BlueLinx Holdings Inc.
Form 10-Q
November 01, 2012

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 29, 2012

OR

o 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: 1-32383

BlueLinx Holdings Inc.
(Exact name of registrant as specified in its charter)

Delaware	77-0627356
(State of Incorporation)	(I.R.S. Employer Identification No.)
4300 Wildwood Parkway, Atlanta, Georgia	30339
(Address of principal executive offices)	(Zip Code)

(770) 953-7000
(Registrant’s telephone number, including area code)

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 þ No o

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o

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 “small reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer o Accelerated filer o Non-accelerated filer þ Smaller reporting company o
(Do not check if a 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 £ No R

As of November 1, 2012 there were 63,706,052 shares of BlueLinx Holdings Inc. common stock, par value $0.01, outstanding.

BLUELINX HOLDINGS INC.

Form 10-Q

For the Quarterly Period Ended September 29, 2012

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

BLUELINX HOLDINGS INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND
COMPREHENSIVE INCOME (LOSS)
(In thousands, except per share data)
(unaudited)

	Third Quarter Period from July 1, 2012 to September 29, 2012	Period from July 3, 2011 to October 1, 2011
Net sales	$ 496,810	$ 472,898
Cost of sales	436,279	414,620
Gross profit	60,531	58,278
Operating expenses:		
Selling, general, and administrative	48,156	54,537
Depreciation and amortization	2,106	2,559
Total operating expenses	50,262	57,096
Operating income	10,269	1,182
Non-operating expenses:		
Interest expense	7,294	6,963
Other (income) expense, net	(16)	333
Income (loss) before (benefit from) provision for income taxes	2,991	(6,114)
(Benefit from) provision for income taxes	(77)	94
Net income (loss)	$ 3,068	$ (6,208)
Basic and diluted weighted average number of common shares outstanding	60,099	51,183
Basic and diluted net income (loss) per share applicable to common stock	$ 0.05	$ (0.12)
Comprehensive income (loss):		
Net income (loss)	$ 3,068	$ (6,208)
Other comprehensive income (loss):		
Foreign currency translation	185	(602)
Comprehensive income (loss)	$ 3,253	$ (6,810)

See accompanying notes.

BLUELINX HOLDINGS INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(In thousands, except per share data)
(unaudited)

	Nine Months Ended Period from January 1, 2012 to September 29, 2012	Period from January 2, 2011 to October 1, 2011
Net sales	$ 1,467,544	$ 1,364,313
Cost of sales	1,289,593	1,202,121
Gross profit	177,951	162,192
Operating expenses:		
Selling, general, and administrative	161,358	159,760
Depreciation and amortization	6,553	8,120
Total operating expenses	167,911	167,880
Operating income (loss)	10,040	(5,688)
Non-operating expenses:		
Interest expense	21,401	23,754
Changes associated with the ineffective interest rate swap	-	(1,751)
Other (income) expense, net	(29)	485
Loss before provision for income taxes	(11,332)	(28,176)
Provision for income taxes	325	139
Net loss	$ (11,657)	$ (28,315)
Basic and diluted weighted average number of common shares outstanding	60,067	37,696
Basic and diluted net loss per share applicable to common stock	$ (0.19)	$ (0.75)
Comprehensive loss:		
Net loss	$ (11,657)	$ (28,315)
Other comprehensive loss:		
Foreign currency translation	211	(252)
Unrealized gain from ineffective interest rate swap, net of taxes	—	234
Comprehensive loss	$ (11,446)	$ (28,333)

See accompanying notes.

BLUELINX HOLDINGS INC.

CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share data)

	September 29, 2012 (unaudited)	December 31, 2011
Assets:		
Current assets:		
Cash and cash equivalents	$ 7,874	$ 4,898
Receivables, net	191,740	138,872
Inventories, net	220,252	185,577
Other current assets	45,138	27,141
Total current assets	465,004	356,488
Property, plant, and equipment:		
Land and land improvements	43,058	49,562
Buildings	94,070	95,652
Machinery and equipment	75,715	75,508
Construction in progress	1,036	741
Property, plant, and equipment, at cost	213,879	221,463
Accumulated depreciation	(102,413)	(98,335)
Property, plant, and equipment, net	111,466	123,128
Non-current deferred income tax assets, net	382	358
Other non-current assets	18,569	23,941
Total assets	$ 595,421	$ 503,915
Liabilities:		
Current liabilities:		
Accounts payable	$ 81,576	$ 70,228
Bank overdrafts	31,892	22,364
Accrued compensation	5,799	4,496
Current maturities of long-term debt	69,505	9,046
Deferred income taxes, net	382	382
Other current liabilities	11,844	16,558
Total current liabilities	200,998	123,074
Non-current liabilities:		
Long-term debt	350,615	328,695
Other non-current liabilities	45,378	43,772
Total liabilities	596,991	495,541
Stockholders' (Deficit) Equity:		
Common Stock, $0.01 par value, 200,000,000 and 100,000,000 shares authorized at September 29, 2012 and December 31,2011, respectively; 63,707,152 and 62,012,962 shares issued at September 29, 2012 and December 31, 2011, respectively.	637	620
Additional paid-in capital	209,114	207,626
Accumulated other comprehensive loss	(21,689)	(21,900)
Accumulated deficit	(189,632)	(177,972)
Total stockholders' (deficit) equity	(1,570)	8,374
Total liabilities and stockholders' (deficit) equity	$ 595,421	$ 503,915

See accompanying notes.

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BLUELINX HOLDINGS INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(unaudited)

	Nine Months Ended Period from January 1, 2012 to September 29, 2012	Period from January 2, 2011 to October 1, 2011
Cash flows from operating activities:		
Net loss	$ (11,657)	$ (28,315)
Adjustments to reconcile net loss to net cash used in operations:		
Depreciation and amortization	6,553	8,120
Amortization of debt issue costs	2,799	2,029
Gain from sale of properties	(9,680)	(6,939)
Gain from property insurance settlement	(476)	(1,230)
Changes associated with the ineffective interest rate swap	—	(1,751)
Vacant property charges, net	(30)	—
Gain on modification of lease agreement	—	(1,971)
Payments on modification of lease agreement	(5,875)	—
Deferred income tax benefit	(24)	(282)
Share-based compensation expense	2,097	1,578
(Increase) decrease in restricted cash related to the ineffective interest rate swap, insurance, and other	(123)	443
Changes in assets and liabilities:		
Receivables	(52,868)	(65,535)
Inventories	(34,675)	(15,527)
Accounts payable	12,776	26,641
Changes in other working capital	2,859	1,365
Other	1,650	(2,439)
Net cash used in operating activities	(86,674)	(83,813)
Cash flows from investing activities:		
Property, plant and equipment investments	(2,490)	(5,767)
Proceeds from disposition of assets	18,561	8,994
Net cash provided by investing activities	16,071	3,227
Cash flows from financing activities:		
Repurchase of shares to satisfy employee tax withholdings	(446)	—
Repayments on the revolving credit facilities	(345,674)	(348,877)
Borrowings from the revolving credit facilities	436,374	370,112
Payments of principal on mortgage	(8,370)	(38,724)
Payments on capital lease obligations	(604)	(1,224)
Increase in bank overdrafts	9,528	7,233
(Increase) decrease in restricted cash related to the mortgage	(15,546)	27,724
Debt financing costs	(1,683)	(2,647)
Proceeds from stock offering less expenses paid	—	58,582
Net cash provided by financing activities	73,579	72,179

Increase (decrease) in cash		2,976		(8,407	)
Balance, beginning of period		4,898		14,297	
Balance, end of period	$	7,874	$	5,890	
Noncash transactions:					
Capital leases	$	32	$	3,147	

See accompanying notes.

