CONTINENTAL MATERIALS CORP
Form 10-K/A
April 28, 2010
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K/A

(Amendment No. 1)

(Mark One)

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

For the fiscal year ended January 2, 2010

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission file number 1-3834

Continental Materials Corporation

(Exact name of registrant as specified in its charter)

Delaware	**36-2274391**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
200 South Wacker Drive, Suite 4000, Chicago, Illinois	**60606**
(Address of principal executive offices)	(Zip Code)

Registrant s telephone number, including area code **312-541-7200**

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

Title of each class	**Name of each exchange on which registered**
Common Stock - $0.25 par value	NYSE Amex

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 by Rule 405 of the Securities Act. Yes o No x

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 x

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 x 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 and Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

Indicate by check mark 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 the Form 10-K or any amendment to this Form 10-K. x

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 (Do not check if a smaller reporting company)	Smaller reporting company x

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

The aggregate market value (based on June 30, 2009 closing price) of voting stock held by non-affiliates of registrant: Approximately $6,971,000.

Number of common shares outstanding at April 9, 2010: 1,598,278.

Incorporation by reference: Portions of registrant s definitive proxy statement for the 2010 Annual Meeting of stockholders to be held May 26, 2010 into Part III of this Form 10-K. The definitive proxy statement is expected to be filed with the Securities and Exchange Commission within 120 days after the close of the fiscal year covered by this Form 10-K.

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EXPLANATORY NOTE:

This Amendment No. 1 on Form 10-K/A to our Annual Report on Form 10-K for the fiscal year ended January 2, 2010, which was filed with the Securities and Exchange Commission (the SEC) on April 19, 2010 (the Original Filing), is being filed to correct a typographical error in the Report of Independent Registered Public Accounting Firm issued by Deloitte & Touche LLP (D&T) with respect to their audit of the consolidated balance sheet of Continental Materials Corporation and subsidiaries (the Company) as of January 3, 2009, and the related consolidated statements of operations, shareholders equity, and cash flows for the year ended January 3, 2009 (the January 3, 2009 consolidated statement of operations before the effects of the retrospective adjustments discussed in Note 2 to the consolidated financial statements are not presented herein) contained in Part II, Item 8 of the Original Filing. The typographical error related to the date of their opinion which was erroneously reported as April 19, 2010 when the correct date should have been April 17, 2009. The correct date of the opinion will be properly disclosed in the Annual Report that is being printed and will be mailed to our stockholders in connection with the 2010 Annual Meeting of Stockholders. The correct date, however, was not reported in the Original Filing submitted under the EDGAR reporting system with the SEC on April 19, 2010.

As a result of this Amendment, the certifications pursuant to Section 302 and Section 906 of the Sarbanes-Oxley Act of 2002, filed and furnished, respectively, as exhibits to the Original Filing, have been re-executed and re-filed as of the date of this Form 10-K/A. Accordingly, the Exhibit Index attached to this Form 10-K/A is being updated to reflect the new certifications described above.

No attempt has been made in this Form 10-K/A to modify or update the disclosures or financial statements in the Original Filing except as described above. For convenience and ease of reference, this amendment sets forth Item 8 Financial Statements and Supplementary Data from the 2009 Form 10-K in its entirety with the applicable change noted above. Additionally, the conditions and disclosures filed in the Original Filing have not been updated to reflect events, results or developments that occurred after the Original Filing, or to modify or update those disclosures or financial statements affected by subsequent events, if any. Among other things, forward-looking statements made in the Original Filing, have not been revised to reflect events, results or developments that occurred or facts that became known to us after the date of the Original Filing.

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PART I

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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Continental Materials Corporation

Consolidated Statements of Operations

For Fiscal Years 2009 and 2008

(Amounts in thousands, except per share data)

	2009	2008
Sales	$ 113,461	$ 145,714
Costs and expenses		
Cost of sales (exclusive of depreciation, depletion and amortization)	93,753	121,442
Depreciation, depletion and amortization	4,472	4,368
Selling and administrative	18,060	18,647
Gain on disposition of property and equipment	(2,212)	(2,349)
Operating (loss) income	(612)	3,606
Interest expense	(956)	(1,161)
Other income, net	4	50
(Loss) income from continuing operations before income taxes	(1,564)	2,495
Benefit (provision) for income taxes	762	(738)
Net (loss) income from continuing operations	(802)	1,757
Loss from discontinued operation net of income tax benefit of $1,138 and $989	(640)	(1,797)
Net loss	$ (1,442)	$ (40)
Net (loss) income per basic and diluted share:		
Continuing operations	$ (.50)	$ 1.09
Discontinued operation	(.40)	(1.12)
Net loss per basic and diluted share	$ (.90)	$ (.03)
Average shares outstanding	1,598	1,599

The accompanying notes are an integral part of the consolidated financial statements.

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Continental Materials Corporation

Consolidated Statements of Cash Flows For Fiscal Years 2009 and 2008

(Amounts in thousands)

	2009	2008
Operating activities		
Net loss	$ (1,442)	$ (40)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation, depletion and amortization	4,958	5,135
Long-lived asset impairment charge		784
Deferred income tax provision	(770)	(205)
Provision for doubtful accounts	288	142
Gain on disposition of property and equipment	(2,212)	(2,349)
Loss on sale of discontinued operation	221	
Changes in working capital items:		
Receivables	4,107	448
Inventories	6,878	(4,199)
Prepaid expenses	56	1,050
Prepaid royalties	(154)	(15)
Accounts payable and accrued expenses	(4,404)	(860)
Income taxes	(609)	104
Other	302	527
Net cash provided by operating activities	7,219	522
Investing activities		
Capital expenditures	(2,148)	(2,010)
Cash proceeds from sale of discontinued operation	1,864	
Cash proceeds from sale of property and equipment	2,250	2,807
Net cash provided by investing activities	1,966	797
Financing activities		
Repayments on refinanced revolving credit line, net	(6,400)	(1,500)
Payment of deferred financing fees related to new credit facility	(589)	
Net borrowings under new revolving credit facility	5,850	
Repayment of refinanced long-term debt	(10,772)	(2,029)
Borrowings under new long-term debt	10,000	
Repayments of new long-term debt	(2,850)	
Cash deposit for self-insured claims	(4,840)	
Payments to acquire treasury stock		(19)
Net cash (used in) financing activities	(9,601)	(3,548)
Net (decrease) in cash and cash equivalents	(416)	(2,229)
Cash and cash equivalents		
Beginning of year	1,097	3,326
End of year	$ 681	$ 1,097
Supplemental disclosures of cash flow items		
Cash paid (received) during the year		
Interest	$ 770	$ 1,409
Income taxes, net	(520)	(151)

Supplemental disclosures of noncash investing and financing activities				
Note received as partial consideration on sale of discontinued operation	$	480	$	
Capital expenditures purchased on account				165
Buyer s assumption of liabilities		74		85

The accompanying notes are an integral part of the consolidated financial statements.

