BlueLinx Holdings Inc.
Form 10-Q
August 06, 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 July 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 small 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 August 6, 2010 there were 32,701,062 shares of BlueLinx Holdings Inc. common stock, par value $0.01, outstanding.

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

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

	Second Quarter	
	Period from April 4, 2010 to July 3, 2010	Period from April 5, 2009 to July 4, 2009
Net sales	$ 540,781	$ 423,526
Cost of sales	476,662	375,226
Gross profit	64,119	48,300
Operating expenses:		
Selling, general, and administrative	57,089	50,852
Net gain from terminating the Georgia-Pacific supply agreement		(17,351)
Depreciation and amortization	3,434	4,241
Total operating expenses	60,523	37,742
Operating income	3,596	10,558
Non-operating expenses:		
Interest expense	8,205	8,506
Changes associated with the ineffective interest rate swap	(1,256)	1,078
Other expense, net	18	315
(Loss) income before provision for income taxes	(3,371)	659
Provision for income taxes	36	31
Net (loss) income	$ (3,407)	$ 628
Basic weighted average number of common shares outstanding	30,699	32,566
Basic net (loss) income per share applicable to common stock	$ (0.11)	$ 0.02
Diluted weighted average number of common shares outstanding	30,699	32,664
Diluted net (loss) income per share applicable to common stock	$ (0.11)	$ 0.02

See accompanying notes.

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

	Six Months Ended	
	Period from January 3, 2010 to July 3, 2010	Period from January 4, 2009 to July 4, 2009
Net sales	$ 971,831	$ 830,637
Cost of sales	855,434	738,061
Gross profit	116,397	92,576
Operating expenses:		
Selling, general, and administrative	113,603	108,517
Net gain from terminating the Georgia-Pacific supply agreement		(17,351)
Depreciation and amortization	7,178	9,271
Total operating expenses	120,781	100,437
Operating loss	(4,384)	(7,861)
Non-operating expenses:		
Interest expense	15,520	16,623
Changes associated with the ineffective interest rate swap	(2,061)	5,910
Write-off of debt issuance costs		1,407
Other expense, net	251	158
Loss before provision for income taxes	(18,094)	(31,959)
Provision for income taxes	52	28,066
Net loss	$ (18,146)	$ (60,025)
Basic and diluted weighted average number of common shares outstanding	30,643	31,054
Basic and diluted net loss per share applicable to common stock	$ (0.59)	$ (1.93)

See accompanying notes.

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

	July 3, 2010 (unaudited)	January 2, 2010
Assets:		
Current assets:		
Cash and cash equivalents	$ 18,821	$ 29,457
Receivables, net	201,569	119,347
Inventories, net	226,158	173,185
Other current assets	22,442	44,970
Total current assets	468,990	366,959
Property, plant, and equipment:		
Land and land improvements	52,515	52,621
Buildings	96,056	96,145
Machinery and equipment	71,357	69,767
Construction in progress	1,137	791
Property, plant, and equipment, at cost	221,065	219,324
Accumulated depreciation	(88,175)	(82,141)
Property, plant, and equipment, net	132,890	137,183
Other non-current assets	42,167	42,704
Total assets	$ 644,047	$ 546,846
Liabilities:		
Current liabilities:		
Accounts payable	$ 103,478	$ 64,618
Bank overdrafts	37,112	27,232
Accrued compensation	6,228	4,879
Current maturities of long-term debt	37,023	
Other current liabilities	19,625	22,508
Total current liabilities	203,466	119,237
Non-current liabilities:		
Long-term debt	373,333	341,669
Other non-current liabilities	32,880	35,120
Total liabilities	609,679	496,026
Shareholders Equity:		
Common Stock, $0.01 par value, 100,000,000 shares authorized; 32,701,062 and 32,179,253 shares issued at July 3, 2010 and January 2, 2010, respectively	327	322

Additional paid-in capital		146,416		145,035
Accumulated other comprehensive loss		(8,067)		(8,375)
Accumulated deficit		(104,308)		(86,162)
Total shareholders equity		34,368		50,820
Total liabilities and shareholders equity	$	644,047	$	546,846

See accompanying notes.

