NCI BUILDING SYSTEMS INC
Form 10-Q
June 11, 2009
Table of Contents

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

Table of Contents

TABLE OF CONTENTS

Part I - Financial Information

		PAGE
Item 1.	Unaudited Condensed Consolidated Financial Statements.	
	Condensed Consolidated Balance Sheets May 3, 2009 and November 2, 2008	1
	Condensed Consolidated Statements of Income (Loss) Fiscal Three Months Ended May 3, 2009 and April 27, 2008	2
	Condensed Consolidated Statements of Income (Loss) Fiscal Six Months Ended May 3, 2009 and April 27, 2008	3
	Condensed Consolidated Statements of Cash Flows Fiscal Six Months Ended May 3, 2009 and April 27, 2008	4
	Notes to Condensed Consolidated Financial Statements	5-21
Item 2.	Management s Discussion and Analysis of Financial Condition and Results of Operations.	21-36
Item 3.	Quantitative and Qualitative Disclosures About Market Risk.	37-39
Item 4.	Controls and Procedures.	39

Part II - Other Information

		PAGE
Item 1.	Legal Proceedings.	40
Item 1A.	Risk Factors.	40-43
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds.	43-44
Item 4.	Submission of Matters to a Vote of Security Holders.	44
Item 6.	Exhibits.	44
Signatures		**45**

Table of Contents

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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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%.

Table of Contents

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 financial statements and footnotes thereto included in our Annual Report on Form 10-K for the fiscal year ended November 2, 2008 filed with the Securities and Exchange Commission (the SEC).

NOTE 2 CHANGES IN ACCOUNTING

In March 2008, the FASB issued SFAS 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133.* This Statement requires enhanced disclosures about an entity s derivative and hedging activities and thereby improves the transparency of financial reporting. Disclosing the fair values of derivative instruments and their gains and losses in a tabular format provides a more complete picture of the location in an entity s financial statements of both the derivative positions existing at period end and the effect of using derivatives during the reporting period. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments; (b) how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations; and (c) how derivative instruments and related hedged items affect an entity s financial position, financial performance and cash flows. We adopted SFAS 161 on February 2, 2009. See Note 11 Derivative Instrument and Hedging Strategy.

Table of Contents

In September 2006, the Financial Accounting Standards Board (FASB) issued, *Fair Value Measurement* (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. In February 2008, the FASB issued FASB staff position 157-2, *Effective Date of FASB Statement No. 157* (FSP 157-2) which partially delays the effective date of SFAS 157 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). We adopted SFAS 157 on November 3, 2008 for financial assets and financial liabilities carried at fair value and non-financial assets and liabilities that are recognized or disclosed at fair value on a recurring basis. The adoption of SFAS 157 did not have a material impact to our condensed consolidated financial statements. See Note 12. We will adopt SFAS 157-2 in our fiscal year beginning November 2, 2009 for nonrecurring, non-financial assets and liabilities that are recognized or disclosed at fair value. However, we do not believe the adoption of this accounting pronouncement for nonrecurring, non-financial assets and liabilities will have a material impact on our condensed consolidated financial statements.

We adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of Financial Accounting Standards Board Statement No. 109* (FIN 48) on October 29, 2007. The cumulative effect of adopting FIN 48 was recorded as of October 29, 2007 as a decrease to retained earnings of $0.4 million. The total amount of unrecognized tax benefit at May 3, 2009 was $1.3 million, of which $0.9 million would impact our effective tax rate if recognized. The total amount of unrecognized tax benefit at November 2, 2008 was $1.3 million, of which $0.9 million would impact our effective tax rate if recognized. We do not anticipate any material change in the total amount of unrecognized tax benefits to occur within the next twelve months.

NOTE 3 PLANT RESTRUCTURING AND ASSET IMPAIRMENT

Fiscal 2007 Plan

During the fourth quarter of fiscal 2007, we committed to a plan to exit our residential overhead door product line, included in our metal components segment. During the three month and six month periods ended April 27, 2008, we incurred expenses of $0.6 million and $0.9 million, respectively, related to this exit plan. In fiscal 2007, the residential door business produced revenue of $12.4 million and pretax loss of $0.5 million. This line of business is not considered material and is, therefore, not presented as discontinued operations in the consolidated financial statements.

Fiscal 2008 and 2009 Plans

As a result of the current market downturn, we began a phased process to resize and realign our manufacturing operations. The purpose of these closures is to rationalize our least efficient facilities and to retool certain of these facilities to allow us to better utilize our assets and expand into new markets or better provide products to our customers, such as insulated panel systems.

