BlueLinx Holdings Inc.
Form 10-Q
November 01, 2006

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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 30, 2006

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer o Accelerated filer þ Non-accelerated filer o

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

As of October 30, 2006 there were 30,886,983 shares of BlueLinx Holdings Inc. common stock, par value $0.01, outstanding.

BLUELINX HOLDINGS INC.
Form 10-Q
For the Quarterly Period Ended September 30, 2006
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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

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

	Third Quarter	
	Period from July 2, 2006 to September 30, 2006	Period from July 3, 2005 to October 1, 2005
Net sales	$ 1,203,578	$ 1,454,217
Cost of sales	1,082,672	1,317,180
Gross profit	120,906	137,037
Operating expenses:		
Selling, general, and administrative	99,615	97,926
Depreciation and amortization	5,217	4,993
Total operating expenses	104,832	102,919
Operating income	16,074	34,118
Non-operating expenses:		
Interest expense	12,046	11,216
Other income, net	(29)	(295)
Income before provision for income taxes	4,057	23,197
Provision for income taxes	1,765	9,301
Net income	$ 2,292	$ 13,896
Basic weighted average number of common shares outstanding	30,662	30,199
Basic net income per share applicable to common stock	$ 0.07	$ 0.46
Diluted weighted average number of common shares outstanding	30,782	30,493
Diluted net income per share applicable to common stock	$ 0.07	$ 0.46
Dividends declared per share of common stock	$ 0.125	$ 0.125

See accompanying notes.

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BLUELINX HOLDINGS INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except share and per share data)
(unaudited)

	Nine Months Ended	
	Period from January 1, 2006 to September 30, 2006	Period from January 2, 2005 to October 1, 2005
Net sales	$ 3,959,134	$ 4,292,812
Cost of sales	3,571,833	3,920,766
Gross profit	387,301	372,046
Operating expenses:		
Selling, general, and administrative	295,004	277,309
Depreciation and amortization	15,323	13,793
Total operating expenses	310,327	291,102
Operating income	76,974	80,944
Non-operating expenses:		
Interest expense	35,505	31,206
Charges associated with mortgage refinancing	4,864	
Other (income) expense, net	(17)	58
Income before provision for income taxes	36,622	49,680
Provision for income taxes	14,925	19,615
Net income	$ 21,697	$ 30,065
Basic weighted average number of common shares outstanding	30,576	30,180
Basic net income per share applicable to common stock	$ 0.71	$ 1.00
Diluted weighted average number of common shares outstanding	30,762	30,459
Diluted net income per share applicable to common stock	$ 0.71	$ 0.99
Dividends declared per share of common stock	$ 0.375	$ 0.375

See accompanying notes.

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BLUELINX HOLDINGS INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except per share data)

	September 30, 2006 (unaudited)	December 31, 2005
Assets:		
Current assets:		
Cash	$ 24,182	$ 24,320
Receivables, net	435,052	399,093
Inventories, net	471,229	473,068
Deferred income taxes	8,204	6,678
Other current assets	46,904	44,909
Total current assets	985,571	948,068
Property, plant, and equipment:		
Land and land improvements	56,979	56,521
Buildings	95,291	93,381
Machinery and equipment	61,362	54,200
Construction in progress	1,506	2,350
Property, plant, and equipment, at cost	215,138	206,452
Accumulated depreciation	(34,605)	(22,403)
Property, plant, and equipment, net	180,533	184,049
Other non-current assets	28,412	25,523
Total assets	$ 1,194,516	$ 1,157,640
Liabilities:		
Current liabilities:		
Accounts payable	$ 252,451	$ 327,004
Bank overdrafts	68,569	62,392
Accrued compensation	12,679	13,494
Current maturities of long-term debt	71,008	
Other current liabilities	14,897	15,195
Total current liabilities	419,604	418,085
Non-current liabilities:		
Long-term debt	561,500	540,850
Deferred income taxes	1,241	1,911
Other long-term liabilities	14,815	12,942
Total liabilities	997,160	973,788
Shareholders Equity:		

