

LENNOX INTERNATIONAL INC  
Form 4  
July 15, 2005

**FORM 4**

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

OMB APPROVAL

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**STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES**

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person \*  
**BOOTH THOMAS W**

2. Issuer Name and Ticker or Trading Symbol  
**LENNOX INTERNATIONAL INC [LII]**

5. Relationship of Reporting Person(s) to Issuer  
(Check all applicable)

(Last) (First) (Middle)  
**2140 LAKE PARK BOULEVARD**  
(Street)

3. Date of Earliest Transaction (Month/Day/Year)  
**04/05/2005**

Director  10% Owner  
 Officer (give title below)  Other (specify below)  
**VP AHTD**

**RICHARDSON, TX 75080-2254**  
(City) (State) (Zip)

4. If Amendment, Date Original Filed(Month/Day/Year)

6. Individual or Joint/Group Filing(Check Applicable Line)  
 Form filed by One Reporting Person  
 Form filed by More than One Reporting Person

**Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned**

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)	5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)			
			Code	V	Amount	(D)	Price			
Common Stock, par value \$0.01 per share	07/01/2005		F		1,136	D	\$ 20.87	671,185 <sup>(1)</sup>	D	
Common Stock, par value \$0.01 per share	04/05/2005		G	V	804	D	\$ 21.76	133,248	I	Booth Charitable Trust <sup>(2)</sup>
Common Stock, par value \$0.01 per share	07/12/2005		G	V	400	D	\$ 21.915	132,848	I	Booth Charitable Trust

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value \$0.01 per share							Trust <sup>(2)</sup>
Common Stock, par value \$0.01 per share				37,520	I		Daughter Carolyn
Common Stock, par value \$0.01 per share				38,531	I		Daughter Kathleen
Common Stock, par value \$0.01 per share				40,062	I		Thomas Booth Trust
Common Stock, par value \$0.01 per share				1,986,906	I		Trust FBO Richard Booth
Common Stock, par value \$0.01 per share				70,343	I		Spouse

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474  
(9-02)

**Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned**  
(e.g., puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)	5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)	8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Own Follo Repo Trans (Instr
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	Date Exercisable	Expiration Date	Title	Amount or Number of Shares
Code	V	(A)	(D)	

## Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
BOOTH THOMAS W 2140 LAKE PARK BOULEVARD RICHARDSON, TX 75080-2254	X		VP AHTD	

## Signatures

/s/ William F. Stoll, Jr., Attorney-in-fact for Thomas W. Booth	07/15/2005
**Signature of Reporting Person	Date

## Explanation of Responses:

- \* If the form is filed by more than one reporting person, see Instruction 4(b)(v).
  - \*\* Intentional misstatements or omissions of facts constitute Federal Criminal Violations. See 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).
- (1) 2,124 shares of the 5/17/2002 PSP award previously reported were released on 3/17/2005. Of those, 1,456 shares were retained and 668 shares were allotted for taxes.
  - (2) The reporting person has only a remainder interest in the trust, and disclaims beneficial ownership of the reported securities except to the extent of his pecuniary interest therein.

### Remarks:

Attorney-in-fact pursuant to Power of Attorney dated April 23, 2004.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, see Instruction 6 for procedure. Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number.

Expected life  
7 years 5 years 1 year

Expected volatility  
45% 45% 45%

Weighted average fair value  
\$3.77 \$2.83 \$6.97

- \* Exercise price equaled the market price at date of grant.
- \*\* Exercise price exceeded the market price at date of grant.

\*\*\* Exercise price was less than the market price at date of grant (the date the performance criteria were established is considered the grant date for accounting purposes).

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

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

The range of risk-free rates used for the first quarter of fiscal 2008 and for the first quarter of fiscal 2007 was from 2.11% to 2.70% and 4.78% to 5.10%, respectively. These rates were based on the U.S. Treasury yield with a term that is consistent with the expected life of the stock options.

**3. Exit Costs**

During the fourth quarter of fiscal 2007, we vacated leased office space. We accounted for the transaction in accordance with SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*, which requires that a liability be recognized for a cost 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 exit cost charges include the estimated losses on the vacated facility based on our contractual obligations net of estimated sublease income based on current comparable market rates for leases. We will reassess this liability periodically based on 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 were included in Selling, general and administrative expense in the Consolidated Statement of Operations and in Other current liabilities, and in Other non-current liabilities on the Consolidated Balance Sheet at December 29, 2007.

The following table displays the exit activity and liability balances for the first quarter of fiscal 2008 (in thousands):

	<b>Exit Costs</b>
Balance at December 29, 2007	\$ 11,326
Charges	
Payments	(540)
Accretion of liability	208
Balance at March 29, 2008	\$ 10,994

We did not incur any exit charges during the first quarter of fiscal 2007.

**4. Comprehensive Loss**

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

	<b>Period from December 29, 2007 to March 29, 2008</b>	<b>Period from December 31, 2006 to March 31, 2007</b>
Net loss	\$ (10,591)	\$ (189)
Other comprehensive loss:		
Foreign currency translation, net of taxes	(548)	(8)
Unrealized loss from cash flow hedge, net of taxes	(2,831)	(274)
Comprehensive loss	\$ (13,970)	\$ (471)



**Table of Contents****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 do not expect to make any contributions to the hourly pension plan in fiscal 2008. 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:

	<b>Period from December 29, 2007 to March 29, 2008</b>	<b>Period from December 31, 2006 to March 31, 2007</b>
	<b>(In thousands)</b>	
Service cost	\$ 561	\$ 626
Interest cost on projected benefit obligation	1,109	1,054
Expected return on plan assets	(1,501)	(1,356)
Amortization of unrecognized gain	(91)	
Amortization of unrecognized prior service cost	1	1
Net periodic pension cost	\$ 79	\$ 325

**6. Revolving Credit Facility**

As of March 29, 2008, we had outstanding borrowings of \$209 million and excess availability of \$228 million under the terms of our revolving credit facility. Based on borrowing base limitations, we classify the lowest projected balance of the credit facility over the next twelve months of \$181 million as long-term debt. The revolving credit facility contains customary negative covenants and restrictions for asset based loans, with which we are in compliance.

On June 12, 2006, we entered into an interest rate swap agreement with Goldman Sachs Capital Markets, to hedge against interest rate risks related to our variable rate revolving credit facility. The interest rate swap has a notional amount of \$150 million and the terms call for us to receive interest monthly at a variable rate equal to the 30-day LIBOR and to pay interest monthly at a fixed rate of 5.4%. This interest rate swap is designated as a cash flow hedge. We expect the hedge to be highly effective in offsetting changes in expected cash flows, as, at inception, the critical terms of the interest rate swap generally match the critical terms of the variable rate revolving credit facility. Fluctuations in the fair value of the ineffective portion, if any, of the cash flow hedge will be reflected in the current period earnings. For the first quarter of fiscal 2008 and for the first quarter of fiscal 2007, we recognized immaterial amounts of expense related to the ineffective portion of the hedge.

At March 29, 2008 and December 29, 2007, the fair value of the interest rate swap was a liability of \$11.8 million and \$7.1 million, respectively. These balances were included in Other current liabilities and Other long-term liabilities on the Condensed Consolidated Balance Sheet. Accumulated other comprehensive income at March 29, 2008 and December 29, 2007 included the net loss on the cash flow hedge (net of tax) of \$7.1 million and \$4.3 million, respectively, which reflects the cumulative amount of comprehensive loss in connection with the change in fair value of the swap.

As of March 29, 2008, we had outstanding letters of credit totaling \$10.5 million, primarily for the purposes of securing collateral requirements under the casualty insurance programs for us and for guaranteeing payment of international purchases based on the fulfillment of certain conditions.

