, the FASB issued ASU No. 2017-04, *Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. To simplify the measurement of goodwill impairments, this ASU eliminates Step 2 from the goodwill impairment test, which required the calculation of the implied fair value of goodwill. Instead, under the amendments in this ASU, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. We adopted this standard in the first quarter of 2020 and the adoption did not have an impact on our unaudited consolidated financial statements as of the date of adoption.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The standard requires the measurement and recognition of expected credit losses for financial assets held at amortized cost and adds an impairment model that is based on expected losses rather than incurred losses. In April 2019, the FASB issued ASU No. 2019-04, *Codification Improvements to (Topic 326), Financial Instruments—Credit Losses, (Topic 815), Derivatives and Hedging, and (Topic 825), Financial Instruments*, to clarify and address certain items related to the amendments of ASU No. 2016-13. We adopted this standard in the first quarter of 2020 using the modified retrospective approach, which primarily impacted our allowance for doubtful accounts as a result of our analysis of customer historical credit and collections data. Additionally, we recognized a \$5.7 million cumulative effect adjustment, net of tax, to retained earnings, which includes a \$7.6 million increase to the allowance for doubtful accounts and a \$1.9 million net impact to deferred tax assets.

Recent Accounting Standards Not Yet Adopted – In August 2020, the FASB issued ASU No. 2020-06, *Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity*, which simplifies the accounting for convertible debt instruments and convertible preferred stock by reducing the number of accounting models and embedded conversion features that could be recognized separately from the primary contract. The guidance also enhances disclosure requirements for convertible instruments and simplifies the diluted net income per share calculation in certain aspects. The guidance is effective for fiscal years beginning after December 15, 2021. We are currently assessing the effect that this ASU on our consolidated financial statements and disclosures.

In March 2020, the FASB issued ASU No. 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, which provides optional expedients and exceptions for applying U.S. GAAP to contracts, hedging relationships, and other transactions affected by the discontinuation of the London Interbank Offered Rate (“LIBOR”) or by another reference rate expected to be discontinued. The amendments are effective for all entities as of March 12, 2020 through December 31, 2022. In May 2020, we elected the expedient within ASC 848 which allows us to assume that our hedged interest payments are probable of occurring regardless of any expected modifications in their terms related to reference rate return. In addition, ASC 848 allows for the option to change the method of assessing effectiveness upon a change in critical terms of the derivative or the hedged transactions and upon the end of relief under ASC 848. At this time, we have elected to continue the method of assessing effectiveness as documented in the original hedge documentation and apply the practical expedient so that the reference rate on the hypothetical derivative matches the reference rate on the hedging instrument. We plan to evaluate the remaining expedients for adoption, as applicable, when contracts are modified. Refer to Note 19 - *Derivative Financial Instruments* for additional disclosure information relating to our hedging activity.

In December 2019, the FASB issued ASU No. 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*, which removes certain exceptions to the general principles of ASC 740, including, but not limited to, accounting relating to intraperiod tax allocations, deferred tax liabilities related to outside basis differences, and year to date losses in interim periods. This guidance is effective for fiscal years beginning after December 15, 2020. Early adoption is permitted. We are currently assessing the impact of this ASU on our consolidated financial statements and disclosures.

In August 2018, the FASB issued ASU No. 2018-14, *Compensation - Retirement Benefits - Defined Benefit Plans - General (Subtopic 715-20): Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans*, which adds, modifies and clarifies several disclosure requirements for employers that sponsor defined benefit pension or

other post retirement plans. This guidance is effective for fiscal years ending after December 15, 2020. Early adoption is permitted. We are currently assessing the effect that this ASU will have on our disclosures.

Note 2. Acquisitions

In March 2019, we acquired VPI Quality Windows, Inc. ("VPI"). VPI is a leading manufacturer of vinyl windows, specializing in customized solutions for mid-rise multi-family, industrial, hospitality and commercial projects, primarily in the western U.S. VPI is located in Spokane, Washington and is a part of our North America segment.

The fair values of the assets and liabilities acquired of this acquisition are summarized below:

(amounts in thousands)	Preliminary Allocation	Measurement Period Adjustment	Final Allocation
Fair value of identifiable assets and liabilities:			
Accounts receivable	\$ 11,417	\$ (420)	\$ 10,997
Inventories	2,555	(141)	2,414
Other current assets	261	40	301
Property and equipment	3,166	176	3,342
Identifiable intangible assets	17,702	5,735	23,437
Operating lease assets	3,739	—	3,739
Goodwill	26,553	(3,053)	23,500
Other assets	10	—	10
Total assets	\$ 65,403	\$ 2,337	\$ 67,740
Accounts payable	2,629	—	2,629
Other current liabilities	1,875	522	2,397
Operating lease liability	3,413	—	3,413
Other liabilities	—	1,502	1,502
Total liabilities	\$ 7,917	\$ 2,024	\$ 9,941
Purchase price:			
Cash consideration, net of cash acquired	\$ 57,486	\$ 313	\$ 57,799

The final goodwill of \$23.5 million, calculated as the excess of the purchase price over the fair value of net assets, represents operational efficiencies and sales synergies, and the full amount is expected to be tax-deductible. The intangible assets include customer relationships and tradenames and will be amortized over an estimated weighted average amortization period of 8 years.

Acquisition-related costs are expensed as incurred and are included in SG&A expense in our accompanying unaudited consolidated statements of operations. We incurred no acquisition-related costs during the three months ended September 28, 2019 and \$0.4 million during the nine months ended September 28, 2019, respectively. Prior to our purchase of VPI, certain employees held employment agreements including retention bonuses with service requirements extending into the post-acquisition period. As agreed with the former owners, the retention bonuses were prepaid at the acquisition date and any repayments of the retention bonuses under the terms of the employment agreements will accrue to the benefit of the former owners. The cash used to pay the retention bonuses was excluded from our determination of purchase price. In 2019, we expensed the post-acquisition value of these retention bonuses as acquisition-related cost totaling \$7.1 million, which are included in SG&A expense in our accompanying unaudited consolidated statements of operations for the nine months ended September 28, 2019.

The purchase price allocation was considered complete as of March 28, 2020.

We evaluated this acquisition quantitatively and qualitatively and determined it to be insignificant. Therefore, certain pro forma disclosures under ASC 805-10-50 have been omitted.

The results of this acquisition are included in our unaudited consolidated financial statements from the date of acquisition.

Note 3. Accounts Receivable

We sell our manufactured products to a large number of customers, primarily in the residential housing construction and remodel sectors, broadly dispersed across many domestic and foreign geographic regions. We assess the credit risk relating to our accounts receivable based on quantitative and qualitative factors, primarily historical credit collections within each region where we have operations. We perform ongoing credit evaluations of our customers to minimize credit risk. We do

not usually require collateral for accounts receivable but will require advance payment, guarantees, a security interest in the products sold to a customer, and/or letters of credit in certain situations. Customer accounts receivable converted to notes receivable are collateralized by inventory or other collateral.

As of January 1, 2020, we adopted ASC 326 - *Measurement of Credit Losses on Financial Instruments* on a modified retrospective basis, which increased the allowance for doubtful accounts by \$7.6 million on the date of adoption.

At September 26, 2020 and December 31, 2019, we had an allowance for doubtful accounts of \$13.2 million and \$6.0 million, respectively.

Note 4. Inventories

Inventories are stated at the lower of cost or net realizable value. Finished goods and work-in-process inventories include material, labor, and manufacturing overhead costs.

(amounts in thousands)	September 26, 2020	December 31, 2019
Raw materials	\$ 372,456	\$ 372,289
Work in process	36,359	38,432
Finished goods	101,134	94,357
Total inventories	<u>\$ 509,949</u>	<u>\$ 505,078</u>

Note 5. Property and Equipment, Net

(amounts in thousands)	September 26, 2020	December 31, 2019
Property and equipment	\$ 2,073,623	\$ 2,052,584
Accumulated depreciation	(1,232,588)	(1,188,209)
Total property and equipment, net	<u>\$ 841,035</u>	<u>\$ 864,375</u>

We monitor all property and equipment for any indicators of potential impairment. We recorded impairment charges of \$0.6 million and \$2.1 million during the three and nine months ended September 26, 2020. We recorded impairment charges of \$1.4 million and \$2.8 million during the three and nine months ended September 28, 2019, respectively.

Depreciation expense was recorded as follows:

(amounts in thousands)	Three Months Ended		Nine Months Ended	
	September 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019
Cost of sales	\$ 22,242	\$ 21,382	\$ 65,767	\$ 62,798
Selling, general and administrative	2,586	2,408	7,254	7,342
Total depreciation expense	<u>\$ 24,828</u>	<u>\$ 23,790</u>	<u>\$ 73,021</u>	<u>\$ 70,140</u>

Note 6. Goodwill

The following table summarizes the changes in goodwill by reportable segment:

(amounts in thousands)	North America	Europe	Australasia	Total Reportable Segments
Balance as of January 1	\$ 247,502	\$ 273,912	\$ 81,086	\$ 602,500
Currency translation	(145)	10,880	537	11,272
Balance at end of period	<u>\$ 247,357</u>	<u>\$ 284,792</u>	<u>\$ 81,623</u>	<u>\$ 613,772</u>

Note 7. Intangible Assets, Net

The cost and accumulated amortization values of our intangible assets were as follows:

(amounts in thousands)	September 26, 2020		
	Cost	Accumulated Amortization	Net Book Value
Customer relationships and agreements	\$ 149,598	\$ (62,659)	\$ 86,939
Software	102,961	(23,002)	79,959
Trademarks and trade names	57,881	(8,801)	49,080
Patents, licenses and rights	45,442	(17,741)	27,701
Total amortizable intangibles	<u>\$ 355,882</u>	<u>\$ (112,203)</u>	<u>\$ 243,679</u>

(amounts in thousands)	December 31, 2019		
	Cost	Accumulated Amortization	Net Book Value
Customer relationships and agreements	\$ 151,540	\$ (57,326)	\$ 94,214
Software	92,821	(18,222)	74,599
Trademarks and trade names	58,088	(7,512)	50,576
Patents, licenses and rights	45,392	(14,454)	30,938
Total amortizable intangibles	<u>\$ 347,841</u>	<u>\$ (97,514)</u>	<u>\$ 250,327</u>

Through September 26, 2020, we have capitalized software costs of \$70.5 million related to the application development stage of our global ERP system implementation, including \$13.6 million during the nine months ended September 26, 2020. As of September 26, 2020, we have placed \$52.0 million in service and are amortizing the cost of our global ERP system over its estimated useful life. In the third quarter 2020, we reduced the estimated useful life of our initial ERP instance from 15 years to 10 years to align with our current plans for our future global ERP system. In March 2020, we impaired \$3.4 million of capitalized software due to delays in implementation of certain ERP modules and the uncertainty of its future.

Intangible assets are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of such assets may not be recoverable. Intangible assets that become fully amortized are removed from the accounts in the period that they become fully amortized. Amortization expense was recorded as follows:

(amounts in thousands)	Three Months Ended		Nine Months Ended	
	September 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019
Amortization expense	\$ 7,098	\$ 8,764	\$ 20,345	\$ 23,557

Note 8. Other Assets

(amounts in thousands)	September 26, 2020	December 31, 2019
Cloud computing arrangements	\$ 10,651	\$ 6,374
Deposits	6,270	6,440
Customer displays	5,055	11,213
Long-term notes and accounts receivable	5,838	5,177
Overfunded pension benefit obligation	2,164	2,015
Debt issuance costs on unused portion of revolver facility	1,103	1,472
Other long-term assets	393	375
Other prepaid expenses	384	1,896
Total other assets	<u>\$ 31,858</u>	<u>\$ 34,962</u>

The prior period information has been reclassified to conform with current period presentation.

Note 9. Accrued Expenses and Other Current Liabilities

(amounts in thousands)	September 26, 2020	December 31, 2019
Legal claims provision	\$ 106,175	\$ 79,332
Accrued sales and advertising rebates	82,311	67,250
Current portion of operating lease liability	43,999	45,254
Non-income related taxes	41,692	23,178
Accrued expenses	26,351	27,993
Current portion of warranty liability <i>(Note 10)</i>	20,763	21,054
Accrued interest payable	18,225	2,126
Current portion of accrued income taxes payable	17,455	1,999
Deferred revenue	12,399	7,986
Current portion of accrued claim costs relating to self-insurance programs	10,931	12,312
Current portion of derivative liability <i>(Note 19)</i>	3,679	4,068
Current portion of restructuring accrual <i>(Note 17)</i>	1,463	6,051
Total accrued expenses and other current liabilities	\$ 385,443	\$ 298,603

The legal claims provision relates primarily to contingencies associated with the ongoing legal matters disclosed in Note 21 - *Commitments and Contingencies*.

The accrued sales and advertising rebates, accrued interest payable, and non-income related taxes can fluctuate significantly period-over-period due to timing of payments.

Note 10. Warranty Liability

Warranty terms vary from one year to lifetime on certain window and door components. Warranties are normally limited to servicing or replacing defective components for the original customer. Product defects arising within six months of sale are classified as manufacturing defects and are not included in the current period expense below. Some warranties are transferable to subsequent owners and are either limited to 10 years from the date of manufacture or require pro-rata payments from the customer. A provision for estimated warranty costs is recorded at the time of sale based on historical experience and is periodically adjusted to reflect actual experience.

An analysis of our warranty liability is as follows:

(amounts in thousands)	September 26, 2020	September 28, 2019
Balance as of January 1	\$ 49,716	\$ 46,468
Current period expense	16,793	15,180
Liabilities assumed due to acquisition	—	79
Experience adjustments	1,831	1,090
Payments	(17,162)	(15,937)
Currency translation	(145)	(68)
Balance at period end	51,033	46,812
Current portion	(20,763)	(20,035)
Long-term portion	\$ 30,270	\$ 26,777

The most significant component of our warranty liability is in the North America segment, which totaled \$45.3 million at September 26, 2020, after discounting future estimated cash flows at rates between 0.69% and 4.75%. Without discounting, the liability would have been higher by approximately \$2.6 million.

Note 11. Long-Term Debt

Our long-term debt, net of original issue discount and unamortized debt issuance costs, consisted of the following:

(amounts in thousands)	September 26, 2020	September 26, 2020	December 31, 2019
	Interest Rate		
Senior Secured Notes and Senior Notes	4.63% - 6.25%	\$ 1,050,000	\$ 800,000
Term loans	1.30% - 2.16%	588,507	591,153
Finance leases and other financing arrangements	1.25% - 5.95%	114,656	108,613
Mortgage notes	1.65%	28,191	28,175
Installment notes for stock	—%	—	205
Total Debt		1,781,354	1,528,146
Unamortized debt issuance costs and original issue discount		(14,001)	(10,774)
Current maturities of long-term debt		(68,485)	(65,846)
Long-term debt		\$ 1,698,868	\$ 1,451,526

Summaries of our significant changes to outstanding debt agreements as of September 26, 2020 are as follows:

Senior Secured Notes and Senior Notes

In May 2020, we issued \$250.0 million of Senior Secured Notes bearing interest at 6.25% and maturing in May 2025 in a private placement for resale to qualified institutional buyers pursuant to Rule 144A under the Securities Act. The proceeds were net of fees and expenses associated with debt issuance, including an underwriting fee of 1.25%. Interest is payable semiannually, in arrears, each May and November through maturity, beginning November 2020.

In December 2017, we issued \$800.0 million of unsecured Senior Notes in two tranches: \$400.0 million bearing interest at 4.63% and maturing in December 2025, and \$400.0 million bearing interest at 4.88% and maturing in December 2027 in a private placement for resale to qualified institutional buyers pursuant to Rule 144A under the Securities Act.

Term Loans

U.S. Facility - In February 2019, we purchased interest rate caps in order to effectively fix a 3.0% per annum ceiling on the LIBOR component of an aggregate \$150.0 million of our term loans. The caps became effective March 29, 2019 and expire December 31, 2021.

In September 2019, we amended the Term Loan Facility to provide for an incremental aggregate principal amount of \$125.0 million and used the proceeds primarily to repay \$115.0 million of outstanding borrowings under the ABL Facility. The proceeds were net of the original issue discount of 0.5%, or \$0.6 million, as well as \$0.6 million in fees and expenses associated with the debt issuance. This amendment requires that approximately \$1.4 million of the aggregate principal amount be repaid quarterly until the maturity date. There were no other changes to key terms and the facility maintains its original maturity date in December 2024. At September 26, 2020, the outstanding principal balance, net of original issue discount, was \$552.2 million.

In May 2020, we entered into interest rate swap agreements with a weighted average fixed rate of 0.395% paid against one-month LIBOR floored at 0.00% with outstanding notional amounts aggregating to \$370.0 million corresponding to that amount of the debt outstanding under our Term Loan Facility. The interest rate swap agreements are designated as cash flow hedges of a portion of the interest obligations on our Term Loan Facility borrowings and mature in December 2023. See Note 19-*Derivative Financial Instruments* for additional information on our derivative assets and liabilities.