BLUELINX HOLDINGS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 29, 2012

1.Basis of Presentation and Background

Basis of Presentation

BlueLinx Holdings Inc. has prepared the accompanying Unaudited Consolidated Financial Statements, including its accounts and the accounts of its wholly-owned subsidiaries, in accordance with the instructions to Form 10-Q and therefore they do not include all of the information and notes required by United States generally accepted accounting principles (“GAAP”). These interim financial statements should be read in conjunction with the financial statements and accompanying notes included in our Annual Report on Form 10-K for the year ended December 31, 2011, as filed with the Securities and Exchange Commission (“SEC”). Our fiscal year is a 52- or 53-week period ending on the Saturday closest to the end of the calendar year. Fiscal year 2012 and fiscal year 2011 each contain 52 weeks. BlueLinx Corporation is the wholly-owned operating subsidiary of BlueLinx Holdings Inc. and is referred to herein as the “operating subsidiary” when necessary.

We believe the accompanying Unaudited Consolidated Financial Statements reflect all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of our financial position, results of operations and cash flows for the periods presented. The preparation of the consolidated financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the amounts reported in the Unaudited Consolidated Financial Statements and accompanying notes. Actual results could differ from those estimates and such differences could be material. In addition, the operating results for interim periods may not be indicative of the results of operations for a full year. We are exposed to fluctuations in quarterly sales volumes and expenses due to seasonal factors, with the second and third quarters typically accounting for the highest sales volumes. These seasonal factors are common in the building products distribution industry.

We are a leading distributor of building products in North America with approximately 1,900 employees. We offer approximately 10,000 products from over 750 suppliers to service more than 11,500 customers nationwide, including dealers, industrial manufacturers, manufactured housing producers and home improvement retailers. We operate our distribution business from sales centers in Atlanta and Denver, and our network of approximately 55 distribution centers.

2.Summary of Significant Accounting Policies

Revenue Recognition

We recognize revenue when the following criteria are met: persuasive evidence of an agreement exists, delivery has occurred or services have been rendered, our price to the buyer is fixed and determinable and collectability is reasonably assured. Delivery is not considered to have occurred until the customer takes title and assumes the risks and rewards of ownership. The timing of revenue recognition is largely dependent on shipping terms. For sales transactions designated as FOB (free on board) shipping point, revenue is recorded at the time of shipment. For sales transactions designated FOB destination, revenue is recorded when the product is delivered to the customer’s delivery site.

All revenues are recorded at gross. The key indicators used to determine when and how revenue is recorded are as follows:

- We are the primary obligor responsible for fulfillment and all other aspects of the customer relationship.
- Title passes to BlueLinx and we carry all risk of loss related to warehouse and third-party (“reload”) inventory and inventory shipped directly from vendors to our customers.
- We are responsible for all product returns.
- We control the selling price for all channels.
- We select the supplier.
- We bear all credit risk.

In addition, we provide inventory to certain customers through pre-arranged agreements on a consignment basis. Customer consigned inventory is maintained and stored by certain customers; however, ownership and risk of loss remain with us. When the inventory is sold by the customer, we recognize revenue on a gross basis.

All revenues recognized are net of trade allowances, cash discounts and sales returns. Cash discounts and sales returns are estimated using historical experience. Trade allowances are based on the estimated obligations and historical experience.

Cash and Cash Equivalents

Cash and cash equivalents include all highly liquid investments with maturity dates of less than three months when purchased.

Restricted Cash

We had restricted cash of $36.2 million and $20.6 million at September 29, 2012 and December 31, 2011, respectively. Restricted cash primarily includes amounts held in escrow related to our mortgage and insurance for workers' compensation, auto liability, and general liability. Restricted cash is included in "Other current assets" and "Other non-current assets" on the accompanying Consolidated Balance Sheets.

The table below provides the balances of each individual component in restricted cash as of September 29, 2012 and December 31, 2011 (in thousands):

	September 29, 2012	December 31, 2011
Cash in escrow:		
Mortgage**	$ 25,557	$ 10,011
Insurance	7,903	8,786
Other*	2,785	1,779
Total	$ 36,245	$ 20,576

* Included in the "Other" restricted cash category is approximately $0.8 million of cash held in escrow related to the sale of the Newark, California location.

** The increase in cash in escrow related to the mortgage is primarily comprised of restricted cash from the sale of the Newark, California location discussed in "Note 7. - Mortgage".

