NCI BUILDING SYSTEMS INC
Form 10-Q
June 02, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended May 1, 2016

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 North Sam Houston Parkway West 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 ý 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). ý 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	ý
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 ý 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 - 73,039,779 shares as of May 25, 2016.

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)

	May 1, 2016 (Unaudited)	November 1, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$77,916	$99,662
Restricted cash	731	682
Accounts receivable, net	139,603	166,800
Inventories, net	151,477	157,828
Deferred income taxes	28,254	27,390
Income taxes receivable	4,140	—
Prepaid expenses and other	29,229	31,834
Investments in debt and equity securities, at market	5,726	5,890
Assets held for sale	3,378	6,261
Total current assets	440,454	496,347
Property, plant and equipment, net	255,972	257,892
Goodwill	158,106	158,026
Intangible assets, net	151,586	156,395
Other assets	10,624	11,069
Total assets	$1,016,742	$1,079,729
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Note payable	$1,379	$513
Accounts payable	121,284	145,917
Accrued compensation and benefits	53,589	62,200
Accrued interest	6,515	6,389
Accrued income taxes	—	9,296
Other accrued expenses	89,804	97,309
Total current liabilities	272,571	321,624
Long-term debt, net	424,147	444,147
Deferred income taxes	23,573	20,807
Other long-term liabilities	20,945	21,175
Total long-term liabilities	468,665	486,129
Stockholders' equity:		
Common stock, $.01 par value, 100,000,000 shares authorized; 73,252,869 and 74,529,750 shares issued at May 1, 2016 and November 1, 2015, respectively; 72,939,638 and 74,082,324 shares outstanding at May 1, 2016 and November 1, 2015, respectively	732	745
Additional paid-in capital	630,951	640,767
Accumulated deficit	(345,421)	(353,733)
Accumulated other comprehensive loss, net	(8,129)	(8,280)

Treasury stock, at cost (313,231 and 447,426 shares at May 1, 2016 and November 1, 2015, respectively)	(2,627)	(7,523)
Total stockholders' equity	275,506	271,976
Total liabilities and stockholders' equity	$1,016,742	$1,079,729

See accompanying notes to consolidated financial statements.

1

NCI BUILDING SYSTEMS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)
(Unaudited)

	Fiscal Three Months Ended		Fiscal Six Months Ended	
	May 1, 2016	May 3, 2015	May 1, 2016	May 3, 2015
Sales	$372,247	$360,147	$742,261	$683,073
Cost of sales	283,799	284,258	564,822	535,045
Gain on sale of assets and asset recovery	(927)	—	(1,652)	—
Gross profit	89,375	75,889	179,091	148,028
Engineering, selling, general and administrative expenses	74,648	73,035	144,498	135,904
Intangible asset amortization	2,405	4,375	4,821	5,868
Strategic development and acquisition related costs	579	628	1,260	2,357
Restructuring and impairment charges	1,149	1,468	2,659	2,945
Income (loss) from operations	10,594	(3,617)	25,853	954
Interest income	52	32	74	39
Interest expense	(7,844)	(8,312)	(15,713)	(12,299)
Foreign exchange gain (loss)	576	(10)	(166)	(1,411)
Gain from bargain purchase	—	—	1,864	—
Other income, net	251	332	62	332
Income (loss) before income taxes	3,629	(11,575)	11,974	(12,385)
Provision (benefit) from income taxes	1,209	(4,087)	3,662	(4,577)
Net income (loss)	$2,420	$(7,488)	$8,312	$(7,808)
Net income allocated to participating securities	(23)	—	(79)	—
Net income (loss) applicable to common shares	$2,397	$(7,488)	$8,233	$(7,808)
Income (loss) per common share:				
Basic	$0.03	$(0.10)	$0.11	$(0.11)
Diluted	$0.03	$(0.10)	$0.11	$(0.11)
Weighted average number of common shares outstanding:				
Basic	72,352	73,133	72,806	73,102
Diluted	72,886	73,133	73,321	73,102

See accompanying notes to consolidated financial statements.

NCI BUILDING SYSTEMS, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(In thousands)
(Unaudited)

	Fiscal Three Months Ended		Fiscal Six Months Ended	
	May 1, 2016	May 3, 2015	May 1, 2016	May 3, 2015
Comprehensive income (loss):				
Net income (loss)	$2,420	$(7,488)	$8,312	$(7,808)
Other comprehensive income, net of tax:				
Foreign exchange translation gain and other, net of taxes[(1)]	492	264	151	—
Other comprehensive income	492	264	151	—
Comprehensive income (loss)	$2,912	$(7,224)	$8,463	$(7,808)

(1) Foreign exchange translation gain and other are presented net of taxes of $0 in both the three months ended May 1, 2016 and May 3, 2015, and $0 in both the six months ended May 1, 2016 and May 3, 2015.

