NCI BUILDING SYSTEMS INC
Form 10-K
December 21, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended October 30, 2011

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	**(I.R.S. Employer**

incorporation or organization)	**Identification No.)**
10943 North Sam Houston Parkway West	**77064**
(Address of principal executive offices)	**(zip code)**

Registrant s telephone number, including area code: (281) 897-7788

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $0.01 par value	**New York Stock Exchange**

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ¨ Yes x No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. ¨ Yes x No

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

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

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 definition 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 Act). ¨ Yes x No

The aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant on May 1, 2011, was $246,673,518, which aggregate market value was calculated using the closing sales price reported by the New York Stock Exchange as of the last business day of the registrant s most recently completed second fiscal quarter.

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.

The number of shares of common stock of the registrant outstanding on December 16, 2011 was 20,556,301.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information required by Part III of this Annual Report is incorporated by reference from the registrant s definitive proxy statement for its 2012 annual meeting of shareholders to be filed with the Securities and Exchange Commission within 120 days of October 30, 2011.

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FORWARD LOOKING STATEMENTS

This Annual Report includes statements concerning our expectations, beliefs, plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements that are not historical facts. These statements are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Actual results may differ materially from those expressed or implied by these statements. In some cases, our forward-looking statements can be identified by the words anticipate, believe, continue, could, estimate, exp forecast, goal, intend, may, objective, plan, potential, predict, projection, should, will or other similar words. We have bas statements on our management s beliefs and assumptions based on information available to our management at the time the statements are made. We caution you that assumptions, beliefs, expectations, intentions and projections about future events may and often do vary materially from actual results. Therefore, we cannot assure you that actual results will not differ materially from those expressed or implied by our forward-looking statements. Accordingly, investors are cautioned not to place undue reliance on any forward-looking information, including any earnings guidance, if applicable. Although we believe that the expectations reflected in the forward-looking statements are reasonable, these expectations and the related statements are subject to risks, uncertainties, and other factors that could cause the actual results to differ materially from those projected. These risks, uncertainties, and other factors include, but are not limited to:

- industry cyclicality and seasonality and adverse weather conditions;
- challenging economic conditions affecting the nonresidential construction industry;
- volatility in the U.S. economy and abroad, generally, and in the credit markets;
- ability to service or refinance our debt and obtain future financing;
- the Company s ability to comply with the financial tests and covenants in its existing and future debt obligations;
- operational limitations or restrictions in connection with our debt;
- recognition of asset impairment charges;
- commodity price increases and/or limited availability of raw materials, including steel;
- the ability to make strategic acquisitions accretive to earnings;
- retention and replacement of key personnel;
- enforcement and obsolescence of intellectual property rights;
- fluctuations in customer demand;

costs related to environmental cleanups and liabilities;

competitive activity and pricing pressure;

the volatility of the Company s stock price;

the substantial rights, seniority and dilutive effect on our common stockholders of the Convertible Preferred Stock issued to investment funds affiliated with Clayton, Dubilier & Rice, LLC;

breaches of our information security system security measures;

hazards that may cause personal injury or property damage, thereby subjecting us to liabilities and possible losses, which may not be covered by insurance;

changes in laws or regulations;

the cost and other effects, if any, of our offering for sale under our 401(k) Profit Sharing Plan unregistered shares of our Common Stock between March 6, 2006 and February 15, 2011;

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- costs and other effects of legal and administrative proceedings, settlements, investigations, claims and other matters; and

- other risks detailed under the caption Risk Factors in Item 1A of this report.

A forward-looking statement may include a statement of the assumptions or bases underlying the forward-looking statement. We believe that we have chosen these assumptions or bases in good faith and that they are reasonable. However, we caution you that assumed facts or bases almost always vary from actual results, and the differences between assumed facts or bases and actual results can be material, depending on the circumstances. When considering forward-looking statements, you should keep in mind the risk factors and other cautionary statements in this report, including those described under the caption Risk Factors in Item 1A of this report. We expressly disclaim any obligations to release publicly any updates or revisions to these forward-looking statements to reflect any changes in our expectations unless the securities laws require us to do so.