Australia Facility - In June 2019, we reallocated AUD 5.0 million from the term loan commitment to the interchangeable commitment of the Australia Senior Secured Credit Facility. The amended AUD 50.0 million floating rate term loan facility bears interest at a base rate of BBSY plus a margin ranging from 1.00% to 1.10%, includes a line fee of 1.25% on the commitment amount, and matures in February 2023. This facility had an outstanding principal balance of AUD 50.0 million (\$35.3 million) as of September 26, 2020.

Revolving Credit Facilities

ABL Facility - In December 2019, we amended our ABL facility to reflect current banking regulatory requirements, which did not have a financial impact. In March 2020, we drew \$100.0 million under our ABL Facility as a precautionary measure to ensure funding of our seasonal working capital cash requirements given the significant impact of the COVID-19 pandemic on global financial markets and economies. In May 2020, we utilized a portion of the proceeds received from our issuance of the \$250.0 million of Senior Secured Notes to repay the outstanding balance on our ABL Facility. As of September 26, 2020, we had no outstanding borrowings, \$38.2 million in letters of credit and \$310.4 million available under the ABL Facility.

Australia Senior Secured Credit Facility - In June 2019, we amended the Australia Senior Secured Credit Facility, reallocating availability from the Australia Term Loan Facility and collapsing the floating rate revolving loan facility into an AUD 35.0 million interchangeable facility to be used for guarantees, asset financing, and loans of 12 months or less. In May 2020, we amended this facility to relax certain financial covenants and provide for a supplemental AUD 30.0 million floating rate revolving loan facility to be used for loans bearing interest at BBSY plus a margin of 1.10%, and a line fee of 0.90%, and maturing on June 30, 2021. The facility may be used only if and when the AUD 35.0 million interchangeable facility is fully utilized. As of September 26, 2020, we had AUD 30.0 million (\$21.2 million) available under this facility. In addition, the AUD 35.0 million interchangeable facility was renewed with relaxed financial maintenance covenants to at least June 30, 2021 and its line fee increased to 0.70%, compared to a line fee of 0.50% under the previous amendment. The non-term loan portion of the Australia Senior Secured Credit Facility no longer has a set maturity date but is instead subject to an annual review. As of September 26, 2020, we had AUD 21.9 million (\$15.4 million) available under this facility.

At September 26, 2020, we had combined borrowing availability of \$347.0 million under our revolving credit facilities.

Mortgage Notes – In December 2007, we entered into thirty-year mortgage notes secured by land and buildings with principal payments which began in 2018. At September 26, 2020, we had DKK 180.0 million (or \$28.2 million) outstanding under these notes.

Finance leases and other financing arrangements – In addition to finance leases, we include insurance premium financing arrangements and loans secured by equipment in this category. At September 26, 2020, we had \$114.7 million outstanding in this category, with maturities ranging from 2020 to 2027.

As of September 26, 2020, we were in compliance with the terms of all of our credit facilities and the indentures governing the Senior Notes and Senior Secured Notes.

Note 12. Income Taxes

The Company has completed its accounting for the income tax effects of the Tax Act. Although the measurement period has effectively ended, additional guidance and regulations continue to be released or finalized. We have considered ongoing developments released through the date hereof and determined that they have no impact on our tax accounts for the nine months ended September 26, 2020. Final guidance, once issued, may materially affect our conclusions regarding the net related effects of the Tax Act on our unaudited consolidated financial statements. Until then, management will continue to monitor and work with its tax advisors to interpret any guidance issued.

The effective income tax rate for continuing operations was 38.5% and 36.3% for the three and nine months ended September 26, 2020, respectively, compared to 56.9% and 44.9% for the three and nine months ended September 28, 2019, respectively. In accordance with ASC 740-270, we recorded tax expense of \$16.0 million and \$27.6 million from operations in the three and nine months ended September 26, 2020, respectively, compared to a tax expense of \$22.5 million and \$45.0 million for the corresponding periods ended September 28, 2019, by applying an estimated annual effective tax rate to our year-to-date income for includable entities during the respective periods. Our estimated annual effective tax rate for both years includes the impact of the tax on GILTI. The application of the estimated annual effective tax rate in interim periods may result in a significant variation in the customary relationship between income tax expense and pretax accounting income due to the seasonality of our global business. Entities that are currently generating losses and for which there is a full valuation allowance are excluded from the worldwide effective tax rate calculation and are calculated separately. The estimated annual effective tax rate for the current year is materially impacted by changes in management's judgment regarding the realizability of deferred tax assets. Due to the ongoing financial and operational impacts on our business arising from COVID-19 focused in the current year, our ability to realize certain tax benefits related primarily to U.S. foreign tax credits has been impacted. As such, management believes that our existing valuation allowance against these credits as well as our net operating losses at the state level will likely increase through the year as events occur. In accordance with guidance, we have factored the predicted increases as of the balance sheet date into our

estimated annual effective tax rate for the current year. To the extent that actual results and/or events differ from our predicted results, our estimated annual effective tax rate may be affected.

The impact of significant discrete items is separately recognized in the quarter in which they occur. The tax benefit for discrete items included in the tax provision for continuing operations for the three months ended September 26, 2020 was \$0.8 million compared to \$6.2 million of tax expense for the three months ended September 28, 2019, respectively. The discrete amounts for the three months ended September 26, 2020 were comprised primarily of tax benefit of \$0.5 million attributed to certain return-to-provision adjustments primarily in the U.S. and \$0.6 million attributed to the deferred tax impact of tax rate increases, partially offset by a tax expense of \$0.3 million attributable to current period interest expense on uncertain tax positions. The discrete amounts for the three months ended September 28, 2019 were comprised primarily of \$4.5 million related to the reclassification of stranded tax effect attributable to termination of hedge accounting for the maturity of interest rate swaps within OCI to income tax expense, \$0.6 million related to certain return-to-provision adjustments for various entities for tax filings in the period, \$0.4 million attributable to current period interest expense on uncertain tax positions, and \$0.4 million related to French tax rate changes. The tax benefit related to discrete items included in the tax provision for continuing operations for the nine months ended September 26, 2020 was \$2.9 million compared to tax expense of \$9.1 million for the nine months ended September 28, 2019. The discrete amounts for the nine months ended September 26, 2020 were comprised primarily of tax benefit of \$3.9 million attributed to the expiration of the statute of limitations on certain tax years in Estonia, \$0.5 million for certain return-to-provision adjustments primarily in the U.S., and \$0.3 million for the deferred tax impact of tax rate changes, partially offset by \$1.4 million of current period interest expense on uncertain tax positions and \$0.4 million for shortfalls arising from share-based compensation exercises and forfeitures. The discrete amounts for the nine months ended September 28, 2019 were comprised primarily of \$4.5 million related to the reclassification of stranded tax effect attributable to termination of hedge accounting for the maturity of interest rate swaps within OCI to income tax expense, a tax expense of \$1.2 million related to shortfalls recognized from exercises and forfeitures from share-based compensation awards, \$1.1 million related to return-to-provision adjustments for various entities for tax filings in the period, \$1.0 million related to the establishment of a valuation allowance for a Chilean subsidiary, \$0.9 million attributable to current period interest expense on uncertain tax positions, and \$0.4 million related to French tax rate changes.

Under ASC 740-10, we provide for uncertain tax positions and the related interest expense by adjusting unrecognized tax benefits and accrued interest accordingly. We recognize potential interest and penalties related to unrecognized tax benefits in income tax expense. We had unrecognized tax benefits without regard to accrued interest of \$15.9 million and \$16.2 million as of September 26, 2020 and December 31, 2019, respectively.

Note 13. Segment Information

We report our segment information in the same way management internally organizes the business in assessing performance and making decisions regarding allocation of resources in accordance with ASC 280-10- *Segment Reporting*. We determined that we have three reportable segments, organized and managed principally by geographic region. Our reportable segments are North America, Europe, and Australasia. We report all other business activities in Corporate and unallocated costs. Factors considered in determining the three reportable segments include the nature of business activities, the management structure accountable directly to the CODM, the discrete financial information available and the information regularly reviewed by the CODM. Management reviews net revenues and Adjusted EBITDA to evaluate segment performance and allocate resources. We define Adjusted EBITDA as net income (loss), adjusted for the following items: loss from discontinued operations, net of tax; equity earnings of non-consolidated entities; income tax (benefit) expense; depreciation and amortization; interest expense, net; impairment and restructuring charges; gain on previously held shares of equity investment; (gain) loss on sale of property and equipment; share-based compensation expense; non-cash foreign exchange transaction/translation (income) loss; other items; other non-cash items; and costs related to debt restructuring and debt refinancing.

The following tables set forth certain information relating to our segments' operations:

(amounts in thousands)	North America	Europe	Australasia	Total Operating Segments	Corporate and Unallocated Costs	Total Consolidated
Three Months Ended September 26, 2020						
Total net revenues	\$ 662,917	\$ 311,218	\$ 142,004	\$ 1,116,139	\$ —	\$ 1,116,139
Intersegment net revenues	(227)	(245)	(2,801)	(3,273)	—	(3,273)
Net revenues from external customers	\$ 662,690	\$ 310,973	\$ 139,203	\$ 1,112,866	\$ —	\$ 1,112,866
Impairment and restructuring charges	\$ 1,020	\$ 506	\$ (174)	\$ 1,352	\$ (33)	\$ 1,319
Adjusted EBITDA	\$ 92,411	\$ 39,970	\$ 18,494	\$ 150,875	\$ (20,125)	\$ 130,750
Three Months Ended September 28, 2019						
Total net revenues	\$ 658,705	\$ 287,703	\$ 148,281	\$ 1,094,689	\$ —	\$ 1,094,689
Intersegment net revenues	(268)	(13)	(2,455)	(2,736)	—	(2,736)
Net revenues from external customers	\$ 658,437	\$ 287,690	\$ 145,826	\$ 1,091,953	\$ —	\$ 1,091,953
Impairment and restructuring charges	\$ 1,133	\$ 2,258	\$ 4,513	\$ 7,904	\$ 31	\$ 7,935
Adjusted EBITDA	\$ 66,671	\$ 30,184	\$ 20,343	\$ 117,198	\$ (8,250)	\$ 108,948

(amounts in thousands)	North America	Europe	Australasia	Total Operating Segments	Corporate and Unallocated Costs	Total Consolidated
Nine Months Ended September 26, 2020						
Total net revenues	\$ 1,858,310	\$ 855,198	\$ 379,693	\$ 3,093,201	\$ —	\$ 3,093,201
Intersegment net revenues	(771)	(1,208)	(6,823)	(8,802)	—	(8,802)
Net revenues from external customers	\$ 1,857,539	\$ 853,990	\$ 372,870	\$ 3,084,399	\$ —	\$ 3,084,399
Impairment and restructuring charges	\$ 3,229	\$ 2,660	\$ 923	\$ 6,812	\$ 3,318	\$ 10,130
Adjusted EBITDA	\$ 232,516	\$ 91,650	\$ 42,454	\$ 366,620	\$ (35,644)	\$ 330,976
Nine Months Ended September 28, 2019						
Total net revenues	\$ 1,893,273	\$ 888,174	\$ 447,004	\$ 3,228,451	\$ —	\$ 3,228,451
Intersegment net revenues	(1,358)	(133)	(5,760)	(7,251)	—	(7,251)
Net revenues from external customers	\$ 1,891,915	\$ 888,041	\$ 441,244	\$ 3,221,200	\$ —	\$ 3,221,200
Impairment and restructuring charges	\$ 5,281	\$ 4,210	\$ 6,932	\$ 16,423	\$ 965	\$ 17,388
Adjusted EBITDA	\$ 206,985	\$ 86,810	\$ 57,981	\$ 351,776	\$ (25,968)	\$ 325,808

Reconciliations of net income to Adjusted EBITDA are as follows:

(amounts in thousands)	Three Months Ended		Nine Months Ended	
	September 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019
Net income	\$ 25,480	\$ 17,042	\$ 48,347	\$ 55,175
Income tax expense	15,969	22,500	27,569	45,030
Depreciation and amortization	33,538	34,921	99,755	99,749
Interest expense, net	18,784	17,571	54,464	53,719
Impairment and restructuring charges ⁽¹⁾	1,355	8,217	10,393	18,534
(Gain) loss on sale of property and equipment	(287)	1	(2,697)	1,081
Share-based compensation expense	2,767	4,108	11,662	10,585
Non-cash foreign exchange transaction/translation (income) loss	2,963	(182)	10,558	3,615
Other items ⁽²⁾	30,181	4,770	70,755	37,586
Costs relating to debt restructuring and debt refinancing	—	—	170	—
Other non-cash items ⁽³⁾	—	—	—	734
Adjusted EBITDA	\$ 130,750	\$ 108,948	\$ 330,976	\$ 325,808

- (1) Impairment and restructuring charges consist of (i) impairment and restructuring charges that are included in our consolidated unaudited statements of operations plus (ii) additional charges relating to inventory and/or manufacturing of our products that are included in cost of sales in the accompanying unaudited consolidated statements of operations in the amount of \$36 and \$282 for the three months ended September 26, 2020 and September 28, 2019, respectively, and \$263 and \$1,146 for the nine months ended September 26, 2020 and September 28, 2019, respectively. For further explanation of impairment and restructuring charges that are included in our consolidated statements of operations, see Note 17 - *Impairment and Restructuring Charges* in our financial statements.
- (2) Other non-recurring items not core to ongoing business activity include: (i) in the three months ended September 26, 2020 (1) \$27,760 in legal costs and professional expenses relating primarily to litigation, (2) \$1,289 in facility closure, consolidation, and startup costs, and (3) \$1,142 of realized losses on hedges of intercompany notes; (ii) in the three months ended September 28, 2019 (1) \$3,599 in legal costs and professional expenses relating primarily to litigation, (2) (\$3,021) of realized gains on hedges of intercompany notes, (3) \$2,557 in facility closure, consolidation, and startup costs, and (4) \$1,435 in acquisition and integration costs; (iii) in the nine months ended September 26, 2020 (1) \$62,460 in legal costs and professional expenses relating primarily to litigation, (2) \$5,366 in facility closure, consolidation, and startup costs, (3) \$1,235 in one-time lease termination charges, and (4) \$1,142 of realized losses on hedges of intercompany notes; (iv) in the nine months ended September 28, 2019 (1) \$15,708 in facility closure, consolidation, and startup costs, (2) \$13,432 in acquisition and integration costs including \$7,077 related to purchase price structured by the former owners as retention payments for key employees of a recent acquisition, (3) \$9,887 in legal costs and professional expenses relating primarily to litigation, (4) (\$3,053) of realized gains on hedges of intercompany notes, (5) \$987 in miscellaneous costs, and (6) \$625 in costs related to departure of former executives.
- (3) Other non-cash items include \$734 in the nine months ended September 28, 2019 for inventory adjustments.

The prior period information has been reclassified to conform with current period presentation.

Note 14. Capital Stock

Preferred Stock - Our Board of Directors is authorized to issue Preferred Stock from time to time in one or more series and with such rights, privileges, and preferences as the Board of Directors shall from time to time determine. We have not issued any shares of Preferred Stock.

Common Stock - Common Stock includes the basis of shares outstanding plus amounts recorded as additional paid-in capital. Shares outstanding exclude the shares issued to the Employee Benefit Trust that are considered similar to treasury shares and total 193,941 shares at both September 26, 2020 and December 31, 2019 with a total original issuance value of \$12.4 million.

We record share repurchases on their trade date and reduce shareholders' equity and increase accounts payable. Repurchased shares are retired, and the excess of the repurchase price over the par value of the shares is charged to retained earnings.

In April 2018, our Board of Directors authorized the repurchase of up to \$250.0 million of our Common Stock through December 2019.

On November 4, 2019, the Board of Directors authorized an increase to the remaining authorization under the share repurchase program to a total of \$175.0 million with no expiration date. As of September 26, 2020, \$170.0 million was remaining under the repurchase authorization.

We did not repurchase shares during the three months ended September 26, 2020 or September 28, 2019. During the nine months ended September 26, 2020 and September 28, 2019, we repurchased 265,589 and 1,192,419 shares of our Common Stock, respectively, at an average price per share of \$18.83 and \$16.77, respectively.