Allowance for Doubtful Accounts and Related Reserves

We evaluate the collectability of accounts receivable based on numerous factors, including past transaction history with customers and their creditworthiness. We maintain an allowance for doubtful accounts for each aging category on our aged trial balance, which is aged utilizing contractual terms, based on our historical loss experience. This estimate is periodically adjusted when we become aware of specific customers' inability to meet their financial obligations (e.g., bankruptcy filing or other evidence of liquidity problems). As we determine that specific balances ultimately will be uncollectible, we remove them from our aged trial balance. Additionally, we maintain reserves for cash discounts that we expect customers to earn as well as expected returns. At September 29, 2012 and December 31, 2011, these reserves totaled $4.8 million and $5.1 million, respectively.

Inventory Valuation

Inventories are carried at the lower of cost or market. The cost of all inventories is determined by the moving average cost method. We have included all material charges directly or indirectly incurred in bringing inventory to its existing condition and location. We evaluate our inventory value at the end of each quarter to ensure that first quality, actively moving inventory, when viewed by category, is carried at the lower of cost or market. At September 29, 2012 and December 31, 2011, the market value of our inventory exceeded its cost.

Additionally, we maintain a reserve for the estimated value impairment associated with damaged, excess and obsolete inventory. The damaged, excess and obsolete reserve generally includes discontinued items or inventory that has turn days in excess of 270 days, excluding new items during their product launch. At September 29, 2012 and December 31, 2011, our damaged, excess and obsolete inventory reserves were $1.9 million and $1.5 million, respectively.

Consignment Inventory

We enter into consignment inventory agreements with our vendors. This vendor consignment inventory relationship allows us to obtain and store vendor inventory at our warehouses and reload facilities; however, ownership remains with the vendor and risk of loss generally remains with the vendor. When the inventory is sold, we are required to pay the vendor and we simultaneously take and transfer ownership from the vendor to the customer.

Consideration Received from Vendors and Paid to Customers

Each year, we enter into agreements with many of our vendors providing for inventory purchase rebates, generally based on achievement of specified volume purchasing levels, price protection and various marketing allowances that are common industry practice. We accrue for the receipt of vendor rebates based on purchases, and also reduce inventory value to reflect the net acquisition cost (purchase price less expected purchase rebates). At September 29, 2012 and December 31, 2011, the vendor rebate receivable totaled $8.8 million and $9.0 million, respectively.

In addition, we enter into agreements with many of our customers to offer customer rebates, generally based on achievement of specified volume sales levels and various marketing allowances that are common industry practice. We accrue for the payment of customer rebates based on sales to the customer, and also reduce sales value to reflect the net sales (sales price less expected customer rebates). At September 29, 2012 and December 31, 2011, the customer rebate payable totaled $4.4 million and $7.0 million, respectively.

Income (loss) per Common Share

Certain of our restricted stock awards are considered participating securities as they receive non-forfeitable rights to dividends at the same rate as common stock. As participating securities, we include these instruments in the earnings allocation in computing income per share under the two-class method. The two-class method is an earnings allocation formula that treats a participating security as having rights to earnings that would otherwise have been available to common stockholders. Except when the effect would be anti-dilutive, the diluted earnings per share calculation includes the dilutive effect of the assumed exercise of stock options using the treasury stock method. Our restricted stock units are settled in cash upon vesting and are considered liability awards. Therefore, these restricted stock units are not included in the computation of the basic and diluted earnings per share. All of our restricted stock units were vested as of the first fiscal quarter of 2012.

The following table calculates basic and diluted income per common share for the three months ended September 29, 2012 under the two-class method (in thousands, except per share data):

		Period from July 1, 2012 to September 29, 2012
Basic income per share:		
Net income	$	3,068
Less: Income attributable to participating securities		173
Net income available to common stockholders	$	2,895
Basic weighted average shares outstanding		60,099
Basic income per share	$	0.05

Diluted income per share:		
Net income	$	3,068
Less: Income attributable to participating securities		173
Net income available to common stockholders	$	2,895
Basic weighted average shares outstanding		60,099
Common stock equivalents	$	—
Diluted weighted average shares outstanding		60,099
Diluted income per share	$	0.05

Given that the restricted stockholders do not have a contractual obligation to participate in the losses and the inclusion of such unvested restricted shares in our basic and dilutive per share calculations would be anti-dilutive, we have not included these amounts in our weighted average number of common shares outstanding for periods in which we report a net loss. Therefore, we have not included 3,597,774 and 2,160,191 of unvested shares of restricted stock that had the right to participate in dividends in our basic and dilutive calculations for the first nine months of fiscal 2012 and for the first nine months of fiscal 2011, respectively. In addition, we have not included 2,160,191 of unvested shares of restricted stock that had the right to participate in dividends in our basic and dilutive calculations for the third quarter of fiscal 2011.