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PART I

Item 1. *Business.*

General

NCI Building Systems, Inc. (together with its subsidiaries and predecessors, unless the context requires otherwise, the Company, we, us or our) is one of North America s largest integrated manufacturers and marketers of metal products for the nonresidential construction industry. Of the $150 billion nonresidential construction industry, we primarily serve the low-rise nonresidential construction market (five stories or less) which, according to FW Dodge/McGraw-Hill represented approximately 90% of the total nonresidential construction industry during our fiscal year 2011. Our broad range of products are used in repair, retrofit and new construction activities, primarily in North America.

We provide metal coil coating services for commercial and construction applications, servicing both internal and external customers. We design, engineer, manufacture and market what we believe is one of the most comprehensive lines of metal components and engineered building systems in the industry, with a reputation for high quality and superior engineering and design. We go to market with well-recognized brands, which allow us to compete effectively within a broad range of end-user markets including industrial, commercial, institutional and agricultural. Our service versatility allows us to support the varying needs of our diverse customer base, which includes general contractors and sub-contractors, developers, manufacturers, distributors and a current network of over 3,300 authorized builders across North America.

We are comprised of a family of companies operating 31 manufacturing facilities spanning the United States and Mexico, with additional sales and distribution offices throughout the United States and Canada. Our broad geographic footprint along with our hub-and-spoke distribution system allows us to efficiently supply a broad range of customers with high quality customer service and reliable deliveries.

The Company was founded in 1984 and reincorporated in Delaware in 1991. In 1998, we acquired Metal Building Components, Inc. (MBCI) and doubled our revenue base. As a result of the acquisition of MBCI, we became the largest domestic manufacturer of nonresidential metal components. In 2006, we acquired Robertson-Ceco II Corporation (RCC) which operates the Ceco Building Systems, Star Building Systems and Robertson Building Systems divisions and is a leader in the metal buildings industry. The RCC acquisition created an organization with greater product and geographic diversification, a stronger customer base and a more extensive distribution network than either company had individually, prior to the acquisition.

The metal coil coating, metal components and engineered building systems businesses, and the construction industry in general, are seasonal in nature. Sales normally are lower in the first half of each fiscal year compared to the second half of the fiscal year because of unfavorable weather conditions for construction and typical business planning cycles affecting construction.

The nonresidential construction industry is highly sensitive to national and regional macroeconomic conditions. One of the primary challenges we face in the short term is that the United States economy is slowly recovering from a recession and is in a period of significant volatility which, beginning in the third quarter of 2008, has reduced demand for our products and adversely affected our business. In addition, the tightening of credit in financial markets over the same period has adversely affected the ability of our customers to obtain financing for construction projects. As a result, we have experienced decreases in and cancellations of orders for our products in previous fiscal quarters, and the ability of our customers to make payments has been adversely affected. Similar factors could cause our suppliers to experience financial distress or bankruptcy, resulting in temporary raw material shortages. The lack of credit also adversely affects nonresidential construction, which is the focus of our business. While economic growth has either resumed or remains flat, the nonresidential construction industry continues to face significant challenges.