Note 15. Earnings Per Share

The basic and diluted income per share calculations were determined based on the following share data:

	Three Months Ended		Nine Months Ended	
	September 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019
Weighted average outstanding shares of Common Stock basic	100,609,593	100,572,016	100,587,734	100,615,006
Restricted stock units, performance share units, and options to purchase Common Stock	1,169,359	809,960	853,229	804,764
Weighted average outstanding shares of Common Stock diluted	101,778,952	101,381,976	101,440,963	101,419,770

The following table provides the securities that could potentially dilute basic earnings per share in the future but were not included in the computation of diluted income per share as their inclusion would be anti-dilutive:

	Three Months Ended		Nine Months Ended	
	September 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019
Common Stock options	1,707,245	1,678,874	1,800,778	1,711,275
Restricted stock units	419,097	40,707	396,631	201,254
Performance share units	270,827	11,525	306,526	299,856

Note 16. Stock Compensation

The activity under our incentive plans for the periods presented are reflected in the following tables:

	Three Months Ended			
	September 26, 2020		September 28, 2019	
	Shares	Weighted Average Exercise Price Per Share	Shares	Weighted Average Exercise Price Per Share
Options granted	—	\$ —	18,226	\$ 20.88
Options canceled	43,179	\$ 27.73	68,940	\$ 25.79
Options exercised	97,150	\$ 11.75	72,667	\$ 12.25
	Weighted Average Grant Date Fair Value		Weighted Average Grant Date Fair Value	
	Shares		Shares	
RSUs granted	169,288	\$ 16.48	260,219	\$ 18.08
PSUs granted	—	\$ —	14,367	\$ 22.15
	Nine Months Ended			
	September 26, 2020		September 28, 2019	
	Shares	Weighted Average Exercise Price Per Share	Shares	Weighted Average Exercise Price Per Share
Options granted	407,607	\$ 24.30	443,170	\$ 20.94
Options canceled	159,354	\$ 26.51	238,142	\$ 26.36
Options exercised	201,530	\$ 11.68	459,724	\$ 9.44
	Weighted Average Grant Date Fair Value		Weighted Average Grant Date Fair Value	
	Shares		Shares	
RSUs granted	856,203	\$ 19.59	914,207	\$ 20.02
PSUs granted	311,275	\$ 25.50	401,935	\$ 22.21

Stock-based compensation expense was \$2.8 million and \$11.7 million for the three and nine months ended September 26, 2020, respectively, and \$4.2 million and \$10.6 million for the three and nine months ended September 28, 2019, respectively. As of September 26, 2020, we had \$33.7 million of total unrecognized compensation expense related to non-vested share-based compensation arrangements. This cost is expected to be recognized over the remaining weighted-average vesting period of 1.97 years.

Note 17. Impairment and Restructuring Charges

During 2020 and 2019, we engaged in restructuring activities intended to improve productivity, operating margins, and working capital levels. Restructuring costs primarily relate to workforce reductions, repositioning of management structure and costs associated with plant consolidations and closures.

Asset impairment charges were recorded in addition to our restructuring costs. In the nine months ended September 26, 2020, impairment charges primarily related to capitalized costs of certain ERP modules due to delays in implementation and uncertainty of their future use. In the three and nine months ended September 28, 2019, impairment charges were primarily related to ROU assets and property and equipment held by operations impacted by restructuring.

The following table summarizes the restructuring charges for the periods indicated:

	North America	Europe	Australasia	Corporate and Unallocated Costs	Total Consolidated
(amounts in thousands)					
Three Months Ended September 26, 2020					
Severance costs	\$ 569	\$ 445	\$ 359	\$ —	\$ 1,373
Other exit costs	—	2	(623)	(33)	(654)
Total restructuring costs	569	447	(264)	(33)	719
Impairments	451	59	90	—	600
Total impairment and restructuring charges	<u>\$ 1,020</u>	<u>\$ 506</u>	<u>\$ (174)</u>	<u>\$ (33)</u>	<u>\$ 1,319</u>
Three Months Ended September 28, 2019					
Severance costs	\$ 6	\$ 2,022	\$ 1,726	\$ 44	\$ 3,798
Other exit costs	16	236	814	(13)	1,053
Total restructuring costs	22	2,258	2,540	31	4,851
Impairments	1,111	—	1,973	—	3,084
Total impairment and restructuring charges	<u>\$ 1,133</u>	<u>\$ 2,258</u>	<u>\$ 4,513</u>	<u>\$ 31</u>	<u>\$ 7,935</u>
(amounts in thousands)					
	North America	Europe	Australasia	Corporate and Unallocated Costs	Total Consolidated
Nine Months Ended September 26, 2020					
Severance costs	\$ 2,022	\$ 1,471	\$ 542	\$ (10)	\$ 4,025
Other exit costs	(1)	235	227	(31)	430
Total restructuring costs	2,021	1,706	769	(41)	4,455
Impairments	1,208	954	154	3,359	5,675
Total impairment and restructuring charges	<u>\$ 3,229</u>	<u>\$ 2,660</u>	<u>\$ 923</u>	<u>\$ 3,318</u>	<u>\$ 10,130</u>
Nine Months Ended September 28, 2019					
Severance costs	\$ 2,166	\$ 3,693	\$ 3,262	\$ 1,005	\$ 10,126
Other exit costs	50	356	1,227	(40)	1,593
Total restructuring costs	2,216	4,049	4,489	965	11,719
Impairments	3,065	161	2,443	—	5,669
Total impairment and restructuring charges	<u>\$ 5,281</u>	<u>\$ 4,210</u>	<u>\$ 6,932</u>	<u>\$ 965</u>	<u>\$ 17,388</u>

Short-term restructuring accruals are recorded in accrued expenses and totaled \$1.5 million and \$6.1 million as of September 26, 2020 and December 31, 2019, respectively. Long-term restructuring accruals are recorded in deferred credits and other liabilities and totaled \$0.2 million and \$1.0 million as of September 26, 2020 and December 31, 2019, respectively.

The following is a summary of the restructuring accruals recorded and charges incurred:

<u>(amounts in thousands)</u>	<u>Beginning Accrual Balance</u>	<u>Additions Charged to Expense</u>	<u>Payments or Utilization</u>	<u>Ending Accrual Balance</u>
September 26, 2020				
Severance costs	\$ 5,314	\$ 4,025	\$ (8,023)	\$ 1,316
Other exit costs	1,729	430	(1,814)	345
Total	\$ 7,043	\$ 4,455	\$ (9,837)	\$ 1,661
September 28, 2019				
Severance costs	\$ 5,353	\$ 10,126	\$ (11,067)	\$ 4,412
Other exit costs	3,287	1,593	(2,009)	2,871
Total	\$ 8,640	\$ 11,719	\$ (13,076)	\$ 7,283

Note 18. Other Expense (Income)

The table below summarizes the amounts included in other expense (income) in the accompanying unaudited consolidated statements of operations:

<u>(amounts in thousands)</u>	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>September 26, 2020</u>	<u>September 28, 2019</u>	<u>September 26, 2020</u>	<u>September 28, 2019</u>
Foreign currency losses (gains)	\$ 4,316	\$ (5,374)	\$ 8,390	\$ (5,195)
Governmental pandemic assistance reimbursement	(1,493)	—	(7,374)	—
Insurance reimbursement	(1,257)	—	(1,257)	—
Pension expense	344	2,726	975	8,126
(Gain) loss on sale of business units, property, and equipment	(287)	240	(2,697)	(1,551)
Other items	(244)	(279)	(1,487)	(1,421)
Legal settlement income	—	—	—	(1,247)
Total other expense (income)	\$ 1,379	\$ (2,687)	\$ (3,450)	\$ (1,288)

Governmental pandemic assistance reimbursement for the three and nine months ended September 26, 2020 primarily consisted of cash received from governmental pandemic assistance programs within our North America and Europe segments as a result of COVID-19.

The prior period information has been reclassified to conform to current period presentation.

Note 19. Derivative Financial Instruments

All derivatives are recorded as assets or liabilities in the consolidated balance sheets at their respective fair values. For derivatives that qualify for hedge accounting, we assess, both at inception and on an ongoing basis, whether the derivative financial instrument is highly effective in offsetting cash flows of the hedged item and whether it is probable that the hedged forecasted transaction will occur. Changes in the fair value related to the derivatives considered highly effective are initially recorded in accumulated other comprehensive income and recognized in earnings at the same time as either the change in fair value of the underlying hedged item or the effect of the hedged item's exposure to the variability of cash flows. Changes in the fair value of derivatives that do not qualify for hedge accounting, or fail to meet the criteria, thereafter, are also recognized in the consolidated statements of operations. See Note 20 - *Fair Value of Financial Instruments* for additional information on the fair value of our derivative assets and liabilities.

Foreign currency derivatives – We are exposed to the impact of foreign currency fluctuations in certain countries in which we operate. In most of these countries, the exposure to foreign currency movements is limited because the operating revenues and expenses of our business units are substantially denominated in the local currency. To the extent borrowings, sales, purchases, or other transactions are not executed in the local currency of the operating unit, we are exposed to foreign currency risk. To mitigate the exposure, we enter into a variety of foreign currency derivative contracts, such as forward contracts, option collars, and cross-currency hedges. To manage the effect of exchange fluctuations on forecasted sales,

purchases, acquisitions, inventory and capital expenditures, and certain intercompany transactions that are denominated in foreign currencies, we have foreign currency derivative contracts with a total notional amount of \$105.5 million. We have foreign currency derivative contracts, with a total notional amount of \$24.0 million, to hedge the effects of translation gains and losses on intercompany loans and interest. To mitigate the impact to the consolidated earnings of the Company from the effect of the translation of certain subsidiaries' local currency results into U.S. dollars, we have foreign currency derivative contracts with a total notional amount of \$97.8 million. We do not use derivative financial instruments for trading or speculative purposes. We have not elected hedge accounting for any foreign currency derivative contracts. We record mark-to-market changes in the values of these derivatives in other (income) expense. We recorded mark-to-market losses of \$0.2 million and gains of \$3.0 million in the three and nine months ended September 26, 2020, respectively, and gains of \$0.1 million and losses of \$2.7 million in the three and nine months ended September 28, 2019, respectively.

Interest rate derivatives – We are exposed to interest rate risk in connection with our variable rate long-term debt and partially mitigate this risk through interest rate derivatives such as swaps and caps. In May 2020, we entered into interest rate swap agreements to manage this risk. The interest rate swaps have outstanding notional amounts aggregating to \$370.0 million and mature in December 2023 with a weighted average fixed rate of 0.395% paid against one-month LIBOR floored at 0.00%. The interest rate swap agreements are designated as cash flow hedges and will effectively change the base rate on a corresponding portion of the aggregate debt outstanding under our Term Loan Facility.

No portion of these interest rate contracts were deemed ineffective during the three and nine months ended September 26, 2020. We recorded a cumulative pre-tax mark-to-market loss of \$0.5 million and \$2.2 million, offset by a cumulative tax benefit of \$0.2 million and \$0.6 million in consolidated other comprehensive income during the three and nine months ended September 26, 2020, respectively. We reclassified \$0.2 million previously recorded in other comprehensive income to interest expense and \$0.1 million as a benefit to income tax expense. These reclassifications of interest rate hedge adjustments resulted in a \$0.1 million decrease in net income during the three and nine months ended September 26, 2020, respectively.

As of September 26, 2020, approximately \$0.9 million is expected to be reclassified to interest expense over the next 12 months.

The derivative agreements with our swap counterparties contain a provision whereby we could be declared in default on our derivative obligations if we either default or, in certain cases, are capable of being declared in default of any of our indebtedness greater than specified thresholds. These agreements also contain a provision where we could be declared in default subsequent to a merger or restructuring type event if the creditworthiness of the resulting entity is materially weaker.

During the first quarter of 2019, we entered into two interest rate cap contracts against three-month U.S.-dollar LIBOR, each with a cap rate of 3.00%. These caps have a combined notional amount of \$150.0 million, were effective as of March 2019, and terminate in December 2021. We have not elected hedge accounting and have recorded insignificant mark-to-market adjustments in the three and nine months ended September 26, 2020 and September 28, 2019.

In conjunction with the December 2017 refinancing of the Term Loan Facility, we terminated all of the interest rate swaps which had outstanding notional amounts aggregating to \$914.3 million and recorded a loss on termination of \$3.6 million in consolidated other comprehensive income (loss), which was being amortized as interest expense over the pre-termination life of the interest rate swaps. As of December 31, 2019, the loss on termination has been fully amortized. We recorded interest expense deriving from the amortization of the loss on termination of interest rate swaps of \$0.4 million and \$1.3 million during the three and nine months ended September 28, 2019.

The fair values of derivative instruments held are as follows:

	Derivative assets			
(amounts in thousands)	Balance Sheet Location	September 26, 2020	December 31, 2019	
Derivatives not designated as hedging instruments:				
Foreign currency forward contracts	Other current assets	\$ 3,097	\$	1,372
Interest rate cap contracts	Other assets	\$ —	\$	6
	Derivatives liabilities			
(amounts in thousands)	Balance Sheet Location	September 26, 2020	December 31, 2019	
Derivatives designated as hedging instruments:				
Interest rate contracts	Accrued expenses and other current liabilities	\$ 809	\$	—
Interest rate contracts	Deferred credits and other liabilities	\$ 1,213	\$	—
Derivatives not designated as hedging instruments:				
Foreign currency forward contracts	Accrued expenses and other current liabilities	\$ 2,870	\$	4,068

Note 20. Fair Value of Financial Instruments

We record financial assets and liabilities at fair value based on FASB guidance related to fair value measurements. The guidance requires fair value to be determined based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. Three levels of inputs may be used to measure fair value:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Quoted market-based inputs or unobservable inputs that are corroborated by market data.

Level 3 – Unobservable inputs that are not corroborated by market data.

The recorded carrying amounts and fair values of these instruments were as follows:

(amounts in thousands)	September 26, 2020				
	Carrying Amount	Total Fair Value	Level 1	Level 2	Level 3
Assets:					
Cash equivalents	\$ 325,121	\$ 325,121	\$ —	\$ 325,121	\$ —
Derivative assets, recorded in other current assets	3,097	3,097	—	3,097	—
Liabilities:					
Debt, recorded in long-term debt and current maturities of long-term debt	\$ 1,781,354	\$ 1,791,474	\$ —	\$ 1,791,474	\$ —
Derivative liabilities, recorded in accrued expenses and other current liabilities	3,679	3,679	—	3,679	—
Derivative liabilities, recorded in deferred credits and other liabilities	1,213	1,213	—	1,213	—

(amounts in thousands)	December 31, 2019				
	Carrying Amount	Total Fair Value	Level 1	Level 2	Level 3
Assets:					
Derivative assets, recorded in other current assets	\$ 1,372	\$ 1,372	\$ —	\$ 1,372	\$ —
Derivative assets, recorded in other assets	6	6	—	6	—
Liabilities:					
Debt, recorded in long-term debt and current maturities of long-term debt	\$ 1,528,146	\$ 1,554,425	\$ —	\$ 1,554,425	\$ —
Derivative liabilities, recorded in accrued expenses and other current assets	4,068	4,068	—	4,068	—

Derivative assets and liabilities reported in level 2 include foreign currency and interest rate contracts. See Note 19- *Derivative Financial Instruments* for additional information about our derivative assets and liabilities.

There are no material non-financial assets or liabilities as of September 26, 2020 or December 31, 2019.

Note 21. Commitments and Contingencies

Litigation – We are involved in various legal proceedings, claims, and government audits arising in the ordinary course of business. We record our best estimate of a loss when the loss is considered probable and the amount of such loss can be reasonably estimated. When a loss is probable and there is a range of estimated loss with no best estimate within the range, we record the minimum estimated liability related to the lawsuit or claim. As additional information becomes available, we reassess the potential liability and revise our accruals, if necessary. Because of uncertainties related to the resolution of lawsuits and claims, the ultimate outcome may differ materially from our estimates.

Other than the matters described below, as of September 26, 2020, there are no current proceedings or litigation matters involving the Company or its property that we believe would have a material adverse effect on our consolidated financial position or cash flows, although they could have a material adverse effect on our operating results for a particular reporting period.

Steves & Sons, Inc. vs JELD-WEN, Inc. – We sell molded door skins to certain customers pursuant to long-term contracts, and these customers in turn use the molded door skins to manufacture interior doors and compete directly against us in the marketplace. We gave notice of termination of one of these contracts and, on June 29, 2016, the counterparty to the agreement, Steves and Sons, Inc. (“Steves”) filed a claim against JWI in the U.S. District Court for the Eastern District of Virginia, Richmond Division (“Eastern District of Virginia”). The complaint alleged that our acquisition of CMI, a competitor in the molded door skins market, together with subsequent price increases and other alleged acts and omissions, violated antitrust laws, and constituted a breach of contract and breach of warranty. Specifically, the complaint alleged that our acquisition of CMI substantially lessened competition in the molded door skins market. The complaint sought declaratory relief, ordinary and treble damages, and injunctive relief, including divestiture of certain assets acquired in the CMI acquisition.

In February 2018, a jury in the Eastern District of Virginia returned a verdict that was unfavorable to JWI with respect to Steves’ claims that our acquisition of CMI violated Section 7 of the Clayton Act and found that JWI breached the supply agreement between the parties (the “Original Action”). The verdict awarded Steves \$12.2 million for past damages under both the Clayton Act and breach of contract claims and \$46.5 million in future lost profits under the Clayton Act claim.

On March 13, 2019, the presiding judge entered an Amended Final Judgment Order awarding \$36.5 million in past damages under the Clayton Act (representing a trebling of the jury’s verdict) and granting divestiture of CMI, subject to appeal. The judgment also conditionally awarded damages in the event the judgment is overturned on appeal. Specifically, the court awarded \$139.4 million as future antitrust damages in the event the divestiture order is overturned on appeal and \$9.9 million as past contract damages in the event both the divestiture and antitrust claims are overturned on appeal.

JELD-WEN filed a supersedeas bond and notice of appeal of the judgment, which was heard by the Fourth Circuit Court of Appeals on May 29, 2020.

