NCI BUILDING SYSTEMS INC
Form 10-Q
March 11, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended February 1, 2015

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 x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). x Yes ¨ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ¨ Yes x No

APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date.

Common Stock, $.01 par value - 73,772,569 shares as of March 5, 2015.

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PART I — FINANCIAL INFORMATION

Item 1. Unaudited Consolidated Financial Statements.

NCI BUILDING SYSTEMS, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

	February 1, 2015 (Unaudited)	November 2, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$ 50,716	$ 66,651
Restricted cash	980	—
Accounts receivable, net	146,160	136,923
Inventories, net	165,626	131,497
Deferred income taxes	21,769	21,447
Income tax receivable	2,439	—
Prepaid expenses and other	29,159	22,773
Investments in debt and equity securities, at market	5,392	5,549
Assets held for sale	5,690	5,690
Total current assets	427,931	390,530
Property, plant and equipment, net	275,395	244,714
Goodwill	195,070	75,226
Intangible assets, net	135,464	44,923
Deferred financing costs, net	12,395	3,290
Total assets	$ 1,046,255	$ 758,683
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 2,384	$ 2,384
Note payable	—	418
Accounts payable	128,122	118,164
Accrued compensation and benefits	61,661	50,666
Accrued interest	2,812	1,820
Other accrued expenses	75,330	72,259
Total current liabilities	270,309	245,711
Long-term debt, net	482,407	233,003

Deferred income taxes	23,924	20,219
Other long-term liabilities	21,493	13,208
Total long-term liabilities	527,824	266,430
Stockholders’ equity:		
Common stock, $.01 par value, 100,000,000 shares authorized; 74,022,303 and 73,769,095 shares issued at February 1, 2015 and November 2, 2014, respectively; 73,699,295 and 73,530,295 shares outstanding at February 1, 2015 and November 2, 2014, respectively	740	737
Additional paid-in capital	633,975	630,297
Accumulated deficit	(371,870)	(371,550)
Accumulated other comprehensive income (loss), net	(9,003)	(8,739)
Treasury stock, at cost (323,008 and 238,800 shares at February 1, 2015 and November 2, 2014, respectively)	(5,720)	(4,203)
Total stockholders’ equity	248,122	246,542
Total liabilities and stockholders’ equity	$ 1,046,255	$ 758,683

See accompanying notes to consolidated financial statements.

NCI BUILDING SYSTEMS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

	Fiscal Three Months Ended	
	February 1, 2015	February 2, 2014
Sales	$ 322,926	$ 310,666
Cost of sales, excluding gain on insurance recovery	250,787	252,428
Gain on insurance recovery	—	(987)
Gross profit	72,139	59,225
Engineering, selling, general and administrative expenses	62,869	61,380
Strategic development and acquisition related costs	1,729	—
Restructuring costs	1,477	—
Intangible asset amortization	1,493	1,013
Income (loss) from operations	4,571	(3,168)
Interest income	7	26
Interest expense	(3,987)	(3,126)
Foreign exchange loss	(1,401)	(701)
Other income, net	—	205
Loss before income taxes	(810)	(6,764)
Benefit from income taxes	(490)	(2,506)
Net loss	$ (320)	$ (4,258)
Loss per common share:		
Basic	$ (0.00)	$ (0.06)
Diluted	$ (0.00)	$ (0.06)
Weighted average number of common shares outstanding:		
Basic	73,070	73,515
Diluted	73,070	73,515

See accompanying notes to consolidated financial statements.

NCI BUILDING SYSTEMS, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(In thousands)

(Unaudited)

	Fiscal Three Months Ended	
	February 1, 2015	February 2, 2014
Comprehensive loss:		
Net loss	$ (320)	$ (4,258)
Other comprehensive loss, net of tax:		
Foreign exchange translation losses and other, net of taxes(1)	(264)	(265)
Other comprehensive loss	(264)	(265)
Comprehensive loss	$ (584)	$ (4,523)

(1) Foreign exchange translation losses and other are presented net of taxes of $0 in both of the three months ended February 1, 2015 and February 2, 2014.

See accompanying notes to the consolidated financial statements.