See accompanying notes to consolidated financial statements.

3

NCI BUILDING SYSTEMS, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands, except share data)
(Unaudited)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Treasury Stock Shares	Treasury Stock Amount	Stockholders' Equity
Balance, November 1, 2015	74,529,750	$ 745	$ 640,767	$ (353,733)	$ (8,280)	(447,426)	$ (7,523)	$ 271,976
Treasury stock purchases	—	—	—	—	—	(1,217,682)	(12,381)	(12,381)
Retirement of treasury shares	(1,513,510)	(15)	(17,262)	—	—	1,513,510	17,277	—
Issuance of restricted stock	81,295	—	—	—	—	(161,633)	—	—
Stock options exercised	155,334	2	1,401	—	—	—	—	1,403
Excess tax benefits (shortfalls) from share-based compensation arrangements	—	—	(390)	—	—	—	—	(390)
Foreign exchange translation loss and other, net of taxes	—	—	—	—	151	—	—	151
Deferred compensation obligation	—	—	1,385	—	—	—	—	1,385
Share-based compensation	—	—	5,050	—	—	—	—	5,050
Net income	—	—	—	8,312	—	—	—	8,312
Balance, May 1, 2016	73,252,869	$ 732	$ 630,951	$ (345,421)	$ (8,129)	(313,231)	$ (2,627)	$ 275,506

See accompanying notes to consolidated financial statements.

NCI BUILDING SYSTEMS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Fiscal Six Months Ended	
	May 1, 2016	May 3, 2015
Cash flows from operating activities:		
Net income (loss)	$8,312	$(7,808)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	21,512	23,497
Deferred financing cost amortization	954	118
Share-based compensation expense	5,050	5,134
Gain from bargain purchase	(1,864)	—
Gain on sale of assets and asset recovery	(1,652)	(26)
(Recovery of) provision for doubtful accounts	1,898	(129)
Provision for deferred income taxes	1,668	5,506
Excess tax (benefits) shortfalls from share-based compensation arrangements	390	(384)
Changes in operating assets and liabilities, net of effect of acquisitions:		
Accounts receivable	25,299	30,268
Inventories	6,555	1,660
Income taxes receivable	(4,140)	(6,373)
Prepaid expenses and other	3,699	(176)
Accounts payable	(24,633)	(25,044)
Accrued expenses	(22,976)	(28,910)
Other, net	(59)	(634)
Net cash provided by (used in) operating activities	20,013	(3,301)
Cash flows from investing activities:		
Acquisitions, net of cash acquired	(4,343)	(247,123)
Capital expenditures	(10,280)	(9,307)
Proceeds from sale of property, plant and equipment	4,663	26
Net cash used in investing activities	(9,960)	(256,404)
Cash flows from financing activities:		
Deposit of restricted cash	(49)	—
Proceeds from stock options exercised	1,401	354
Issuance of debt	—	250,000
Payments on term loan	(20,000)	(21,239)
Payments on note payable	(531)	(417)
Payment of financing costs	—	(8,879)
Excess tax benefits (shortfalls) from share-based compensation arrangements	(390)	384
Purchases of treasury stock	(12,381)	(1,539)
Net cash provided by (used in) financing activities	(31,950)	218,664
Effect of exchange rate changes on cash and cash equivalents	151	(334)
Net decrease in cash and cash equivalents	(21,746)	(41,375)
Cash and cash equivalents at beginning of period	99,662	66,651
Cash and cash equivalents at end of period	$77,916	$25,276

See accompanying notes to consolidated financial statements.

NCI BUILDING SYSTEMS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
May 1, 2016
(Unaudited)

NOTE 1 — GENERAL INFORMATION

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 six month periods ended May 1, 2016 are not necessarily indicative of the results that may be expected for the fiscal year ending October 30, 2016. 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.

For further information, refer to the consolidated financial statements and footnotes thereto included in our Annual Report on Form 10-K for the fiscal year ended November 1, 2015 filed with the Securities and Exchange Commission (the “SEC”) on December 22, 2015.

Reporting Periods

We use a four-four-five week calendar each quarter with our fiscal year end being on the Sunday closest to October 31. The year end for fiscal 2016 is October 30, 2016.

Stock Ownership

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”). In connection with the Investment Agreement, the CD&R Fund VIII and the Clayton, Dubilier & Rice Friends & Family Fund VIII, L.P. (collectively, the “CD&R Funds”) purchased convertible preferred stock, which was later converted to shares of our common stock on May 14, 2013. Also, on October 20, 2009, the Company entered into a Stockholders Agreement with the CD&R Funds. As of May 1, 2016, the CD&R Funds owned 59.2% of the outstanding shares of our common stock. See “Transactions with Related Persons” in our Proxy Statement on Schedule 14A, as filed with the SEC on January 27, 2016, for a description of the rights held by the CD&R Funds under the terms and conditions of the Investment Agreement and the Stockholders Agreement.