Common Stock, $0.01 par value, 100,000,000 shares authorized; 30,866,544 and 30,251,019 shares issued and outstanding at September 30, 2006 and December 31, 2005, respectively		311		303
Additional paid-in-capital		137,066		132,346
Accumulated other comprehensive income (loss)		(361)		1,023
Retained earnings		60,340		50,180
Total shareholders equity		197,356		183,852
Total liabilities and shareholders equity	$	1,194,516	$	1,157,640

See accompanying notes.

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

	Nine Months Ended	
	Period from January 1, 2006 to September 30, 2006	Period from January 2, 2005 to October 1, 2005
Cash flows from operating activities:		
Net income	$ 21,697	$ 30,065
Adjustments to reconcile net income to cash provided by (used in) operations:		
Depreciation and amortization	15,323	13,793
Amortization of debt issue costs	2,018	2,704
Write-off of unamortized debt financing costs	4,864	
Deferred income tax benefit	(1,876)	(1,027)
Stock-based compensation	2,209	1,701
Changes in assets and liabilities:		
Receivables	(33,396)	(158,401)
Inventories	5,961	91,976
Accounts payable	(74,959)	54,485
Changes in other working capital	(3,368)	(10,911)
Other	(2,237)	3,998
Net cash provided by (used in) operating activities	(63,764)	28,383
Cash flows from investing activities:		
Acquisitions, net of cash acquired	(9,353)	(17,021)
Property, plant and equipment investments	(7,267)	(10,034)
Proceeds from sale of assets	465	814
Net cash used in investing activities	(16,155)	(26,241)
Cash flows from financing activities:		
Issuance of common stock, net		8,541
Proceeds from stock options exercised	1,744	151
Excess tax benefits from stock-based compensation	882	49
Net increase (decrease) in revolving credit facility	(38,342)	1,834
Proceeds from new mortgage	295,000	
Debt financing costs	(6,668)	(570)
Retirement of old mortgage	(165,000)	
Prepayment fees associated with old mortgage	(2,475)	
Increase in bank overdrafts	6,177	11,920
Common stock dividends paid	(11,537)	(11,319)

Net cash provided by financing activities		79,781		10,606
Increase (decrease) in cash		(138)		12,748
Balance, beginning of period		24,320		15,572
Balance, end of period	$	24,182	$	28,320

See accompanying notes.

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BLUELINX HOLDINGS INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
SEPTEMBER 30, 2006

1. Basis of Presentation and Background

Basis of Presentation

BlueLinx Holdings Inc. has prepared the accompanying Unaudited Condensed 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, 2005, 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 2005 contained 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 Condensed 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 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 were created on March 8, 2004 as a Georgia corporation named ABP Distribution Holdings Inc. On May 7, 2004, we and our operating subsidiary acquired the assets of the Building Products Distribution Division (the Distribution Division) of Georgia-Pacific Corporation (Georgia-Pacific), pursuant to an asset purchase agreement. On August 30, 2004, ABP Distribution Holdings Inc. merged into BlueLinx Holdings Inc., a Delaware corporation.

We are a leading distributor of building products in North America with more than 3,400 employees. We offer approximately 10,000 products from over 750 suppliers to service more than 12,000 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 more than 70 warehouses.

2. Summary of Significant Accounting Policies

Earnings per Common Share

Basic and diluted earnings per share are computed by dividing net income by the weighted average number of common shares outstanding for the period. 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 and restricted stock using the treasury stock method.

Common Stock Dividends

On February 14, 2006, our Board of Directors declared a quarterly dividend of $0.125 per share on our common stock. The dividend was paid on March 31, 2006, to shareholders of record as of March 15, 2006. Our controlling shareholder, Cerberus ABP Investor LLC (Cerberus), received a dividend of approximately $2.3 million as a result of its ownership of 18,100,000 shares of our common stock as of the record date.