As we experienced losses in all periods except for the current fiscal quarter, basic and diluted loss per share are computed by dividing net loss by the weighted average number of common shares outstanding for these respective periods. For the first nine months of fiscal 2012, we excluded 4,503,090 unvested share-based awards, which includes excluding the assumed exercise of 905,316 unexpired stock options, from the diluted earnings per share calculation because they were anti-dilutive. For the third quarter of fiscal 2012, we excluded the effect of the assumed exercise of 905,316 unexpired stock options from the diluted earnings per share calculation because they were anti-dilutive. For the third quarter of fiscal 2011 and for the first nine months of fiscal 2011, we excluded 3,076,739 unvested share-based awards, which includes excluding the assumed exercise of 905,316 unexpired stock options, from the diluted earnings per share calculation because they were anti-dilutive.

Stock-Based Compensation

We have two stock-based compensation plans covering officers, directors, certain employees and consultants: the 2004 Equity Incentive Plan (the “2004 Plan”) and the 2006 Long Term Equity Incentive Plan (the “2006 Plan”). The plans are designed to motivate and retain individuals who are responsible for the attainment of our primary long-term performance goals. The plans provide a means whereby our employees and directors develop a sense of proprietorship and personal involvement in our development and financial success and encourage them to devote their best efforts to our business. Although we do not have a formal policy on the matter, we issue new shares of our common stock to participants, upon the exercise of options or granting of restricted stock, out of the total amount of common shares authorized for issuance under either the 2004 Plan or the 2006 Plan. During the first nine months of fiscal 2012, the Compensation Committee granted 2,067,835 restricted shares of our common stock to certain of our officers and directors. Restricted shares of 681,484 vested in the first nine months of 2012 due to completion of the vesting term.

We recognize compensation expense equal to the grant-date fair value for all share-based payment awards that are expected to vest. This expense is recorded on a straight-line basis over the requisite service period of the entire award, unless the awards are subject to market or performance conditions, in which case we recognize compensation expense over the requisite service period of each separate vesting tranche to the extent the occurrence of such conditions are probable. All compensation expense related to our share-based payment awards is recorded in “Selling, general and administrative” expense in the Consolidated Statements of Operations. For the third quarter of fiscal 2012 and for the first nine months of fiscal 2012, our total stock-based compensation expense was $0.7 million and $2.1 million, respectively. For the third quarter of fiscal 2011 and for the first nine months of fiscal 2011, our total stock-based compensation expense was $0.4 million and $1.6 million, respectively. We did not recognize related income tax benefits during these periods.

Income Taxes

Deferred income taxes are provided using the liability method. Accordingly, deferred income taxes are recognized for differences between the income tax and financial reporting bases of our assets and liabilities based on enacted tax laws and tax rates applicable to the periods in which the differences are expected to affect taxable income. We recognize a valuation allowance, when based on the weight of all available evidence, we believe it is more likely than not that

some or all of our deferred tax assets will not be realized. In evaluating our ability to recover our deferred income tax assets, we considered available positive and negative evidence, including our past operating results, our ability to carryback losses against prior taxable income, the existence of cumulative losses in the most recent years, our forecast of future taxable income and an excess of appreciated assets over the tax basis of our net assets. In estimating future taxable income, we developed assumptions including the amount of future state and federal pretax operating and non-operating income, the reversal of temporary differences and the implementation of feasible and prudent tax planning strategies. These assumptions required significant judgment about the forecasts of future taxable income. We considered all of the available positive and negative evidence during the third quarter of fiscal 2012 and based on the weight of available evidence we continue to record a full valuation allowance for our net deferred tax asset of $71.2 million. During the third quarter of fiscal 2012, we recorded a $1.2 million reduction to our net operating loss carryforward deferred tax asset with a corresponding reduction to our valuation allowance.