In November 2008, we approved the Phase I plan to close three of our engineered building systems manufacturing plants located in Lockeford, California, Mattoon, Illinois and Hernando, Mississippi. In addition, as part of the restructuring, we implemented a general employee reduction program. In a continuing effort to rationalize our least efficient facilities, in February 2009, we approved the Phase II plan to close our Tallapoosa, Georgia facility within the engineered building systems segment, and in April 2009, we approved the Phase III plan to close or idle our Rocky Mount, North Carolina, Columbus, Mississippi and Mount Pleasant, Iowa manufacturing facilities within the engineered building systems segment and the Big Rapids, Michigan manufacturing facility within the metal components segment.

Table of Contents

The following table summarizes our restructuring plan costs and charges related to the General, Phase I, Phase II and Phase III restructuring plans during each of the periods presented (in thousands):

		Fiscal Three Months Ended				
	Fiscal 2008	February 1, 2009	May 3, 2009	Cost Incurred To Date	Remaining Anticipated Cost	Total Anticipated Cost
General						
Severance	$ 87	$ 1,146	$ 761	$ 1,994	$ 30	$ 2,024
Asset Relocation						
Other Cash Costs		42		42	30	72
Asset Impairment			1,234	1,234		1,234
Total General Program	87	1,188	1,995	3,270	60	3,330
Repurposing and Phase I						
Severance	$ 106	$ 935	$ 32	$ 1,073	$ 37	$ 1,110
Asset Relocation		267	36	303	268	571
Other Cash Costs		67	22	89	5	94
Asset Impairment	157	593	1,041	1,791		1,791
Total Plant Closing Phase I	263	1,862	1,131	3,256	310	3,566
Plant Closing Phase II						
Severance	$	$ 23	$ 336	$ 359	$ 39	$ 398
Asset Relocation			22	22		22
Other Cash Costs			430	430	38	468
Asset Impairment		30		30		30
Total Plant Closing Phase II		53	788	841	77	918
Plant Closing Phase III						
Severance	$	$	$ 1,770	$ 1,770	$ 371	$ 2,141
Asset Relocation			91	91	649	740
Other Cash Costs			296	296	753	1,049
Asset Impairment			3,020	3,020		3,020
Total Plant Closing Phase III			5,177	5,177	1,773	6,950
Total All Programs	$ 350	$ 3,103	$ 9,091	$ 12,544	$ 2,220	$ 14,764
Restructuring by Segment						
Buildings	61	1,976	2,980	5,017	1,774	6,791
Components	106	441	627	1,174	446	1,620
Coaters		44	29	73		73
Corporate	27	18	160	205		205
Total	$ 194	$ 2,479	$ 3,796	$ 6,469	$ 2,220	$ 8,689
Asset Impairment by Segment						
Buildings	157	573	3,370	4,100		4,100
Components		50	716	766		766
Coaters						
Corporate			1,209	1,209		1,209

Total	$ 157	$ 623	$ 5,295	$ 6,075		$ 6,075

The following table summarizes our restructuring liability related to the Phase I, Phase II and Phase III restructuring plans during the three months ended May 3, 2009 (in thousands):

Type of Charge	**Accrual February 1, 2009**	**Costs Incurred**	**Cash Payments**	**Other Adjustments [1]**	**Accrual May 3, 2009**
Employee or severance costs	$ 572	$ 2,899	$ 1,430	$ 16	$ 2,057
Other costs	192	897	685		404
Total	$ 764	$ 3,796	$ 2,115	$ 16	$ 2,461

(1) Relates to the foreign currency translation.

Table of Contents

As a result of the economic downturn and restructuring, we have determined our 401(k) profit sharing plan (the Savings Plan) has experienced a partial plan termination which is defined by the IRS as 20% or more of the 401(k) participating employees being involuntarily terminated. As a result, the affected employee participants become fully vested in the Savings Plan upon termination. As of May 3, 2009, the impact of this partial plan termination was immaterial. On February 27, 2009, the Savings Plan was amended effective January 1, 2009 to make the matching contributions fully discretionary and future contributions were temporarily suspended. Additional amounts may be contributed depending upon our annual return on assets.

NOTE 4 INVENTORIES

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

	May 3, 2009	November 2, 2008
Raw materials	$ 62,019	$ 142,614
Work in process and finished goods	34,576	49,397
	$ 96,595	$ 192,011

In the first quarter of fiscal 2009, we adjusted our raw material inventory to the lower of cost or market because this inventory exceeded our current estimates of net realizable value less normal profit margins. However, declines in non-residential construction starts were more than anticipated and steel costs continued to decline, resulting in an additional lower of cost or market adjustment of $10.7 million in the second quarter of fiscal 2009. The balance of the lower of cost or market adjustment was $25.1 million and $2.7 million at May 3, 2009 and November 2, 2008, respectively. At May 3, 2009, this adjustment included $1.7 million related to firm purchase commitments not included in our inventory.