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Continental Materials Corporation

Consolidated Balance Sheets As of January 2, 2010 and January 3, 2009

(Amounts in thousands except share data)

	January 2, 2010	January 3, 2009
ASSETS		
Current assets		
Cash and cash equivalents	$ 681	$ 1,097
Receivables less allowance of $576 and $445	16,905	22,062
Current portion of long-term note receivable	96	
Receivable for insured losses	684	1,604
Inventories	16,295	23,426
Prepaid expenses	1,582	1,259
Refundable income taxes	1,012	654
Deferred income taxes	3,116	2,341
Total current assets	40,371	52,443
Property, plant and equipment		
Land and improvements	1,984	2,311
Buildings and improvements	18,551	20,190
Machinery and equipment	79,040	81,539
Mining properties	6,385	6,622
Less accumulated depreciation and depletion	(78,868)	(79,706)
	27,092	30,956
Other assets		
Goodwill	7,229	7,829
Amortizable intangible assets, net	479	872
Prepaid royalties	1,223	1,069
Cash deposit for self-insured claims	4,840	
Long-term note receivable	384	
Other	494	497
	$ 82,112	$ 93,666
LIABILITIES		
Current liabilities		
Current portion of long-term debt	$ 1,375	$ 1,164
Accounts payable	4,618	9,542
Income taxes		148
Accrued expenses		
Compensation	1,642	1,641
Reserve for self-insured losses	2,973	3,095
Liability for unpaid claims covered by insurance	684	1,604
Profit sharing	346	268
Reclamation	115	260
Other	2,437	2,326
Total current liabilities	14,190	20,048
Revolving bank loan payable	5,850	6,400
Long-term debt	5,775	9,607
Deferred income taxes	3,243	3,414

Accrued reclamation		1,020		845
Other long-term liabilities		848		724
Commitments and contingencies (Note 6)				
SHAREHOLDERS EQUITY				
Common shares, $.25 par value; authorized 3,000,000 shares; issued 2,574,264 shares		643		643
Capital in excess of par value		1,830		1,830
Retained earnings		65,328		66,770
Treasury shares, at cost		(16,615)		(16,615)
		51,186		52,628
	$	82,112	$	93,666

The accompanying notes are an integral part of the consolidated financial statements.

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Continental Materials Corporation

Consolidated Statements of Shareholders Equity

For Fiscal Years 2009 and 2008

(Amounts in thousands except share data)

	Common shares	Common shares amount	Capital in excess of par	Retained earnings	Treasury shares	Treasury shares cost
Balance at December 29, 2007	2,574,264	$ 643	$ 1,830	$ 66,810	972,170	$ 16,596
Net (loss)				(40)		
Purchase of treasury shares					3,816	19
Balance at January 3, 2009	2,574,264	643	1,830	66,770	975,986	16,615
Net (loss)				(1,442)		
Balance at January 2, 2010	2,574,264	$ 643	$ 1,830	$ 65,328	975,986	$ 16,615

The accompanying notes are an integral part of the consolidated financial statements.

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Notes to Consolidated Financial Statements

1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF BUSINESS

Continental Materials Corporation (the Company) is a Delaware corporation, incorporated in 1954. The Company operates primarily within two industry groups, Heating, Ventilation and Air Conditioning (HVAC) and Construction Products. The Company has identified two reportable segments in each of the two industry groups: the Heating and Cooling segment and the Evaporative Cooling segment in the HVAC industry group and the Concrete, Aggregates and Construction Supplies segment and the Door segment in the Construction Products industry group.

The Heating and Cooling segment produces and sells gas-fired wall furnaces, console heaters and fan coils from the Company s wholly-owned subsidiary, Williams Furnace Co. (WFC) of Colton, California. The Evaporative Cooling segment produces and sells evaporative coolers from the Company s wholly-owned subsidiary, Phoenix Manufacturing, Inc. (PMI) of Phoenix, Arizona. Concrete, Aggregates and Construction Supplies (CACS) are offered from numerous locations along the Southern portion of the Front Range of Colorado operated by the Company s wholly-owned subsidiaries Castle Concrete Company and Transit Mix Concrete Co., of Colorado Springs and Transit Mix of Pueblo, Inc. of Pueblo (the three companies collectively referred to as TMC). Doors are fabricated and sold along with the related hardware, including electronic access hardware, from the Company s wholly-owned subsidiary, McKinney Door and Hardware, Inc. (MDHI), which operates out of facilities in Pueblo and Colorado Springs, Colorado.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include Continental Materials Corporation and all of its subsidiaries (the Company). Intercompany transactions and balances have been eliminated. All subsidiaries of the Company are wholly owned.

RECLASSIFICATIONS

Certain reclassifications have been made to the fiscal 2008 Consolidated Statement of Operations to conform to the 2009 financial statement presentation of discontinued operations. These reclassifications had no effect on net earnings.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

On July 1, 2009, the Financial Accounting Standards Board (FASB) issued the FASB Accounting Standards Codification (Codification) which became effective for interim and annual reporting periods ending after September 15, 2009. On that date, the Codification officially became the single source of authoritative nongovernmental accounting principles generally accepted in the United States of America (GAAP); however, Securities and Exchange Commission (SEC) registrants must also consider rules, regulations and interpretive guidance issued by the SEC or its staff. Previous authoritative GAAP was a proliferation of thousands of standards established by a variety of standard setters over the past 50-plus years. All existing standards that were used to create the Codification became superseded. The Codification does not change GAAP and therefore had no impact on the Company s consolidated financial position, results of operations or cash flows; however, references to authoritative accounting literature will henceforth refer to the topics and guidance in the Codification.

In September 2006, the FASB issued new accounting guidance on fair value measurements and disclosures. The new guidance defines fair value, establishes a framework for measuring fair value under U.S. GAAP and enhances disclosures about fair value measurements. In February 2008, the FASB issued further guidance, which provided a one-year deferral of the effective date for non-financial assets and non-financial liabilities, except those that are recognized or disclosed in the financial statements at fair value at least annually. This guidance applies under other accounting pronouncements that require or permit fair value measurements, as the FASB previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this guidance does not require any new fair value measurements. The new guidance is effective for financial statement issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The adoption of the new guidance in 2008 and the further guidance in 2009 did not have a material effect on the Company s consolidated financial statements. See further discussion of Fair Value of Financial Instruments below.

In December 2007, the FASB issued new guidance on business combinations and consolidation, which significantly changed the financial accounting and reporting of business combination transactions and noncontrolling (or what were previously described as minority) interests in consolidated financial statements. The new guidance is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The Company did not participate in any transactions or noncontrolling interests covered by this new guidance during either fiscal 2009 or 2008; therefore the new guidance did not have a material effect on the Company s consolidated financial statements.

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In March 2008, the FASB issued new accounting guidance that expanded disclosure about an entity s derivative instruments and hedging activities. The new disclosure requirements became effective for the Company on January 4, 2009. At January 2, 2010, the Company did not have any material derivative or hedging activities that required disclosure under these new accounting standards.

