BlueLinx Holdings Inc.
Form 10-K
March 02, 2017

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

Form 10-K

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

For the fiscal year ended December 31, 2016
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission file number: 1-32383

BlueLinx Holdings Inc.
(Exact name of registrant as specified in its charter)

Delaware	77-0627356
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
4300 Wildwood Parkway, Atlanta, Georgia	30339
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: 770-953-7000
Securities registered pursuant to Section 12(b) of the Act

Title of Each Class	Name of Each Exchange on Which Registered
Common stock, par value $0.01 per share	New York Stock Exchange

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No þ
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No 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 þ No o
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer o Accelerated filer o Non-accelerated filer o Smaller reporting company þ

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No þ
The aggregate market value of the registrant's common stock held by non-affiliates of the registrant as of July 2, 2016 was $28,346,119, based on the closing price on the New York Stock Exchange of $7.02 per share on July 1, 2016.
As of March 2, 2017, the registrant had 9,009,800 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE
Part III of this Annual Report on Form 10-K incorporates by reference to the registrant's definitive Proxy Statement, to be filed with the Securities and Exchange Commission within 120 days of the close of the fiscal year ended December 31, 2016.

BLUELINX HOLDINGS INC.
ANNUAL REPORT ON FORM 10-K
For the fiscal year ended December 31, 2016

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As used herein, unless the context otherwise requires, "BlueLinx," the "Company," "we," "us," and "our" refer to BlueLinx Holdings Inc. and its wholly-owned subsidiaries. Reference to "fiscal 2016" refers to the 52-week period ended December 31, 2016. Reference to "fiscal 2015" refers to the 52-week period ended January 2, 2016. Reference to "fiscal 2014" refers to the 52-week period ended January 3, 2015.

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains information that may constitute "forward-looking statements." Generally, the words "believe," "expect," "intend," "estimate," "anticipate," "project," "will" and similar expressions identify forward-loo statements, which generally are not historical in nature. However, the absence of these words or similar expressions does not mean that a statement is not forward-looking. All statements that address operating performance, events or developments that we expect or anticipate will occur in the future — including statements relating to volume growth, share of sales and earnings per share growth, and statements expressing general views about future operating results — are forward-looking statements. Management believes that these forward-looking statements are reasonable as and when made. However, caution should be taken not to place undue reliance on any such forward-looking statements because such statements speak only as of the date when made. Our Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. In addition, forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from our Company's historical experience and our present expectations or projections. These risks and uncertainties include, but are not limited to, those described in Item 1A Risk Factors and elsewhere in this report and those described from time to time in our future reports filed with the Securities and Exchange Commission.

PART I

ITEM 1. BUSINESS

Company Overview

We are a leading distributor of building and industrial products in the United States ("U.S."). The Company is headquartered in Atlanta, Georgia, with executive offices located at 4300 Wildwood Parkway, Atlanta, Georgia, and we operate our distribution business through a network of 39 distribution centers located throughout the U.S. We serve many major metropolitan areas in the U.S., and deliver building and industrial products to a variety of wholesale and retail customers.

Fiscal Year

Fiscal 2016, fiscal 2015, and fiscal 2014 each were comprised of 52 weeks.

Products and Services

We distribute products in two principal categories: structural products and specialty products. Structural products, which represented approximately 41%, 40%, and 41% of our fiscal 2016, fiscal 2015, and fiscal 2014 gross sales, respectively, 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. Specialty products, which represented approximately 59%, 60%, and 59% of our fiscal 2016, fiscal 2015, and fiscal 2014 gross sales, respectively, include roofing, insulation, specialty panels, moulding, engineered wood products, vinyl products (used primarily in siding), outdoor living, particle board, and metal products (excluding rebar and remesh). In some cases, these products are branded by us.

We also provide a wide range of value-added services and solutions to our customers and suppliers including:

- providing "less-than-truckload" delivery services;
- pre-negotiated program pricing plans;
- inventory stocking;
- automated order processing through an electronic data interchange, or "EDI", that provides a direct link between us and our customers;
- intermodal distribution services, including railcar unloading and cargo reloading onto customers' trucks; and
- backhaul services, when otherwise empty trucks are returning from customer deliveries.

Distribution Channels

We sell products through three main distribution channels: warehouse sales, reload sales, and direct sales.

Warehouse sales are delivered from our warehouses to dealers, home improvement centers, and industrial users. Warehouse sales accounted for approximately 74% of our fiscal 2016 gross sales, and 73% and 71% of our fiscal 2015 and fiscal 2014 gross sales, respectively.

Reload sales are similar to warehouse sales but are shipped from third-party warehouses where we store owned product to enhance operating efficiencies. This channel is employed primarily to service strategic customers that would be less economical to service from our warehouses, and to distribute large volumes of imported products from port facilities. Reload sales accounted for approximately 6%, 8%, and 10% of our fiscal 2016, fiscal 2015, and fiscal 2014 gross sales, respectively.

Direct sales are shipped from the manufacturer to the customer without our taking physical inventory possession. This channel requires the lowest amount of committed capital and fixed costs. Direct sales accounted for approximately 20% of our fiscal 2016 gross sales, and 19% of each of our fiscal 2015 and fiscal 2014 gross sales.

Competition

The U.S. building products distribution market is a highly fragmented market, served by a small number of multi-regional distributors, several regionally focused distributors, and a large number of independent local distributors. Local and regional distributors tend to be closely held and often specialize in a limited number of segments, in which they offer a broader selection of products. Some of our multi-regional competitors are part of larger companies and therefore may have access to greater financial and other resources than those to which we have access. We compete on the basis of breadth of product offering, consistent availability of product, product price and quality, reputation, service, and distribution facility location.

Two of our largest competitors are Boise Cascade Company and Weyerhaeuser Company. Most major markets in which we operate are served by the distribution arm of at least one of these companies.

Seasonality

We are exposed to fluctuations in quarterly sales volumes and expenses due to seasonal factors common in the building products distribution industry. The first and fourth quarters are typically our slowest quarters due to the impact of unfavorable 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, accounts receivable, and accounts payable generally peak in the third quarter, while inventory generally peaks in the second quarter in anticipation of the summer building season.

Employees

As of December 31, 2016, we employed approximately 1,600 employees. We consider our relationship with our employees generally to be good.

Executive Officers

The following are the executive officers of our Company as of March 2, 2017:

Mitchell B. Lewis, age 54, has served as our President and Chief Executive Officer, and as a Director of BlueLinx Holdings Inc. since January 2014. Mr. Lewis has held numerous leadership positions in the building products industry since 1992, including President and Chief Executive Officer of Euramax Holdings, Inc. from February 2008, through November 2013. Mr. Lewis also served as Chief Operating Officer in 2005, Executive Vice President in 2002, and group Vice President in 1997, of Euramax Holdings, Inc. and its predecessor companies. Prior to being appointed group Vice President, Mr. Lewis served as President of Amerimax Building Products, Inc. Prior to 1992, Mr. Lewis served as Corporate Counsel with Alumax Inc. and practiced law with Alston & Bird LLP, specializing in mergers and acquisitions. Mr. Lewis received a Bachelor of Arts degree in Economics from Emory University, and a Juris Doctor degree from the University of Georgia.

Susan C. O’Farrell, age 53, has served as our Senior Vice President, Chief Financial Officer, Treasurer, and Principal Accounting Officer since May 2014. Prior to joining us, Ms. O’Farrell was a senior financial executive holding several roles with The Home Depot since 1999. As the Vice President of Finance, she led teams supporting the retail organization. Ms. O’Farrell was also responsible for the finance function for The Home Depot’s At Home Services Group. Ms. O’Farrell led the financial operations of The Home Depot, and she served as the VP Finance for the Northern Division of the company. Ms. O’Farrell began her career with Andersen Consulting, LLP, leaving as an Associate Partner in 1996 for a strategic information systems role with AGL Resources. Ms. O’Farrell earned a Bachelor of Science degree in Business Administration from Auburn University and attended Emory University’s Executive Leadership program.

