NCI BUILDING SYSTEMS INC
Form 10-Q
September 06, 2013

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 28, 2013

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 - 74,784,977 shares as of September 2, 2013

TABLE OF CONTENTS

PART I — FINANCIAL INFORMATION

Item 1. Unaudited Consolidated Financial Statements.

NCI BUILDING SYSTEMS, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

	July 28, 2013 (Unaudited)	October 28, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$ 16,149	$ 55,158
Restricted cash	—	1,375
Accounts receivable, net	118,905	133,475
Inventories, net	135,201	106,015
Deferred income taxes	36,933	21,926
Income tax receivable	2,068	549
Investments in debt and equity securities, at market	4,601	4,076
Prepaid expenses and other	21,709	16,864
Assets held for sale	2,879	2,397
Total current assets	338,445	341,835
Property, plant and equipment, net	262,118	268,875
Goodwill	75,226	76,746
Intangible assets, net	49,989	53,028
Deferred financing costs, net	4,538	11,000
Total assets	$ 730,316	$ 751,484
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Current portion of long-term debt	$ 2,384	$ 2,500
Note payable	835	515
Accounts payable	103,707	113,177
Accrued compensation and benefits	40,641	43,066
Accrued interest	255	345

Other accrued expenses	56,316	60,455
Total current liabilities	204,138	220,058
Long-term debt, net	240,991	234,444
Deferred income taxes	35,592	35,565
Other long-term liabilities	11,866	11,995
Total long-term liabilities	288,449	282,004
Series B cumulative convertible participating preferred stock	—	619,950
Stockholders' equity deficit:		
Common stock, $.01 par value, 100,000,000 shares authorized; 74,790,671 and 20,357,183 shares issued at July 28, 2013 and October 28, 2012, respectively; 74,784,977 and 20,354,217 shares outstanding at July 28, 2013 and October 28, 2012, respectively	1,466	925
Additional paid-in capital	634,011	4,991
Accumulated deficit	(391,011)	(369,850)
Accumulated other comprehensive loss	(6,645)	(6,568)
Treasury stock, at cost (5,694 and 2,966 shares at July 28, 2013 and October 28, 2012, respectively)	(92)	(26)
Total stockholders' equity (deficit)	237,729	(370,528)
Total liabilities and stockholders' equity (deficit)	$ 730,316	$ 751,484

See accompanying notes to consolidated financial statements.

NCI BUILDING SYSTEMS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

	Fiscal Three Months Ended		Fiscal Nine Months Ended	
	July 28, 2013	July 29, 2012	July 28, 2013	July 29, 2012
Sales	$317,201	$298,488	$908,184	$792,322
Cost of sales	250,163	232,903	719,440	615,113
Gross profit	67,038	65,585	188,744	177,209
Engineering, selling, general and administrative expenses	62,761	55,605	186,014	156,110
Acquisition-related costs	—	2,946	—	4,836
Income from operations	4,277	7,034	2,730	16,263
Interest income	29	44	101	100
Interest expense	(5,159)	(4,203)	(17,624)	(10,589)
Debt extinguishment costs, net	(21,491)	(6,437)	(21,491)	(6,437)
Other income (expense), net	219	(368)	859	11
Loss before income taxes	(22,125)	(3,930)	(35,425)	(652)
Provision (benefit) for income taxes	(9,933)	(663)	(14,264)	705
Net loss	$(12,192)	$(3,267)	$(21,161)	$(1,357)
Convertible preferred stock dividends and accretion	—	—	—	16,352
Convertible preferred stock beneficial conversion feature	—	—	—	11,878
Convertible preferred stock amendment	—	48,803	—	48,803
Net loss applicable to common shares	$(12,192)	$(52,070)	$(21,161)	$(78,390)
Loss per common share:				
Basic	$(0.19)	$(2.74)	$(0.62)	$(4.16)
Diluted	$(0.19)	$(2.74)	$(0.62)	$(4.16)
Weighted average number of common shares outstanding:				
Basic	64,217	18,997	34,290	18,830
Diluted	64,217	18,997	34,290	18,830

See accompanying notes to consolidated financial statements.

4

NCI BUILDING SYSTEMS, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In thousands)

(Unaudited)

	Fiscal Three Months Ended		Fiscal Nine Months Ended	
	July 28, 2013	July 29, 2012	July 28, 2013	July 29, 2012
Comprehensive loss:				
Net loss	$(12,192)	$(3,267)	$(21,161)	$(1,357)
Other comprehensive income (loss), net of tax:				
Foreign exchange translation gains (losses) and other, net of taxes[1]	(32)	3	(77)	4
Gains (losses) in fair value of foreign currency derivative, net of taxes[2]	—	—	—	(17)
Other comprehensive income (loss)	(32)	3	(77)	(13)
Comprehensive loss	$(12,224)	$(3,264)	$(21,238)	$(1,370)

---

(1) Foreign exchange translation gains (losses) and other are presented net of taxes of $0 in both of the three months ended July 28, 2013 and July 29, 2012 and $0 in both the nine months ended July 28, 2013 and July 29, 2012.