In April 2008, the FASB amended the list of factors an entity should consider in developing renewal of extension assumptions used to determine the useful life of a recognized intangible asset. The new guidance applies to intangible assets that are acquired individually or with a group of assets and intangible assets acquired in both business combinations and asset acquisitions. The requirement that an entity consider whether the renewal or extension can be accomplished without substantial cost or material modification of the existing terms and conditions associated with the asset was removed. Instead, an entity should now consider its own experience in renewing similar arrangements. The entity should consider market participant assumptions regarding renewal if no such relevant experience exits. The new guidance became effective for the Company beginning January 4, 2009, the first day of fiscal 2009, and did not have a material impact on its consolidated financial statements.

In September 2009, the FASB issued new accounting guidance on revenue recognition. Under the new guidance, arrangement consideration in a multiple element arrangement may now be allocated in a manner that more closely reflects the structure of the transaction. Also under the new guidance, tangible products that contain software components that are essential to the functionality of the tangible product will no longer be subject to software revenue recognition guidance and will now be subject to other revenue guidance. The Company does not have any sales or transactions covered by this new guidance during either fiscal 2009 or 2008; therefore the new guidance did not have a material effect on the Company s consolidated financial statements.

USE OF ESTIMATES IN THE PREPARATION OF FINANCIAL STATEMENTS

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of January 2, 2010 and January 3, 2009 and the reported amounts of revenues and expenses during both of the two years in the period ended January 2, 2010. Actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS

The Company considers all highly-liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value of the Company s long-term debt is estimated based on the borrowing rates currently available to the Company for bank loans with similar terms, maturities and credit risks. The carrying amount of long-term debt represents a reasonable estimate of the corresponding fair value as the Company s long-term debt is held at variable interest rates.

INVENTORIES

Inventories are valued at the lower of cost or market and are reviewed periodically for excess or obsolete stock with a provision recorded, where appropriate. Cost for inventory in the HVAC industry group is determined using the last-in, first-out (LIFO) method. These inventories represent approximately 78% of total inventories at both January 2, 2010 and January 3, 2009. The cost of all other inventory is determined by the first-in, first-out (FIFO) or average cost methods. Some commodity prices such as copper, steel, cement and diesel fuel have experienced significant fluctuations in recent years, generally higher. Steel prices and copper prices are principally relevant to the inventories of our two HVAC businesses. These two businesses use the LIFO costing method for inventory valuation purposes. The general effect of using LIFO is that the higher steel and copper prices are not reflected in the inventory carrying value. Those higher current costs are principally reflected in the cost of sales. Cement and fuel are relevant to our construction materials business. These businesses use either FIFO or an average costing method for valuing inventories. These inventories turn over frequently and at any point in time the amount of cement or fuel inventory is not significant. Due to these circumstances, the commodity fluctuations have primarily affected the cost of sales with little effect on the valuation of inventory. We believe that our inventory valuation reserves are not material. Inventory reserves were approximately 1% of the total inventory value. Due to the nature of our products obsolescence is not typically a significant exposure. Our HVAC businesses will from time to time contend with some slow-moving inventories or parts that are no longer used due to engineering changes. The recorded reserves are intended for such items.

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PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are carried at cost. Depreciation is provided over the estimated useful lives of the related assets using the straight-line method as follows:

Land improvements	5 to 31 years
Buildings and improvements	10 to 31 years
Leasehold improvements	Shorter of the term of the lease or useful life
Machinery and equipment	3 to 20 years

Depletion of rock and sand deposits and amortization of deferred development costs are computed by the units-of-production method based upon estimated recoverable quantities of rock and sand. The estimated recoverable quantities are periodically reassessed.

The cost of property sold or retired and the related accumulated depreciation, depletion and amortization are removed from the accounts and the resulting gain or loss is reflected in operating income. Maintenance and repairs are charged to expense as incurred. Major renewals and betterments are capitalized and depreciated over their estimated useful lives.

The Company recorded a long-lived asset impairment charge of $758,000 at January 3, 2009 against the property, plant and equipment of Rocky Mountain Ready Mix Concrete, Inc. (RMRM).

OTHER ASSETS

As of January 2, 2010, the Company has recorded $7,229,000 of goodwill consisting of $6,229,000 related to the Concrete, Aggregates and Construction Supplies segment and $1,000,000 related to the Door segment. The Company annually assesses goodwill for potential impairment at the end of each year. In addition, if events occur or circumstances change in the relevant reporting segments or in their industries, the Company will then reassess the recorded goodwill to determine if impairment has occurred. No goodwill impairment was recognized for any of the periods presented. In 2009, the Company charged $600,000 against earnings from discontinued operations representing the allocable portion of goodwill related to RMRM which was sold in July 2009.

Amortizable intangible assets consist of a non-compete-agreement, a restrictive land covenant and customer relationships related to certain acquisitions. The non-compete agreement and the restrictive land covenant are being amortized on a straight-line basis over their respective lives of five and ten years, respectively. The customer relationships amount is being amortized over its estimated life of ten years using the sum-of-the-years digits method.

The Company is party to three aggregate property leases which require royalty payments. The leases call for minimum annual royalty payments. Prepaid royalties relate to payments made for aggregate materials not yet extracted.

RETIREMENT PLANS

The Company and certain subsidiaries have various contributory profit sharing retirement plans for specific employees. The plans allow qualified employees to make tax deferred contributions pursuant to Internal Revenue Code Section 401(k). The Company matches employee contributions up to 3%. Further, the Company may make additional annual contributions, at its discretion, based primarily on profitability. In addition, any individuals whose compensation is in excess of the amount eligible for the Company matching contribution to the 401(k) plan as established by Section 401 of the Internal Revenue Code, participates in an unfunded Supplemental Profit Sharing Plan. This plan accrues an amount equal to the difference between the amount the person would have received as Company matching contributions to his account under the 401(k) plan had there been no limitations and the amount the person will receive under the 401(k) plan giving effect to the limitations. Costs under the plans are charged to operations as incurred.

RESERVE FOR SELF-INSURED AND INSURED LOSSES

The Company s risk management program provides for certain levels of loss retention for workers compensation, automobile liability, medical plan coverage and general and product liability claims. The components of the reserve for self-insured losses have been recorded in accordance with the Codification requirements that an estimated loss from a loss contingency shall be accrued if information available prior to issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of loss can be reasonably estimated. The recorded reserve represents management s best estimate of the future liability related to these claims up to the associated deductible.

The Codification also requires an entity to accrue the gross amount of a loss even if the entity has purchased insurance to cover the loss. Therefore the Company has recorded losses for workers compensation, automobile liability, medical plan coverage and general and product liability claims in excess of the deductible amounts, i.e., amounts covered by insurance contracts, in Liability for unpaid claims covered by insurance with a corresponding Receivable for insured losses on the

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balance sheet. The components of the liability represent both unpaid settlements and management s best estimate of the future liability related to open claims. Management has evaluated the credit worthiness of our insurance carriers and determined that recovery of the recorded losses is probable and, therefore, the receivable from insurance has been recorded for the full amount of the insured losses.

