NCI BUILDING SYSTEMS INC
Form 10-Q
September 07, 2012

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 July 29, 2012

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. 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). x 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 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-20,347,924 shares as of September 4, 2012

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PART I— FINANCIAL INFORMATION

Item 1. Unaudited Consolidated Financial Statements.

NCI BUILDING SYSTEMS, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

	July 29, 2012 (Unaudited)	October 30, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 32,318	$ 78,982
Restricted cash	1,375	2,836
Accounts receivable, net	111,913	95,381
Inventories, net	113,237	88,531
Deferred income taxes	22,127	20,405
Income tax receivable	1,906	1,272
Investments in debt and equity securities, at market	4,382	4,483
Prepaid expenses and other	17,509	14,847
Assets held for sale	4,884	4,874
Total current assets	309,651	311,611
Property, plant and equipment, net	271,536	208,514
Goodwill	73,909	5,200
Intangible assets, net	54,938	24,254
Other assets	10,896	11,575
Total assets	$ 720,930	$ 561,154
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Current portion of long-term debt	$ 2,500	$ —
Note payable	858	292
Accounts payable	98,058	88,158
Accrued compensation and benefits	40,598	34,616
Accrued interest	470	1,309

Other accrued expenses	56,840	49,668
Total current liabilities	199,324	174,043
Long-term debt, net of current portion (and unamortized discount of $12,327 and $0, respectively)	234,546	130,699
Deferred income taxes	35,886	7,312
Other long-term liabilities	10,065	10,081
Total long-term liabilities	280,497	148,092
Series B cumulative convertible participating preferred stock	619,950	273,950
Redeemable common stock	—	759
Stockholders' deficit:		
Common stock, $.01 par value, 100,000,000 shares authorized; 20,350,479 and 19,954,323 shares issued at July 29, 2012 and October 30, 2011, respectively; 20,347,925 and 19,829,898 shares outstanding at July 29, 2012 and October 30, 2011, respectively	924	924
Additional paid-in capital	1,875	237,244
Accumulated deficit	(376,120)	(266,896)
Accumulated other comprehensive loss	(5,499)	(5,485)
Treasury stock, at cost (2,554 shares and 124,425 shares at July 29, 2012 and October 30, 2011, respectively)	(21)	(1,477)
Total stockholders' deficit	(378,841)	(35,690)
Total liabilities and stockholders' deficit	$ 720,930	$ 561,154

See accompanying notes to consolidated financial statements.

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NCI BUILDING SYSTEMS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

	Fiscal Three Months Ended		Fiscal Nine Months Ended	
	July 29, 2012	July 31, 2011	July 29, 2012	July 31, 2011
Sales	$ 298,488	$ 262,138	$ 792,322	$ 677,789
Cost of sales, excluding asset recoveries	232,925	205,348	615,135	536,641
Asset recoveries	(22)	(93)	(22)	(93)
Gross profit	65,585	56,883	177,209	141,241
Engineering, selling, general and administrative expenses	55,605	50,889	156,110	151,227
Acquisition-related costs	2,946	—	4,836	—
Restructuring recovery	—	(575)	—	(575)
Income (loss) from operations	7,034	6,569	16,263	(9,411)
Interest income	44	26	100	103
Interest expense	(4,203)	(3,890)	(10,589)	(12,014)
Debt extinguishment costs	(6,437)	—	(6,437)	—
Other income (expense), net	(368)	(112)	11	1,166
Income (loss) before income taxes	(3,930)	2,593	(652)	(20,156)
Provision (benefit) for income taxes	(663)	—	705	(6,795)
Net income (loss)	$ (3,267)	$ 2,593	$ (1,357)	$ (13,361)
Convertible preferred stock dividends and accretion	—	9,176	16,352	21,666
Convertible preferred stock beneficial conversion feature	—	6,494	11,878	8,040
Convertible preferred stock amendment	48,803	—	48,803	—
Net loss applicable to common shares	$ (52,070)	$ (13,077)	$ (78,390)	$ (43,067)
Loss per common share:				
Basic	$ (2.74)	$ (0.71)	$ (4.16)	$ (2.35)
Diluted	$ (2.74)	$ (0.71)	$ (4.16)	$ (2.35)
Weighted average number of common shares outstanding:				
Basic	18,997	18,467	18,830	18,292
Diluted	18,997	18,467	18,830	18,292

See accompanying notes to consolidated financial statements.

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NCI BUILDING SYSTEMS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Fiscal Nine Months Ended	
	July 29, 2012	July 31, 2011
Cash flows from operating activities:		
Net loss	$ (1,357)	$ (13,361)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	21,992	25,249
Share-based compensation expense	6,183	5,132
Non-cash debt extinguishment costs	6,436	—
Loss on sale of property, plant and equipment	20	41
Provision for doubtful accounts	(409)	1,452
Provision (benefit) from deferred income taxes	86	(6,227)
Asset recoveries	(22)	(93)
Changes in operating assets and liabilities, net of effect of acquisitions:		
Accounts receivable	5,143	(11,440)
Inventories	(16,330)	(34,938)
Income tax receivable	(146)	14,209
Prepaid expenses and other	(1,610)	(57)
Accounts payable	(3,072)	21,250
Accrued expenses	3,281	3,966
Other, net	50	264
Net cash provided by operating activities	20,245	5,447
Cash flows from investing activities:		
Acquisition, net of cash acquired	(140,991)	—
Capital expenditures	(22,288)	(14,735)
Proceeds from sale of property, plant and equipment	55	582
Net cash used in investing activities	(163,224)	(14,153)
Cash flows from financing activities:		
Decrease (increase) in restricted cash	1,461	(4)
Proceeds from ABL Facility	15,021	43
Payments on ABL Facility	(15,021)	(43)
Excess tax benefits from share-based compensation arrangements	1	—
Proceeds on term loan	237,499	—
Payments on term loan	(131,325)	(5,250)

Payments on note payable	(1,193)	(1,105)
Payment of financing costs	(8,679)	(100)
Payment of cash dividends on convertible preferred stock	—	(11,039)
Purchase of treasury stock	(1,524)	(1,477)
Net cash provided by (used in) financing activities	96,240	(18,975)
Effect of exchange rate changes on cash and cash equivalents	75	(63)
Net decrease in cash and cash equivalents	(46,664)	(27,744)
Cash and cash equivalents at beginning of period	78,982	77,419
Cash and cash equivalents at end of period	$ 32,318	$ 49,675

See accompanying notes to consolidated financial statements.

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NCI BUILDING SYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JULY 29, 2012

(Unaudited)

NOTE 1 — BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements for NCI Building Systems, Inc. (together with its subsidiaries, unless otherwise indicated, the “Company,” “we,” “us,” or “our”) 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, the unaudited consolidated financial statements included herein contain all adjustments necessary to fairly present our financial position, results of operations and cash flows for the periods indicated. Such adjustments, other than nonrecurring adjustments that have been separately disclosed, are of a normal, recurring nature. Operating results for the fiscal three and nine month periods ended July 29, 2012 are not necessarily indicative of the results that may be expected for the fiscal year ending October 28, 2012. 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.