(2) Gains (losses) in fair value of foreign currency derivative are presented net of taxes of $46 in the nine months ended July 29, 2012.

See accompanying notes to the consolidated financial statements.

5

NCI BUILDING SYSTEMS, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)

(In thousands, except share data)

(Unaudited)

	Common Stock		Additional Paid-In	Retained	Accumulated Other Comprehensive	Treasury Stock		Stockholders' Equity
	Shares	Amount	Capital	Deficit	Loss	Shares	Amount	(Deficit)
Balance, October 28, 2012	20,357,183	$925	$4,991	$(369,850)	$(6,568)	(2,966)	$(26)	$(370,528)
Conversion of Convertible Preferred Stock	54,136,817	541	619,409	—	—	—	—	619,950
Treasury stock purchases	—	—	(17)	—	—	(173,215)	(2,421)	(2,438)
Retirement of treasury shares	(170,487)	—	(2,355)	—	—	170,487	2,355	—
Issuance of restricted stock	391,016	—	—	—	—	—	—	—
Stock options exercised	76,142	—	674	—	—	—	—	674
Excess tax benefits from share-based compensation arrangements	—	—	974	—	—	—	—	974
Foreign exchange translation gain (loss) and other	—	—	—	—	(77)	—	—	(77)
Share-based compensation	—	—	10,335	—	—	—	—	10,335
Net loss	—	—	—	(21,161)	—	—	—	(21,161)
Balance, July 28, 2013	74,790,671	$1,466	$634,011	$(391,011)	$(6,645)	(5,694)	$(92)	$237,729

See accompanying notes to the consolidated financial statements.

6

NCI BUILDING SYSTEMS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Fiscal Nine Months Ended	
	July 28, 2013	July 29, 2012
Cash flows from operating activities:		
Net loss	$(21,161)	$(1,357)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	29,991	21,992
Share-based compensation expense	10,335	6,183
Non-cash debt extinguishment costs	17,582	6,436
(Gain) loss on sale of property, plant and equipment	(38)	20
Provision for doubtful accounts	1,424	(409)
Provision (benefit) from deferred income taxes	(14,865)	86
Changes in operating assets and liabilities, net of effect of acquisitions:		
Accounts receivable	13,146	5,143
Inventories	(29,186)	(16,330)
Income tax receivable	(1,859)	(146)
Prepaid expenses and other	(2,624)	(1,610)
Accounts payable	(5,561)	(3,072)
Accrued expenses	(5,160)	3,281
Other, net	(1,167)	28
Net cash (used in) provided by operating activities	(9,143)	20,245
Cash flows from investing activities:		
Acquisition, net of cash acquired	—	(140,991)
Capital expenditures	(17,545)	(22,288)
Proceeds from sale of property, plant and equipment	—	55
Net cash used in investing activities	(17,545)	(163,224)
Cash flows from financing activities:		
Proceeds from stock options exercised	674	—
Decrease in restricted cash	1,375	1,461
Proceeds on term loan	—	237,499
Payments on term loan	(10,375)	(131,325)
Payments on note payable	(1,239)	(1,193)
Proceeds from Amended ABL Facility	5,000	—

Payment of financing costs	(6,215)	(8,679)
Excess tax benefits from share-based compensation arrangements	974	1
Purchase of treasury stock	(2,438)	(1,524)
Net cash (used in) provided by financing activities	(12,244)	96,240
Effect of exchange rate changes on cash and cash equivalents	(77)	75
Net decrease in cash and cash equivalents	(39,009)	(46,664)
Cash and cash equivalents at beginning of period	55,158	78,982
Cash and cash equivalents at end of period	$16,149	$32,318

See accompanying notes to consolidated financial statements.

NCI BUILDING SYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JULY 28, 2013

(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,” “NCI,” “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, which consist of normal recurring adjustments, necessary to fairly present our financial position, results of operations and cash flows for the periods indicated. Operating results for the fiscal three and nine month periods ended July 28, 2013 are not necessarily indicative of the results that may be expected for the fiscal year ending November 3, 2013. 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 2013 is November 3, 2013. As a result, the fourth quarter of this fiscal year will include an additional week of operating activity.

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 28, 2012 filed with the Securities and Exchange Commission (the “SEC”) on December 24, 2012.

NOTE 2 — ACQUISITION

On June 22, 2012, we 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 Group, Inc. and BlueScope Steel North America Corporation, NCI

Group, Inc. acquired all of the outstanding membership interests of Metl-Span for approximately $145.7 million in cash (the "Acquisition"), which includes $4.7 million of cash acquired. The purchase price was also subject to a post-closing adjustment based on Metl-Span's cash, working capital, indebtedness, transaction expenses and accrued employee bonuses at closing. Upon the closing of the Acquisition, Metl-Span became a direct, wholly-owned subsidiary of NCI Group, Inc. Effective October 29, 2012, Metl-Span merged with and into NCI Group, Inc., with NCI Group, Inc. being the lone survivor. Metl-Span's operations are now conducted through NCI Group, Inc. and its results are included in the results of our metal components segment. The Acquisition 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.

