NCI BUILDING SYSTEMS INC
Form 10-Q
June 11, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended May 3, 2009

or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission file number: 1-14315

NCI BUILDING SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**76-0127701**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
10943 N. Sam Houston Parkway W. Houston, TX	**77064**
(Address of principal executive offices)	**(Zip Code)**

(281) 897-7788

(Registrant s telephone number, including area code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ¨ Yes ¨ No

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

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

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

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY

PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. ¨ Yes ¨ No

APPLICABLE ONLY TO CORPORATE ISSUERS

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

Common Stock, $.01 Par Value 19,987,368 shares as of June 6, 2009

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

NCI BUILDING SYSTEMS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

	May 3, 2009 (Unaudited)	November 2, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 91,721	$ 68,201
Accounts receivable, net	72,347	163,005
Inventories, net	96,595	192,011
Deferred income taxes	23,922	24,259
Income tax receivable	26,625	
Investments in debt and equity securities, at market	4,883	2,639
Prepaid expenses and other	20,763	15,735
Total current assets	336,856	465,850
Property, plant and equipment, net	244,816	251,163
Goodwill	5,200	616,626
Intangible assets, net	29,545	41,678
Other assets	4,760	5,384
Total assets	$ 621,177	$ 1,380,701
LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)		
Current liabilities:		
Current portion of long-term debt	$ 473,940	$ 920
Note payable	1,964	
Accounts payable	58,961	104,348
Accrued compensation and benefits	37,327	67,429
Accrued interest	2,307	2,422
Other accrued expenses	46,340	60,013
Total current liabilities	620,839	235,132
Long-term debt		473,480
Deferred income taxes	20,284	44,332
Other long-term liabilities	3,996	3,928
Total long-term liabilities	24,280	521,740
Stockholders equity (deficit):		
Preferred stock, $1 par value, 1,000,000 shares authorized; none issued and outstanding		

Common stock, $.01 par value, 100,000,000 shares authorized; 22,683,707 and 22,403,711 issued; and 19,984,277 and 19,734,025 shares outstanding	227	224
Additional paid-in capital	202,184	200,680
Retained earnings (deficit)	(107,853)	540,964
Accumulated other comprehensive loss	(1,455)	(1,440)
Treasury stock, at cost	(117,045)	(116,599)
Total stockholders equity (deficit)	(23,942)	623,829
Total liabilities and stockholders equity (deficit)	$ 621,177	$ 1,380,701

See accompanying notes to condensed consolidated financial statements.

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NCI BUILDING SYSTEMS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS)

(In thousands, except per share data)

(Unaudited)

	Fiscal Three Months Ended	
	May 3, 2009	**April 27, 2008**
Sales	$ 224,719	$ 416,143
Cost of sales	177,604	312,223
Lower of cost or market adjustment	10,608	
Asset impairment	5,295	
Gross profit	31,212	103,920
Selling, general and administrative expenses	54,654	73,768
Goodwill and other intangible asset impairments	104,936	
Restructuring charge	3,796	640
Income (loss) from operations	(132,174)	29,512
Interest income	84	102
Interest expense	(4,052)	(5,591)
Other income, net	404	252
Income (loss) before income taxes	(135,738)	24,275
Provision (benefit) for income taxes	(15,531)	9,409
Net income (loss)	$ (120,207)	$ 14,866
Earnings (loss) per share:		
Basic	$ (6.17)	$ 0.77
Diluted	$ (6.17)	$ 0.76
Weighted average shares outstanding:		
Basic	19,470	19,312
Diluted	19,470	19,440

See accompanying notes to condensed consolidated financial statements.