We use a four-four-five week calendar each quarter with our year end being on the Sunday closest to October 31. The year end for fiscal 2012 is October 28, 2012.

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 October 30, 2011 filed with the Securities and Exchange Commission (the “SEC”) on December 21, 2011.

NOTE 2 — ACQUISITION

On June 22, 2012, NCI Group, Inc., a Nevada corporation (“NCI”) and a wholly owned subsidiary of the Company, completed the acquisition of Metl-Span LLC, a Texas limited liability company (“Metl-Span”), .. Pursuant to the terms of the Equity Purchase Agreement, dated as of May 2, 2012, as amended (the “Equity Purchase Agreement”), among

VSMA, Inc., Metl-Span, NCI and BlueScope Steel North America Corporation, NCI acquired all of the outstanding membership interests of Metl-Span for approximately $145.7 million in cash (the "Acquisition"). The purchase price is also subject to a post-closing adjustment based on Metl-Span's cash, working capital, indebtedness, transaction expenses and accrued employee bonuses at closing. Metl-Span is now a direct, wholly-owned subsidiary of NCI.

Accordingly, the results of Metl-Span's operations from June 22, 2012 are included in our consolidated financial statements. For the period from June 22, 2012 to July 29, 2012, Metl-Span contributed revenue and operating income of $21.2 million and $2.3 million, respectively. Metl-Span operates five manufacturing facilities in the United States serving the nonresidential building products market with cost-effective and energy efficient insulated metal wall and roof panels. This transaction resulted in goodwill of $68.7 million as it has strengthened our position as a leading fully integrated supplier to the nonresidential building products industry in North America, providing our customers a comprehensive suite of building products. During the three and nine month periods ended July 29, 2012, we recognized $2.9 million and $4.8 million, respectively, in acquisition-related costs.

We report on a fiscal year that ends the Sunday closest to October 31. Metl-Span previously reported on a calendar year that ended on June 30. The unaudited pro forma financial information in the table below was prepared based on financial information for Metl-Span for the calendar months of November through July, which correlates to the three-month and nine-month periods corresponding to our fiscal periods. The unaudited pro forma financial information for the fiscal three months ended July 29, 2012 and July 31, 2011 and the fiscal nine months ended July 29, 2012 and July 31, 2011 give effect to the transaction as if it had occurred at the beginning of the earliest fiscal period presented.

This unaudited pro forma financial information does not necessarily represent what would have occurred if the transaction had taken place on the dates presented and should not be taken as representative of our future consolidated results of operations. We have not finalized our integration plans. Accordingly, this pro forma information does not include all costs related to the integration. We also expect to realize operating synergies from consolidating procurement activities. The pro forma information does not reflect these potential synergies or expense reductions.

(In thousands except per share amounts)	Unaudited Pro Forma Fiscal Three Months Ended		Unaudited Pro Forma Fiscal Nine Months Ended	
	July 29, 2012	July 31, 2011	July 29, 2012	July 31, 2011
Sales	$325,974	$ 304,733	$ 899,596	$ 791,551
Net income (loss)	$(1,686)	$ 4,200	$ 3,090	$ (9,071)
Net loss applicable to common shares	$(50,489)	$ (11,470)	$ (73,943)	$ (38,777)
Earnings per share:				
Basic	$(2.66)	$ (0.62)	$ (3.93)	$ (2.12)
Diluted	$(2.66)	$ (0.62)	$ (3.93)	$ (2.12)

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed as part of the Acquisition. The fair value of all assets acquired and liabilities assumed are preliminary and the final determination of any required purchase accounting adjustments will be made upon the completion of our fair value assessments. We are currently completing our plans to functionally integrate the newly acquired operations into our existing operations. Additionally, as these plans are finalized, we may identify integration charges that are required to be recognized. As a result, the initial purchase price allocations may be adjusted for changes in estimates of the fair value of assets acquired and liabilities assumed.

(In thousands)	June 22, 2012
Current assets	$ 35,233
Current deferred income taxes	1,514
Property, plant and equipment	57,893
Intangible assets	32,760
Assets acquired	$ 127,400
Current liabilities	$ 22,306
Deferred income taxes	28,121
Liabilities assumed	$ 50,427
Fair value of net assets acquired	$ 76,973
Total consideration paid	145,682
Goodwill	$ 68,709

The long-term deferred tax liability primarily relates to differences between the book basis and tax basis of property, plant and equipment and intangible assets, which were written up to fair market value for book purposes when accounting for the Acquisition and are not deductible for tax purposes.

The amount allocated to intangible assets was attributed to the following categories (in thousands):

		Lives
Trade names	$9,600	15 years
Backlog	1,410	3 months
Supplier relationships	150	3 years
Customer lists and relationships	21,600	12 years
	$32,760	

These intangible assets are amortized on a straight-line basis.

The excess of the purchase price over the fair values of assets acquired and liabilities assumed was allocated to goodwill. Goodwill of $68.7 million was recorded in our metal components segment. None of the goodwill recorded as a result of this transaction is expected to be deductible for tax purposes.

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For all our intangibles, including those recently acquired and from prior acquisitions, the weighted average estimated useful life is 12.9 years. We recognized $2.1 million in amortization expense for all intangibles during the nine months ended July 29, 2012. Total accumulated amortization was $17.8 million at July 29, 2012. We expect to recognize amortization expense over the next five fiscal years as follows (in millions):

July 30, 2012 to October 28, 2012	$1.9
2013	4.0
2014	4.0
2015	3.7
2016	3.4

NOTE 3 —ACCOUNTING PRONOUNCEMENTS

Adopted Accounting Pronouncements

In July 2012, the FASB issued ASU 2012-02, *Intangibles — Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment* ("ASU 2012-02"), which gives companies the option to perform an annual qualitative assessment to determine whether it is more likely than not the indefinite-lived intangible asset is impaired. If, after assessing the totality of events and circumstances, an entity concludes that it is not more likely than not that the indefinite-lived intangible asset is impaired, then the entity is not required to take further action. Early adoption is permitted. Therefore, we have early adopted this ASU in our fiscal year ending October 28, 2012. The adoption of ASU 2012-02 will not have an impact on our consolidated financial statements.

In September 2011, the FASB issued ASU 2011-08, *Intangibles—Goodwill and Other (Topic 350): Testing Goodwill for Impairment* ("ASU 2011-08"), which gives companies the option to perform an annual qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount and, in some cases, by-pass the two-step impairment test. Early adoption is permitted. Therefore, we have early adopted this ASU in our fiscal year ending October 28, 2012. The adoption of ASU 2011-08 will not have an impact on our consolidated financial statements.

In May 2011, the FASB issued ASU 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* ("ASU 2011-04"). The amendments to this update provide a uniform framework for applying the principles of fair value measurement and include (i) amendments that clarify the Board's intent about the application of existing fair value measurement and disclosure requirements and (ii) amendments that change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. These amendments do not require additional fair value measurements. We adopted ASU 2011-04 in our second fiscal quarter ended April 29, 2012. The adoption of ASU

2011-04 did not have a material impact on our consolidated financial statements.

