

NCI BUILDING SYSTEMS INC  
Form DEF 14A  
February 04, 2009  
Table of Contents

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

**SCHEDULE 14A**  
(Rule 14a-101)

**INFORMATION REQUIRED IN PROXY STATEMENT**

**SCHEDULE 14A INFORMATION**

**Proxy Statement Pursuant to Section 14(a) of the  
Securities Exchange Act of 1934**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

**Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

**NCI BUILDING SYSTEMS, INC.**

(Name of Registrant as Specified in its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No Fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

---

(2) Aggregate number of securities to which transaction applies:

---

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how much it was determined):

---

(4) Proposed maximum aggregate value of transaction:

---

(5) Total fee paid:

Fee paid previously with preliminary materials:

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

(1) Amount previously paid:

---

(2) Form, Schedule or Registration Statement No.:

---

(3) Filing Party:

---

(4) Date Filed:

---

**Table of Contents**

February 4, 2009

Dear Stockholder:

You are cordially invited to attend the Annual Meeting of Stockholders of NCI Building Systems, Inc. to be held at 10:00 a.m. on Thursday, March 12, 2009, at the NCI Conference Center located at 7313 Fairview, Houston, Texas. At this meeting you will be asked to:

- (1) Elect the four (4) Class I directors named in the accompanying proxy statement to serve until the 2012 Annual Meeting of Stockholders or until their respective successors have been elected and shall have qualified;
- (2) Approve the 2003 Long-Term Stock Incentive Plan, as amended and restated;
- (3) Ratify the selection of Ernst & Young LLP as the Company's independent registered public accounting firm for fiscal 2009; and
- (4) Transact such other business as may properly come before the Annual Meeting of Stockholders or any reconvened meeting following any adjournment or postponement thereof.

It is important that your shares be represented at the Annual Meeting. Therefore, whether or not you expect to attend in person, please sign and date the enclosed proxy and return it in the enclosed envelope or submit your proxy using the telephone or Internet procedures that may be provided to you at your earliest convenience. Please note that using any of these methods will not prevent you from attending the meeting and voting in person.

Very truly yours,

Norman C. Chambers  
*Chairman of the Board, President*  
  
*and Chief Executive Officer*

Table of Contents

**NCI BUILDING SYSTEMS, INC.**

**10943 North Sam Houston Parkway West**

**Houston, Texas 77064**

**NOTICE OF  
ANNUAL MEETING OF STOCKHOLDERS  
TO BE HELD MARCH 12, 2009**

The Annual Meeting of Stockholders of NCI Building Systems, Inc. will be held at the NCI Conference Center located at 7313 Fairview, Houston, Texas, on Thursday, March 12, 2009, at 10:00 a.m. The Annual Meeting of Stockholders will be held for the following purposes:

1. The election of the four (4) Class I directors named in the accompanying proxy statement to serve until the 2012 Annual Meeting of Stockholders or until their respective successors have been elected and shall have qualified;
2. Approval of the 2003 Long-Term Stock Incentive Plan, as amended and restated;
3. Ratification of the selection of Ernst & Young LLP as the Company's independent registered public accounting firm for fiscal 2009; and
4. The transaction of such other business as may properly come before the Annual Meeting of Stockholders or any reconvened meeting following any adjournment or postponement thereof.

Only stockholders of record at the close of business on January 12, 2009 are entitled to notice of, and to vote at, the meeting or any reconvened meeting following any adjournment or postponement thereof.

We believe that it is desirable that as large a proportion as possible of the stockholders' interests be represented at our Annual Meeting. **Whether or not you plan to attend our Annual Meeting, we request that you properly date and sign the enclosed form of proxy and promptly return it to us using the enclosed addressed and stamped envelope or submit your proxy using the telephone or Internet procedures that may be provided to you.** If you are present at the meeting and wish to do so, you may revoke the proxy and vote in person. If, however, you hold your shares through a nominee or broker, you must obtain a signed proxy from the broker in order to be able to vote in person.

By order of the Board of Directors,

Todd R. Moore  
*Executive Vice President, General Counsel*

*and Secretary*

Houston, Texas

February 4, 2009

**Table of Contents**

**Important Notice Regarding the Availability of**

**Proxy Materials for the Annual Stockholder Meeting to be Held March 12, 2009**

The proxy statement and annual report to shareholders are available at [www.ncilp.com/proxy](http://www.ncilp.com/proxy).

**Table of Contents**

**PROXY STATEMENT**  
**FOR**  
**ANNUAL MEETING OF STOCKHOLDERS**

**To Be Held March 12, 2009**

**TABLE OF CONTENTS**

<u>ACTION TO BE TAKEN AT ANNUAL MEETING</u>	1
<u>PERSONS MAKING THE SOLICITATION</u>	1
<u>OUTSTANDING CAPITAL STOCK</u>	1
<u>QUORUM AND VOTING</u>	4
<u>ELECTION OF DIRECTORS</u>	4
<u>Nominees For Election As Director</u>	6
<u>Directors Remaining In Office</u>	7
<u>MANAGEMENT</u>	9
<u>COMPENSATION DISCUSSION AND ANALYSIS</u>	11
<u>Objectives of NCI's Compensation Program</u>	11
<u>Elements of Executive Compensation</u>	11
<u>Determination and Administration of Compensation Programs and Amounts</u>	11
<u>Retirement Benefits</u>	16
<u>CEO Compensation</u>	18
<u>Deductibility of Compensation</u>	18
<u>REPORT OF THE COMPENSATION COMMITTEE</u>	19
<u>EXECUTIVE COMPENSATION</u>	20
<u>Summary Compensation Table</u>	20
<u>Grants of Plan-Based Awards</u>	22
<u>Outstanding Equity Awards at Fiscal Year-End</u>	23
<u>Option Exercises and Stock Vested</u>	24
<u>Nonqualified Deferred Compensation Plans</u>	25
<u>Pension Benefits</u>	25
<u>Employment Agreements</u>	25
<u>Potential Payments upon Termination or Change-in-Control</u>	28
<u>Compensation Committee Interlocks and Insider Participation</u>	29
<u>PROPOSAL TO ADOPT THE 2003 LONG-TERM STOCK INCENTIVE PLAN, AS AMENDED AND RESTATED</u>	30
<u>Summary of the 2003 Long-Term Stock Incentive Plan, as Amended and Restated</u>	30
<u>SECURITIES RESERVED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS</u>	39
<u>BOARD OF DIRECTORS</u>	40
<u>Independence and Meetings</u>	40
<u>Board Committees</u>	40
<u>Executive Committee</u>	40
<u>Audit Committee</u>	41
<u>Compensation Committee</u>	41
<u>Nominating and Corporate Governance Committee</u>	41
<u>Compensation of Directors</u>	43
<u>CORPORATE GOVERNANCE</u>	44
<u>COMMUNICATIONS WITH OUR BOARD</u>	45
<u>SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE</u>	46
<u>TRANSACTIONS WITH DIRECTORS, OFFICERS AND AFFILIATES</u>	46
<u>AUDIT COMMITTEE AND AUDITORS</u>	47
<u>Report of the Audit Committee</u>	47
<u>Our Independent Registered Public Accounting Firm and Audit Fees</u>	47
<u>Pre-Approval Policies and Procedures for Audit and Non-Audit Services</u>	48



RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

General

Required Affirmative Vote

48

48

48

**Table of Contents**

<u>ADDITIONAL INFORMATION</u>	49
<u>Stockholder Proposals for 2009 Annual Meeting</u>	49
<u>Stockholder Proposals for Fiscal Year 2010 Proxy Statement</u>	49
<u>Advance Notice Required for Stockholder Nominations and Proposals</u>	49
<u>Delivery of Proxy Statement</u>	49
<u>MISCELLANEOUS</u>	50
<u>ANNEX A - Corporate Governance Guidelines</u>	A-1
<u>ANNEX B - Audit Committee Charter</u>	B-1
<u>ANNEX C - 2003 Long-Term Stock Incentive Plan, as amended and restated</u>	C-1

**Table of Contents**

**NCI BUILDING SYSTEMS, INC.**

**10943 North Sam Houston Parkway West**

**Houston, Texas 77064**

**(281) 897-7788**

**PROXY STATEMENT**

**FOR**

**ANNUAL MEETING OF STOCKHOLDERS**

**TO BE HELD MARCH 12, 2009**

This proxy statement is furnished to stockholders of NCI Building Systems, Inc. ( NCI or the Company ) in connection with the solicitation of proxies to be used at our Annual Meeting of Stockholders to be held Thursday, March 12, 2009. Your proxy in the form enclosed will be voted at the meeting if properly executed by you, returned to us and not revoked by you before the Annual Meeting. If you give a proxy on the enclosed form, or by telephone or the Internet, you may revoke it at any time before it is voted by delivering written notice of revocation to the Secretary of NCI, by delivering a later dated proxy or by attending the Annual Meeting, withdrawing your proxy and voting your shares personally. Your attendance at the Annual Meeting will not constitute automatic revocation of your proxy. If you hold your shares through a nominee or broker, you must obtain a signed proxy from the broker in order to be able to vote in person.

