BlueLinx Holdings Inc.
Form 10-Q
May 07, 2010

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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 April 3, 2010

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 o 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 smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer o	Accelerated filer o	Non-accelerated filer þ (Do not check if a smaller reporting company)	Smaller reporting company 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 May 7, 2010 there were 32,676,562 shares of BlueLinx Holdings Inc. common stock, par value $0.01, outstanding.

BLUELINX HOLDINGS INC.
Form 10-Q
For the Quarterly Period Ended April 3, 2010
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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

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

	Period from January 3, 2010 to April 3, 2010	Period from January 4, 2009 to April 4, 2009
Net sales	$ 431,050	$ 407,111
Cost of sales	378,772	362,835
Gross profit	52,278	44,276
Operating expenses:		
Selling, general, and administrative	56,514	57,665
Depreciation and amortization	3,744	5,030
Total operating expenses	60,258	62,695
Operating loss	(7,980)	(18,419)
Non-operating expenses:		
Interest expense, net	7,315	8,117
Changes associated with the ineffective interest rate swap	(805)	4,832
Write-off of debt issuance costs		1,407
Other expense (income), net	233	(157)
Loss before provision for income taxes	(14,723)	(32,618)
Provision for income taxes	16	28,035
Net loss	$ (14,739)	$ (60,653)
Basic and diluted weighted average number of common shares outstanding	30,587	31,083
Basic and diluted net loss per share applicable to common stock	$ (0.48)	$ (1.95)

See accompanying notes.

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

	April 3, 2010 (unaudited)	January 2, 2010
Assets:		
Current assets:		
Cash	$ 13,379	$ 29,457
Receivables, net	183,942	119,347
Inventories, net	198,799	173,185
Other current assets	18,888	44,970
Total current assets	415,008	366,959
Property, plant, and equipment:		
Land and land improvements	52,704	52,621
Buildings	96,509	96,145
Machinery and equipment	71,165	69,767
Construction in progress	564	791
Property, plant, and equipment, at cost	220,942	219,324
Accumulated depreciation	(85,008)	(82,141)
Property, plant, and equipment, net	135,934	137,183
Other non-current assets	38,806	42,704
Total assets	$ 589,748	$ 546,846
Liabilities:		
Current liabilities:		
Accounts payable	$ 85,938	$ 64,618
Bank overdrafts	37,185	27,232
Accrued compensation	5,181	4,879
Other current liabilities	23,058	22,508
Total current liabilities	151,362	119,237
Non-current liabilities:		
Long-term debt	366,334	341,669
Other non-current liabilities	34,785	35,120
Total liabilities	552,481	496,026
Shareholders Equity:		
Common Stock, $0.01 par value, 100,000,000 shares authorized; 32,676,562 and 32,179,253 shares issued at April 3, 2010 and January 2, 2010, respectively;	327	322

Additional paid-in-capital	145,490	145,035
Accumulated other comprehensive loss	(7,649)	(8,375)
Accumulated deficit	(100,901)	(86,162)
Total shareholders equity	37,267	50,820
Total liabilities and shareholders equity	$ 589,748	$ 546,846

See accompanying notes.