Accordingly, the results of Metl-Span's operations from June 22, 2012 are included in our consolidated financial statements. For the period from October 29, 2012 to July 28, 2013, Metl-Span contributed revenue and operating income of $137.6 million and $8.0 million, respectively. Metl-Span assets acquired through the Acquisition include 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. The Acquisition resulted in goodwill of $70.0 million. 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 fiscal three and nine months ended July 29, 2012 in the table below was prepared based on financial information for Metl-Span for the calendar months of October through June. The unaudited pro forma financial information for the fiscal three months ended July 28, 2013 and July 29, 2012 and the fiscal nine months ended July 28, 2013 and July 29, 2012 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 July 28, 2013	July 29, 2012	Unaudited Pro Forma Fiscal Nine Months Ended July 28, 2013	July 29, 2012
Sales	$317,201	$325,974	$908,184	$899,596
Net income (loss)	$(12,192)	$(1,686)	$(21,161)	$3,090
Net loss applicable to common shares	$(12,192)	$(50,489)	$(21,161)	$(73,943)
Earnings per share:				
Basic	$(0.19)	$(2.66)	$(0.62)	$(3.93)
Diluted	$(0.19)	$(2.66)	$(0.62)	$(3.93)

The following table summarizes the fair values of the assets acquired and liabilities assumed as part of the Acquisition. The fair value of certain assets acquired and liabilities assumed were finalized during the third quarter of fiscal 2013, including the finalization of certain contingent assets and liabilities which resulted in a $1.5 million decrease to goodwill during the third quarter of fiscal 2013. 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.

(In thousands)	June 22, 2012
Current assets	$35,197
Current deferred income taxes	1,166
Property, plant and equipment	57,572
Intangible assets	32,760
Assets acquired	$126,695
Current liabilities	$22,242
Deferred income taxes	27,404
Lease liability	1,392
Liabilities assumed	$51,038
Fair value of net assets acquired	$75,657
Total consideration paid	145,682
Goodwill	$70,025

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 basis consistent with the expected future cash flows.

The excess of the purchase price over the fair values of assets acquired and liabilities assumed was allocated to goodwill. Goodwill of $70.0 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.

NOTE 3 — ACCOUNTING PRONOUNCEMENTS

Adopted Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("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 adopted ASU 2011-05 and ASU 2011-12 in our first quarter of fiscal 2013. The adoption of ASU 2011-05 and ASU 2011-12 did not have any impact on our consolidated financial statements.

Recent Accounting Pronouncements

In February 2013, the FASB issued ASU 2013-02, *Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*, which requires that companies present, either in a single note or parenthetically on the face of the financial statements, the effect of significant amounts reclassified from each component of accumulated other comprehensive income based on its source and the income statement line items affected by the reclassification. This accounting guidance is effective for our first quarter in fiscal 2014 and is only expected to impact the presentation of our consolidated financial statements and related notes.

NOTE 4 — RESTRICTED CASH

We have entered into a cash collateral agreement with our agent bank to secure letters of credit. The restricted cash is invested in a bank account securing our agent bank. As of July 28, 2013, we no longer had cash collateralized letters of credit outstanding. As of October 28, 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 Amended ABL Facility. See Note 9 — Long-Term Debt and Note Payable to the consolidated financial statements for more information on the material terms of our Amended ABL Facility. Restricted cash as of October 28, 2012 is classified as current as the underlying letters of credit expire within one year of that date.

NOTE 5 — INVENTORIES

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

	July 28, 2013	October 28, 2012
Raw materials	$ 100,230	$ 77,459
Work in process and finished goods	34,971	28,556
	$ 135,201	$ 106,015

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 units (“PSUs”), phantom stock awards and cash awards. As of July 28, 2013 and July 29, 2012, and for all periods presented, our share-based awards under this plan have consisted of restricted stock grants, PSUs 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 attainment of age 65 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.

Our PSUs vest pro rata if an executive's employment terminates prior to a three-year performance period ending on June 30, 2015 due to death, disability, or termination by NCI without cause or by the executive with good reason. If the executive's employment terminates for any other reason prior to the end of the performance period, all PSUs are forfeited. If a change in control of NCI occurs prior to the end of the performance period, the performance period will immediately end at the time of the change in control and an executive will earn a percentage of the target number of PSUs based on the total shareholder return achieved determined by reference to the value of NCI Common Stock at the time of the change in control.

During the nine month periods ended July 28, 2013 and July 29, 2012, we granted 2,101 and 92,832 stock options, respectively, and the grant-date fair value of options granted during the nine month periods ended July 28, 2013 and July 29, 2012 was $7.22 and $5.12, respectively. Cash received from option exercises from a retired executive due to expiration in accordance with the terms of the agreement was $0.7 million during the nine months ended July 28, 2013. The actual tax benefit realized for the tax deductions from option exercises totaled $0.2 million for the nine months ended July 28, 2013.