**7. Mortgage**

On June 9, 2006, certain special purpose entities that are wholly-owned subsidiaries of us entered into a \$295 million new mortgage loan with the German American Capital Corporation. The new mortgage has a term of ten years and is secured by 57 distribution facilities and 1 office building owned by the special purpose entities. The stated interest rate on the new mortgage is fixed at 6.35%. German American Capital Corporation assigned half of its interest in the new mortgage loan to Wachovia Bank, National Association.

Simultaneously with the execution of the new mortgage loan, we paid off in full our existing \$165 million mortgage loan agreement with Column Financial, Inc. dated as of October 26, 2004. In connection with the termination of the existing mortgage loan, we incurred charges of \$4.9 million during the second quarter of fiscal 2006, which includes unamortized debt financing costs of \$3.2 million.



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The new mortgage loan requires interest-only payments for the first five years followed by level monthly payments of principal and interest based on an amortization period of thirty years. 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	\$ 1,511
2012	3,172
2013	3,437
2014	3,665
2015	3,908
Thereafter	\$ 279,307

**8. Fair Value Measurements**

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, which defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measurements. SFAS No. 157 applies to other accounting pronouncements that require or permit fair value measurements. The new guidance is effective for financial statements issued for fiscal years beginning after November 15, 2007, and for interim periods within those fiscal years. In February 2008, FSP 157-1 *Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13* was issued. FSP 157-1 removed leasing transactions accounted for under Statement 13 and related guidance from the scope of SFAS No. 157. FSP 157-2 *Partial Deferral of the Effective Date of Statement 157* deferred the effective date of SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities to fiscal years beginning after November 15, 2008.

SFAS No. 157, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). SFAS No. 157 classifies inputs used to measure fair value into the following hierarchy:

- Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2 Unadjusted quoted prices in active markets for similar assets or liabilities, or Unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or Inputs other than quoted prices that are observable for the asset or liability.
- Level 3 Unobservable inputs for the asset or liability.

We are exposed to market risks from changes in interest rates, which may affect our operating results and financial position. When deemed appropriate, we minimize our risks from interest rate fluctuations through the use of an interest rate swap. This derivative financial instrument is used to manage risk and is not used for trading or speculative purposes. The swap is valued using a valuation model that has inputs other than quoted market prices that are both observable and unobservable.

We endeavor to utilize the best available information in measuring the fair value of the interest rate swap. The interest rate swap is classified in its entirety based on the lowest level of input that is significant to the fair value measurement.

We have determined that our interest rate swap is a level 3 liability in the fair value hierarchy. The fair value of the interest rate swap was \$11.8 million as of March 29, 2008.

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The implementation of SFAS No. 157 for financial assets and financial liabilities, effective December 30, 2007, did not have a material impact on our consolidated financial position and results of operations. We are currently assessing the impact of SFAS No. 157 for pension related financial assets and nonfinancial assets and nonfinancial liabilities on our consolidated financial position and results of operations.

**9. Related Party Transactions**

Cerberus Capital Management, L.P., our equity sponsor, retains consultants that specialize in operations management and support and who provide Cerberus with consulting advice concerning portfolio companies in which funds and accounts managed by Cerberus or its affiliates have invested. From time to time, Cerberus makes the services of these consultants available to Cerberus portfolio companies. We believe that the terms of these consulting arrangements are favorable to us, or, alternatively, are materially consistent with those terms that would have been obtained by us in an arrangement with an unaffiliated third party. We have normal service, purchase and sales arrangements with other entities that are owned or controlled by Cerberus. We believe that these transactions are at arms length terms and are not material to our results of operations or financial position.

**10. Commitments and Contingencies*****Environmental and Legal Matters***

From time to time, we are involved in various proceedings incidental to our businesses and we are subject to a variety of environmental and pollution control laws and regulations in all jurisdictions in which we operate. Although the ultimate outcome of these proceedings cannot be determined with certainty, based on presently available information management believes that adequate reserves have been established for probable losses with respect thereto. Management further believes that the ultimate outcome of these matters could be material to operating results in any given quarter but will not have a materially adverse effect on our long-term financial condition, our results of operations, or our cash flows.

***Collective Bargaining Agreements***

As of March 29, 2008, approximately 29% of our total work force is covered by collective bargaining agreements. Collective bargaining agreements representing approximately 7% of our work force will expire within one year.

***Preference Claim***

On November 19, 2004, we received a letter from Wickes Lumber, or Wickes, asserting that approximately \$16 million in payments received by the Division during the 90-day period prior to Wickes January 20, 2004 Chapter 11 filing were preferential payments under section 547 of the United States Bankruptcy Code. On October 14, 2005, Wickes Inc. filed a lawsuit in the United States Bankruptcy Court for the Northern District of Illinois titled Wickes Inc. v. Georgia Pacific Distribution Division (BlueLinx), (Bankruptcy Adversary Proceeding No. 05-2322) asserting its claim. On November 14, 2005, we filed an answer to the complaint denying liability. Although the ultimate outcome of this matter cannot be determined with certainty, we believe Wickes assertion to be without merit and, in any event, subject to one or more complete defenses, including, but not limited to, that the payments were made and received in the ordinary course of business and were a substantially contemporaneous exchange for new value given to Wickes.

**11. Unaudited Supplemental Condensed Consolidating Financial Statements**

The unaudited condensed consolidating financial information as of March 29, 2008 and December 29, 2007 and for the periods from December 29, 2007 to March 29, 2008 and December 31, 2006 to March 31, 2007 is provided due to restrictions in our revolving credit facility that limit distributions by BlueLinx Corporation, our wholly-owned operating subsidiary, to us, which, in turn, may limit our ability to pay dividends to holders of our common stock (see our Annual Report on Form 10-K for the year ended December 29, 2007, for a more detailed discussion of these restrictions and the terms of the facility). Also included in the supplemental condensed consolidated financial statements are fifty-eight single member limited liability companies, which are wholly owned by us (the LLC subsidiaries). The LLC subsidiaries own certain warehouse properties that are occupied by BlueLinx Corporation, each under the terms of a master lease agreement. The warehouse properties collateralize a mortgage loan and none of the properties are available to satisfy the debts and other obligations of either BlueLinx Corporation or us.



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The condensed consolidating statement of operations for BlueLinX Holdings Inc. for the period from December 29, 2007 to March 29, 2008 follows (in thousands):

	<b>BlueLinX Holdings Inc.</b>	<b>BlueLinX Corporation</b>	<b>LLC Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
Net sales	\$	\$ 716,760	\$ 7,617	\$ (7,617)	\$ 716,760
Cost of sales		638,957			638,957
Gross profit		77,803	7,617	(7,617)	77,803
Operating expenses:					
Selling, general and administrative	314	87,818	120	(7,617)	80,635
Depreciation and amortization		3,898	1,070		4,968
Total operating expenses	314	91,176	1,190	(7,617)	85,603
Operating income (loss)	(314)	(13,913)	6,427		(7,800)
Non-operating expenses:					
Interest expense		4,462	4,892		9,354
Other expense (income), net		143	(13)		130
Income before provision for (benefit from) income taxes	(314)	(18,518)	1,548		(17,284)
Provision for (benefit from) income taxes	(122)	(7,174)	603		(6,693)
Equity in income (loss) of subsidiaries	(10,399)			10,399	
Net income (loss)	\$ (10,591)	\$ (11,344)	\$ 945	\$ 10,399	\$ (10,591)

The condensed consolidating statement of operations for BlueLinX Holdings Inc. for the period from December 31, 2006 to March 31, 2007 follows (in thousands):

	<b>BlueLinX Holdings Inc.</b>	<b>BlueLinX Corporation</b>	<b>LLC Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
Net sales	\$	\$ 957,114	\$ 7,518	\$ (7,518)	\$ 957,114
Cost of sales		853,359			853,359
Gross profit		103,755	7,518	(7,518)	103,755
Operating expenses:					
Selling, general and administrative	437	95,432	117	(7,518)	88,468
Depreciation and amortization		4,342	1,058		5,400
Total operating expenses	437	99,774	1,175	(7,518)	93,868