Recent Accounting Pronouncements

In June 2011, the FASB issued ASU 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income* ("ASU 2011-05") which amends its guidance on the presentation of comprehensive income to increase the prominence of items reported in other comprehensive income. The new guidance requires that all components of comprehensive income in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The guidance required entities to present reclassification adjustments out of accumulated other comprehensive income by component in both the statement in which net income is presented and the statement in which other comprehensive income is presented. In December 2011, the FASB issued ASU 2011-12, *Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05* ("ASU 2011-12") which indefinitely deferred the guidance related to the presentation on the face of the financial statements of the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income. These amendments are to be applied retrospectively. We will adopt ASU 2011-05 and ASU 2011-12 in our first quarter of fiscal 2013 and we believe its adoption will not have any impact on our consolidated financial statements.

NOTE 4 — RESTRICTED CASH

We have entered into a cash collateral agreement with our agent bank to secure letters of credit. The restricted cash was invested in a bank account securing our agent bank. As of July 29, 2012, we had restricted cash in the amount of $1.4 million as collateral related to our $1.4 million of letters of credit for certain insurance policies, exclusive of letters of credit under our ABL Facility. As of October 30, 2011, we had restricted cash in the amount of $2.8 million as collateral related to our $2.7 million of letters of credit for certain insurance policies, exclusive of letters of credit under our ABL Facility. Restricted cash is classified as a current asset as the underlying letters of credit expire within one year of the respective balance sheet date.

NOTE 5 — INVENTORIES

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

	July 29, 2012	October 30, 2011
Raw materials	$ 81,270	$ 62,801
Work in process and finished goods	31,967	25,730

$ 113,237	$ 88,531

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NOTE 6 — 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 July 29, 2012 and July 31, 2011, and for all periods presented, our share-based awards under this plan have consisted of restricted stock grants and stock option grants, none of which can be settled through cash payments. Both our stock options and restricted stock awards are subject only to vesting requirements based on continued employment at the end of a specified time period and typically vest over four years or earlier upon death, disability or a change of control. However, our annual restricted stock awards also vest upon retirement and, only in the case of certain special one-time restricted stock awards, a portion vest on termination without cause or for good reason, as defined by the agreements governing such awards.

During the nine month periods ended July 29, 2012 and July 31, 2011, we granted 92,832 and 121,669 stock options, respectively, and the weighted average grant-date fair value of options granted during fiscal 2012 and fiscal 2011 was $5.12 and $5.78, respectively.

The fair value of restricted stock awards classified as equity awards is based on the Company's stock price as of the date of grant. During the nine months ended July 29, 2012 and July 31, 2011, we granted restricted stock awards with a fair value of $6.8 million or 666,110 shares and $6.2 million or 515,053 shares, respectively.

NOTE 7 — LOSS PER COMMON SHARE

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

	Fiscal Three Months Ended		Fiscal Nine Months Ended	
	July 29, 2012	July 31, 2011	July 29, 2012	July 31, 2011
Numerator for Basic and Diluted Loss Per Common Share				
Net loss allocated to common shares (1)	$ (52,070)	$ (13,077)	$ (78,390)	$ (43,067)
Denominator for Basic and Diluted Loss Per Common Share				

Weighted average common shares outstanding for basic and diluted loss per share	18,997	18,467	18,830	18,292
Basic and Diluted loss per common share	$ (2.74)	$ (0.71)	$ (4.16)	$ (2.35)

(1) Participating securities consist of the holders of the Convertible Preferred Stock, as defined below, and the unvested restricted Common Stock related to our Incentive Plan. These participating securities do not have a contractual obligation to share in losses; therefore, no losses were allocated in any periods presented above. These participating securities will be allocated earnings when applicable.

We calculate earnings per share using the "two-class" method, whereby unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents are "participating securities" and, therefore, these participating securities are treated as a separate class in computing earnings per share. The calculation of earnings per share for Common Stock presented here excludes the income, if any, attributable to the unvested restricted stock awards and our Series B Cumulative Convertible Participating Preferred Stock ("Convertible Preferred Stock," and shares thereof, "Preferred Shares") from the numerator and excludes the dilutive impact of those shares from the denominator. There was no income amount attributable to unvested restricted stock or Preferred Shares for the three and nine month periods ended July 29, 2012 and July 31, 2011 as the restricted stock and Preferred Shares do not share in the net losses. However, in periods of net income allocated to common shares, a portion of this income will be allocable to the restricted stock and Preferred Shares. As of July 29, 2012 and October 30, 2011, the Preferred Shares were convertible into 54.1 million and 46.6 million shares of Common Stock, respectively.

For both the three and nine month periods ended July 29, 2012 and July 31, 2011, all options and unvested restricted shares were anti-dilutive and, therefore, not included in the diluted loss per common share calculation.

NOTE 8 — 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 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 maintain an accrued warranty at Robertson-Ceco II Corporation ("RCC") in which the balance was $3.1 million at both July 29, 2012 and October 30, 2011. RCC's accrued warranty programs have similar terms and characteristics to our other warranty programs although this warranty is not amortized in the same manner as our other warranty programs.

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

	Fiscal Nine Months Ended	
	July 29, 2012	July 31, 2011
Beginning balance	$ 17,941	$ 16,977
Warranties sold	2,365	2,081
Revenue recognized	(1,609)	(1,205)
Other (1)	1,107	(309)
Ending balance	$ 19,804	$ 17,544

(1) Primarily represents the fair value of accrued warranty obligations in the amount of $1.2 million assumed in the Metl-Span acquisition. Metl-Span offers weathertightness warranties on its wall and roof panels. Weathertightness warranties are offered in various configurations for terms from five to twenty years, prorated or non-prorated and on a no dollar limit basis, as required by the buyer. These warranties are available only if certain conditions, some of which relate to installation, are met.

NOTE 9 — LONG-TERM DEBT AND NOTE PAYABLE

Debt is comprised of the following (in thousands):

	July 29, 2012	October 30, 2011
Credit Agreement, due May 2018 (interest at 8.0% at July 29, 2012)	$ 249,373	$ —
Amended and restated credit agreement, due April 2014 (interest at 8.0% at October 30, 2011)	—	130,699
	249,373	130,699
Unamortized discount, net	(12,327)	—
Current portion of long-term debt	(2,500)	—
Total long-term debt, less current portion	$ 234,546	$ 130,699

Credit Agreement

On June 22, 2012, in connection with the Acquisition, the Company entered into a Credit Agreement (the "Credit Agreement") among the Company, as Borrower, Credit Suisse AG, Cayman Islands Branch, as Administrative Agent and Collateral Agent (the "Term Agent"), and the lenders party thereto. The Credit Agreement provides for a term loan credit facility in an aggregate principal amount of $250.0 million. Proceeds from borrowings under the Credit Agreement were used, together with cash on hand, (i) to finance the Acquisition, (ii) to extinguish the existing amended and restated credit agreement, due April 2014 (the "Refinancing"), and (iii) to pay fees and expenses incurred in connection with the Acquisition and the Refinancing.

The term loans under the Credit Agreement will mature on May 2, 2018 and, prior to such date, will amortize in nominal quarterly installments equal to one percent of the aggregate initial principal amount thereof per annum. The Credit Agreement was issued at 95% of face value, which resulted in a note discount of $12.5 million. The note discount will be amortized over the life of the loan through May 2, 2018 using the effective interest method.