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

	Six Months Ended	
	Period from January 3, 2010 to July 3, 2010	Period from January 4, 2009 to July 4, 2009
Cash flows from operating activities:		
Net loss	$ (18,146)	$ (60,025)
Adjustments to reconcile net loss to net cash used in operations:		
Depreciation and amortization	7,178	9,271
Amortization of debt issue costs	379	1,229
Net gain from terminating the Georgia-Pacific supply agreement		(17,351)
Payment from terminating the Georgia-Pacific supply agreement	4,706	4,706
Gain from sale of properties		(4,237)
Prepayment fees associated with sale of facility		616
Changes associated with the ineffective interest rate swap	(2,061)	5,910
Write-off of debt issue costs		1,407
Deferred income tax (benefit) provision	(414)	27,228
Share-based compensation expense	1,969	1,431
Decrease in restricted cash related to the ineffective interest rate swap, insurance, and other	5,607	2,189
Changes in assets and liabilities:		
Receivables	(82,222)	(30,132)
Inventories	(52,973)	26,903
Accounts payable	38,860	26,631
Changes in other working capital	18,538	(3,629)
Other	(2,295)	691
Net cash used in operating activities	(80,874)	(7,162)
Cash flows from investing activities:		
Property, plant and equipment investments	(1,263)	(688)
Proceeds from disposition of assets	656	6,995
Net cash (used in) provided by investing activities	(607)	6,307
Cash flows from financing activities:		
Repurchase of common stock	(583)	(1,624)
Increase (decrease) in revolving credit facility	68,687	(75,000)
Payment on capital lease obligations	(473)	
Payment of principal on mortgage		(3,201)
Prepayment fees associated with sale of facility		(616)

Increase (decrease) in bank overdrafts	9,880	(10,328)
Increase in restricted cash related to the mortgage	(6,581)	(5,677)
Debt financing costs	(91)	
Other	6	(41)
Net cash provided by (used in) financing activities	70,845	(96,487)
Decrease in cash	(10,636)	(97,342)
Balance, beginning of period	29,457	150,353
Balance, end of period	$ 18,821	$ 53,011

See accompanying notes.

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BLUELINX HOLDINGS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JULY 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 60 distribution centers.

2. Summary of Significant Accounting Policies

Revenue Recognition

We recognize revenue when the following criteria are met: persuasive evidence of an agreement exists, delivery has occurred or services have been rendered, our price to the buyer is fixed and determinable and 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.

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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, returns, and trade allowances 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 $38.5 million and $37.5 million at July 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 July 3, 2010 and January 2, 2010 (in thousands):

	July 3, 2010	January 2, 2010
Cash in escrow:		
Mortgage	$ 25,996	$ 19,415
Insurance	9,422	9,411
Interest rate swap		6,690
Other	3,080	2,008
Total	$ 38,498	$ 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 $5.7 million from net cash provided by operating activities to net cash used in financing activities for the first six months 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 July 3, 2010 and January 2, 2010, these reserves totaled $7.5 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 July 3, 2010, the lower of cost or market reserve was $0.7 million. At 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 July 3, 2010 and January 2, 2010, our damaged, excess and obsolete inventory reserves were $2.1 million and $2.6 million, respectively. Adjustments to earnings resulting from revisions to damaged, excess and obsolete estimates have been insignificant.

Consignment Inventory

We enter into consignment inventory agreements with certain of 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 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 July 3, 2010 and January 2, 2010, the vendor rebate receivable totaled $6.7 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 July 3, 2010 and January 2, 2010, the customer rebate payable totaled $6.1 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. 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 any losses we incur 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 2,011,365 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 six months of fiscal 2010 and for the first six months 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 834,071 performance shares under our 2006 Long-Term Incentive Plan in which shares are issuable upon satisfaction of certain performance criteria. As of July 3, 2010, we assumed that a total of 238,627 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 238,627 performance shares we assume will vest were not included in the computation of diluted earnings per share due to the net loss for the periods. 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.