Operating (loss) income	(437)	3,981	6,343	9,887
Non-operating expenses:				
Interest expense		5,715	4,891	10,606
Other income, net		(148)	(235)	(383)
Income (loss) before provision for (benefit from) income taxes	(437)	(1,586)	1,687	(336)
Provision for (benefit from) income taxes	(170)	(635)	658	(147)
Equity in income (loss) of subsidiaries	78			(78)
Net income (loss)	\$ (189)	\$ (951)	\$ 1,029	\$ (78) \$ (189)

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The condensed consolidating balance sheet for BlueLinx Holdings Inc. as of March 29, 2008 follows (in thousands):

	<b>BlueLinx Holdings Inc.</b>	<b>BlueLinx Corporation and Subsidiaries</b>	<b>LLC Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
Assets:					
Current assets:					
Cash	\$ 4	\$ 16,890	\$ 62	\$	\$ 16,956
Receivables		280,948			280,948
Inventories		351,212			351,212
Deferred income taxes		14,627		(53)	14,574
Other current assets	137	38,945		61	39,143
Intercompany receivable	19,589			(19,589)	
<b>Total current assets</b>	<b>19,730</b>	<b>702,622</b>	<b>62</b>	<b>(19,581)</b>	<b>702,833</b>
Property, plant and equipment:					
Land and land improvements		3,053	54,295		57,348
Buildings		7,472	91,030		98,502
Machinery and equipment		69,714			69,714
Construction in progress		1,227			1,227
Property, plant and equipment, at cost		81,466	145,325		226,791
Accumulated depreciation		(41,495)	(16,544)		(58,039)
Property, plant and equipment, net		39,971	128,781		168,752
Investment in subsidiaries	121,127			(121,127)	
Deferred income taxes		6,419		(1,488)	4,931
Other non-current assets		25,926	5,136		31,062
<b>Total assets</b>	<b>\$ 140,857</b>	<b>\$ 774,938</b>	<b>\$ 133,979</b>	<b>\$ (142,196)</b>	<b>\$ 907,578</b>
Liabilities :					
Current liabilities:					
Accounts payable	\$ 22	\$ 173,896	\$	\$	\$ 173,918
Bank overdrafts		33,759			33,759
Accrued compensation		8,268			8,268
Deferred income taxes	53			(53)	
Current maturities of long-term debt		28,465			28,465
Other current liabilities		21,987	4,706		26,693
Intercompany payable		19,406	122	(19,528)	
<b>Total current liabilities</b>	<b>75</b>	<b>285,781</b>	<b>4,828</b>	<b>(19,581)</b>	<b>271,103</b>
Non-current liabilities:					

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Long-term debt		180,877	295,000		475,877
Deferred income taxes			1,488	(1,488)	
Other long-term liabilities		19,816			19,816
Total liabilities	75	486,474	301,316	(21,069)	766,796
Shareholders' Equity/Parents' Investment	140,782	288,464	(167,337)	(121,127)	140,782
Total liabilities and equity	\$ 140,857	\$ 774,938	\$ 133,979	\$ (142,196)	\$ 907,578

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The condensed consolidating balance sheet for BlueLinx Holdings Inc. as of December 29, 2007 follows (in thousands):

	<b>BlueLinx Holdings Inc.</b>	<b>BlueLinx Corporation and Subsidiaries</b>	<b>LLC Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
Assets:					
Current assets:					
Cash	\$ 3	\$ 15,699	\$ 57	\$	\$ 15,759
Receivables		263,176			263,176
Inventories		335,887			335,887
Deferred income taxes		12,277		(78)	12,199
Other current assets	271	52,960			53,231
Intercompany receivable	18,103	611		(18,714)	
<b>Total current assets</b>	<b>18,377</b>	<b>680,610</b>	<b>57</b>	<b>(18,792)</b>	<b>680,252</b>
Property, plant and equipment:					
Land and land improvements		3,000	54,295		57,295
Buildings		7,390	91,030		98,420
Machinery and equipment		67,217			67,217
Construction in progress		4,212			4,212
Property, plant and equipment, at cost		81,819	145,325		227,144
Accumulated depreciation		(39,228)	(15,474)		(54,702)
Property, plant and equipment, net		42,591	129,851		172,442
Investment in subsidiaries	137,155			(137,155)	
Non-current deferred income taxes		4,327		(1,699)	2,628
Other non-current assets		22,822	5,292		28,114
<b>Total assets</b>	<b>\$ 155,532</b>	<b>\$ 750,350</b>	<b>\$ 135,200</b>	<b>\$ (157,646)</b>	<b>\$ 883,436</b>
Liabilities:					
Current liabilities:					
Accounts payable	\$ 20	\$ 164,697	\$	\$	\$ 164,717
Bank overdrafts		37,152			37,152
Accrued compensation		10,372			10,372
Deferred income taxes	78			(78)	
Other current liabilities		15,145	4,135		19,280
Intercompany payable	611	17,632	471	(18,714)	
<b>Total current liabilities</b>	<b>709</b>	<b>244,998</b>	<b>4,606</b>	<b>(18,792)</b>	<b>231,521</b>



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Non-current liabilities:					
Long-term debt		183,535	295,000		478,535
Deferred income taxes			1,699	(1,699)	
Other non-current liabilities		18,557			18,557
Total liabilities	709	447,090	301,305	(20,491)	728,613
Shareholders' Equity/Parents					
Investment	154,823	303,260	(166,105)	(137,155)	154,823
Total liabilities and equity	\$ 155,532	\$ 750,350	\$ 135,200	\$ (157,646)	\$ 883,436

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The condensed consolidating statement of cash flows for BlueLinX Holdings Inc. for the period from December 29, 2007 to March 29, 2008 follows (in thousands):

	<b>BlueLinX Holdings Inc.</b>	<b>BlueLinX Corporation</b>	<b>LLC Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>Cash flows from operating activities:</b>					
Net income (loss)	\$ (10,591)	\$ (11,344)	\$ 945	\$ 10,399	\$ (10,591)
Adjustments to reconcile net income (loss) to cash provided by (used in) operating activities:					
Depreciation and amortization		3,898	1,070		4,968
Amortization of debt issue costs		452	156		608
Non-cash vacant property charges		208			208
Deferred income benefit	(25)	(2,651)	(211)		(2,887)
Share-based compensation credit		(114)			(114)
Excess tax deficiencies from share-based compensation arrangements		218			218
Equity in earnings of subsidiaries	10,399			(10,399)	
Changes in assets and liabilities:					
Receivables		(17,772)			(17,772)
Inventories		(15,325)			(15,325)
Accounts payable	2	9,199			9,201
Changes in other working capital	134	15,744	571	(61)	16,388
Intercompany receivable	(1,486)	611		875	
Intercompany payable	(611)	1,774	(349)	(814)	
Other		(5,991)			(5,991)
Net cash provided by (used in) operating activities	(2,178)	(21,093)	2,182		(21,089)
<b>Cash flows from investing activities:</b>					
Investment in subsidiaries	1,957			(1,957)	
Property, plant and equipment investments		(957)			(957)
Proceeds from sale of assets		607			607
Net cash provided by (used in) investing activities	1,957	(350)		(1,957)	(350)
<b>Cash flows from financing activities:</b>					

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Net transactions with Parent		220	(2,177)	1,957	
Proceeds from stock options exercised	434				434
Excess tax deficiencies from share-based compensation arrangements	(218)				(218)
Net increase in revolving credit facility		25,807			25,807
Decrease in bank overdrafts		(3,393)			(3,393)
Other	6				6
Net cash provided by (used in) financing activities	222	22,634	(2,177)	1,957	22,636
Increase in cash	1	1,191	5		1,197
Balance, beginning of period	3	15,699	57		15,759
Balance, end of period	\$ 4	\$ 16,890	\$ 62	\$	\$ 16,956