We are first sending this proxy statement and the enclosed proxy form to stockholders on or about February 4, 2009.

**ACTION TO BE TAKEN AT ANNUAL MEETING**

When you have appropriately specified how your proxy should be voted, the proxy will be voted accordingly. Unless you otherwise specify in your proxy, your proxy will be voted (1) **FOR** the election as directors of the nominees listed under Election of Directors ; (2) **FOR** the approval of the 2003 Long-Term Stock Incentive Plan, as amended and restated; (3) **FOR** the ratification of Ernst & Young LLP as the Company's independent registered public accountants for fiscal 2009; and (4) at the discretion of the proxy holders, either **FOR** or **AGAINST** any other matter or business that may properly come before the Annual Meeting. Our board of directors is not currently aware of any other such matter or business.

**PERSONS MAKING THE SOLICITATION**

Our board of directors is soliciting the accompanying proxy. We will bear the entire cost of soliciting proxies and no other person or persons will bear those costs either directly or indirectly. Our transfer agent, Computershare Investor Services, Inc., will assist in the solicitation of proxies from stockholders at a fee of approximately \$1,500 plus reimbursement of reasonable out-of-pocket expenses. In addition to the use of the mails, proxies may be solicited by personal interview, telephone and email by our directors, officers and employees, none of whom will receive additional compensation. We will also reimburse brokerage houses and other nominees for their reasonable expenses in forwarding proxy materials to beneficial owners of our common stock.

**OUTSTANDING CAPITAL STOCK**

The record date for stockholders entitled to notice of, and to vote at, the Annual Meeting is January 12, 2009. At the close of business on that date we had 19,697,652 shares of common stock issued and outstanding and entitled to be voted at the Annual Meeting.

**Table of Contents**

The following table sets forth, as of January 12, 2009 (the Ownership Date), the number of shares of common stock beneficially owned by (1) each person or group known by us to own beneficially more than 5% of the outstanding shares of common stock, (2) each director and nominee for director, (3) each of our executive officers identified under the caption Executive Compensation and (4) all directors, director nominees and executive officers as a group. Except as otherwise indicated, each of the persons or groups named below has sole voting power and investment power with respect to the common stock.

Name of Beneficial Owner or Group	Beneficial Ownership (1)	
	Number of Shares	Percent
FMR LLC (2) 82 Devonshire Street Boston, MA 02109	2,013,600	10.22%
Bank of America Corp. and certain of its subsidiaries (2) 100 North Tryon Street, Floor 25 Charlotte, NC 28255	1,603,665	8.14%
Dimensional Fund Advisors LP (2) 1299 Ocean Avenue Santa Monica, CA 90401	977,015	4.96%
Norman C. Chambers (3)	333,991	1.70%
William D. Breedlove (3)	34,206	*
Larry D. Edwards (3)	4,524	*
Gary L. Forbes (3)	33,206	*
Philip J. Hawk (3)	10,464	*
Max L. Lukens (3)	11,390	*
George Martinez (3)	32,985	*
Ed L. Phipps (3)	4,524	*
W. Bernard Pieper (3)	21,355	*
John K. Sterling (3)	24,622	*
Mark E. Johnson (3)	19,362	*
Mark W. Dobbins (3)	75,013	*
Charles W. Dickinson (3)	52,548	*
Keith E. Fischer (3)	50,588	*
A. R. Ginn (3) (4)	190,834	*
Kelly R. Ginn (3) (5)	73,281	*
Frances Powell Hawes (3) (6)	34,824	*
All directors and executive officers as a group (23 persons) (7)	1,103,806	5.60%

\* Less than 1%.

- (1) Includes shares beneficially owned by the listed persons, including shares owned under our 401(k) Profit Sharing Plan. If a person has the right to acquire beneficial ownership of any shares by exercise of options previously granted within 60 days after the Ownership Date, those shares are deemed beneficially owned by that person as of the Ownership Date and are deemed to be outstanding solely for the purpose of determining the percentage of the common stock that he or she owns. Those shares are not included in the computations for any other person.
- (2) This information is based solely on the most recent filings made by such beneficial owners with the SEC on Schedule 13G or 13G/A.

**Table of Contents**

- (3) The number of shares of common stock beneficially owned by each person includes options exercisable on the Ownership Date or within 60 days after the Ownership Date and excludes options not exercisable within 60 days after the Ownership Date. The number of shares of common stock beneficially owned by each person also includes unvested shares of restricted stock. Each owner of restricted stock has the right to vote his or her shares but may not transfer them until they have vested.

	Options		Unvested Restricted Stock
	Exercisable	Not Exercisable	
Norman C. Chambers	151,500		116,316
William D. Breedlove	14,431		5,522
Larry D. Edwards			4,149
Gary L. Forbes	14,431		5,522
Philip J. Hawk	3,000		5,489
Max. L. Lukens	3,000		5,489
George Martinez	6,524	331	5,323
Ed L. Phipps			4,149
W. Bernard Pieper			5,522
John K. Sterling			5,489
Mark E. Johnson			14,108
Mark W. Dobbins	31,082	793	38,387
Charles W. Dickinson	11,089	793	37,833
Keith E. Fischer	28,108	793	12,833
A.R. Ginn	98,088		19,222
Kelly R. Ginn	9,916		
Frances Powell Hawes	12,500		6,665

- (4) Mr. A.R. Ginn resigned as Chief Executive Officer of NCI on December 31, 2006, at which time Mr. Chambers was appointed Chief Executive Officer. Mr. A.R. Ginn retired as Chairman of the Board effective December 31, 2007, at which time Mr. Chambers was appointed to such position.
- (5) Includes 9,357 shares of common stock held as of April 1, 2008 by five trusts for the benefit of Mr. Kelly Ginn's two children and three nieces and nephews, of which trusts Mr. Kelly Ginn is the trustee and may be deemed to share voting and investment power. Mr. Kelly Ginn disclaims beneficial ownership of those shares. Mr. Kelly Ginn resigned as Executive Vice President of Operations of NCI on March 31, 2008, at which time Mr. Mark W. Dobbins was appointed Chief Operating Officer.
- (6) Ms. Frances Powell Hawes resigned as Executive Vice President, Chief Financial Officer and Treasurer of NCI on March 31, 2008, at which time Mr. Mark E. Johnson was appointed Executive Vice President, Chief Financial Officer and Treasurer.
- (7) The number of shares of common stock beneficially owned by each director and executive officer as a group includes beneficial ownership of the additional officers listed in the table below. As with the officers and directors listed individually, the number of shares of common stock beneficially owned by each person includes options exercisable on the Ownership Date or within 60 days after the Ownership Date and excludes options not exercisable within 60 days after the Ownership Date. The number of shares of common stock beneficially owned by each person also includes unvested shares of restricted stock. Each owner of restricted stock has the right to vote his or her shares but may not transfer them until they have vested.

**Table of Contents**

	Options		Unvested Restricted Stock
	Exercisable	Not Exercisable	
Richard Allen			1,695
Eric J. Brown	8,458	661	12,554
Mark T. Golladay			5,716
John L. Kuzdal	1,907	232	8,208
Todd R. Moore	9,783	661	12,554
Bradley D. Robeson	2,653	379	12,554

**QUORUM AND VOTING**

The presence in person or by proxy of the holders of a majority of the outstanding shares of the common stock is necessary to constitute a quorum at the Annual Meeting. Each outstanding share of common stock is entitled to one vote. Those nominees receiving a plurality of all of the votes cast at the Annual Meeting shall be elected to our board of directors. All routine matters will be decided by the vote of a majority of the votes cast by the stockholders present in person or by proxy and entitled to vote on the matter, a quorum being present. In addition, the total votes cast (including abstentions) on the proposal to adopt our 2003 Long-Term Stock Incentive Plan, as amended and restated, must represent a majority of the shares of common stock entitled to vote on the proposal in accordance with the rules of the New York Stock Exchange.