NOTE 2 — ACQUISITIONS

Fiscal 2016 acquisition

On November 3, 2015, we acquired manufacturing operations in Hamilton, Ontario, Canada for cash consideration of $2.2 million, net of post-closing working capital adjustments. This business allows us to service customers more competitively within the Canadian and Northeastern United States insulated metal panel (“IMP”) markets. Because the business was acquired from a seller in connection with a divestment required by a regulatory authority, the fair value of net assets acquired exceeded the purchase consideration by $1.9 million, which was recorded as a non-taxable gain from bargain purchase in the unaudited consolidated statements of operations during the first quarter of fiscal 2016.

The fair values of the assets acquired and liabilities assumed as part of this acquisition as of November 3, 2015, as determined in accordance with ASC Topic 805, were as follows (in thousands):

	November 3, 2015
Current assets	$ 307
Property, plant and equipment	4,810
Assets acquired	5,117
Current liabilities assumed	380
Fair value of net assets acquired	4,737
Total cash consideration transferred	2,201
Deferred tax liabilities	672
Gain from bargain purchase	$ (1,864)

The results of operations for this business are included in our metal components segment. Pro forma financial information and other disclosures for this acquisition have not been presented as it was not material to the Company's financial position or reported results.

Fiscal 2015 acquisition

On January 16, 2015, NCI Group, Inc., a wholly-owned subsidiary of the Company, and Steelbuilding.com, LLC, a wholly owned subsidiary of NCI Group, Inc., completed the acquisition of CENTRIA (the "CENTRIA Acquisition"), a Pennsylvania general partnership ("CENTRIA"), pursuant to the terms of the Interest Purchase Agreement, dated November 7, 2014 ("Interest Purchase Agreement") with SMST Management Corp., a Pennsylvania corporation, Riverfront Capital Fund, a Pennsylvania limited partnership, and CENTRIA. NCI acquired all of the general partnership interests of CENTRIA in exchange for $255.8 million in cash, including cash acquired of $8.7 million. The purchase price was subject to a post-closing adjustment to net working capital as provided in the Interest Purchase Agreement, which we settled during the first quarter of fiscal 2016 for additional cash consideration of approximately $2.1 million payable to the seller, which approximated the amount we previously accrued. The purchase price was funded through the issuance of $250.0 million of new indebtedness. See Note 12 — Long-Term Debt and Note Payable. CENTRIA is now an indirect, wholly-owned subsidiary of NCI.

Accordingly, the results of CENTRIA's operations from January 16, 2015 are included in our consolidated financial statements. For the six months ended May 1, 2016 and the period from January 16, 2015 to May 3, 2015, CENTRIA contributed revenue of $109.8 million and $61.9 million and operating income (loss) of $3.6 million and $(3.9) million, respectively. CENTRIA is a leader in the design, engineering and manufacturing of architectural IMP wall and roof systems and a provider of integrated coil coating services for the nonresidential construction industry. CENTRIA operates four production facilities in the United States and a manufacturing facility in China.

We report on a fiscal year that ends on the Sunday closest to October 31. CENTRIA previously reported on a calendar year that ended December 31. In accordance with ASC Topic 805, the unaudited pro forma financial information presented below for the six month periods ended May 1, 2016 and May 3, 2015 assumes the acquisition was completed on November 4, 2013, the first day of fiscal year 2014.

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. The unaudited pro forma financial information includes adjustments for interest expense to match the new capital structure, amortization expense for identified intangibles, and depreciation expense based on the fair value and estimated lives of acquired property, plant and equipment. In addition, acquisition related costs and $16.1 million of transaction costs incurred by the seller are excluded from the unaudited pro forma financial information. The pro forma information does not reflect any expected synergies or expense reductions that may result from the acquisition.

The following table shows our unaudited pro forma financial information for the six month periods ended May 1, 2016 and May 3, 2015 (in thousands, except per share amounts):

	Unaudited Pro Forma Fiscal Six Months Ended	
	May 1, 2016	May 3, 2015
Sales	$742,261	$727,560
Net income (loss) applicable to common shares	8,233	(8,634)
Income (loss) per common share:		
Basic	$0.11	$(0.12)
Diluted	$0.11	$(0.12)

The following table summarizes the fair values of the assets acquired and liabilities assumed as part of the CENTRIA Acquisition as of January 16, 2015 as determined in accordance with ASC Topic 805. The fair value of all assets acquired and liabilities assumed were finalized during the first quarter of fiscal 2016, including certain contingent assets and liabilities and the post-closing working capital adjustment, which did not result in any material adjustments during the first quarter of fiscal 2016. As we continue to integrate CENTRIA into our existing operations, we may identify integration charges that would be required to be recognized.