If the realization of deferred tax assets in the future is considered more likely than not, a reduction to the valuation allowance related to the deferred tax assets would increase net income in the period such determination is made. The amount of the deferred tax asset considered realizable is based on significant estimates, and it is possible that changes in these estimates could materially affect the financial condition and results of operations. Our effective tax rate may vary from period to period based on changes in estimated taxable income or loss; changes to the valuation allowance; changes to federal or state tax laws; and as a result of acquisitions.

We generally believe that the positions taken on previously filed tax returns are more likely than not to be sustained by the taxing authorities. We have recorded income tax and related interest liabilities where we believe our position may not be sustained. Such amounts are disclosed in Note 5 in our Annual Report on Form 10-K for the year-ended December 31, 2011. There have been nominal changes to our tax positions during the first nine months of fiscal 2012.

Impairment of Long-Lived Assets

We consider whether there were indicators of potential impairment on a quarterly basis. Indicators of impairment include current period losses combined with a history of losses, management's decision to exit a facility, reductions in the fair market value of real properties and changes in other circumstances that indicate the carrying amount of an asset may not be recoverable.

Our evaluation of long-lived assets is performed at the lowest level of identifiable cash flows, which is generally the individual distribution facility. In the event of indicators of impairment, the assets of the distribution facility are evaluated by comparing the facility's undiscounted cash flows over the estimated useful life of the asset, which ranges between 5-40 years, to its carrying value. If the carrying value is greater than the undiscounted cash flows, an impairment loss is recognized for the difference between the carrying value of the asset and the estimated fair market value. Impairment losses are recorded as a component of "Selling, general and administrative" expenses in the Consolidated Statements of Operations.

Our estimate of undiscounted cash flows is subject to assumptions that affect estimated operating income at a distribution facility level. These assumptions are related to future sales, margin growth rates, economic conditions, market competition and inflation. In the event that undiscounted cash flows do not exceed the carrying value of a facility, our estimates of fair market value are generally based on market appraisals and our experience with related market transactions. We use a two year average of cash flows based on 2012 net income before interest and tax expense, depreciation and amortization expense, and other non-cash charges ("EBITDA") and 2013 projected EBITDA, which includes a growth factor assumption, to estimate undiscounted cash flows. These assumptions used to determine impairment are considered to be level 3 measurements in the fair value hierarchy as defined in Note 13 of the Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

No impairment indicators appear to be present that would result in material reductions to our December 31, 2011 projected undiscounted cash flows, which exceeded our carrying value in all cases during the performance of our December 31, 2011 impairment analysis.

During the first quarter of fiscal 2011 our Newtown, Connecticut facility was damaged due to severe winter weather. As a result of the damage to the facility and its contents we have received approximately $5.8 million in proceeds from the insurance company comprised of $2.2 million related to the damaged building, $2.4 million related to damaged and destroyed inventory and $1.2 million related to the recovery of additional expenses incurred as a result of the damage. Cash received related to the damaged building was classified as an investing cash inflow in our Consolidated Statement of Cash Flows for the fiscal year ended December 31, 2011 and used to reduce the principal of our mortgage, which was classified as a financing cash outflow. All other cash inflows related to the insurance

settlement were classified as operating cash flows in our Consolidated Statement of Cash Flows in the appropriate period. The majority of the remaining cash inflows were used to fund costs incurred related to the Newtown loss. We recognized a $1.4 million gain in fiscal 2011 of which $1.2 million related to the damaged building and $0.2 million related to the recovery of gross margin on the inventory. We recorded an additional gain of $0.5 million related to the damaged building during the second quarter of 2012. We recorded all gains related to the events above at the time the recovery of the minimum expected proceeds under our insurance policy became probable and was estimable. These gains were recorded in "Selling, general and administrative expenses" in our Consolidated Statement of Operations.

