NCI BUILDING SYSTEMS INC
Form 10-K
January 11, 2007
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended October 29, 2006

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 77064

(Address of principal executive offices and zip code)

(281) 897 7788

(Registrant s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $0.01 par value	New York Stock Exchange
Rights to purchase Series A Junior Preferred Stock	New York Stock Exchange

Securities registered pursuant to section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No þ

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 ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K ¨

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.

Large accelerated filer þ Accelerated filer ¨ Non-accelerated filer ¨

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

The aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant on April 28, 2006, was $1,308,580,994, which aggregate market value was calculated using the closing sales price reported by the New York Stock Exchange as of the last day of the registrant s most recently completed second fiscal quarter.

The number of shares of common stock of the registrant outstanding on January 3, 2007 was 20,098,363.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information required by Part III of this Annual Report is incorporated by reference from the registrant s definitive proxy statement for its annual meeting of shareholders to be held on March 9, 2007.

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FORWARD LOOKING STATEMENTS

This Annual Report includes statements concerning our expectations, beliefs, plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements that are not historical facts. These statements are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Actual results may differ materially from those expressed or implied by these statements. In some cases, our forward-looking statements can be identified by the words anticipate, believe, continue, could, estimate, exp forecast, goal, intend, may, objective, plan, potential, predict, projection, should, will or other similar words. We have base statements on our management s beliefs and assumptions based on information available to our management at the time the statements are made. We caution you that assumptions, beliefs, expectations, intentions and projections about future events may and often do vary materially from actual results. Therefore, we cannot assure you that actual results will not differ materially from those expressed or implied by our forward-looking statements. Accordingly, investors are cautioned not to place undue reliance on any forward-looking information, including any earnings guidance. Although we believe that the expectations reflected in the forward-looking statements are reasonable, these expectations and the related statements are subject to risks, uncertainties, and other factors that could cause the actual results to differ materially from those projected. These risks, uncertainties, and other factors include, but are not limited to:

- industry cyclicality and seasonality and adverse weather conditions;
- fluctuations in customer demand and other patterns;

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raw material pricing;

financial condition of our raw material suppliers;

competitive activity and pricing pressure;

the ability to make strategic acquisitions accretive to earnings;

general economic conditions affecting the construction industry; and

other risks detailed under the caption Risk Factors in Item 1A of this report.

We expressly disclaim any obligations to release publicly any updates or revisions to these forward-looking statements to reflect any changes in our expectations.

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PART I

Item 1. Business.

General

NCI Building Systems, Inc. (together with its subsidiaries and predecessors, unless the context requires otherwise, the Company, we, us or our, is one of North America s largest integrated manufacturers and marketers of metal products for the nonresidential construction industry. We operate 44 manufacturing facilities located in 17 states, Mexico and Canada. We sell metal components, engineered building systems and metal coil coating services, offering one of the most extensive metal product lines in the building industry with well-recognized brand names. We believe that our leading market positions and strong track record of growth and profitability have resulted from our focus on:

- controlling operating and administrative costs;
- managing working capital and fixed assets;
- developing new markets and products; and
- successfully identifying strategic growth opportunities.

We believe that metal products have gained and continue to gain a greater share of the new nonresidential construction, repair and retrofit markets. This is due to increasing acceptance and recognition of the benefits of metal products in building applications. Metal products and components offer builders, designers, architects and end users several advantages, including lower long-term costs, longer life, attractive aesthetics and design flexibility. Similarly, engineered building systems offer a number of advantages over traditional construction alternatives, including shorter construction time, more efficient use of materials, lower construction costs, greater ease of expansion and lower maintenance costs.

We have a history of making acquisitions within our industry, and we regularly evaluate growth opportunities both through acquisitions and internal investment. We believe that there are numerous opportunities for growth through consolidation in the metal buildings and components industry, and our goal is to continue to grow through strategic acquisitions, as well as organically. In furtherance of this strategy, on April 7, 2006, we closed the acquisition of Robertson-Ceco Corporation (RCC). We acquired 100% of the issued and outstanding shares of RCC for a cash purchase price of $366.6 million. RCC is now our subsidiary, and the results of RCC s operations on and after April 7, 2006 are included in our consolidated financial statements.