(In thousands)	January 16, 2015
Cash	$8,718
Current assets, excluding cash	74,725
Property, plant and equipment	34,127
Intangible assets	128,280
Assets acquired	245,850
Current liabilities	61,869
Other long-term liabilities	8,893
Liabilities assumed	70,762
Fair value of net assets acquired	175,088
Total cash consideration transferred	257,927
Goodwill	$82,839

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

		Useful Lives
Backlog	$ 8,400	9 months
Trade names	13,980	15 years
Customer lists and relationships	105,900	20 years
	$ 128,280	

These intangible assets are amortized on a straight-line basis, which is presented in intangible asset amortization in our consolidated statements of operations. The backlog intangible asset was fully amortized during fiscal 2015. We also recorded a step-up in inventory fair value of approximately $2.4 million in fiscal 2015, which was recognized as an expense in fair value adjustment of acquired inventory in our consolidated statements of operations upon the sale of the related inventory.

The excess of the purchase price over the fair values of assets acquired and liabilities assumed was allocated to goodwill. The intention of this transaction was to strengthen our position as a fully integrated supplier to the nonresidential building products industry, by enhancing our existing portfolio of cold storage and commercial and industrial solutions, expanding our capabilities into high-end insulated metal panels and contributing specialty continuous metal coil coating capabilities. We believe the transaction will result in revenue synergies to our existing businesses, as well as improvements in supply chain efficiency, including alignment of purchase terms and pricing optimization. We include the results of CENTRIA in the metal components segment. Goodwill of $73.6 million and $9.1 million was recorded in our metal components segment and engineered building systems segment, respectively, based on expected synergies pertaining to these segments from the CENTRIA Acquisition. Additionally, because CENTRIA was treated as a partnership for tax purposes, the tax basis of the acquired assets and liabilities has been adjusted to their fair value and goodwill will be deductible for tax purposes.

NOTE 3 — ACCOUNTING PRONOUNCEMENTS

Adopted Accounting Pronouncements

In April 2014, the FASB issued ASU 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. ASU 2014-08 changes the requirement for reporting discontinued operations. A disposal of a component of an entity or a group of components of an entity will be required to be reported in discontinued operations if the disposal represents a strategic shift that has or will have a major effect on an entity's operations and financial results when the entity or group of components of an entity meets the criteria to be classified as held for sale or when it is disposed of by sale or other than by sale. The update also requires additional disclosures about discontinued operations, a disposal of an individually significant component of an entity that does not qualify for discontinued operations presentation in the financial statements, and an entity's significant continuing involvement with a discontinued operation. We adopted ASU 2014-08 prospectively in our first quarter in fiscal 2016. The adoption of ASU 2014-08 did not have a material impact on our consolidated financial statements.

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 supersedes the revenue recognition requirements in ASC Topic 605, Revenue Recognition, and most industry-specific guidance. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The FASB has also issued ASUs 2016-08 and 2016-10 to clarify guidance with respect to principal versus agent considerations, the identification of performance obligations, and licensing. These ASUs are effective for our fiscal year ending November 3, 2019, including interim periods within that fiscal year, and will be adopted using either a full or modified retrospective approach. We are currently assessing the potential effects of these changes to our consolidated financial statements.

In June 2014, the FASB issued ASU 2014-12, Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period. ASU 2014-12 requires that a performance target that affects vesting and could be achieved after the requisite service period be treated as a performance condition. A reporting entity should apply existing guidance in FASB Accounting Standards Codification 718, Compensation — Stock Compensation, as it relates to such awards. ASU 2014-12 is effective for our first quarter in fiscal 2017, with early adoption permitted. We do not expect that the adoption of this guidance will have a material impact on our consolidated financial statements.

In January 2015, the FASB issued ASU 2015-01, Income Statement — Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items. ASU 2015-01 eliminates from U.S. GAAP the concept of extraordinary items. The guidance is effective for our fiscal year ending October 29, 2017. A reporting entity may apply the amendments prospectively. We do not expect that the adoption of this guidance will have a material impact on our consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. ASU 2015-03 requires debt issuance costs related to a recognized debt liability be presented on the balance sheet as a direct deduction from the carrying amount of the related debt liability instead of being presented as a separate asset. In circumstances where the costs are incurred before the debt liability is recorded, the costs will be reported on the balance sheet as an asset until the debt liability is recorded. Debt disclosures will include the face amount of the debt liability and the effective interest rate. The update requires retrospective application and is effective for our fiscal year ending October 29, 2017. In August 2015, FASB issued ASU 2015-15, Interest - Imputation of Interest (Subtopic 835-30) - Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements (Amendments to SEC Paragraphs Pursuant to Staff Announcement at June 18, 2015 EITF Meeting), to provide further clarification to ASU 2015-03 as it relates to the presentation and subsequent measurement of debt issuance costs associated with line of credit arrangements. Upon adoption of this guidance, we expect to reclassify approximately $8 million in deferred financing costs as a reduction of the carrying amount of the debt liability.