Abstentions are counted for the purpose of determining the presence of a quorum and have the same effect as a negative vote on matters other than the election of directors. Brokers holding shares must vote according to specific instructions they receive from the beneficial owners. The New York Stock Exchange precludes brokers from exercising voting discretion on certain proposals without specific instructions from the beneficial owner. This results in a broker non-vote on such a proposal. A broker non-vote is treated as present for purposes of determining the existence of a quorum, but will have no effect on the vote on the election of directors or the ratification of the appointment of the independent registered public accounting firm. Because the approval of our 2003 Long-Term Stock Incentive Plan requires the approval of a majority of the shares of common stock present in person or by proxy at the meeting and entitled to vote on the matter, abstentions will have the same effect as votes against the proposal. Broker non-votes, on the other hand, will not affect the outcome of the voting, except that they could prevent the total votes cast with respect to the proposal from representing a majority of the shares entitled to vote on the proposal, in which event the plan would not be approved.

**ELECTION OF DIRECTORS**

Our Restated Certificate of Incorporation and By-Laws provide that the number of directors on our board shall be fixed from time to time exclusively pursuant to a resolution adopted by a majority of our board of directors. The number of members constituting our board of directors is currently fixed at ten.

In accordance with our Restated Certificate of Incorporation and By-Laws, our board of directors is divided into three classes, as nearly equal in number as reasonably possible, and members are elected for a term of office expiring at the third succeeding annual stockholders meeting following their election to office or until a successor is duly elected and qualified. Under our By-Laws, newly created directorships resulting from any increase in the authorized number of directors or any vacancies on the board of directors resulting from death, resignation, retirement, disqualification, removal from office or other cause shall be filled only by a majority vote of the directors then in office, though less than a quorum, and directors so chosen hold office until the Annual Meeting of Stockholders at which the term of office of the class to which the director has been elected expires. The terms of office of each of the Class I directors expire at this Annual Meeting and the terms of office of each of the Class II and Class III directors expire at the Annual Meeting in 2010 and 2011, respectively.

Four Class I directors are to be elected at the Annual Meeting for a term expiring at the Annual Meeting to be held in 2012, or until their respective successors are duly elected and qualified. If, at the time of or prior to our Annual Meeting, any of the nominees should be unable or decline to serve, the discretionary

**Table of Contents**

authority provided in the proxy may be used to vote for a substitute or substitutes designated by our board of directors. Our board of directors has no reason to believe that any substitute nominee or nominees will be required. No proxy will be voted for a greater number of persons than the number of nominees named herein.

Set forth below is information concerning the persons nominated for election as directors.

**Our board of directors recommends a vote FOR the election of these nominees.**

---

**Table of Contents**

**Nominees For Election As Director**

***Class I Directors Who Serve Until The Annual Meeting To Be Held In 2012:***

**Larry D. Edwards**

Mr. Edwards, age 59, has served as one of our directors since January 2008. He is a member of the Compensation Committee of our board of directors. Mr. Edwards is the former Chairman of the Board of Global Power Equipment Group, a company engaged in design, engineering and fabrication of equipment for gas turbine power plants and power-related equipment for industrial operations ( GPEG ). Mr. Edwards served as the President and Chief Executive Officer of GPEG from June 1998 through October 2003. He was appointed to also serve as President again in February 2004 through December 2004, but remained as CEO until his retirement in June 2005. Mr. Edwards was appointed to serve again as President and CEO from May 2006 through November 2006. Mr. Edwards also served as the CEO of GPEG 's predecessor company, Global Energy Equipment Group, Inc., from June 1998 until the Company 's initial public offering in May 2001. Mr. Edwards currently serves as a director of several U.S. and Canadian subsidiaries of New Flyer Industries, Inc., a Canadian manufacturer of urban transit buses for North America. From February 1994 until June 1998, Mr. Edwards served as the president of Jason Incorporated 's power generation division. From 1976 until 1994, Mr. Edwards held various positions with Braden Manufacturing, including those of vice president of operations, general manager and president. Mr. Edwards was a director of GPEG and its predecessor from June 1998 to January 2008 and chairman of the board from October 2003 to January 2008. GPEG filed for protection under Chapter 11 of the U.S. Bankruptcy Code in September 2006. Mr. Edwards earned a B.S. in Industrial Engineering and Management from Oklahoma State University and a M.B.A. with honors from Oklahoma City University.

**Ed L. Phipps**

Mr. Phipps, age 57, has served as one of our directors since January 2008. He is a member of the Audit Committee of our board of directors. Mr. Phipps has served as President and Chief Executive Officer of Balfour Beatty Construction, Inc., a heavy civil construction contractor, from 2004 until his retirement in 2007. Balfour Beatty Rail, Inc. also reported to Mr. Phipps from 2005 until his retirement. From 2000 to 2003, Mr. Phipps served as President of shipyards held by Atlantic Marine Holding Company. He was President of the Atlantic Marine-Mobile Shipyard from 2000 to 2003 and also President of the Alabama Shipyard from 2001 to 2003. From 1999 to 2000, Mr. Phipps was a manufacturing and corporate equity investment consultant for Meshekow Oil Recovery Corporation, and from 1993 to 1999 he served as Vice President of both Manufacturing and Equipment Products Operation of Halliburton Energy Services, a company that provides products and services for oil and gas exploration, development and production. Mr. Phipps has also served as an Advisory Board Member for SPM Flow Control, Inc. from 1999 to 2007. In 2007, he also began serving as an Advisory Board Member for Carter Group L.L.C and as a director for the Alabama Institute for the Deaf and Blind. From 1973 to 1993, Mr. Phipps held various executive positions at General Electric. Mr. Phipps earned a B.S. in Production Management from Wright State University and completed General Electric 's Corporate Financial and Corporate Manufacturing Management Programs.

**W. Bernard Pieper**

Mr. Pieper, age 76, has served as one of our directors since December 2000. Mr. Pieper serves on the Compensation Committee and is the Chairman of the Nominating and Corporate Governance Committee of our board of directors. Mr. Pieper, now retired, is a private investor who completed his second term as a member of the Board of Trustees of Rice University in Houston, Texas, in May 2004. Mr. Pieper served as a member of the Board of Trustees of Rice University since 1996. Since 2000, he has served on various other boards and committees of Rice University. From 1957 until 1992, Mr. Pieper was employed by Brown & Root. From 1992 until 1996, Mr. Pieper was employed as Vice Chairman of Halliburton Company, a provider of energy services and related engineering and construction services, during the last two years of which he also served as Chief Operating Officer. Mr. Pieper earned B.A. and B.S. degrees in Civil Engineering from Rice University.



## **Table of Contents**

### **John K. Sterling**

John K. Sterling, age 64, has served as one of our directors since October 2004. Mr. Sterling serves on the Nominating and Corporate Governance Committee and the Compensation Committee of our board of directors. Since April 2006, Mr. Sterling has been Executive Vice President – Corporate Development of Verticus, Inc., a privately-held investment firm. From May 2004 until its sale in March 2006, Mr. Sterling was Executive Vice President – Corporate Development of Global 360, Inc., a provider of enterprise-wide, business process management and analytics software solutions. Previously, he practiced corporate, securities and mergers and acquisitions law for 36 years with Gardere Wynne Sewell, LLP, where he was a general partner from 1975 through his retirement from the firm in May 2004 and then served in an of-counsel role to Gardere until October 2004. Mr. Sterling earned a B.S. in Psychology and a J.D. from Ohio State University. He is licensed to practice law in the State of Texas.

### **Directors Remaining In Office**

#### *Class II Directors Who Serve Until The Annual Meeting To Be Held In 2010:*

### **Gary L. Forbes**

Mr. Forbes, age 64, has served as one of our directors since December 1991. Mr. Forbes serves on the Executive Committee and Compensation Committee and is the Chairman of the Audit Committee of our board of directors. In addition, Mr. Forbes is our designated audit committee financial expert. Mr. Forbes has been a Senior Vice President of Equus Total Return, Inc., an investment company, since November 1991. Mr. Forbes is also a director of Consolidated Graphics, Inc., a commercial printing company and Carriage Services, Inc., a death-care services company. Mr. Forbes earned a B.B.A. in Accounting from the University of Texas at Austin and is a certified public accountant.