Shyam K. Reddy, age 42, has served as our Senior Vice President, General Counsel, and Corporate Secretary since June 1, 2015. Prior to joining us, Mr. Reddy served in roles as Senior Vice President, Chief Administrative Officer, General Counsel, and Corporate Secretary of Euramax Holdings, Inc., from March 2013 to March 2015. Prior to joining Euramax Holdings, Inc., Mr. Reddy was the Regional Administrator of the Southeast Sunbelt Region of the U.S. General Services Administration from March 2010 to March 2013. Prior to accepting the Presidential Appointment at the U.S. General Services Administration, Mr. Reddy practiced corporate law as a partner in the Atlanta office of Kilpatrick Townsend & Stockton LLP. Mr. Reddy attended Emory University, where he received a Bachelor of Arts degree in Political Science, and a Master of Public Health degree. He also received a Juris Doctor degree from the University of Georgia.

Environmental and Other Governmental Regulations

The Company is subject to various federal, state, provincial and local laws, rules, and regulations. We are subject to environmental laws, rules, and regulations that limit discharges into the environment, establish standards for the handling, generation, emission, release, discharge, treatment, storage and disposal of hazardous materials, substances and wastes, and require cleanup of contaminated soil and groundwater. These laws, ordinances, and regulations are complex, change frequently and have tended to become more stringent over time. Many of them provide for substantial fines and penalties, orders (including orders to cease operations), and criminal sanctions for violations. They may also impose liability for property damage and personal injury stemming from the presence of, or exposure to, hazardous substances. In addition, certain of our operations require us to obtain, maintain compliance with, and periodically renew permits.

Certain of these laws, including the Comprehensive Environmental Response, Compensation, and Liability Act, may require the investigation and cleanup of an entity's or its predecessor's current or former properties, even if the associated contamination was caused by the operations of a third party. These laws also may require the investigation and cleanup of third-party sites at which an entity or its predecessor sent hazardous wastes for disposal, notwithstanding that the original disposal activity accorded with all applicable requirements. Liability under such laws may be imposed jointly and severally, and regardless of fault.

We are also subject to the requirements of the U.S. Department of Labor Occupational Safety and Health Administration ("OSHA"). In order to maintain compliance with applicable OSHA requirements, we have established uniform safety and compliance procedures for our operations, and implemented measures to prevent workplace injuries.

The U.S. Department of Transportation ("DOT") regulates our operations in domestic interstate commerce. We are subject to safety requirements governing interstate operations prescribed by the DOT. Vehicle dimensions and driver hours of service also remain subject to both federal and state regulation.

We incur and will continue to incur costs to comply with the requirements of environmental, health and safety, and transportation laws, ordinances, and regulations. We anticipate that these requirements could become more stringent in the future, and we cannot assure you that compliance costs will not be material.

Securities Exchange Act Reports

The Company maintains a website at www.BlueLinxCo.com. The information on the Company's website is not incorporated by reference in this Annual Report on Form 10-K. We make available on or through our website certain reports, and amendments to those reports, that we file with or furnish to the U.S. Securities and Exchange Commission (the "SEC") in accordance with the Securities Exchange Act of 1934. These include our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and proxy statements. Additionally, our code of ethical conduct, the board committee charter for each of our audit committee, compensation committee, and nominating and governance committee, and our corporate governance guidelines are available on our website. If we make any amendment to our code of ethical conduct, or grant any waiver, including any implicit waiver, for any board member, our chief executive officer, our chief financial officer, or any other executive officer, we will disclose such amendment or waiver on our website.

We make information available on our website free of charge as soon as reasonably practicable after we electronically file the information with, or furnish it to, the SEC. In addition, copies of this information will be made available, free of charge, on written request, by writing to BlueLinx Holdings Inc., Attn: Corporate Secretary, 4300 Wildwood Parkway, Atlanta, Georgia, 30339.

ITEM 1A. RISK FACTORS

In addition to the other information contained in this Form 10-K, the following risk factors should be considered carefully in evaluating our business. Our business, financial condition, or results of operations could be materially adversely affected by any of these risks. Additional risks not presently known to us or that we currently deem immaterial may also impair our business and operations.

Our industry is highly cyclical, and prolonged periods of weak demand or excess supply may reduce our net sales and/or margins, which may cause us to incur losses or reduce our net income.

The building products distribution industry is subject to cyclical market pressures. Prices of building products are determined by overall supply and demand in the market. Market prices of building products historically have been volatile and cyclical, and we have limited ability to control the timing and amount of pricing changes. Demand for building products is driven mainly by factors outside of our control, such as general economic and political conditions, interest rates, availability of mortgage financing, the construction, repair and remodeling markets, industrial markets, weather, and population growth. The supply of building products fluctuates based on available manufacturing capacity, and excess capacity in the industry can result in significant declines in market prices for those products. To the extent that prices and volumes experience a sustained or sharp decline, our net sales and margins likely would decline as well. Because we have substantial fixed costs, a decrease in sales and margin generally may have a significant adverse impact on our financial condition, operating results, and cash flows.

Additionally, many of the building products which we distribute, including OSB, plywood, lumber, and particleboard, are commodities that are widely available from other distributors or manufacturers, with prices and volumes determined frequently in an auction market based on participants' perceptions of short-term supply and demand factors. At times, the purchase price for any one or more of the products we produce or distribute may fall below our purchase costs, requiring us to incur short-term losses on product sales.

All of these factors make it difficult to forecast our operating results.

Our cash flows and capital resources may be insufficient to make required payments on our substantial indebtedness, future indebtedness, or to maintain our required level of excess liquidity.

We have a substantial amount of debt which could have important consequences for us. For example, our substantial indebtedness could:

- make it difficult for us to satisfy our debt obligations;
- make us more vulnerable to general adverse economic and industry conditions;
- limit our ability to obtain additional financing for working capital, capital expenditures, acquisitions, and other general corporate requirements;
- expose us to interest rate fluctuations because the interest rate on the debt under our U.S. revolving credit facility and Tranche A Loan (together, the "Credit Agreement,") is variable;
- require us to dedicate a substantial portion of our cash flows to payments on our debt, thereby reducing the availability of our cash flows for operations and other purposes;
- limit our flexibility in planning for, or reacting to, changes in our business, and the industry in which we operate; and
- place us at a competitive disadvantage compared to competitors that may have proportionately less debt, and therefore may be in a better position to obtain favorable credit terms.

In addition, our ability to make scheduled payments or refinance our obligations depends on our successful financial and operating performance, cash flows, and capital resources, which in turn depend upon prevailing economic conditions and certain financial, business, and other factors, many of which are beyond our control. These factors include, among others:

- economic and demand factors affecting the building products distribution industry;
- external factors affecting availability of credit;
- pricing pressures;
- increased operating costs;
- competitive conditions; and
- other operating difficulties.

If our cash flows and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce or delay capital expenditures, sell material assets or operations, obtain additional capital, or restructure our debt. Obtaining additional capital or restructuring our debt could be accomplished in part through new or additional borrowings or placements of debt or securities. There is no assurance that we could obtain additional capital or refinance our debt on terms acceptable to us, or at all. In the event that we are required to dispose of material assets or operations to meet our debt service and other obligations, the value realized on the disposition of such assets or operations will depend on market conditions and the availability of buyers. Accordingly, any such sale may not, among other things, be for a sufficient dollar amount. We may incur substantial additional indebtedness in the future. Our incurring additional indebtedness would intensify the risks described above.