In April 2015, the FASB issued ASU 2015-05, Intangibles — Goodwill and Other — Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement. ASU 2015-05 provides guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, the guidance specifies that the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. ASU 2015-05 further specifies that the customer should account for a cloud computing arrangement as a service contract if the arrangement does not include a software license. The guidance is effective for our fiscal year ending October 29, 2017. We are currently assessing the impact of this guidance on our consolidated financial statements.

In July 2015, the FASB issues ASU 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory. ASU 2015-11 requires that inventory that has historically been measured using first-in, first-out (FIFO) or average cost method should now be measured at the lower of cost and net realizable value. The update requires prospective application and is effective for our fiscal year ending October 28, 2018. We do not expect that the adoption of this guidance will have a material impact on our consolidated financial statements.

In November 2015, the FASB issued ASU 2015-17, Balance Sheet Classification of Deferred Taxes. ASU 2015-17 requires all deferred tax assets and liabilities to be presented on the balance sheet as noncurrent. ASU 2015-17 is effective for our fiscal year ending October 28, 2018. Upon adoption, we will present the net deferred tax assets as noncurrent and reclassify any current deferred tax assets and liabilities in our consolidated financial position on a retrospective basis.

In February 2016, the FASB issued ASU 2016-02, Leases, which will require lessees to record most leases on the balance sheet and modifies the classification criteria and accounting for sales-type leases and direct financing leases for lessors. ASU 2016-02 is effective for our fiscal year ending November 1, 2020, including interim periods within that fiscal year. The guidance requires entities to use a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. We are evaluating the impact that the adoption of this guidance will have on our consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting, which is intended to simplify certain aspects of the accounting for share-based payment award transactions, including income tax effects when awards vest or settle, repurchase of employees’ shares to satisfy statutory tax withholding obligations, an option to account for forfeitures as they occur, and classification of certain amounts on the statement of cash flows. ASU 2016-09 is effective for our fiscal year ending October 28, 2018, including interim periods within that fiscal year. We are evaluating the impact that the adoption of this ASU will have on our consolidated financial statements.

NOTE 4 —RESTRUCTURING AND ASSET IMPAIRMENTS

As part of the plans developed in the fourth quarter of fiscal 2015 to improve cost efficiency and optimize our combined manufacturing footprint, given the Company’s recent acquisitions and restructuring efforts, we incurred severance related costs of $1.1 million, including $0.1 million and $0.6 million in the engineered building systems segment and metal components segment, respectively, during the three months ended May 1, 2016. These charges include severance related costs associated with the consolidation and closing of two manufacturing facilities in our metal components segment. For the six months ended May 1, 2016, we incurred severance related costs of $2.7 million, including $0.6 million and $0.9 million in the engineered building systems segment and metal components segment, respectively.

The following table summarizes our restructuring plan costs and charges related to the restructuring plan during the three and six months ended May 1, 2016 (in thousands), which are recorded in restructuring and impairment charges in the Company’s consolidated statements of operations:

	Fiscal Three Months Ended May 1, 2016	Fiscal Six Months Ended May 1, 2016	Cost Incurred	Remaining Anticipated Cost	Total Anticipated Cost

			To Date (since inception)		
General severance	$ 1,053	$ 1,933	$ 5,820	*	*
Plant closing severance	96	96	1,671	*	*
Asset impairments	—	—	5,844	*	*
Other restructuring costs	—	630	630	*	*
Total restructuring costs	$ 1,149	$ 2,659	$ 13,965	*	*

* We expect to fully execute our plans in phases over the next 6 months to 30 months and estimate that we will incur future additional restructuring charges associated with these plans. We are unable at this time to make a good faith determination of cost estimates, or ranges of cost estimates, associated with future phases of the plans.

The following table summarizes our severance liability and cash payments made pursuant to the restructuring plan from inception through May 1, 2016 (in thousands):

	General Severance	Plant Closing Severance	Total
Balance at November 2, 2014	$ —	$ —	$—
Costs incurred	3,887	1,575	5,462
Cash payments	(2,941)	(1,575)	(4,516)
Accrued severance[(1)]	739	—	739
Balance at November 1, 2015	$ 1,685	$ —	$1,685
Costs incurred[(1)]	1,485	96	1,581
Cash payments	(2,277)	(23)	(2,300)
Balance at May 1, 2016	$ 893	$ 73	$966

(1) During the second and fourth quarters of fiscal 2015, we entered into transition and separation agreements with certain executive officers. Each terminated executive officer is entitled to severance benefit payments issuable in two installments. The termination benefits were measured initially at the separation date based on the fair value of the liability as of the termination date and are being recognized ratably over the future service period. Costs incurred during the six months ended May 1, 2016 exclude $0.5 million of amortization expense associated with these termination benefits. Remaining severance costs associated with the executive officers of $0.2 million and $0.1 million will be incurred in the metal components segment and engineered building systems segment, respectively.