NOTE 5 GOODWILL AND OTHER INTANGIBLE ASSETS

Our goodwill balance and changes in the carrying amount of goodwill by operating segment are as follows (in thousands):

	Metal Coil Coating	Metal Components	Engineered Building Systems	Total
Balance as of November 2, 2008	$ 98,959	$ 147,240	$ 370,427	$ 616,626
Impairments	(59,854)	(116,132)	(332,904)	(508,890)
Balance as of February 1, 2009	$ 39,105	$ 31,108	$ 37,523	$ 107,736
Impairments	(39,105)	(31,108)	(32,323)	(102,536)
Balance as of May 3, 2009	$	$	$ 5,200	$ 5,200

Based on lower than projected sales volumes in our first quarter and based on a revised lower outlook for non-residential construction activity in 2009, management reduced the Company s cash flow projections. We concluded that this reduction was an impairment indicator requiring us to perform an interim goodwill impairment test for each of our six reporting units as of February 1, 2009. As a result of this impairment indicator, we updated the first step of our goodwill impairment test in the first quarter of fiscal 2009. The first step of our goodwill impairment test determines fair value of the reporting unit based on a blend of estimated discounted cash flows, publicly traded company multiples and acquisition multiples reconciled to our recent publicly traded stock price, including a reasonable control premium. The result from this model was then weighted and combined into a single estimate of fair value. We determined that our carrying value exceeded our fair value at most of our reporting units in each of our operating segments, indicating that goodwill was potentially impaired. As a result, we initiated the second step of the goodwill impairment test which involves calculating the implied fair value of our goodwill by allocating the fair value of the reporting unit to all assets and liabilities other than goodwill and comparing it to the carrying amount of goodwill. The fair value of each of the reporting unit s assets and liabilities were determined based on a combination of prices of comparable businesses and present value techniques.

As of February 1, 2009, we estimated the market implied fair value of our goodwill was less than its carrying value by approximately $508.9 million, which was recorded as a goodwill impairment charge in the first quarter of fiscal 2009. This charge was an estimate based on the result of the preliminary allocation of fair value in the second step of the goodwill impairment test. However, due to the timing and complexity of the valuation calculations required under the second step of the test, we were not able to finalize our allocation of the fair value until the second quarter of fiscal 2009 with regard to property, plant and equipment and intangible assets in which their respective values are dependent on property, plant and equipment. The finalization was included in our goodwill impairment charge in the second quarter of fiscal 2009.

Further declines in cash flow projections and the corresponding implementation of the Phase III restructuring plan caused management to determine that there was an indicator requiring us to perform another interim goodwill impairment test for each of our reporting units with goodwill remaining as of May 3, 2009. As a result of this impairment indicator, we again performed the first step of our goodwill impairment test in the second quarter of fiscal 2009, the results of which indicated that our carrying value exceeded our fair value at most of our reporting units with goodwill remaining, indicating that goodwill was potentially impaired. As a result, we initiated the second step of the goodwill impairment test. As of May 3, 2009, we determined the market implied fair value of our goodwill was less than the carrying value for certain reporting units by approximately $102.5 million, which has been recorded as a goodwill impairment charge in the second quarter of fiscal 2009.

As of May 3, 2009, subsequent to the above adjustments remaining goodwill at one reporting unit is $5.2 million. A future goodwill triggering event, such as declines in our cash flow projections, may cause additional impairments.

As a result of the aforementioned goodwill impairment indicators and in accordance with SFAS 142, we performed an impairment analysis on our indefinite lived intangible asset related to RCC s tradenames in our engineered building systems segment to determine the fair value. Based on changes to our projected cash flows in the first quarter of fiscal 2009 and based on the lower projected cash flows and related Phase III restructuring plan in the second quarter of fiscal 2009, we determined the carrying cost exceeded the future fair value attributable to the intangible asset, and recorded impairment charges of $8.7 million in the first quarter of fiscal 2009 and $2.4 million in the second quarter of fiscal 2009 related to the intangible asset. As of May 3, 2009, we determined the fair value of these tradenames was $13.6 million.

NOTE 6 BUSINESS SEGMENTS

We have aggregated our operations into three reportable segments based upon similarities in product lines, manufacturing processes, marketing and management of our businesses: metal coil coating; metal components; and engineered building systems. All business segments operate primarily in the nonresidential construction market. Sales and earnings are influenced by general economic conditions, the level of nonresidential construction activity, metal roof repair and retrofit demand and the availability and terms of financing available for construction. Products of our business segments use similar basic raw materials. The metal coil coating segment consists of cleaning, treating, painting and slitting continuous steel coils before the steel is fabricated for use by construction and industrial users. The metal components segment products include metal roof and wall panels, doors, metal partitions, metal trim and other related accessories. The engineered building systems segment includes the manufacturing of main frames, Long Bay® Systems and value added engineering and drafting, which are typically not part of metal components or metal coil coating products or services. The reporting segments follow the same accounting policies used for our condensed consolidated financial statements.