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NCI BUILDING SYSTEMS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS)

(In thousands, except per share data)

(Unaudited)

	Fiscal Six Months Ended	
	May 3, 2009	**April 27, 2008**
Sales	$ 485,083	$ 777,632
Cost of sales	391,440	591,067
Lower of cost or market adjustment	39,986	
Asset impairment	5,918	
Gross profit	47,739	186,565
Selling, general and administrative expenses	108,961	137,691
Goodwill and other intangible asset impairments	622,564	
Restructuring charge	6,275	866
Income (loss) from operations	(690,061)	48,008
Interest income	279	760
Interest expense	(8,660)	(12,495)
Other income (expense), net	87	214
Income (loss) before income taxes	(698,355)	36,487
Provision (benefit) for income taxes	(49,538)	14,111
Net income (loss)	$ (648,817)	$ 22,376
Earnings (loss) per share:		
Basic	$ (33.35)	$ 1.16
Diluted	$ (33.35)	$ 1.15
Weighted average shares outstanding:		
Basic	19,454	19,281
Diluted	19,454	19,420

See accompanying notes to condensed consolidated financial statements.

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NCI BUILDING SYSTEMS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Fiscal Six Months Ended	
	May 3, 2009	**April 27, 2008**
Cash flows from operating activities:		
Net cash provided by (used in) operating activities	$ 40,038	$ (4,206)
Cash flows from investing activities:		
Capital expenditures	(14,219)	(13,285)
Proceeds from the sale of property, plant and equipment	473	3,325
Other, net	164	(530)
Net cash used in investing activities	(13,582)	(10,490)
Cash flows from financing activities:		
Payments on long-term debt	(460)	(22,177)
Payment of financing costs	(1,796)	
Payment on note payable	(245)	(649)
Proceeds from stock options exercised	12	447
Excess tax benefits from share-based compensation arrangements		154
Purchase of treasury stock	(446)	(2,216)
Net cash used in financing activities	(2,935)	(24,441)
Effect of exchange rate changes on cash and cash equivalents	(1)	(170)
Net increase (decrease) in cash and cash equivalents	23,520	(39,307)
Cash and cash equivalents at beginning of period	68,201	75,054
Cash and cash equivalents at end of period	$ 91,721	$ 35,747

See accompanying notes to condensed consolidated financial statements.

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NCI BUILDING SYSTEMS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MAY 3, 2009

(Unaudited)

NOTE 1 BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments, which consist of normal recurring entries except as otherwise disclosed, considered necessary for a fair presentation have been made. Operating results for the fiscal three and fiscal six month periods ended May 3, 2009 are not necessarily indicative of the results that may be expected for the fiscal year ending November 1, 2009. Our sales and earnings are subject to both seasonal and cyclical trends and are influenced by general economic conditions, interest rates, the price of steel relative to other building materials, the level of nonresidential construction activity, roof repair and retrofit demand and the availability and cost of financing for construction projects.

As widely reported, worldwide financial markets have been experiencing extreme disruption in recent months, including, among other things, extreme volatility in security prices, severely diminished liquidity and credit availability, rating downgrades of certain investments and declining valuations of others. In addition, during the same period, the U.S. economy has been characterized by contraction, as evidenced by reduced demand for a range of goods and services. These economic developments affect our business in a number of ways. The overall decline in economic conditions has reduced demand for our products. In addition, the current tightening of credit in financial markets adversely affects the ability of our customers to obtain financing for construction projects. These factors have resulted in a decrease in or cancellation of orders for our products as have also affected the ability of the our customers to make payments. Similar factors could cause our suppliers to experience financial distress or bankruptcy, resulting in temporary raw material shortages.

These conditions have also contributed to significant volatility in the price of steel, the primary raw material in our production process. In the first six months of 2009, steel prices decreased at a precipitous rate after climbing aggressively in the latter half of 2008. This unusual level of volatility has negatively impacted our business. First, we have written down inventory to net realizable value given these declines because our sales volume was significantly lower than previously anticipated while raw material prices have declined more rapidly than anticipated. Second, some customers have delayed projects, waiting to see where steel prices will bottom out.