On April 12, 2019, the plaintiffs filed a petition requesting an award of their fees and a bill of costs seeking \$28.4 million in attorneys’ fees and \$1.7 million in costs in connection with the Original Action. That petition remains pending and subject to further appeal. On November 19, 2019, the presiding judge entered an order for further relief awarding Steves an additional \$7.1 million in damages for pricing differences from the date of the underlying jury verdict through May 31,

2019 (the “Pricing Action”). We also appealed that ruling. On April 14, 2020, Steves filed a motion for further supplemental relief for pricing differences from the date of the prior order and going forward through the end of the parties’ current supply agreement. We opposed that request for further relief (the “Future Pricing Action”).

We continue to believe that Steves’ claims lack merit, Steves’ damages calculations are speculative and excessive, and Steves is not entitled in any event to the extraordinary remedy of divestiture of CMI. We believe that multiple pretrial and trial rulings were erroneous and improperly limited the Company’s defenses, and that the judgment in accordance with the verdict was improper for several reasons under applicable law. The judgment, if ultimately upheld after exhaustion of our appellate remedies, could have a material adverse effect on our financial position, operating results, or cash flows, particularly for the reporting period in which a loss is recorded or a payment is required. Because the operations acquired from CMI have been fully integrated into the Company’s operations, divestiture of those operations would be difficult if not impossible and, therefore, it is not possible to estimate the cost of any final divestiture order or the extent to which such an order would have a material adverse effect on our financial position, operating results, or cash flows.

During the course of the proceedings in the Eastern District of Virginia, we discovered certain facts that led us to conclude that Steves, its principals, and certain former employees of the Company had misappropriated Company trade secrets, violated the terms of various agreements between the Company and those parties, and violated other laws. On May 11, 2018, a jury in the Eastern District of Virginia returned a verdict on our trade secrets claims against Steves and awarded damages in the amount of \$1.2 million. The presiding judge entered a judgment in our favor for those damages and the entire amount has been paid by Steves. On August 16, 2019, the presiding judge granted Steves’ request for an injunction, prohibiting us from pursuing certain claims against individual defendants pending in Bexar County, Texas (the “Steves Texas Trade Secret Theft Action”). These claims have been stayed pending appeal.

Separately, on February 14, 2020, Steves filed a complaint and motion for preliminary injunction in the U.S. District Court for the Eastern District of Virginia, Richmond Division, alleging that we breached the long-term supply agreement between the parties, among other claims, including by incorrectly calculating the allocation of door skins owed to Steves (the “Allocation Action”). Steves sought an additional allotment of door skins and damages for violation of antitrust laws, tortious interference, and breach of contract. On April 10, 2020, the presiding judge granted Steves’ motion for preliminary injunction and the parties settled the issues underlying the preliminary injunction on April 30, 2020 and reserved the right to appeal the ruling in the Fourth Circuit Court of Appeals. The Company believed all the claims lacked merit and moved to dismiss the antitrust and tortious interference claims.

On June 2, 2020, we entered into a settlement agreement with Steves to resolve the Pricing Action, the Future Pricing Action, and the Allocation Action. As a result of the settlement, Steves filed a notice of satisfaction of judgment in the Pricing Action, withdrew its Future Pricing Action with prejudice, and filed a stipulated dismissal with prejudice in the Allocation Action. The Company also withdrew its appeal of the Pricing Action. The parties agreed to bear their own respective attorneys’ fees and costs in these actions. In partial consideration of the settlement, JWI and Steves entered into an amended supply agreement satisfactory to both parties that ends on September 10, 2021. This settlement has no effect on the Original Action between the parties that is currently on appeal in the Fourth Circuit except to agree that certain specific terms of the Amended Final Judgment Order in the Original Action will apply to the amended supply agreement during the pendency of the appeal of the Original Action, nor does this settlement have any effect on the Steves Texas Trade Secret Theft Action, which remains on appeal in the Fourth Circuit. We continue to believe the claims in the settled actions lacked merit and made no admission of liability in these matters.

Cambridge Retirement System v. JELD-WEN Holding, Inc., et al. – On February 19, 2020, Cambridge Retirement System filed a putative class action lawsuit in the U.S. District Court for the Eastern District of Virginia against the Company, current and former Company executives, and various Onex-related entities alleging violations of Section 10(b) and Rule 10b-5 of the Exchange Act, as well as violations of Section 20(a) of the Exchange Act against the individual defendants and Onex-related entities. The lawsuit seeks compensatory damages, equitable relief and an award of attorneys’ fees and costs. The Company believes the claims lack merit and intends to vigorously defend against the action. On May 8, 2020, the Public Employees Retirement System of Mississippi and the Plumbers and Pipefitters National Pension Fund were named as co-lead plaintiffs and filed an amended complaint on June 22, 2020. We filed a motion to dismiss the amended complaint on July 29, 2020, which was denied on October 26, 2020. Trial in this matter is currently set for May 24, 2021.

In Re: Interior Molded Doors Antitrust Litigation – On October 19, 2018, Grubb Lumber Company, on behalf of itself and other similarly situated, filed a putative class action lawsuit against us and one of our competitors in the doors market, Masonite Corporation (“Masonite”), in the Eastern District of Virginia. We subsequently received additional complaints from and on behalf of direct and indirect purchasers of interior molded doors. The suits were consolidated into two separate actions, a Direct Purchaser Action and an Indirect Purchaser Action. The suits allege that Masonite and JELD-WEN violated Section 1 of the Sherman Act, and in the Indirect Purchaser Action, related state law antitrust and consumer protection laws, by engaging in a scheme to artificially raise, fix, maintain or stabilize the prices of interior molded doors in the United States. The complaints sought ordinary and treble damages, declaratory relief, interest, costs and attorneys’ fees.

The Company believes the claims lack merit and vigorously defended against the actions. On September 18, 2019, the court granted in part and denied in part the defendants' motions to dismiss the lawsuits, dismissing various state law claims and limiting plaintiffs' damages claims to a four-year period (from 2014-2018) under the applicable statute of limitations. Together with Masonite, we filed motions to oppose class certification in both the Direct Purchaser and Indirect Purchaser Actions on May 19, 2020.

On August 31, 2020, JELD-WEN and Masonite entered into a settlement agreement to resolve the Direct Purchaser Action. In exchange for a full release of claims through the date of preliminary court approval of the settlement, each defendant agreed to pay \$28.0 million to the named plaintiffs and the settlement class. In addition, on September 4, 2020, JELD-WEN and Masonite entered into a separate settlement agreement to resolve the Indirect Purchaser Action. Each defendant agreed to pay \$9.75 million to the named plaintiffs and the settlement class in exchange for a full release of claims through the execution date of the settlement agreement. The court entered a minute order preliminarily approving the settlements on October 8, 2020 and set March 16, 2021 as the date for the final fairness hearing. The Company continues to believe that the plaintiffs' claims lack merit and has denied any liability or wrongdoing for the claims made against the Company. The settlement agreements remain subject to final court approval and other conditions.

Canadian Antitrust Litigation – On May 15, 2020, Développement Émeraude Inc., on behalf of itself and others similarly situated, filed a putative class action lawsuit against us and Masonite in the Superior Court of the Province of Quebec, Canada, which was served on us on September 18, 2020 ("the Quebec Action"). The putative class consists of any person in Canada who, since October 2012, purchased one or more interior molded doors from us or Masonite. The suit alleges an illegal conspiracy between us and Masonite to agree on prices, the distribution of market shares and/or the production levels of interior molded doors and that the plaintiffs suffered damages in that they were charged and paid higher prices for interior molded doors than they would have had to pay but for the alleged anti-competitive conduct. The plaintiffs are seeking compensatory and punitive damages, attorneys' fees and costs. On September 9, Kate O'Leary Swinkels, on behalf of herself and others similarly situated, filed a putative class action against JELD-WEN and Masonite in federal court in the province of Ontario, which was served on us on September 29, 2020 (the "Ontario Action"). The Ontario Action makes substantially similar allegations to the Quebec Action and the putative class is represented by the same counsel. The Company believes both the Quebec Action and the Ontario Action lack merit and intends to vigorously defend against them.

We have evaluated the claims against us and recorded provisions based on management's judgment about the probable outcome of the litigation and have included our estimates in accrued expenses in the accompanying balance sheets. See Note 9 - *Accrued Expenses and Other Current Liabilities*. While we expect a favorable resolution to these matters, the dispute resolution process could be lengthy, and if the plaintiffs were to prevail completely or substantially in the respective matters described above, such an outcome could have a material adverse effect on our operating results, consolidated financial position, or cash flows.

Self-Insured Risk – We self-insure substantially all of our domestic business liability risks including general liability, product liability, warranty, personal injury, auto liability, workers' compensation and employee medical benefits. Excess insurance policies from independent insurance companies generally cover exposures between \$3.0 million and \$200.0 million for domestic product liability risk and exposures between \$0.5 million and \$200.0 million for auto, general liability, personal injury and workers' compensation. We have no stop loss insurance covering our self-insured employee medical plan and are responsible for all claims thereunder. We estimate our provision for self-insured losses based upon an evaluation of current claim exposure and historical loss experience. Actual self-insurance losses may vary significantly from these estimates. At September 26, 2020 and December 31, 2019, our accrued liability for self-insured risks was \$78.3 million and \$76.6 million, respectively.

Indemnifications – At September 26, 2020, we had commitments related to certain representations made in contracts for the purchase or sale of businesses or property. These representations primarily relate to past actions such as responsibility for transfer taxes if they should be claimed, and the adequacy of recorded liabilities, warranty matters, employment benefit plans, income tax matters or environmental exposures. These guarantees or indemnification responsibilities typically expire within one to three years. We are not aware of any material amounts claimed or expected to be claimed under these indemnities. From time to time and in limited geographic areas, we have entered into agreements for the sale of our products to certain customers that provide additional indemnifications for liabilities arising from construction or product defects. We cannot estimate the potential magnitude of such exposures, but to the extent specific liabilities have been identified related to product sales, liabilities have been provided in the warranty accrual in the accompanying consolidated balance sheets.

Performance Bonds and Letters of Credit – At times, we are required to provide letters of credit, surety bonds or guarantees to customers, vendors and others. Stand-by letters of credit are provided to certain customers and counterparties in the ordinary course of business as credit support for contractual performance guarantees, advanced payments received from customers, and future funding commitments. During 2019, we filed bonds in the amount of \$47.7 million related to

the Steves' legal proceeding which were subsequently reduced to \$40.0 million. The outstanding performance bonds and stand-by letters of credit were as follows:

(amounts in thousands)	September 26, 2020	December 31, 2019
Self-insurance workers' compensation	\$ 24,688	\$ 23,638
Legal	40,861	48,561
Liability and other insurance	18,208	16,678
Environmental	8,286	8,186
Other	7,010	5,864
Total outstanding performance bonds and stand-by letters of credit	<u>\$ 99,053</u>	<u>\$ 102,927</u>

Environmental Contingencies – We periodically incur environmental liabilities associated with remediating our current and former manufacturing sites as well as penalties for not complying with environmental rules and regulations. We record a liability for remediation costs when it is probable that we will be responsible for such costs and the costs can be reasonably estimated. These environmental liabilities are estimated based on current available facts and current laws and regulations. Accordingly, it is likely that adjustments to the estimated liabilities will be necessary as additional information becomes available. Short-term environmental liabilities and settlements are recorded in accrued expenses in the accompanying consolidated balance sheets and totaled \$0.7 million at both September 26, 2020 and December 31, 2019. Long-term environmental liabilities are recorded in deferred credits and other liabilities in the accompanying consolidated balance sheets. No long-term environmental liabilities were recorded at either September 26, 2020 or December 31, 2019.

Everett, Washington WADOE Action – In 2008, we entered into an Agreed Order with the WADOE to assess historic environmental contamination and remediation feasibility at our former manufacturing site in Everett, Washington. As part of this agreement, we also agreed to develop a Corrective Action Plan ("CAP"), arising from the feasibility assessment. We are currently working with WADOE to finalize our Remedial Investigation and Feasibility Study ("RI/FS"), and, on April 30, 2020, we provided the WADOE with our revised draft RI/FS. The WADOE will review our RI/FS and provide a public comment period, potentially in the first quarter of 2021, before we can develop the CAP. However, at this time, we cannot reasonably estimate the cost associated with any remedial actions we will be required to undertake under the CAP; therefore, we have not provided accruals for any remedial action in our accompanying consolidated financial statements.

Towanda, Pennsylvania Consent Order – In 2015, we entered into a COA with the PaDEP to remove a pile of wood fiber waste from our site in Towanda, Pennsylvania, which we acquired in connection with our acquisition of CMI in 2013, by using it as fuel for a boiler at that site. The COA replaced a 1995 Consent Decree between CMI's predecessor Masonite, Inc. and PaDEP. Under the COA, we are required to achieve certain periodic removal objectives and ultimately remove the entire pile by August 31, 2022. There are currently \$2.3 million in bonds posted in connection with these obligations. If we are unable to remove this pile by August 31, 2022, then the bonds will be forfeited, and we may be subject to penalties by PaDEP. We currently anticipate meeting all applicable removal deadlines; however, if our operations at this site decrease and we burn less fuel than currently anticipated, we may not be able to meet such deadlines.

Note 22. Employee Retirement and Pension Benefits

U.S. Defined Benefit Pension Plan – Certain U.S. hourly employees participate in our defined benefit pension plan. The plan is not open to new employees. Pension expense, as recorded in the accompanying unaudited consolidated statements of operations, is determined by using spot rate assumptions made on January 1 of each year as summarized below:

(amounts in thousands)	Three Months Ended		Nine Months Ended	
	September 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019
Components of pension benefit expense - U.S. benefit plan:				
Administrative cost	\$ 775	\$ 1,250	\$ 2,325	\$ 3,750
Interest cost	3,050	3,725	9,150	11,175
Expected return on plan assets	(5,475)	(4,650)	(16,425)	(13,950)
Amortization of net actuarial pension loss	1,725	2,225	5,175	6,675
Pension benefit expense	<u>\$ 75</u>	<u>\$ 2,550</u>	<u>\$ 225</u>	<u>\$ 7,650</u>

During the three and nine months ended September 26, 2020, we made required contributions to our U.S. defined benefit pension plan or "Plan", of \$1.1 million and \$2.7 million, respectively, and voluntary contributions of \$1.7 million. During

the three and nine months ended September 28, 2019, we made required contributions to the Plan of \$3.1 million and \$6.1 million, respectively, and voluntary contributions of \$0.1 million. We have no additional required contributions for the Plan in 2020.

During the three months ended June 27, 2020, we elected to utilize the alternative method when calculating the Pension Benefit Guarantee Corporation premiums for 2020 and the succeeding 4 years, rather than the standard method utilized during the previous 5 years, resulting in a reduction to pension benefit expenses in the nine month period ending September 26, 2020.

Note 23. Supplemental Cash Flow Information

(amounts in thousands)	Nine Months Ended	
	September 26, 2020	September 28, 2019
Cash Operating Activities:		
Operating leases	\$ 43,115	\$ 41,812
Finance leases	141	86
Cash paid for amounts included in the measurement of lease liabilities	<u>\$ 43,256</u>	<u>\$ 41,898</u>
Non-cash Investing Activities:		
Property, equipment and intangibles purchased in accounts payable	\$ 2,844	\$ 7,657
Property, equipment and intangibles purchased for debt	13,571	29,813
Customer accounts receivable converted to notes receivable	820	538
Cash Financing Activities:		
Proceeds from issuance of new debt	\$ 250,000	\$ 124,375
Borrowings on long-term debt	893	6,282
Payments of long-term debt	(24,668)	(104,954)
Payments of debt issuance and extinguishment costs, including underwriting fees	(4,583)	(635)
Change in long-term debt	<u>\$ 221,642</u>	<u>\$ 25,068</u>
Cash paid for amounts included in the measurement of finance lease liabilities	\$ 1,167	\$ 597
Non-cash Financing Activities:		
Debt issuance costs deducted from long-term debt borrowings in accounts payable	\$ 250	\$ —
Prepaid insurance funded through short-term debt borrowings	10,785	4,948
Prepaid ERP costs funded through short-term debt borrowings	—	1,430
Shares surrendered for tax obligations for employee share-based transactions in accrued liabilities	178	79
Accounts payable converted to installment notes	914	757
Other Supplemental Cash Flow Information:		
Cash taxes paid, net of refunds	\$ 14,197	\$ 21,026
Cash interest paid	37,457	38,832

Note 24. Related Party Transactions

Sale of subsidiary – In May 2019, we sold Creative Media Development, Inc. “CMD”, a subsidiary, which was part of our North America segment, for \$6.5 million, resulting in a gain of \$2.8 million in the second quarter of 2019. A minority shareholder of the buying group also serves on our Board of Directors. Under the Stock Purchase Agreement for CMD, we agreed to use CMD for certain advertising services totaling \$7.0 million between 2019 and 2023. As of September 26, 2020, the remaining balance is \$1.9 million. At September 26, 2020, there is no amount due from the related party. This sale did not have a material impact on our results of operations.

Acquired lease – In conjunction with our acquisition of VPI, we assumed operating leases on two buildings with a former shareholder of VPI and current employee. The leases are at market rates and resulted in an operating lease asset of \$3.6 million as of the opening balance sheet. One of the leases was modified in August 2019, which increased the value by \$0.6 million. At September 26, 2020, the operating lease asset is \$3.6 million.