We evaluate a segment s performance based primarily upon operating income before corporate expenses. Intersegment sales are recorded based on standard material costs plus a standard markup to cover labor and overhead and consist of: (i) hot-rolled, light gauge painted and slit material and other services provided by the metal coil coating segment to both the engineered building systems and metal components segments;
(ii) building components provided by the metal components segment to the engineered building systems segment; and (iii) structural framing provided by the engineered building systems segment to the metal components segment.

Corporate assets consist primarily of cash but also include deferred financing costs, deferred taxes and property, plant and equipment associated with our headquarters in Houston, Texas. These items (and income and expenses related to these items) are not allocated to the segments.

The following table represents sales, operating income and total assets attributable to these business segments for the periods indicated (in thousands):

	Fiscal Three Months Ended		Fiscal Six Months Ended	
	May 3, 2009	**April 27, 2008**	**May 3, 2009**	**April 27, 2008**
Total sales:				
Metal coil coating	$ 39,526	$ 80,171	$ 81,027	$ 142,446
Metal components	101,554	165,384	223,034	310,551
Engineered building systems	129,233	259,653	281,642	486,052
Intersegment sales	(45,594)	(89,065)	(100,620)	(161,417)
Total sales	$ 224,719	$ 416,143	$ 485,083	$ 777,632
External sales:				
Metal coil coating	$ 12,213	$ 27,288	$ 23,637	$ 46,670
Metal components	86,680	139,353	187,722	262,716
Engineered building systems	125,826	249,502	273,724	468,246
Total sales	$ 224,719	$ 416,143	$ 485,083	$ 777,632
Operating income (loss):				
Metal coil coating	$ (42,945)	$ 6,705	$ (106,698)	$ 9,400
Metal components	(28,095)	15,171	(156,698)	24,693
Engineered building systems	(46,565)	25,292	(398,844)	45,730
Corporate	(14,569)	(17,656)	(27,821)	(31,815)
Total operating income (loss)	$ (132,174)	$ 29,512	$ (690,061)	$ 48,008
Unallocated other expense	(3,564)	(5,237)	(8,294)	(11,521)
Income (loss) before income taxes	$ (135,738)	$ 24,275	$ (698,355)	$ 36,487

	May 3, 2009	**November 2, 2008**
Total assets:		
Metal coil coating	$ 69,328	$ 196,615
Metal components	165,845	371,464
Engineered building systems	254,006	716,671
Corporate	131,998	95,951
Total assets	$ 621,177	$ 1,380,701

NOTE 7 SHARE-BASED COMPENSATION

Our 2003 Long-Term Stock Incentive Plan (Incentive Plan) is an equity-based compensation plan that allows us to grant a variety of types of awards, including stock options, restricted stock, restricted stock units, stock appreciation rights, performance share awards, phantom stock awards and cash awards. As of May 3, 2009, and for all periods presented, our share-based awards under this plan have consisted of restricted stock grants and stock option grants, neither of which can be settled through cash payments. Both of our stock options and restricted stock awards contain only service condition requirements and typically vest over four years, although from time to time certain individuals have

received special one-time restricted stock awards that vest at retirement, upon a change of control and on termination without cause or for good reason, as defined by the agreements governing such awards. We account for these restricted stock grants and stock option grants in accordance with Statement of Financial Accounting Standards 123(Revised), *Share-Based Payment*. A total of approximately 98,000 and 495,000 shares were available at May 3, 2009 and November 2, 2008, respectively, under the Incentive Plan for further grants of awards.

Table of Contents

During the six month period ended May 3, 2009, we granted 302,393 shares of restricted stock awards with a fair value of $4.8 million. There were no restricted stock awards granted during the three months ended May 3, 2009. The total pre-tax share-based compensation cost that has been recognized in results of operations was $1.1 million and $3.4 million for the three months ended May 3, 2009 and April 27, 2008, respectively, and $2.5 million and $6.3 million for the six months ended May 3, 2009 and April 27, 2008, respectively. Of these amounts, $1.1 million and $3.2 million for the three months ended May 3, 2009 and April 27, 2008, respectively, and $2.3 million and $5.8 million for the six months ended May 3, 2009 and April 27, 2008, respectively, were included in selling, general and administrative expense, with the remaining costs in each period in cost of goods sold. Included in the $6.3 million pre-tax share-based compensation cost for the three months ended April 27, 2008 is $1.5 million related to accelerated vesting of certain restricted stock grants of a former executive upon retirement. The total income tax benefit recognized in results of operations for share-based compensation arrangements was $0.5 million and $1.3 million for the three months ended May 3, 2009 and April 27, 2008, respectively, and $1.0 million and $2.4 million for the six months ended May 3, 2009 and April 27, 2008, respectively. As of May 3, 2009 and April 27, 2008, there was approximately $12.6 million and $13.2 million, respectively, of total unrecognized compensation cost related to share-based compensation arrangements. That cost is expected to be recognized over a weighted-average remaining period of 3.7 years and 3.9 years, respectively.