RCC operates the Ceco Building Systems, Star Building Systems and Robertson Building Systems divisions and is a leader in the metal buildings industry. This transaction has created an organization with greater product and geographic diversification, a stronger customer base and a more extensive distribution network than either company had separately. We have realized synergies as a result of this acquisition and expect to realize significant additional synergies going forward as we complete the integration of RCC. The specific areas that we are focused on include:

- retaining and expanding our customer base;
- consolidating and leveraging our procurement activities for steel, paint and fasteners;

consolidating RCC s light gauge painting requirement into our light gauge painting lines within our coating business unit;

suspending RCC s post painting process in favor of our pre-painted process within our metal coil coating business unit;

selling our product lines such as architectural products, Long Bay® Systems (LBS), Insulated Panel Systems (IPS) and commercial/industrial doors through RCC builder network;

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rationalizing product design and specifications in order to incorporate RCC s plants in our hub and spoke delivery system ; and

migrating RCC s engineering systems to our engineered building systems business unit.

We also evaluate from time to time possible dispositions of assets or businesses when such assets or businesses are no longer core to our operations and do not fit into our long-term strategy. Consistent with our growth strategy, we frequently engage in discussions with potential sellers regarding the possible purchase by us of businesses, assets and operations that are strategic and complementary to our existing operations. Such assets and operations include engineered building systems and metal components, but may also include assets that are closely related to, or intertwined with, these business lines, and enable us to leverage our asset base, knowledge base and skill sets. Such acquisition efforts may involve participation by us in processes that have been made public, involve a number of potential buyers and are commonly referred to as auction processes, as well as situations in which we believe we are the only party or one of the very limited number of potential buyers in negotiations with the potential seller. These acquisition efforts often involve assets that, if acquired, would have a material effect on our financial condition and results of operations.

The Company was founded in 1984 and we reincorporated in Delaware in 1991. In 1998, we acquired Metal Building Components, Inc. and doubled our revenue base. With the merger, we became the largest domestic manufacturer of nonresidential metal components. Our principal offices are located at 10943 North Sam Houston Parkway West, Houston, Texas 77064, and our telephone number is (281) 897 7788.

We file annual, quarterly and current reports and other information with the Securities and Exchange Commission (the SEC). Our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, along with any amendments to those reports, are available free of charge at our corporate website at *http://www.ncilp.com* as soon as practicable after such material is electronically filed with, or furnished to, the SEC. In addition, our website includes other items related to corporate governance matters, including our corporate governance guidelines, charters of various committees of our board of directors and the code of business conduct and ethics applicable to our employees, officers and directors. You may obtain copies of these documents, free of charge, from our corporate website. However, the information on our website is not incorporated by reference into this Form 10-K.

Business Segments

We have divided our operations into three reportable segments: metal components, engineered building systems and metal coil coating, based upon similarities in product lines, manufacturing process, marketing and management of our business. Products of all three segments use the same basic raw materials. Our metal components segment sales include metal roof and wall systems, metal partitions, metal trim, doors and other related accessories. The engineered building systems segment includes the manufacturing of main frames and Long Bay® Systems, and includes value-added engineering and drafting, which are typically not part of metal components or metal coil coating products or services. Metal coil coating consists of cleaning, treating and painting continuous steel coils before the steel is fabricated for use by construction and industrial users. Our sales to outside customers, operating income and total assets attributable to these business segments were as follows for the fiscal years indicated (in thousands):

	2004		2005		2006	
Sales:						
Metal components	$ 608,836	56%	$ 653,717	58%	$ 771,200	49%
Engineered building systems	436,332	40	474,368	42	822,963	52
Metal coil coating	234,886	22	232,648	20	278,814	18
Intersegment sales	(195,191)	(18)	(230,667)	(20)	(302,495)	(19)
Total net sales	$ 1,084,863	100%	$ 1,130,066	100%	$ 1,570,482	100%

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	2004		2005		2006	
Operating income:						
Metal components	$ 74,385	12%	$ 76,410	12%	$ 91,998	12%
Engineered building systems	33,679	8	47,678	10	71,962	9
Metal coil coating	26,444	11	20,157	9	24,948	9
Corporate	(37,532)		(39,775)		(51,621)	
Total operating income (% of sales)	$ 96,976	9%	$ 104,470	9%	$ 137,287	9%
Unallocated other expense	22,319		8,259		18,255	
Income before income taxes	$ 74,657		$ 96,211		$ 119,032	
Total assets as of fiscal year end 2005 and 2006:						
Metal components			$ 360,793	36%	$ 374,233	29%
Engineered building systems			250,653	25	684,213	52
Metal coil coating			155,009	16	193,050	15
Corporate			223,764	23	52,747	4
Total assets			$ 990,219	100%	$ 1,304,243	100%

Metal Components. We are one of the largest domestic suppliers of metal components to the nonresidential building industry. We design, manufacture, sell and distribute one of the widest selections of components for a variety of new construction applications as well as for repair and retrofit uses.