RECLAMATION

In connection with permits to mine properties in Colorado, the Company is obligated to reclaim the mined areas whether the property is owned or leased. The Company records a reserve for future reclamation work to be performed at its various aggregate operations based upon an estimate of the total expense that a third party would incur to reclaim the disturbed areas. Reclamation expense is provided during the interim periods using the units-of-production method. The adequacy of the recorded reserve is assessed quarterly. At each fiscal year-end, a more formal and complete analysis is performed and the expense and reserve is adjusted to reflect the estimated cost to reclaim the then disturbed and unreclaimed areas. The assessment of the reclamation liability may be done more frequently if events or circumstances arise that may indicate a change in estimated costs, recoverable material or period of mining activity. As part of the year-end analysis, the Company engages an independent specialist to assist in reevaluating the estimates of both the quantities of recoverable material and the cost of reclamation. Most of the reclamation on any mining property is generally performed soon after each section of the deposit is mined. The Company s reserve for reclamation activities was $1,135,000 at January 2, 2010 and $1,105,000 at January 3, 2009. The Company classifies a portion of the reserve as a current liability, $115,000 at January 2, 2010 and $260,000 at January 3, 2009, based upon a rolling four-year average of actual reclamation spending.

REVENUE RECOGNITION

The Company recognizes revenue as products are shipped to customers. Sales are recorded net of applicable provisions for discounts, volume incentives, returns and allowances. At the time of revenue recognition, the Company also provides an estimate of potential bad debt and warranty expense as well as an amount anticipated to be granted to customers under cooperative advertising programs based upon current program terms and historical experience. In addition, the revenues received for shipping and handling are included in sales while the costs associated with shipping and handling are reported as cost of sales.

The Company is responsible for warranty related to the manufacture of its HVAC products. The Company does not perform installation services except for installation of electronic access systems in the Door segment, nor are maintenance or service contracts offered. Changes in the aggregated product warranty liability for the fiscal years 2009 and 2008 were as follows (amounts in thousands):

		2009		**2008**
Beginning balance	$	100	$	100
Warranty related expenditures		(325)		(413)
Warranty expense accrued		397		413
Ending balance	$	172	$	100

INCOME TAXES

Income taxes are accounted for under the asset and liability method that requires deferred income taxes to reflect the future tax consequences attributable to differences between the tax and financial reporting bases of assets and liabilities. Deferred tax assets and liabilities recognized are based on the tax rates in effect in the year in which differences are expected to reverse. Deferred tax assets are reduced by a valuation allowance when, based on available positive and negative evidence, it is more likely than not (greater than a 50% likelihood) that some or all of the net deferred tax assets will not be realized.

Income tax returns are subject to audit by the Internal Revenue Service (IRS) and state tax authorities. The amounts recorded for income taxes reflect our tax positions based on research and interpretations of complex laws and regulations. We accrue liabilities related to uncertain tax positions taken or expected to be taken in our tax returns.

CONCENTRATIONS

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of trade receivables and temporary cash investments. The Company invests its excess cash in commercial paper of companies with strong credit ratings. The Company has not experienced any losses on these investments.

The Company performs ongoing credit evaluations of its customers and generally does not require collateral. In many instances in the Concrete, Aggregates and Construction Supplies segment and in the Heating and Cooling segment (as it relates to the fan coil product line), the Company retains lien rights on the properties served until the receivable is collected. The Company maintains allowances for potential credit losses based upon the aging of accounts receivable and historical

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experience and such losses have been within management s expectations. See Note 14 for a description of the Company s customer base.

Substantially all of the Heating and Cooling Segment s factory employees are covered by a collective bargaining agreement through the Carpenters Local 721 Union under a contract that expires on April 30, 2011.

IMPAIRMENT OF LONG-LIVED ASSETS

In the event that facts and circumstances indicate that the cost of any long-lived assets may be impaired, an evaluation of recoverability would be performed. If an evaluation were required, the estimated future undiscounted cash flows associated with the asset would be compared to the asset s carrying amount to determine if a write-down to market value or discounted cash flow value is required. The Company has determined that there was no impairment of the long-lived assets as of January 2, 2010.

FISCAL YEAR END

The Company s fiscal year end is the Saturday nearest December 31. Fiscal 2009 and 2008 each consisted of 52 weeks.

2. BUSINESS DISPOSITIONS

On July 17, 2009, the Company completed the sale of all of the outstanding capital stock of RMRM, a Colorado corporation to Campbells C-Ment Contracting, Inc., a Colorado corporation (Buyer). RMRM operated a ready mix concrete business in the Denver metropolitan area and had been included in the CACS reporting segment.

The Company received $1,864,000 in cash (net of cash of $41,000 that remained with RMRM) at closing and a Promissory Note of $480,000 representing the closing date net working capital of RMRM. The Promissory Note bears interest at 5% per annum. The initial principal payment is due September 30, 2010, with final principal payment due June 30, 2012. Principal payments will commence earlier if the Buyer achieves certain sales volume levels.

The Company and its wholly-owned subsidiary TMC also entered into a Non-Competition, Non-Disclosure and Non-Solicitation Agreement with the Buyer for a period of six years. In consideration of the covenants made by the Company and TMC, beginning in 2010 the Company will receive compensation if certain sales volume or operating profit thresholds are reached by the Buyer. There is no assurance that the future operating results of the Buyer will be such that any future consideration will be due to the Company under this Agreement, accordingly no value was recorded related to this agreement at the time of the sale.

The Company allocated a portion of the goodwill of the reporting unit to RMRM based on the relative fair value of all of the assets of the CACS segment. As a result of this analysis, $600,000 of goodwill was allocated to the net assets of RMRM.

Assets are required to be recorded at the lower of carrying value or fair value less costs to sell. As noted above, the carrying value assigned to RMRM included $600,000 of goodwill. Management concluded that as of July 4, 2009, the fair value of the assets of RMRM, less costs to sell, was lower than the carrying value, resulting in the recording of a pre-tax impairment charge for book purposes of $647,000 during the quarter ended July 4, 2009. The $647,000 was recorded as a loss from discontinued operations.

The sale of RMRM resulted in a capital loss for tax purposes of approximately $6,500,000 and a related deferred tax asset of approximately $2,450,000. This loss can be utilized to offset current and future capital gains with a Federal carry forward period limited to five years. The Company has limited capital gains and as a result a valuation allowance of approximately $1,700,000 has been established against the deferred tax asset related to the capital loss in excess of that which is expected to be utilized to offset the capital gain realized during 2009.

The revenue and pretax loss from RMRM is reported as discontinued operation for the fiscal years ended January 2, 2010 and January 3, 2009, respectively, and is summarized as follows (amounts in thousands):

		2009		**2008**
Revenue	$	3,740	$	12,166
Pretax Loss		(1,778)		(2,786)

3. INVENTORIES

Inventories consisted of the following (amounts in thousands):

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	January 2, 2010	January 3, 2009
Finished goods	$ 6,898	$ 9,421
Work in process	763	1,477
Raw materials and supplies	8,634	12,528
	$ 16,295	$ 23,426

If inventories valued on the LIFO basis were valued at current costs, inventories would be higher by $4,591,000 and $6,407,000 at January 2, 2010 and January 3, 2009, respectively.