On May 3, 2006, our Board of Directors declared a quarterly dividend of $0.125 per share on our common stock. The dividend was paid on June 30, 2006, to shareholders of record as of June 15, 2006. Our controlling shareholder, Cerberus, received a dividend of approximately $2.3 million as a result of its ownership of 18,100,000 shares of our common stock as of the record date.

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On August 8, 2006, our Board of Directors declared a quarterly dividend of $0.125 per share on our common stock. The dividend was paid on September 29, 2006, to shareholders of record as of September 15, 2006. Our controlling shareholder, Cerberus, received a dividend of approximately $2.3 million as a result of its ownership of 18,100,000 shares of our common stock as of the record date.

Stock-Based Compensation

We have two stock-based compensation plans covering officers, directors and certain employees and consultants; the 2004 Long Term 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.

The 2004 Plan provides for the grant of nonqualified stock options, incentive stock options for shares of our common stock and restricted shares of our common stock to participants of the plan selected by our Board of Directors or a committee of the Board who administer the 2004 Plan. We reserved 2,222,222 shares of common stock for issuance under the 2004 Plan. The terms and conditions of awards under the 2004 Plan are determined by the administrator for each grant.

Unless otherwise determined by the administrator or as set forth in an award agreement, upon a Liquidity Event, all unvested awards will become immediately exercisable and the administrator may determine the treatment of all vested awards at the time of the Liquidity Event. A Liquidity Event is defined as (1) an event in which any person who is not an affiliate of us becomes the beneficial owner, directly or indirectly, of fifty percent or more of the combined voting power of our then outstanding securities or (2) the sale, transfer or other disposition of all or substantially all of our business, whether by sale of assets, merger or otherwise, to a person other than Cerberus.

On May 12, 2006 our shareholders approved the 2006 Plan. The 2006 Plan permits the grant of nonqualified stock options, incentive stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, performance units, cash-based awards, and other stock-based awards. We reserved 1,700,000 shares of our common stock for issuance under the 2006 Plan. The terms and conditions of awards under the 2006 Plan are determined by the administrator for each grant. Awards issued under the 2006 Plan are subject to accelerated vesting in the event of a change in control as such event is defined in the 2006 Plan.

On June 5, 2006, the Board of Directors Compensation Committee granted certain of our executive officers awards in the form of restricted shares of our common stock and options to purchase shares of our common stock. Additionally, the Board granted certain other key employees restricted stock units equivalent in cash value to restricted shares with respect to our common stock. The stock option and restricted stock awards were granted pursuant to and are subject to the terms of the 2006 Plan. The restricted stock unit awards were granted pursuant to the terms of the 2006 Long-Term Incentive Plan for Key Senior Managers.

The stock option awards vest over a five year term, with 20% of the award vesting each January 3rd after the grant date.

The restricted stock and restricted stock unit awards vest on June 5, 2011, five years after the grant date. However, the awards may vest earlier in their entirety (or portion, as appropriate) upon the attainment of certain minimum performance goals. Upon vesting of all or any portion of the restricted stock units, we will pay a cash amount equivalent to the fair market value of the shares of our common stock. The fair market value will be determined on the date when the award vests.

On January 1, 2006, we adopted Statement of Financial Accounting Standards (SFAS) 123R, *Share-Based Payment*, using the modified prospective transition method. Prior to 2006, we accounted for stock awards granted to employees under SFAS No. 123, *Accounting for Stock-Based Compensation*. Generally, the approach in SFAS No. 123R is similar to the approach described in SFAS No. 123. However, SFAS No. 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure will no longer be an alternative.

Under the modified prospective transition method, compensation expense recognized in the third quarter included: (a) compensation expense for all unvested share-based awards granted prior to January 1, 2006, based on the grant date fair value estimated in accordance with SFAS No. 123 and (b) compensation expense for all share-based awards granted subsequent to January 1, 2006, based on the grant date fair value estimated in accordance with SFAS No. 123R. Results of prior periods have not been restated.