For the second quarter of fiscal 2010 and for the first six months of fiscal 2010, we excluded 3,178,307 unvested share-based awards, respectively, from the diluted earnings per share calculation because they were anti-dilutive. For the second quarter of fiscal 2009 and for the first six months of fiscal 2009, we excluded 928,315 and 2,703,424 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 six months of fiscal 2010, the Compensation Committee granted 747,737 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 second quarter of fiscal 2010 and for the first six months of fiscal 2010, our total stock-based compensation expense was \$0.7 million and \$1.9 million, respectively. For the second quarter of fiscal 2009 and for the first six months of fiscal 2009, our total stock-based compensation expense was \$0.9 million and \$1.5 million, respectively. We did not recognize related income tax benefits during these periods.

Income Taxes

Deferred income taxes are provided using the liability method. Accordingly, deferred income taxes are recognized for differences between the income tax and financial reporting bases of our assets and liabilities based on enacted tax laws and tax rates applicable to the periods in which the differences are expected to affect taxable income. We recognize a valuation allowance, when based on the weight of all available evidence, we believe it is more likely than not that some or all of our deferred tax assets will not be realized. In evaluating our ability to recover our deferred income tax assets, we considered available positive and negative evidence, including our past operating results, our ability to carryback losses against prior taxable income, the existence of cumulative losses in the most recent years, our forecast of future taxable income and an excess of appreciated assets over the tax basis of our net assets. In estimating future taxable income, we developed assumptions including the amount of future state and federal pretax operating and non-operating income, the reversal of temporary differences and the implementation of feasible and prudent tax planning strategies. These assumptions required significant judgment about the forecasts of future taxable income. 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, we 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 differences 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 six months of fiscal 2010 and based on the weight of available evidence, we recorded an additional deferred tax asset and valuation allowance of \$7.0 million relating to our current period net operating losses, which resulted in a total net deferred tax asset of \$34.2 million with a valuation allowance of a corresponding amount as of July 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 six months 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.

We perform an annual evaluation of our long-lived assets in the fourth quarter of each year. This evaluation 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 10.

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 fourth quarter 2009 impairment analysis, we had $36 million, out of approximately $137 million in net book value of fixed assets for which the undiscounted cash flows were less than the carrying values of these assets. However, the fair value of these assets, primarily real estate, exceeded the carrying value by approximately $30 million. As of the second quarter of fiscal 2010, 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 July 3, 2010 and January 2, 2010, the self-insurance reserves totaled $8.8 million and $9.2 million, respectively.

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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 and Other current liabilities and Other non-current liabilities on the Consolidated Balance Sheets at July 3, 2010 and January 2, 2010.

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, and in Accrued compensation on the Consolidated Balance Sheets for the period ended and at July 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 July 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 the changes in the accrual for the second quarter ended July 3, 2010 (in thousands):

Balance at April 3, 2010	$	11,421
Payments		(533)
Accretion of discount used to calculate liability		184
Balance at July 3, 2010	$	11,072

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

Balance at January 2, 2010	$	11,755
Payments		(1,069)
Accretion of discount used to calculate liability		386
Balance at July 3, 2010	$	11,072

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 July 3, 2010 and January 2, 2010, there was no remaining severance reserve.

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The table below summarizes the balance of accrued facility consolidation reserve and the changes in the accrual for the second quarter ended July 3, 2010 (in thousands):

Balance at April 3, 2010	$	371
Payments		(230)
Sublease income		70
Other changes		(13)
Balance at July 3, 2010	$	198

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

Balance at January 2, 2010	$	645
Payments		(523)
Sublease income		140
Other changes	&n	