Reductions in inventory quantities during 2009 at two locations resulted in liquidation of LIFO inventory layers carried at costs lower than the costs of current purchases. The effect totaled approximately $316,000 for the year.

4. GOODWILL AND AMORTIZABLE INTANGIBLE ASSETS

As of January 2, 2010 the Company has recorded $7,229,000 of goodwill consisting of $6,229,000 related to the CACS segment and $1,000,000 related to the Door segment. The Company annually assesses goodwill for potential impairment at the end of each year. For the CACS segment, the Company engages the services of an investment banking firm to determine the fair value of the reporting unit. For the Door segment, the Company prepares a discounted cash flow analysis to estimate the fair value of the reporting unit. In addition, if events occur or circumstances change in the relevant reporting segments or in their industries the Company will then reassess the recorded goodwill to determine if impairment has occurred. No goodwill impairment was recognized for any of the periods presented. In 2009 the Company charged $600,000 of goodwill against earnings from discontinued operations, representing the allocable portion of goodwill related to RMRM which was sold in July 2009. The valuation of goodwill and other intangibles is considered a significant estimate. Continued or protracted economic conditions could negatively impact the value of the business which could trigger an impairment that would materially impact earnings.

Changes in recorded goodwill for the year ended January 2, 2010 (there were no changes to recorded goodwill during the year ended January 3, 2009) are as follows (amounts in thousands):

	CACS	Door	Total
Balance as of January 3, 2009	$ 6,829	$ 1,000	$ 7,829
Goodwill allocated to RMRM	(600)		(600)
Balance as of January 2, 2010	$ 6,229	$ 1,000	$ 7,229

Identifiable intangible assets consist of the following (amounts in thousands):

	January 2, 2010		January 3, 2009	
	Gross carrying amount	Accumulated amortization	Gross carrying amount	Accumulated amortization
Amortized intangible assets:				

Non-compete agreements	$	290	$	203	$	1,640	$	1,247
Restrictive land covenant		350		123		350		87
Customer relationships		370		205		370		154
	$	1,010	$	531	$	2,360	$	1,488

The above intangible assets include a non-compete agreement signed at the time the Company acquired the assets of ASCI (June 30, 2006). Amortization of the non-compete agreement is recorded on a straight line basis over the agreement s period of ten years. During the year ended January 3, 2009 (fiscal year 2008) the Company recorded an asset impairment charge of $26,000 against the non-compete agreement related to the purchase of RMRM which was sold on July 17, 2009. Also included are a restrictive land covenant and the customer relationships related to the ASCI acquisition. Amortization of the restrictive land covenant is computed on the straight-line basis over the agreement s period of ten years. Amortization of the customer relations value is computed on the sum-of-the-years digits method over its estimated life of ten years. Amortization expense of intangible assets was $113,000 for 2009 (including the final $25,000 of a non-compete agreement related to the purchase of CSSL by the Door division) and $176,000 for 2008. The estimated amortization expense for the five subsequent fiscal years is as follows: 2010 $137,000; 2011 $101,000; 2012 $65,000; 2013 $59,000 and 2014 - $52,000.

5. REVOLVING BANK LOAN AND LONG-TERM DEBT

Outstanding long-term debt consisted of the following (amounts in thousands):

		January 2, 2010		January 3, 2009
Secured term loan	$	7,150	$	10,771
Less current portion		(1,375)		(1,164)
Total long-term debt	$	5,775	$	9,607

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On April 16, 2009 the Company entered into a secured credit agreement (Credit Agreement) under which the bank lender initially provided a total credit facility of $30,000,000, consisting of a $20,000,000 revolving credit facility (reduced by letters of credit that may be issued by the lender on the Company s behalf) and a $10,000,000 term loan facility. Borrowings under the Credit Agreement are secured by the Company s accounts receivable, inventories, machinery, equipment, vehicles, certain real estate and the common stock of all of the Company s subsidiaries. Borrowings under the revolving credit facility are limited to 80% of eligible accounts receivable and 50% of eligible inventories. Inventory borrowings are limited to a maximum of $7,500,000 ($6,750,000 after April 15, 2010). Borrowings under the Credit Agreement bear interest based on a performance based LIBOR or prime rate option. For purposes of computing the performance based rate, the base LIBOR rate will not be less than 2% and the base prime rate will not be less than 4%. At January 2, 2010 the Company s effective interest rate under the LIBOR option was 5% and 4.75% under the prime rate option. The Company also paid certain underwriting and arrangement fees at the time of closing. The Credit Agreement requires the Company to maintain certain levels of tangible net worth, EBITDA (earnings before interest, income taxes, depreciation and amortization), debt service coverage and to maintain certain ratios of consolidated debt to cash flow (as defined). The Credit Agreement places a limit on the amount of annual capital expenditures. Additional borrowings, acquisition of stock of other companies, purchase of treasury shares and payment of cash dividends are either limited or require prior approval by the lender. Payment of accrued interest is due monthly or at the end of the applicable LIBOR period on both the revolving credit borrowings and the term debt borrowings. Principal payments under the term loan are due quarterly with a final payment of all remaining unpaid principal originally due April 16, 2012. On November 18, 2009 the Credit Agreement was amended reducing the revolving credit facility to $15,000,000. On April 15, 2010 a Second Amendment to the Credit Agreement accelerated the final payment of all remaining unpaid principal borrowings to August 1, 2011. The quarterly principal payment amounts were not changed from those set forth in the Credit Agreement. The Second Amendment also revised some of the financial covenants as discussed more fully in Note 5 to the financial statements.

Outstanding borrowings under the revolving credit facility as of January 2, 2010 were $5,850,000. The highest balance outstanding on the revolving credit facility during 2009 was $14,734,000. Average outstanding revolving credit during the year was $7,090,000. The weighted average interest rates on the outstanding revolving credit and term debt in 2009 and 2008 were 4.8% and 6.1%, respectively. The 4.8% rate for 2009 includes the effect of the interest rate swap discussed below. At all times since the inception of the Credit Agreement, the Company had sufficient qualifying assets such that the maximum revolving credit facility was immediately available and is expected to be available for the foreseeable future.

The lender required the Company to enter into an interest rate swap transaction to hedge the interest rate on $5,000,000 of term debt. On May 29, 2009 the Company entered into an interest rate swap transaction for a notional amount of $5,000,000 whereby the Company pays a fixed rate of 3.07% on $5,000,000 and receives a floating rate equivalent to the 30 day LIBOR rate but not less than 2.0%. Since the inception of this agreement the 30 day LIBOR rate has remained below 2.0%. Hence, the effect of the transaction has been, thus far, to increase the Company s effective interest rate by 1.07%. The notional amount decreases as follows:

•	September 30, 2011	$	500,000
•	December 31, 2011	$	500,000
•	March 31, 2012	$	500,000

The interest rate swap transaction terminates on April 16, 2012.

In April 2009 the Company deposited cash of $4,840,000 with its casualty insurance carrier to serve as collateral for the self-insured obligations under the Company s casualty insurance program. Previously these obligations were secured by a bank letter of credit. This deposit was funded with borrowings under the revolving credit line.