The term loans under the Credit Agreement will be prepayable at the Company's option at any time. Prepayments in connection with a repricing transaction (as defined in the Credit Agreement) during the first two years after the closing of the Credit Agreement will be subject to a prepayment premium equal to 2% of the principal amount of the term loans so prepaid during the first year after the closing of the Credit Agreement and 1% of the principal amount of the term loans so prepaid during the second year after the closing of the Credit Agreement. Prepayments may otherwise be made without premium or penalty (other than customary breakage costs).

Subject to certain exceptions, the term loans under the Credit Agreement will be subject to mandatory prepayment in an amount equal to:

• the net cash proceeds of (1) certain asset sales, (2) certain debt offerings, and (3) certain insurance recovery and condemnation events; and

• 75% of annual excess cash flow (as defined in the Credit Agreement) for any fiscal year ending on or after November 3, 2013, subject to reduction to 50%, 25% or 0% if specified leverage ratio targets are met.

The Company's obligations under the Credit Agreement and designated cash management arrangements and hedging agreements, if any, will be irrevocably and unconditionally guaranteed on a joint and several basis by each direct and indirect wholly owned domestic subsidiary of the Company (other than any domestic subsidiary that is a foreign subsidiary holding company or a subsidiary of a foreign subsidiary and certain other excluded subsidiaries).

The obligations under the Credit Agreement and the designated cash management arrangements and hedging agreements, if any, and the guarantees thereof are secured pursuant to a guarantee and collateral agreement, dated as of June 22, 2012 (the "Guarantee and Collateral Agreement"), made by the Company and other Grantors (as defined therein), in favor of the Term Agent, by (i) all of the capital stock of all direct domestic subsidiaries owned by the Company and the guarantors, (ii) up to 65% of the capital stock of certain direct foreign subsidiaries owned by the Company or any guarantor (it being understood that a foreign subsidiary holding company or a domestic subsidiary of a foreign subsidiary will be deemed a foreign subsidiary), and (iii) substantially all other tangible and intangible assets owned by the Company and each guarantor, in each case to the extent permitted by applicable law and subject to certain exceptions.

At the Company's election, the interest rates applicable to the term loans under the Credit Agreement will be based on a fluctuating rate of interest measured by reference to either (1) an adjusted London inter-bank offered rate, or "LIBOR," or (2) an alternate base rate, in each case, plus a borrowing margin. Overdue amounts will bear interest at a rate that is 2% higher than the rate otherwise applicable.

The Credit Agreement contains a number of covenants that, among other things, will limit or restrict the ability of the Company and its subsidiaries to dispose of assets, incur additional indebtedness, make dividends and other restricted payments, create liens securing indebtedness, engage in mergers and other fundamental transactions, enter into restrictive agreements, amend certain documents in respect of other indebtedness, change the nature of their business and engage in certain transactions with affiliates.

In addition, under the Credit Agreement the Company will be subject to a financial covenant that requires the Company to maintain a specified consolidated total net debt to EBITDA leverage ratio for specified periods. The consolidated total net debt to EBITDA leverage ratio must be no more than 3.75:1.00 each quarter beginning with the quarter ending October 28, 2012. The ratio steps down by 0.5 to 3.25:1.00 beginning with the quarter ending November 3, 2013. This ratio steps down by another 0.5 to 2.75:1.00 beginning with the quarter ending November 2, 2014. Although our Credit Agreement and our amended and restated credit agreement, due April 2014, did not require any financial covenant compliance, at July 29, 2012 and October 30, 2011, our consolidated total net debt to EBITDA leverage ratio as of those dates was 2.71:1.00 and 2.27:1.00, respectively.

The Credit Agreement contains customary events of default, including non-payment of principal, interest or fees, violation of covenants, material inaccuracy of representations or warranties, cross default and cross acceleration to certain other material indebtedness, certain bankruptcy events, certain ERISA events, material invalidity of security interest, material judgments, and change of control.

The Credit Agreement also provides that the Company has the right at any time to request incremental commitments under one or more incremental term loan facilities or incremental revolving loan facilities, subject to compliance with a pro forma consolidated secured net debt to EBITDA leverage ratio. The lenders under the Credit Agreement will not be under any obligation to provide any such incremental commitments, and any such addition of or increase in commitments will be subject to pro forma compliance with customary conditions.

In connection with the execution of the Credit Agreement the Company, certain of the Company's subsidiaries, Wells Fargo Capital Finance, LLC, as administrative agent (the "ABL Agent") under the Company's asset based revolving credit facility (the "ABL Facility"), and the Term Agent entered into an amendment (the "Intercreditor Agreement Amendment") to the Company's existing intercreditor agreement, dated as of October 20, 2009, providing for, among other things, the obligations under the Credit Agreement to become subject to the provisions of the intercreditor agreement. In addition, in connection with the Acquisition, Metl-Span became a borrower under the ABL Facility, and the Company, certain subsidiaries of the Company, and the ABL Agent entered into an amendment (the "ABL Guaranty Amendment") to the Company's existing guaranty agreement, dated as of October 20, 2009, providing for, among other things, the guarantee of the obligations of Metl-Span under the ABL Facility.

During our third quarter of fiscal 2012, we recognized a non-cash debt extinguishment charge of $5.1 million, related to the deferred financing costs of the amended and restated credit agreement, due April 2014.

ABL Facility

On October 20, 2009, we entered into the ABL Facility pursuant to a loan and security agreement that provided for a $125.0 million asset-based loan facility. Borrowing availability under the ABL Facility is determined by a monthly borrowing base collateral calculation that is based on specified percentages of the value of qualified cash, eligible inventory and eligible accounts receivable, less certain reserves and subject to certain other adjustments.

On December 3, 2010, we finalized an amendment of our ABL Facility that reduced the unused commitment fee from 1% based on the average daily balance of loans and letters of credit obligations outstanding to an annual rate of 0.5%. The calculation is determined on the amount by which the maximum credit exceeds the average daily principal balance of outstanding loans and letter of credit obligations. Additional customary fees in connection with the ABL Facility also apply. In addition, the amendment reduced the effective interest rate on borrowings, if any, by nearly

40% or 175 basis points.

On May 2, 2012, we entered into Amendment No. 2 (the "ABL Facility Amendment") to the Loan and Security Agreement (the "Loan and Security Agreement") to (i) permit the Acquisition, the entry by the Company into the Credit Agreement and the incurrence of debt thereunder and the repayment of existing indebtedness under NCI's existing term loan, (ii) increase the amount available for borrowing thereunder to $150 million (subject to a borrowing base), (iii) increase the amount available for letters of credit thereunder to $30 million, and (iv) extend the final maturity thereunder to May 2, 2017.

As a result of the ABL Facility Amendment, in our third fiscal quarter 2012, we recognized a non-cash charge of $1.3 million, related to the deferred financing costs.