When assessing the state of the metal construction market, we review information from various industry associations, third-party research, and various government reports such as industrial production and capacity

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utilization. One such industry association is the Metal Building Manufacturers Association (MBMA), which provides summary member sales information and promotes the design and construction of metal buildings and metal roofing systems. Another is McGraw-Hill Construction Information Group, which we review for information regarding actual and forecasted growth in various construction related industries, including the overall nonresidential construction market. McGraw-Hill Construction s nonresidential construction forecast for calendar 2011, updated in October 2011, indicates an expected reduction of 4% in square footage and a decrease of 6% in dollar value as compared to the prior calendar year. In calendar 2012, activity is expected to increase compared to calendar 2011, with an expected increase of 2% in square footage and an increase of 2% in dollar value. Additionally, we review the American Institute of Architects (AIA) survey for inquiry and billing activity for the industrial, commercial and institutional sectors. The AIA s Architectural Billing Index (ABI) is a closely watched metric, as billing growth for architectural services generally leads to construction spending growth for the following 9 to 12 months. An ABI reading above 50 indicates an increase in month-to-month billings and a reading below 50 indicates a decrease in month-to-month billings. AIA s ABI published for October 2011 was below 50 at 49.4 but the commercial and industrial component of the index was at 53.5 for October 2011, the second consecutive month above 50.

As a result of the market downturn in 2008 and 2009, we implemented a three-phase process to resize and realign our manufacturing operations. The purpose of these activities was to close some of our least efficient facilities and to retool certain 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. After the implementation of this three-phase restructuring plan, we are realizing significant fixed cost savings compared to fiscal year 2008. We have incurred facility closure costs of $20.3 million through October 31, 2010 related to the three-phase restructuring plan and have not incurred significant additional costs beyond fiscal 2010 under the plan.

Another challenge we face both short and long term is the volatility in the price of steel. Our business is heavily dependent on the supply of steel and is significantly impacted by steel prices. For the fiscal year ended October 30, 2011, steel represented approximately 72% of our costs of goods sold. The steel industry is highly cyclical in nature, and steel prices have been volatile in recent years and may remain volatile in the future. Steel prices are influenced by numerous factors beyond our control, including general economic conditions domestically and internationally, currency fluctuations, availability of raw materials, competition, labor costs, freight and transportation costs, production costs, import duties and other trade restrictions.

The monthly CRU North American Steel Price Index, published by the CRU Group, has increased 16.8% from October 2010 to October 2011 and was 2.6% higher in October 2010 compared to October 2009. Generally, we are able to adjust our sales prices in response to fluctuations in steel costs. However, in 2009, the combination of a precipitous decline in steel costs and rapid deceleration in construction activity negatively impacted our results of operations. In the first two quarters of fiscal 2009, we recorded a $40.0 million charge to cost of sales to adjust certain raw material inventory to the lower of cost or market because this inventory exceeded our estimates of net realizable value less normal profit margins. Our sales volume in 2009 was significantly lower than previously anticipated as customers delayed projects in an effort to wait and see how low steel prices would fall.

On October 20, 2009, we completed a financial restructuring that resulted in a change of control of the Company. As part of the restructuring, Clayton, Dubilier & Rice Fund VIII, L.P. and CD&R Friends & Family Fund VIII, L.P. (together, the CD&R Funds), investment funds managed by Clayton, Dubilier & Rice, LLC, purchased an aggregate of 250,000 shares of a newly created class of our convertible preferred stock, par value $1.00 per share, designated the Series B Cumulative Convertible Participating Preferred Stock (the Convertible Preferred Stock, and shares thereof, the Preferred Shares), representing approximately 68.4% of the voting power and common stock of the Company on an as-converted basis (the Equity Investment). In connection with the closing of the Equity Investment, among other things:

- we consummated an exchange offer (the Exchange Offer) to acquire all of our existing $180 million aggregate principal amount 2.125% Convertible Senior Subordinated Notes due 2024 in exchange for a combination of $90.0 million in cash and 14.0 million shares of common stock;

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- we refinanced our existing term loan by repaying approximately $143 million in principal amount of the then existing $293 million in principal amount of outstanding term loans and amending the terms and extending the maturity of the remaining $150 million balance (the Amended Credit Agreement); and

- we entered into an asset-based revolving credit facility with a maximum available amount of up to $125 million (the ABL Facility). See Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources.