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

	Period from January 3, 2010 to April 3, 2010	Period from January 4, 2009 to April 4, 2009
Cash flows from operating activities:		
Net loss	$ (14,739)	$ (60,653)
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation and amortization	3,744	5,030
(Adjustment to) amortization of debt issuance costs	(73)	614
Payment from terminating the Georgia Pacific supply agreement	4,706	
Changes associated with ineffective interest rate swap	(805)	4,832
Write-off of debt issuance costs		1,407
Deferred income tax (benefit) provision	(207)	27,230
Share-based compensation expense	1,043	537
Decrease (increase) in restricted cash related to the ineffective interest rate swap, insurance, and other	5,882	(159)
Changes in assets and liabilities:		
Receivables	(64,595)	(26,137)
Inventories	(25,614)	11,385
Accounts payable	21,320	21,908
Changes in other working capital	22,879	(3,949)
Other	(134)	(428)
Net cash used in operating activities	(46,593)	(18,383)
Cash flows from investing activities:		
Property, plant and equipment investments	(409)	(166)
Proceeds from disposition of assets	149	421
Net cash (used in) provided by investing activities	(260)	255
Cash flows from financing activities:		
Repurchase of common stock	(583)	(792)
Increase (decrease) in the revolving credit facility	24,665	(60,000)
Payments on capital lease obligations	(402)	
Increase (decrease) in bank overdrafts	9,953	(8,531)
Increase in restricted cash related to the mortgage	(2,864)	(2,878)
Other	6	6
Net cash provided by (used in) financing activities	30,775	(72,195)
Decrease in cash	(16,078)	(90,323)
Balance, beginning of period	29,457	150,353

Balance, end of period	$	13,379	$	60,030

See accompanying notes.

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BLUELINX HOLDINGS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
APRIL 3, 2010

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 January 2, 2010, 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 2010 and fiscal year 2009 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 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 2,000 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 more than 70 warehouses and third-party operated warehouses.

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 collectibility 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. Revenue is recorded at the time of shipment for terms designated as FOB (free on board) shipping point. 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 remains 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. Adjustments to earnings resulting from revisions to estimates on discounts and returns have been insignificant for each of the reported periods.

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 $34.5 million and $37.5 million at April 3, 2010 and January 2, 2010, respectively. Restricted cash primarily includes amounts held in escrow related to our interest rate swap, 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 April 3, 2010 and January 2, 2010 (in thousands):

	April 3, 2010	January 2, 2010
Cash in escrow:		
Mortgage	$ 22,279	$ 19,415
Insurance	9,411	9,411
Interest rate swap	90	6,690
Other	2,726	2,008
Total	$ 34,506	$ 37,524

During fiscal 2009, we determined it to be appropriate to classify changes in restricted cash required under our mortgage in the financing section of our Consolidated Statements of Cash Flows. In order to conform historical presentation to the current and future presentations, we reclassified $2.9 million from net cash provided by operating activities to net cash used in financing activities for the first quarter of fiscal 2009 in our Consolidated Statements of Cash Flows.

Allowance for Doubtful Accounts and Related Reserves

We evaluate the collectibility 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 will ultimately 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 April 3, 2010 and January 2, 2010, these reserves totaled $8.3 million and $8.4 million, respectively. Adjustments to earnings resulting from revisions to estimates on discounts and uncollectible accounts have been insignificant.

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 April 3, 2010 and January 2, 2010, the market value of our inventory exceeded its cost. Adjustments to earnings resulting from revisions to lower of cost or market estimates have been insignificant.

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 April 3, 2010 and January 2, 2010, our damaged, excess and obsolete inventory reserves were $2.6 million. Adjustments to earnings resulting from revisions to damaged, excess and obsolete estimates have been insignificant.

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 and risk of loss remains with the vendor. When the inventory is sold, we are required to the 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 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 April 3, 2010 and January 2, 2010, the vendor rebate receivable totaled $4.5 million and $6.1 million, respectively. Adjustments to earnings resulting from revisions to rebate estimates have been insignificant.

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 April 3, 2010 and January 2, 2010, the customer rebate payable totaled $4.0 million and $5.3 million, respectively. Adjustments to earnings resulting from revisions to rebate estimates have been insignificant.

Earnings per Common Share

We calculate our basic earnings per share by dividing net income by the weighted average number of common shares and participating securities outstanding for the period. Restricted stock granted by us to certain management level employees participate in dividends on the same basis as common shares and are non-forfeitable by the holder. The unvested restricted stock contains non-forfeitable rights to dividends or dividend equivalents. As a result, these share-based awards meet the definition of a participating security and are included in the weighted average number of common shares outstanding, pursuant to the two-class method, for the periods that present net income. 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 shareholders. Given that the restricted shareholders 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 1,986,865 and 1,541,803 of unvested restricted shares that had the right to participate in dividends in our basic and dilutive calculations for the first quarter of fiscal 2010 and for the first quarter of fiscal 2009, respectively.