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The condensed consolidating statement of cash flows for BlueLinX Holdings Inc. for the period from December 31, 2006 to March 31, 2007 follows (in thousands):

	<b>BlueLinX Holdings Inc.</b>	<b>BlueLinX Corporation</b>	<b>LLC Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>Cash flows from operating activities:</b>					
Net income (loss)	\$ (189)	\$ (951)	\$ 1,029	\$ (78)	\$ (189)
Adjustments to reconcile net income (loss) to cash provided by (used in) operating activities:					
Depreciation and amortization		4,341	1,059		5,400
Amortization of debt issue costs		452	154		606
Deferred income tax provision (benefit)	(71)	478	(209)		198
Share-based compensation expense		874			874
Excess tax benefits from share-based compensation arrangements		(60)			(60)
Equity in earnings of subsidiaries	(78)			78	
Changes in assets and liabilities:					
Receivables		(70,152)			(70,512)
Inventories		(54,864)			(54,864)
Accounts payable		38,126			38,126
Changes in other working capital	69	2,676	781		3,526
Intercompany receivable	420			(420)	
Intercompany payable		14	(434)	420	
Other		(476)	4		(472)
Net cash provided by (used in) operating activities	151	(79,542)	2,384		(77,007)
<b>Cash flows from investing activities:</b>					
Investment in subsidiaries	3,343			(3,343)	
Property, plant and equipment investments		(5,643)	(449)		(6,092)
Proceeds from sale of assets		879			879
Net cash provided by (used in) investing activities	3,343	(4,764)	(449)	(3,343)	(5,213)
<b>Cash flows from financing activities:</b>					
Net transactions with Parent		(1,387)	(1,956)	3,343	

Proceeds from stock options exercised	323				323
Excess tax benefits from share-based compensation arrangements	60				60
Net increase in revolving credit facility		78,538			78,538
Increase in bank overdrafts		362			362
Common dividends paid	(3,876)				(3,876)
Other			33		33
Net cash provided by (used in) financing activities	(3,493)	77,513	(1,923)	3,343	75,440
Increase (decrease) in cash	1	(6,793)	12		(6,780)
Balance, beginning of period	2	27,017	23		27,042
Balance, end of period	\$ 3	\$ 20,224	\$ 35	\$	\$ 20,262

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**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The information contained in this Management's Discussion and Analysis of Financial Condition and Results of Operations ( MD&A ) has been derived from our historical financial statements and is intended to provide information to assist you in better understanding and evaluating our financial condition and results of operations. We recommend that you read this MD&A section in conjunction with our condensed consolidated financial statements and notes to those statements included in Item 1 of this Quarterly Report on Form 10-Q, as well as our Annual Report on Form 10-K for the year ended December 29, 2007 as filed with the U.S. Securities and Exchange Commission (the SEC ). This MD&A section is not a comprehensive discussion and analysis of our financial condition and results of operations, but rather updates disclosures made in the aforementioned filing. The discussion below contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements include, without limitation, any statement that may predict, forecast, indicate or imply future results, performance or achievements, and may contain the words believe, anticipate, expect, estimate, intend, project, plan, will be, will likely or likely result or words or phrases of similar meaning. All of these forward-looking statements are based on estimates and assumptions made by our management that, although believed by us to be reasonable, are inherently uncertain. Forward-looking statements involve risks and uncertainties, including, but not limited to, economic, competitive, governmental and technological factors outside of our control, that may cause our business, strategy or actual results to differ materially from the forward-looking statements. These risks and uncertainties may include those discussed under the heading Factors Affecting Future Results in our Annual Report on Form 10-K for the year ended December 29, 2007 as filed with the SEC and other factors, some of which may not be known to us. We operate in a changing environment in which new risks can emerge from time to time. It is not possible for management to predict all of these risks, nor can it assess the extent to which any factor, or a combination of factors, may cause our business, strategy or actual results to differ materially from those contained in forward-looking statements. Factors you should consider that could cause these differences include, among other things:

- changes in the prices, supply and/or demand for products which we distribute, especially as a result of conditions in the residential housing market;

- inventory levels of new and existing homes for sale;

- general economic and business conditions in the United States;

- the financial condition and credit worthiness of our customers;

- the activities of competitors;

- changes in significant operating expenses;

- fuel costs;

- risk of losses associated with accidents;

- exposure to product liability claims;

- changes in the availability of capital and interest rates;

- immigration patterns and job and household formation;

- our ability to identify acquisition opportunities and effectively and cost-efficiently integrate acquisitions;

adverse weather patterns or conditions;

acts of war or terrorist activities;

variations in the performance of the financial markets, including the credit markets; and

the other factors described herein under **Factors Affecting Future Results** in our Annual Report on Form 10-K for the year ended December 29, 2007 as filed with the SEC.

Given these risks and uncertainties, we caution you not to place undue reliance on forward-looking statements. We undertake no obligation to publicly update or revise any forward-looking statement as a result of new information, future events or otherwise, except as required by law.

**Table of Contents****Overview*****Background***

We are a leading distributor of building products in the United States. We distribute approximately 10,000 products to more than 11,500 customers through our network of more than 70 warehouses and third-party operated warehouses which serve all major metropolitan markets in the United States. We distribute products in two principal categories: structural products and specialty products. Structural products include plywood, oriented strand board ( OSB ), rebar and remesh, lumber and other wood products primarily used for structural support, walls and flooring in construction projects. Structural products represented approximately 51% of our first quarter of fiscal 2008 gross sales. Specialty products include roofing, insulation, moulding, engineered wood, vinyl products (used primarily in siding) and metal products (excluding rebar and remesh). Specialty products accounted for approximately 49% of our first quarter of fiscal 2008 gross sales.

***Industry Conditions***

As noted above, we operate in a changing environment in which new risks can emerge from time to time. A number of factors cause our results of operations to fluctuate from period to period. Many of these factors are seasonal or cyclical in nature. Conditions in the United States housing market are at historically low levels and continued to deteriorate throughout the first quarter of fiscal 2008. Our operating results have declined during the past two years as they are closely tied to U.S. housing starts. Additionally, the mortgage markets experienced substantial disruption during 2007 due to a rising number of defaults in the subprime market. This disruption and the related defaults increased the inventory of homes for sale and also caused lenders to tighten mortgage qualification criteria which further reduced demand for new homes. Forecasters continue to have a bearish outlook for the housing market and we expect the downturn in new housing activity will continue to negatively impact our operating results for the foreseeable future. We continue to prudently manage our inventories, receivables and spending in this environment. However, along with many forecasters, we believe U.S. housing demand will improve in the long term based on population demographics and a variety of other factors.

***Interim Chief Executive Officer and New Chief Financial Officer***

On March 10, 2008, Howard S. Cohen was appointed Interim Chief Executive Officer of the Company, replacing Stephen E. Macadam, who resigned. We entered into an agreement with Mr. Cohen to serve as our Interim Chief Executive Officer effective March 10, 2008. Mr. Cohen's employment term as Interim Chief Executive Officer expires once we employ a permanent chief executive officer. We expect Mr. Cohen to continue serving as the Chairman of our Board of Directors after we select a permanent chief executive officer.

On February 18, 2008, Howard D. Goforth was appointed as Chief Financial Officer of the Company, replacing Lynn A. Wentworth, who resigned effective February 15, 2008. Mr. Goforth entered into an employment agreement with the Company as of February 18, 2008. The agreement is scheduled to expire on February 18, 2011, except that it will be renewed automatically for one additional year unless either party provides prior written notice of non-renewal thirty days in advance of the original expiration date.