The instruments governing our indebtedness restrict our ability to dispose of assets and the use of proceeds from any such disposition.

Our obligations under the Credit Agreement are secured by a first priority security interest in all of our operating subsidiaries' assets, including inventories, accounts receivable, and proceeds from those items, and are also secured by a second priority interest in the equity of our real estate subsidiaries which hold the real estate that secures our mortgage loan. Furthermore, the equity interest in all of our real estate subsidiaries which hold the real estate secured by our mortgage are subject to first and second priority interests in favor of our lenders, as applicable. The foregoing encumbrances may limit our ability to dispose of material assets or operations.

As of December 31, 2016, we had outstanding borrowings of $176.2 million and excess availability of $63.5 million, based on qualifying inventory and accounts receivable, under the terms of the Credit Agreement. In addition, our mortgage loan is secured by the majority of our real property. As amended on March 24, 2016, our mortgage loan requires us to make a $27.2 million remaining principal payment (originally $60.0 million, reduced by $32.8 million of principal payments allocable during fiscal 2016) due no later than July 1, 2017, and a $55.0 million principal payment due no later than July 1, 2018, with the remainder of the mortgage due on July 1, 2019. Pursuant to the mortgage loan, and except as expressly permitted thereunder, the net proceeds from any mortgaged properties sold by us must be used to pay down mortgage principal, and these net proceeds will be included in the aforementioned principal payments. We may incur substantial additional indebtedness in the future, and our incurring additional indebtedness would intensify the risks described above.

Accordingly, we may not be able to consummate any disposition of assets or obtain the net proceeds which we could realize from such disposition, and these proceeds may not be adequate to meet the debt service obligations then due.

In the event of our breach of the revolving credit facilities or our mortgage loan, we may be required to repay any outstanding amounts earlier than anticipated, and the lenders may foreclose on their security interest in our assets or otherwise exercise their remedies with respect to such interests.

The instruments governing our indebtedness contain various covenants limiting the discretion of our management in operating our business, including requiring us to maintain a minimum level of excess liquidity.

Our revolving credit facilities and mortgage loan contain various restrictive covenants and restrictions, including financial covenants customary for asset-based loans that limit management's discretion in operating our business. In particular, these instruments limit our ability to, among other things:

- incur additional debt;
- grant liens on assets;
- make investments;
- sell or acquire assets outside the ordinary course of business;
- engage in transactions with affiliates; and
- make fundamental business changes.

As amended most recently on November 3, 2016, by the Thirteenth Amendment (the "Amendment") to the Credit Agreement, the U.S. revolving credit facility loan limit was reduced by $15.0 million to $335.0 million, and the Tranche A Loan limit was reduced by $4.0 million to $16.0 million. Furthermore, the Amendment requires maintenance of a fixed charge coverage ratio of 1.2 to 1.0 in the event our excess availability falls below $32.5 million through March 31, 2017; and subsequently, the greater of a defined range, adjusted on a seasonal basis, of $36.0 million to $42.0 million and an amount equal to 12.5% of the lesser of (a) the sum of the borrowing base and the Tranche A Loan borrowing base or (b) the maximum credit. The Tranche A Loan limit shall be subject to automatic commitment reductions depending on the time of year, with the balance due and payable by July 15, 2018; provided, that all scheduled commitment reductions on or after August 1, 2017 will be subject to satisfaction of certain conditions including a minimum excess availability threshold of at least $50.0 million after giving effect to any such required payment. If a scheduled commitment reduction is prohibited due to not satisfying those conditions, the required excess availability covenant shall be increased by the amount of any such prohibited commitment reduction.

If we fail to comply with the minimum excess availability covenant discussed above, the Credit Agreement requires us to (i) maintain certain financial ratios, which we would not meet with current operating results, and (ii) limit our capital expenditures, which would have a negative impact on our ability to finance working capital needs and capital expenditures.

If we fail to comply with the restrictions in the Credit Agreement, the mortgage loan documents, or any other current or future financing agreements, a default may allow the creditors under the relevant instruments to accelerate the related debts and to exercise their remedies under these agreements, which typically will include the right to declare the principal amount of that debt, together with accrued and unpaid interest, and other related amounts, immediately due and payable, to exercise any remedies the creditors may have to foreclose on assets that are subject to liens securing that debt, and to terminate any commitments they had made to supply further funds.

Product shortages, loss of key suppliers, and our dependence on third-party suppliers and manufacturers could affect our financial health.

Our ability to offer a wide variety of products to our customers is dependent upon our ability to obtain adequate product supply from manufacturers and other suppliers. Generally, our products are obtainable from various sources and in sufficient quantities. However, the loss of, or a substantial decrease in the availability of, products from our suppliers or the loss of key supplier arrangements could adversely impact our financial condition, operating results, and cash flows. In addition, many of our suppliers are located outside of the United States. Thus, trade restrictions, including new or increased tariffs, quotas, embargoes, sanctions, safeguards and customs restrictions, as well as foreign labor strikes, work stoppages or boycotts, could increase the cost or reduce the supply of the products available to us.

Although in many instances we have agreements with our suppliers, these agreements are generally terminable by either party on limited notice. Failure by our suppliers to continue to supply us with products on commercially reasonable terms, or at all, could have a material adverse effect on our financial condition, operating results, and cash flows.

Our business operations could suffer significant losses from natural disasters, catastrophes, fire or other unexpected events.

While we operate our business out of 39 warehouse facilities and maintain insurance covering our facilities, including business interruption insurance, our warehouse facilities could be materially damaged by natural disasters, such as floods, tornadoes, hurricanes, and earthquakes, or by fire, adverse weather conditions, civil unrest, or other unexpected events or disruptions to our facilities. We could incur uninsured losses and liabilities arising from such events, including damage to our reputation, and/or suffer material losses in operational capacity, which could have a material adverse impact on our business, financial condition, and results of operations.

Our industry is highly fragmented and competitive. If we are unable to compete effectively, our net sales and operating results may be reduced.

The building and industrial products distribution industry is highly fragmented and competitive, and the barriers to entry for local competitors are relatively low. Competitive factors in our industry include pricing, availability of product, service, delivery capabilities, customer relationships, geographic coverage, and breadth of product offerings. Also, financial stability is important to suppliers and customers in choosing distributors for their products, and affects the favorability of the terms on which we are able to obtain our products from our suppliers and sell our products to our customers.

Some of our competitors are part of larger companies, and therefore may have access to greater financial and other resources than those to which we have access. In addition, certain product manufacturers sell and distribute their products directly to customers. Additional manufacturers of products distributed by us may elect to sell and distribute directly to end-users in the future or enter into exclusive supply arrangements with other distributors. Finally, we may not be able to maintain our costs at a level sufficiently low for us to compete effectively. If we are unable to compete effectively, our net sales and net income may be reduced.

A significant percentage of our employees are unionized. Wage increases or work stoppages by our unionized employees may reduce our results of operations.

As of December 31, 2016, we employed approximately 1,600 persons. Approximately 35% of our employees were represented by various local labor union collective bargaining agreements (“CBAs”), of which approximately 10% of CBAs are up for renewal in fiscal 2017 or are currently expired and under negotiations.