### **Max L. Lukens**

Mr. Lukens, age 60, has served as one of our directors since May 2003. Mr. Lukens serves on the Audit Committee and the Nominating and Corporate Governance Committee of our board of directors. Mr. Lukens was the Chief Executive Officer and President of Stewart & Stevenson Services, Inc., a corporation primarily engaged in the custom fabrication of engine-driven products, from March 2004 until the company was sold in May 2006, and previously served as its Chairman of the Board, from December 2002 to March 2004, and Interim Chief Executive Officer and President, from September 2003 to March 2004. From 1981 to January 2000, Mr. Lukens was employed by Baker Hughes Incorporated, a company engaged in the oilfield and process industry segments and a manufacturer and provider of other products and services to industries that are not related to the oilfield or process industries. During the last two years of that period he served as Chairman of the Board, President and Chief Executive Officer. Mr. Lukens currently serves as a director of Westlake Chemical Corporation and also serves as a member of its audit committee and as Chairman of its compensation committee. Mr. Lukens has a B.S. in Accounting and a M.B.A. from Miami University.

### **George Martinez**

Mr. Martinez, age 67, has served as one of our directors since March 2003. He serves on the Audit Committee and the Nominating and Corporate Governance Committee of our board of directors. Mr. Martinez is Chief Executive Officer of Allegiance Bank Texas, a Houston commercial bank that opened for business in October 2007. He has been active as a bank executive in Houston for over 30 years and is the former Chairman of Sterling Bancshares, Inc., a publicly-traded bank holding company, having served as Chairman of the Board from 2001 to 2004. Mr. Martinez has served as President of Chrysalis Partners, LLC, a performance consulting firm, since 1999 and currently serves as Senior Partner of the firm. He serves his community on the board of directors and as Chairman of the Center for Houston's Future. Mr. Martinez has a B.A. in Business Administration and Economics from Rice University.

**Table of Contents**

***Class III Nominees For Election As Directors Who Serve Until The Annual Meeting To Be Held In 2011:***

**Norman C. Chambers**

Norman C. Chambers, age 59, has served as our Chairman of the Board since January 2008 and as our President and Chief Executive Officer since January 2007. He served as our President and Chief Operating Officer from April 2004 to January 2007 and has served as one of our directors since May 2003. Mr. Chambers serves on the Executive Committee of our board of directors. Mr. Chambers was a director and President of Comfort Systems USA, Inc., a provider of heating, ventilation and air conditioning services, from November 2002 until April 2004 and also served as Chief Operating Officer from February 2003 until April 2004. From November 2001 to October 2002, Mr. Chambers was Chief Operating Officer of Capstone Turbine Corporation, a distributive generation technology company. From April 2000 to September 2001, Mr. Chambers served as President and Chief Executive Officer of Petrocosm Corporation, a privately held e-commerce business serving the energy industry. From June 1985 to April 2000, Mr. Chambers served in various executive positions with Halliburton Company, a provider of energy services and related engineering and construction services, and its subsidiaries. Mr. Chambers has over twenty-five years of experience in the engineering and construction industry. Mr. Chambers earned a B.A. from Springfield College and a M.B.A. from Boston College.

**William D. Breedlove**

William D. Breedlove, age 69, has served as one of our directors since March 1992. Mr. Breedlove serves on the Nominating and Corporate Governance Committee and is the Chairman of the Compensation Committee of our board of directors. Mr. Breedlove served as Vice Chairman of Hoak Breedlove Wesneski & Co. ( HBW ), an investment banking firm, from August 1996 until his retirement in July 2004. Mr. Breedlove held senior management positions in commercial and merchant banking for over 30 years. Prior to HBW 's formation in 1996, Mr. Breedlove was chairman, managing director and co-founder of Breedlove Wesneski & Co., a private merchant banking firm. From 1984 to 1989, Mr. Breedlove also served as president and director of Equus Capital Corporation, the corporate general partner of three public and private limited partnerships, which operated as management of leveraged buyout funds. Mr. Breedlove 's experience also includes 22 years at First National Bank in Dallas, the last three years of which he served as chairman and chief executive officer of the lead bank and vice chairman of InterFirst Corporation. Mr. Breedlove is also a director of Integrated Security Systems, Inc. and four private companies. He has previously served as director of several other publicly-held companies, including InterFirst Corporation, Texas Oil and Gas Corporation, Dillard 's Department Stores, Local Financial Corporation, and Cronus Industries, Inc. Mr. Breedlove received his B.B.A. in Finance and Banking from the University of Texas at Austin.

**Philip J. Hawk**

Philip J. Hawk, age 55, has served as one of our directors since July 2004. Mr. Hawk serves on the Audit Committee and the Compensation Committee of our board of directors. Mr. Hawk has been the Chairman of the Board of Directors and Chief Executive Officer of Team, Inc., a leading provider of specialty contracting and maintenance services to the process, power and heavy manufacturing industries, since November 1998. From 1993 to 1998, Mr. Hawk held the position of President and Chief Executive Officer of EOTT Energy Partners, L.P., an energy marketing and service company. Mr. Hawk earned a B.S. in Engineering from Duke University and a M.B.A. from Harvard Business School.

**Table of Contents****MANAGEMENT**

Our executive officers are as follows:

<b>Name</b>	<b>Position</b>
Norman C. Chambers	Chairman of the Board, President and Chief Executive Officer
Mark E. Johnson	Executive Vice President, Chief Financial Officer and Treasurer
Mark W. Dobbins	Executive Vice President and Chief Operating Officer
Charles W. Dickinson	President of Metal Components Division
Bradley D. Robeson	President of NCI Buildings Division
John L. Kuzdal	President of Metal Coil Coating Division
Keith E. Fischer	President of Robertson-Ceco Division
Todd R. Moore	Executive Vice President, General Counsel and Secretary
Eric J. Brown	Executive Vice President and Chief Information Officer
Mark T. Golladay	Vice President, Corporate Development
Richard Allen	Vice President, Finance and Corporate Controller

Information concerning the business experience of Mr. Norman C. Chambers is provided under the section titled Election of Directors.

Mark E. Johnson, age 42, has served as our Chief Financial Officer and Treasurer since March 2008. He has served as our Chief Accounting Officer since August 2006, as our Executive Vice President and Controller since December 2007 and as our Vice President and Controller since February 2006. Before joining NCI in February 2006, Mr. Johnson was employed by Vector ESP, Inc., a company providing information technology services, where he served as a Corporate Controller from 2000 to 2003 and Chief Financial Officer and Senior Vice President from 2002 to August 2005, when the company was acquired. From 1989 to 2000, Mr. Johnson was employed by Ernst & Young LLP. Mr. Johnson has been a CPA since 1991 and earned his B.B.A. in Accounting from the University of Texas at Austin.

Mark W. Dobbins, age 50, has served as Executive Vice President and Chief Operating Officer since March 31, 2008. Mr. Dobbins served as President of the Engineered Building Systems Division from September 2006 until March 2008 and as Vice President, Operations of the Metal Components Division from October 2000 until September 2006. Mr. Dobbins served as President of the American Building Components Division from January 2000 until October 2000. During 1999, he served as the Senior General Manager of Manufacturing of the Metal Components Division. Before joining NCI in 1998, Mr. Dobbins was employed by MBCI for over 10 years. Mr. Dobbins has over 20 years of experience in the metal building industry. Mr. Dobbins has a B.S. from Angelo State University and has completed the Advanced Management Program at Harvard Business School and the Operations Management Program at Kellogg School of Management.

Charles W. Dickinson, age 57, has served as President of the Metal Components Division since December 2006. Mr. Dickinson served as Executive Vice President, Sales of the Metal Components Division and President of the ABC Division from October 2000 until December 2006. Mr. Dickinson served as Vice President, Sales of the Metal Components Division from May 1998 until October 2000. Before joining NCI in 1998, Mr. Dickinson served as Vice President of Sales of MBCI for over ten years. Mr. Dickinson has over 27 years of experience in the metal building and components industry. Mr. Dickinson studied Business Administration at Louisiana State University and William Carey College.