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

FORWARD-LOOKING STATEMENTS

In addition to historical information, this 10-Q contains "forward-looking statements" within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act, which are subject to the "safe harbor" created by those sections. All statements, other than statements of historical facts, included in this 10-Q are forward-looking statements. You can generally identify forward-looking statements by our use of forward-looking terminology such as "anticipate," "believe," "continue," "could," "estimate," "expect," "intend," "may," "might," "plan," "potential," "predict," "seek," or "should," or the negative thereof or other variations thereon or comparable terminology. In particular, statements about the markets in which we operate, including growth of our various markets, and our expectations, beliefs, plans, strategies, objectives, prospects, assumptions, including the impact of COVID-19, the outcome of legal proceeding, or future events or performance contained under the heading Item 2- *Management's Discussion and Analysis of Financial Condition and Results of Operations* are forward-looking statements.

We have based these forward-looking statements on our current expectations, assumptions, estimates and projections. While we believe these expectations, assumptions, estimates, and projections are reasonable, such forward-looking statements are only predictions and involve known and unknown risks and uncertainties, many of which are beyond our control. These and other important factors, including those discussed under the headings Item 1A- *Risk Factors* in our annual report on Form 10-K and Item 1A- *Risk Factors* and Item 2- *Management's Discussion and Analysis of Financial Condition and Results of Operations* in this 10-Q may cause our actual results, performance or achievements to differ materially from any future results, performance or achievements expressed or implied by these forward-looking statements. Some of the factors that could cause actual results to differ materially from those expressed or implied by the forward-looking statements include:

- negative trends in overall business, financial market and economic conditions, and/or activity levels in our end markets;
- our highly competitive business environment;
- failure to timely identify or effectively respond to consumer needs, expectations or trends;
- failure to maintain the performance, reliability, quality, and service standards required by our customers;
- failure to implement our strategic initiatives, including JEM;
- acquisitions or investments in other businesses that may not be successful;
- adverse outcome of pending or future litigation;
- declines in our relationships with and/or consolidation of our key customers;
- increases in interest rates and reduced availability of financing for the purchase of new homes and home construction and improvements;
- fluctuations in the prices of raw materials used to manufacture our products;
- delays or interruptions in the delivery of raw materials or finished goods;
- seasonal business and varying revenue and profit;
- changes in weather patterns;
- political, economic, and other risks, including pandemics, such as COVID-19, that arise from operating a multinational business;
- exchange rate fluctuations;
- disruptions in our operations;
- manufacturing realignments and cost savings programs resulting in a decrease in short-term earnings;
- our new Enterprise Resource Planning system that we are currently implementing proving ineffective;
- security breaches and other cybersecurity incidents;
- increases in labor costs, potential labor disputes, and work stoppages at our facilities;
- changes in building codes that could increase the cost of our products or lower the demand for our windows and doors;
- compliance costs and liabilities under environmental, health, and safety laws and regulations;

- compliance costs with respect to legislative and regulatory proposals to restrict emission of GHGs;
- lack of transparency, threat of fraud, public sector corruption, and other forms of criminal activity involving government officials;
- product liability claims, product recalls, or warranty claims;
- inability to protect our intellectual property;
- loss of key officers or employees;
- pension plan obligations;
- our current level of indebtedness;
- risks associated with any material weaknesses in our internal controls;
- the extent of Onex's control of us; and
- other risks and uncertainties, including those listed under Item 1A- *Risk Factors* in our 10-K and Item 1A- *Risk Factors* in this 10-Q.

Given these risks and uncertainties, you are cautioned not to place undue reliance on such forward-looking statements. The forward-looking statements contained in this 10-Q are not guarantees of future performance and our actual results of operations, financial condition, and liquidity, and the development of the industry in which we operate, may differ materially from the forward-looking statements contained herein. In addition, even if our results of operations, financial condition, and liquidity, and events in the industry in which we operate, are consistent with the forward-looking statements contained in this 10-Q, they may not be predictive of results or developments in future periods.

Any forward-looking statement in this 10-Q speaks only as of the date of this 10-Q or as of the date such statement was made. We do not undertake any obligation to update or revise, or to publicly announce any update or revision to, any of the forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

Unless the context requires otherwise, references in this 10-Q to "we," "us," "our," "the Company," or "JELD-WEN" mean JELD-WEN Holding, Inc., together with our consolidated subsidiaries where the context requires, including our wholly owned subsidiary JW1.

This discussion should be read in conjunction with our historical financial statements and related notes thereto and the other disclosures contained elsewhere in this 10-Q. The results of operations for the periods reflected herein are not necessarily indicative of results that may be expected for future periods, and our actual results may differ materially from those discussed in the forward-looking statements as a result of various factors, including but not limited to those listed under Item 1A- *Risk Factors* in our annual report on Form 10-K and Item 1A - *Risk Factors* in this 10-Q and included elsewhere in this 10-Q.

This MD&A is a supplement to our financial statements and notes thereto included elsewhere in this 10-Q and is provided to enhance your understanding of our results of operations and financial condition. Our discussion of results of operations is presented in millions throughout the MD&A and due to rounding may not sum or calculate precisely to the totals and percentages provided in the tables. Our MD&A is organized as follows:

- Overview and Background. This section provides a general description of our Company and reportable segments, business and industry trends, our key business strategies and background information on other matters discussed in this MD&A.
- Consolidated Results of Operations and Operating Results by Business Segment. This section provides our analysis and outlook for the significant line items on our consolidated statements of operations, as well as other information that we deem meaningful to an understanding of our results of operations on both a consolidated basis and a business segment basis.
- Liquidity and Capital Resources. This section contains an overview of our financing arrangements and provides an analysis of trends and uncertainties affecting liquidity, cash requirements for our business and sources and uses of our cash.
- Critical Accounting Policies and Estimates. This section discusses the accounting policies that we consider important to the evaluation and reporting of our financial condition and results of operations, and whose application requires significant judgments or a complex estimation process.

Overview and Background

We are one of the world's largest door and window manufacturers, and we hold a leading position by net revenues in the majority of the countries and markets we serve. We design, produce and distribute an extensive range of interior and exterior doors, wood, vinyl and aluminum windows, and related products for use in the new construction, R&R of residential homes, and, to a lesser extent, non-residential buildings.

We operate manufacturing and distribution facilities in approximately 20 countries, located primarily in North America, Europe, and Australia. For many product lines, our manufacturing processes are vertically integrated, enhancing our range of capabilities, our ability to innovate, and our quality control as well as providing supply chain, transportation, and working capital savings.

Business Segments

Our business is organized in geographic regions to ensure integration across operations serving common end markets and customers. We have three reportable segments: North America, Europe, and Australasia. Financial information related to our business segments can be found in Note 13 - *Segment Information* of our financial statements included elsewhere in this 10-Q.

Acquisitions

In March 2019, we acquired VPI Quality Windows, Inc., a leading manufacturer of vinyl windows, specializing in customized solutions for mid-rise multi-family, industrial, hospitality and commercial projects, primarily in the western U.S. VPI is located in Spokane, Washington. VPI is part of our North America segment. We paid \$57.8 million in cash, net of cash acquired, for the acquisition of VPI.

For additional information on our acquisition activity, see Note 2 - *Acquisitions* of our financial statements included elsewhere in this 10-Q.

Significant Developments

In March 2020, the World Health Organization declared the outbreak of COVID-19 a global pandemic. In the following weeks, global restrictions, including stay at home and similar orders, were implemented in a significant number of regions in which we operate. During the second and third quarters of 2020, we experienced intermittent closures of certain manufacturing facilities due to local and governmental mandates, with disruptions occurring primarily in April and May. Customer demand and revenue were consistent with our expectations during April and May with high-teens percentage declines from the prior year, however, they improved through the last half of the second quarter and continued to improve during the third quarter. We have modified our manufacturing facilities and procedures, based on recommended public health guidelines, to ensure the health and well-being of our employees. During 2020, we recognized approximately \$7.4 million, including \$1.5 million during the third quarter, relating to governmental pandemic assistance programs, which are primarily related to reimbursements for additional costs incurred as a result of the outbreak of COVID-19.

We have continued to monitor our liquidity resulting in increased liquidity each quarter during 2020, primarily as a result of issuing \$250.0 million of Senior Secured Notes during the second quarter and the seasonality of our business. We have also taken measures to reduce discretionary spending. We have, for example, restricted travel, implemented hiring freezes for non-essential positions, delayed merit increases, and suspended all non-critical spending, such as marketing and discretionary projects. In addition, during the second quarter, we implemented actions to reduce salary costs globally, including by our executive leadership team and Board of Directors elected to reduce their second quarter compensation by 25%, and implemented short-term employee furloughs throughout our Company. During the third quarter, we have reversed certain salary cost cutting initiatives based on our financial results. Further, to maintain sufficient levels of cash and liquidity, we are deferring tax payments where permitted through COVID-19 related government subsidy programs and are actively monitoring our accounts receivable for customers with elevated credit risk. We are monitoring the situation closely and, if necessary, will relax cost saving measures or implement additional measures as appropriate.

The scope and nature of impacts from COVID-19, most of which are beyond our control, continue to evolve, and the outcome is uncertain. The ultimate effects of the COVID-19 pandemic on us and the end markets we service, is highly uncertain and will depend on future developments. Such effects could exist for an extended period even after the pandemic ends.

Results of Operations

The tables in this section summarize key components of our results of operations for the periods indicated, both in U.S. dollars and as a percentage of our net revenues. Certain percentages presented in this section have been rounded to the nearest whole number. Accordingly, totals may not equal the sum of the line items in the tables below.

Comparison of the Three Months Ended September 26, 2020 to the Three Months Ended September 28, 2019

	Three Months Ended			
	September 26, 2020		September 28, 2019	
(amounts in thousands)		% of Net Revenues		% of Net Revenues
Net revenues	\$ 1,112,866	100.0 %	\$ 1,091,953	100.0 %
Cost of sales	867,972	78.0 %	868,168	79.5 %
Gross margin	244,894	22.0 %	223,785	20.5 %
Selling, general and administrative	181,963	16.4 %	161,424	14.8 %
Impairment and restructuring charges	1,319	0.1 %	7,935	0.7 %
Operating income	61,612	5.5 %	54,426	5.0 %
Interest expense, net	18,784	1.7 %	17,571	1.6 %
Other expense (income)	1,379	0.1 %	(2,687)	(0.2)%
Income before taxes	41,449	3.7 %	39,542	3.6 %
Income tax expense	15,969	1.4 %	22,500	2.1 %
Net income	\$ 25,480	2.3 %	\$ 17,042	1.6 %

Consolidated Results

Net Revenues – Net revenues increased \$20.9 million, or 1.9%, to \$1,112.9 million in the three months ended September 26, 2020 from \$1,092.0 million in the three months ended September 28, 2019. The increase in net revenues was driven by a 2% positive impact from foreign exchange. Core revenues, which exclude the impact of foreign exchange and acquisitions completed in the last twelve months remained stable.

Gross Margin – Gross margin increased \$21.1 million, or 9.4%, to \$244.9 million in the three months ended September 26, 2020 from \$223.8 million in the three months ended September 28, 2019. Gross margin as a percentage of net revenues was 22.0% in the three months ended September 26, 2020 and 20.5% in the three months ended September 28, 2019. The increase in gross margin percentage was due to improved pricing and lower material costs, partially offset by unfavorable volume/mix in our North America and Australasia regions and the effect of inflation on labor compensation.

SG&A Expense – SG&A expense increased \$20.5 million, or 12.7%, to \$182.0 million for the three months ended September 26, 2020 from \$161.4 million in the three months ended September 28, 2019. SG&A expense as a percentage of net revenues increased to 16.4% for the three months ended September 26, 2020 from 14.8% for the three months ended September 28, 2019. The increase in SG&A expense was primarily due to increased legal expenses, primarily relating to litigation, and changes in estimated variable compensation, partially offset by reductions in spending relating to sales, marketing, travel, and salaries as a result of cost saving measures implemented in response to COVID-19.

Impairment and Restructuring Charges – Impairment and restructuring charges decreased \$6.6 million, or 83.4%, to \$1.3 million in the three months ended September 26, 2020 from \$7.9 million in the three months ended September 28, 2019. The decrease in impairment and restructuring charges was primarily due to reduced restructuring efforts across all segments during the third quarter of 2020 as compared to the third quarter of 2019.

Interest Expense, Net – Interest expense, net increased \$1.2 million, or 6.9%, to \$18.8 million in the three months ended September 26, 2020 from \$17.6 million in the three months ended September 28, 2019. The increase was primarily due to interest on our Senior Secured Notes issued in May 2020, partially offset by reduced borrowings and interest rates under our revolving credit facilities.

Other Expense (Income) – Other expense (income) changed \$4.1 million to expense of \$1.4 million in the three months ended September 26, 2020 from income of \$2.7 million in the three months ended September 28, 2019. Other expense in the three months ended September 26, 2020 consisted primarily of foreign currency losses of \$4.3 million, partially offset by \$1.5 million for income recognized as a result of governmental pandemic assistance reimbursements relating to COVID-19 and an insurance reimbursement of \$1.3 million. Other expense in the three months ended September 28, 2019 primarily consisted of foreign currency gains of \$5.4 million, partially offset by pension expense of \$2.7 million.

Income Taxes – Income tax expense decreased \$6.5 million, or 29.0%, to \$16.0 million in the three months ended September 26, 2020 from \$22.5 million in the three months ended September 28, 2019. The effective tax rate in the three months ended September 26, 2020 was 38.5% compared to 56.9% in the three months ended September 28, 2019. The effective tax rate for the three

months ended September 26, 2020 and September 28, 2019 was heavily impacted by the GILTI provisions of the Tax Act. The decrease in tax expense of \$6.5 million in the current period was primarily driven by a decrease in discrete tax impacts for the reclassification of the tax effect of interest rate swaps within OCI to income tax expense recorded in 2019, tax benefits attributed to changes in return-to-provision adjustments, and the deferred tax impact of tax rate increases. Our 2020 estimated annual effective tax rate increased due to certain projected changes in valuation allowances recorded against certain tax attribute carryforwards due to anticipated operational impacts of the COVID-19 pandemic.

Comparison of the Nine Months Ended September 26, 2020 to the Nine Months Ended September 28, 2019

	Nine Months Ended			
	September 26, 2020		September 28, 2019	
(amounts in thousands)		% of Net Revenues		% of Net Revenues
Net revenues	\$ 3,084,399	100.0 %	\$ 3,221,200	100.0 %
Cost of sales	2,426,465	78.7 %	2,549,067	79.1 %
Gross margin	657,934	21.3 %	672,133	20.9 %
Selling, general and administrative	520,874	16.9 %	502,109	15.6 %
Impairment and restructuring charges	10,130	0.3 %	17,388	0.5 %
Operating income	126,930	4.1 %	152,636	4.7 %
Interest expense, net	54,464	1.8 %	53,719	1.7 %
Other income	(3,450)	(0.1) %	(1,288)	— %
Income before taxes	75,916	2.5 %	100,205	3.1 %
Income tax expense	27,569	0.9 %	45,030	1.4 %
Net income	\$ 48,347	1.6 %	\$ 55,175	1.7 %

Consolidated Results

Net Revenues – Net revenues decreased \$136.8 million, or 4.2%, to \$3,084.4 million in the nine months ended September 26, 2020 from \$3,221.2 million in the nine months ended September 28, 2019. The decrease was driven by a decline in core revenue of 4% and an adverse foreign exchange impact of 1%, partially offset by a 1% contribution from the VPI acquisition. The decrease in core revenue consisted of a 7% decline in volume/mix, partially offset by a 3% pricing benefit.

Gross Margin – Gross margin decreased \$14.2 million, or 2.1%, to \$657.9 million in the nine months ended September 26, 2020 from \$672.1 million in the nine months ended September 28, 2019. Gross margin as a percentage of net revenues was 21.3% in the nine months ended September 26, 2020 and 20.9% in the nine months ended September 28, 2019. Gross margins remained stable due to a reduction in wages as a result of plant closures and cost saving measures implemented in response to COVID-19 and favorable pricing within North America, partially offset by unfavorable volume/mix across all regions and the effect of inflation on labor compensation.

SG&A Expense – SG&A expense increased \$18.8 million, or 3.7%, to \$520.9 million in the nine months ended September 26, 2020 from \$502.1 million in the nine months ended September 28, 2019. The increase in SG&A expense was primarily due to increased legal expenses, primarily relating to litigation and estimated variable compensation, partially offset by reductions in spending relating to sales, marketing, travel, salaries as a result of cost saving measures implemented in response to COVID-19 and one-time acquisition costs recorded in 2019.

Impairment and Restructuring Charges – Impairment and restructuring charges decreased \$7.3 million, or 41.7%, to \$10.1 million in the nine months ended September 26, 2020 from \$17.4 million in the nine months ended September 28, 2019. Charges incurred in 2020 primarily related to severance charges for ongoing restructuring projects across all segments as well as impairment charges primarily related to capitalized costs of certain ERP modules due to delays in implementation and uncertainty of their future use. Charges incurred in 2019 primarily related to plant consolidations in our North America and Australasia segments as well as severance costs across all segments and corporate. For more information, refer to Note 17 - *Impairment and Restructuring Charges* to our unaudited consolidated financial statements included in this 10-Q.