The uncertainty surrounding future economic activity levels and the tightening of credit availability along with steel price volatility have resulted in significantly decreased activity levels for our business. During the first six months of fiscal 2009, our sales volumes were significantly below expectations, primarily in the engineered buildings and components segments. When we began fiscal 2009, McGraw-Hill was predicting a 12% decline in nonresidential construction in 2009. Subsequently, McGraw-Hill revised its forecast further downward and, as of April 2009, was predicting a 24% decline in nonresidential construction activity in 2009. McGraw-Hill has reported a 50% decline in the period from January 2009 through April 2009 of nonresidential square footage compared to the same prior year period and approximately 60% decline in the second quarter of fiscal 2009 of nonresidential construction square footage in our commercial and industrial sectors compared to the same prior year period. McGraw-Hill has also reported a 39.3% reduction in low-rise nonresidential (less than 5 stories) square-footage starts during the first six months of fiscal 2009 compared with the same period in fiscal 2008.

These revised industry outlook measures coupled with our own internal experiences have resulted in us revising our 2009 cash flow projections both in the first quarter of 2009 and the second quarter of 2009 to amounts significantly lower than those previously projected at the end of 2008. Anticipating the effect of a slowing economy on nonresidential construction activity, we have been aggressively cutting costs throughout our Company and have reduced our workforce by approximately 40%.

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As a result of this reduced activity, as of May 3, 2009, we were not in compliance with the required leverage and senior leverage ratios in our senior secured credit agreement, although we were in compliance with the remaining covenants. We have obtained a waiver from our senior credit facility lenders, including waivers of our financial maintenance covenants and of restrictions on our ability to enter into an agreement for a substantial equity investment in the Company. The waivers are intended to provide us with sufficient time to address our comprehensive capital structure plans. As we have previously reported, we are currently in the late stages of negotiation with a leading private equity firm with regard to a substantial equity investment in the Company. Any such transaction will be subject to the refinancing of our existing senior secured credit facilities and a recapitalization or redemption of our 2.125% convertible senior subordinated notes due 2024 (Convertible Notes). The waivers will remain in effect through July 15, 2009 and automatically extend to September 15, 2009, upon the signing of a definitive agreement for an equity investment. However, if we are not able to enter into a definitive agreement for an equity investment or otherwise refinance our outstanding debt by July 15, 2009, our non-compliance with our leverage ratios as of May 3, 2009 will be an event of default that we will not have the ability to cure. Further, if we enter into but do not close a transaction for an equity investment or otherwise refinance our outstanding debt, we expect that we will fail to be in compliance with such financial covenants as of September 15, 2009. If we are unable to extend the waiver, such violations would constitute an event of default, and the lenders under our senior secured credit facility could elect to declare all $293 million of outstanding borrowings under such facility immediately due and payable. If we did not repay such debt upon acceleration, the lenders under such facility could exercise their remedies as secured creditors with respect to the collateral securing such facility. A failure to pay or refinance the term loan would also result in a default under the indenture governing our Convertible Notes, which could also then be declared immediately due and payable. If all debt outstanding were to become due, which could occur as early as July 15, 2009, absent the execution of our refinancing strategy this would result in a material adverse effect on the Company s financial condition, operations and debt service capabilities.

Further, if we are not able to refinance our debt, we will be unable to pay our Convertible Notes if the holders thereof exercise their right, as anticipated, to require us to repurchase them in November of 2009. Our failure to pay the Convertible Notes in November 2009 if the note holders exercise their put right would cause us to be in default under both the indenture governing the Convertible Notes and our senior secured credit facility, and could result in all debt outstanding under both agreements to be declared immediately due and payable. See Liquidity and Capital Resources for more information.

We use a four-four-five week calendar each quarter with year end on the Sunday closest to October 31. The year end for fiscal 2009 is November 1, 2009.

Certain reclassifications have been made to prior period amounts in our condensed consolidated balance sheets and condensed consolidated statements of income to conform to the current presentation.

For further information, refer to the consolidated