Bradley D. Robeson, age 46, has served as President of the Engineered Building Systems Division since March 2008. Mr. Robeson served as President of the Metal Coil Coating Division from February 2006 until March 2008 and as the Vice President of Operations of the Metal Coaters Division from October 2005 until February 2006. From February 2001 until October 2005, Mr. Robeson served as Vice President and General Manager of Metal Prep, a Metal Coaters Division entity. From March 1996 until February 2001, Mr. Robeson served as Plant Manager for the NCILP Buildings Division. Prior to March 1996, Mr. Robeson

**Table of Contents**

served in various managerial positions with component companies ultimately acquired by NCI. Mr. Robeson has over 19 years industry experience. Mr. Robeson studied Business Administration at Linfield College and completed the Advanced Management Program at the Harvard Business School.

John L. Kuzdal, age 42, has served as President of the Metal Coil Coating Division since March 2008. He has served as Vice President of Operations for the Metal Coil Coating Division from December 2006 until March 2008. From June 2002 to December 2006, he served as Vice President and General Manager of Metal Coaters of California Division. Mr. Kuzdal has been with the Metal Coaters Division since 1998 and has worked in the metal coil industry since 1986. Mr. Kuzdal earned his B.S. in Metallurgical Engineering from the University of Michigan.

Keith E. Fischer, age 53, has served as President of the Robertson-Ceco Division since September 2006. Mr. Fischer served as Executive Vice President, Sales and Marketing of the NCILP Buildings Division and President of the Metallic Metal Building Division from April 2002 until September 2006. Before joining NCI in April 2002, Mr. Fischer was employed by American Buildings Company, a metal building manufacturer that is now a division of Nucor Corporation, for over seven years, during the last two years of which he served as President. Mr. Fischer is a registered professional engineer. Mr. Fischer has over 31 years of experience in the metal building industry. Mr. Fischer has a B.S. in Civil Engineering from the University of Missouri and a professional engineering license.

Todd R. Moore, age 49, has served as our Executive Vice President and General Counsel since December 2007 and as our Vice President and General Counsel since March 2003. Mr. Moore has served as a Vice President and General Counsel of all NCI divisions since January 1999 and as our Corporate Secretary since March 2005. Before joining NCI in January 1999, Mr. Moore was employed by Gardere Wynne Sewell LLP, a Dallas law firm, for over nine years, during the last two years of which he was a partner. Mr. Moore has a B.A. in Political Science from Southern Methodist University and a J.D. from the University of Tulsa College of Law. He is licensed to practice law in the State of Texas.

Eric J. Brown, age 51, has served as our Executive Vice President and Chief Information Officer since December 2007 and Vice President and Chief Information Officer since June 2004. Before joining NCI, Mr. Brown was Chief Information Officer of the Punahou School in Honolulu, Hawaii from 2002 until he joined NCI. From 2000 to 2002, Mr. Brown was Chief Information Officer of Petrocosm Corporation. From 1992 to 2000, Mr. Brown was a Director at KPMG Consulting LLC. Mr. Brown has a B.B.A. from the University of Hawaii.

Mark T. Golladay, age 46, has served as our Vice President of Strategic Management, Mergers and Acquisitions since December 2007 and as our Vice President of Corporate Purchasing since March 2006. Before joining NCI, Mr. Golladay was employed by Butler Manufacturing Company, a company that produces metal building systems and architectural products for the non-residential construction market, where he served as Finance Director for Butler Europe from 1999 to 2002, Director of Business Development from 2002 to 2003, Finance Director for Butler De Mexico from 2003 to 2004, and Managing Director for Butler De Mexico from 2004 to 2006. Mr. Golladay has a B.S. in Accounting and Business Administration from the University of Kansas.

Richard Allen, age 33, has served as our Vice President of Finance and Corporate Controller since December 2008. Mr. Allen previously served as our Corporate Controller since January 2008 and as our Director of Corporate Accounting Services since April 2007. Before joining NCI, Mr. Allen was employed by Deloitte & Touche LLP, where he served as an Audit Senior Manager from 2004 to 2007 and Audit Manager from 2002 to 2004. Mr. Allen has a B.A. in Accounting from Stephen F. Austin State University and a M.B.A. from the University of Houston.

**Table of Contents**

**COMPENSATION DISCUSSION AND ANALYSIS**

**Objectives of NCI's Compensation Program**

NCI believes that the quality, skill and dedication of its executive officers are critical factors affecting the long-term success of the Company. Our key compensation goals are to attract and retain exceptional executives, to reward past performance and provide incentives for future performance, and to align executives' long-term interests with the interests of our shareholders.

NCI operates in an intensely competitive industry and has experienced challenges caused by volatility in the price of steel, industry cyclicality and seasonality, fluctuations in demand and general economic conditions affecting the construction industry. We use a combination of short- and long-term incentive compensation to reward near-term excellent performance and to encourage executives' commitment to NCI's long-range, strategic business goals. We believe that the generational changes and potential mobility currently available to employees are challenges to retention that both long- and short-term incentives can address. Long-term incentives balance the emphasis on long-term versus short-term business objectives and reinforce that one should not be achieved at the expense of the other. We believe that long-term incentive compensation helps to further NCI's compensation objectives, including the retention of high-performing, experienced executives whose interests are strongly aligned with the interests of shareholders. The combination of performance components and vesting over time help to ensure that the value received by executives depends on strong Company performance over time.

**Elements of Executive Compensation**

The principal elements of compensation provided to executives historically have consisted of a base salary supplemented with the opportunity to earn a bonus under NCI's annual cash bonus program (the Bonus Program) and long-term incentive compensation in the form of stock options and restricted stock under NCI's 2003 Long-Term Stock Incentive Plan (the Incentive Plan). We have also provided supplemental retirement benefits to certain of our executives and have adopted a deferred compensation program under which we may make matching and other contributions to participants' accounts based on their deferrals and contributions to the Company's 401(k) plan. We also provide limited perquisites that enhance our ability to be competitive in attracting and retaining talented executive officers and allow executive officers more time to focus on business objectives.

**Determination and Administration of Compensation Programs and Amounts**

Decisions regarding executive compensation are based primarily on the assessment of NCI's compensation committee (the Compensation Committee) of each executive's leadership and operational performance and potential to enhance long-term value to NCI's shareholders. The Compensation Committee relies on its judgment and the judgment of our Chief Executive Officer about each individual in determining the number and combination of compensation elements and whether each payment or award appropriately encourages and rewards performance. Key factors affecting the Compensation Committee's judgment include:

performance compared to the financial, operational and strategic goals established for NCI and the executive's reporting unit at the beginning of the year;

the nature, scope and level of the executive's responsibilities;

individual contribution to the Company's financial results, particularly with respect to key measures such as cash flow, revenue, earnings and return on assets;

effectiveness in leading our initiatives to enhance quality and value provided to customers; and

---

**Table of Contents**

individual contribution to a culture of honesty, integrity and compliance with our Code of Business Conduct and Ethics and applicable laws.

The Compensation Committee also considers each executive's current salary and prior-year bonus, the appropriate balance between incentives for long-term and short-term performance, and internal pay equity—in other words, the relative differences among the compensation of the executive officers. In addition, the Compensation Committee periodically reviews tally sheets setting forth all components of the named executive officers' compensation and, based on current service and under several potential severance and change-in-control scenarios, the total compensation and benefits potentially payable to each, including (1) estimated total retirement benefits, (2) current value of outstanding equity-based grants, (3) estimated payouts under long-term equity grants, (4) perquisites and other personal benefits, (5) current deferred compensation balances and accruals on the deferred amounts and (6) benefits payable under individual agreements with NCI. We believe that changes in compensation programs and levels must be made in the context of our past compensation decisions, and that it is appropriate to observe whether the intended effects of the compensation programs are being achieved over time and take those observations into account with respect to future compensation decisions.

***Role of Management and Independent Advisors***

The Compensation Committee meets regularly in separate executive sessions without management personnel present and also requests periodically that our officers or employees attend meetings. During 2008, Mr. Chambers and other senior executives attended some Compensation Committee meetings at its request to advise the committee regarding our performance and to recommend proposed modifications to our compensation and benefits. The Compensation Committee also relied to a certain extent on Mr. Chambers' evaluations of other executive officers whose day-to-day performance is not as visible to the committee as that of Mr. Chambers.