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 2, 2014	73,769,095	$ 737	$ 630,297	$ (371,550)	$ (8,739)	(238,800)	$ (4,203)	$ 246,542
Treasury stock purchases	—	—	—	—	—	(84,208)	(1,517)	(1,517)
Issuance of restricted stock	213,208	2	(2)	—	—	—	—	—
Stock options exercised	40,000	1	353	—	—	—	—	354
Excess tax benefits from share-based compensation arrangements	—	—	394	—	—	—	—	394
Foreign exchange translation loss and other, net of taxes	—	—	—	—	(264)	—	—	(264)
Share-based compensation	—	—	2,933	—	—	—	—	2,933
Net loss	—	—	—	(320)	—	—	—	(320)
Balance, February 1, 2015	74,022,303	$ 740	$ 633,975	$ (371,870)	$ (9,003)	(323,008)	$ (5,720)	$ 248,122

See accompanying notes to the consolidated financial statements.

NCI BUILDING SYSTEMS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Fiscal Three Months Ended	
	February 1, 2015	February 2, 2014
Cash flows from operating activities:		
Net loss	$(320)	$(4,258)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	9,731	8,767
Deferred financing cost amortization	113	288
Share-based compensation expense	2,933	3,179
Gain on insurance recovery	—	(987)
(Recovery of) provision for doubtful accounts	(149)	1,009
Provision for (benefit from) deferred income taxes	5,602	(2,564)
Excess tax benefits from share-based compensation arrangements	(394)	(1,583)
Changes in operating assets and liabilities, net of acquisition:		
Accounts receivable	28,395	22,713
Inventories	(6,021)	(15,521)
Income tax receivable	(1,374)	26
Prepaid expenses and other	(264)	(70)
Accounts payable	(17,949)	(39,345)
Accrued expenses	(22,521)	(5,498)
Other, net	7	(131)
Net cash used in operating activities	(2,211)	(33,975)
Cash flows from investing activities:		
Acquisition, net of cash acquired	(247,123)	—
Capital expenditures	(5,002)	(4,735)
Proceeds from insurance	—	987
Net cash used in investing activities	(252,125)	(3,748)
Cash flows from financing activities:		
Proceeds from stock options exercised	353	—
Issuance of debt	250,000	—
Payments on term loan	(596)	(600)
Payments on note payable	(417)	(482)
Proceeds from Amended ABL Facility	—	20,000
Payments on Amended ABL Facility	—	(20,000)

Payment of financing costs	(9,218)	(25)
Excess tax benefits from share-based compensation arrangements	394	1,583
Purchase of treasury stock	(1,517)	(23,325)
Net cash provided by (used in) financing activities	238,999	(22,849)
Effect of exchange rate changes on cash and cash equivalents	(598)	(265)
Net decrease in cash and cash equivalents	(15,935)	(60,837)
Cash and cash equivalents at beginning of period	66,651	77,436
Cash and cash equivalents at end of period	$ 50,716	$ 16,599

See accompanying notes to consolidated financial statements.

NCI BUILDING SYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FEBRUARY 1, 2015

(Unaudited)

NOTE 1 — BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements for NCI Building Systems, Inc. (together with its subsidiaries, unless otherwise indicated, the "Company," "NCI," "we," "us," or "our") have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, the unaudited consolidated financial statements included herein contain all adjustments, which consist of normal recurring adjustments, necessary to fairly present our financial position, results of operations and cash flows for the periods indicated. Operating results for the fiscal three month period ended February 1, 2015 are not necessarily indicative of the results that may be expected for the fiscal year ending November 1, 2015. Our sales and earnings are subject to both seasonal and cyclical trends and are influenced by general economic conditions, interest rates, the price of steel relative to other building materials, the level of nonresidential construction activity, roof repair and retrofit demand and the availability and cost of financing for construction projects.

We use a four-four-five week calendar each quarter with our fiscal year end being on the Sunday closest to October 31. The year end for fiscal 2015 is November 1, 2015.

Certain reclassifications have been made to prior period amounts to conform to the current presentation. The net effect of these reclassifications was not material to our consolidated financial statements.

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 2, 2014 filed with the Securities and Exchange Commission (the "SEC") on December 22, 2014.