Cash received from option exercises was insignificant during the first six months of fiscal 2009 and $0.4 million during the first six months of fiscal 2008. The actual tax benefit realized for the tax deductions from option exercises totaled $0.2 million for the first six months of fiscal 2008.

NOTE 8 EARNINGS PER SHARE

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

	Fiscal Three Months Ended		Fiscal Six Months Ended	
	May 3, 2009	April 27, 2008	May 3, 2009	April 27, 2008
Numerator for Basic and Diluted Earnings (Loss) Per Share				
Net income (loss)	$ (120,207)	$ 14,866	$ (648,817)	$ 22,376
Denominator for Diluted Earnings (Loss) Per Share				
Weighted average common shares outstanding for basic earnings (loss) per share	19,470	19,312	19,454	19,281
Common stock equivalents:				
Employee stock options		93		89
Unvested restricted stock awards		35		50
Convertible notes				
Adjusted weighted average shares and assumed conversions for diluted earnings (loss) per share	19,470	19,440	19,454	19,420
Earnings (loss) per share:				
Basic	$ (6.17)	$ 0.77	$ (33.35)	$ 1.16
Diluted	$ (6.17)	$ 0.76	$ (33.35)	$ 1.15

Table of Contents

(1) The indenture under which the Convertible Notes (see Note 10) were issued contains a net share settlement provision as described in EITF 04-08*, The Effect of Contingently Convertible Instruments on Diluted Earnings Per Share*, whereby conversions are settled for a combination of cash and shares, and shares are only issued to the extent the conversion value exceeds the principal amount. During the three month and six month periods ended May 3, 2009 and April 27, 2008, our average stock trading price traded below the initial conversion price (approximately $40.14) of our Convertible Notes. Therefore, the incremental shares that we would have been required to issue had the Convertible Notes been converted at the average trading price during the period have not been included in the diluted earnings (loss) per share calculation because our average stock trading price did not exceed the $40.14 conversion threshold. The Convertible Notes can only be converted by the holders when our stock price trades above the initial conversion price of our Convertible Notes for at least 20 trading days in each of the 30 consecutive trading day period of the preceding calendar quarter or if upon other specified events, including if we call the Convertible Notes for redemption, which we may do beginning November 20, 2009.

For the three month and six month periods ended May 3, 2009, all options and unvested restricted shares were anti-dilutive and, therefore, not included in the diluted loss per share calculation. The number of weighted average options and weighted average unvested restricted shares that were not included in the diluted earnings per share calculation because the effect would have been anti-dilutive was approximately 459,000 and 192,000 shares, respectively, for the three months ended April 27, 2008 and approximately 455,000 and 208,000 shares, respectively, for the six months ended April 27, 2008.

NOTE 9 WARRANTY

We sell weathertightness warranties to our customers for protection from leaks in our roofing systems related to weather. These warranties range from two years to 20 years. We sell two types of warranties, standard and Single Source , and three grades of coverage for each. The type and grade of coverage determines the price to the customer. For standard warranties, our responsibility for leaks in a roofing system begins after 24 consecutive leak-free months. For Single Source warranties, the roofing system must pass our inspection before warranty coverage will be issued. Inspections are typically performed at three stages of the roofing project: (i) at the project start-up; (ii) at the project mid-point; and (iii) at the project completion. These inspections are included in the cost of the warranty. If the project requires or the customer requests additional inspections, those inspections are billed to the customer. Upon the sale of a warranty, we record the resulting revenue as deferred warranty revenue, which is included in other accrued expenses in our condensed consolidated balance sheets. We recognize deferred warranty revenue over the warranty coverage period in a manner that matches our estimated expenses relating to the warranty. Additionally, we assumed a warranty obligation relating to our acquisition of Robertson-Ceco II Corporation (RCC) of $7.6 million which represents the fair value of the future warranty obligations at the time of purchase. RCC s accrued warranty programs have similar terms and characteristics to our other warranty programs.

The following table represents the rollforward of our accrued warranty obligation and deferred warranty revenue activity for each of the fiscal six months ended (in thousands):

	Fiscal Six Months Ended	
	May 3, 2009	**April 27, 2008**
Beginning balance	$ 16,485	$ 14,844
Warranties sold	1,349	1,440
Revenue recognized	(599)	(580)
Adjustment [1]	(1,313)	
Other	(292)	(21)
Ending balance	$ 15,630	$ 15,683

(1) This adjustment relates to certain of the RCC warranty claims liabilities that were updated based on a change in our claims processing procedures and revised analysis. This change was recorded in cost of sales in our condensed consolidated statement of income during the first quarter of fiscal 2009.