As of November 1, 2009, the Preferred Shares were convertible into 39.2 million shares of Common Stock, respectively, at an initial conversion price of $6.3740 (as adjusted for the Reverse Stock Split, described below). However, as of November 1, 2009, only approximately 1.8 million shares of Common Stock were authorized and unissued, and therefore the CD&R Funds would not have been able to fully convert the Preferred Shares. To the extent the CD&R Funds opted to convert their Preferred Shares, as of November 1, 2009, their conversion right was limited to conversion of that portion of their Preferred Shares into the approximately 1.8 million shares of Common Stock that were currently authorized and unissued. On March 5, 2010, following shareholder approval and by action of the independent, non-CD&R board members, we were able to effect the Reverse Stock Split at an exchange ratio of 1-for-5. As of that date, the Preferred Shares accrued for and held by the CD&R Funds were fully convertible into 41.0 million Common Shares.

Dividends on the Convertible Preferred Stock are payable, on a cumulative daily basis, as and if declared by our board of directors, at a rate per annum of 12% of the sum of the liquidation preference of $1,000 per Preferred Share plus accrued and unpaid dividends thereon or at a rate per annum of 8% of the sum of the liquidation preference of $1,000 per Preferred Share plus any accrued and unpaid dividends thereon if paid in cash on the dividend payment date on which such dividends would otherwise compound. Members of our board of directors who are not affiliated with the CD&R Funds, have the right to choose whether such dividends are paid in cash or in-kind, subject to the conditions of the Amended Credit Agreement and ABL Facility.

On December 3, 2010, we finalized an amendment of our ABL facility which, among other items, relaxed the prohibitions against paying cash dividends on the Convertible Preferred Stocks to allow, in the aggregate, up to $6.5 million of cash dividends or other payments each calendar quarter, provided (i) certain excess availability conditions or (ii) excess availability conditions and a fixed charge coverage ratio under the ABL Facility are satisfied. In addition, our Amended Credit Agreement currently restricts the payment of cash dividends to 50% of cumulative earnings beginning with the fourth quarter of 2009, and in the absence of accumulated earnings, cash dividends and other cash restricted payments are limited to $14.5 million in the aggregate during the term of the loan.

On September 6, 2011, we entered into a Mutual Waiver and Consent with the CD&R Funds, under which (1) the CD&R Funds, as the holders of all of our issued and outstanding Convertible Preferred Stock, agreed to accept a paid-in-kind dividend on their Preferred Shares for the quarterly dividend payment period ended September 15, 2011 computed at the dividend rate of 8% per annum, rather than the dividend rate of 12% per annum provided for in the Certificate of Designations applicable to the Preferred Shares, and (2) the Company waived its right under the Stockholders Agreement with the CD&R Funds to issue up to $5 million of its capital stock without the consent of the CD&R Funds during the remainder of its fiscal year ending October 30, 2011, subject to certain exceptions.

The September 6, 2011 Mutual Waiver and Consent does not extend to dividends on the Convertible Preferred Stock accruing after September 15, 2011 or restrict our issuance of capital stock after October 30, 2011.

On December 9, 2011, we entered into a second Mutual Waiver and Consent with the CD&R Funds, under which (1) the CD&R Funds, as the holders of all of our issued and outstanding Convertible Preferred Stock, agreed to accept a paid-in-kind dividend on their Preferred Shares for the quarterly dividend payment period ended December 15, 2011 computed at the dividend rate of 8% per annum, rather than the dividend rate of 12% per annum provided for in the Certificate of Designations applicable to the Preferred Shares, and (2) the Company waived its right under the Stockholders Agreement with the CD&R Funds to issue up to $5 million of its capital stock without the consent of the CD&R Funds during the fiscal year ending October 28, 2012, subject to certain exceptions.

The December 9, 2011 Mutual Waiver and Consent does not extend to dividends on the Convertible Preferred Stock accruing after December 15, 2011 or restrict our issuance of capital stock after October 28, 2012.