NOTE 5 — RESTRICTED CASH

We have entered into a cash collateral agreement with PNC Bank to backstop existing CENTRIA letters of credit until they expire. The restricted cash is held in a bank account with PNC Bank as the secured party. As of May 1, 2016, we had restricted cash in the amount of approximately $0.7 million as collateral related to our letters of credit for international projects with CENTRIA, exclusive of letters of credit under our Amended ABL Facility. See Note 12 — Long-Term Debt and Note Payable for more information on the material terms of our Amended ABL Facility. Restricted cash as of May 1, 2016 is classified as current as the underlying letters of credit expire within one year of the respective balance sheet date. Any renewal or replacement of the CENTRIA letters of credit is expected to occur under our Amended ABL Facility.

NOTE 6 — INVENTORIES

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

	May 1, 2016	November 1, 2015
Raw materials	$104,648	$ 109,455
Work in process and finished goods	46,829	48,373
Inventories, net	$151,477	$ 157,828

NOTE 7 — ASSETS HELD FOR SALE

We record assets held for sale at the lower of the carrying value or fair value less costs to sell. The following criteria are used to determine if property is held for sale: (i) management has the authority and commits to a plan to sell the property; (ii) the property is available for immediate sale in its present condition; (iii) there is an active program to locate a buyer and the plan to sell the property has been initiated; (iv) the sale of the property is probable within one year; (v) the property is being actively marketed at a reasonable sale price relative to its current fair value; and (vi) it is unlikely that the plan to sell will be withdrawn or that significant changes to the plan will be made.

In determining the fair value of the assets less cost to sell, we considered factors including current sales prices for comparable assets in the area, recent market analysis studies, appraisals and any recent legitimate offers. If the estimated fair value less cost to sell of an asset is less than its current carrying value, the asset is written down to its estimated fair value less cost to sell. The carrying value of assets held for sale (representing idled facilities) was $3.4 million and $6.3 million as of May 1, 2016 and

November 1, 2015, respectively, and these amounts are included in the engineered building systems segment. All of these assets continued to be actively marketed for sale at May 1, 2016.

During the six months ended May 1, 2016, we completed the sale of idled facilities in Lockeford, California and Caryville, Tennessee, along with related equipment, which previously had been classified in assets held for sale. In connection with the sale of these assets, during the three and six months ended May 1, 2016, we received net cash proceeds of $1.6 million and $4.7 million, respectively, and recognized net gains of $0.9 million and $1.7 million, respectively, which are included in gain on sale of assets and asset recovery in the unaudited consolidated statements of operations.

Due to uncertainties in the estimation process, it is reasonably possible that actual results could differ from the estimates used in our historical analysis. Our assumptions about property sales prices require significant judgment because the current market is highly sensitive to changes in economic conditions. We calculated the estimated fair values of assets held for sale based on current market conditions and assumptions made by management, which may differ from actual results and may result in impairments if market conditions deteriorate.

NOTE 8 — SHARE-BASED COMPENSATION

Restricted Stock and Performance Awards

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, long-term incentive awards with performance conditions (“Performance Share Awards”) and cash awards. As of May 1, 2016, 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, and Performance Share Awards. 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 in annual increments over one to four years or earlier upon death, disability or a change of control. However, our annual restricted stock awards issued prior to December 15, 2013 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. Restricted stock awards issued after December 15, 2013 do not vest upon attainment of age 65, as provided by the agreements governing such awards. The vesting of our Performance Share Awards is described below.

In December 2015, we granted long-term incentive awards, with a three-year performance period, to our senior executives (“2015 Executive Awards”). 40% of the value of the long-term incentive awards consists of time-based restricted stock units and 60% of the value of the award consists of PSUs. The restricted stock units are time-vesting based on continued employment, with one-third of the restricted stock units vesting on each of the first, second and third anniversaries of the grant date. The PSUs vest based on the achievement of performance goals and continued employment at the end of the three-year performance period. The PSU performance goals are based on three metrics: (1) cumulative free cash flow (weighted 40%); (2) cumulative earnings per share (weighted 40%); and (3) total shareholder return (weighted 20%), in each case during the performance period. The number of shares that may be received upon the vesting of the PSUs will depend upon the satisfaction of the performance goals, up to a maximum of 200% of the target number of the PSUs. The PSUs vest pro rata if an executive’s employment terminates prior to the end of the performance period due to death, disability, or termination by NCI without cause or by the executive for good reason. If an executive’s employment terminates for any other reason prior to the end of the performance period, all outstanding unvested PSUs, whether earned or unearned, will be forfeited and cancelled. If a change in control of NCI occurs prior to the end of the performance period, the PSU payout will be calculated and paid assuming that the maximum benefit had been achieved. If an executive’s employment terminates due to death or disability while any of the restricted stock units are unvested, then all of the executive's unvested restricted stock units will become vested. If an executive's employment is terminated for any other reason, the executive's unvested restricted stock units will be forfeited. If a change in control of NCI occurs prior to the end of the performance period, the restricted stock units fully vest.