Table of Contents

NOTE 10 LONG-TERM DEBT AND NOTE PAYABLE

Debt

Debt is comprised of the following (in thousands):

	May 3, 2009	November 2, 2008
$400 Million Term Loan, due June 2010 (1.9% - 2.0% at May 3, 2009 and 4.7% - 6.3% at November 2, 2008)	$ 293,290	$ 293,290
2.125% Convertible Senior Subordinated Notes, due November 2024	180,000	180,000
Industrial Revenue Bond	650	1,110
	473,940	474,400
Current portion of long-term debt	(473,940)	(920)
Long-term debt, less current portion	$	$ $473,480

The scheduled maturity of our debt is as follows (in thousands):

May 3, 2009 to November 1, 2009	$
2010	473,940(1)
2011	
2012	
2013 and thereafter	
	$ 473,940

(1) Based on our current stock price, we anticipate that the holders of our Convertible Notes will require us to purchase the Convertible Notes in November 2009. A failure to pay upon a conversion, redemption or repurchase would constitute an event of default under the indenture under which the Convertible Notes were issued and would also result in an event of default under our senior secured credit facility, and could result in all debt outstanding under both agreements to be declared immediately due and payable. As a result of the temporary covenant waiver, both the Convertible Notes and the Term Loan are classified as a current obligation on our consolidated balance sheet at May 3, 2009.

Our senior secured credit facility includes a $125 million five-year revolving credit facility maturing on June 18, 2009, with a sub-facility for letters of credit of a maximum of $50 million, and a $400 million term loan maturing on June 18, 2010. The term loan requires principal payments of $1.0 million each quarter and a final payment of $374.7 million at maturity. However, we made additional principal payments during fiscal 2006 and, as a result, will not be required to make any more principal payments until the maturity date except under the mandatory prepayment provisions or default provisions relating to non-compliance with covenants, as discussed further below, of our senior secured credit facility. At May 3, 2009 and November 2, 2008, letters of credit totaling approximately $12.8 million and $13.1 million, respectively, were outstanding on the revolving credit facility. In connection with the waiver discussed below, we agreed that we would not draw on our revolving credit facility, and there were no amounts other than for letters of credit outstanding on the revolving credit facility at both May 3, 2009 and November 2, 2008. As a closing condition for the waiver obtained (discussed below), on May 21, 2009 we obtained letters of credit secured by cash collateral held by the agent bank, and secured letters of credit in the aggregate may not exceed $13.5 million.

The senior secured credit facility requires compliance with various covenants and provisions customary for agreements of this nature, including a restricted payments test, and a minimum ratio of Consolidated EBITDA (as defined in the senior secured credit facility) to interest expense of 5.0 to 1 and maximum ratios of total debt and senior debt to Consolidated EBITDA of 4.0 to 1 and 2.75 to 1, respectively. At November 2, 2008, our interest coverage, leverage and senior debt ratios were 8.73, 2.48 and 1.56, respectively, and we were in compliance with all ratio requirements and covenants in our senior credit facility. At May 3, 2009, our interest coverage, leverage and senior

debt ratios were 5.70, 4.56 and 2.88, respectively, thus we were not in compliance with the leverage and senior debt ratio requirements and covenants in our senior credit facility. We have obtained a waiver from our senior credit facility lenders, including waiver of our financial maintenance covenants and of covenants restricting 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. The waivers will remain in effect through July 15, 2009 and automatically extend to September 15, 2009, if a definitive agreement for an equity investment is signed. 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. 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.

In November 2004, we completed an offering of $180.0 million Convertible Notes with interest payable semi-annually. Interest on the Convertible Notes is not deductible for income tax purposes, which creates a permanent tax difference that is reflected in our effective tax rate. The Convertible Notes are general unsecured obligations and are subordinated to our present and future senior indebtedness.