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 performance shares using the treasury stock method. During the first quarter of fiscal 2008, we granted up to 834,071 performance shares under our 2006 Long-Term Incentive Plan in which shares are issuable upon satisfaction of certain performance criteria. As of April 3, 2010, we assumed that a total of 246,827 performance shares will eventually vest based on our assumption that certain performance criteria will be met and that certain shares will be forfeited over the vesting term. The 246,827 performance shares we assume will vest were not included in the computation of diluted earnings per share due to the net loss for the period. We will continue to evaluate the effect of the performance conditions on our diluted earnings per share calculation and will change our assumptions when necessary. 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.

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As we experienced losses in all periods, basic and diluted loss per share are computed by dividing net loss by the weighted average number of common shares outstanding for the period. For the first quarter of fiscal 2010 and the first quarter of fiscal 2009, we excluded 3,162,006 and 2,748,826 unvested share-based awards, respectively, 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 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. 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 vesting of restricted stock, out of the total amount of common shares authorized for issuance under the 2004 Plan and the 2006 Plan. During the first quarter of fiscal 2010, the Compensation Committee granted 697,737 restricted shares of our common stock to certain of our officers.

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 first quarter of fiscal 2010 and for the first quarter of fiscal 2009, our total stock-based compensation expense was $1.2 million and $0.6 million, respectively. We also recognized related income tax benefits of $0 and $0.2 million, respectively.

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 positive and negative 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 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.

Based on the weight of available evidence during the first quarter of fiscal 2009, we recorded a full valuation allowance of $40.2 million against our net deferred tax assets. The establishment of this valuation allowance was partially offset by the tax benefit realized as a result of the first quarter fiscal 2009 pre-tax loss incurred by us and resulted in income tax expense of $28.0 million for the first quarter of fiscal 2009. During the remainder of fiscal 2009 the Company recorded a $21.7 million net current income tax receivable. The current income tax receivable recognized in the fourth quarter of fiscal 2009 resulted in a reduction to the deferred tax asset and the valuation allowance of $12.2 million. The remaining net deferred tax asset of approximately $28 million was further offset by the reversal of temporary difference during fiscal 2009 which resulted in a net deferred tax asset of $27.2 million with a valuation allowance of a corresponding amount as of January 2, 2010. We continued to consider all of the available positive and negative evidence during the first quarter of fiscal 2010 and based on the weight of available evidence, we recorded an additional deferred tax asset and valuation allowance of $5.7 million relating to our current period net operating losses, which resulted in a total net deferred tax asset of $32.9 million with a valuation allowance of a corresponding amount as of April 3, 2010.

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.

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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 January 2, 2010. There have been nominal changes to our tax positions during the first quarter of fiscal 2010.

Impairment of Long-Lived Assets

Long-lived assets, including property and equipment and intangible assets with definite useful lives, are reviewed for possible impairment whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable.

We evaluate our long-lived assets each quarter for indicators of potential impairment. 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 5-20 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. We use a historical average of income, with no growth factor assumption, to estimate undiscounted cash flows. Our estimates of fair market value are generally based on market appraisals and our experience with related market transactions. The assumptions used to determine impairment are considered to be level 3 measurements in the fair value hierarchy as defined in Note 9.

Although, we are currently experiencing an improvement in operating income, we continue to generate operating losses at some of our distribution facilities due to the ongoing depressed housing market. At the time of our most recent impairment analysis, we had approximately $36 million, out of the $137.2 million in net book value as of January 2, 2010, in fixed assets for which the undiscounted cash flows were less than the carrying values of the assets. The fair value of these assets, primarily real estate, exceeded the carrying value by approximately $30 million. As such, we have not identified significant known trends impacting the fair value of long-lived assets to an extent that would indicate impairment.