At July 29, 2012 and October 30, 2011, our excess availability under the ABL Facility was $110.8 million and $87.8 million, respectively. The ABL Facility has a maturity of May 2, 2017 and includes borrowing capacity of up to $30 million for letters of credit and up to $10 million for swingline borrowings. Under the ABL Facility, there were no amounts of borrowings outstanding at both July 29, 2012 and October 30, 2011. In addition, at July 29, 2012 and October 30, 2011, standby letters of credit totaling approximately $8.5 million and $6.4 million, respectively, were issued under the ABL Facility related to certain insurance policies.

The obligations of the borrowers under the ABL Facility are guaranteed by us and each direct and indirect domestic subsidiary of the Company (other than any domestic subsidiary that is a foreign subsidiary holding company or a subsidiary of a foreign subsidiary that is insignificant) that is not a borrower under the ABL Facility. Our obligations under certain specified bank products agreements are guaranteed by each borrower and each other direct and indirect domestic subsidiary of the Company and the other guarantors. These guarantees are made pursuant to a guarantee agreement, dated as of October 20, 2009, entered into by the Company and each other guarantor with Wells Fargo Foothill Capital Finance, LLC (formerly known as Wells Fargo Foothill, LLC), as administrative agent.

The obligations under the ABL Facility and the guarantees thereof are secured by a first priority lien on our accounts receivable, inventory, certain deposit accounts, associated intangibles and certain other specified assets of the Company and a second priority lien on the assets securing the term loans under the Credit Agreement on a first-lien basis.

The ABL Facility contains a number of covenants that, among other things, limit or restrict our ability to dispose of assets, incur additional indebtedness, incur guarantee obligations, engage in sale and leaseback transactions, prepay other indebtedness, modify organizational documents and certain other agreements, create restrictions affecting subsidiaries, make dividends and other restricted payments, create liens, make investments, make acquisitions, engage in mergers, change the nature of our business and engage in certain transactions with affiliates.

Under the ABL Facility, a “Dominion Event” occurs if either an event of default is continuing or excess availability falls below certain levels, during which period, and for certain periods thereafter, the administrative agent may apply all amounts in the Company’s, the borrowers’ and the other guarantors’ concentration accounts to the repayment of the loans outstanding under the ABL Facility, subject to the Intercreditor Agreement. In addition, during such Dominion Event, we are required to make mandatory payments on our ABL Facility upon the occurrence of certain events, including the sale of assets and the issuance of debt, in each case subject to certain limitations and conditions set forth in the ABL Facility.

The ABL Facility includes a minimum fixed charge coverage ratio of one to one, which will apply if we fail to maintain at least $15 million of minimum borrowing capacity. Although our ABL Facility did not require any financial covenant compliance, at July 29, 2012 and October 30, 2011, our fixed charge coverage ratio as of those dates, which is calculated on a trailing twelve month basis, was 4.42:1.00 and 0.37:1.00, respectively.

Loans under the ABL Facility bear interest, at our option, as follows:

(1) Base Rate loans at the Base Rate plus a margin. The margin ranges from 1.50% to 2.00% depending on the quarterly average excess availability under such facility, and

(2) LIBOR loans at LIBOR plus a margin. The margin ranges from 2.50% to 3.00% depending on the quarterly average excess availability under such facility.

During an event of default, loans under the ABL Facility will bear interest at a rate that is 2% higher than the rate otherwise applicable. “Base Rate” is defined as the higher of the Wells Fargo Bank, N.A. prime rate and the overnight Federal Funds rate plus 0.5% and “LIBOR” is defined as the applicable London interbank offered rate adjusted for reserves.

Deferred Financing Costs

At July 29, 2012 and October 30, 2011, the unamortized balance in deferred financing costs was $10.4 million and $11.6 million, respectively.

Insurance Note Payable

The note payable is related to financed insurance premiums. As of July 29, 2012 and October 30, 2011, we had outstanding a note payable in the amount of $0.9 million and $0.3 million, respectively. Insurance premium financings are generally secured by the unearned premiums under such policies.

NOTE 10 — SERIES B CUMULATIVE CONVERTIBLE PARTICIPATING PREFERRED STOCK

The CD&R Equity Investment

On August 14, 2009, the Company entered into an Investment Agreement (as amended, the "Investment Agreement"), by and between the Company and Clayton, Dubilier & Rice Fund VIII, L.P. ("CD&R Fund VIII"), pursuant to which the Company agreed to issue and sell to CD&R Fund VIII, and CD&R Fund VIII agreed to purchase from the Company, for an aggregate purchase price of $250 million (less reimbursement to CD&R Fund VIII or direct payment to its service providers of up to $14.5 million in the aggregate of transaction expenses and a deal fee, paid to Clayton, Dubilier & Rice, Inc., the manager of CD&R Fund VIII, of $8.25 million), 250,000 shares of Convertible Preferred Stock. Pursuant to the Investment Agreement, on October 20, 2009 (the "Closing Date"), the Company issued and sold to CD&R Fund VIII and CD&R Friends & Family Fund VIII, L.P. (the "CD&R Funds"), and the CD&R Funds purchased from the Company, an aggregate of 250,000 Preferred Shares, representing approximately 39.2 million shares of Common Stock or 68.4% of the voting power and Common Stock of the Company on an as-converted basis as of the Closing Date (such purchase and sale, the "CD&R Equity Investment"). At July 29, 2012 and October 30, 2011, the CD&R Funds own 72.7% and 70.1%, respectively, of the voting power and Common Stock of the Company on an as-converted basis.

Certain Terms of the Convertible Preferred Stock

In connection with the consummation of the CD&R Equity Investment, on October 19, 2009 we filed the Certificate of Designations of the Convertible Preferred Stock (the "Certificate of Designations"), setting forth the terms, rights, powers, and preferences, and the qualifications, limitations and restrictions thereof, of the Convertible Preferred Stock.

Liquidation Value. Each Preferred Share has an initial liquidation preference of $1,000.

Rank. The Convertible Preferred Stock ranks senior as to dividend rights, redemption payments and rights upon liquidation to the Common Stock and each other class or series of our equity securities, whether currently issued or to be issued in the future, that by its terms ranks junior to the Convertible Preferred Stock, and junior to each class or series of equity securities of the Company, whether currently issued or issued in the future, that by its terms ranks senior to the Convertible Preferred Stock. The Company does not have any outstanding securities ranking senior to the Convertible Preferred Stock. Pursuant to the Certificate of Designations, the issuance of any senior securities of the Company requires the approval of the holders of the Convertible Preferred Stock.

Dividends. Under the Certificate of Designations, as originally adopted, dividends on the Convertible Preferred Stock are payable, on a cumulative daily basis, as and if declared by the 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. If dividends are not paid on the dividend payment date, either in cash or in kind, such dividends compound on the dividend payment date.

On May 8, 2012, we entered into an Amendment Agreement (the “Amendment Agreement”) with the CD&R Funds, the holders of our convertible preferred shares, to eliminate our quarterly dividend obligation on the Preferred Shares. However, this does not preclude the payment of contingent default dividends, if applicable.

Under the terms of the Certificate of Designations, we were contractually obligated to pay quarterly dividends to the holders of the convertible preferred shares from October 20, 2009, through October 20, 2019, subject to certain dividend “knock-out” provisions. The Amendment Agreement provides for the Certificate of Designations to be amended to terminate the dividend obligation from and after March 15, 2012 (the “Dividend Knock-out”).