Self-Insurance

It is our policy to self-insure, up to certain limits, traditional risks including workers' compensation, comprehensive general liability, and auto liability. Our self-insured deductible for each claim involving workers' compensation and auto liability is limited to $0.8 million and $2.0 million, respectively. Our self-insured retention for each claim involving comprehensive general liability (including product liability claims) is limited to $0.8 million. We are also self-insured up to certain limits for certain other insurable risks, primarily physical loss to property ($0.1 million per occurrence) and the majority of our medical benefit plans ($0.3 million per occurrence). Insurance coverage is maintained for catastrophic property and casualty exposures as well as those risks required to be insured by law or contract. A provision for claims under this self-insured program, based on our estimate of the aggregate liability for claims incurred, is revised annually. The estimate is derived from both internal and external sources including but not limited to actuarial estimates. The actuarial estimates are subject to uncertainty from various sources, including, among others, changes in claim reporting patterns, claim settlement patterns, judicial decisions, legislation, and economic conditions. Although we believe that the actuarial estimates are reasonable, significant differences related to the items noted above could materially affect our self-insurance obligations, future expense and cash flow. At September 29, 2012 and December 31, 2011, the self-insurance reserves totaled $8.0 million and $7.6 million, respectively.

New Accounting Standards

In May 2011, the FASB issued guidance which amends existing GAAP fair value measurement and disclosure guidance to converge GAAP and International Financial Reporting Standards requirements for measuring amounts at fair value as well as disclosures about these measurements. This guidance is effective during interim and annual periods beginning after December 15, 2011. This guidance did not have a material impact on our financial statements and disclosures.

In June 2011, the FASB issued guidance which eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. The update also requires the presentation of a single statement of comprehensive income or consecutive presentation of the statement of income and the statement of comprehensive income, if a company elects to present two separate statements. Finally, reclassification adjustments from other comprehensive income to net income are required to be presented on the face of the financial statements. The new guidance and subsequent amendment are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. We have formally adopted this guidance during fiscal 2012 and presented the total of comprehensive income (loss), the components of net income (loss) and the components of other comprehensive income (loss) in a single continuous statement on the face of the Consolidated Statements of Operations and Comprehensive Income (Loss).

There were no other accounting pronouncements adopted during the first nine months of 2012 that had a material impact on our financial statements.

Reclassifications

During fiscal 2012, we classified certain amounts, which had historically been presented as "Property, plant and equipment investments" in the "Cash flows from investing activities" section of the Consolidated Statements of Cash Flows to "Other" changes in the "Cash flows from operating activities" section of the Consolidated Statements of Cash Flows. To conform the historical presentation to the current and future presentation, we reclassified similar items in prior periods from "Net cash (used in) provided by investing activities" to "Net cash used in operating activities" in our Consolidated Statements of Cash Flows.

3.Restructuring Charges

We account for exit and disposal costs by recognizing a liability for costs associated with an exit or disposal activity at fair value in the period in which it is incurred or when the entity ceases using the right conveyed by a contract (i.e., the right to use a leased property). These costs are included in "Selling, general, and administrative" expenses in the Consolidated Statements of Operations for the first nine months of fiscal 2012 and the first nine months of fiscal 2011, and "Other current liabilities" and "Other non-current liabilities" on the Consolidated Balance Sheets at September 29, 2012 and December 31, 2011.

We account for severance and outplacement costs by recognizing a liability for employees' rights to post-employment benefits. These costs are included in "Selling, general, and administrative" expenses in the Consolidated Statements of Operations for the first nine months of fiscal 2012 and the first nine months of fiscal 2011, and in "Accrued compensation" on the Consolidated Balance Sheets for the periods ended September 29, 2012 and December 31, 2011.

2007 Facility Consolidation and Severance Costs

During fiscal 2007, we announced a plan to adjust our cost structure in order to manage our costs more effectively. The plan included the consolidation of our corporate headquarters and sales center to one building from two buildings and reduction in force initiatives, which resulted in initial charges of $17.1 million during the fourth quarter of fiscal 2007.

As of September 29, 2012 and December 31, 2011, there was no remaining accrued severance related to reduction in force initiatives completed in fiscal 2007.