The fair value of the 2015 Executive Awards is based on the Company's stock price as of the grant date. A portion of the compensation cost of the 2015 Executive Awards is based on the probable outcome of the performance conditions associated with the respective shares, as determined by management. During the six months ended May 1, 2016 and May 3, 2015, we granted PSUs with a fair value of approximately $5.2 million and $3.7 million, respectively.

The fair value of restricted stock units classified as equity awards is based on the Company's stock price as of the date of grant. During the six months ended May 1, 2016 and May 3, 2015, we granted time-based restricted stock units with a fair value of $3.9 million, representing 304,064 shares, and $6.5 million, representing 376,955 shares, respectively.

Also, in December 2015, we granted Performance Cash and Share Awards to certain key employees that will be paid 50% in cash and 50% in stock ("2015 Key Employee Awards"). The amount of cash and number of shares that may be received upon the vesting of these awards will be based on the achievement of free cash flow and earnings per share targets over a three-year performance period. The 2015 Key Employee Awards vest three years from the grant date and will be earned based on the performance against the pre-established targets for the requisite service period. A key employee's awards also vest in full upon death, disability or a change of control, and a pro-rated portion of the key employee's awards may vest on termination without cause or after reaching normal retirement age prior to the vesting date, as defined by the agreements governing such awards. The fair value of the 2015 Key Employee Awards is based on the Company's stock price as of the grant date. Compensation cost is recorded based on the probable outcome of the performance conditions associated with the shares, as determined by management. During the six months ended May 1, 2016 and May 3, 2015, we granted awards to key employees with an equity fair value of $2.4 million and $1.5 million and a cash value of $2.1 million and $1.7 million, respectively.

During the six month periods ended May 1, 2016 and May 3, 2015, we also granted 28,535 and 10,543 stock options, respectively. The grant date fair value of options granted during the six month periods ended May 1, 2016 and May 3, 2015 was $5.38 and $7.91, respectively. The Company received cash proceeds of $1.4 million from exercises of 155,334 stock options during the three month period ended May 1, 2016.

During the six month periods ended May 1, 2016 and May 3, 2015, we recorded share-based compensation expense for all awards of $5.1 million and $5.1 million, respectively.

Deferred Compensation

On February 26, 2016, the Company amended its Deferred Compensation Plan ("Plan"), with an effective date of January 31, 2016, to require that amounts deferred into the Company Stock Fund remain invested in the Company Stock Fund until distribution. In accordance with the terms of the Plan, the deferred compensation obligation related to the Company's stock may only be settled by the delivery of a fixed number of the Company's common shares held on the participant's behalf. As a result, we recorded a deferred compensation obligation of $1.4 million related to the Company Stock Fund within equity in additional paid-in capital on the consolidated balance sheet as of May 1, 2016. Additionally, the Company currently holds 144,857 shares in treasury shares, relating to deferred, vested 2012 PSU awards, until participants are eligible to receive benefits under the terms of the plan.

NOTE 9 — EARNINGS (LOSS) PER COMMON SHARE

Basic earnings (loss) per common share is computed by dividing net income (loss) allocated to common shares by the weighted average number of common shares outstanding. Diluted earnings 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 earnings (loss) per common share is as follows (in thousands, except per share data):

	Fiscal Three Months Ended		Fiscal Six Months Ended	
	May 1, 2016	May 3, 2015	May 1, 2016	May 3, 2015
Numerator for Basic and Diluted Income (Loss) Per Common Share				
Net income (loss)	$2,420	$(7,488)	$8,312	$(7,808)
Less: Net income applicable to participating securities	(23)	—	(79)	—
Net income (loss) applicable to common shares	$2,397	$(7,488)	$8,233	$(7,808)
Denominator for Basic and Diluted Income (Loss) Per Common Share				
Weighted average basic number of common shares outstanding	72,352	73,133	72,806	73,102
Common stock equivalents:				

Employee stock options	534	—	515	—
Restricted stock units	—	—	—	—
Weighted average diluted number of common shares outstanding	72,886	73,133	73,321	73,102
Basic income (loss) per common share	$0.03	$(0.10)	$0.11	$(0.11)
Diluted income (loss) per common share	$0.03	$(0.10)	$0.11	$(0.11)

We calculate earnings (loss) per share using the “two-class” method, whereby unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents are “participating securities” and, therefore, are treated as a separate class in computing earnings (loss) per share. For the three and six month periods ended May 1, 2016, undistributed earnings attributable to participating securities were approximately $0.1 million and $0.1 million, respectively. There were no amounts attributable to participating securities for the three and six month periods ended May 3, 2015, as the participating securities do not contractually share in net losses.