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, comprehensive general liability (including product liability claims), and auto liability is limited to $0.8 million, $1.0 million, and $2.0 million, respectively. 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 and recorded 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 April 3, 2010 and January 2, 2010, the self-insurance reserves totaled $9.6 million and $9.2 million, respectively.

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). Our restructuring charges included accruals for estimated losses on facility costs based on our contractual obligations net of estimated sublease income based on current comparable market rates for leases. We reassess this liability periodically based on current market conditions. Revisions to our estimates of this liability could materially impact our operating results and financial position in future periods if anticipated events and key assumptions, such as the timing and amounts of sublease rental income, either do not materialize or change. These costs are included in Selling, general, and administrative expenses in the Consolidated Statements of Operations for the first quarter of fiscal 2010 and the first quarter of fiscal 2009, and Other current liabilities and Other non-current liabilities on the Consolidated Balance Sheets at April 3, 2010 and January 2, 2010.

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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 quarter of fiscal 2010 and the first quarter of fiscal 2009, and in Accrued compensation on the Consolidated Balance Sheets for the at April 3, 2010 and January 2, 2010.

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 charges of $17.1 million during the fourth quarter of fiscal 2007. As of April 3, 2010 and January 2, 2010, there was no remaining accrued severance related to reduction in force initiatives completed in fiscal 2007.

The table below summarizes the balance of accrued facility consolidation reserve and changes in the accrual for the first quarter of fiscal 2010 (in thousands):

Balance at January 2, 2010	$	11,755
Payments		(536)
Accretion of discount used to calculate liability		202
Balance at April 3, 2010	$	11,421

2008 Facility Consolidation and Severance Costs

During fiscal 2008, our board of directors approved a plan to exit our custom milling operations in California primarily due to the impact of unfavorable market conditions on that business. The closure of the custom milling facilities resulted in facility consolidation charges of $2.0 million and severance and outplacement costs of $1.0 million. In addition, we executed other reduction in force initiatives which resulted in $4.2 million of severance. At April 3, 2010 and January 2, 2010, there was no remaining severance reserve.

The table below summarizes the balance of accrued facility consolidation reserve and changes in the accrual for the first quarter of fiscal 2010 (in thousands):

Balance at January 2, 2010	$	645
Payments		(293)
Sublease income		70
Other changes		(51)
Balance at April 3, 2010	$	371

2009 Facility Consolidations and Severance Costs

During fiscal 2009, we exited our BlueLinx Hardwoods facility in Austin, Texas to improve overall effectiveness and efficiency by consolidating these operations with our San Antonio and Houston branches. Our exit of the Austin facility resulted in a facility consolidation charge of $0.7 million. In addition, we recorded severance charges related to reduction in force initiatives of $1.8 million.

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The table below summarizes the balances of the accrued facility consolidation and severance reserves and the changes in the accruals for the first quarter of fiscal 2010 (in thousands):

	Facility Consolidation	Severance Costs	Total
Balance at January 2, 2010	$ 571	$ 151	$ 722
Charges	11	43	54
Payments	(47)	(147)	(194)
Balance at April 3, 2010	$ 535	$ 47	$ 582

4. Comprehensive Loss

The calculation of comprehensive loss is as follows:

	Period from January 3, 2010 to April 3, 2010	Period from January 4, 2009 to April 4, 2009
Net loss	$ (14,739)	$ (60,653)
Other comprehensive income:		
Foreign currency translation	397	(141)
Unrealized gain from cash flow hedge, net of taxes	329	3,231
Comprehensive loss	$ (14,013)	$ (57,563)

For the first quarter of fiscal 2010 and the first quarter of fiscal 2009, the income tax expense related to our interest rate swap were $0.2 million and $2.1 million, respectively.