We market our metal components products nationwide primarily through a direct sales force under several brand names. These brand names include Metal Building Components (MBCI), American Building Components (ABC), Doors and Building Components (DBCI), NCI M Depots, Able Doors, Heritage Building Systems (Heritage) and Steelbuilding.com.

Engineered Building Systems. We are one of the largest domestic suppliers of engineered building systems. We design, engineer, manufacture and market engineered building systems and self-storage building systems for all non-residential markets including commercial, industrial, agricultural, governmental and community. We market these systems nationwide through authorized builder networks totaling over 3,800 active builders and a direct sales force under several brand names. These brand names include Metallic, Mid-West Steel, A & S, All American, Steel Systems, Mesco, Ceco Building Systems, Star Building Systems and Robertson Building Systems.

Metal Coil Coating. We provide products and services, including cleaning, treating and painting of various flat-rolled metal coil substrates and the slitting/embossing of painted coils. We clean, treat and coat hot roll and light gauge metal coils for our own use in our other two business segments, supplying substantially our entire internal metal coil coating requirements. In fiscal 2006, our internal use accounted for approximately 55% of our production. We also clean, treat and coat hot roll metal coils and light gauge metal for third parties for a variety of applications, including construction products, heating and air conditioning systems, water heaters, lighting fixtures and office furniture. We market our metal coil coating services nationwide under the brand names Metal Coaters, Metal-Prep and DOUBLECOTE. In 2007, the DOUBLECOTE brand name will be re-branded as Metal Coaters.

Industry Overview

The building industry encompasses a broad range of metal products, principally composed of steel, sold through a variety of distribution channels for use in diverse applications. These metal products include metal components and engineered building systems.

Metal Components. Manufacturers of metal components supply products to the building industry. These products include metal roof and wall systems, metal partitions, metal trim, doors and other related accessories.

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These products are used in new construction and in repair and retrofit applications for industrial, commercial, institutional, agricultural and rural uses. Metal components are used in a wide variety of construction applications, including purlins and girts, roofing, standing seam roofing, walls, doors, trim and other parts of traditional buildings, as well as in architectural applications and engineered building systems. Although precise market data is limited, we estimate the metal components market including roofing applications to be a multi-billion dollar market. We believe that the metal components business is less affected by economic cycles than the engineered building systems business due to the use of metal components in repair and retrofit applications. We believe that metal products have gained and continue to gain a greater share of new construction and repair and retrofit markets due to increasing acceptance and recognition of the benefits of metal products in building applications.

Metal roofing accounts for a significant portion of the overall metal components market, but less than 10% of total roofing material expenditures. As a result, we believe that significant opportunities exist for metal roofing, with its advantages over conventional roofing materials, to increase its overall share of this market. Metal roofing systems have several advantages over conventional roofing systems, including the following:

Lower life cycle cost. The total cost over the life of metal roofing systems is lower than that of conventional roofing systems for both new construction and retrofit roofing. For new construction, the cost of installing metal roofing is greater than the cost of conventional roofing. Yet, the longer life and lower maintenance costs of metal roofing make the cost more attractive. For retrofit roofing, although installation costs are higher for metal roofing due to the need for a sloping support system, the lower ongoing costs more than offset the initial cost.

Increased longevity. Metal roofing systems generally last for 20 years without requiring major maintenance or replacement. This compares to five to 10 years for conventional roofs. The cost of leaks and roof failures associated with conventional roofing can be very high, including damage to building interiors and disruption of the functional usefulness of the building. Metal roofing prolongs the intervals between costly and time-consuming repair work.

Attractive aesthetics and design flexibility. Metal roofing systems allow architects and builders to integrate colors and geometric design into the roofing of new and existing buildings, providing an increasingly fashionable means of enhancing a building s aesthetics. Conventional roofing material is generally tar paper or a gravel surface, and building designers tend to conceal roofs made with these materials.