Although we have generally had good relations with our unionized employees, and expect to renew collective bargaining agreements as they expire, no assurances can be provided that we will be able to reach a timely agreement as to the renewal of the agreements, and their expiration or continued work under an expired agreement, as applicable, could result in a work stoppage. In addition, we may become subject to material cost increases, or additional work rules imposed by agreements with labor unions. The foregoing could increase our selling, general, and administrative expenses in absolute terms and/or as a percentage of net sales. In addition, work stoppages or other labor disturbances may occur in the future, which could adversely impact our net sales and/or selling, general, and administrative expenses. All of these factors could negatively impact our operating results and cash flows.

Changes in actuarial assumptions for our pension plan could impact our financial results, and funding requirements are mandated by the Federal government.

We sponsor a defined benefit pension plan. Most of the participants in our pension plan are inactive, with the majority of the remaining active participants no longer accruing benefits; and the pension plan is closed to new entrants. However, unfavorable changes in various assumptions underlying the pension benefit obligation could adversely impact our financial results. Significant assumptions include, but are not limited to, the discount rate, projected return on plan assets, and mortality rates. In addition, the amount and timing of our pension funding obligations are influenced by funding requirements that are established by the Employee Retirement Income and Security Act of 1974 (“ERISA”), the Pension Protection Act, Congressional Acts, or other governing bodies.

Costs and liabilities related to our participation in multi-employer pension plans could increase.

We participate in various multi-employer pension plans in the U.S. based on obligations arising under collective bargaining agreements. Some of these plans are significantly underfunded and may require increased contributions in the future. The amount of any increase or decrease in our required contributions to these multi-employer pension plans will depend upon the outcome of collective bargaining, actions taken by trustees who manage the plan, governmental regulations, the actual return on assets held in the plan, the continued viability and contributions of other employers which contribute to the plan, and the potential payment of a withdrawal liability, among other factors.

Under current law, an employer that withdraws or partially withdraws from a multi-employer pension plan may incur a withdrawal liability to the plan, which represents the portion of the plan’s underfunding that is allocable to the withdrawing employer under very complex actuarial and allocation rules. If, in the future, we choose to withdraw from any of these multi-employer plans or trigger a partial withdrawal, we likely would need to record a withdrawal liability, which may be material to our financial results. Additionally, a mass withdrawal would require us to record a withdrawal liability, which may be material to our financial results, and would obligate us to payments in perpetuity to the particular plan.

One of the plans to which we are obligated to contribute is the Central States, Southeast and Southwest Areas Pension Fund. As of March 30, 2016, the plan’s actuary certified that the plan was in critical and declining status, which, among other things, means the funded percentage of the plan was less than 65% and the plan is projected to become insolvent in 2025. It is unclear what will happen to this plan in the future. At a minimum, we expect that our required contributions to the plan may increase. In addition, if we experience a withdrawal from this plan, we may need to record a significant withdrawal liability. Our estimated withdrawal liability was $30.7 million if we had experienced a complete withdrawal from the plan during 2016. This number will likely increase if a withdrawal occurs in 2017 or later, and could be significantly higher if a mass withdrawal were to occur in the future.

Affiliates of Cerberus control us and may have conflicts of interest with other stockholders.

Cerberus Capital Management, L.P. (“Cerberus”), a private investment firm, beneficially owned approximately 52.2% of our common stock as of December 31, 2016. As a result, Cerberus is able to control the election of our directors, determine our corporate and management policies and determine, without the consent of our other stockholders, the outcome of most corporate transactions or other matters submitted to our stockholders for approval, including potential mergers or acquisitions, asset sales, and other significant corporate transactions. This concentrated ownership position limits other stockholders’ ability to influence corporate matters and, as a result, we may take actions that some of our stockholders may not view as beneficial.

Two of our seven directors are employees of or current advisors to Cerberus or its affiliates. Cerberus also has sufficient voting power to amend our organizational documents. The interests of Cerberus may not coincide with the interests of other holders of our common stock. Additionally, Cerberus is in the business of making investments in companies, and may, from time to time, acquire and hold interests in businesses that compete directly or indirectly with us. Cerberus may also pursue, for its own account, acquisition opportunities that may be complementary to our business, and as a result, those acquisition opportunities may not be available to us. So long as Cerberus continues to own a significant amount of the outstanding shares of our common stock, it will continue to be able to strongly influence or effectively control our decisions, including potential mergers or acquisitions, asset sales, and other significant corporate transactions. In addition, because we are a controlled company within the meaning of the New York Stock Exchange (“NYSE”) rules, we are exempt from the NYSE requirements that our board be composed of a majority of independent directors, that our compensation committee be composed entirely of independent directors, and that we maintain a nominating/corporate governance committee composed entirely of independent directors.

We are subject to information technology security risks and business interruption risks, and may incur increasing costs in an effort to minimize those risks.

Our business employs information technology systems to secure confidential information, such as employee data. Security breaches could expose us to a risk of loss or misuse of this information, litigation, and potential liability. We may not have the resources or technical sophistication to anticipate or prevent rapidly evolving types of cyber attacks. Any compromise of our security could result in a violation of applicable privacy and other laws, significant legal and financial exposure, damage to our reputation, and a loss of confidence in our security measures, which could harm our business. As cyber attacks become more sophisticated generally, we may be required to incur significant costs to strengthen our systems from outside intrusions, and/or obtain insurance coverage related to the threat of such attacks. Additionally, our business is reliant upon information technology systems to place orders with our vendors and process orders from our customers. Disruption in these systems could materially impact our ability to buy and sell our products.

We are subject to continuing compliance monitoring by the NYSE. If we do not continue to meet the NYSE continued listing standards, our common stock may be delisted.

Our common stock is currently listed for trading on the NYSE, and the continued listing of our common stock on the NYSE is subject to our compliance with the listing standards. We are currently in compliance with the continued listing standards of the NYSE; however, in 2015 and 2016 we were notified by the NYSE that we had failed to meet the NYSE's minimum average share price requirement and the NYSE's minimum average global market capitalization and stockholders' equity requirement. We have since regained compliance with each of those requirements. If we are unable to maintain compliance with the NYSE criteria for continued listing, our common stock may be subject to delisting. Delisting may have an adverse effect on the liquidity of our common stock and, as a result, the market price for our common stock might decline.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We operate our business out of 39 warehouse facilities. Owned land in Newtown, Connecticut, is held for sale, as are three warehouses, located in Lubbock, Texas; Allentown, Pennsylvania; and Virginia Beach, Virginia. The total square footage of our owned real property is approximately 9.4 million square feet.

Certain of our owned warehouse facilities secure our mortgage loan; and the parcel of land referred to above located in Newtown, Connecticut, secures a lien related to our 2012 pension funding waiver from the Pension Benefit Guaranty Corporation, which expires in funding year 2017. Additionally, we lease two warehouse facilities owned by our pension plan. The following table summarizes our real estate facilities, including their inside square footage, where applicable:

Property Type	Number	Owned Facilities (sq. ft.)	Leased Facilities (sq. ft.)
Office Space [(1)]	2	—	165,423
Warehouses and other real property	43	9,365,381	220,600
TOTAL	45	9,365,381	386,023

[(1)] Consists of our corporate headquarters and sales center in Atlanta, and a sales center in Denver.

We also store materials, such as lumber and rebar, in secured outdoor areas at all of our warehouse locations, which increases warehouse distribution and storage capacity. We believe that substantially all of our property and equipment is in good condition, subject to normal wear and tear. We believe that our facilities have sufficient capacity to meet current and projected distribution needs.

ITEM 3. LEGAL PROCEEDINGS

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 generally are expensed as incurred. We establish reserves for pending or threatened proceedings when the costs associated with such proceedings become probable and reasonably can be estimated.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES

Our equity securities consist of one class of common stock, which is traded on the New York Stock Exchange under the symbol "BXC".