In developing NCI's current compensation policies and practices, we have in the past sought and intend in the future to seek input from compensation consultants to measure comparability with industry and other peers. We believe that using outside consultants is an efficient way for us to keep current regarding competitive compensation practices, although we do not believe that we should accord undue weight to the advice of outside professional advisors. We expect to engage a compensation consultant at periodic intervals to re-evaluate NCI's compensation practices and policies to assist us in maintaining our compensation goals. In addition, the Compensation Committee's charter provides it sole authority to retain advisors, including compensation consultants. During fiscal 2006, the Compensation Committee retained Pearl Meyer & Partners and Clark Consulting (collectively referred to as the consultants) to assist it in its review of our executive compensation program. Neither of the consultants advises our management or receives any other compensation from us. The consultants conducted a compensation study at the Compensation Committee's request, and also made recommendations with respect to changes in our compensation programs as well as individual compensation levels for executive officers.

The compensation study included a review of NCI's base salaries, bonus levels, equity compensation program and nonqualified retirement programs, comparing them to the compensation structures of companies in an industry peer group, as well as to benchmarking studies conducted by other compensation consultants. In addition, the study surveyed director compensation among the peer group. The peer group, which was selected with the assistance of Mr. Chambers, consisted of: American Standard Companies Inc., American Woodmark Corporation, Ameron International Corporation, Apogee Enterprises, Inc., Drew Industries, Inc., ElkCorp, Gibraltar Industries, Inc., Griffon Corporation, Lennox International Inc., Louisiana-Pacific Corporation, Masco Corporation, Ryland Group Inc., Simpson Manufacturing, Inc., Universal Forest Products Inc., Weyerhaeuser Company and Worthington Industries Inc. The companies included in the peer group are companies that manufacture materials used in residential and commercial buildings, some of which are also included in the industry index against which the Company's total stockholder return is compared in the stock performance chart included in our annual report to stockholders.

---

**Table of Contents*****Base Salary***

In establishing base salaries for our executives in 2006, we considered the scope of their responsibilities, taking into account competitive market compensation paid by other companies for similar positions as well as salaries paid to the executives' peers within the Company and at companies within the peer group. Since that time, the Compensation Committee has reviewed base salaries annually and made adjustments, in light of experience and performance levels among executives as well as potential for making significant contributions in the future, to ensure that salary levels remain appropriate and competitive. Because the rate of any increase in base salary levels helps to provide incentives for continuous improvement in individual performance, we view individual factors as more significant than overall Company performance in a particular year when determining base salary levels. Base salary also provides the foundation for calculating other benefits such as annual cash bonus and matching under the deferred compensation plan, so the executive's individual performance has a significant impact on both salary and the benefits derived from salary. In addition, we believe it is appropriate to set base salaries for our executives to be within a range near the median of its peer group, while avoiding rigid adherence to a narrow competitive target. This allows us to respond better to changing business conditions, manage salaries more evenly over a career, and minimize the potential for automatic ratcheting up of salaries that could occur with overemphasis on benchmarked companies.

The compensation study compared the Company to the peers based on comparative revenues because in the consultants' views, revenue is the metric that is most closely correlated to base pay, but did not take into account incumbent performance levels of the benchmarked positions at the peer companies. The compensation study indicated that our base salaries at the time were slightly below the median at the 40th percentile. In approving increases in annual base salary for our executive officers as part of the overall revision of our compensation program during 2006, we took into account the median salaries for companies in the peer group reviewed in the 2006 compensation study but we also considered the other factors discussed above and the impact of the Robertson-Ceco acquisition on our executive officers' responsibilities. Although for fiscal 2008 the Compensation Committee approved increases in base salaries for executive officers ranging from 3.75% to 11%, the Compensation Committee has determined for the time being to hold executive compensation level for fiscal 2009, with the exception of increases reflecting promotions or other extraordinary circumstances.

***Annual Bonus***

Short-term annual cash incentive compensation is provided through our Bonus Program, under which annual cash bonuses are granted to executives to reward their contributions to our business during the year, and help to emphasize that contributions in any year have an impact on future years. Our Bonus Program is tied to the specific performance metrics of return on operating assets ( ROA ) and increase in earnings per share ( EPS Growth ) for the Company, which builds cooperation and allows all business units comparable visibility into the achievement of those goals. We believe that the Bonus Program allows us to provide base salaries to our management group near the median of comparable rates paid by other companies in exchange for generous bonuses when warranted by our performance. We also believe that EPS Growth as an additional bonus criterion for top management provides incentives to maximize stockholder value and growth, while ROA provides incentives to aggressively manage assets in relation to income and expenses. The calculations of ROA and EPS Growth generally exclude non-cash, non-recurring expenses. The Bonus Program provides that ROA is calculated by dividing (a) earnings before interest and taxes ( EBIT ) plus deferred financing costs and other approved nonrecurring expenses by (b) assets, excluding cash, deferred taxes and goodwill. We believe that the Bonus Program's calculation of ROA rewards employees and management for the underlying operational performance of the Company, without regard to accounting requirements over which most employees have no control.

During fiscal 2008, executive-level participants were eligible for annual cash bonuses equal to a percentage of their respective base salaries, contingent upon our achievement of a minimum ROA or a minimum EPS Growth for the fiscal year. Under the Bonus Program, senior executives receive a bonus percentage of salary that is 1.5 times the percentage of salary for executives, while the CEO receives a bonus percentage of salary that is 2.0 times the percentage of salary for executives. This reflects our belief that, as

**Table of Contents**

an executive becomes more senior, an increasing percentage of his or her total compensation should be tied to company performance. Under the Bonus Program as in effect for fiscal 2008, no bonuses would be paid unless either (i) ROA was at least 15% or (ii) EPS Growth was at least 10%. The percentage of base salary payable as a bonus increased proportionately with increases in the ROA and EPS Growth achieved.

There is no cap on the amount of an individual bonus. However, total bonuses for all employees, including non-management employees, may not exceed 15% of the Company's adjusted pre-tax profit, calculated in accordance with the Bonus Program, before accrual for bonuses and before stock compensation expense under the Incentive Plan. The Bonus Plan provides for a minimum bonus pool for non-management employees, to be paid if the Company's adjusted pre-tax profit is equal to or greater than a specified amount.

The following table illustrates the effects of varying levels of ROA and EPS Growth for executives:

EPS Growth	ROA	Percentage of Salary for Executives	Percentage of Salary for Senior Executives	Percentage of Salary for Mr. Chambers
0%	10%	0.0%	0.0%	0.0%
0%	15%	15.0%	22.5%	30.0%
5%	15%	20.0%	30.0%	40.0%
10%	0%	0.0%	0.0%	0.0%
10%	5%	5.0%	7.5%	10.0%
10%	15%	25.0%	37.5%	50.0%
20%	25%	55.0%	82.5%	110.0%

In addition, middle management participants are eligible under the Bonus Program for cash bonuses equal to a percentage of their respective base salaries, depending on our achievement of a minimum 15% ROA for the fiscal year. For fiscal 2008, the Company achieved ROA of 24.13%, and EPS Growth of 32.29%, and we paid bonuses of 65.5%, 98.3% and 131.2% of base salary, to executives, senior executives and Mr. Chambers, respectively.

**Long-Term Incentive Compensation**

Our long-term incentive compensation is provided under the Incentive Plan, a shareholder-approved equity-based compensation plan that allows NCI to grant a variety of awards, including stock options, restricted stock, stock appreciation rights, performance share awards, phantom stock awards and performance-based and other cash awards.

We believe that equity awards must be sufficient in size to provide a strong, long-term performance and retention incentive for executives and to increase their vested interest in the Company. The value of the equity awards granted to executives is based on Company results and individual performance assessments. We believe that annual grants at a competitive level, along with significant vesting requirements, are effective rewards for long-term commitment. In addition, annual grants of equity reinforce ownership levels and alignment with shareholder interests.

*Four-year Vesting Grants.* NCI's current practice is to make annual awards of restricted stock vesting over four years to executives and other senior management personnel. The total number of shares granted under this approach is substantially less than the number that would be required under an option program designed to deliver equivalent levels of compensation. However, the alternative of using options is retained under the Incentive Plan. In 2006, we set grant levels for equity compensation at a level intended to bring such compensation levels to a total direct compensation level that was near the middle of the market for the peer group. Any changes to the 2007 and 2008 grants were due to promotions.