At the end of the period ended January 2, 2010 the Company was not in compliance with the minimum adjusted EBITDA and fixed charge coverage covenants of the Credit Agreement. As a result, effective January 1, 2010 the default rate provision of the Credit Agreement increases the interest rate on all outstanding revolving and long-term debt by 2%. Non-compliance with the financial covenants in the Credit Agreement constitutes an event of default under the agreement. Upon the occurrence of an event of default, the lenders may, among other things, terminate their lending commitments, in whole or in part, declare all or any part of the Company s borrowings to be due and payable, and/or require the Company to collateralize with cash any or all letters of credit provided by the lender. A waiver of the event of default relating to compliance with the minimum adjusted EBITDA and fixed charge coverage covenants was granted and a second amendment to the Credit Agreement was entered into on April 15, 2010. The second amendment provides for the following:

- The covenants regarding the fixed charge coverage and the maximum leverage ratio have been eliminated for the duration of the amended Credit Agreement.

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- The Company must maintain a minimum tangible net worth of $32,000,000. At January 2, 2010, the minimum tangible net worth, as defined, was $38,250,000.

- Annual capital expenditures may not exceed $3,500,000.

- The maximum revolving credit facility line will remain at $15,000,000 until October 1, 2010 when it will then be reduced to $13,500,000.

- The maturity date of the credit facility is August 1, 2011.

- The interest rate for the remaining term of the amended Credit Agreement will be 4.0% over LIBOR but with a LIBOR floor of 2.0% (the Company s effective LIBOR borrowing rate will be 6.0%). The margin on the base or prime rate option will be the base plus 1.75% with a base rate floor of 4% (the Company s effective borrowing rate will be 5.75%).

- The interest rate swap transaction will remain in effect.

The Credit Agreement as amended on April 15, 2010 requires the Company to maintain certain financial covenants as disclosed in the table below (amounts in thousands except for ratios):

Financial Covenant	**Date Required**	**Required Amount or Ratio**
Minimum tangible net worth	At all times	$32,000
Minimum adjusted quarterly EBITDA	Quarter ended July 3, 2010	$2,100
	Quarter ended October 2, 2010	$2,000
	Quarter ended January 1, 2011	$500
	Quarter ended April 2, 2011	$(600)
	Quarter ended July 2, 2011	$2,100
Maximum capital expenditures	Trailing 12 months	≤ $3,500

Definitions under the Credit Agreement as amended are as follows:

- Tangible net worth is defined as net worth plus subordinated debt minus intangible assets (goodwill, intellectual property, prepaid expenses and deferred charges) minus all obligations owed to the Company or any of its subsidiaries by any affiliate or any or its subsidiaries and minus all loans owed by its officers, stockholders, subsidiaries or employees (Note: there are no loans owed by any of the referenced parties at January 2, 2010 or as of the date of this filing).

- The adjusted EBITDA is defined as net income plus interest, income taxes, depreciation, depletion and amortization plus other non-cash charges approved by the lender.

The Company has prepared a projection of cash sources and uses for the next 12 months. Under this projection, the Company believes that its existing cash balance, anticipated cash flow from operations and borrowings available under the Credit Agreement, will be sufficient to cover expected cash needs, including servicing debt and planned capital expenditures for the next twelve months. The Company also expects to be in compliance with all debt covenants, as amended, during this period.

Term loan payments and the amortization of deferred financing fees are scheduled as follows (amounts in thousands):

	Term Loan Payments	Amortization of Deferred Financing Fees
2010	$ 1,375	$ 261
2011	5,775	210
	$ 7,150	$ 471

6. COMMITMENTS AND CONTINGENCIES

The Company is involved in litigation matters related to its business, principally product liability matters related to the gas-fired heating products in the Heating and Cooling segment. In the Company s opinion, none of these proceedings, when concluded, will have a material adverse effect on the Company s consolidated results of operations, cash flows or financial condition as the Company has established adequate accruals for matters that are probable and estimable. The Company does not accrue estimated amounts for future legal costs related to the defense of these matters but rather expenses them as incurred.

7. SHAREHOLDERS EQUITY

Four hundred thousand shares of preferred stock ($.50 par value) are authorized and unissued.

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8. EARNINGS PER SHARE

The Company does not have any common stock equivalents, warrants or other convertible securities outstanding therefore there are no differences between the calculation of basic and diluted EPS for the fiscal years 2009 or 2008.

9. RENTAL EXPENSE, LEASES AND COMMITMENTS

The Company leases certain of its facilities and equipment and is required to pay the related taxes, insurance and certain other expenses. Rental expense was $2,907,000 and $3,206,000 for 2009 and 2008, respectively.

Future minimum rental commitments under non-cancelable operating leases for 2010 and thereafter are as follows: 2010 $1,653,000; 2011 $1,580,000; 2012 $1,443,000; 2013 $1,205,000; 2014 $915,000 and thereafter $23,889,000. Included in these amounts is $521,000 per year and approximately $23,437,000 in the thereafter amount related to minimum royalty payments due on an aggregates property lease in conjunction with the Pueblo, Colorado operation. Also included in these amounts is $235,000 per year and approximately $412,000 in the thereafter amount related to a ground lease upon which the Company owns a building leased to a third party for approximately $344,000 per year. The ground lease runs through October 1, 2016 and contains a renewal clause. The building lease runs through January 31, 2013.

10. RETIREMENT PLANS

As discussed in Note 1, the Company maintains defined contribution retirement benefit plans for eligible employees. Total plan expenses charged to continuing operations were $1,017,000 and $707,000 in 2009 and 2008, respectively.

11. CURRENT ECONOMIC CONDITIONS

The current protracted economic decline continues to present manufacturers with difficult circumstances and challenges, which in some cases have resulted in large and unanticipated declines in the fair value of assets, declines in the volume of business, constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the Company.

Current economic and financial market conditions could adversely affect our results of operations in future periods. The current instability in the financial markets may make it difficult for certain of our customers to obtain financing, which may significantly impact the volume of future sales which could have an adverse impact on the Company s future operating results.

In addition, given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in allowances for accounts and notes receivable, net realizable value of inventory, realization of deferred tax assets and valuation of intangibles and goodwill that could negatively impact the Company s ability to meet debt covenants or maintain sufficient liquidity.