NOTE 2 — 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, which includes $10.8 million of cash acquired and working capital adjustments. The purchase price is subject to a 60-day post-closing adjustment to net working capital as of the specified time and as defined in the Interest Purchase Agreement. The purchase price was funded through the issuance of $250.0 million of new indebtedness. See Note 13 — Long-Term Debt and Note Payable. CENTRIA is now a 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 period from January 16, 2015 to February 1, 2015, CENTRIA contributed revenue and operating income of $8.5 million and $(0.8) million, respectively. CENTRIA is a leader in the design, engineering and manufacturing of architectural insulated metal panel (“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. The unaudited pro forma financial information in the table below was prepared based on financial information for CENTRIA for the calendar months of November through January in each respective period prior to the acquisition, which correlates to the three-month period corresponding to our fiscal period. The unaudited pro forma financial information for the fiscal three months ended February 1, 2015 and February 2, 2014 give effect to the transaction as if it had occurred at the beginning of the earliest fiscal period presented.

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

The following table shows our unaudited pro forma financial information for the three months ended February 1, 2015 and February 2, 2014 (in thousands, expect per share amounts):

	Unaudited Pro Forma Fiscal Three Months Ended	
	February 1, 2015	February 2, 2014
Sales	$367,029	$358,134
Net loss	$(12,703)	$(16,705)
Loss per common share:		
Basic	$(0.17)	$(0.23)
Diluted	$(0.17)	$(0.23)

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed as part of the CENTRIA Acquisition as of January 16, 2015. The fair value of all assets acquired and liabilities assumed are preliminary and the final determination of any required acquisition method adjustments will be made upon the completion of our fair value assessments. We are currently completing our plans to functionally integrate the newly acquired operations into our existing operations. Additionally, as these plans are finalized, we may identify integration charges that are required to be recognized. As a result, the initial purchase price allocations may be adjusted for changes in estimates of the fair value of assets acquired and liabilities assumed.

(In thousands)	January 16, 2015
Current assets	$80,904
Property, plant and equipment	33,953
Intangible assets	92,030
Assets acquired	$206,887
Current liabilities	$62,578
Other liabilities	8,312
Liabilities assumed	$70,890
Fair value of net assets acquired	$135,997
Total consideration paid	255,841
Goodwill	$119,844

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

		Useful Lives
Backlog	$7,000	9 months
Trade names	15,620	15 years
Customer lists and relationships	69,410	20 years
	$92,030	

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

The excess of the purchase price over the fair values of assets acquired and liabilities assumed was allocated to goodwill. We currently include the results of the CENTRIA Acquisition in the metal components segment. However, we are currently evaluating our management reporting presentation, which may result in changes to our operating segment presentation in future periods. Goodwill of $119.8 million was recorded in our metal components segment. Additionally, because the entity acquired was treated as a partnership for tax purposes, the tax basis of the acquired assets and liabilities have been adjusted to their fair value and goodwill will be deductible for tax purposes.

For all of our intangibles, including those recently acquired as part of the CENTRIA Acquisition and from prior acquisitions, the weighted average estimated useful life is 20.2 years. We recognized $1.4 million in amortization expense for all intangibles dv403242uring the three months ended February 1, 2015. Total accumulated amortization was $25.1 million at February 1, 2015. We expect to recognize amortization expense over the next five fiscal years as follows (in millions):

February 1, 2015 to November 1, 2015	$11,969
2016	7,111
2017	7,111
2018	7,111
2019	7,111

NOTE 3 — ACCOUNTING PRONOUNCEMENTS

Adopted Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update (“ASU”) 2013-02, *Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*, which requires that companies present, either in a single note or parenthetically on the face of the financial statements, the effect of significant amounts reclassified from each component of accumulated other comprehensive income based on its source and the income statement line items affected by the reclassification. We adopted ASU 2013-02 in our first quarter in fiscal 2014. The adoption of ASU 2013-02 did not have any impact on our consolidated financial statements.