---

**Table of Contents**

Each December, the Compensation Committee determines, based on the recommendations of the CEO for all executives other than himself, a target restricted stock award value for each executive. We believe that a portion of each senior executive's total restricted stock award should be based on NCI's performance. Accordingly, a portion of each senior executive's target restricted stock award is a fixed amount and the remaining portion is contingent upon performance, as measured by the average rate of growth in NCI's earnings per share over the trailing three fiscal years ended prior to the award date. We believe that the multi-year approach is appropriate in light of the cyclical nature of the building industry. However, in light of the fact that the hurdles in the company's Bonus Program are sufficiently high such that there have been in the past and are expected to be in the future years where no bonuses have been or will be paid, we believe that it is important to provide at least a minimum long-term incentive award each year.

Target restricted stock awards for each of Messrs. Chambers, Dobbins and Johnson are 50% fixed and 50% contingent, and for all other senior executives, restricted stock awards are 60% fixed and 40% contingent. The contingent portion of restricted stock awards may be adjusted to a maximum of 150% or decreased to zero, depending on the average growth rate in NCI's earnings per share over the most recent three fiscal years. For fiscal 2008, a minimum floor average earnings per share growth for the preceding three year period of 5% was required to receive any of the contingent portion of the target award. If 5% growth were achieved, the executive would receive 15% of the contingent portion of the target award. The target payout of 100% of the contingent portion would be awarded if 35% earnings per share growth were achieved, and a maximum of 150% of the contingent portion of the target award would be made if 50% earnings per share growth were achieved, with incremental adjustments for intermediate results.

On the grant date, the number of shares awarded is equal to the dollar value approved in advance by the Compensation Committee (after adjustment with regard to the variable portion) divided by the closing price of our stock on the grant date. Restricted stock awards vest in four equal annual installments beginning on the first anniversary of the grant date, and total awards are subject to an annual share limitation equal to 7% of the adjusted pre-tax profit (calculated as provided for under the amended Bonus Program) for the preceding fiscal year.

In determining the target value of equity-based awards, we considered the 2006 compensation study, the number of shares available for distribution under the program and the overall dilutive effect of the equity-based grants. We also considered the market overhang and burn rate resulting from equity compensation levels as compared to peers. In determining whether to make equity-based awards to executives, we also considered other factors, including an executive's total compensation and current ownership stake in the Company, the degree to which increasing that ownership stake would provide the executive with additional incentives for future performance, the likelihood that the grant of an award would encourage the executive to remain with the Company and the value of the executive's service to the Company. Taking into account those factors, in December 2007 the Compensation Committee approved equity-based awards for fiscal 2008 with a target value of \$800,000 for Mr. Chambers and within a range from \$100,000 to \$200,000 for other named executives. Based on three-year growth in earnings per share of 21%, the variable portion of all awards would have been made at a payout level of 53.3%. However, because the number of shares of common stock remaining available for grant under our Incentive Plan was insufficient to cover the full payout level indicated by the target grants and growth in earnings per share, the Compensation Committee approved the grant of 75% of the awards that would have otherwise been made in December 2008. The Compensation Committee determined that it would be prudent to change its policy for equity compensation going forward so that awards would be made semi-annually in December and June of each year, rather than annually only in December. Accordingly, in June 2009 the Compensation Committee intends to grant the remaining 25% of the awards that would have otherwise been made in December 2008, provided that the Company's stockholders approve an increase in the number of shares available for issuance under the Incentive Plan.

*Long-Term Restricted Stock Grants.* We have awarded long-term restricted stock grants to certain of our executives whose contributions are particularly critical to the Company's performance. These awards provide significant incentives to the executives to remain with us until retirement, and they further align the executives' interests with those of our shareholders.

**Table of Contents**

The following named executive officers have received special long-term restricted stock awards:

	Long-Term Restricted Stock Award		
	Shares Granted	Date Granted	Vesting
Norman C. Chambers	64,516	April 2004	Retirement at or after age 65
Mark W. Dobbins	25,000	August 2004	Retirement at or after age 65
Charles W. Dickinson	25,000	August 2004	Retirement at or after age 65

Because of his role as our CEO, we recommended the award to Mr. Chambers to align his interests with those of our shareholders and to provide an incentive for Mr. Chambers to remain in our employ until he retires.

*Non-compete covenants.* The terms of both the four-year vesting and long-term restricted stock awards provide that grantees must comply with a covenant not to compete with us for five years immediately following the receipt of any vested shares under the award. If an executive breaches the covenant not to compete, he must either return all awarded shares to us, or, if he no longer owns them, pay us the current market value of the number of shares awarded under the agreement.

*Timing of Equity Grants.* Our policy for fiscal 2008 provides for an annual grant of restricted stock on December 15th of each year, which is usually shortly after the release of our annual financial results to the public. Under our new policy, beginning in fiscal 2009, we will grant equity awards in December and June starting in June 2009. We believe that the timing of such grants allows our annual and quarterly financial results to be fully reflected in the market value of the NCI's common stock on the date of grant, and lessens the possibility that there will be material nonpublic information that is not reflected in the market price of our common stock on the date of grant.

**Retirement Benefits**

We believe that benefit programs that address the unique circumstances of executives in light of limitations imposed on benefits payable from qualified welfare, profit-sharing and retirement plans are critical in attracting and retaining quality executives. Therefore, we have adopted a deferred compensation plan and the long-term restricted stock awards discussed above.

**Deferred Compensation Plan**

Our deferred compensation plan allows our officers and key employees to defer up to 80% of their annual salaries and up to 90% of their bonuses, and allows NCI's directors to defer up to 100% of their annual fees and meeting attendance fees, until a specified date in the future, including at or after retirement. Amounts deferred are deemed invested in one or more phantom investment funds and additional amounts are credited to participants' accounts based on the hypothetical earnings of such investments.

The plan also permits us to make contributions on behalf of our executives affected by compensation limits under the federal tax laws governing NCI's 401(k) plan. NCI will match between 4% and 6% of compensation in excess of those limits, depending on the Company's performance ( Restoration Match ). In addition, the plan allows discretionary matching contributions to provide a supplemental retirement benefit to executives. For fiscal 2008, we determined to make discretionary matching contributions provided that NCI achieved ROA for fiscal 2008 of 25%, as calculated under the Bonus Program. If target ROA was achieved, we would match the percentage of an executive officer's salary and bonus that he has voluntarily deferred under the plan, up to a maximum of 12.5%. Because our ROA calculated under the Bonus Program was less than 25%, no discretionary contribution was made for 2008. For fiscal 2009, we have determined to make discretionary contributions if ROA as calculated under the Bonus Program is 25%. Executives become vested in the Restoration Match in a manner consistent with the Company match in the NCI 401(k) plan, which generally vests ratably over a five-year period. Discretionary matching contributions vest ratably over a three-year period.

## **Table of Contents**

All NCI executives, including those with long-term restricted stock awards, are eligible for the portion of the plan designed to provide matching contributions not available under NCI's 401(k) plan. However, because the long-term restricted stock awards effectively provide a retirement benefit, executives who have received long-term restricted stock awards will not receive discretionary matching contributions under the amended and restated plan until the value of the contributions that would otherwise have been made, with attributed earnings, exceed the value of the restricted stock grants as determined by the compensation committee.

We have also established a rabbi trust (to provide for NCI's obligations under the deferred compensation plan) and have formed an administrative committee to manage the deferred compensation plan and its assets.

### ***Other Compensation***

#### ***Termination and Change-in-Control Agreements***

Mr. Chambers has an agreement with the Company providing that if he is terminated without cause or resigns for good reason, he will continue to receive payments due for the remaining term of the agreement. Further, Mr. Chambers' agreement provides that if he is terminated without cause or resigns for good reason within two years after a change in control, then he will be entitled to, within seven days of such termination, a lump-sum payment equal to the present value of all future payments of base salary as then in effect owed to him under the employment agreement. Further, the terms of the Company's long-term restricted stock awards provide that the restricted shares will vest immediately if there is a change in control of NCI or if the employee is terminated without cause or for good reason. Please see Executive Compensation Employment Agreements - Chambers Employment Agreement for more information regarding the circumstances under which those payments would be made.

In fiscal 2007, we also approved entering into employment agreements with each executive officer who did not already have a change of control benefit by virtue of a long-term restricted stock award or other agreement that provided benefits upon a change of control. We also adopted a severance policy for middle management personnel. We believe that these change-in-control benefits provide our executives an incentive to act in the shareholders' best interests during a takeover despite the risk of losing their jobs or a significant change in the nature of their benefits and responsibilities. We also believe that, in some cases, our change-in-control benefits are necessary to attract and retain certain executives. For a description of the terms of these employment agreements, please see Executive Compensation Employment Agreements - Employment Agreements for Executive Officers.