Pursuant to the authorization granted by our stockholders at our Annual Meeting of Stockholders held on May 19, 2016, our board of directors approved a 1-for-10 reverse stock split (the "Reverse Stock Split") of our common stock, and a corresponding reduction in the number of authorized shares of common stock, from 200,000,000 to 20,000,000. Our authorized number of shares of preferred stock remained unchanged at 30,000,000. The Reverse Stock Split was effected on the close of business as of June 13, 2016, and our stock began trading on a reverse split-adjusted basis on June 14, 2016. All references made to share or per share amounts have been restated to reflect the effect of this 1-for-10 reverse stock split for all periods presented.

The following table sets forth, for the periods indicated, the range of the high and low sales prices for the common stock as quoted on the New York Stock Exchange:

	High	Low
Fiscal Year Ended December 31, 2016		
First Quarter	$6.50	$3.40
Second Quarter	$7.85	$6.30
Third Quarter	$9.18	$7.10
Fourth Quarter	$8.95	$7.34
Fiscal Year Ended January 2, 2016		
First Quarter	$11.70	$9.10
Second Quarter	$12.80	$9.50
Third Quarter	$10.20	$5.40
Fourth Quarter	$8.00	$4.00

As of December 31, 2016, there were 26 shareowner accounts of record, and, as of that date, we estimate there were approximately 1,600 beneficial owners holding our common stock in nominee or "street" name.

We do not pay dividends on our common stock. Any future dividend payments would be subject to contractual restrictions under our Credit Agreement.

ITEM 6. SELECTED FINANCIAL DATA

As a Smaller Reporting Company, we are not required to provide this information.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our consolidated financial statements and related notes and other financial information appearing elsewhere in this Form 10-K. In addition to historical information, the following discussion and other parts of this Form 10-K contain forward-looking information that involves risks and uncertainties. Our actual results could differ materially from those anticipated by this forward-looking information due to the factors discussed under "Risk Factors," "Cautionary Statement Concerning Forward-Looking Statements," and elsewhere in this Form 10-K.

Executive Level Overview

Company Background

BlueLinx is a leading distributor of building and industrial products in the U.S. With a combination of market position and geographic coverage, the buying power of certain centralized procurement, and the strength of a locally-focused sales force, BlueLinx is able to provide a wide range of value-added services and solutions to our customers and suppliers.

Industry Conditions

Many of the factors that cause our operations to fluctuate are seasonal or cyclical in nature. Our operating results have historically been closely aligned with the level of residential housing starts in the U.S. At any time, the demand for new homes is dependent on a variety of factors, including job growth, changes in population and demographics, the availability and cost of mortgage financing, the supply of new and existing homes and, importantly, consumer confidence. Since 2011, the U.S. housing market has shown steady improvement. It is our opinion this trend will continue in the long term, and that we are well-positioned to support our customers.

Operational Efficiency Initiatives

As discussed in Item 8, Note 4, during fiscal 2016, we announced certain operational efficiency initiatives. These operational efficiency initiatives resulted in severance and employee benefits charges, which were substantially completed by the fourth quarter of fiscal 2016; as well as inventory initiatives that were fully completed in the third quarter of fiscal 2016.

Our facilities initiative involved the closure of four owned distribution centers, and a corresponding reduction in force of approximately 60 full-time employees. These closures and reductions in force were completed by the end of the third quarter of fiscal 2016. A $1.2 million severance and employee benefits charge was recorded in the second quarter of fiscal 2016 in "selling, general, and administrative" expenses in the Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) at that time, and the corresponding liability for this initiative has been largely paid. A further closure of our Allentown, Pennsylvania distribution facility in the fourth quarter of fiscal 2016 as part of this initiative was immaterial. This initiative is deemed substantially complete.

Our inventory initiatives included a stock keeping unit ("SKU") rationalization in local markets during the second and third quarters of fiscal 2016, resulting in the identification of certain less productive SKUs which we decided to discontinue offering. The SKU rationalization initiative was fully completed by the end of the third quarter of fiscal 2016.

The following table describes our total expenses recognized as a result of our total operational efficiency initiatives on the Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) for the year ended December 31, 2016:

	Fiscal Year Ended December 31, 2016

	(In millions)
Facilities closure initiative:	
Severance and employee benefits	$ 1.2
Inventory initiatives:	
Cost of sales	2.2
Selling, general, and administrative [(1)]	3.6
Total decrease to earnings	$ 7.0

(1) Primarily comprised of payments for material handling and delivery.

Factors That Affect Our Operating Results

Our results of operations and financial performance are influenced by a variety of factors, including the following:

- changes in the prices, supply and/or demand for products which we distribute;
- inventory management and commodities pricing;
- new housing starts and inventory levels of existing homes for sale;
- general economic and business conditions in the U.S.;
- acceptance by our customers of our privately branded products;
- financial condition and credit worthiness of our customers;
- supply from key vendors;
- reliability of the technologies we utilize;
- 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;
- adverse weather patterns or conditions;
- acts of cyber intrusion;
- variations in the performance of the financial markets, including the credit markets; and
- the risk factors discussed under Item 1A Risk Factors and elsewhere in this Annual Report on Form 10-K.

Key Business Metrics

Net Sales

Net sales result primarily from the distribution of products to dealers, industrial manufacturers, manufactured housing producers, and home improvement retailers. All revenues recognized are net of trade allowances, cash discounts, and sales returns. In addition, we provide inventory to certain customers through pre-arranged agreements on a consignment basis. When the consigned inventory is sold by the customer, we recognize revenue on a gross basis. Net sales may not be comparable year-over-year due to closed facilities, fiscal calendar weeks in the year, and market-driven fluctuations in the prices of the inventories we sell.

Gross Profit

Gross profit primarily represents revenues less the product cost from our suppliers (net of earned rebates and discounts), including the cost of inbound freight. The cost of outbound freight, purchasing, receiving, and warehousing are included in selling, general, and administrative expenses within operating expenses. Our gross profit may not be comparable to that of other companies, as other companies may include all or some of the costs related to their distribution network in cost of sales. Market price fluctuations, particularly on structural products vulnerable to commodity price variability, may impact our gross profit.

Results of Operations

Fiscal 2016 Compared to Fiscal 2015

The following table sets forth our results of operations for fiscal 2016 and fiscal 2015, which both comprised 52 weeks. Fiscal 2016 results were comprised of 39 distribution centers, while results from fiscal 2015 were comprised of 44 distribution centers.

	Fiscal 2016	% of Net Sales	Fiscal 2015	% of Net Sales
	(Dollars in thousands)			
Net sales	$1,881,043	100.0%	$1,916,585	100.0%
Gross profit	227,406	12.1%	222,472	11.6%
Selling, general, and administrative	204,312	10.9%	195,941	10.2%
Gains from sales of property	(28,097)	(1.5)%	—	—%
Depreciation and amortization	9,342	0.5%	9,741	0.5%
Operating income	41,849	2.2%	16,790	0.9%
Interest expense, net	24,898	1.3%	27,342	1.4%
Other (income) expense, net	(255)	—%	871	—%
Income (loss) before provision for income taxes	17,206	0.9%	(11,423)	(0.6)%
Provision for income taxes	1,121	0.1%	153	—%
Net income (loss)	$16,085	0.9%	$(11,576)	(0.6)%

The following table sets forth changes in net sales by product category. Certain prior year amounts have been reclassified to conform to the current year product mix of structural and specialty products.

	Fiscal 2016	Fiscal 2015
	(Dollars in millions)	
Sales by category		
Structural products	$775	$773
Specialty products	1,123	1,167
Other [(1)]	(17)	(23)
Total sales	$1,881	$1,917

(1)“Other” includes service revenue, unallocated allowances, and/or discounts.