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 28, 2013 and July 29, 2012, we granted restricted stock awards with a fair value of $6.3 million or 442,198 shares and $6.8 million or 666,110 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 28, 2013	July 29, 2012	July 28, 2013	July 29, 2012
Numerator for Basic and Diluted Loss Per Common Share				
Net loss allocated to common shares[1]	$(12,192)	$(52,070)	$(21,161)	$(78,390)
Denominator for Basic and Diluted Loss Per Common Share				
Weighted average common shares outstanding for basic and diluted loss per share	64,217	18,997	34,290	18,830
Basic and Diluted loss per common share	$(0.19)	$(2.74)	$(0.62)	$(4.16)

(1) Participating securities consist of the Convertible Preferred Stock, as defined below, for the period prior to its conversion to Common Stock of the Company, 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. The Convertible Preferred Stock was converted into shares of our Common Stock in the third quarter of fiscal 2013. The Unvested Common Stock related to our Incentive Plan will be allocated earnings when applicable.

On May 14, 2013, the Clayton, Dubilier & Rice Fund VIII, L.P. ("CD&R Fund VIII") and Clayton, Dubilier & Rice Friends & Family Fund VIII, L.P. (collectively, the "CD&R Funds"), the holders of 339,293 Preferred Shares, as defined below, delivered a formal notice requesting the conversion of all of their Preferred Shares into shares of our Common Stock (the "Conversion"). In connection with the Conversion request, we have issued the CD&R Funds 54,136,817 shares of our Common Stock. The Conversion eliminated all the outstanding Convertible Preferred Stock during our third quarter of fiscal 2013.

We calculate earnings per share using the "two-class" method, whereby unvested share-based payment awards and Series B Cumulative Convertible Participating Preferred Stock (the "Convertible Preferred Stock," and shares thereof, "Preferred Shares") 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 Preferred Shares prior to their Conversion from the numerator and excludes the dilutive impact of those shares from the denominator. The Convertible Preferred Stock was converted into shares of our Common Stock in the third quarter of fiscal 2013. There was no income amount attributable to unvested restricted stock or Preferred Shares for the three and nine month periods ended July 28, 2013 and July 29, 2012 as the unvested 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 unvested restricted stock. On July 29, 2012, the Preferred Shares were convertible into 54.1 million shares of Common Stock.

For both the three and nine month periods ended July 28, 2013 and July 29, 2012, all options, unvested restricted shares and PSUs 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.

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 28, 2013	July 29, 2012
Beginning balance	$23,236	$ 17,941
Warranties sold	2,604	2,365
Revenue recognized	(1,460)	(1,609)
Costs incurred and other	(2,234)	1,107
Ending balance	$22,146	$ 19,804

NOTE 9 — LONG-TERM DEBT AND NOTE PAYABLE

Debt is comprised of the following (in thousands):

	July 28, 2013	October 28, 2012
Credit Agreement, due June 2019 (variable interest, at 4.25% on July 28, 2013)	$238,375	$ —
Credit Agreement, due May 2018 (variable interest, 8.0% on October 28, 2012)	—	248,750
Asset-Based Lending Facility, due May 2017 (interest at 4.75%)	5,000	—
Unamortized discount on Credit Agreement, net	—	(11,806)

Current portion of long-term debt	(2,384)	(2,500)
Total long-term debt, less current portion	$240,991	$ 234,444

Credit Agreement

On June 24, 2013, the Company entered into Amendment No. 1 (the "Amendment") to its existing Credit Agreement (the "Credit Agreement"), dated as of June 22, 2012, between NCI, as borrower, and Credit Suisse AG, Cayman Islands Branch, as administrative agent and collateral agent and the other financial institutions party thereto from time to time (the "Term Loan Facility"), primarily to extend the maturity date and reduce the interest rate applicable to all of the outstanding term loans under the Term Loan Facility. As a result of the Amendment, in our third quarter of fiscal 2013, we recognized a one-time debt extinguishment charge of approximately $21.5 million, related to the write-off of non-cash existing deferred debt issuance costs, non-cash initial debt discount write-off, prepayment penalty and fees to the lenders.

Pursuant to the Amendment, the maturity date of $238 million of outstanding term loans (the "Initial Term Loans") was extended and such loans were converted into a new tranche of term loans (the "Tranche B Term Loans") that will mature on June 24, 2019 and, prior to such date, will amortize in nominal quarterly installments equal to one percent of the aggregate initial principal amount thereof per annum. Pursuant to the Amendment, the Tranche B Term Loans will bear interest at a floating rate measured by reference to, at NCI's option, either (i) an adjusted LIBOR not less than 1.00% plus a borrowing margin of 3.25% per annum or (ii) an alternate base rate plus a borrowing margin of 2.25% per annum. At July 28, 2013 and October 28, 2012, the interest rate on the term loan under our Credit Agreement was 4.25% and 8.0%, respectively. Overdue amounts will bear interest at a rate that is 2% higher than the rate otherwise applicable.