As consideration for the Dividend Knock-out, the CD&R Funds received a total of 37,834 additional shares of Convertible Preferred Stock, representing (i) approximately $6.5 million of dividends accrued from March 15, 2012 through May 18, 2012 (20 trading days after April 20, 2012, on which date the dividend “knock-out” measurement period commenced) and (ii) approximately $31.4 million in additional liquidation preference of Convertible Preferred Stock, or 10% of the approximate total $313.7 million of accreted value as of May 18, 2012. Upon the closing of the transactions in the Amendment Agreement, funds managed by CD&R held Convertible Preferred Stock with an aggregate liquidation preference and accrued dividends of approximately $345 million. The Convertible Preferred Stock and accrued dividends entitle the funds managed by CD&R to receive approximately 54.1 million shares of common stock, representing 72.7% of the voting power and common stock of the Company on an as-converted basis and an increase of approximately 2% from CD&R’s position at April 29, 2012.

The Amendment Agreement with the CD&R Funds has been approved by the Company's independent directors, as "independence" is defined by the rules and regulations of the Securities and Exchange Commission and the listing standards of the New York Stock Exchange, as well as by all of the Company's directors who are independent of and not affiliated with the CD&R Funds.

On July 5, 2012, the Company filed an Amended and Restated Certificate of Designations with the Secretary of State for the state of Delaware effecting the elimination of the quarterly dividend obligation on the Preferred Shares.

The dividends for the December 15, 2010 and March 15, 2011 dividend payments were paid in cash and the dividends for the June 15, 2011 and March 15, 2012 dividend payments were paid in-kind at a pro rata rate of 12% per annum. As a result of the two Consent and Waiver Agreements (discussed below), the September 15, 2011 and December 15, 2011 dividend payments were paid in-kind, at a pro rata rate of 8% per annum. See Note 9—Long-term Debt and Note Payable for more information on our Credit Agreement and ABL Facility.

The dividend rate will increase by up to 6% per annum above the rates described in the preceding paragraphs upon and during certain defaults specified in the Certificate of Designations involving the Company's failure to have a number of authorized and unissued shares of Common Stock reserved and available sufficient for the conversion of all outstanding Preferred Shares. The Company currently has sufficient authorized, unissued and reserved shares of Common Stock to effect the conversion.

On the dividend payment date, the Company had the right to choose whether dividends are paid in cash or in-kind. However, the first dividend payment which was scheduled to be paid on December 15, 2009 in the amount of $4.6 million was required to be paid in cash by the Certificate of Designations but could not be paid in cash based on the terms of the Company's amended and restated credit agreement, due April 2014, and ABL Facility which restricted the Company's ability to pay cash dividends until the first quarter of fiscal 2011 and until October 20, 2010, respectively. As a result, the dividend for the period up to the December 15, 2009 dividend payment date compounded at a rate of 12% per annum.

In addition to any dividends declared and paid as described in the preceding paragraphs, holders of the outstanding Preferred Shares also have the right to participate equally and ratably, on an as-converted basis, with the holders of shares of Common Stock in all cash dividends and distributions paid on the Common Stock.

On March 15, 2012, the Preferred Dividend Payment Committee of the board of directors declared and paid to the holders of Convertible Preferred Stock, the CD&R Funds, a dividend of 8,924.762 shares of Convertible Preferred Stock at a pro rata rate of 12% per annum for the period from December 16, 2011 to March 15, 2012.

On December 9, 2011, the Company 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 the Company's 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 did 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.

In view of the December 9, 2011 Mutual Waiver and Consent, the Preferred Dividend Payment Committee of the board of directors declared and directed the payment of the December 15, 2011 dividend on the Preferred Shares in-kind at the reduced rate of 8% per annum. As a result, a dividend of 5,833.4913 Preferred Shares was paid to the holders of Convertible Preferred Stock for the period from September 16, 2011 to December 15, 2011. As a result of accruing the dividend at the stated 12% rate, and subsequently paying the lower 8% rate, the Company recorded a dividend accrual reversal of $2.9 million in the first quarter of fiscal 2012 related to dividends accrued between September 16, 2011 and December 15, 2011. Similarly, the Company recorded a beneficial conversion feature reversal of $1.1 million in the first quarter of fiscal 2012 related to beneficial conversion feature charges between September 16, 2011 and December 15, 2011 associated with the dividend reduction.

On June 15, 2011, the Dividend Payment Committee of the board of directors declared and paid to the holders of Convertible Preferred Stock, the CD&R Funds, a dividend of 8,416.9531 shares of Convertible Preferred Stock for the period from March 16, 2011 to June 15, 2011.

On March 15, 2011, the Preferred Dividend Payment Committee of the board of directors declared and paid to the holders of Convertible Preferred Stock, the CD&R Funds, a $5.5 million cash dividend at a pro rata rate of 8% per annum. As a result of paying an 8% cash dividend, we recorded a dividend accrual reversal of $2.7 million in the second quarter of fiscal 2011 related to dividends accrued in excess of 8% between December 16, 2010 and March 15,

2011. In addition, we reversed the related beneficial conversion feature previously recorded of $8.2 million in the second quarter of fiscal 2011 related to the paid-in-kind dividends accrued between December 16, 2010 and March 15, 2011.

On December 15, 2010, the Preferred Dividend Payment Committee of the board of directors declared and paid to the holders of Convertible Preferred Stock, the CD&R Funds, a $5.55 million cash dividend at the rate of 8% per annum. As a result of paying an 8% cash dividend, we recorded a dividend accrual reversal of $2.5 million in the first quarter of fiscal 2011 related to dividends accrued in excess of 8% between September 16, 2010 and December 15, 2010. In addition, we reversed the related beneficial conversion feature previously recorded of $5.1 million in the first quarter of fiscal 2011 related to the paid-in-kind dividends accrued between September 16, 2010 and December 15, 2010.

Convertibility and Anti-Dilution Adjustments. To the extent that we have authorized but unissued shares of Common Stock, holders of Preferred Shares have the right, at any time and from time to time, at their option, to convert any or all of their Preferred Shares, in whole or in part, into fully paid and non-assessable shares of the Company’s Common Stock at the conversion price set forth in the Certificate of Designations. The number of shares of Common Stock into which a Preferred Share is convertible is determined by dividing the sum of the liquidation preference of $1,000 per Preferred Share and the accrued and unpaid dividends of such share as of the time of conversion by the conversion price in effect at the time of conversion.

The initial conversion price of the Convertible Preferred Stock was equal to $6.3740. The conversion price is subject to adjustment as set forth in the Certificate of Designations and is subject to customary anti-dilution adjustments, including stock dividends, splits, combinations or similar events and issuance of our Common Stock at a price below the then-current market price and, within the first three years after the Closing Date, issuances of our Common Stock below the then applicable conversion price. As of July 29, 2012 and October 30, 2011, the Convertible Preferred Stock was convertible into 54.1 million and 46.6 million shares of Common Stock, respectively.