The following table sets forth changes in gross margin dollars and percentages by product category versus comparable prior periods. Certain prior year amounts have been reclassified to conform to the current year product mix of structural and specialty products.

	Fiscal 2016	Fiscal 2015
	(Dollars in millions)	
Gross Profit $ by category		
Structural products	$68	$63
Specialty products	154	156
Other [(1)]	5	3
Total gross profit	$227	$222
Gross margin % by category		
Structural products	8.8 %	8.2 %
Specialty products	13.7 %	13.4 %
Total gross margin %	12.1 %	11.6 %

(1)“Other” includes service revenue, unallocated allowances, and discounts.

The following table sets forth a reconciliation of net sales and gross profit to the non-GAAP measures of adjusted same-center net sales, adjusted same-center gross profit and adjusted same-center gross margin, versus comparable prior periods [(1)]:

	Fiscal 2016	Fiscal 2015
	(Dollars in thousands)	
Net sales	$1,881,043	$1,916,585
Less: non-GAAP adjustments	129,184	272,525
Adjusted same-center net sales	$1,751,859	$1,644,060
Adjusted year-over-year percentage increase	6.6 %	
Gross profit	$227,406	$222,472
Less: non-GAAP adjustments	7,617	28,359
Adjusted same-center gross profit	$219,789	$194,113
Adjusted same-center gross margin	12.5 %	11.8 %

(1) The schedule presented above includes a reconciliation of net sales, gross profit and gross margin, excluding the full year effect of closed facilities and the SKU rationalization initiative, to arrive at adjusted non-GAAP metrics. The above schedule is not a presentation made in accordance with GAAP, and is not intended to present a superior measure of the financial condition from those determined under GAAP. Adjusted same-center sales, adjusted same-center gross profit and adjusted same-center gross margin, as used herein, are not necessarily comparable to other similarly titled captions of other companies due to differences in methods of calculation.

We believe adjusted same-center sales, adjusted same-center gross profit and adjusted same-center gross margin are helpful in presenting comparability across periods without the full-year effect of closed distribution centers or our operational efficiency initiatives. We also believe that these non-GAAP metrics are used by securities analysts, investors, and other interested parties in their evaluation of our company, to illustrate the effects of these initiatives. We compensate for the limitations of using non-GAAP financial measures by using them to supplement GAAP results to provide a more complete understanding of the factors and trends affecting the business than using GAAP results alone.

Discussion of Results of Operations:

Net sales. Net sales of $1.9 billion in fiscal 2016 decreased by 1.8%, or $35.5 million from fiscal 2015. This decrease was largely driven by the closure of certain distribution facilities in fiscal 2016. With these closures removed, adjusted same-center net sales, a non-GAAP measure, increased $107.8 million, or 6.6%, from $1.6 billion in fiscal 2015 to $1.8 billion in fiscal 2016, as we increased sales volume in our existing distribution centers.

Gross profit. Total gross profit for fiscal 2016 was $227.4 million, compared to $222.5 million in fiscal 2015. Gross margin increased to 12.1% in fiscal 2016, compared to 11.6% in fiscal 2015. This was due to a 50 basis point increase in gross margin overall, as we sold through our lower-margin SKU rationalization inventory, while selling higher-margin products overall in both the structural and specialty categories. Adjusted same-center gross margin, a non-GAAP measure, increased by 70 basis points, to 12.5% in fiscal 2016, as we consistently sold overall higher-margin products.

Selling, general, and administrative. Selling, general, and administrative expenses (“SG&A”) for fiscal 2016 were $204.3 million, or 10.9% of net sales, compared to $195.9 million, or 10.2% of net sales, during fiscal 2015. This 70 basis point increase in selling, general, and administrative expenses was primarily driven by a $4.6 million increase in incentives due to short-term incentive plan accruals; along with $3.6 million in charges to SG&A due to our inventory initiatives, which included delivery and material handling charges; and $1.2 million in severance charges as a result of the facility closure initiative portion of the operational efficiency initiatives.

Interest expense, net. Interest expense for fiscal 2016 was $24.9 million compared to $27.3 million for fiscal 2015. The decrease of $2.4 million related largely to our decreased principal balance of both our mortgage loan and U.S. revolving credit facility. Additionally, in fiscal 2016, we paid the remaining balance of our Canadian revolving credit facility, which related to our operations in Canada, that have since ceased.

Provision for income taxes. Our effective tax rate was 6.5% and (1.3)% for fiscal 2016 and fiscal 2015, respectively.The effective tax rate for fiscal 2016 was reduced by the utilization of our net operating loss deferred tax asset and the corresponding release of the valuation allowance due to net income generated during fiscal 2016. The effective tax rate for fiscal 2015 was offset by an increase to our net operating loss deferred tax asset and a corresponding increase to the valuation allowance due to net loss incurred during fiscal 2015. The effect of the valuation allowance for fiscal 2016 and fiscal 2015 was offset by alternative minimum tax (fiscal 2016 only), state income taxes, gross receipts taxes, and foreign income taxes recorded on a separate company basis.

Fiscal 2015 Compared to Fiscal 2014

The following table sets forth our results of operations for fiscal 2015 and fiscal 2014, which both comprised 52 weeks.

	Fiscal 2015	% of Net Sales	Fiscal 2014	% of Net Sales
	(Dollars in thousands)			
Net sales	$1,916,585	100.0%	$1,979,393	100.0%
Gross profit	222,472	11.6%	229,104	11.6%
Selling, general, and administrative	195,941	10.2%	211,346	10.7%
Gains from sales of property	—	—%	(5,251)	(0.3)%
Depreciation and amortization	9,741	0.5%	9,473	0.5%
Operating income	16,790	0.9%	13,536	0.7%
Interest expense, net	27,342	1.4%	26,771	1.4%
Other expense, net	871	—%	325	—%
Loss before provision for income taxes	(11,423)	(0.6)%	(13,560)	(0.7)%
Provision for income taxes	153	—%	312	—%
Net loss	$(11,576)	(0.6)%	$(13,872)	(0.7)%

The following table sets forth changes in net sales by product category. Certain prior year amounts have been reclassified to conform to the current year product mix of structural and specialty products.

	Fiscal 2015	Fiscal 2014
	(Dollars in millions)	
Sales by category		
Structural products	$773	$831
Specialty products	1,167	1,169
Other [(1)]	(23)	(21)
Total sales	$1,917	$1,979

(1)"Other" includes service revenue, unallocated allowances, and/or discounts.

The following table sets forth changes in gross margin dollars and percentages by product category versus comparable prior periods. Certain prior year amounts have been reclassified to conform to the current year product mix of structural and specialty products.

	Fiscal 2015	Fiscal 2014
	(Dollars in millions)	
Gross Profit $ by category		
Structural products	$63	$69
Specialty products	156	156
Other [(1)]	3	4
Total gross profit	$222	$229
Gross margin % by category		
Structural products	8.2 %	8.3 %

Specialty products	13.4 %	13.4 %
Total gross margin %	11.6 %	11.6 %

(1)“Other” includes service revenue, unallocated allowances, and discounts.

Net sales. Net sales decreased by 3.2%, or $62.8 million, from $2.0 billion in fiscal 2014 to $1.9 billion in fiscal 2015. This decrease was largely driven by a decline in commodity prices of structural products, the impact of which was approximately $66.6 million in fiscal 2015. Specialty sales declined slightly, with a $2.0 million decline.

Gross profit. Total gross profit for fiscal 2015 was $222.5 million, compared to $229.1 million in fiscal 2014. Gross margin overall was flat from fiscal 2014 to fiscal 2015, at 11.6%. The $6.6 million decrease in gross profit can be largely attributed to steadily declining commodity prices in fiscal 2015. Both structural and specialty gross margin percentages remained essentially flat from fiscal 2014 to fiscal 2015.