In July 2013, the FASB issued ASU 2013-11, Income Taxes (Topic 740): Presentation of Unrecognized Tax Benefit When a Net Operating Loss Carryforward, A Similar Tax Loss, or a Tax Credit Carryforward Exists (A Consensus of the FASB Emerging Issues Task Force). ASU 2013-11 requires an entity to present an unrecognized tax benefit as a reduction of a deferred tax asset for a net operating loss carryforward, or similar tax loss or tax credit carryforward, rather than as a liability when the uncertain tax position would reduce the net operating loss or other carryforward under the tax law of the applicable jurisdiction and the entity intends to use the deferred tax asset for that purpose. We adopted ASU 2013-02 prospectively for our first quarter in fiscal 2015. The adoption of ASU 2013-02 did not have a material impact on our consolidated financial statements.

Recent 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. This update is effective prospectively for our first quarter in fiscal 2016. Early adoption is permitted, but only for disposals (or classifications as held for sale) that have not been reported in previously issued financial statements. We are currently evaluating the potential impact of this authoritative guidance on our consolidated financial statements.

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. This guidance is effective for our first quarter in fiscal 2018 under either full or modified retrospective adoption. Early application is not permitted. 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.

NOTE 4 —RESTRUCTURING

During the first quarter of fiscal 2015, we approved a plan to consolidate our three engineered buildings systems manufacturing facilities in Tennessee, closing the Caryville facility. We have incurred severence costs at the Caryville facility of approximately $0.9 million during the first quarter of fiscal 2015. We expect to complete the closing of the Caryville facility during March 2015. In addition, we incurred severance related costs of $0.6 million in the metal components segment, primarily in an effort to streamline our management and manufacturing structure to better serve our customers. The following table summarizes our restructuring plan costs and charges related to the restructuring plan during the fiscal three months ended February 1, 2015 (in thousands):

	Fiscal Three Months Ended February 1, 2015	Cost Incurred To Date	Remaining Anticipated Cost	Total Anticipated Cost
General severance	$ 606	$ 606	$ —	$ 606
Plant closing severance	$ 871	$ 871	$ 396	$ 1,267
Total restructuring costs	$ 1,477	$ 1,477	$ 396	$ 1,873

NOTE 5 — GAIN ON INSURANCE RECOVERY

On August 6, 2013, our metal coil coating segment facility in Jackson, Mississippi experienced a fire caused by an exhaust fan failure that damaged the roof and walls of two curing ovens. The ovens were repaired and operations resumed in September 2013. In the first quarter of fiscal 2014, we received $1.0 million from insurance proceeds, which have been separately stated as "Gain on insurance recovery" on our consolidated statement of operations. These insurance proceeds were used to purchase and install assets to rebuild the roof and walls of the affected assets. The new assets were capitalized and depreciated over their estimated useful life of 10 years.

NOTE 6 — RESTRICTED CASH

We have entered into a cash collateral agreement with PNC Bank to secure existing CENTRIA letters of credit until they expire. The restricted cash is invested in a bank account with PNC Bank as the secured party. As of February 1, 2015, we had restricted cash in the amount of $1.0 million as collateral related to our $1.0 million of letters of credit for international projects with CENTRIA, exclusive of letters of credit under our Amended ABL Facility. See Note 13 — Long-Term Debt to the consolidated financial statements for more information on the material terms of our Amended

ABL Facility. Restricted cash as of February 1, 2015 is classified as current as the underlying letters of credit expire within one year of the respective balance sheet date. The letters of credit are not expected to be renewed upon expiration.

NOTE 7 — INVENTORIES

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

	February 1, 2015	November 2, 2014
Raw materials	$117,417	$ 93,367
Work in process and finished goods	48,209	38,130
	$165,626	$ 131,497

NOTE 8 — 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) is $5.7 million at both February 1, 2015 and November 2, 2014 and these amounts are included in the engineered building systems segment. All of these assets continue to be actively marketed for sale at February 1, 2015.

Due to uncertainties in the estimation process, it is reasonably possible that actual results could differ from the estimates used in our historical analyses. 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 additional impairments if market conditions deteriorate.