Engineered Building Systems. Engineered building systems consist of engineered structural members and panels that are fabricated and roll-formed in a factory. These systems are custom designed and engineered to

meet project requirements and then shipped to a construction site complete and ready for assembly with no additional field welding required. Engineered building systems manufacturers design an integrated system that meets applicable building code and designated end use requirements. These systems consist of primary structural framing, secondary structural members (purlins and girts) and metal roof and wall systems or conventional wall materials by others such as masonry and concrete tilt-up panels.

Over the last 25 years, engineered building systems have significantly increased penetration of the market for nonresidential low rise structures and are being used in a broad variety of other applications. According to the Metal Building Manufacturers Association (MBMA), reported domestic and export sales of engineered building systems by their members which represent a limited number of actual buildings manufactured for 2004 and 2005 totaled approximately $2.5 billion and $2.7 billion, respectively. Although final 2006 sales information is not yet available from the MBMA, we estimate that sales of engineered building systems continued to increase throughout 2006 as in 2005. We expect the upward trend in industry sales to continue in 2007 as nonresidential construction markets show ongoing improvements.

We believe the cost of an engineered building system generally represents approximately 20% to 30% of the total cost of constructing a building, which includes land cost, labor, plumbing, electrical, heating and air conditioning systems installation and interior finish. Technological advances in products and materials, as well as

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significant improvements in engineering and design techniques, have led to the development of structural systems that are compatible with more traditional construction materials. Architects and designers now often combine an engineered building system with masonry, concrete, glass and wood exterior facades to meet the aesthetic requirements of end users while preserving the inherent characteristics of engineered building systems. As a result, the uses for engineered building systems now include office buildings, showrooms, retail shopping centers, banks, schools, warehouses, factories, distribution centers, government buildings and community centers for which aesthetics and architectural features are important considerations of the end users.

In our marketing efforts, we generally emphasize the following characteristics of engineered building systems to distinguish them from other methods of construction:

Shorter construction time. In many instances, it takes less time to construct an engineered building than other building types. In addition, because most of the work is done in the factory, the likelihood of weather interruptions is reduced.

More efficient material utilization. The larger engineered building systems manufacturers use computer-aided analysis and design to fabricate structural members with high strength-to-weight ratios, minimizing raw materials costs.

Lower construction costs. The in-plant manufacture of engineered building systems, coupled with automation, allows the substitution of less expensive factory labor for much of the skilled on-site construction labor otherwise required for traditional building methods.

Greater ease of expansion. Engineered building systems can be modified quickly and economically before, during or after the building is completed to accommodate all types of expansion. Typically, an engineered building system can be expanded by removing the end or side walls, erecting new framework and adding matching wall and roof panels.

Lower maintenance costs. Unlike wood, metal is not susceptible to deterioration from cracking, rotting or insect damage. Furthermore, factory-applied roof and siding panel coatings resist cracking, peeling, chipping, chalking and fading.

Environmentally friendly. Our buildings utilize recycled steel materials and our roofing and siding utilize painted surfaces with high reflectance and emissivity, which help conserve energy and operating costs.

Metal Coil Coating. Metal coil coating consists of cleaning, treating and painting various flat rolled metal coil substrates, as well as slitting and/or embossing the painted coils, before the steel is fabricated for use by various industrial users. Light gauge and medium gauge steel coils that are painted, either for decorative or corrosion protection purposes, are used in the building industry by manufacturers of metal components and engineered building systems. In addition, these painted steel coils are used by manufacturers of other steel products, such as water heaters, lighting fixtures and ceiling grids.

According to information collected by the National Coil Coating Association and other market information available to us, we believe that approximately 4.5 million tons of light gauge steel and one million tons of hot rolled, medium gauge steel are coated in the United States annually.

Consolidation

Over the last several years, there has been consolidation in the metal components, engineered building systems and metal coil coating industries, which include many small local and regional firms. We believe that these industries will continue to consolidate, driven by the needs of manufacturers to increase manufacturing capacity, achieve greater process integration and add geographic diversity to meet customers product and delivery needs, improve production efficiency and manage costs. When beneficial to our long-term goals and strategy, we have sought to consolidate our business operations with other companies. The resulting synergies

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from these consolidation efforts have allowed us to reduce costs while continuing to serve our customers needs. In April 2006, we acquired 100% of the issued and outstanding shares of RCC. RCC operates the Robertson Building Systems, Ceco Building Systems and Star Building Systems divisions and is a leader in the metal buildings industry. In December 2004, we acquired Heritage and Steelbuilding.com and our joint venture partner s 49% interest in our Monterrey, Mexico manufacturing facility. For more information, see Acquisitions .