***Supply Agreement with Georgia-Pacific***

On May 7, 2004, we entered into a multi-year supply agreement with Georgia-Pacific. Under the agreement, we have exclusive distribution rights on certain products and certain customer segments. Georgia-Pacific is our largest vendor, with Georgia-Pacific products representing approximately 25% of our purchases during fiscal 2007.

***Selected Factors Affecting Our Operating Results***

Our operating results are affected by housing starts, mobile home production, industrial production, repair and remodeling spending and non-residential construction. Our operating results are also impacted by changes in product prices. Structural product prices can vary significantly based on short-term and long-term changes in supply and demand. The prices of specialty products can also vary from time to time, although they are generally significantly less variable than structural products.



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The following table sets forth changes in net sales by product category, sales variances due to changes in unit volume and dollar and percentage changes in unit volume and price versus comparable prior periods, in each case for the first quarter of fiscal 2008, the first quarter of fiscal 2007, fiscal 2007 and fiscal 2006.

	<b>Fiscal Q1 2008</b>	<b>Fiscal Q1 2007</b>	<b>Fiscal 2007</b>	<b>Fiscal 2006</b>
	<b>(Dollars in millions) (Unaudited)</b>			
<i>Sales by Category</i>				
Structural Products	\$ 373	\$ 519	\$ 2,098	\$ 2,788
Specialty Products	354	456	1,802	2,197
Unallocated Allowances and Adjustments	(10)	(18)	(66)	(86)
<b>Total Sales</b>	<b>\$ 717</b>	<b>\$ 957</b>	<b>\$ 3,834</b>	<b>\$ 4,899</b>
<i>Sales Variances</i>				
Unit Volume \$ Change	\$ (246)	\$ (305)	\$ (896)	\$ (398)
Price/Other(1)	6	(115)	(169)	(325)
<b>Total \$ Change</b>	<b>\$ (240)</b>	<b>\$ (420)</b>	<b>\$ (1,065)</b>	<b>\$ (723)</b>
Unit Volume % Change	(25.2)%	(21.9)%	(18.0)%	(7.0)%
Price/Other(1)	0.1%	(8.6)%	(3.7)%	(5.9)%
<b>Total % Change</b>	<b>(25.1)%</b>	<b>(30.5)%</b>	<b>(21.7)%</b>	<b>(12.9)%</b>

(1) Other includes unallocated allowances and discounts.

The following table sets forth changes in gross margin dollars and percentages by product category, and percentage changes in unit volume growth by product, in each case for the first quarter of fiscal 2008, the first quarter of fiscal 2007, fiscal 2007 and fiscal 2006.

	<b>Fiscal Q1 2008</b>	<b>Fiscal Q1 2007</b>	<b>Fiscal 2007</b>	<b>Fiscal 2006</b>
	<b>(Dollars in millions) (Unaudited)</b>			
<i>Gross Margin \$ s by Category</i>				
Structural Products	\$ 32	\$ 45	\$ 173	\$ 194
Specialty Products	50	64	238	308
Other (1)	(4)	(5)	(19)	(22)
<b>Total Gross Margin \$ s</b>	<b>\$ 78</b>	<b>\$ 104</b>	<b>\$ 392</b>	<b>\$ 480</b>

*Gross Margin % s by Category*

Structural Products	8.6%	8.7%	8.2%	7.0%
Specialty Products	14.2%	13.9%	13.2%	14.0%
Other (1)	NA	NA	NA	NA
Total Gross Margin % s	10.9%	10.8%	10.2%	9.8%

*Unit Volume Growth by Product*

Structural Products	(27.8)%	(22.6)%	(19.2)%	(11.8)%
Specialty Products	(22.3)%	(20.9)%	(16.4)%	1.0%
Total Unit Volume Growth % s	(25.2)%	(21.9)%	(18.0)%	(7.0)%

(1) Other includes unallocated allowances and discounts.

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The following table sets forth changes in net sales and gross margin by channel and percentage changes in gross margin by channel, in each case for the first quarter of fiscal 2008, the first quarter of fiscal 2007, fiscal 2007 and fiscal 2006.

	<b>Fiscal Q1 2008</b>	<b>Fiscal Q1 2007</b>	<b>Fiscal 2007</b>	<b>Fiscal 2006</b>
	<b>(Dollars in millions) (Unaudited)</b>			
<i>Sales by Channel</i>				
Warehouse/Reload	\$ 512	\$ 681	\$ 2,763	\$ 3,326
Direct	215	294	1,137	1,659
Unallocated Allowances and Adjustments	(10)	(18)	(66)	(86)
<b>Total</b>	<b>\$ 717</b>	<b>\$ 957</b>	<b>\$ 3,834</b>	<b>\$ 4,899</b>
 <i>Gross Margin by Channel</i>				
Warehouse/Reload	\$ 69	\$ 92	\$ 344	\$ 407
Direct	13	17	67	95
Unallocated Allowances and Adjustments	(4)	(5)	(19)	(22)
<b>Total</b>	<b>\$ 78</b>	<b>\$ 104</b>	<b>\$ 392</b>	<b>\$ 480</b>

	<b>Fiscal Q1 2008</b>	<b>Fiscal Q1 2007</b>	<b>Fiscal 2007</b>	<b>Fiscal 2006</b>
	<b>(Dollars in millions) (Unaudited)</b>			
<i>Gross Margin % by Channel</i>				
Warehouse/Reload	13.5%	13.5%	12.5%	12.2%
Direct	6.0%	5.8%	5.9%	5.7%
Unallocated Allowances and Adjustments	(1.0)%	(0.5)%	(0.5)%	(0.4)%
<b>Total</b>	<b>10.9%</b>	<b>10.8%</b>	<b>10.2%</b>	<b>9.8%</b>

**Fiscal Year**

Our fiscal year is a 52- or 53-week period ending on the Saturday closest to the end of the calendar year. Fiscal year 2008 contains 53 weeks. Fiscal years 2007 and 2006 contain 52 weeks.

**Results of Operations****First Quarter of Fiscal 2008 Compared to First Quarter of Fiscal 2007**

The following table sets forth our results of operations for the first quarter of fiscal 2008 and first quarter of fiscal 2007.

<b>Period from December 29, 2007 to March 29, 2008 (Unaudited)</b>	<b>% of Net Sales</b>	<b>Period from December 31, 2006 to March 31, 2007 (Unaudited)</b>	<b>% of Net Sales</b>
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	<b>(Dollars in thousands)</b>			
Net sales	\$ 716,760	100.0%	\$ 957,114	100.0%
Gross profit	77,803	10.9%	103,755	10.8%
Selling, general & administrative	80,635	11.2%	88,468	9.2%
Depreciation and amortization	4,968	0.7%	5,400	0.6%
Operating (loss) income	(7,800)	(1.1)%	9,887	1.0%
Interest expense	9,354	1.3%	10,606	1.1%
Other expense (income), net	130	0.0%	(383)	0.0%
Loss before benefit from income taxes	(17,284)	(2.4)%	(336)	0.0%
Benefit from income taxes	(6,693)	(0.9)%	(147)	0.0%
Net loss	\$ (10,591)	(1.5)%	\$ (189)	0.0%

*Net Sales.* For the first quarter of fiscal 2008, net sales decreased by 25.1%, or \$240 million, to \$717 million. Sales during the quarter were negatively impacted by a 30.2% decline in housing starts. We estimate that new home construction represents at least 50% of our end-use markets. Specialty sales, primarily consisting of roofing, specialty panels, insulation, moulding, engineered wood products, vinyl siding, composite decking and metal products (excluding rebar and remesh) decreased by \$102 million or 22.5% compared to the first quarter of fiscal 2007, reflecting a decline in unit volume. Structural sales, including plywood, OSB, lumber and metal rebar, decreased by \$146 million, or 28.1% from a year ago, also primarily as a result of a decrease in unit volume.