Selling, general, and administrative. Selling, general, and administrative expenses for fiscal 2015 were $195.9 million, or 10.2% of net sales, compared to $211.3 million, or 10.7% of net sales, during fiscal 2014. The decrease in selling, general, and administrative expenses included cost savings realized from a $7.6 million decrease in costs related to restructuring and litigation; a savings of $4.1 million in fuel, due to a favorable fuel purchase commitment and lower market fuel prices; and a decrease in management consulting and other professional fees of $1.8 million.

Interest expense, net. Interest expense for fiscal 2015 was $27.3 million compared to $26.8 million for fiscal 2014. The increase of $0.5 million related largely to an increase in interest expense on our U.S. revolving credit facility.

Provision for income taxes. Our effective tax rate was (1.3)% and (2.3)% for fiscal 2015 and fiscal 2014, respectively. The effective tax rates for both fiscal 2015 and 2014 largely were due to a full valuation allowance recorded against our tax benefit related to our losses incurred during those years. The effect of the valuation allowance for fiscal 2015 and fiscal 2014 was offset by state income taxes, gross receipts taxes, and foreign income taxes recorded on a separate company basis partially offset by various refundable tax credits.

Liquidity and Capital Resources

We expect our primary sources of liquidity to be cash flows from sales in the normal course of our operations and borrowings under our revolving credit facilities. We expect that these sources will fund our ongoing cash requirements for the foreseeable future. We believe that sales in the normal course of our operations and amounts currently available from our revolving credit facilities and other sources will be sufficient to fund our routine operations and working capital requirements for at least the next 12 months.

Sources and Uses of Cash

Operating Activities

During fiscal 2016, cash flows provided by operating activities totaled $41.4 million. The primary drivers of cash flows provided by operations were continued improvements in working capital components, due to our continued operational focus on these items, including a decrease in inventory of $35.4 million, a decrease in receivables of $12.7 million, and a decrease in accounts payable of $5.4 million. Our operating cash flow continues to improve progressively, as operating cash flows increased over fiscal 2015 by $1.5 million, from net cash provided by operations of $39.9 million in fiscal 2015.

In the prior year, fiscal 2015 cash flows from operating activities improved by $52.2 million from the fiscal 2014 cash used in operations of $12.3 million, to the fiscal 2015 net cash provided by operations of $39.9 million. The primary drivers of cash flows provided by operations in fiscal 2015 were improvements in working capital components, including a decrease in inventory of $15.9 million, a decrease in receivables of $6.0 million, offset by an increase in accounts payable of $20.8 million.

Investing Activities

During fiscal 2016, our net cash provided by investing activities was $36.8 million, which was substantially driven by sales of non-operating properties of $37.5 million. Gains on these sales were $28.1 million, and included in adjustments to net income (loss) in operating activities on the Statements of Cash Flows. The fiscal 2015 net expenditure of $0.8 million consisted of net purchases and sales of machinery and equipment. The majority of our capital expenditures for fiscal years 2016, 2015, and 2014 were financed by our use of the U.S. revolving credit facility. During fiscal 2014, net cash provided by investment activities of $4.4 million substantially was driven by the sale of real property.

In fiscal 2017, we may sell certain of our owned properties and enter into leases on the same properties.

Financing Activities

Net cash used in financing activities was $77.5 million during fiscal 2016, which primarily reflected net repayments on our revolving credit facilities of $44.8 million and payments of principal on our mortgage of $41.4 million. Payments of principal on our mortgage were largely derived from sales of property. Net cash used in financing activities was $38.8 million during fiscal 2015, which primarily reflected net repayments on our revolving credit facilities of $12.0 million; payments of principal on our mortgage of $9.5 million; and a $10.0 million decrease in bank overdrafts.

Operating Working Capital

Operating working capital, a non-GAAP measure, is an important measurement used in determining the efficiencies of our operations and our ability to readily convert assets into cash. The components of operating working capital for us consist of current assets less current liabilities, excluding the current portion of our long-term debt. Careful management of our operating working capital helps to ensure the organization can maximize our return and continue to invest in the operations for future growth.

Our operating working capital requirements generally reflect the seasonal nature of our business, while taking into account certain operational efficiency initiatives which took place during fiscal 2016, which were substantially complete at the end of the 2016 fiscal year. Operating working capital decreased by $57.5 million to $220.9 million as of December 31, 2016, from $278.5 million as of January 2, 2016. The decrease in operating working capital primarily reflected a decrease in inventories of $35.4 million, a decrease of $12.7 million in accounts receivable, and a decrease in other current assets of $8.9 million.

Debt and Credit Sources

On November 3, 2016, we amended and extended our Credit Agreement, with the Thirteenth Amendment to the Credit Agreement. This Amendment extended the maturity date of the Credit Agreement to July 15, 2018, and reduced the U.S. revolving credit facility limit by $15.0 million to $335.0 million and the Tranche A loan limit by $4.0 million to $16.0 million. Furthermore, the Amendment requires maintenance of a fixed charge coverage ratio of 1.2 to 1.0 in the event our excess availability falls below $32.5 million through March 31, 2017; and subsequently, the greater of a defined range, adjusted on a seasonal basis, of $36.0 million to $42.0 million and an amount equal to 12.5% of the lesser of (a) the sum of the borrowing base and the Tranche A Loan borrowing base or (b) the maximum credit.

The Tranche A Loan shall be subject to automatic commitment reductions depending on the time of year, with the balance due and payable by July 15, 2018; provided, that all scheduled commitment reductions on or after August 1, 2017, will be subject to satisfaction of certain conditions including a minimum excess availability threshold of at least $50.0 million after giving effect to any payment required after giving effect to such reduction. If a scheduled commitment reduction is prohibited due to not satisfying those conditions, the required excess availability covenant shall be increased by the amount of any such prohibited commitment reduction.

As of December 31, 2016, we had outstanding borrowings of $176.2 million and excess availability of $63.5 million under the terms of the Credit Agreement, based on qualifying inventory and accounts receivable. The interest rate on the Credit Agreement was 4.6% at December 31, 2016. Our obligations under the Credit Agreement are secured by a first priority security interest in all of our operating subsidiaries' assets, including inventories, accounts receivable, and proceeds from those items, and are also secured by a second priority interest in the equity of our real estate subsidiaries which hold the real estate that secures our mortgage loan described below.

Our mortgage loan was most recently extended and amended on March 24, 2016, with the Seventeenth Amendment to the mortgage loan. The mortgage is secured by substantially all of the Company's owned distribution facilities and a first priority pledge of the equity in the Company's subsidiaries which hold the real property that secures the mortgage loan.

The Seventeenth Amendment extended the maturity of the mortgage to July 1, 2019, subject to a $27.2 million remaining principal payment (which was originally $60.0 million, reduced by an allocable $32.8 million of the total fiscal 2016 principal payments of $41.4 million) due no later than July 1, 2017, and a $55.0 million principal payment due no later than July 1, 2018, with the remaining balance due on July 1, 2019. Except as otherwise permitted in the Seventeenth Amendment, the net proceeds from any mortgaged properties sold by us must exceed certain minimum release prices (unless otherwise agreed to by the lender), and must be used to pay mortgage principal. These net proceeds will be included in the aforementioned principal payments. The mortgage requires monthly interest-only payments at an interest rate of 6.35%.