NOTE 9 — SHARE-BASED COMPENSATION

Our 2003 Long-Term Stock Incentive Plan ("Incentive Plan") is an equity-based compensation plan that allows us to grant a variety of types of awards, including stock options, restricted stock, restricted stock units, stock appreciation rights, performance share units ("PSUs"), phantom stock awards, long-term incentive awards with performance conditions ("Performance Share Awards") and cash awards. As of February 1, 2015 and February 2, 2014, 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 over three 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 2014, we granted long-term incentive awards with a three-year performance period to our senior executives ("2014 Executive Awards"). 40% of the value of the long-term incentive awards will consist of time-based restricted stock and 60% of the value of the award will consist of PSUs. The restricted stock is time-vesting based on continued employment, with two-thirds of the restricted stock vesting on December 15, 2016 and one-third vesting on December 15, 2017. The PSUs vest based on the achievement of performance goals and continued employment, with one-half of the award vesting on December 15, 2016 and the remaining one-half vesting on December 15, 2017. The PSU performance goals will be 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 on 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, are forfeited and cancelled. If a change in control of NCI occurs prior to the end of the performance period, the PSU payout is 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 is unvested, then all of the unvested restricted stock shall become vested. If an executive's employment is terminated by NCI without cause or after reaching normal retirement age, the unvested restricted stock is forfeited. If a change in control of NCI occurs prior to the end of the performance period, the restricted stock fully vests.

The fair value of the 2014 Executive Awards is based on the Company's stock price as of the date of grant. A portion of the compensation cost of the 2014 Executive Awards is based on the probable outcome of the performance conditions associated with the respective shares, as determined by management. During the three months ended February 1, 2015, we granted PSUs with a fair value of approximately $3.9 million.

The fair value of restricted stock awards classified as equity awards is based on the Company's stock price as of the date of grant. During the three months ended February 1, 2015 and February 2, 2014, we granted time-based restricted stock awards with a fair value of $4.1 million, representing 237,177 shares, and $2.6 million, representing 147,424 shares, respectively.

Also in December 2014, we granted Performance Share Awards to our key employees that will be paid 50% in cash and 50% in stock ("2014 Key Employee Awards"). The final number of 2014 Key Employee Awards earned for these awards granted in December 2014 will be based on the achievement of free cash flow and earnings per share targets over a three-year performance period. These 2014 Key Employee Awards cliff vest three years from the date of grant and will be earned based on the performance against the pre-established targets for the requisite service period. The 2014 Key Employee Awards also vest earlier upon death, disability or a change of control. However, a portion of the 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 2014 Key Employee Awards is based on the Company's stock price as of the date of grant. Compensation cost is recorded based on the probable outcome of the performance conditions associated with the respective shares, as determined by management. During the three months ended February 1, 2015, we granted 2014 Key Employee Awards with an equity fair value of $1.5 million and a cash value of $1.7 million.

During the three month periods ended February 1, 2015 and February 2, 2014, we recorded stock-based compensation expense for all awards of $2.9 million and $3.2 million, respectively. During the three month periods ended February 1, 2015 and February 2, 2014, we granted 10,543 and 5,058 stock options, respectively, and the grant-date fair value of options granted during the three month periods ended February 1, 2015 and February 2, 2014 was $7.91 and $9.09, respectively. There were 40,000 options exercised during the three months ended February 1, 2015. Cash received from the option exercises was $0.4 million during the three months ended February 1, 2015. The actual tax benefit realized for the tax deductions from option exercises totaled $0.1 million for the three months ended February 1, 2015.

NOTE 10 — 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	
	February 1, 2015	February 2, 2014
Numerator for Basic and Diluted Loss Per Common Share[1]:		
Net loss	$(320)	$(4,258)
Denominator for Basic and Diluted Loss Per Common Share		
Weighted average basic number of common shares outstanding	73,070	73,515
Basic loss per common share	$(0.00)	$(0.06)
Diluted loss per common share	$(0.00)	$(0.06)

(1) Participating securities consist of the unvested restricted Common Stock related to our Incentive Plan. These participating securities do not have a contractual obligation to share in losses; therefore, no losses were allocated in the three months ended February 1, 2015 and February 2, 2014. The Unvested Common Stock related to our Incentive Plan will be allocated earnings when applicable.

We calculate earnings (loss) per share using the "two-class" method, whereby unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents are "participating securities" and, therefore, these participating securities are treated as a separate class in computing earnings (loss) per share. There was no income amount attributable to unvested restricted stock for both the three month periods ended February 1, 2015 and February 2, 2014, as the unvested restricted stock does not contractually share in the net losses. However, in periods of net income allocated to common shares, a portion of this income will be allocable to the unvested restricted stock.