12. INCOME TAXES

The provision (benefit) for income taxes for continuing operations is summarized as follows (amounts in thousands):

		2009	2008
Federal:	Current	$ (26)	$ (11)
	Deferred	(693)	515
State:	Current	38	60
	Deferred	(81)	174
		$ (762)	$ 738

Note that the percentage effect of an item on the statutory tax rate in a given year will fluctuate based upon the magnitude of the pre-tax profit or loss in that year. The difference between the tax rate for continuing operations on income or loss for financial statement purposes and the federal statutory tax rate was as follows:

	2009	2008
Statutory tax rate	(34.0)%	34.0%
Percentage depletion	(2.5)	(7.8)
Non-deductible expenses	2.1	1.3
FIN 48 change in reserves	(9.4)	(1.0)
Valuation allowance for tax assets	4.1	1.8
State income taxes, net of federal benefit	(10.0)	1.6
Other	1.0	(.3)
	(48.7)%	29.6%

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For financial statement purposes, deferred tax assets and liabilities are recorded at a blend of the current statutory federal and states tax rates 37.96%. The principal temporary differences and their related deferred taxes are as follows (amounts in thousands):

	2009	2008
Reserves for self-insured losses	$ 919	$ 854
Accrued reclamation	431	419
Deferred compensation	336	194
Asset valuation reserves	363	563
Future state tax credits	760	760
Net state operating loss carryforwards	214	88
Federal AMT carryforward	102	151
Federal NOL carryforward	226	
Approximate long-term capital loss carryforward	1,721	
Other	1,075	671
Valuation allowance	(1,950)	(220)
Total deferred tax assets	4,197	3,480
Depreciation	2,547	3,008
Deferred development	717	475
Prepaid royalty	464	406
Other	596	664
Total deferred tax liabilities	4,324	4,553
Net deferred tax liability	$ (127)	$ (1,073)

At both January 2, 2010 and January 3, 2009, the Company established a valuation reserve of $229,000 related to the carryforward of charitable contributions deductions arising in the current and prior years due to the uncertainty that the Company will be able to utilize these deductions prior to the expiration of their carry forward periods. At January 2, 2010, the Company also established a valuation reserve of $1,721,000 related to the carry forward of the long-term capital loss related to the sale of the stock of RMRM due to the uncertainty that the Company will be able to generate offsetable long-term capital gains prior to the expiration of the carry forward period. For Federal purposes, Net Operating Losses can be carried forward for a period of 20 years while Alternative Minimum Tax credits can be carried forward indefinitely. For State purposes, Net Operating Losses can be carried forward for periods ranging from 5 to 20 years for the states that the Company is required to file in. The $760,000 of state tax credits all relate to California Enterprise Zone hiring credits earned in prior years. These credits may be carried forward indefinitely.

The net current deferred tax assets are $3,116,000 and $2,341,000 at year-end 2009 and 2008, respectively.

The Company accounts for uncertainty in income taxes recognized in its financial statements by applying the Codification s recognition threshold and measurement attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The financial statement effects of a tax position are initially recognized when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. A tax position that meets the more-likely-than-not recognition threshold should initially and subsequently be measured as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon effective settlement with a taxing authority.

The gross amount of unrecognized tax benefits at January 2, 2010 was $47,000 compared to $431,000 at January 3, 2009. Of these totals, the amounts that would affect the effective tax rates were $0 and $81,000, respectively.

We classify interest and penalties recognized on the liability for unrecognized tax benefits as income tax expense. Accrued interest of $33,000 and penalties of $0 were included in our total liability for unrecognized tax benefits as of January 2, 2010 compared to interest of $110,000 and penalties of $16,000 as of January 3, 2009.

We file income tax returns in the United States Federal and various state jurisdictions. The Internal Revenue Service has completed examinations for periods through 2007. Federal tax years 2008 and 2009 remain subject to examination. Various state income tax returns also remain subject to examination. There are no tax positions expected to be resolved within 12 months of this reporting date.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (amounts in thousands):

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	2009	2008
Balance at Beginning of Year	$ 431	$ 328
Additions for tax positions related to the current year	47	122
Reductions for statute of limitations		(8)
Reductions for tax positions of prior years	(431)	(11)
Settlements		
Balance at End of Year	$ 47	$ 431

13. UNAUDITED QUARTERLY FINANCIAL DATA

The following table and footnotes provide summarized unaudited fiscal quarterly financial data for 2009 and 2008 (amounts in thousands, except per share amounts):

	First Quarter (c)	Second Quarter	Third Quarter	Fourth Quarter
2009				
Sales	$ 30,910	$ 28,682	$ 25,834	$ 28,035
Depreciation, depletion and amortization	1,119	1,227	1,064	1,062
Net (loss) income				
Continuing operations	(79)	1,178(a)	(700)	(1,201)
Discontinued operations	(411)	(38)	(282)	91
Net (loss) income	(490)	1,140	(982)	(1,110)
Basic and Diluted (loss) income per share				
Continuing operations	(.05)	.74	(.44)	(.75)
Discontinued operations	(.26)	(.03)	(.17)	.06
	(.31)	.71	(.61)	(.69)

	First Quarter (c)	Second Quarter (c)	Third Quarter (c)	Fourth Quarter (c)
2008				
Sales	$ 31,938	$ 37,729	$ 38,362	$ 37,685
Depreciation, depletion and amortization	1,142	1,125	1,079	1,022
Net (loss) profit:				
Continuing operations	(749)	99	673	1,734(b)
Discontinued operations	(382)	(366)	(323)	(726)(b)
Net (loss) income	(1,131)	(267)	350	1,008
Basic and Diluted (loss) income per share				
Continuing operations	(.47)	.06	.42	1.08
Discontinued operations	(.24)	(.23)	(.20)	(.45)
	(.71)	(.17)	.22	.63

(a) Second quarter 2009 results include a pre-tax gain of $2,026 on the sale of land in Colorado Springs. On July 2, 2009 (July 3, 2009 was the last day of the Company s fiscal second quarter), the Company and the buyer of the property reached an agreement on the final purchase price for the property. The Company received the cash during the third quarter of 2009.
(b) Fourth quarter 2008 results include a pre-tax gain on the sale of land of $1,947 recorded in continuing operations and a pre-tax impairment charge for long-lived assets of $784 recorded in discontinued operations.
(c) The indicated quarter has been restated from its original presentation to reflect the discontinued operation.

Earnings per share are computed independently for each of the quarters presented. Therefore, the sum of the quarterly earnings per share may not equal the total for the year.

14. INDUSTRY SEGMENT INFORMATION

The Company operates primarily in two industry groups, HVAC and Construction Products. The Company has identified two reportable segments in each of the two industry groups: the Heating and Cooling segment and the Evaporative Cooling segment in the HVAC industry group and the Concrete, Aggregates and Construction Supplies segment (CACS) and the Door segment in the Construction Products industry group. The Heating and Cooling segment produces and sells gas-fired wall furnaces, console heaters and fan coils from the Company s wholly-owned subsidiary, Williams Furnace Co. of Colton, California. The Evaporative Cooling segment produces and sells evaporative coolers from the Company s wholly-owned

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subsidiary, Phoenix Manufacturing, Inc. of Phoenix, Arizona. Sales of these two segments are nationwide, but are concentrated in the southwestern United States. Concrete, aggregates and construction supplies are offered from numerous locations along the Southern Front Range of Colorado operated by the Company s wholly-owned subsidiaries Castle Concrete Company and Transit Mix Concrete Co., of Colorado Springs and Transit Mix of Pueblo, Inc. of Pueblo. Rocky Mountain Ready Mix Concrete, Inc. of Denver, formerly included in the CACS segment was sold on July 17, 2009 and is not included in the segment information presented in the table below but rather has been reported as a discontinued operation. Doors are fabricated and sold along with the related hardware from Colorado Springs and Pueblo through the Company s wholly-owned subsidiary, McKinney Door and Hardware, Inc. of Pueblo, Colorado. Sales of these two segments are highly concentrated in the Southern Front Range area in Colorado although door sales are also made throughout the United States.