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*Gross Profit.* Gross profit for the first quarter of fiscal 2008 was \$77.8 million, or 10.9% of sales, compared to \$104 million, or 10.8% of sales, in the prior year period. The decrease in gross profit dollars compared to the first quarter of fiscal 2007 was driven primarily by reduced unit volume associated with the ongoing slowdown in the housing market. Gross margin increased by 0.1% to 10.9%, reflecting the increase as a percentage of our total sales, of higher-margin specialty products.

*Selling, General, and Administrative Expenses.* Selling, general and administrative expenses for the first quarter of fiscal 2008 were \$80.6 million, or 11.2% of net sales, compared to \$88.5 million, or 9.2% of net sales, during the first quarter of fiscal 2007. The dollar decline primarily reflects decreases in variable compensation, lower payroll expense related to reduced headcount, and decreases in certain other expenses not directly related to headcount. This decline was partially offset by a 40% increase in fuel prices from the year ago period.

*Depreciation and Amortization.* Depreciation and amortization expense totaled \$5.0 million for the first quarter of fiscal 2008, compared with \$5.4 million for the first quarter of fiscal 2007.

*Operating (Loss) Income.* Operating loss for the first quarter of fiscal 2008 was \$7.8 million, or 1.1% of sales, versus operating income of \$9.9 million, or 1.0% of sales, in the first quarter of fiscal 2007, reflecting a decrease in gross profit that was partially offset by a \$7.8 million decrease in operating expenses.

*Interest Expense, net.* Interest expense totaled \$9.4 million, down \$1.2 million from the prior year reflecting lower debt levels. Interest expense related to our revolving credit facility and new mortgage was \$4.1 million and \$4.7 million, respectively, during this period. Interest expense totaled \$10.6 million for the first quarter of fiscal 2007. Interest expense related to our revolving credit facility and mortgage was \$5.3 million and \$4.7 million, respectively, for this period. In addition, interest expense included \$0.6 million of debt issue cost amortization for the first quarter of fiscal 2008 and for the first quarter of fiscal 2007.

*Benefit from Income Taxes.* The effective tax rate was 38.7% and 43.8% for the first quarter of fiscal 2008 and the first quarter of fiscal 2007, respectively. The decrease in the effective tax rate for the first quarter of fiscal 2008, compared to the same period last year, resulted from permanent differences, such as meals and entertainment, having a lesser impact due to a higher loss in the first quarter of fiscal 2008.

*Net Loss.* Net loss for the first quarter of fiscal 2008 was \$10.6 million compared to net loss of \$0.2 million for the first quarter of fiscal 2007.

On a per-share basis, basic and diluted loss applicable to common stockholders for the first quarter of fiscal 2008 were each \$0.34. Basic and diluted earnings per share for the first quarter of 2007 were each \$0.01.

**Seasonality**

We are exposed to fluctuations in quarterly sales volumes and expenses due to seasonal factors. These seasonal factors are common in the building products distribution industry. The first and fourth quarters are typically our slowest quarters due primarily to the impact of poor weather on the construction market. Our second and third quarters are typically our strongest quarters, reflecting a substantial increase in construction due to more favorable weather conditions. Our working capital and accounts receivable and payable generally peak in the third quarter, while inventory generally peaks in the second quarter in anticipation of the summer building season. We expect these trends to continue for the foreseeable future.

**Liquidity and Capital Resources**

We depend on cash flow from operations and funds available under our revolving credit facility to finance working capital needs, capital expenditures, dividends and acquisitions. We believe that the amounts available from this and other sources will be sufficient to fund our routine operations and capital requirements for the foreseeable future. Part of our growth strategy is to selectively pursue acquisitions. Accordingly, depending on the nature of the acquisition or currency, we may use cash or stock, or a combination of both, as acquisition currency. Our cash requirements may significantly increase and incremental cash expenditures will be required in connection with the integration of the acquired company's business and to pay fees and expenses in connection with acquisitions. To the extent that significant amounts of cash are expended in connection with acquisitions, our liquidity position may be adversely impacted. In addition, there can be no assurance that we will be successful in identifying acquisition targets and implementing our acquisition strategy. For a discussion of the risks associated with our acquisition strategy, see the risk factor on integrating acquisitions in our Annual Report on

Form 10-K.

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The following tables indicate our working capital and cash flows for the periods indicated.

	<b>March 29, 2008</b>	<b>December 29, 2007</b>
	<b>(Dollars in thousands)</b>	
	<b>(Unaudited)</b>	
Working capital	\$ 431,730	\$ 448,731

  

	<b>Period from December 29, 2007 to March 29, 2008</b>	<b>Period from December 31, 2006 to March 31, 2007</b>
	<b>(Dollars in thousands)</b>	
	<b>(Unaudited)</b>	
Cash flows used for operating activities	\$ (21,089)	\$ (77,007)
Cash flows used for investing activities	(350)	(5,213)
Cash flows provided by financing activities	\$ 22,636	\$ 75,440

**Working Capital**

Working capital decreased by \$17.0 million to \$432 million at March 29, 2008 primarily as a result of increases in accounts payable and current maturities of long-term debt of \$9.2 million and \$28.5 million, respectively, as well as a decrease in other current assets of \$14.1 million. These changes were partially offset by an increase in accounts receivable and inventories of \$17.8 million and \$15.3 million, respectively. Additionally, cash increased from \$1.2 million on December 29, 2007 to \$17.0 million at March 29, 2008. The \$17.0 million of cash on our balance sheet at March 29, 2008 primarily reflects customer remittances received in our lock boxes on Friday and Saturday that are not available until Monday, which is part of the following fiscal period.

**Operating Activities**

During the first quarter of fiscal 2008 and fiscal 2007, cash flows used in operating activities totaled \$21.1 million and \$77.0 million, respectively. The decrease of \$55.9 million in cash flows used in operating activities was primarily the result of a lower use of cash related to a reduction in the changes in working capital of \$76.1 million. The decrease in use of cash was offset by a \$14.7 million increase in net loss, as adjusted for non-cash charges. The non-cash charges include depreciation and amortization, debt issue cost amortization, non-cash vacant property charges, deferred income tax benefit, and share-based compensation credit.

**Investing Activities**

During the first quarter of fiscal 2008 and fiscal 2007, cash flows used in investing activities totaled \$0.4 million and \$5.2 million, respectively.

During the first quarter of fiscal 2008 and fiscal 2007, our expenditures for property and equipment were \$1.0 million and \$6.1 million, respectively. The cash used in investing activities in the first quarter of fiscal 2007 was primarily for programs designed to improve and fine tune our capabilities in inventory management and forecasting, in financial budgeting and reporting, in order tracking and visibility and in product marketing. These programs did not require the same level of investment in 2008 and our capital expenditures declined accordingly.

Proceeds from the sale of property and equipment totaled \$0.6 million and \$0.9 million for the first quarter of fiscal 2008 and fiscal 2007, respectively.

**Financing Activities**

Net cash provided by financing activities was \$22.6 million during the first quarter of fiscal 2008 compared to \$75.4 million during the first quarter of fiscal 2007. The \$52.8 million decrease in cash provided by financing activities was primarily driven by a decrease in borrowings under our revolving credit facility of \$52.7 million. We paid no dividends to our common stockholders in the first quarter of 2008. In the first quarter of 2007, we paid

dividends to our common stockholders in the aggregate amount of \$3.9 million.