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Through December 31, 2005, we accrued compensation expense assuming that all stock options granted were expected to vest. The effect of actual forfeitures was recognized as forfeitures occurred. Under SFAS No. 123R, we are required to estimate forfeitures in calculating the expense related to stock-based compensation. The adoption of SFAS No. 123R did not have a material impact on our results of operations.

Compensation expense arising from stock-based awards granted to employees and non-employee directors is recognized as expense using the straight-line method over the vesting period. As of September 30, 2006, there was $6.6 million, $1.8 million and $1.1 million of total unrecognized compensation expense related to stock options, restricted stock and restricted stock units. The unrecognized compensation expense for stock options is expected to be recognized over a period of 3.71 years.

For restricted stock and restricted stock units, the unrecognized compensation expense will be recognized over a period of 3.00 years. For the third quarter of fiscal 2006 and for the first nine months of fiscal 2006, our total stock-based compensation expense was $1.0 million and $2.2 million, respectively. We also recognized related income tax benefits of $0.4 million and $0.9 million for the third quarter of fiscal 2006 and for the first nine months of fiscal 2006, respectively.

For the third quarter of fiscal 2005 and for the first nine months of fiscal 2005, our total stock-based compensation expense was $0.3 million and $1.7 million, respectively. In addition, we recognized related income tax benefits of $0.1 million and $0.7 million for the third quarter of fiscal 2005 and for the first nine months of fiscal 2005, respectively.

Cash proceeds from the exercise of stock options totaled $0.3 million and $1.7 million for the third quarter of fiscal 2006 and for the first nine months of fiscal 2006, respectively. In addition, SFAS No. 123R requires us to reflect the benefits of tax deductions in excess of recognized compensation expense as both a financing cash inflow and an operating cash outflow upon adoption. We included $0.02 million and $0.9 million of excess tax benefits in cash flows from financing activities for the third quarter of fiscal 2006 and for the first nine months of fiscal 2006, respectively.

For the third quarter of fiscal 2005 and for the first nine months of fiscal 2005, cash proceeds from the exercise of stock options totaled $0.1 million and $0.2 million, respectively. In addition, we recognized related income tax benefits of $0.04 million and $0.05 million for the third quarter of fiscal 2005 and for the first nine months of fiscal 2005, respectively.

The following table depicts the weighted average assumptions used in connection with the Black-Scholes-Merton option pricing model to estimate the fair value of stock options granted during the third quarter of fiscal 2006:

	Period from July 2, 2006 to September 30, 2006 Time Based Options*
Risk free interest rate	5.05%
Expected dividend yield	4.20%
Expected life	7 years
Expected volatility	50%
Weighted average fair value	$ 4.14

* Exercise price exceeded market price at date of grant

There were no options granted during the third quarter of fiscal 2005.

The following table depicts the weighted average assumptions used in connection with the Black-Scholes-Merton option pricing model to estimate the fair value of stock options granted during the first nine months of fiscal 2006:

	Nine Months Ended September 30, 2006		
	Time Based Options*	**Time Based Options****	**Performance-Based Options*****
Risk free interest rate	4.36%	4.72%	4.60%
Expected dividend yield	4.43%	3.85%	3.19%
Expected life	7 years	7 years	1 year
Expected volatility	50%	50%	50%
Weighted average fair value	$3.69	$ 5.11	$ 11.47

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* Exercise price exceeded market price at date of grant.

** Exercise price equaled market price at date of grant.

*** Exercise price was less than the market price at date of grant.

The following table depicts the weighted average assumptions used in connection with the Black-Scholes-Merton option pricing model to estimate the fair value of stock options granted during the first nine months of fiscal 2005:

	Nine Months Ended October 1, 2005 Time Based Options*
Risk free interest rate	4.12%
Expected dividend yield	4.26%
Expected life	7 years
Expected volatility	45%
Weighted average fair value	$ 4.00

* Exercise price equaled market price at date of grant

All options granted during the first nine months of fiscal 2005 occurred during the second quarter.