The Tranche B Term Loans are secured by the same collateral and guaranteed by the same guarantors as the Initial Term Loans under the Term Loan Facility. Voluntary prepayments of the Tranche B Term Loans are permitted at any time, in minimum principal amounts, without premium or penalty, subject to a 1.00% premium payable in connection with certain repricing transactions within the first six months.

Pursuant to the Amendment, NCI will no longer be subject to a financial covenant requiring NCI to maintain a specified consolidated secured debt to EBITDA leverage ratio for specified periods. The Amendment also includes certain other changes to the Term Loan Facility.

Subject to certain exceptions, the term loan under the Amendment 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
- 50% of annual excess cash flow (as defined in the Amendment), subject to reduction to 0% if specified leverage ratio targets are met.

On June 22, 2012, in connection with the Acquisition, the Company entered into a 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 Credit Agreement was issued at 95% of face value, which resulted in a note discount of $12.5 million. Prior to the Amendment, the note discount was amortized over the life of the loan through May 2, 2018 using the effective interest method.

Prior to the Amendment, the term loan under the Credit Agreement was 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 was subject to a prepayment premium equal to 2% of the principal amount of the term loan so prepaid during the first year after the closing of the Credit Agreement and 1% of the principal amount of the term loan 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).

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.

Under the Credit Agreement, prior to the Amendment, the Company was subject to a financial covenant that required 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 was required to be no more than 3.75:1.00 each quarter. Our consolidated total net debt to EBITDA leverage ratio as of October 28, 2012 was 2.23:1.00. Pursuant to the Amendment, NCI is no longer subject to a financial covenant requiring NCI to maintain a specified consolidated secured debt to EBITDA leverage ratio for specified periods.

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 May 2, 2012, we entered into an Amended Asset-Based Lending Facility (“Amended ABL Facility”) 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 Amended ABL Facility, in our third quarter of fiscal 2012, we recognized a non-cash charge of $1.3 million, related to the deferred financing costs.

Borrowing availability under the Amended 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. At July 28, 2013 and October 28, 2012, our excess availability under the Amended ABL Facility was $112.7 million and $111.1 million, respectively. At July 28, 2013, we had $5.0 million of revolving loans outstanding under the Amended ABL Facility and at October 28, 2012, we had no revolving loans outstanding under the Amended ABL Facility. In addition, at July 28, 2013 and October 28, 2012, standby letters of credit related to certain insurance policies totaling approximately $10.2 million and $8.5 million, respectively, were outstanding but undrawn under the Amended ABL Facility.

The Amended 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.

The Amended ABL Facility includes a minimum fixed charge coverage ratio of one to one, which will apply if we fail to maintain a specified minimum borrowing capacity of between $15.0 million and $22.5 million. The minimum level of borrowing capacity as of July 28, 2013 and October 28, 2012 was $16.9 million and $16.7 million, respectively. Although our Amended ABL Facility did not require any financial covenant compliance, at July 28, 2013 and October 28, 2012, our fixed charge coverage ratio as of those dates, which is calculated on a trailing twelve month basis, was 2.19:1.00 and 4.09:1.00, respectively.

Loans under the Amended 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.

At both July 28, 2013 and October 28, 2012, the interest rate on our Amended ABL Facility was 4.75%. During an event of default, loans under the Amended 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 28, 2013 and October 28, 2012, the unamortized balance in deferred financing costs related to both the Credit Agreement and the Amended ABL Facility was $4.5 million and $11.0 million, respectively.

Insurance Note Payable

As of July 28, 2013 and October 28, 2012, we had outstanding a note payable in the amount of $0.8 million and $0.5 million, respectively, related to financed insurance premiums. 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 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 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 28, 2013, the CD&R Funds own 72.4% of the voting power and Common Stock of the Company and on October 28, 2012, the CD&R Funds owned 72.7% of the voting power and Common Stock of the Company on an as-converted basis.

Under the terms of the Certificate of Designations of the Convertible Preferred Stock (the “Certificate of Designations”), we were contractually obligated to pay quarterly dividends to the holders of the Preferred Shares from October 20, 2009, through October 20, 2019, subject to certain dividend “knock-out” provisions. The dividend “knock-out” provision provided that if, at any time after the 30-month anniversary of the Closing Date of October 20, 2009 (i.e., March 20, 2012), the trading price of the Common Stock exceeds $12.75, which is 200% of the initial conversion price of the Convertible Preferred Stock ($6.374), for each of 20 consecutive trading days, the dividend rate (excluding any applicable adjustments as a result of a default) will become 0.00%.

On March 15, 2012, the Company paid to the holders of Convertible Preferred Stock, the CD&R Funds, a dividend of 8,924.762 shares of Convertible Preferred Stock for the period from December 16, 2011 to March 15, 2012. On December 15, 2011, the Company paid to the holders of Convertible Preferred Stock, the CD&R Funds, a dividend of 5,833.491 shares of Convertible Preferred Stock for the period from September 16, 2010 to December 15, 2011.