During the third quarter of fiscal 2011, we entered into an amendment to our corporate headquarters lease in Atlanta, Georgia related to the unoccupied 4100 building. This amendment released us from our obligations with respect to this unoccupied space as of January 31, 2012, in exchange for a $5.0 million space remittance fee, which was paid in the first quarter of 2012. We also paid $0.9 million in the third quarter of fiscal 2012 and are obligated to pay an additional $0.3 million on or before December 31, 2013 related to contractually obligated tenant improvement reimbursement expense. The provisions relating to the occupied 4300 building remain unchanged. Under the existing provisions, the current term of the lease ends on January 31, 2019. The amendment resulted in a reduction of our restructuring reserve of approximately $2.0 million, with the credit recorded in "Selling, general, and administrative" expenses in the Consolidated Statements of Operations during the twelve month period ended December 31, 2011.

The table below summarizes the balance of accrued facility consolidation reserve and changes in the accrual for the third quarter of fiscal 2012 (in thousands):

Balance at June 30, 2012	$1,115
Assumption changes	48
Payments	(875)
Accretion of liability	9
Balance at September 29, 2012	$297

The table below summarizes the balance of accrued facility consolidation reserve and changes in the accrual for the first nine months of fiscal 2012 (in thousands):

Balance at December 31, 2011	$6,337
Assumption changes	(30)
Payments	(6,084)
Accretion of liability	74
Balance at September 29, 2012	$297

4.Assets Held for Sale and Net Gain on Disposition

We have certain facilities that we have designated as assets held for sale. At the time of designation, we ceased recognizing depreciation expense on these assets. As of September 29, 2012 and December 31, 2011, total assets held for sale were $1.6 million and $2.3 million respectively, and were included in "Other current assets" in our Consolidated Balance Sheets. During the third quarter of fiscal 2012 and the first nine months of fiscal 2012, we sold certain real properties held for sale that resulted in gains of $9.2 million and $9.7 million, respectively. These gains were recorded in "Selling, general, and administrative" expenses in the Consolidated Statements of Operations. The gain recorded during the third quarter of fiscal 2012 related to the sale of our Newark, California location, which was designated as held for sale during the second fiscal quarter of 2012. At the time this location was classified as held for

sale, we recorded the net book value of $6.6 million in Other current assets in our Consolidated Balance Sheet. We plan to relocate in the surrounding area to continue servicing the immediate market. We continue to actively market the remaining properties that are held for sale.

5.Employee Benefits

Defined Benefit Pension Plans

Most of our hourly employees participate in noncontributory defined benefit pension plans. These include a plan that is administered solely by us (the “hourly pension plan”) and union-administered multiemployer plans. Our funding policy for the hourly pension plan is based on actuarial calculations and the applicable requirements of federal law. We believe that our portion of each multiemployer pension plan is immaterial to our financial statements and that we represent an immaterial portion of the total contributions and future obligations of these plans. The Company’s required cash contribution to the pension plan in fiscal 2012 is approximately $3.5 million. This contribution is comprised of approximately $1.1 million related to our 2011 minimum required contribution and approximately $2.4 million related to our 2012 minimum required contribution. The Company’s minimum required contribution for plan year 2012 is $3.8 million. The 2012 minimum required cash contribution is required to be paid in fiscal 2012 and fiscal 2013. The Company has funded the $1.1 million required contribution for fiscal 2011. However, in an effort to preserve additional cash for operations, we have requested a waiver from the IRS for our 2012 minimum required contribution. If we are granted the requested waiver, our contribution for 2012 will be deferred and amortized over the next five years, increasing our future minimum required contributions. Benefits under the majority of plans for hourly employees (including multiemployer plans) are primarily related to years of service.

Net periodic pension cost for our pension plans included the following (in thousands):

	Third Quarter Period from July 1, 2012 to September 29, 2012	Period from July 3, 2011 to October 1, 2011
Service cost	$ 469	$ 523
Interest cost on projected benefit obligation	1,221	1,152
Expected return on plan assets	(1,224)	(1,376)
Amortization of unrecognized loss	519	145
Net periodic pension cost	$ 985	$ 444

	Nine Months Ended Period from January 1, 2012 to September 29, 2012	Period from January 2, 2011 to October 1, 2011
Service cost		