Products and Markets

Our product lines consist of metal components, engineered building systems and metal coil coating services.

Metal Components. Our metal components consist of individual components, including secondary structural framing, metal roof and wall systems and associated metal trims, we sell directly to contractors or end users for use in the building industry, including the construction of metal buildings. We also stock and market metal component parts for use in the maintenance and repair of existing buildings. Specific component products we manufacture include metal roof and wall systems, purlins, girts, partitions, header panels and related trim and screws. We believe we offer the widest selection of metal components in the building industry.

Purlins and girts are medium gauge, roll-formed steel components, which builders use for secondary structural framing. We custom produce purlins and girts for our customers and offer the widest selection of sizes and profiles in the United States. Metal roof and wall systems protect the rest of the structure and the contents of the building from the weather. They may also contribute to the structural integrity of the building.

Our metal roofing products are attractive and durable. We use standing seam roof technology to replace traditional built-up and single-ply roofs as well as to provide a distinctive look to new construction. We manufacture and design metal roofing systems for sales to regional metal building manufacturers, general contractors and subcontractors. We believe we have the broadest line of standing seam roofing products in the building industry. In addition, we have granted 15 licenses relating to our standing seam roof technology. Although metal roofing is somewhat more expensive than traditional roofing in up-front costs, its durability and low maintenance costs make metal roofing a lower cost roofing product after the first 10 years.

We manufacture roll-up and sectional overhead doors and sell interior and exterior walk doors for use in the self storage industry and metal and other buildings.

Engineered Building Systems. Engineered building systems consist of custom-engineered structural members and panels that are welded and roll-formed in a factory and shipped to a construction site complete and ready for assembly. We design an integrated engineered building system that meets customer specifications and allows easy on-site assembly by the builder or independent contractor. Engineered building systems typically consist of three systems:

Primary structural framing. Primary structural framing, fabricated from heavy-gauge plate steel, supports the secondary structural framing, roof, walls and all externally applied loads. Through the primary framing, the force of all applied loads is structurally transferred to the foundation.

Secondary structural framing. Secondary structural framing is designed to strengthen the primary structural framing and efficiently transfer applied loads from the roof and walls to the primary structural framing. Secondary structural framing consists of medium-gauge, roll-formed steel components called purlins and girts. Purlins are attached to the primary frame to support the roof. Girts are attached to the primary frame to support the walls.

Metal roof and wall systems. Metal roof and wall systems not only lock out the weather but may also contribute to the structural integrity of the overall building system. Roof and wall panels are fabricated from light-gauge, roll-formed steel in many architectural configurations.

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Accessory components complete the engineered building system. These components include doors, windows, specialty trims, gutters and interior partitions.

Our patented Long Bay® System allows for construction of metal buildings with bay spacings of up to 65 feet without internal supports. This compares to bay spacings of up to 30 feet under other engineered building systems. The Long Bay® System virtually eliminates all welding at the site, which significantly reduces erection time compared with conventional steel construction. Our patented Long Bay® System is designed for larger buildings that typically require less custom engineering and design than our other engineered building systems, which allows us to meet our customers needs more quickly.

Metal Coil Coating. Metal coil coating processes involve applying various types of chemical treatments and paint systems to flat rolled continuous coils of metal, including steel and aluminum. We provide our own light gauge metal coil coating products and services for use in metal component, door and engineered building systems manufacturing. We also pre-paint hot roll coils for our own use and other manufacturers of engineered building systems and metal components, as well as, light gauge steel coils for steel mills and metal service centers that supply the painted coils to various industrial users, including manufacturers of engineered building systems, metal components, lighting fixtures, ceiling grids, water heaters and other products.

Our metal coil coating operations apply a variety of paint systems to metal coils. The process generally includes cleaning, treating and painting the coil, and slitting and/or embossing it to customer specifications. We believe that pre-painted metal coils are a better quality product, environmentally cleaner and more cost-effective than painted metal products prepared in other manufacturers in-house painting operations. Painted metal coils also offer manufacturers the opportunity to produce a broader and more aesthetically pleasing range of products.