For the three and six month periods ended May 1, 2016, all PSUs and Performance Share Awards that are contingent upon the achievement of performance targets as described in Note 8 were excluded from the diluted income per common share calculation as the performance targets were not met as of May 1, 2016. Additionally, the number of weighted average options that were not included in the diluted earnings per share calculation because the effect would have been anti-dilutive represented approximately 0.1 million shares. The number of weighted average Performance Share Awards subject to continuing employment representing approximately 0.1 million shares were also determined to be anti-dilutive, and were not included in the diluted income per common share calculation. For the three and six month periods ended May 3, 2015, all outstanding options, PSUs and Performance Share Awards were anti-dilutive and, therefore, not included in the diluted loss per common share calculation.

NOTE 10 — WARRANTY

We sell weathertightness warranties to our customers for protection from leaks in our roofing systems related to weather. These warranties range from 2 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 revenue, which is included in other accrued expenses on our consolidated balance sheets.

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

	Fiscal Six Months Ended	
	May 1, 2016	May 3, 2015
Beginning balance	$25,669	$23,685
Warranties sold	1,217	1,158
Revenue recognized	(1,421)	(1,432)
Other[(1)]	—	2,357
Ending balance	$25,465	$25,768

(1) Represents the fair value of accrued warranty obligations in the amount of $2.4 million assumed in the CENTRIA Acquisition. CENTRIA offers weathertightness warranties to certain customers. Weathertightness warranties are offered in various configurations for time periods from 5 to 20 years, prorated or non-prorated and on both a dollar limit or 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. The preliminary fair value of the accrued warranty obligations of $2.4 million reported in our quarterly report on Form 10-Q for the period ended May 3, 2015 was subsequently adjusted

by $0.8 million to $1.6 million during the measurement period for purchase accounting.

NOTE 11 — DEFINED BENEFIT PLANS

RCC Pension Plan — With the acquisition of Robertson-Ceco II Corporation (“RCC”) on April 7, 2006, we assumed a defined benefit plan (the “RCC Pension Plan”). Benefits under the RCC Pension Plan are primarily based on years of service and the employee’s compensation. The RCC Pension Plan is frozen and, therefore, employees do not accrue additional service benefits. Plan assets of the RCC Pension Plan are invested in broadly diversified portfolios of government obligations, mutual funds, stocks, bonds, fixed income securities and master limited partnerships.

CENTRIA Benefit Plans — As a result of the CENTRIA Acquisition on January 16, 2015, we assumed noncontributory defined benefit plans covering certain hourly employees (the “CENTRIA Benefit Plans”) and are closed to new participants. Benefits under the CENTRIA Benefit Plans are calculated based on fixed amounts for each year of service rendered, although benefits accruals for one of the plans previously ceased. Plan assets of the CENTRIA Benefit Plans are invested in broadly diversified portfolios of equity mutual funds, international equity mutual funds, bonds, mortgages and other funds. CENTRIA also sponsors postretirement medical and life insurance plans that cover certain of its employees and their spouses (the “OPEB Plans”).

The following table sets forth the components of the net periodic benefit cost, before tax, and funding contributions, for the periods indicated (in thousands):

	Fiscal Three Months Ended May 1, 2016				Fiscal Three Months Ended May 3, 2015			
	RCC Pension Plan	CENTRIA Benefit Plans	OPEB Plans	Total	RCC Pension Plan	CENTRIA Benefit Plans	OPEB Plans	Total
Service cost	$—	$ 34	$ 8	$42	$—	$ 42	$ 8	$50
Interest cost	450	139	65	654	483	165	80	728
Expected return on assets	(475)	(270)	—	(745)	(551)	(311)	—	(862)
Prior service cost amortization	(2)	—	—	(2)	(2)	—	—	(2)
Unrecognized net loss	292	—	—	292	361	—	—	361
Net periodic pension cost	$265	$ (97)	$ 73	$241	$291	$ (104)	$ 88	$275
Funding contributions	$234	$ 160	$ —	$394	$260	$ 160	$ —	$420

	Fiscal Six Months Ended May 1, 2016				Fiscal Six Months Ended May 3, 2015			
	RCC Pension Plan	CENTRIA Benefit Plans	OPEB Plans	Total	RCC Pension Plan	CENTRIA Benefit Plans	OPEB Plans	Total
Service cost	$—	$ 68	$ 17	$ 85	$—	$ 42	$ 8	$ 50
Interest cost	900	278	131	1,309	966	165	80	1,211
Expected return on assets	(950)	(539)	—	(1,489)	(1,102)	(311)	—	(1,413)
Prior service cost amortization	(5)	—	—	(5)	(5)	—	—	(5)
Unrecognized net loss	585	—	—	585	721	—	—	721
Net periodic pension cost	$530	$ (193						