In determining the expected life, we did not rely on our historical exercise data as it does not provide a reasonable basis upon which to estimate future expected lives due to limited experience of employee exercises. Instead, we followed a simplified method based on the vesting term and contractual term as permitted under SEC Staff Accounting Bulletin No. 107.

The expected volatility is based on the historical volatility of our common stock.

The range of risk-free rates used for the first nine months of fiscal 2006 and for the first nine months of fiscal 2005 was from 4.34% to 5.05% and 3.93% to 4.22%, respectively. These rates were based on the U.S. Treasury yield with a term that is consistent with the expected life of the stock options.

Performance-based options are those options that only vest upon achievement of certain financial targets established by the Board of Directors, or a committee thereof. On February 1, 2006, the Board of Directors set the financial target for performance-based options subject to vesting criteria in 2006.

Additional information related to our existing employee stock options for the period from July 2, 2006 to September 30, 2006, excluding performance-based options totaling 136,050 for which the financial targets have not been set, follows:

	Shares	Weighted Average Exercise Price
Options outstanding at December 31, 2005	1,695,682	$ 8.23
Options granted	667,705	12.25
Options exercised	(465,181)	3.75
Options forfeited	(57,902)	3.75
Options outstanding at September 30, 2006	1,840,304	10.95
Options exercisable at September 30, 2006	144,629	$ 4.57

	Outstanding			Exercisable	
Price Range	Number of Options	Weighted Average Exercise Price	Remaining Contractual Life (in Years)	Number of Options	Weighted Average Exercise Price
$ 3.75	448,437	$ 3.75	1.31	129,729	$ 3.75
$10.29 - $15.10	1,391,867	13.27	9.23	14,900	11.73
	1,840,304			144,629	

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The following tables summarize the activity for our restricted stock awards and restricted stock unit awards during the first nine months of fiscal 2006:

	Restricted Stock Awards	Weighted Average Grant Date Fair Value
Restricted stock awards at December 31, 2005		$
Granted	148,912	13.99
Vested		
Forfeited	(1,500)	14.01
Restricted stock awards outstanding at September 30, 2006	147,412	$ 13.99

	Restricted Stock Unit Awards	Weighted Average Grant Date Fair Value
Restricted stock unit awards at December 31, 2005		$
Granted	122,600	14.01
Vested		
Forfeited	(400)	14.01
Restricted stock unit awards outstanding at September 30, 2006	122,200	$ 14.01

The fair value of the restricted stock units will be marked-to-market each reporting period through the date of settlement. On September 30, 2006, the fair value of these awards was based on the closing price of our common stock of $9.52.

At September 30, 2006, the aggregate intrinsic value of stock-based awards outstanding and options exercisable was $5.2 million and $0.7 million, respectively (the intrinsic value of a stock-based award is the amount by which the market value of the underlying award exceeds the exercise price of the award). The intrinsic value of stock options exercised during the third quarter of fiscal 2006 and during the first nine months of fiscal 2006 was $0.5 million and $5.0 million, respectively. For the third quarter of fiscal 2005 and for the first nine months of fiscal 2005, the intrinsic value of stock options exercised was $0.3 million and $0.4 million, respectively.

3. Comprehensive Income

The calculation of comprehensive income is as follows (in thousands):

	Third Quarter	
	Period from July 2, 2006 to September 30, 2006	Period from July 3, 2005 to October 1, 2005
Net income	$ 2,292	$ 13,896
Other comprehensive income:		
Foreign currency translation, net of taxes	(6)	473
Unrealized loss from cash flow hedge, net of taxes	(2,112)	

Comprehensive income	$	174	$	14,369