Milestone Redemption Right. The Company has the right, at any time on or after the tenth anniversary of the Closing Date, to redeem in whole, but not in part, all then-issued and outstanding shares of Convertible Preferred Stock in accordance with the procedures set forth in the Certificate of Designations. Any holder of Convertible Preferred Stock has the right, at any time on or after the tenth anniversary of the Closing Date, to require that the Company redeem all, but not less than all, of its shares of Convertible Preferred Stock in accordance with the procedures set forth in the Certificate of Designations. In each case, such right (the "Milestone Redemption Right"), is exercisable at a redemption price for each Preferred Share equal to the sum of the liquidation preference of $1,000 per Preferred Share and the accrued and unpaid dividends of such share as of the time of redemption.

Change of Control Redemption Right. Upon certain change of control events specified in the Certificate of Designations, including certain business combinations involving the Company and certain changes to the beneficial ownership of the voting power of the Company, so long as the CD&R Funds do not own 45% or more of the voting power of the Company and directors designated by the CD&R Funds are not entitled to cast a majority of the total number of votes that can be cast by the Company's board of directors or by the directors constituting the quorum approving or recommending such change of control event, holders of Preferred Shares are able to require redemption by the Company, in whole but not in part, of the Convertible Preferred Stock (1) if redeemed after the fourth anniversary of the Closing Date, at a purchase price equal to the sum of the liquidation value of such Preferred Shares and the accrued and unpaid dividends thereon as of the redemption date or (2) if redeemed prior to the fourth anniversary of the Closing Date, at a purchase price equal to the sum of (a) the liquidation value of such Preferred Shares plus the accrued and unpaid dividends thereon as of the redemption date and (b) a make-whole premium equal to the net present value of the sum of all dividends that would otherwise be payable on and after the redemption date, to and including such fourth anniversary date, assuming that such dividends are paid in cash. In addition, upon change of control events pursuant to the amended and restated credit agreement, due April 2014, or the ABL Facility, holders of Preferred Shares are able to require redemption by the Company, in whole but not in part, of the Convertible Preferred Stock, at a purchase price equal to 101% of the sum of the liquidation value of such Preferred Shares and the accrued and unpaid dividends thereon as of the redemption date.

In the event of a merger or other business combination resulting in a change of control in which the holders of shares of our Common Stock receive cash or securities of an unaffiliated entity as consideration for such shares, if the holder of Preferred Shares does not exercise the change of control redemption right described in the paragraph above or is not entitled to the change of control redemption right in connection with such event, such holder will be entitled to receive, pursuant to such merger or business combination, the consideration such holder would have received for its Preferred Shares had it converted such shares immediately prior to the merger or business combination transaction. In the event of a merger or other business combination not resulting in a change of control in which the holders of shares of our Common Stock receive cash or securities of an unaffiliated entity as consideration for such shares, holders of Convertible Preferred Stock shall have the option to exchange their Preferred Shares for shares of the surviving entity's capital stock having terms, preferences, rights, privileges and powers no less favorable than the terms, preferences, rights, privileges and powers under the Certificate of Designations.

Vote. Holders of Preferred Shares generally are entitled to vote with the holders of the shares of our Common Stock on all matters submitted for a vote of holders of shares of the Company's Common Stock (voting together with the holders of shares of our Common Stock as one class) and are entitled to a number of votes equal to the number of shares of Common Stock issuable upon conversion of such holder’s Preferred Shares (without any limitations based on our authorized but unissued shares of the Company’s Common Stock) as of the applicable record date for the determination of stockholders entitled to vote on such matters.

Certain matters require the approval of the holders of a majority of the outstanding Preferred Shares, voting as a separate class, including (1) amendments or modifications to the Company’s Certificate of Incorporation, by-laws or the Certificate of Designations, that would adversely affect the terms or the powers, preferences, rights or privileges of the Convertible Preferred Stock, (2) authorization, creation, increase in the authorized amount of, or issuance of any class or series of senior securities or any security convertible into, or exchangeable or exercisable for, shares of senior securities and (3) any increase or decrease in the authorized number of Preferred Shares or the issuance of additional Preferred Shares.

In addition, in the event that the Company fails to fulfill its obligations to redeem the Convertible Preferred Stock in accordance with the terms of the Certificate of Designations following the exercise of the Milestone Redemption Right or change of control redemption rights described above, until such failure is remedied, certain additional actions of the Company shall require the approval of the holders of a majority of the outstanding Preferred Shares, voting as a separate class, including the adoption of an annual budget, the hiring and firing, or the changing of the compensation, of executive officers and the commitment, resolution or agreement to effect any business combination.

Restriction on Dividends on Junior Securities. The Company is prohibited from (i) paying any dividend with respect to our Common Stock or other junior securities, except for ordinary cash dividends in which the Convertible Preferred Stock participates and which are declared, paid or set aside after the base dividend rate for the Convertible Preferred Stock has been reduced to 0.00% as described above and dividends payable solely in shares of our Common Stock or other junior securities, or (ii) repurchasing or redeeming any shares of our Common Stock or other junior securities, unless, in each case, we have sufficient access to lawful funds immediately following such action such that we would be legally permitted to redeem in full all Preferred Shares then outstanding.

Accounting for Convertible Preferred Stock

The Convertible Preferred Stock balance and changes in the carrying amount of the Convertible Preferred Stock are as follows (in thousands):

	Dividends and Accretion	Convertible Preferred Stock
Balance as of October 30, 2011		$ 273,950
Accretion	688	
Accrued paid-in-kind dividends(1)	8,837	
Reversal of additional 4% accrued dividends(2)	(2,917)	
Subtotal		6,608
Balance as of January 29, 2012		$ 280,558
Accretion	688	
Accrued paid-in-kind dividends(1)	9,057	
Subtotal		9,745
Balance as of April 29, 2012		$ 290,303
Extinguishment and reissuance	329,647	
Subtotal		329,647
Balance as of July 29, 2012		$ 619,950

(1) Dividends are accrued at the 12% rate on a daily basis until the dividend payment date.

(2) The reversal of the additional 4% accrued dividends relates to the period from September 16, 2011 to December 15, 2011.

In accordance with ASC Topic 815, *Derivatives and Hedging*, and ASC Topic 480, *Distinguishing Liabilities from Equity,* we classified the Convertible Preferred Stock as mezzanine equity because the Convertible Preferred Stock (1) can be settled in cash or shares of our Common Stock, (2) contains change of control rights allowing for early redemption, and (3) contains Milestone Redemption Rights which allow the Convertible Preferred Stock to remain outstanding without a stated maturity date.

In addition, the Certificate of Designations, which is the underlying contract of the Convertible Preferred Stock, includes features that are required to be bifurcated and recorded at fair value. We classified the Convertible Preferred Stock as an equity host contract because of (1) the voting rights, (2) the participating dividends on Common Stock and mandatory, cumulative preferred stock dividends, and (3) the Milestone Redemption Right which allows the Convertible Preferred Stock to remain outstanding without a stated maturity date. We then determined that the conditions resulting in the application of the default dividend rate are not clearly and closely related to this equity host contract and we bifurcated and separately recorded these features at fair value. As of both July 29, 2012 and October 30, 2011, the fair value carrying amount of the embedded derivative was $0.1 million.