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 are required to make a $2.5 million contribution to the hourly pension plan in fiscal 2010. 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:

	Period from January 3, 2010, to April 3, 2010	Period from January 4, 2009 to April 4, 2009
	(In thousands)	
Service cost	$ 498	$ 452
Interest cost on projected benefit obligation	1,186	1,125
Expected return on plan assets	(1,232)	(1,132)
Amortization of unrecognized loss	123	180

Net periodic pension cost	$	575	$	625

6. Revolving Credit Facility

As of April 3, 2010, we had outstanding borrowings of $80.7 million and excess availability of $186.2 million under the terms of our revolving credit facility. The interest rate on the revolving credit facility was 3.2% at April 3, 2010. The contractual maturity date of the revolving credit facility is May 7, 2011.

Based on borrowing base limitations, we classify the lowest projected balance of the credit facility over the next twelve months of $80.7 million as long-term debt. As of April 3, 2010 and January 2, 2010, we had outstanding letters of credit totaling $11.3 million and $6.0 million, respectively, primarily for the purposes of securing collateral requirements under the interest rate swap, casualty insurance programs and for guaranteeing payment of international purchases based on the fulfillment of certain conditions. Our revolving credit facility contains customary negative covenants and restrictions for asset based loans. The only covenant we deem material is a requirement that we maintain a fixed charge ratio of 1.1 to 1.0 in the event our excess availability falls below $40.0 million. The fixed charge ratio is calculated as EBITDA over the sum of cash payments for income taxes, interest expense, cash dividends, principal payments on debt, and capital expenditures. EBITDA is defined as BlueLinx Corporation s net income before interest and tax expense, depreciation and amortization expense, and other non-cash charges. The fixed charge ratio requirement only applies to us when excess availability under our revolving credit facility is less than $40.0 million for three consecutive business days. As of April 3, 2010, we were in compliance with all covenants. We had $186.2 million and $157.1 million of availability as of April 3, 2010 and January 2, 2010, respectively. Our lowest level of availability in the last three years was $157.1 million as of January 2, 2010. We do not anticipate our excess availability will drop below $40.0 million in the foreseeable future.

Under our revolving credit facility agreement, we maintain a springing lock-box arrangement where customer remittances go directly to a lock-box maintained by our lenders and then are forwarded to our general bank accounts. Our outstanding borrowings are not reduced by these payments unless our excess availability is less than $40.0 million for three consecutive business days or in the event of default. Our revolving credit facility does not contain a subjective acceleration clause which would allow our lenders to accelerate the scheduled maturities of our debt or to cancel our agreement.

During the first quarter of fiscal 2009, we elected to permanently reduce our revolving loan threshold limit from $800 million to $500 million. The reduction in the revolving loan threshold limit does not impact our available borrowing capacity under our revolving credit facility as our current eligible accounts receivable and inventory (our borrowing base) do not support up to $800 million in borrowings. We do not anticipate our borrowing base will support borrowings in excess of $500 million at any point during the remaining life of the credit facility. This cost-saving initiative allowed us to reduce our interest expense by $0.8 million annually by lowering our unused line fees. As a result of this action, we recorded expense of $1.4 million for the write-off of deferred financing costs that had been capitalized associated with the borrowing capacity that was reduced during the first quarter of fiscal 2009.

7. Mortgage

On June 9, 2006, certain special purpose entities that are wholly-owned subsidiaries of ours entered into a $295 million mortgage loan with the German American Capital Corporation. The mortgage has a term of ten years and is secured by 55 distribution facilities and 1 office building owned by the special purpose entities. The stated interest rate on the mortgage is fixed at 6.35%. German American Capital Corporation assigned half of its interest in the mortgage loan to Wachovia Bank, National Association.

The mortgage loan requires interest-only payments through June 2011. The balance of the loan outstanding at the end of ten years will then become due and payable. The principal will be paid in the following increments (in thousands):

2011	$ 1,190
2012	3,054
2013	3,309
2014	3,529
2015	