Interest Expense, Net – Interest expense, net, increased \$0.7 million, or 1.4%, to \$54.5 million in the nine months ended September 26, 2020 from \$53.7 million in the nine months ended September 28, 2019. The increase was primarily due to interest on our Senior Secured Notes issued in May 2020, partially offset by reduced borrowings and interest rates under our revolving credit facilities.

Other Income – Other income increased \$2.2 million, or 167.9%, to \$3.5 million in the nine months ended September 26, 2020 from \$1.3 million in the nine months ended September 28, 2019. The other income in the nine months ended September 26, 2020 primarily consisted of foreign currency losses of \$8.4 million, offset by \$7.4 million for cash received as a result of governmental pandemic assistance reimbursements relating to COVID-19, a gain on sale of property and equipment of \$2.7 million, and an insurance reimbursement of \$1.3 million. Other income in the nine months ended September 28, 2019 was primarily due to pension expense of \$8.1 million, offset by foreign currency gains of \$5.2 million, a gain on the sale of business units, property and equipment of \$1.6 million, and legal settlement income of \$1.2 million.

Income Taxes – Income tax expense decreased \$17.5 million, or 38.8%, to \$27.6 million in the nine months ended September 26, 2020 from \$45.0 million in the nine months ended September 28, 2019. The effective tax rate in the nine months ended September 26, 2020 was 36.3% compared to 44.9% in the nine months ended September 28, 2019. The decrease in September 26, 2020 tax expense of \$17.5 million was primarily driven by the tax benefit attributed to the expiration of the statute of limitations on certain tax years in Estonia and the decline and mix of income between jurisdictions in which we do business, offset by the increase of the estimated annual effective estimated tax rate. Our 2020 estimated annual effective tax rate increased due to certain projected changes in valuation allowances recorded against certain tax attribute carryforwards due to anticipated operational impacts of the COVID-19 pandemic.

Segment Results

We report our segment information in the same way management internally organizes the business in assessing performance and making decisions regarding allocation of resources in accordance with ASC 280-10- *Segment Reporting*. We have determined that we have three reportable segments, organized and managed principally by geographic region. Our reportable segments are North America, Europe, and Australasia. We report all other business activities in Corporate and unallocated costs. We define Adjusted EBITDA as net income (loss), adjusted for the following items: loss from discontinued operations, net of tax; equity earnings of non-consolidated entities; income tax (benefit) expense; depreciation and amortization; interest expense, net; impairment and restructuring charges; gain on previously held shares of equity investment; (gain) loss on sale of property and equipment; share-based compensation expense; non-cash foreign exchange transaction/translation (income) loss; other non-cash items; other items; and costs related to debt restructuring and debt refinancing. For additional information on segment Adjusted EBITDA, see Note 13 - *Segment Information* to our unaudited interim consolidated financial statements included in this 10-Q.

Comparison of the Three Months Ended September 26, 2020 to the Three Months Ended September 28, 2019

(amounts in thousands)	Three Months Ended		% Variance
	September 26, 2020	September 28, 2019	
Net revenues from external customers			
North America	\$ 662,690	\$ 658,437	0.6 %
Europe	310,973	287,690	8.1 %
Australasia	139,203	145,826	(4.5) %
Total Consolidated	\$ 1,112,866	\$ 1,091,953	1.9 %
Percentage of total consolidated net revenues			
North America	59.6 %	60.3 %	
Europe	27.9 %	26.3 %	
Australasia	12.5 %	13.4 %	
Total Consolidated	100.0 %	100.0 %	
Adjusted EBITDA ⁽¹⁾			
North America	\$ 92,411	\$ 66,671	38.6 %
Europe	39,970	30,184	32.4 %
Australasia	18,494	20,343	(9.1) %
Corporate and unallocated costs	(20,125)	(8,250)	143.9 %
Total Consolidated	\$ 130,750	\$ 108,948	20.0 %
Adjusted EBITDA as a percentage of segment net revenues			
North America	13.9 %	10.1 %	
Europe	12.9 %	10.5 %	
Australasia	13.3 %	14.0 %	
Total Consolidated	11.7 %	10.0 %	

(1) Adjusted EBITDA is a financial measure that is not calculated in accordance with GAAP. For a discussion of our presentation of Adjusted EBITDA, see Note 13 - *Segment Information* in our unaudited interim consolidated financial statements.

North America

Net revenues in North America increased \$4.3 million, or 0.6%, to \$662.7 million in the three months ended September 26, 2020 from \$658.4 million in the three months ended September 28, 2019. The increase was due to an increase in core revenues of 1%, consisting of a 6% benefit from pricing, partially offset by a volume/mix headwind of 5%.

Adjusted EBITDA in North America increased \$25.7 million, or 38.6%, to \$92.4 million in the three months ended September 26, 2020 from \$66.7 million in the three months ended September 28, 2019. The increase was primarily due to improved pricing, partially offset by unfavorable mix and the effect of inflation on labor compensation.

Europe

Net revenues in Europe increased \$23.3 million, or 8.1%, to \$311.0 million in the three months ended September 26, 2020 from \$287.7 million in the three months ended September 28, 2019. The increase was due to a 5% positive impact from foreign exchange and an increase in core revenues of 3%, consisting of a 2% increase from volume/mix and a 1% benefit from pricing.

Adjusted EBITDA in Europe increased \$9.8 million, or 32.4%, to \$40.0 million in the three months ended September 26, 2020 from \$30.2 million in the three months ended September 28, 2019. The increase was primarily due to favorable volume/mix, pricing benefits, and labor and material cost savings.

Australasia

Net revenues in Australasia decreased \$6.6 million, or 4.5%, to \$139.2 million in the three months ended September 26, 2020 from \$145.8 million in the three months ended September 28, 2019. The decrease was due to a reduction in core revenues of 8%, consisting of a decrease in volumes/mix from market headwinds of 7% and reduced pricing of 1%, partially offset by positive foreign exchange impacts of 3%.

Adjusted EBITDA in Australasia decreased \$1.8 million, or 9.1%, to \$18.5 million in the three months ended September 26, 2020 from \$20.3 million in the three months ended September 28, 2019. The decrease was primarily due to lower volumes and unfavorable pricing, partially offset by labor cost savings and reductions in SG&A spending relating to sales, marketing, and travel, as a result of cost saving measures implemented in response to COVID-19.

Corporate and unallocated costs

Adjusted EBITDA in our corporate and unallocated costs decreased \$11.9 million, or 143.9%, to (\$20.1) million in the three months ended September 26, 2020 from (\$8.3) million in the three months ended September 28, 2019. The decrease was primarily due to increased variable compensation and the impact of foreign exchange hedges.

Comparison of the Nine Months Ended September 26, 2020 to the Nine Months Ended September 28, 2019

(amounts in thousands)	Nine Months Ended		% Variance
	September 26, 2020	September 28, 2019	
Net revenues from external customers			
North America	\$ 1,857,539	\$ 1,891,915	(1.8) %
Europe	853,990	888,041	(3.8) %
Australasia	372,870	441,244	(15.5) %
Total Consolidated	<u>\$ 3,084,399</u>	<u>\$ 3,221,200</u>	(4.2) %
Percentage of total consolidated net revenues			
North America	60.2 %	58.7 %	
Europe	27.7 %	27.6 %	
Australasia	12.1 %	13.7 %	
Total Consolidated	<u>100.0 %</u>	<u>100.0 %</u>	
Adjusted EBITDA ⁽¹⁾			
North America	\$ 232,516	\$ 206,985	12.3 %
Europe	91,650	86,810	5.6 %
Australasia	42,454	57,981	(26.8) %
Corporate and unallocated costs	(35,644)	(25,968)	37.3 %
Total Consolidated	<u>\$ 330,976</u>	<u>\$ 325,808</u>	1.6 %
Adjusted EBITDA as a percentage of segment net revenues			
North America	12.5 %	10.9 %	
Europe	10.7 %	9.8 %	
Australasia	11.4 %	13.1 %	
Total Consolidated	10.7 %	10.1 %	

- (1) Adjusted EBITDA is a financial measure that is not calculated in accordance with GAAP. For a discussion of our presentation of Adjusted EBITDA, see Note 13 - *Segment Information* in our unaudited interim consolidated financial statements.

North America

Net revenues in North America decreased \$34.4 million, or 1.8%, to \$1,857.5 million in the nine months ended September 26, 2020 from \$1,891.9 million in the nine months ended September 28, 2019. The decrease was primarily due to a reduction in core revenues of 3%, consisting of a decrease in volume/mix of 8%, offset by a pricing benefit of 5%, and a 1% increase attributable to the acquisition of VPI.

Adjusted EBITDA in North America increased \$25.5 million, or 12.3%, to \$232.5 million in the nine months ended September 26, 2020 from \$207.0 million in the nine months ended September 28, 2019. The increase was due to favorable pricing, reduced salary and benefit costs, and contributions from our VPI acquisition, partially offset by unfavorable revenue mix and the effect of inflation on labor compensation.

Europe

Net revenues in Europe decreased \$34.1 million, or 3.8%, to \$854.0 million in the nine months ended September 26, 2020 from \$888.0 million in the nine months ended September 28, 2019. The decrease was primarily due to a decrease in core revenue of 3%, consisting of a decrease in volume/mix of 4%, offset by a pricing benefit of 1%, as well as adverse foreign exchange impacts of 1%.

Adjusted EBITDA in Europe increased \$4.8 million, or 5.6%, to \$91.7 million in the nine months ended September 26, 2020 from \$86.8 million in the nine months ended September 28, 2019. The increase was primarily due to labor and material cost savings and favorable pricing, partially offset by revenue mix.

Australasia

Net revenues in Australasia decreased \$68.4 million, or 15.5%, to \$372.9 million in the nine months ended September 26, 2020 from \$441.2 million in the nine months ended September 28, 2019. The decrease was due to a reduction in core revenues of 13%, consisting of a decrease in volume/mix of 12% and reduced pricing of 1%, as well as adverse foreign exchange impacts of 3%.

Adjusted EBITDA in Australasia decreased \$15.5 million, or 26.8%, to \$42.5 million in the nine months ended September 26, 2020 from \$58.0 million in the nine months ended September 28, 2019. The decrease was primarily due to lower volumes from market headwinds and pricing, partially offset by labor cost savings and reductions in spending relating to sales, marketing, travel, and salaries as a result of cost saving measures implemented in response to COVID-19.

Corporate and unallocated costs

Adjusted EBITDA in our corporate and unallocated costs decreased \$9.7 million, or 37.3%, to (\$35.6) million in the nine months ended September 26, 2020 from (\$26.0) million in the nine months ended September 28, 2019. The decrease was primarily due to increased variable compensation and the impact of foreign exchange hedges.

Liquidity and Capital Resources

Overview

We have historically funded our operations through a combination of cash from operations, draws on our revolving credit facilities, factoring agreements, and the issuance of non-revolving debt such as our Term Loan Facility, Senior Notes, and Senior Secured Notes. Working capital, which we define as accounts receivable plus inventory less accounts payable, fluctuates throughout the year and is affected by the seasonality of sales of our products, customer payment patterns, and the translation of the balance sheets of our foreign operations into the U.S. dollar. Typically, working capital increases at the end of the first quarter and beginning of the second quarter in conjunction with, and in preparation for, the peak season for home construction and remodeling in our North America and Europe segments, which represent the substantial majority of our revenues, and decreases starting in the fourth quarter as inventory levels and accounts receivable decline. Inventories fluctuate for raw materials with long delivery lead times, such as steel, as we work through prior shipments and take delivery of new orders.

As of September 26, 2020, our cash balances, including \$0.8 million of restricted cash, consisted of \$354.0 million in the U.S. and \$252.6 million in non-U.S. subsidiaries. In May 2020, we issued \$250.0 million in Senior Secured Notes, the proceeds of which were used to repay the outstanding balance under our ABL Facility with the remainder to be used for general corporate purposes. In addition, we amended our Australia Senior Credit Facility to add AUD 30.0 million of additional revolving loan capacity. Although there is uncertainty surrounding the anticipated impact of the recent COVID-19 pandemic on our operating results and liquidity, based on our current level of operations, the seasonality of our business and anticipated growth, we believe that cash provided by operations and other sources of liquidity, including cash, cash equivalents and borrowings under our revolving credit facilities, will provide adequate liquidity for ongoing operations, planned capital expenditures and other investments, and debt service requirements for at least the next twelve months.

As of September 26, 2020, we had total liquidity (a non-GAAP measure) of \$952.8 million, consisting of \$605.8 million in unrestricted cash, \$310.4 million available for borrowing under the ABL Facility, and AUD 51.9 million (\$36.6 million) available for borrowing under the Australia Senior Secured Credit Facility, compared to total liquidity of \$554.5 million as of December 31, 2019. The increase in total liquidity was primarily due to the May 2020 Senior Secured Notes issuance and normal seasonality of our business.

We may, from time to time, refinance, reprice, extend, retire or otherwise modify our outstanding debt to lower our interest payments, reduce our debt or otherwise improve our financial position. These actions may include repricing amendments, extensions, and/or opportunistic refinancing of debt. The amount of debt that may be refinanced, repriced, extended, retired or otherwise modified, if any, will depend on market conditions, trading levels of our debt, our cash position, compliance with debt covenants and other considerations. Our affiliates may also purchase our debt from time to time, through open market purchases or other transactions. In such cases, our debt may not be retired, in which case we would continue to pay interest in accordance with the terms of the debt, and we would continue to reflect the debt as outstanding in our consolidated balance sheets.

Based on hypothetical variable rate debt that would have resulted from drawing each revolving credit facility up to the full commitment amount, a 1.0% decrease in interest rates would have reduced our interest expense by \$1.8 million for the nine months ended September 26, 2020. A 1.0% increase in interest rates would have increased our interest expense by \$5.5 million for the same period. The impact of these hypothetical changes would have been partially mitigated by interest rate caps and the floors that apply to certain of our debt agreements.

Borrowings and Refinancings

In May 2020, we issued \$250.0 million of Senior Secured Notes, the proceeds of which were used to repay the outstanding balance under our ABL Facility with the remainder to be used for general corporate purposes. In addition, we amended our Australia Senior Credit Facility to add AUD 30.0 million of additional revolving loan capacity.

In December 2019, we amended our ABL facility to reflect current banking regulatory requirements, which did not have a financial impact.

In September 2019, we amended the Term Loan Facility to provide for an incremental aggregate principal amount of \$125.0 million and used the proceeds to repay \$115.0 million of outstanding borrowings under the ABL Facility.

In June 2019, we reallocated AUD 5.0 million from the term loan commitment to the interchangeable commitment of the Australia Senior Secured Credit Facility.

As of September 26, 2020, we were in compliance with the terms of all of our Credit Facilities and the indentures governing the Senior Notes and Senior Secured Notes.

Our results have been and will continue to be impacted by substantial changes in our net interest expense throughout the periods presented and into the future. See Note 11 - *Long-Term Debt* in our consolidated financial statements for additional details.

Factoring arrangements

Our ABS subsidiary, acquired in March 2018, has entered into factoring agreements with a U.S.-based financial institution under which it can elect to sell certain of its accounts receivable under non-recourse agreements. These transactions are treated as a sale and are accounted for as a reduction in accounts receivable because the agreements transfer effective control over and risk of non-collection to the factor. Thus, cash proceeds from these arrangements are reflected as operating activities, including the change of accounts receivable on our statement of cash flows each period. We do not service any factored accounts after the factoring has occurred and do not have any servicing assets or liabilities. The aggregate gross amount factored under these arrangements was \$62.7 million and \$57.4 million for the nine months ended September 26, 2020 and September 28, 2019, respectively. The cost of factoring is reflected in the accompanying unaudited consolidated statements of operations as interest expense and was \$0.1 million and \$0.1 million for the three months ended September 26, 2020 and September 28, 2019, respectively, and \$0.2 million and \$0.4 million for the nine months ended September 26, 2020 and September 28, 2019, respectively.

Cash Flows

The following table summarizes the changes to our cash flows for the periods presented:

(amounts in thousands)	Nine Months Ended	
	September 26, 2020	September 28, 2019
Cash provided by (used in):		
Operating activities	\$ 210,581	\$ 164,892
Investing activities	(57,110)	(153,940)
Financing activities	217,108	6,064
Effect of changes in exchange rates on cash and cash equivalents	6,156	(2,981)
Net change in cash and cash equivalents	<u>\$ 376,735</u>	<u>\$ 14,035</u>

Cash Flow from Operations

Net cash provided by operating activities increased \$45.7 million to \$210.6 million in the nine months ended September 26, 2020 from \$164.9 million in net cash provided by operating activities in the nine months ended September 28, 2019. The increase in cash provided by operating activities was due primarily to the deferral of payroll taxes, changes in net working capital, and impacts from foreign exchange.

Cash Flow from Investing Activities

Net cash used in investing activities decreased \$96.8 million to \$57.1 million in the nine months ended September 26, 2020 from \$153.9 million in the nine months ended September 28, 2019 primarily due to a decrease in the cash used for acquisitions and a reduction in capital expenditures.