Our principal offices are located at 10943 North Sam Houston Parkway West, Houston, Texas 77064, and our telephone number is (281) 897-7788.

We file annual, quarterly and current reports and other information with the Securities and Exchange Commission (the SEC). Our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, along with any amendments to those reports, are available free of charge at our corporate website at *http://www.ncilp.com* as soon as practicable after such material is electronically filed with, or furnished to, the SEC. In addition, our website includes other items related to corporate governance matters, including our corporate governance guidelines, charters of various committees of our board of directors and the code of business conduct and ethics applicable to our employees, officers and directors. You may obtain copies of these documents, free of charge, from our corporate website. However, the information on our website is not incorporated by reference into this Form 10-K.

Business Segments

We have aggregated our operations into three reportable business segments based upon similarities in product lines, manufacturing processes, marketing and management of our businesses: (i) metal coil coating; (ii) metal components; and (iii) engineered building systems. Our business segments are vertically integrated, benefiting from common raw material usage, like manufacturing processes and an overlapping distribution network. Steel is the primary raw material used by each of our business segments. Our metal coil coating segment, which paints steel coils, provides substantially all of our metal coil coating requirements for our metal components and engineered building systems business segments. Our metal components segment produces parts and accessories that are sold separately or as part of a comprehensive solution, the most common of which is a metal building system custom-designed and manufactured in our engineered building systems segment. Our engineered building systems segment sources substantially all of its painted steel coil and a large portion of its components requirements from our other two business segments. The manufacturing and distribution activities of our segments are effectively coupled through the use of our nationwide hub-and-spoke manufacturing and distribution system, which supports and enhances our vertical integration.

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 business segments. Corporate unallocated expenses include executive, legal, finance, tax, treasury, human resources, information technology, purchasing, marketing and corporate travel expenses. Additional unallocated expenses include interest income, interest expense, debt extinguishment and refinancing costs and other (expense) income.

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Our total sales, external sales, operating income (loss) and total assets attributable to these business segments were as follows for the fiscal years indicated (in thousands):

	2011	%	2010	%	2009	%
Total sales:						
Metal coil coating	**$ 201,098**	**21**	$ 181,874	21	$ 169,897	18
Metal components	**437,655**	**46**	415,857	48	458,734	47
Engineered building systems	**548,594**	**57**	490,746	56	538,938	56
Intersegment sales	**(227,770)**	**(24)**	(217,951)	(25)	(202,317)	(21)
Total net sales	**$ 959,577**	**100**	$ 870,526	100	$ 965,252	100
External sales:						
Metal coil coating	**$ 75,394**	**8**	$ 65,240	7	$ 53,189	6
Metal components	**353,797**	**37**	328,077	38	389,132	40
Engineered building systems	**530,386**	**55**	477,209	55	522,931	54
Total net sales	**$ 959,577**	**100**	$ 870,526	100	$ 965,252	100
Operating income (loss):						
Metal coil coating	**$ 17,944**		$ 16,166		$ (99,689)	
Metal components	**20,643**		26,791		(130,039)	
Engineered building systems	**13,011**		(18,438)		(389,007)	
Corporate	**(53,225)**		(49,106)		(64,583)	
Total operating income (loss)	**$ (1,627)**		$ (24,587)		$ (683,318)	
Unallocated other expense	**(14,720)**		(15,620)		(124,391)	
Loss before income taxes	**$ (16,347)**		$ (40,207)		$ (807,709)	
Total assets as of fiscal year end 2011 and 2010:						
Metal coil coating	**$ 55,509**	**10**	$ 57,137	10	$ 57,254	9
Metal components	**175,906**	**31**	167,542	30	160,124	26
Engineered building systems	**206,232**	**37**	208,232	37	241,046	39
Corporate	**123,507**	**22**	127,613	23	155,744	26
Total assets	**$ 561,154**	**100**	$ 560,524			