Sales, Marketing and Customers

Metal Components. We sell metal components directly to regional manufacturers, contractors, subcontractors, distributors, lumberyards, cooperative buying groups and other customers under the brand names MBCI, ABC, Insulated Panel Systems (IPS) and NCI Metal Depots. Roll-up doors, sectional doors, interior and exterior doors, interior partitions and walls, header panels and trim are sold directly to contractors and other customers under the brand DBCI or Able Doors. These components also are produced for integration into self storage and engineered building systems sold by us. We sell small custom-engineered metal buildings and components through three marketing channels targeting end-use consumers and small general contractors. We sell through NCI Metal Depots which has six retail stores in Texas and New Mexico, Heritage Building Systems which is a highly successful direct response, phone-based sales organization and Steelbuilding.com which allows customers to design, price and buy small metal buildings online.

We market our components products within five product lines: industrial, commercial, institutional, agricultural and rural.

Customers include small, medium and large contractors, specialty roofers, regional fabricators, regional engineered building fabricators and end users. Commercial and industrial businesses, including self-storage, are heavy users of metal components and metal buildings systems. Standing seam roof and architectural customers are emerging as an important part of our customer base. As metal buildings become a more acceptable building alternative and aesthetics become an increasingly important consideration for end users of metal buildings, we believe that architects will participate more in the design and purchase decisions and will use metal components to a greater extent. Wood frame builders also purchase our metal components through distributors, lumberyards, cooperative buying groups and chain stores for various uses, including agricultural buildings.

Our metal components sales operations are organized into four geographic regions. Each region is headed by a general sales manager supported by individual plant sales managers. Each local sales office is located adjacent to a manufacturing plant and is staffed by a direct sales force responsible for contacting customers and

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architects and a sales coordinator who supervises the sales process from the time the order is received until it is shipped and invoiced. The regional and local focus of our customers requires extensive knowledge of local business conditions. During fiscal 2006, our largest customer for metal components accounted for less than 1% of our total consolidated sales.

We provide our customers with product catalogs tailored to our product lines, which include product specifications and suggested list prices. Some of our catalogs are available on-line through the internet, which enables architects and other customers to download drawings for use in developing project specifications. Customers place orders via telephone or facsimile to a sales coordinator at the regional office where the sales coordinator enters it onto a standard order form. The form is then sent via computer to the plant and downloaded automatically to the production machines.

Engineered Building Systems. We sell engineered building systems to builders, general contractors, developers and end users nationwide under the brand names Metallic, Mid-West Steel, A & S, All American, Steel Systems, Mesco, Star Building Systems, Ceco Building Syste Robertson Building Systems. We market engineered building systems through an in-house sales force to authorized builder networks of over 3,800 active builders. We also sell engineered building systems to various private labels. During fiscal 2006, our largest customer for engineered building systems accounted for less than 1% of our total consolidated sales.

Our authorized builder networks consist of independent general contractors that market our products and services to end users. Most of our sales of engineered building systems are through our authorized builder networks. We enter into an agreement with an authorized builder, which generally grants the builder the non-exclusive right to market our products in a specified territory. The agreement is cancelable by either party on 60 days notice. The agreement does not prohibit the builder from marketing engineered building systems of other manufacturers. We establish an annual sales goal for each builder and provide the builder with sales and pricing information, drawings and assistance, application programs for estimating and quoting jobs and advertising and promotional literature. We also defray a portion of the builder s advertising costs and provide volume purchasing and other pricing incentives to encourage it to deal exclusively or principally with us. The builder is required to maintain a place of business in its designated territory, provide a sales organization, conduct periodic advertising programs and perform construction, warranty and other services for customers and potential customers. An authorized builder usually is hired by an end-user to erect an engineered building system on the customer s site and provide general contracting and other services related to the completion of the project. We sell our products to the builder, which generally includes the price of the building as a part of its overall construction contract with its customer. We rely upon maintaining a satisfactory business relationship for continuing job orders from our authorized builders and do not consider the builder agreements to be material to our business.

Our patented Long Bay® System provides us with an entry to builders that focus on larger buildings. This also provides us with new opportunities to cross-sell our other products to these new builders and to compete with the conventional construction industry.

We have a National Accounts program, which is designed to provide our builders with access to the largest corporate buyers, contractors and developers in the United States. We currently have a team of over 18 people, which includes a field sales force of five, who comprise our National Accounts group. We market our engineered building systems and our patented Long Bay® System under this program using multiple brand names.