Each holder has the right to require that we repurchase the Convertible Notes after five, 10 and 15 years at 100% of the principal amount plus accrued and unpaid interest, if any, beginning November 15, 2009. Based on our current stock price, we anticipate that the holders of our Convertible Notes will require us to purchase the Convertible Notes in November 2009. In addition, we have the right to redeem the Convertible Notes, beginning on November 20, 2009, for a price equal to 100% of the principal amount plus accrued and unpaid interest, if any. Upon the occurrence of certain designated events, holders of the Convertible Notes will also have the right to require that we purchase all or some of their Convertible Notes at a redemption price equal to 100% of the principal amount plus accrued and unpaid interest, if any, and, in certain circumstances, a make whole premium. We must pay the repurchase price of the aggregate principal amount of the Convertible Notes in cash. The Convertible Notes are convertible into cash or, in certain circumstances, a combination of cash and shares of our common stock, at a ratio of 24.9121 shares of common stock per $1,000 principal amount notes, which is equivalent to an initial conversion price of approximately $40.14 per common share. The ratio is subject to adjustments if certain events take place, and holders may convert only if the closing sale price per common share exceeds 120% of the conversion price for at least 20 trading days in the 30 consecutive trading day period ending on the last trading day of the preceding calendar quarter. At May 3, 2009 and November 2, 2008, $180.0 million in principal amount of the Convertible Notes was outstanding. Our stock price did not exceed the conversion threshold of the Convertible Notes for at least 20 trading days in the 30 consecutive trading day period ended March 31, 2009; therefore, our Convertible Notes currently may not be converted until such time as our stock price again exceeds the conversion threshold for the specified 20 of the last 30 consecutive trading days of a calendar quarter or if upon other specified events, including if we call the Convertible Notes for redemption, which we may do beginning November 20, 2009. Our senior secured credit facility prohibits us from making payments on the Convertible Notes upon conversion, optional redemptions or mandatory repurchase unless our senior leverage ratio is less than 2.75 to 1.0 and we have $25 million available under our revolving credit facility, or unless our senior leverage ratio is less than 1.0 to 1.0. Because our revolving credit facility expires on June 18, 2009 and we are not in compliance with such ratios, absent a refinancing of our senior secured credit facility, we anticipate that we would not have the ability to repurchase the Convertible Notes if they are put to us on November 15, 2009. A failure to pay upon a conversion, redemption or repurchase would constitute an event of default under the indenture under which the Convertible Notes were issued and would also result in an event of default under our senior secured credit facility, and could result in all debt outstanding under both agreements to be declared immediately due and payable.

Table of Contents

Note payable

The note payable is related to financed insurance premiums and, as of May 3, 2009 we had outstanding a note payable in the amount of $2.0 million. Insurance premium financings are generally secured by the unearned premiums under such policies.

NOTE 11 DERIVATIVE INSTRUMENT AND HEDGING STRATEGY

Interest Rate Risk

We are exposed to interest rate risk associated with fluctuations in the interest rates on our variable interest rate debt. In order to manage this risk, on June 15, 2006, we entered into a forward interest rate swap agreement (Swap Agreement) hedging a portion of our $400 million term loan due June 2010 with a notional amount of $160 million beginning October 11, 2006. The notional amount decreased to $145 million on October 11, 2007 and decreased again to $105 million on October 14, 2008. The notional amount will further decrease to $65 million on October 13, 2009. The term of the Swap Agreement is four years. Under the Swap Agreement, we will pay a fixed rate of 5.55% on a quarterly basis in exchange for receiving floating rate payments based on the three-month LIBOR rate. We formally document qualifying hedge transactions and hedging instruments, and assess, both at inception of the contract and on an ongoing basis, whether the hedging instrument is effective in offsetting changes in cash flows of the hedged transaction. The fair value of the Swap Agreement as of May 3, 2009 and November 2, 2008, was a liability of approximately $4.1 million and $3.9 million, respectively. The fair value excludes accrued interest and takes into consideration current interest rates and current creditworthiness of us or the counterparty, as applicable.

Subsequent to the first quarter, we concluded our interest rate swap is no longer an effective hedge and, in the current and prospective periods, until the underlying cash flows relating to the senior secured credit facility again become probable, the changes in the fair value of the hedge are recorded in earnings. For the three months ended May 3, 2009, we have reduced interest expense by $0.8 million as a result of the changes in fair value of the hedge. If we are unable to refinance our underlying debt and can not redesignate the interest rate swap as an effective hedge, such event would result in us permanently losing the hedge effectiveness of the interest rate swap.

The maximum length of time over which we are hedging or exposure to the variability of future cash flows related to forecasted interest payments through our Swap Agreement is though June 2010. Over the next 12 months, we expect to reclassify $3.5 million of deferred losses from accumulated other comprehensive income to interest expense as related interest payment to the designated interest rate swap recognized. During the three months ended May 3, 2009, we reclassified $0.9 million into earnings as a result of the discontinuance of the hedge designation of the Swap Agreement.

At May 3, 2009 and November 2, 2008, the fair value carrying amount of our derivative instrument was recorded as follows (in thousands):

		Liability Derivative	
	Balance Sheet Location	May 3, 2009 Fair Value	November 2, 2008 Fair Value
Derivative designated as hedging instrument under SFAS 133:			
Interest rate contract	Other long-term liabilities	$ 4,072	$ 3,928

Table of Contents

The effect of derivative instruments on the Condensed Consolidated Statement of Income (Loss) for the three months ended May 3, 2009 and April 27, 2008 was as follows (in thousands):