Pension Funding Obligations

We currently are required to make four quarterly cash contributions during fiscal 2017 and 2018 totaling approximately $3.6 million, relating to our pension fiscal 2017 funding year pension contributions. In 2012, we obtained a funding waiver for that plan year, which continues to be repaid over the successive five-year period, through the 2017 funding year, with principal and interest payments totaling approximately $0.7 million each year. In 2013, we contributed real property to the pension plan to satisfy minimum contribution requirements. Although such real property contribution was recognized for funding purposes, it was not recognized under generally accepted accounting principles ("GAAP"), as this transaction did not meet the requirements to qualify as a sale under GAAP. We continue to evaluate pension funding obligations and requirements in order to meet our obligations while maintaining flexibility for working capital requirements. See Item 8, Note 9.

Off-Balance Sheet Arrangements

As of December 31, 2016, we did not have any material off-balance sheet arrangements.

Critical Accounting Policies

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the U.S., which require management to make estimates, judgments, and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. We believe that our most critical accounting policies and estimates relate to (1) revenue recognition; (2) our defined benefit pension plan; and (3) income taxes.

Accounting estimates and assumptions discussed in this section are those that we consider to be the most critical to an understanding of our financial statements because they involve significant judgments and uncertainties. All of these estimates reflect our best judgment about current, and for some estimates future, economic and market conditions and their potential effects based on information available as of the date of these financial statements. If these conditions change from those expected, it is reasonably possible that the judgments and estimates described below could change, which may result in our recording additional pension liabilities, or increased tax liabilities, among other effects. Management has discussed the development, selection, and disclosure of critical accounting policies and estimates with the Audit Committee of the Company's Board of Directors. While our estimates and assumptions are based on our knowledge of current events and actions we may undertake in the future, actual results ultimately may differ from these estimates and assumptions. For a discussion of the Company's significant accounting policies, refer to the Notes to the Consolidated Financial Statements in Item 8.

Revenue Recognition

We recognize revenue when persuasive evidence of an arrangement exists, delivery of products has occurred, the sales price is fixed or determinable and collectability is reasonably assured. For us, this generally means that we recognize revenue when title to our products is transferred to our customers. Title usually transfers upon shipment to or receipt at our customers' locations, as determined by the specific sales terms of each transaction. Our customers can earn certain incentives including, but not limited to, cash and functional discounts. In preparing the financial statements, management must make estimates related to the contractual terms, customer performance, and sales volume to determine the total amounts recorded as deductions from revenue. Management also considers past results in making such estimates. The actual amounts ultimately paid may be different from our estimates, and recorded once they have been determined.

Defined Benefit Pension Plan

We sponsor and contribute to a defined benefit pension plan. Most of the participants in the plan are inactive, with the majority of the remaining active participants no longer accruing benefits; and the plan is closed to new entrants. Management is required to make certain critical estimates related to actuarial assumptions used to determine our pension expense and related obligation. We believe the most critical assumptions are related to (1) the discount rate used to determine the present value of the liabilities and (2) the expected long-term rate of return on plan assets. All of our actuarial assumptions are reviewed annually, or upon any mid-year curtailment or settlement, should any such event occur. Changes in these assumptions could have a material impact on the measurement of our pension expense and related obligation. At each measurement date, we determine the discount rate by reference to rates of high-quality, long-term corporate bonds that mature in a pattern similar to the future payments we anticipate making under the plan. As of December 31, 2016, and January 2, 2016, the weighted-average discount rate used to compute our benefit obligation was 4.26% and 4.52%, respectively. The expected long-term rate of return on plan assets is based upon the long-term outlook of our investment strategy as well as our historical returns and volatilities for each asset class. We also review current levels of interest rates and inflation to assess the reasonableness of our long-term rates. Our pension plan investment objective is to ensure our plan has sufficient funds to meet its benefit obligations when they become due. As a result, we periodically revise asset allocations, where appropriate, to improve returns and manage risk. The weighted-average expected long-term rate of return used to calculate our pension expense was 7.82% and 7.54% for fiscal 2016 and fiscal 2015, respectively.

The impact of a 0.25% change in these critical assumptions is as follows:

Change in Assumption	Effect on 2017 Pension Expense	Effect on Accrued Pension Liability at December 31, 2016
	(In thousands)	
0.25% decrease in discount rate	$33	$ 3,505
0.25% increase in discount rate	$(36)	$ (3,347)
0.25% decrease in expected long-term rate of return on assets	$196	$ —
0.25% increase in expected long-term rate of return on assets	$(196)	$ —

As almost all of the participants in the pension plan are inactive, we amortize actuarial gains and losses over the estimated average remaining life expectancy of the inactive participants, rather than the estimated average remaining service period of the active participants. The sensitivity analysis presented above reflects these assumptions.

Income Taxes

Our annual tax rate is based on our income, statutory tax rates and tax planning opportunities available to us in the various jurisdictions in which we operate. Significant judgment is required in determining our annual tax expense and in evaluating our tax positions. We establish reserves to remove some or all of the tax benefit of any of our tax positions at the time we determine that the positions become uncertain based upon one of the following: (1) the tax position is not "more likely than not" to be sustained, (2) the tax position is "more likely than not" to be sustained, but for a lesser amount, or (3) the tax position is "more likely than not" to be sustained, but not in the financial period in which the tax position was originally taken. For purposes of evaluating whether or not a tax position is uncertain, (1) we presume the tax position will be examined by the relevant taxing authority that has full knowledge of all relevant information, (2) the technical merits of a tax position are derived from authorities such as legislation and statutes, legislative intent, regulations, rulings and case law and their applicability to the facts and circumstances of the tax position, and (3) each tax position is evaluated without considerations of the possibility of offset or aggregation with other tax positions taken. We adjust these reserves, including any impact on the related interest and penalties, in light of changing facts and circumstances, such as the progress of a tax audit. Refer to Note 5 of Notes to Consolidated Financial Statements.

A number of years may elapse before a particular matter for which we have established a reserve is audited and finally resolved. The number of years with open tax audits varies depending on the tax jurisdiction. The tax benefit that has been previously reserved because of a failure to meet the “more likely than not” recognition threshold would be recognized in our income tax expense in the first interim period when the uncertainty disappears under any one of the following conditions: (1) the tax position is “more likely than not” to be sustained, (2) the tax position, amount, and/or timing is ultimately settled through negotiation or litigation, or (3) the statute of limitations for the tax position has expired. Settlement of any particular issue would usually require the use of cash.

Tax law requires items to be included in the tax return at different times than when these items are reflected in the consolidated financial statements. As a result, the annual tax rate reflected in our consolidated financial statements is different from that reported in our tax return (our cash tax rate). Some of these differences are permanent, such as expenses that are not deductible in our tax return, and some differences reverse over time, such as depreciation expense. These timing differences create deferred tax assets and liabilities. Deferred tax assets and liabilities are determined based on temporary differences between the financial reporting and tax bases of assets and liabilities. The tax rates used to determine deferred tax assets or liabilities are the enacted tax rates in effect for the year and manner in which the differences are expected to reverse. Based on the evaluation of all available information, we recognize future tax benefits, such as net operating loss carryforwards, to the extent that realizing these benefits is considered more likely than not.

We evaluate our ability to realize the tax benefits associated with deferred tax assets by analyzing our forecast taxable income using both historical and projected future operating results; the reversal of existing taxable temporary differences; taxable income in prior carryback years (if permitted); and the availability of tax planning strategies. A valuation allowance is required to be established unless management determines that it is more likely than not that we will ultimately realize the tax benefit associated with a deferred tax asset. As of December 31, 2016, we had fully reserved our deferred tax assets. We may not generate sufficient future taxable income to realize the tax benefits related to the remaining net deferred tax assets in our consolidated balance sheets.