Metal Coil Coating. We have a small number of national accounts for our metal coil coating products and services. Each of our metal coil coating facilities has its own sales manager and sales staff. We market our metal coil coating products under the brand names DOUBLECOTE, Metal Coaters and Metal-Prep and sell our products and services principally to manufacturers of painted steel products and steel mills, as well as to our own metal components and engineered building segments. During fiscal 2006, our largest customer accounted for approximately 1% of our total consolidated sales.

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Manufacture and Design

Metal Components. We operate 25 facilities in 14 states used for manufacturing of metal components for the nonresidential construction industry, including four facilities for our door operations. With the exception of our architectural and standing seam products, we are not involved in the design process for the components we manufacture. Our doors, interior partitions and other related panel and trim products are manufactured at dedicated plants in Georgia, Texas and Arizona. Some metal components are processed at the Texas and Georgia plants and sent to the appropriate plant, which is generally determined based upon the lowest shipping cost.

Metal component products are roll-formed or fabricated at each plant using roll-formers and other metal working equipment. In roll forming, pre-finished coils of steel are unwound and passed through a series of progressive forming rolls that form the steel into various profiles of medium-gauge structural shapes and light-gauge roof and wall panels.

Engineered Building Systems. We operate 14 facilities throughout North America, Monterey, Mexico and Hamilton, Ontario in Canada, for manufacturing and distributing engineered building systems. These facilities include seven facilities recently acquired as a result of the RCC acquisition. After we receive an order, our engineers design the engineered building system to meet the customer s requirements and to satisfy applicable building codes and zoning requirements. To expedite this process, we use computer-aided design and engineering systems to generate engineering and erection drawings and a bill of materials for the manufacture of the engineered building system. We employ approximately 317 engineers and draftsmen in this area. In addition to our employees, from time-to-time, depending on our volume, we outsource to third-parties portions of our drafting requirements.

Once the specifications and designs of the customer s project have been finalized, the manufacturing of frames and other building systems begins at one of our 12 frame manufacturing facilities. Fabrication of the primary structural framing consists of a process in which steel plates are punched and sheared and then routed through an automatic welding machine and sent through further fitting and welding processes. The secondary structural framing and the covering system are roll-formed steel products that are manufactured at our full manufacturing facilities as well as our components plants.

Upon completion of the manufacturing process, structural framing members and metal roof and wall systems are shipped to the job site for assembly. Since on-site construction is performed by an unaffiliated, independent general contractor, usually one of our authorized builders, we generally are not responsible for claims by end users or owners attributable to faulty on-site construction. The time elapsed between our receipt of an order and shipment of a completed building system has typically ranged from four to eight weeks, although delivery can extend somewhat longer if engineering and drafting requirements are extensive.

Metal Coil Coating. We operate five metal coil coating facilities in five states, two of which are used for hot rolled, medium gauge steel coils and three of which are used for painting light gauge steel coils. While these facilities primarily service our needs, we also process steel coils at these facilities for other customers. Metal coil coating processes involve applying various types of chemical treatments and paint systems to flat rolled continuous coils of metal, including steel and aluminum. These processes give the coils a baked-on finish that both protects the metal and makes it more attractive. In the initial step of the coating process, various metals in coil form are flattened, cleaned and pretreated. The metal is then coated, oven cured, cooled, recoiled and packaged for shipment. Slitting and embossing services in accordance with customer specifications can also be performed on the coated metal before shipping. Hot roll medium gauge steel coils are typically used in the production of secondary structural framing of metal buildings and other structural applications. Painted light gauge steel coils are used in the manufacture of products for building exteriors, metal doors, lighting fixtures, ceiling grids, water heaters and other products.

Raw Materials

The principal raw material used in manufacturing of our metal components and engineered building systems is steel. Our various products are fabricated from steel produced by mills including bars, plates, structural shapes,

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sheets, hot rolled coils and galvanized or galvalume-coated coils. During fiscal 2006, we purchased over 10% of our steel requirements from each of Mittal Steel USA and Nucor, or approximately 40% in the aggregate. No other steel supplier accounted for more than 10% of steel purchases during fiscal 2006. Although we believe concentration of our steel purchases among a small group of suppliers that have mills and warehouse facilities close to our facilities enables us, as a large customer of those suppliers, to obtain better pricing, service and delivery, loss of one or all of these suppliers could have a material adverse affect on our ability to obtain the raw materials required to meet delivery schedules to our customers (see Item 1A. Risk Factors). These suppliers generally maintain an inventory of the types of materials we require.