For the three month period ended February 1, 2015 and February 2, 2014, all outstanding options, PSUs and Performance Share Awards were anti-dilutive and, therefore, not included in the diluted loss per common share calculation.

NOTE 11 — WARRANTY

We sell weathertightness warranties to our customers for protection from leaks in our roofing systems related to weather. These warranties range from two years to 20 years. We sell two types of warranties, standard and Single Source™, and three grades of coverage for each. The type and grade of coverage determines the price to the customer. For standard warranties, our responsibility for leaks in a roofing system begins after 24 consecutive leak-free months. For Single Source™ warranties, the roofing system must pass our inspection before warranty coverage will be issued. Inspections are typically performed at three stages of the roofing project: (i) at the project start-up; (ii) at the project mid-point; and (iii) at the project completion. These inspections are included in the cost of the warranty. If the project requires or the customer requests additional inspections, those inspections are billed to the customer. Upon the sale of a warranty, we record the resulting revenue as deferred revenue, which is included in other accrued expenses in our consolidated balance sheets.

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

	Fiscal Three Months Ended	
	February 1, 2015	February 2, 2014
Beginning balance	$23,685	$22,673
Warranties sold	359	871
Revenue recognized	(566)	(471)
Other[(1)]	2,357	—
Ending balance	$25,835	$23,073

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(1) Represents the preliminary 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 terms from five to twenty 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.

NOTE 12 — 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. In accordance with ASC 805, we quantified the projected benefit obligation and fair value of the plan assets of the RCC Pension Plan and recorded the difference between these two amounts as an assumed liability.

The following table sets forth the components of the net periodic benefit cost (in thousands):

	Fiscal Three Months Ended February 1, 2015

Interest cost	$ 483
Expected return on assets	(551)
Prior service cost amortization	(2)
Unrecognized net loss	361
Net periodic benefit cost	$ 291

During the three months ended February 1, 2015, we contributed $0.2 million to the RCC Pension Plan. We expect to contribute an additional $1.0 million to the RCC Pension Plan for the remainder of fiscal 2015.

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"). Benefits under the CENTRIA Benefit Plans are calculated based on fixed amounts for each year of service rendered. CENTRIA has historically sponsored postretirement medical and life insurance plans that cover certain of its employees and their spouses. The contributions to the plans by retirees vary from none to 25% of the total premiums paid. 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.

Currently, our policy is to fund the CENTRIA Benefit Plans as required by minimum funding standards of the Internal Revenue Code.

In accordance with ASC Topic 805, *Business Combinations*, we are in the process of remeasuring the projected benefit obligation and fair value of the plan assets of the CENTRIA Benefit Plans. The difference between these two amounts will be recorded as an assumed liability in the allocation of the purchase price. We have preliminarily used the December 31, 2014 actuarial reports to estimate the fair value of the projected benefit obligation and plan assets. The recognition of the net pension asset or liability in the allocation of the purchase price eliminates any previously unrecognized gain or loss and prior service cost. Actuarial assumptions below are based on the December 31, 2014 actuarial report.

The following table sets forth the preliminary funded status of the CENTRIA Benefit Plans and the amounts recognized in the condensed consolidated balance sheet (in thousands):

	Pension Benefits December 31, 2014	Other Benefits December 31, 2014
Fair value of assets	$ 14,137	$ —
Benefit obligation	13,847	8,153
Funded status and net amount recognized	$ 290	$ (8,153)

Actuarial assumptions used for the CENTRIA Benefit Plans were as follows:

	Pension Benefits December 31, 2014	Other Benefits December 31, 2014
Assumed discount rate	3.85 %	3.50 %
Expected rate of return on plan assets	7.75 %	N/A

The CENTRIA Benefit Plans weighted-average asset allocations by asset category are as follows:

	December 31, 2014
Equity mutual funds	83 %
Debt securities	17 %
Total	100 %

We expect the following benefit payments to be made, which reflect expected future service, as appropriate (in thousands):

Years Ended December 31	Pension Benefits	Other Benefits