On May 8, 2012, we entered into an Amendment Agreement (the "Amendment Agreement") with the CD&R Funds, the holders of our Preferred Shares, to eliminate our quarterly dividend obligation on the Preferred Shares. The Amendment Agreement provided for the Certificate of Designations to be amended to terminate the dividend obligation from and after March 15, 2012 (the "Dividend Knock-out"). However, this did not preclude the payment of contingent default dividends, if applicable.

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, the CD&R Funds held Convertible Preferred Stock with an aggregate liquidation preference and accrued dividends of approximately $345 million.

On May 14, 2013, the CD&R Funds, the holders of 339,293 Preferred Shares, delivered a formal notice requesting the Conversion of all of their Preferred Shares into shares of our Common Stock. In connection with the Conversion request, we issued the CD&R Funds 54,136,817 shares of our Common Stock, representing 72.4% of the Common Stock of the Company then outstanding. Under the terms of the Preferred Shares, no consideration was required to be paid by the CD&R Funds to the Company in connection with the Conversion of the Preferred Shares. As a result of the Conversion, the CD&R Funds no longer have rights to default dividends as specified in the Certificate of Designations.

Accounting for Convertible Preferred Stock

In accordance with Accounting Standards Codification ("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 certain 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 July 28, 2013, we no longer have an embedded derivative. As of October 28, 2012, the fair value carrying amount of the embedded derivative was immaterial.

Because the dividends accrued and accumulated 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 were recorded into Convertible Preferred Stock. Prior to the Amendment Agreement, our policy was 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.

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.

To determine if the Amendment Agreement resulted in a modification or extinguishment of the Convertible Preferred Stock, we qualitatively 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 fair value of the Convertible Preferred Stock was determined using a binomial lattice model where the sole stochastic factor was the price of our common stock. This model utilized stock volatility of 49.1%, a risk-free rate of 1.34%, a bond yield of 7.5%, and our stock price on May 8, 2012 which was $11.29. 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 $106.7 million in the Consolidated Balance Sheets. 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.

In connection with the Conversion request, we issued the CD&R Funds 54,136,817 shares of our Common Stock. The Conversion on May 14, 2013 eliminated all the outstanding Convertible Preferred Stock and increased stockholders' equity by nearly $620.0 million, returning our stockholders' equity to a positive balance during our third quarter of fiscal 2013. As of October 28, 2012, the Preferred Shares and accrued dividends were convertible into 54.1 million shares of Common Stock. All of these shares were authorized and unissued at October 28, 2012.

During the nine months ended July 29, 2012, the Company recorded accretion and accrued dividends of $1.4 million and $15.0 million, respectively. During the nine month period ended July 29, 2012, we recorded a net beneficial conversion feature charge of $11.9 million related to dividends that have accrued and are convertible into shares of Common Stock.

The Company's aggregate liquidation preference plus accrued dividends of the Convertible Preferred Stock at October 28, 2012 were as follows (in thousands):

	October 28, 2012
Liquidation preference	$ 339,293
Accrued dividends	5,775
Aggregate liquidation preference	$ 345,068

At October 28, 2012, we had 339,293 Preferred Shares outstanding.

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

Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, restricted cash, trade accounts receivable and accounts payable approximate fair value as of July 28, 2013 and October 28, 2012 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 28, 2013 October 28, 2012

	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Credit Agreement, due June 2019	$238,375	$241,951	$—	$—
Credit Agreement, due May 2018 [1]	$—	$—	$236,944	$248,750

(1) Carrying amount of the Credit Agreement, due May 2018 includes an unamortized discount of $11.8 million at October 28, 2012.

The fair value of the Credit Agreement was 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.

16

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 28, 2013 and October 28, 2012.

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.

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.

The following table summarizes information regarding our financial assets and liabilities that are measured at fair value on a recurring basis as of July 28, 2013, segregated by level of the valuation inputs within the fair value hierarchy utilized to measure fair value (in thousands):

	Level 1	Level 2	Level 3	Total
Assets:				
Short-term investments in deferred compensation plan[1]:				
Money market	$483	$—	$ —	$483
Mutual funds — Growth	693	—	—	693

Mutual funds — Blend	2,242	—	—	2,242
Mutual funds — Foreign blend	646	—	—	646
Mutual funds — Fixed income	—	537	—	537
Total short-term investments in deferred compensation plan	4,064	537	—	4,601
Total assets	$4,064	$537	$ —	$4,601
Liabilities:				
Deferred compensation plan liability	$—	$(4,761)	$ —	$(4,761)
Total liabilities	$—	$(4,761)	$ —	$(4,761)

(1) Unrealized holding gains (losses) for the three months ended July 28, 2013 and July 29, 2012 were $0.3 million and $(0.1) million, respectively. Unrealized holding gains (losses) for the nine months ended July 28, 2013 and July 29, 2012 were $0.6 million and $0.1 million, respectively. These unrealized holding gains (losses) are primarily offset by changes in the deferred compensation plan liability.