Cash Flow from Financing Activities

Net cash provided by financing activities was \$217.1 million in the nine months ended September 26, 2020 and consisted primarily of increased borrowings of \$221.6 million, partially offset by repurchases of our Common Stock of \$5.0 million.

Net cash provided by financing activities was \$6.1 million in the nine months ended September 28, 2019 and consisted primarily of increased borrowings of \$25.1 million, partially offset by repurchases of our Common Stock of \$20.0 million.

Critical Accounting Policies and Estimates

Management's Discussion and Analysis of Results of Operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of financial statements in conformity with those accounting principles requires management to use judgments in making estimates and assumptions based on the relevant information available at the end of each period. These estimates and assumptions may have a significant effect on reported amounts of assets and liabilities, revenue and expenses, as well as the disclosure of contingent assets and liabilities because they result primarily from the need to make estimates and assumptions on matters that are inherently uncertain. Actual results may differ from estimates.

Except for certain policy changes due to the adoption of ASU No. 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, management believes there have been no significant policy changes during the nine months ended September 26, 2020. For information about recently issued accounting standards, see Note 1 - *Description of Company and Summary of Significant Accounting Policies* in our unaudited consolidated financial statements.

Holding Company Status

We are a holding company that conducts all of our operations through subsidiaries. The majority of our operating income is derived from JWI, our main operating subsidiary. Consequently, we rely on dividends or advances from our subsidiaries. The ability of our subsidiaries to pay dividends to us is subject to applicable local law and may be limited due to the terms of other contractual arrangements, including our Credit Facilities and the Senior Notes.

The Australia Senior Secured Credit Facility also contains restrictions on dividends that limit the amount of cash that the obligors under these facilities can distribute to JWI. Obligors under the Australia Senior Secured Credit Facility may pay dividends only to the extent they do not exceed 80% of after tax net profits (with a one-year carryforward of unused amounts) and only while no default is continuing under such agreement. For further information regarding the Australia Senior Secured Credit Facility, see Note 11 - *Long-Term Debt* in our consolidated financial statements.

The amount of our consolidated net assets that were available to be distributed under our credit facilities as of September 26, 2020 was \$646.1 million.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future material effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources.

Item 3 - Quantitative and Qualitative Disclosures About Market Risk

We are exposed to various types of market risks, including the effects of adverse fluctuations in foreign currency exchange rates, adverse changes in interest rates, and adverse movements in commodity prices for products we use in our manufacturing. To reduce our exposure to these risks, we maintain risk management controls and policies to monitor these risks and take appropriate actions to attempt to mitigate such forms of market risk. Our market risks have not changed significantly from those disclosed in the 10-K.

Item 4 - Controls and Procedures

Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)), which are designed to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act, including this Report, are recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. These disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed by the Company under the Exchange Act is accumulated and communicated to the Company’s management, including its principal executive officer (“CEO”) and principal financial officer (“CFO”), as appropriate to allow timely decisions regarding required disclosure. The Company’s management, including the Company’s CEO and CFO, conducted an evaluation of the effectiveness of the Company’s disclosure controls and procedures as of the end of the period covered by this Report and, based on that evaluation, the CEO and CFO concluded that due to material weaknesses in internal control over financial reporting as described in *Item 9A - Controls and Procedures* in our Form 10-K, the Company’s disclosure controls and procedures were not effective as of September 26, 2020.

Remediation Plan for Previously Identified Material Weaknesses

As described in *Item 9A - Controls and Procedures* in our Form 10-K, we identified material weaknesses in our internal control over financial reporting and the Company’s management implemented a remediation plan to address the control deficiencies that led to the material weaknesses identified therein. The remediation plan includes the following:

- Enhance and supplement the finance team in Europe by increasing the number of roles, reassigning responsibilities, and adding additional resources with an appropriate level of knowledge and experience in internal control over financial reporting commensurate with the financial reporting complexities of the organization;
- Enhance the tone, communication and overall awareness of the importance of internal control over financial reporting from executive management;
- Evaluate corporate and segment monitoring controls to ensure they are designed and operating at the appropriate level of precision required to support risk mitigation;
- Implement enhancements to the design of our customer pricing controls in Europe;
- Implement enhancements to the design of our journal entry controls in Europe;
- Strengthen procedures and set guidelines for documentation of controls throughout our domestic and international locations for consistency of application; and
- Institute additional training programs that occur on a regular basis related to internal control over financial reporting for our world-wide finance and accounting personnel.

During the nine months ended September 26, 2020, we executed the remediation plan above by:

- The onboarding of additional personnel, including an experienced finance executive, in Europe with knowledge and experience in internal control over financial reporting;
- Conducting targeted web-based training sessions on internal controls over financial reporting, monitoring controls, complex accounting topics, account reconciliations and journal entry controls in Europe; and
- Implementing enhancements to closing processes that included the continuing centralization of certain tasks, development of manuals and standardized templates to enhance the evidence supporting the local teams' execution of internal control over financial reporting.

Based on the actions taken to date, while management believes that it now has the requisite personnel to consistently operate the controls as designed, additional controls may need to be designed and implemented as part of the remediation plan, especially with respect to pricing. Additionally, for controls that were newly designed and implemented in 2019, management determined that a sustained period of operating effectiveness is required to conclude that the controls are operating effectively. Accordingly, with the exception of the material weakness related to the reconciliation of subsidiary ledger financial information used in the consolidated financial statements discussed below, the material weaknesses described in Item 9A - *Controls and Procedures* in our Form 10-K have not been remediated as of September 26, 2020.

Remediation of Material Weakness

As of June 27, 2020, we concluded that the enhancements to the design of our control activities related to the reconciliation of subsidiary ledger financial information used in the consolidated financial statements have been satisfactorily implemented and have operated effectively for a sufficient time. Therefore, it was concluded the material weakness has been remediated as of June 27, 2020.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the Company's most recently completed quarter ended September 26, 2020 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1 - Legal Proceedings

Information relating to this item is included within Note 21- *Commitments and Contingencies* of our financial statements included elsewhere in this 10-Q.

Item 1A - Risk Factors

Except for the updates to the risk factors set forth below, there have been no material changes in our risk factors from those disclosed in our Annual Report on Form 10-K included in Part I Item 1A - *Risk Factors* for the year ended December 31, 2019.

The outbreak of COVID-19 has had, and may continue to have, a negative impact on the global economy and on our business, operations, and results.

The COVID-19 pandemic, and the measures taken to contain or mitigate it, have had dramatic adverse consequences for the economy, including on demand for goods and services, operations, supply chains and financial markets. The nature and scope of the consequences to date are difficult to evaluate precisely, and their future course is impossible to predict with confidence.

The COVID-19 crisis has already had several significant effects on our employees, operations, supply chain, distribution system, customer demand, the housing market and general market and economic conditions. The effects to date have included the following:

- decreased demand for our products as a result of a slowdown in the U.S. and global economies and resulting decreases in construction and R&R;
- increased storage costs as a result of larger volume of inventory that remains unsold; and
- uncertain expense management in light of continued efforts to protect our employees and operational issues resulting from absenteeism and closures experienced by our facilities globally.

These effects began in the latter weeks of March 2020 and are expected to continue throughout the remainder of the year. We experienced intermittent plant closures during the second and third quarters of 2020 as mandated by local governments and may continue to see similar closures as the COVID-19 pandemic evolves. Initiatives, including travel restrictions and quarantines, have and may continue to impact a significant percentage of our workforce and the workforce of our suppliers or transportation providers as they are unable to work as a result of the disease outbreak. If additional factory closures are required, current closures are extended, or reductions in capacity utilization levels occur, we expect to incur additional direct costs due to reduced productivity and lost revenue. If our suppliers experience closures or reductions in their capacity utilization levels in the future, we may have difficulty sourcing materials necessary to fulfill production requirements or be required to pay a higher price to fulfill our requirements.

In May 2020, we issued \$250.0 million of Senior Secured Notes, the proceeds of which were used to repay the outstanding balance under our ABL Facility with the remainder to be used for general corporate purposes. We cannot assure you that the available proceeds, or any of our other actions, will be sufficient to avoid liquidity constraints in the future or to mitigate any material or adverse effect of COVID-19 on our business, financial condition, or results of operations.

The effects of the COVID-19 crisis could be aggravated if the crisis continues, and we could also see additional impacts that might include the following:

- complete or partial closures of, or other operational issues at one or more of our manufacturing or distribution facilities resulting from government action;
- difficulty sourcing materials necessary to fulfill production requirements or higher prices to fulfill our requirements as a result of suppliers experiencing closures or reductions in their capacity utilization levels;
- reduced economic activity severely impacting our customers' financial condition and liquidity, reducing the likelihood they will be purchasing additional products from us and increasing the likelihood they may require additional time to pay us or will fail to pay us at all, which could significantly increase the amount of accounts receivable and require us to record additional allowances for doubtful accounts;
- reduced economic activity resulting in a prolonged recession, which could negatively impact consumer discretionary spending;
- a decrease in the principal that may be drawn under our ABL Facility as a result of a decrease in our accounts receivable and inventory;

- difficulty accessing debt and equity capital on attractive terms, or at all, an impact on our credit ratings, and a severe disruption and instability in the global financial markets or deterioration in credit and financing conditions that affect our access to capital necessary to fund business operations or to address maturing liabilities on a timely basis;
- negative impact on our future compliance with financial covenants under our Corporate Credit Facilities and other debt agreements, which could result in a default and potentially an acceleration of indebtedness; and
- the potential negative impact on the health of our personnel, particularly if a significant number of them are impacted, decreasing our ability to ensure business continuity during this disruption.

If these effects are sustained, they could have accounting consequences such as impairments of fixed assets or goodwill. They could affect our ability to operate effective internal control over financial reporting. They could also affect our ability to execute our expansion plans or invest in research and development.

The adverse effect on our business, financial condition, or results of operations of any of the matters described above could be material. The future impact of the COVID-19 crisis on our business, financial condition, or results of operations is highly uncertain and will depend on numerous evolving factors that we cannot predict, including, but not limited to:

- the duration, scope, and severity of the COVID-19 pandemic;
- the disruption or delay of production and delivery of materials and products in our supply chain;
- the impact of travel bans, work-from-home policies, or shelter-in-place orders;
- the temporary or prolonged shutdown of manufacturing facilities and decreased retail traffic;
- staffing shortages;
- the availability of financial assistance programs or other forms of governmental assistance;
- general economic, financial, and industry conditions, particularly conditions relating to liquidity, financial performance, and related credit issues in our industry, which may be amplified by the effects of COVID-19; and
- the long-term effects of COVID-19 on the national and global economy, including on consumer confidence and spending, financial markets and the availability of credit for us, our suppliers and our customers.

To the extent the COVID-19 pandemic or any other global health crisis does adversely affect our business, financial condition, or results of operations, it may also have the effect of heightening many of the “Risk Factors” included herein, in our Annual Report on Form 10-K included in Part I Item 1A - *Risk Factors* for the year ended December 31, 2019, or as disclosed in any subsequent filings with the SEC.

Prices and availability of the raw materials we use to manufacture our products are subject to fluctuations, and we may be unable to pass along to our customers the effects of any price increases.

We use wood, glass, vinyl and other plastics, fiberglass and other composites, aluminum, steel and other metals, as well as hardware, resins, adhesives and other components to manufacture our products. Prices and availability of our materials fluctuate for a variety of reasons beyond our control, many of which cannot be anticipated with any degree of reliability. Our most significant raw materials include logs and lumber, vinyl extrusions, glass, steel, and aluminum, each of which has been subject to periods of rapid and significant fluctuations in price. The reasons for these fluctuations include, among other things, variable worldwide supply and demand across different industries, speculation in commodities futures, general economic or environmental conditions, labor costs, competition, import duties, tariffs, worldwide currency fluctuations, freight, regulatory costs, and product and process evolutions that impact demand for the same materials.

The U.S. has imposed tariffs on certain products imported into the U.S. from China, as well as tariffs on certain steel and aluminum products imported from certain countries, and could impose additional tariffs or trade restrictions. The imposition of tariffs may impact the prices of materials purchased outside of the U.S. and include goods in transit as well as increasing the price of domestically sourced materials, including, in particular, steel and aluminum. Impositions of tariffs by other countries could also impact pricing and availability of raw materials. As another example, as global demand for key chemicals increases, the limited number of suppliers and investment in greater supply capacity drives increased global pricing. Additionally, anti-dumping and countervailing duty trade cases, such as the January 8, 2020, Coalition of American Millwork Producers’ anti-dumping petitions on imports of wood moldings and millwork products from Brazil and China and a countervailing duty petition on imports of wood moldings and millwork products from China, could impact our business and results of operations. While we believe our exposure to the potential increased costs of these tariffs and duties is no greater than the industry as a whole, our business and results of operations may be adversely affected if our efforts to mitigate their effects are unsuccessful.

We have short-term supply contracts with certain of our largest suppliers that limit our exposure to short-term fluctuations in prices and availability of our materials, but we are susceptible to longer-term fluctuations in prices. We generally do not hedge against

commodity price fluctuations. Significant increases in the prices of raw materials for finished goods, including as a result of significant or protracted material shortages due to pandemic or otherwise, may be difficult to pass through to customers and may negatively impact our profitability and net revenues. We may attempt to modify products that use certain raw materials, but these changes may not be successful.

Item 5 - Other Information

None.

Item 6 - Exhibits

Exhibit No.	Exhibit Description	Form	File No.	Exhibit	Filing Date
4.1*	First Supplemental Indenture, dated September 24, 2020, to the Senior Secured Notes Indenture, dated May 4, 2020, among Milliken Millwork, Inc., VPI Quality Windows, Inc., subsidiaries of JELD-WEN, Inc., and Wilmington Trust, National Association, as Trustee.				
4.2*	Second Supplemental Indenture, dated September 24, 2020, to the Senior Secured Notes Indenture, dated May 4, 2020, among Milliken Millwork, Inc., VPI Quality Windows, Inc., and Wilmington Trust, National Association, as Trustee.				
4.3*	Guarantor Joinder Agreement, dated as of September 24, 2020, to the Term Loan Credit Agreement, dated as of October 15, 2014 (as amended on July 1, 2015, November 1, 2016, March 7, 2017, December 14, 2017, September 20, 2019), among Milliken Millwork, Inc., VPI Quality Windows, Inc., and Bank of America, N.A., as Administrative Agent.				
4.4*	Borrower Joinder Agreement, dated as of September 24, 2020, to the Revolving Credit Agreement, dated as of October 15, 2014 (as amended on July 1, 2015, November 1, 2016, December 14, 2017, December 21, 2018 and December 31, 2019) among Milliken Millwork, Inc., VPI Quality Windows, Inc., and Wells Fargo Bank, National Association, as Administrative Agent.				
31.1*	Certification of Principal Executive Officer Pursuant to Rule 13a-14(a).				
31.2*	Certification of Principal Financial Officer Pursuant to Rule 13a-14(a).				
32.1*	Certification of Principal Executive Officer and Principal Financial Officer Pursuant to 18 U.S.C. Section 1350.				
101.INS*	XBRL Instance Document-the instance document does not appear in this Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.				
101.SCH*	Inline XBRL Taxonomy Extension Schema Document.				
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document.				
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document.				
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document.				
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document.				
104*	Cover page Interactive Data file (formatted as Inline XBRL and contained in Exhibit 101).				
*	Filed herewith				

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.

JELD-WEN HOLDING, INC.
(Registrant)

By: /s/ John Linker
John Linker
Chief Financial Officer

Date: November 3, 2020

EXECUTION VERSION

FIRST SUPPLEMENTAL INDENTURE

First Supplemental Indenture (this “Supplemental Indenture”), dated as of September 24, 2020, among Milliken Millwork, Inc., a Michigan corporation, and VPI Quality Windows, Inc., a Washington corporation (each a “Guaranteeing Subsidiary” and collectively, the “Guaranteeing Subsidiaries”), subsidiaries of JELD-WEN, Inc., a Delaware Corporation (the “Issuer”), and Wilmington Trust, National Association, as trustee (the “Trustee”) and as collateral agent (the “Notes Collateral Agent”).

W I T N E S S E T H

WHEREAS, each of JELD-WEN, Inc. and the Guarantors (as defined in the Indenture referred to below) has heretofore executed and delivered to the Trustee an indenture (the “Indenture”), dated as of May 4, 2020, providing for the issuance of 6.250% Senior Secured Notes due 2025 (the “Notes”);

WHEREAS, the Indenture provides that under certain circumstances the Guaranteeing Subsidiaries shall execute and deliver to the Trustee a supplemental indenture pursuant to which the Guaranteeing Subsidiaries shall unconditionally guarantee all of the Issuer’s Obligations under the Notes and the Indenture on the terms and conditions set forth herein and under the Indenture (the “Guarantee”); and

WHEREAS, pursuant to Section 9.01 of the Indenture, the Trustee and Notes Collateral Agent are authorized to execute and deliver this Supplemental Indenture without the consent of Holders.