Because the dividends accrue and accumulate on a daily basis and the amount payable upon redemption of the Convertible Preferred Stock is the liquidation preference plus accrued and unpaid dividends, accrued dividends are recorded into Convertible Preferred Stock.

In accordance with ASC Subtopic 470-20, *Debt with Conversion and Other Options*, the Convertible Preferred Stock contains a beneficial conversion feature because it was issued with an initial conversion price of $6.3740 and the closing stock price per share of Common Stock just prior to the execution of the CD&R Equity Investment was $12.55. The intrinsic value of the beneficial conversion feature cannot exceed the issuance proceeds of the Convertible Preferred Stock less the cash paid for the deal fee paid to the CD&R Funds manager in connection with the CD&R Equity Investment, and thus was $241.4 million as of October 20, 2009. At July 29, 2012 and October 30, 2011, all of the potentially 54.1 million and 46.6 million shares of Common Stock, respectively, issuable upon conversion of the Preferred Shares, which includes paid-in-kind dividends, were authorized and unissued.

As consideration for the Dividend Knock-out, the CD&R Funds received a total of 37,834 additional shares of Convertible Preferred Stock, representing (i) approximately $6.5 million of dividends accrued from March 15, 2012 through May 18, 2012 (20 trading days after April 20, 2012, on which date the dividend “knock-out” measurement period commenced) and (ii) approximately $31.4 million in additional liquidation preference of Convertible Preferred Stock, or 10% of the approximate total $313.7 million of accreted value as of May 18, 2012. Upon the closing of the transactions contemplated by the Amendment Agreement, funds managed by CD&R held Convertible Preferred Stock with an aggregate liquidation preference and accrued dividends of $345.1 million. The Convertible Preferred Stock and accrued dividends entitle the funds managed by CD&R to receive approximately 54.1 million shares of Common Stock, representing 72.7% of the voting power and common stock of the Company on an as-converted basis and an increase of approximately 2% from CD&R’s position at April 29, 2012.

To determine if the Amendment Agreement resulted in a modification or extinguishment of the Convertible Preferred Stock, we evaluated the significance in the change to the substantive contractual terms in relation to both the economic characteristics of the Convertible Preferred Stock and the business purpose of the Amendment Agreement. Based on certain qualitative considerations, we determined an extinguishment and reissuance had occurred and we recorded the Convertible Preferred Stock at fair value as of May 8, 2012. As such, on May 8, 2012, the value of the Convertible Preferred Stock increased from a book value of $290.3 million to a fair value of $620.0 million. The increase in fair value reduced Additional Paid In Capital to zero on May 8, 2012, a $222.9 million decrease, and increased Accumulated Deficit by $107.9 million in the consolidated balance sheet. In addition, the increase in fair value was offset by prior recognized beneficial conversion feature charges of $282.1 million since the issuance of the Convertible Preferred Stock which results in a $48.8 million Convertible Preferred Stock charge in the consolidated statement of operations. As of July 29, 2012 and October 30, 2011, the Preferred Shares were convertible into 54.1 million and 46.6 million shares of Common Stock, respectively, at an initial conversion price of $6.3740.

The Company recorded an $11.9 million beneficial conversion feature charge, prior to any applicable reversal, in the nine month period ended July 29, 2012 related to dividends that have accrued and are convertible into shares of Common Stock. The Company recorded a $6.5 million beneficial conversion feature charge, prior to any applicable reversal, in the three month periods ended July 31, 2011 and $8.0 million beneficial conversion feature charge, prior to any applicable reversal, in the nine month periods ended July 31, 2011 related to dividends that have accrued and are convertible into shares of Common Stock. As a result of accruing dividends at the stated 12% rate, and subsequently paying the lower 8% rate agreed to in the Mutual Waiver and Consent, we recorded a beneficial conversion feature reversal of $1.1 million in the first quarter of fiscal 2012 related to beneficial conversion feature charges between September 16, 2011 and December 15, 2011 associated with the dividend reduction. As a result of paying an 8% cash dividend in the second quarter of fiscal 2011, we reversed the related beneficial conversion feature previously recorded of $8.2 million in the second quarter of fiscal 2011 related to beneficial conversion feature charges between December 16, 2010 and March 15, 2011. As a result of paying an 8% cash dividend in the first quarter of fiscal 2011, we reversed the related beneficial conversion feature previously recorded of $5.1 million in the first quarter of fiscal 2011 related to beneficial conversion feature charges between September 16, 2010 and December 15, 2010. The Company's policy is to recognize beneficial conversion feature charges on paid-in-kind dividends based on a daily dividend recognition and the daily closing stock price of our Common Stock.

The Company's aggregate liquidation preference plus accrued dividends of the Convertible Preferred Stock at July 29, 2012 and October 30, 2011 are as follows (in thousands):

	July 29, 2012	October 30, 2011
Liquidation preference	$339,293	$ 286,701
Accrued dividends	5,775	10,102
Aggregate liquidation preference	$345,068	$ 296,803

At July 29, 2012 and October 30, 2011, we had 339,293 and 286,701 Preferred Shares outstanding.

NOTE 11 — FAIR VALUE OF FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS

Fair Value of Financial Instruments

The carrying amounts of cash, restricted cash, trade accounts receivable and accounts payable approximate fair value as of July 29, 2012 and October 30, 2011 because of the relatively short maturity of these instruments. The fair values of the remaining financial instruments not currently recognized at fair value on our Consolidated Balance Sheets at the respective fiscal period ends were (in thousands):

	July 29, 2012		October 30, 2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Credit Agreement (1)	$237,046	$245,009	$—	$—
Amended and restated credit agreement, due April 2014	$—	$—	$130,699	$127,106

(1) Carrying amount of Credit Agreement includes unamortized discount of $12.3 million.

The fair value of the Credit Agreement and the amended and restated credit agreement, due April 2014, were based on recent trading activities of comparable market instruments which are level 2 inputs.

Fair Value Measurements

ASC Subtopic 820-10, *Fair Value Measurements and Disclosures*, 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.

The following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies used at July 29, 2012 and October 30, 2011.

Money market: Money market funds have original maturities of three months or less. The original cost of these assets approximates fair value due to their short-term maturity.

Mutual funds: Mutual funds are valued at the closing price reported in the active market in which the mutual fund is traded.

Stocks, options and ETF's: Stocks, options and ETF's are valued at the closing price reported in the active market in which the fund is traded.

Foreign currency contracts: The fair value of the foreign currency derivatives are based on a market approach and take into consideration current foreign currency exchange rates and current creditworthiness of us or the counterparty, as applicable.

Assets held for sale: Assets held for sale are valued based on current market conditions, prices of similar assets in similar condition and expected proceeds from the sale of the assets.

Deferred compensation plan liability: Deferred compensation plan liability is comprised of phantom investments in the deferred compensation plan and is valued at the closing price reported in the active market in which the money market, mutual fund or NCI stock phantom investments are traded.

Embedded derivative: The embedded derivative value is based on an income approach in which we used a probability-weighted discounted cash flow model and assigned probabilities for each qualified default event.

The following table summarizes information regarding our financial assets and liabilities that are measured at fair value on a recurring basis as of July 29, 2012, segregated by level of the valuation inputs within the fair value hierarchy utilized to measure fair value (in thousands):