The following table summarizes information regarding our financial assets that are measured at fair value on a nonrecurring basis as of July 28, 2013, segregated by level of the valuation inputs within the fair value hierarchy utilized to measure fair value (in thousands):

	Level 1	Level 2	Level 3	Total
Assets:				
Assets held for sale[(1)]	$ —	$ —	$2,397	$2,397
Total assets	$ —	$ —	$2,397	$2,397

(1) Certain assets held for sale are valued at fair value and are measured at fair value on a nonrecurring basis. Assets held for sale are reported at fair value, if, on an individual basis, the fair value of the asset is less than cost. The fair value of assets held for sale is estimated using level 3 inputs, such as broker quotes for like-kind assets or other market indications of a potential selling value which approximates fair value.

The following table summarizes information regarding our financial assets and liabilities that are measured at fair value on a recurring basis as of October 28, 2012, segregated by level of the valuation inputs within the fair value hierarchy utilized to measure fair value (in thousands):

	Level 1	Level 2	Level 3	Total
Assets:				
Short-term investments in deferred compensation plan[1]:				
Money market	$320	$—	$ —	$320
Mutual funds — Growth	594	—	—	594
Mutual funds — Blend	1,918	—	—	1,918
Mutual funds — Foreign blend	669	—	—	669
Mutual funds — Fixed income	—	575	—	575
Total short-term investments in deferred compensation plan	$3,501	$575	$ —	$4,076
Total assets	$3,501	$575	$ —	$4,076
Liabilities:				
Deferred compensation plan liability	$—	$(4,146)	$ —	$(4,146)
Total liabilities	$—	$(4,146)	$ —	$(4,146)

The following table summarizes information regarding our financial assets that are measured at fair value on a nonrecurring basis as of October 28, 2012, segregated by level of the valuation inputs within the fair value hierarchy utilized to measure fair value (in thousands):

	Level 1	Level 2	Level 3	Total
Assets:				
Assets held for sale[1]	$ —	$ —	$2,397	$2,397
Total assets	$ —	$ —	$2,397	$2,397

(1) Certain assets held for sale are valued at fair value and are measured at fair value on a nonrecurring basis. Assets held for sale are reported at fair value, if, on an individual basis, the fair value of the asset is less than cost. The fair value of assets held for sale is estimated using level 3 inputs, such as broker quotes for like-kind assets or other market indications of a potential selling value which approximates fair value.

The tables above exclude assets and liabilities measured on a one-time non-recurring basis that were acquired as part of the Acquisition. See Note 2 — Acquisition for more information on our acquisition of Metl-Span. These assets and liabilities were recorded at their fair value upon acquisition in accordance with generally-accepted accounting principles. Acquisition date fair values represent either level 2 fair value measurements (current assets and liabilities, property, plant and equipment) or level 3 fair value measurements (goodwill and intangible assets). On May 8, 2012, we entered into an Amendment Agreement with the CD&R Funds to eliminate our quarterly dividend obligation with respect to the Preferred Shares, which did not preclude the payment of contingent default dividends. 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. See Note 10 — Series B Cumulative Convertible Participating Preferred Stock for more information on the Convertible Preferred Stock. 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 and it is a level 3 in the fair value hierarchy. The fair value of the Convertible Preferred Stock was determined using a binomial lattice model where the sole stochastic factor was the price of our common stock. This model utilized stock volatility of 49.1%, a risk-free rate of 1.34%, a bond yield of 7.5%, and our stock price on May 8, 2012 which was $11.29.

NOTE 12 — INCOME TAXES

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

	Fiscal Three Months Ended		Fiscal Nine Months Ended	
	July 28, 2013	July 29, 2012	July 28, 2013	July 29, 2012
Statutory federal income tax rate	35.0%	35.0 %	35.0%	35.0 %
State income taxes	2.8 %	2.3 %	2.1 %	(8.9)%
Non-deductible acquisition costs	—	(22.1)%	—	(133.2)%
Canada valuation allowance	1.4 %	(3.8)%	1.0 %	(3.8)%
Non-deductible expenses	(1.0)%	3.0 %	(1.9)%	3.0 %
Other	6.7 %	2.5 %	4.1 %	(0.2)%
Effective tax rate	44.9%	16.9 %	40.3%	(108.1)%

The total amount of unrecognized tax benefit at July 28, 2013 and October 28, 2012 was $0.4 million and $0.3 million, respectively, all of which would impact our effective tax rate, if recognized. We do not anticipate any material change in the total amount of unrecognized tax benefits to occur within the next twelve months.