**Table of Contents*****Debt and Credit Sources***

On May 7, 2004, our operating subsidiary entered into a revolving credit facility. As of March 29, 2008, advances outstanding under the revolving credit facility were approximately \$209 million. Borrowing availability was approximately \$228 million and outstanding letters of credit on this facility were approximately \$10.5 million. As of March 29, 2008, the interest rate on outstanding balances under the revolving credit facility was 5.28%. For the first quarter of fiscal 2008 and first quarter of fiscal 2007, interest expense related to the revolving credit facility was \$4.1 million and \$5.3 million, respectively.

On June 9, 2006, certain special purpose entities that are wholly-owned subsidiaries of ours entered into a \$295 million new mortgage loan with the German American Capital Corporation. The new mortgage has a term of ten years and is secured by 57 distribution facilities and 1 office building owned by the special purpose entities. The stated interest rate on the new mortgage is fixed at 6.35%. German American Capital Corporation assigned half of its interest in the new mortgage loan to Wachovia Bank, National Association.

On June 12, 2006, we entered into an interest rate swap agreement with Goldman Sachs Capital Markets (GSCM), to hedge against interest rate risks related to our variable rate revolving credit facility. The interest rate swap has a notional amount of \$150 million and the terms call for us to receive interest monthly at a variable rate equal to 30-day LIBOR and to pay interest monthly at a fixed rate of 5.4%. This interest rate swap is designated as a cash flow hedge. We expect the hedge to be highly effective in offsetting changes in expected cash flows, as, at inception, the critical terms of the interest rate swap generally match the critical terms of the variable rate revolving credit facility.

Fluctuations in the fair value of the ineffective portion, if any, of the cash flow hedge will be reflected in the current period earnings. For the first quarter of fiscal 2008 and for the first quarter of fiscal 2007, we recognized an immaterial amount of expense related to the ineffective portion of the hedge.

At March 29, 2008 and December 29, 2007, the fair value of the interest rate swap was a liability of \$11.8 million and \$7.1 million, respectively. These balances were included in Other current liabilities and Other long-term liabilities on the Condensed Consolidated Balance Sheet. Accumulated other comprehensive income at March 29, 2007 and December 29, 2007 included the net loss on the cash flow hedge (net of tax) of \$7.1 million and \$4.3 million, respectively, which reflects the cumulative amount of comprehensive loss recognized in connection with the change in fair value of the swap.

***Contractual Obligations***

There have been no material changes to our contractual obligations from those disclosed in Item 7 of our Annual Report on Form 10-K for the fiscal year ended December 29, 2007.

***Critical Accounting Policies***

Our significant accounting policies are more fully described in the notes to the consolidated financial statements. Certain of our accounting policies require the application of significant judgment by management in selecting the appropriate assumptions for calculating financial estimates. As with all judgments, they are subject to an inherent degree of uncertainty. These judgments are based on our historical experience, current economic trends in the industry, information provided by customers, vendors and other outside sources and management's estimates, as appropriate.

The following are accounting policies that management believes are important to the portrayal of our financial condition and results of operations and require management's most difficult, subjective or complex judgment.

***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.



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All sales are recorded at gross in accordance with the guidance outlined by EITF 99-19 and in accordance with standard industry practice. The key indicators used to determine this are as follows:

We are the primary obligor responsible for fulfillment;

We hold title to all reload inventory and are responsible for all product returns;

We control the selling price for all channels;

We select the supplier; and

We bear all credit risk.

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.

### ***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 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 be ultimately 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 March 29, 2008 and December 29, 2007 these allowances totaled \$12.7 million and \$10.5 million, respectively.

### ***Stock-Based Compensation***

Compensation expense arising from stock-based awards granted to employees and non-employee directors is recognized as expense using the straight-line method over the vesting period. As of March 29, 2008, there was \$2.4 million, \$4.8 million, \$1.4 million and \$0.4 million of total unrecognized compensation expense related to stock options, restricted stock, performance shares and restricted stock units, respectively. The unrecognized compensation expense for these awards is expected to be recognized over a period of 3.0 years, 2.7 years, 2.8 years, and 2.2 years, respectively. At March 31, 2007, there was \$5.6 million, \$3.8 million, \$2.6 million and \$0.9 million of total unrecognized compensation expense related to stock options, restricted stock, performance shares and restricted stock units, respectively. The unrecognized expense for these awards at March 31, 2007 was expected to be recognized over a period of 3.6 years, 2.9 years, 3.0 years, and 2.8 years, respectively.

For the first quarter of fiscal 2008 and for the first quarter of fiscal 2007, our total stock-based compensation expense was \$0.1 million and \$0.9 million, respectively. We also recognized related income tax benefits of \$0.02 million and \$0.4 million for the first quarter of fiscal 2008 and for the first quarter of fiscal 2007, respectively.

### ***Inventories***

Inventories are carried at the lower of cost or market. The cost of all inventories is determined by the moving average cost method. 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 December 29, 2007, the lower of cost or market reserve totaled \$0.02 million. The market value of our inventory exceeded its cost at March 29, 2008. Additionally, we maintain a reserve for the estimated value of impairment associated with damaged and inactive inventory. The inactive reserve includes inventory that has had no sales in the past six months or has turn days in excess of 365 days, excluding some specific specialty product items, or is being discontinued. At March 29, 2008 and December 29, 2007, our damaged and inactive inventory reserves totaled \$5.1 million and \$4.4 million, respectively. Adjustments to earnings resulting from revisions to inactive inventory estimates have been insignificant.



**Table of Contents*****Consideration Received from Vendors and Paid to Customers***

Each year, we enter into agreements with many of our vendors providing for 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). 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 March 29, 2008, the vendor rebate receivable and customer rebate payable totaled \$6.5 million and \$5.0 million, respectively. At December 29, 2007, these balances totaled \$7.5 million and \$11.1 million, respectively. Adjustments to earnings resulting from revisions to rebate estimates have been insignificant for each of the reported periods.

***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. Determining whether an impairment has occurred typically requires various estimates and assumptions, including determining which cash flows are directly related to the potentially impaired asset, the useful life over which cash flows will occur, their amount and the asset's residual value, if any. In turn, measurement of an impairment loss requires a determination of fair value, which is based on the best information available. We use internal cash flow estimates, quoted market prices when available and independent appraisals as appropriate to determine fair value. We derive the required cash flow estimates from our historical experience and our internal business plans and apply an appropriate discount rate. If these projected cash flows are less than the carrying amount, an impairment loss is recognized based on the fair value of the asset less any costs of disposition. Our judgment regarding the existence of impairment indicators is based on market and operational performance. There have been no adjustments to earnings resulting from the impairment of long-lived assets for each of the reported periods.

***Income Taxes***

Deferred income tax assets and income tax benefits are provided for temporary differences between amounts recorded for financial reporting and income tax purposes. If, for some reason, the combination of future years income (or loss) combined with the reversal of temporary differences results in a loss, such losses can be carried back to prior years or carried forward to future years to recover the deferred tax assets. In accordance with SFAS No. 109, Accounting for Income Taxes (SFAS 109), we evaluate our deferred tax assets quarterly to determine if valuation allowances are required. SFAS 109 requires that companies assess whether valuation allowances should be established based on the consideration of all available evidence using a more likely than not standard.

In evaluating our ability to recover our deferred income tax assets we consider all 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 and our forecast of future taxable income. In estimating future taxable income, we develop assumptions including the amount of future state and federal pretax operating income, the reversal of temporary differences and the implementation of feasible and prudent tax planning strategies. These assumptions require significant judgment about the forecasts of future taxable income.

The Company has recorded certain deferred income tax assets as of March 29, 2008. Realization is dependent on generating sufficient taxable income. The Company believes the deferred income tax assets will be realized through taxable income generated during available loss carryback periods and future taxable income, including but not limited to taxable income that would be generated by the implementation of feasible and prudent tax planning strategies.