The Company evaluates the performance of its segments and allocates resources to them based on a number of criteria including operating income, return on investment and other strategic objectives. Operating income is determined by deducting operating expenses from all revenues. In computing operating income, none of the following has been added or deducted: unallocated corporate expenses, interest, other income or loss or income taxes.

In addition to the above reporting segments, an Unallocated Corporate classification is used to report the unallocated expenses of the corporate office which provides treasury, insurance and tax services as well as strategic business planning and general management services and an Other classification is used to report a real estate operation. Expenses related to the corporate information technology group are allocated to all locations, including the corporate office.

The following table presents information about reported segments for the fiscal years 2009 and 2008 along with the items necessary to reconcile the segment information to the totals reported in the financial statements (amounts in thousands):

	Construction Products Industry			**HVAC Industry**					
	Concrete, Aggregates & Construction Supplies	**Doors**	**Combined Construction Products**	**Heating and Cooling**	**Evaporative Cooling**	**Combined HVAC**	**Unallocated Corporate (a)**	**Other (b)**	**Total**
2009									
Revenues from external customers	$ 40,421	$ 14,616	$ 55,037	$ 32,784	$ 25,281	$ 58,065	$ 14	$ 345	$ 113,461
Depreciation, depletion and amortization	3,402	173	3,575	373	450	823	74		4,472
Operating (loss) income	(2,759)	1,090	(1,669)	(503)	2,397	1,894	(946)	109	(612)
Segment assets	36,007	6,509	42,516	17,101	13,141	30,242	9,291	63	82,112
Capital expenditures	1,665	175	1,840	167	109	276	32		2,148

	Construction Products Industry			**HVAC Industry**					
	Concrete, Aggregates & Construction Supplies	**Doors**	**Combined Construction Products**	**Heating and Cooling**	**Evaporative Cooling**	**Combined HVAC**	**Unallocated Corporate (a)**	**Other (b)**	**Total**
2008									

Revenues from external customers	$ 64,829	$ 15,373	$ 80,202	$ 42,166	$ 22,985	$ 65,151	$ 17	$ 344	$ 145,714
Depreciation, depletion and amortization	3,228	134	3,362	389	539	928	78		4,368
Operating income (loss)	2,142	1,455	3,597	85	458	543	(643)	109	3,606
Segment assets	46,410	6,276	52,686	23,521	14,241	37,762	3,195	23	93,666
Capital expenditures (c)	1,708	112	1,820	60	140	200	6		2,026

(a) Includes unallocated corporate office expenses and assets which consist primarily of cash and cash equivalents, prepaid expenses, property, plant and equipment and in 2009, a $4,840 cash deposit with the Company s insurer to secure the self-insured portion of claims under the Company s casualty insurance program.

(b) Includes a real estate operation.

(c) The 2008 capital expenditures for the Concrete, Aggregates & Construction Supplies segment include $165 of additions purchased on account.

There are no differences in the basis of segmentation or in the basis of measurement of segment profit or loss from the last annual report except as discussed above regarding RMRM.

All long-lived assets are in the United States. No customer accounted for 10% or more of total sales of the Company in fiscal 2009 or 2008.

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Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders

Continental Materials Corporation

Chicago, Illinois

We have audited the accompanying consolidated balance sheet of Continental Materials Corporation as of January 2, 2010, and the related consolidated statements of operations, shareholders equity and cash flows for the year then ended. Our audit also included the Year 2009 information on the financial statement schedule listed in the Index at Part IV, Item 15(a)2. The Company s management is responsible for these financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing auditing procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. Our audits also included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Continental Materials Corporation as of January 2, 2010, and the results of its operations and its cash flows for the year than ended, in conformity with accounting principles generally accepted in the United States of America.

We also audited the adjustments related to the discontinued operation more fully described in Note 2 that were applied to restate the 2008 financial statements. In our opinion, such adjustments are appropriate and have been properly applied.

/s/ BKD, LLP

Indianapolis, Indiana

April 19, 2010

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Continental Materials Corporation:

We have audited, before the effects of the retrospective adjustments for the discontinued operations discussed in Note 2 to the consolidated financial statements, the consolidated balance sheet of Continental Materials Corporation and subsidiaries (the Company) as of January 3, 2009, and the related consolidated statements of operations, shareholders equity, and cash flows for the year ended January 3, 2009 (the January 3, 2009 consolidated statement of operations before the effects of the retrospective adjustments discussed in Note 2 to the consolidated financial statements are not presented herein). Our audit also included the financial statement schedule for the year ended January 3, 2009 listed in the Index at Part IV, Item 15(a) 2. These financial statements and financial statement schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such consolidated financial statements as of and for the year ended January 3, 2009, before the effects of the retrospective adjustments for the discontinued operations discussed in Note 2 to the consolidated financial statements, present fairly, in all material respects, the financial position of Continental Materials Corporation and subsidiaries as of January 3, 2009, and the results of their operations and their cash flows for the year ended January 3, 2009, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects, the information set forth therein.

We were not engaged to audit, review, or apply any procedures to the retrospective adjustments for discontinued operations discussed in Note 2 to the consolidated financial statements and, accordingly, we do not express an opinion or any other form of assurance about whether such retrospective adjustments are appropriate and have been properly applied. Those retrospective adjustments were audited by other auditors.

/s/ Deloitte & Touche LLP

Chicago, Illinois

April 17, 2009

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CONTINENTAL MATERIALS CORPORATION
Registrant

By: /S/Joseph J. Sum
Joseph J. Sum, Vice President and Chief Financial Officer

Date: April 28, 2010

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

SIGNATURE	CAPACITY(IES)	DATE
/S/ James G. Gidwitz James G. Gidwitz	Chief Executive Officer and a Director (Principal Executive Officer)	April 28, 2010
/S/ Joseph J. Sum Joseph J. Sum	Vice President, Chief Financial Officer (Principal Financial Officer)	April 28, 2010
/S/ Mark S. Nichter Mark S. Nichter	Secretary and Controller (Principal Accounting Officer)	April 28, 2010
/S/ William D. Andrews William D. Andrews	Director	April 28, 2010
/S/ Thomas H. Carmody Thomas H. Carmody	Director	April 28, 2010
/S/ Betsy R. Gidwitz Betsy R. Gidwitz	Director	April 28, 2010
/S/ Ralph W. Gidwitz Ralph W. Gidwitz	Director	April 28, 2010
/S/ Ronald J. Gidwitz Ronald J. Gidwitz	Director	April 28, 2010
/S/ Theodore R. Tetzlaff		

Theodore R. Tetzlaff	Director	April 28, 2010
/S/ Peter E. Thieriot Peter E. Thieriot	Director	April 28, 2010
/S/ Darrell M. Trent Darrell M. Trent	Director	April 28, 2010