NOW THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt of which is hereby acknowledged, the parties mutually covenant and agree for the equal and ratable benefit of the Holders of the Notes as follows:

- (1) Capitalized Terms. Capitalized terms used herein without definition shall have the meanings assigned to them in the Indenture.
- (2) Agreement to Guarantee. The Guaranteeing Subsidiaries hereby agree to be a Guarantor under the Indenture and to be bound by the terms of the Indenture applicable to a Guarantor, including Article 10 thereof.
- (3) Execution and Delivery. The Guaranteeing Subsidiaries agree that the Guarantee shall remain in full force and effect notwithstanding the absence of the endorsement of any notation of such Guarantee on the Notes.
- (4) Governing Law. THIS SUPPLEMENTAL INDENTURE WILL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK.

(5) Counterparts. The parties may sign any number of copies of this Supplemental Indenture. Each signed copy shall be an original, but all of them together represent one and the same agreement. The exchange of copies of this Supplemental Indenture and of signature pages by facsimile, PDF or other electronic transmission shall constitute effective execution and delivery of this Supplemental Indenture as to the parties hereto and may be used in lieu of the original Supplemental Indenture and signature pages for all purposes.

(6) Effect of Headings. The Section headings herein are for convenience only and shall not affect the construction hereof.

(7) The Trustee and the Notes Collateral Agent. Neither the Trustee nor the Notes Collateral Agent shall be responsible in any manner whatsoever for or in respect of the validity or sufficiency of this Supplemental Indenture or for or in respect of the recitals contained herein, all of which recitals are made solely by the Guaranteeing Subsidiaries.

(8) Benefits Acknowledged. Each of the Guaranteeing Subsidiaries acknowledges that it will receive direct and indirect benefits from the financing arrangements contemplated by the Indenture and this Supplemental Indenture and that the guarantee and waivers made by it pursuant to this Guarantee are knowingly made in contemplation of such benefits.

IN WITNESS WHEREOF, the parties hereto have caused this Supplemental Indenture to be duly executed, all as of the date first above written.

MILLIKEN MILLWORK, INC.
VPI QUALITY WINDOWS, INC.

By: /s/ Brian Luke
Name: Brian Luke
Title: Treasurer

WILMINGTON TRUST, NATIONAL
ASSOCIATION, as Trustee and as
Notes Collateral Agent

By: /s/ W. Thomas Morris, II
Name: W. Thomas Morris, II
Title: Vice President

EXECUTION VERSION

SECOND SUPPLEMENTAL INDENTURE

Second Supplemental Indenture (this “Supplemental Indenture”), dated as of September 24, 2020, among Milliken Millwork, Inc., a Michigan corporation, and VPI Quality Windows, Inc., a Washington corporation (each, a “Guaranteeing Subsidiary” and collectively, the “Guaranteeing Subsidiaries”), subsidiaries of JELD-WEN, Inc., a Delaware Corporation (the “Issuer”), and Wilmington Trust, National Association, as trustee (the “Trustee”).

W I T N E S S E T H

WHEREAS, each of JELD-WEN, Inc. and the Guarantors (as defined in the Indenture referred to below) has heretofore executed and delivered to the Trustee an indenture (as amended from time to time, the “Indenture”), dated as of December 14, 2017, providing for the issuance of 4.625% Senior Notes due 2025 and 4.875% Senior Notes due 2027 (the “Notes”);

WHEREAS, the Indenture provides that under certain circumstances the Guaranteeing Subsidiaries shall execute and deliver to the Trustee a supplemental indenture pursuant to which the Guaranteeing Subsidiaries shall unconditionally guarantee all of the Issuer’s Obligations under the Notes and the Indenture on the terms and conditions set forth herein and under the Indenture (the “Guarantee”); and

WHEREAS, pursuant to Section 9.01 of the Indenture, the Trustee is authorized to execute and deliver this Supplemental Indenture without the consent of Holders.

NOW THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt of which is hereby acknowledged, the parties mutually covenant and agree for the equal and ratable benefit of the Holders of the Notes as follows:

(1) Capitalized Terms. Capitalized terms used herein without definition shall have the meanings assigned to them in the Indenture.

(2) Agreement to Guarantee. Each of the Guaranteeing Subsidiaries hereby agree to be a Guarantor under the Indenture and to be bound by the terms of the Indenture applicable to a Guarantor, including Article 10 thereof.

(3) Execution and Delivery. Each of the Guaranteeing Subsidiaries agree that the Guarantee shall remain in full force and effect notwithstanding the absence of the endorsement of any notation of such Guarantee on the Notes.

(4) Governing Law. THIS SUPPLEMENTAL INDENTURE WILL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK.

(5) Counterparts. The parties may sign any number of copies of this Supplemental Indenture. Each signed copy shall be an original, but all of them together represent one and the same agreement. The exchange of copies of this Supplemental Indenture and of signature pages by facsimile, PDF or other electronic transmission shall constitute effective

execution and delivery of this Supplemental Indenture as to the parties hereto and may be used in lieu of the original Supplemental Indenture and signature pages for all purposes.

(6) Effect of Headings. The Section headings herein are for convenience only and shall not affect the construction hereof.

(7) The Trustee. The Trustee shall not be responsible in any manner whatsoever for or in respect of the validity or sufficiency of this Supplemental Indenture or for or in respect of the recitals contained herein, all of which recitals are made solely by the Guaranteeing Subsidiaries.

(8) Benefits Acknowledged. Each of the Guaranteeing Subsidiaries acknowledges that it will receive direct and indirect benefits from the financing arrangements contemplated by the Indenture and this Supplemental Indenture and that the guarantee and waivers made by it pursuant to this Guarantee are knowingly made in contemplation of such benefits.

IN WITNESS WHEREOF, the parties hereto have caused this Supplemental Indenture to be duly executed, all as of the date first above written.

MILLIKEN MILLWORK, INC.

VPI QUALITY WINDOWS, INC.

By: /s/ Brian Luke
Name: Brian Luke
Title: Treasurer

WILMINGTON TRUST, NATIONAL
ASSOCIATION, as Trustee

By: /s/ W. Thomas Morris, II
Name: W. Thomas Morris, II
Title: Vice President

EXECUTION VERSION

GUARANTOR JOINDER AGREEMENT

September 24, 2020

Reference is hereby made to the Term Loan Credit Agreement dated as of October 15, 2014, as amended by Amendment No. 1, dated as of July 1, 2015, as amended by Amendment No. 2, dated as of November 1, 2016, as amended by Amendment No. 3, dated as of March 7, 2017, as amended by Amendment No. 4, dated as of December 14, 2017, and as further amended by Amendment No. 5, dated as of September 20, 2019 (as amended, supplemented or otherwise modified from time to time, the "Credit Agreement"), among JELD-WEN Holding, Inc., a Delaware corporation ("Holdings"), JELD-WEN, Inc., a Delaware corporation (the "Company Borrower"), the Company Subsidiary Guarantors, the several banks, financial institutions, institutional investors and other entities from time to time party thereto as lenders (the "Lenders") and Bank of America, N.A., as Administrative Agent. Unless otherwise defined herein, terms defined in the Credit Agreement and used herein shall have the meanings given to them in the Credit Agreement.

W I T N E S S E T H:

WHEREAS, the Guarantors have entered into the Credit Agreement in order to induce the Lenders to make the Loans and the Issuing Lender to issue Letters of Credit to or for the benefit of the Borrower;

WHEREAS, pursuant to Section 5.9(c) of the Credit Agreement, each Subsidiary Guarantor that (x) is created or acquired after the Closing Date by any Group Member or (y) has ceased to be an Excluded Domestic Subsidiary or a Non-Guarantor Subsidiary, is required to become a Subsidiary Guarantor under the Credit Agreement by executing a Joinder Agreement. The undersigned Subsidiaries (the "New Subsidiary Guarantors") are executing this joinder agreement ("Joinder Agreement") to the Credit Agreement as consideration for the Loans previously made.

NOW, THEREFORE, the Administrative Agent and each New Subsidiary Guarantor hereby agrees as follows:

1. **Guarantee.** In accordance with Section 5.9(c) of the Credit Agreement, each New Subsidiary Guarantor by its signature below becomes a Subsidiary Guarantor under the Credit Agreement with the same force and effect as if originally named therein as a Subsidiary Guarantor.

2. **Representations and Warranties.** Each New Subsidiary Guarantor hereby (a) agrees to all the terms and provisions of the Credit Agreement applicable to it as a Subsidiary Guarantor thereunder and (b) represents and warrants that the representations and warranties made by it as a Subsidiary Guarantor thereunder are true and correct in all material respects on and as of the date hereof as if made on and as of such date, except to the extent such representations and warranties expressly relate to an earlier date, in which case such representations and warranties shall have been true and correct in all material respects as of such earlier date. Each reference to a Subsidiary Guarantor in the Credit Agreement shall be deemed to include each New Subsidiary Guarantor. Each New Subsidiary Guarantor hereby attaches supplements to the schedules to the Credit Agreement applicable to it.

3. **Severability.** Any provision of this Joinder Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

4. **Counterparts.** This Joinder Agreement may be executed in counterparts, each of which shall constitute an original. Delivery of an executed signature page to this Joinder Agreement by facsimile transmission shall be as effective as delivery of a manually executed counterpart of this Joinder Agreement.

5. **No Waiver.** Except as expressly supplemented hereby, the Credit Agreement shall remain in full force and effect. Notices. All notices, requests and demands to or upon each New Subsidiary Guarantor, the Administrative Agent or any Lender shall be governed by the terms of Section 10.2 of the Credit Agreement.

6. **Governing Law.** THIS JOINDER AGREEMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES UNDER THIS JOINDER AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK WITHOUT REGARD TO CONFLICTS OF LAW PRINCIPLES THAT WOULD REQUIRE APPLICATION OF THE LAWS OF ANOTHER JURISDICTION.

[Signature pages follow.]

IN WITNESS WHEREOF, the undersigned have caused this Agreement to be duly executed and delivered as of the date first above written.

MILLIKEN MILLWORK, INC.

VPI QUALITY WINDOWS, INC.

By: /s/ Brian Luke

Name: Brian Luke

Title: Treasurer

BANK OF AMERICA, N.A., as Administrative Agent

By: /s/ Henry Pennell

Name: Henry Pennell

Title: Vice President

Schedule 3.15(a)

UCC FILING JURISDICTIONS

Type of Filing	Entity	Filing Jurisdiction
UCC-1 Financing Statement	Milliken Millwork, Inc.	Michigan SOS
UCC-1 Financing Statement	VPI Quality Windows, Inc.	Washington SOS
Trademark Security Agreement	Milliken Millwork, Inc.	U.S. Patent and Trademark Office

Schedule 6.1

EXISTING INDEBTEDNESS

None

Schedule 6.2

EXISTING INVESTMENTS

None

Schedule 6.5

AFFILIATE TRANSACTIONS

None

Schedule 6.6

EXISTING LIENS

None

EXECUTION VERSION**BORROWER JOINDER AGREEMENT**

THIS JOINDER AGREEMENT (this “Agreement”) dated as of September 24, 2020 is entered into among Milliken Millwork, Inc., a Michigan corporation, and VPI Quality Windows, Inc., a Washington corporation (collectively, the “New Borrowers”) and Wells Fargo Bank, National Association (the “Administrative Agent”) under that certain Revolving Credit Agreement, dated as of October 15, 2014, as amended by Amendment No. 1, dated as of July 1, 2015, amended by Amendment No. 2, dated as of November 1, 2016, amended by Amendment No. 3, dated as of December 14, 2017, amended by Amendment No. 4, dated as of December 21, 2018, and further amended by Amendment No. 5, dated as of December 31, 2019, and as amended and in effect from time to time, among JELD-WEN Holding, Inc., a Delaware corporation, JELD-WEN, Inc., a Delaware corporation (the “Company”), each other U.S. Borrower party thereto from time to time, JELD-WEN of Canada, Ltd., a Canadian corporation, each other Canadian Borrower party thereto from time to time, the other Subsidiary Guarantors from time to time party thereto, the several banks, financial institutions, institutional investors and other entities from time to time party thereto as lenders (the “Lenders”) and the Administrative Agent (the “Credit Agreement”). Unless otherwise defined herein, terms defined in the Credit Agreement and used herein shall have the meanings given to them in the Credit Agreement.

WITNESSETH:

Each New Borrower and the Administrative Agent hereby agree as follows:

1. **Joinder.** Each New Borrower hereby acknowledges, agrees and confirms that, by its execution of this Agreement, such New Borrower will be a Joining U.S. Borrower pursuant to Section 2.25 of the Credit Agreement with the same force and effect as if originally named therein as a U.S. Borrower.

2. **Representations and Warranties.** Each New Borrower hereby (a) agrees to all the terms and provisions of the Credit Agreement applicable to it as a Joining U.S. Borrower thereunder and (b) represents and warrants that the representations and warranties made by it as a U.S. Borrower thereunder are true and correct in all material respects on and as of the date hereof as if made on and as of such date, except to the extent such representations and warranties expressly relate to an earlier date, in which case such representations and warranties shall have been true and correct in all material respects as of such earlier date. Each reference to a U.S. Borrower, Borrower and Loan Party in the Credit Agreement shall be deemed to include each New Borrower. Each New Borrower hereby attaches supplements to the schedules to the Credit Agreement applicable to it.

3. **Severability.** Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

4. **Counterparts.** This Agreement may be executed in counterparts, each of which shall constitute an original. Delivery of an executed signature page to this Joinder Agreement by facsimile transmission shall be as effective as delivery of a manually executed counterpart of this Agreement.

5. **JELD-WEN, INC.** Each New Borrower hereby appoints the Company as Borrower Representative in accordance with Section 10.21 of the Credit Agreement.

6. **No Waiver.** Except as expressly supplemented hereby, the Credit Agreement shall remain in full force and effect.

7. **Notices.** All notices, requests and demands to or upon each New Borrower, the Administrative Agent or any Lender shall be governed by the terms of Section 10.2 of the Credit Agreement.

8. **Governing Law.** THIS JOINDER AGREEMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES UNDER THIS JOINDER AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK WITHOUT REGARD TO CONFLICTS OF LAW PRINCIPLES THAT WOULD REQUIRE APPLICATION OF THE LAWS OF ANOTHER JURISDICTION.

[Signature pages follow.]

IN WITNESS WHEREOF, the undersigned have caused this Agreement to be duly executed and delivered as of the date first above written.

MILLIKEN MILLWORK, INC.

VPI QUALITY WINDOWS, INC.

By: /s/ Brian Luke

Name: Brian Luke

Title: Treasurer

WELLS FARGO BANK, NATIONAL
ASSOCIATION, as Administrative Agent

By: /s/ Peter Schuebler

Name: Peter Schuebler

Title: Vice President

Schedule 1.1G

PERMITTED LOCATIONS

Property Name	Address	City	County	State	Grantor	Use	Owned / Leased
Milliken Sterling Heights	6361 Sterling Drive N	Sterling Heights	Macomb	MI	Milliken Enterprises – Michigan LLC	Manufacturing	Leased
Milliken West Chester	400 Circle Freeway	Cincinnati	Hamilton	OH	Milliken Enterprises – Ohio LLC	Manufacturing	Leased
Milliken Sidman	172 Plummer Road	Sidman	Cambria	PA	Milliken Enterprises – Pennsylvania LLC	Manufacturing	Leased
Spokane (main)	3420 E Ferry Ave.	Spokane	Spokane	WA	VPI Quality Windows, Inc.	Manufacturing	Leased
Spokane	3324 E Ferry Ave.	Spokane	Spokane	WA	VPI Quality Windows, Inc.	Warehouse	Leased

Schedule 3.16(a)

UCC FILING JURISDICTIONS

Type of Filing	Entity	Filing Jurisdiction
UCC-1 Financing Statement	Milliken Millwork, Inc.	Michigan SOS
UCC-1 Financing Statement	VPI Quality Windows, Inc.	Washington SOS
Trademark Security Agreement	Milliken Millwork, Inc.	U.S. Patent and Trademark Office

Schedule 6.2

EXISTING INDEBTEDNESS

None

Schedule 6.3

EXISTING INVESTMENTS

None

Schedule 6.6

AFFILIATE TRANSACTIONS

None

Schedule 6.7

EXISTING LIENS

None

**CERTIFICATION OF PERIODIC REPORT UNDER SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002**

I, Gary S. Michel, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the fiscal period ended September 26, 2020 of JELD-WEN Holding, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 3, 2020

/s/ Gary S. Michel
Gary S. Michel
President and Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION OF PERIODIC REPORT UNDER SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002**

I, John Linker, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the fiscal period ended September 26, 2020 of JELD-WEN Holding, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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; and
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 3, 2020

/s/ John Linker
John Linker
Executive Vice President and Chief Financial Officer (Principal Financial Officer)

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to 18 U.S.C. §1350, we, the undersigned officers of JELD-WEN Holding, Inc. (the “Company”), do hereby certify that the Company's Quarterly Report on Form 10-Q for the fiscal period ended September 26, 2020 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 3, 2020

/s/ Gary S. Michel
Gary S. Michel
President and Chief Executive Officer
(Principal Executive Officer)

/s/ John Linker
John Linker
Executive Vice President and Chief Financial Officer (Principal Financial Officer)

The foregoing certification is being furnished solely pursuant to 18 U.S.C. §1350 and is not being filed as part of the Report or as a separate disclosure document.