Although realization is not assured, management believes that it is more likely than not that all of the deferred income tax assets will be realized. The amount of the deferred income tax assets considered realizable, however, could be reduced in the near term if estimates of future taxable income available via loss carryback are reduced or if we are unable to implement existing tax planning strategies. During 2008, we will continue to closely monitor the current economic downturn in the housing and construction sectors on a quarterly basis. Should conditions reach a level during 2008 that necessitates the recording of a valuation allowance against our deferred income tax assets based upon

all of the evidence, both positive and negative, it will be recorded in the period that such changes in estimates are made. The recording of a valuation allowance would result in additional income tax expense in such period and could have a significant impact on our future earnings.

In 2007, we adopted the provisions of FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*, which prescribes a comprehensive model for how a company should recognize, measure, present and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on a tax return (including a discussion of whether to file or not to file a return in a particular jurisdiction). The cumulative effect of applying FIN 48 is reported as an adjustment to the opening balance of retained earnings. Adoption of FIN 48 on December 31, 2006 did not have a material effect on our consolidated financial position or results of operations.

**Table of Contents*****Exit Costs***

During the fourth quarter of fiscal 2007, we vacated leased office space. We accounted for the transaction in accordance with SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*, which requires that a liability be recognized for the cost 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 exit costs include the estimated losses on the vacated facility based on our contractual obligations net of estimated sublease income based on current comparable market rates for leases. We will reassess this liability periodically based on 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. At March 29, 2008 and December 29, 2007, the vacant property reserve totaled \$11.0 million and \$11.3 million, respectively. These balances were included in Other current liabilities, and in Other long-term liabilities on the Consolidated Balance Sheet.

***Recently Issued Accounting Pronouncements***

In March 2008, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standards ( SFAS ) No. 161, *Disclosures about Derivative Instruments and Hedging Activities – An Amendment of SFAS No. 133* ( SFAS 161 ). SFAS 161 seeks to improve financial reporting for derivative instruments and hedging activities by requiring enhanced disclosures regarding the impact on financial position, financial performance, and cash flows. To achieve this increased transparency, SFAS 161 requires (1) the disclosure of the fair value of derivative instruments and gains and losses in a tabular format; (2) the disclosure of derivative features that are credit risk-related; and (3) cross-referencing within the footnotes. SFAS 161 is effective, on a prospective basis, for fiscal years beginning after November 15, 2008. We are in the process of evaluating the new disclosure requirements under SFAS 161

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements* (SFAS No. 160). SFAS No. 160 establishes requirements for ownership interests in subsidiaries held by parties other than the Company (sometimes called minority interests) be clearly identified, presented, and disclosed in the consolidated statement of financial position within equity, but separate from the parent's equity. All changes in the parent's ownership interests are required to be accounted for consistently as equity transactions and any noncontrolling equity investments in deconsolidated subsidiaries must be measured initially at fair value. SFAS No. 160 is effective, on a prospective basis, for fiscal years beginning after December 15, 2008. However, presentation and disclosure requirements must be retrospectively applied to comparative financial statements. We are currently assessing the impact of SFAS No. 160 on our consolidated financial position, results of operations and cash flows.

In December 2007, the FASB issued SFAS 141 (revised 2007) *Business Combinations* ( SFAS 141R ). SFAS 141R establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. SFAS 141R also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS No. 141R is effective, on a prospective basis, for fiscal years beginning after December 15, 2008. We are currently evaluating the potential impact, if any, of the adoption of SFAS 141R on our consolidated financial position, results of operations and cash flows.

In February, 2007, the FASB issued SFAS No. 159 *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS No. 159). SFAS No. 159 permits entities to choose to measure many financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. We have elected to not adopt the fair value option in measuring certain financial assets and liabilities.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, which defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measurements. SFAS No. 157 applies to other accounting pronouncements that require or permit fair value measurements. The new guidance is effective for financial statements issued for fiscal years beginning after November 15, 2007, and for interim periods within those fiscal years. In February 2008, FSP 157-1 *Application of FASB Statement No. 157 to*

*FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13* was issued. FSP 157-1 removed leasing transactions accounted for under Statement 13 and related guidance from the scope of SFAS No. 157. FSP 157-2 *Partial Deferral of the Effective Date of Statement 157* deferred the effective date of SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities to fiscal years beginning after November 15, 2008.



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SFAS No. 157, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). SFAS No. 157 classifies inputs used to measure fair value into the following hierarchy:

Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 Unadjusted quoted prices in active markets for similar assets or liabilities, or  
Unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or  
Inputs other than quoted prices that are observable for the asset or liability.

Level 3 Unobservable inputs for the asset or liability.

We are exposed to market risks from changes in interest rates, which may affect our operating results and financial position. When deemed appropriate, we minimize our risks from interest rate fluctuations through the use of an interest rate swap. This derivative financial instrument is used to manage risk and is not used for trading or speculative purposes. The swap is valued using a valuation model that has inputs other than quoted market prices that are both observable and unobservable.

We endeavor to utilize the best available information in measuring the fair value of the interest rate swap. The interest rate swap is classified in its entirety based on the lowest level of input that is significant to the fair value measurement.

We have determined that our interest rate swap is a level 3 liability in the fair value hierarchy. The fair value of the interest rate swap was \$11.8 million as of March 29, 2008.

The implementation of SFAS No. 157 for financial assets and financial liabilities, effective December 30, 2007, did not have a material impact on our consolidated financial position and results of operations. We are currently assessing the impact of SFAS No. 157 for pension related financial assets and nonfinancial assets and nonfinancial liabilities on our consolidated financial position and results of operations.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

There have been no material changes in market risk from the information provided in Part II, Item 7A Quantitative and Qualitative Disclosures About Market Risk in our Annual Report on Form 10-K for the fiscal year ended December 29, 2007, other than those discussed below.

Our revolving credit facility accrues interest based on a floating benchmark rate (the prime rate or LIBOR rate), plus an applicable margin. A change in interest rates under the revolving credit facility would have an impact on our results of operations. A change of 100 basis points in the market rate of interest would impact interest expense by approximately \$0.6 million based on borrowings outstanding at March 29, 2008. Additionally, to the extent changes in interest rates impact the housing market, we would be impacted by such changes.

**ITEM 4. CONTROLS AND PROCEDURES**

Our management performed an evaluation, as of the end of the period covered by this report on Form 10-Q, under the supervision of our chief executive officer and chief financial officer of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in rule 13a-15(e) and 15d-15(e) of the Securities and Exchange Act of 1934, as amended (the Exchange Act)). Based on that evaluation, our chief executive officer and chief financial officer have concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and is accumulated and communicated to our management including our chief executive officer and chief financial officer, to allow timely decisions regarding required disclosure.

There were no changes in our internal control over financial reporting during the period covered by this report that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting.



**Table of Contents****PART II. OTHER INFORMATION****ITEM 1. LEGAL PROCEEDINGS**

During the quarter ended March 29, 2008, there were no material changes to our previously disclosed legal proceedings. Additionally, we are, and from time to time may be, a party to routine legal proceedings incidental to the operation of our business. The outcome of any pending or threatened proceedings is not expected to have a material adverse effect on our financial condition, operating results or cash flows, based on our current understanding of the relevant facts. Legal expenses incurred related to these contingencies are generally expensed as incurred.

**ITEM 1A. RISK FACTORS**

There have been no material changes in our risk factors from those disclosed in our Annual Report on Form 10-K for the year ended December 29, 2007 as filed with the SEC.

**ITEM 6. EXHIBITS**

<b>Exhibit Number</b>	<b>Description</b>
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrants have duly caused this report to be signed on their behalf by the undersigned hereunto duly authorized.

**BlueLinx Holdings Inc.**

*(Registrant)*

Date: May 5, 2008

/s/ Howard D. Goforth

Howard D. Goforth

*Chief Financial Officer and Treasurer*

*(Principal Accounting and Financial  
Officer)*

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