NOTE 13 — OPERATING SEGMENTS

Operating segments are defined as components of an enterprise that engage in business activities and by which discrete financial information is available that is evaluated on a regular basis by the chief operating decision maker to make decisions about how to allocate resources to the segment and assess the performance of the segment. We have three operating segments: (i) metal coil coating; (ii) metal components; and (iii) engineered building systems. All operating segments operate primarily in the nonresidential construction market. Sales and earnings are influenced by general economic conditions, the level of nonresidential construction activity, metal roof repair and retrofit demand and the availability and terms of financing available for construction. Products of our operating segments use similar basic raw materials. The metal coil coating segment consists of cleaning, treating, painting and slitting continuous steel coils before the steel is fabricated for use by construction and industrial users. The metal components segment products include metal roof and wall panels, doors, metal partitions, metal trim, insulated panels and other related accessories. Metl-Span is included in the metal components segment. See Note 2 – Acquisition. The engineered building systems segment includes the manufacturing of main frames, Long Bay ® Systems and value-added engineering and drafting, which are typically not part of metal components or metal coil coating products or services. The operating segments follow the same accounting policies used for our consolidated financial statements.

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

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

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

	Fiscal Three Months Ended		Fiscal Nine Months Ended	
	July 28, 2013	July 29, 2012	July 28, 2013	July 29, 2012
Total sales:				
Metal coil coating	$56,478	$54,342	$155,539	$152,264
Metal components	161,008	142,092	462,075	354,586
Engineered building systems	158,369	164,265	454,030	453,278
Intersegment sales	(58,654)	(62,211)	(163,460)	(167,806)
Total sales	$317,201	$298,488	$908,184	$792,322
External sales:				
Metal coil coating	$23,028	$19,415	$64,136	$59,225
Metal components	140,441	119,814	406,150	292,434
Engineered building systems	153,732	159,259	437,898	440,663
Total sales	$317,201	$298,488	$908,184	$792,322
Operating income (loss):				
Metal coil coating	$5,521	$5,112	$15,818	$15,304
Metal components	8,054	9,372	19,263	23,931
Engineered building systems	6,123	9,078	14,360	23,414
Corporate	(15,421)	(16,528)	(46,711)	(46,386)
Total operating income (loss)	$4,277	$7,034	$2,730	$16,263
Unallocated other expense	(26,402)	(10,964)	(38,155)	(16,915)
Income (loss) before income taxes	$(22,125)	$(3,930)	$(35,425)	$(652)

	July 28, 2013	October 28, 2012
Total assets:		
Metal coil coating	$69,836	$60,169
Metal components	385,542	381,028
Engineered building systems	223,714	214,227
Corporate	51,224	96,060
Total assets	$730,316	$751,484

NOTE 14 — CONTINGENCIES

As a manufacturer of products primarily for use in nonresidential building construction, we are inherently exposed to various types of contingent claims, both asserted and unasserted, in the ordinary course of business. As a result, from time to time, we and/or our subsidiaries become involved in various legal proceedings or other contingent matters arising from claims, or potential claims. We insure against these risks to the extent deemed prudent by our management and to the extent insurance is available. Many of these insurance policies contain deductibles or self-insured retentions in amounts we deem prudent and for which we are responsible for payment. In determining the amount of self-insurance, it is our policy to self-insure those losses that are predictable, measurable and recurring in nature, such as claims for automobile liability and general liability. The Company regularly reviews the status of on-going proceedings and other contingent matters along with legal counsel. Liabilities for such items are recorded when it is probable that the liability has been incurred and when the amount of the liability can be reasonably estimated. Liabilities are adjusted when additional information becomes available. Management believes that the ultimate disposition of these matters will not have a material adverse effect on the Company's results of operations, financial position or cash flows. However, such matters are subject to many uncertainties and outcomes are not predictable with assurance.

NOTE 15 — SUBSEQUENT EVENT

On August 6, 2013, our metal coil coating segment facility in Jackson, Mississippi experienced a fire caused by an exhaust fan failure that damaged the roof and walls of two curing ovens. There were no injuries or damage to the high value assets in the plant. Steps have been taken to divert orders to our Ohio and Georgia facilities, as required, to ensure customers continue to receive product with no disruption in service. We are working to restore the damaged ovens in order to resume full plant operations at Jackson, Mississippi as quickly as possible. In the fourth quarter of fiscal 2013, we anticipate taking a charge of between \$0.5 million and \$1.0 million for incremental operating costs as we temporarily re-route customer and internal orders. Over the next year, we anticipate recouping the majority of those costs from our insurance carrier.

NCI BUILDING SYSTEMS, INC.

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

The following information should be read in conjunction with the unaudited consolidated financial statements included herein under "Item 1. Unaudited Consolidated Financial Statements" and the audited consolidated financial statements and the notes thereto and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" included in our Annual Report on Form 10-K for the fiscal year ended October 28, 2012.

FORWARD LOOKING STATEMENTS

This Quarterly 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," "expect," "forecast," "goal," "intend," "may," "objective," "plan," "potential," "predict," "projection," "should," "will" or other similar v based our forward-looking 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 clean-ups and liabilities;
- competitive activity and pricing pressure;
- the volatility of the Company’s stock price;
- 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;
- our ability to integrate Metl-Span LLC with our business and to realize the anticipated benefits of such acquisition (the “Acquisition”);
- costs and other effects of le