Derivative in SFAS 133 Cash Flow Hedging Relationship	Amount of Gain Recognized in OCI on Derivative (Effective Portion)		Location of Loss Reclassified from Accumulated OCI into Income (Loss) (Effective Portion)	Amount of Loss Reclassified from Accumulated OCI into Income (Effective Portion)	
	May 3, 2009	April 27, 2008		May 3, 2009	April 27, 2008
Interest rate contract	$	$ 695	Interest expense	$ (878)	$

The effect of derivative instruments on the Condensed Consolidated Statement of Income (Loss) for the six months ended May 3, 2009 and April 27, 2008 was as follows (in thousands):

Derivative in SFAS 133 Cash Flow Hedging Relationship	Amount of Loss Recognized in OCI on Derivative (Effective Portion)		Location of Loss Reclassified from Accumulated OCI into Income (Loss) (Effective Portion)	Amount of Loss Reclassified from Accumulated OCI into Income (Effective Portion)	
	May 3, 2009	April 27, 2008		May 3, 2009	April 27, 2008
Interest rate contract	$	$ (1,245)	Interest expense	$ (878)	$

At May 3, 2009 and November 2, 2008, accumulated other comprehensive income (loss) associated with the Swap Agreement previously qualifying for hedge accounting treatment was $(2.4) million and $(2.4) million, respectively, net of income tax effects.

NOTE 12 FAIR VALUE MEASUREMENTS

Effective November 3, 2008, we adopted the SFAS 157 provisions related to assets and liabilities recognized or disclosed in the financial statements at fair value on a recurring basis. SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS 157 applies to other accounting pronouncements that require or permit fair value measurements, but does not require any new fair value measurements. The adoption of these provisions did not have a material effect on our condensed consolidated financial statements.

SFAS 157 clarifies that fair value is an exit price, representing the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants based on the highest and best use of the asset or liability. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. SFAS 157 requires us to use valuation techniques to measure fair value that maximize the use of observable inputs and minimize the use of unobservable inputs. These inputs are prioritized as follows:

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

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

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

Table of Contents

The following table summarizes information regarding our financial assets and liabilities that are measured at fair value as of May 3, 2009 (in thousands):

	Level 1	Level 2	Level 3	Total
Assets:				
Short-term investments in deferred compensation plan[1]	$ 4,883			4,883
Liabilities:				
Deferred compensation plan liability	$ (4,924)			(4,924)
Interest rate swap		(4,072)		(4,072)
Total liabilities	$ (4,924)	(4,072)		(8,996)

(1) Unrealized holding gains (losses) for the three months ended May 3, 2009 was $(0.3) million and was insignificant for the six months ended May 3, 2009. Unrealized holding gains (losses) for the three months and six months ended April 27, 2008 was $(0.1) million and $0.2 million, respectively. These unrealized holding gains (losses) are primarily offset by changes in the deferred compensation plan liability.

NOTE 13 INCOME TAXES

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

	Fiscal Three Months Ended		Fiscal Six Months Ended	
	May 3, 2009	April 27, 2008	May 3, 2009	April 27, 2008
Statutory federal income tax rate	35.0%	35.0%	35.0%	35.0%
State income taxes	3.4%	3.5%	3.4%	3.5%
Production activities deduction		(2.1)%		(2.1)%
Non-deductible goodwill impairment	(26.1)%		(31.0)%	
Canada valuation allowance	(0.2)%		(0.1)%	
Other	(0.7)%	2.4%	(0.2)%	2.2%
Effective tax rate	11.4%	38.8%	7.1%	38.6%

The decrease in our effective tax rate for the six months ended May 3, 2009 as compared to the prior year period was primarily due to the $611.4 million goodwill impairment charges discussed in Note 5, *Goodwill and Other Intangible Assets*. A reliable estimate of the interim effective tax rate could not be determined based on the annual pre-tax projection. Therefore, in accordance with FIN 18, *Accounting for Income Taxes in Interim Periods an interpretation of APB Opinion No. 28,* the interim effective tax rate was based on the actual year-to-date results.

NOTE 14 COMPREHENSIVE INCOME (LOSS)

Comprehensive income (loss) consists of the following (in thousands):

	Fiscal Three Months Ended		Fiscal Six Months Ended	
	May 3, 2009	April 27, 2008	May 3, 2009	April 27, 2008
Net income (loss)	$ (120,207)	$ 14,866	$ (648,817)	$ 22,376
Foreign exchange translation gain (loss), net of tax	(9)	(9)	(2)	(111)

Loss in fair value of interest rate swap, net of tax		695	(554)	(1,245)
Reclassification adjustment for losses on derivative instruments recognized during the period, net of tax	541		541	
Comprehensive income (loss)	$ (119,675)	$ 15,552	$ (648,832)	$ 21,020

Table of Contents

Accumulated other comprehensive loss consists of the following (in thousands):

	May 3, 2009	November 2, 2008
Foreign exchange translation adjustments	$ 587	$ 589
Defined benefit pension plan	391	