#### ***Perquisites and Personal Benefits***

The Company offers limited perquisites or personal benefits. However, until his retirement in December 2007, Mr. A.R. Ginn had the right to use Company-owned aircraft for a maximum of 40 hours per year. The incremental cost to the Company of his use of Company aircraft for personal travel was de minimis in fiscal 2008.

#### ***Gross-Ups***

NCI does not provide for any tax assistance or gross-ups for its executives. In connection with the compensation study, the Committee analyzed the potential costs of any such gross-ups, including for any excise tax potentially payable by an executive under Section 280G of the Internal Revenue Code. The consultant noted that the lack of any gross-up could potentially limit the intended benefit to the executives and that such gross-ups are common among the peer group. However, the Committee has determined that at this time the relative benefits of such a gross-up to the executives are not commensurate with the cost of the gross-up to the Company.

## **Table of Contents**

### **CEO Compensation**

The Compensation Committee is directly responsible for determining the salary level of the CEO and all awards and grants to the CEO under the Bonus Program, Incentive Plan and deferred compensation plan. We believe that NCI in recent years has experienced challenges caused by depressed economic conditions, increased competition and extreme volatility in the price of steel. Accordingly, the overall compensation package for the CEO is designed to motivate and reward the CEO for driving the Company to strengthen its competitive position in the nonresidential construction market, and a significant portion of the CEO's compensation is incentive-based, providing greater compensation as direct and indirect measures of shareholder value increase. The CEO's overall compensation package has also been set at a level that we believe provides appropriate differentiation between CEO compensation and the compensation of other executive officers hired from time to time. Mr. Chambers' compensation has been and will be determined by the Compensation Committee in accordance with the principles described above. Information on Mr. Chambers' compensation for fiscal 2008 is set forth in the compensation tables. Although Mr. Chambers' compensation was increased for fiscal 2008 when he became the chairman of the board, as noted above, Mr. Chambers did not receive an increase in compensation for fiscal 2009.

### **Deductibility of Compensation**

Section 162(m) of the Internal Revenue Code of 1986, as amended, imposes a \$1 million limit on the amount that a public company may deduct for compensation paid to the company's chief executive officer or any of the company's four other most highly compensated executive officers employed as of the end of the year. This limitation does not apply to compensation that is paid only if the executive's performance meets pre-established objective goals based on performance criteria approved by stockholders. We have taken action, where possible and considered appropriate, to preserve the deductibility of compensation paid to the Company's executive officers. The Company generally will be entitled to deduct compensation relating to cash incentives, option awards under the Incentive Plan, matching under our deferred compensation plan and other performance-based awards. We have also awarded compensation that might not be fully tax deductible if we determined that grants were nonetheless in the best interests of the Company and its shareholders. While the Company seeks to take advantage of favorable tax treatment for executive compensation where appropriate, we believe that the primary drivers for determining the amount and form of executive compensation must be the retention and motivation of superior executive talent.

We will continue to review the Company's executive compensation practices and will seek to preserve tax deductions for executive compensation to the extent consistent with our objective of providing compensation arrangements necessary and appropriate to foster achievement of the Company's business goals.

**Table of Contents**

**REPORT OF THE COMPENSATION COMMITTEE**

The Compensation Committee has reviewed and discussed the above Compensation Discussion and Analysis with management and, based on such review and discussions, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Proxy Statement.

WILLIAM D. BREEDLOVE

LARRY D. EDWARDS

GARY L. FORBES

PHILIP J. HAWK

W. B. PIEPER

JOHN K. STERLING

**Table of Contents****EXECUTIVE COMPENSATION****Summary Compensation Table**

The following table shows information regarding compensation paid for fiscal 2008 to the Company's Chief Executive Officer, Chief Financial Officer and each of the other three most highly compensated executive officers (collectively, the "Named Executive Officers").

Name & Principal Position	Year	Salary (\$)	Stock Awards \$(a)	Option Awards \$(b)	Non-Equity Incentive Plan Compensation \$(c)	Change in Pension Value and Nonqualified Deferred Compensation Earnings \$(d)	All Other Compensation \$(e)	Total (\$)
Norman C. Chambers, Chairman of the Board, President and Chief Executive Officer (f)	2008	742,308	698,077	459,250	984,010		86,901	2,970,546
	2007	687,705	766,942	923,173	354,834		54,727	2,787,381
Mark E. Johnson, Executive Vice President, Chief Financial Officer and Treasurer	2008	294,231	123,167		326,691		34,965	779,054
	2007	229,231	89,596		87,441		17,095	423,363
Mark W. Dobbins, Executive Vice President and Chief Operating Officer	2008	303,019	124,989	32,175	309,963		31,725	801,871
	2007	276,923	90,481	49,836	106,450		21,828	545,518
Charles W. Dickinson, President of Metal Components Division	2008	288,885	150,971	32,175	285,855		29,102	786,988
	2007	277,692	116,463	49,836	106,450		19,817	570,258
Keith E. Fischer, President of Robertson-Ceco Division	2008	288,885	80,450	32,175	285,855		28,921	716,286
	2007	280,000	45,942	49,836	106,450		21,194	503,422
A.R. Ginn, Former Chairman of the Board and Chief Executive Officer	2008	250,097 764,074	918,229				2,250	1,170,576
	2007		1,702,764		387,782	389,350	69,067	3,313,037
Frances Powell Hawes, Former Executive Vice President and Chief Financial Officer	2008	186,500	157,758	144,375	136,121		8,052	632,806
	2007	316,355	120,960	144,375	121,657		23,840	727,187
Kelly R. Ginn, Former Executive Vice President, Operations	2008	414,240	1,282,230				5,849	1,702,319
	2007	314,231	157,981	8,198	119,756		24,041	624,207

- (a) Amounts in the Stock Awards column represent the dollar amount recognized for financial statement reporting purposes for the fiscal year, as determined under FASB Statement No. 123(R) ( "FAS 123(R)" ). Pursuant to SEC rules, the amounts shown exclude the impact of estimated forfeitures related to service-based vesting conditions. See Note 14, "Share-Based Compensation" in the Notes to the Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the year ended November 2, 2008, for a discussion of the relevant assumptions used in this determination. Shares generally vest in four equal annual installments,



**Table of Contents**

- beginning on the first anniversary of the grant date, or in full when the executive retires from his employment with us, unless vesting is accelerated by the occurrence of certain limited events. Messrs. Chambers, Dobbins and Dickinson have received special long-term restricted stock grants that will vest in full only on retirement, as defined in the agreements governing such grants, unless vesting is accelerated by the occurrence of certain limited events. For additional information regarding these special long-term grants, please see Compensation Discussion and Analysis Determination and Administration of Compensation Programs and Amounts Long-Term Incentive Compensation Long-Term Restricted Stock Grants.
- (b) We did not grant any option awards in fiscal 2007 or 2008. The amounts included in the Option Awards column represent the compensation cost we recognized in fiscal 2008 related to option awards in prior years, as described in FAS 123(R).
  - (c) Consists of amounts paid under our Bonus Program. See Compensation Discussion and Analysis Determination and Administration of Compensation Programs and Amounts Annual Bonus for more information.
  - (d) Represents the aggregate increase in actuarial present value and vesting of benefits under NCI's supplemental retirement plan accrued during the fiscal year. For more information about the supplemental retirement plan, see Executive Compensation Pension Benefits Our named executive officers did not receive any above-market or preferential earnings on nonqualified deferred compensation.
  - (e) For 2008, includes:

	Mr. Chambers	Mr. Johnson	Mr. Dobbins	Mr. Dickinson	Mr. Fischer	Mr. A.R. Ginn	Ms. Hawes	Mr. Kelly Ginn
Company 401K contribution	11,451	13,281	11,727	11,534	11,353	2,250	8,052	5,849
Company deferred compensation plan contribution	75,450	21,684	19,998	17,568	17,568			

- (f) Mr. A.R. Ginn retired as Chairman of the Board effective December 31, 2007, at which time Mr. Chambers was appointed to such position.



**Table of Contents****Grants of Plan-Based Awards**

The following table sets forth information concerning grants of awards to each of the Named Executive Officers under the Incentive Plan during fiscal 2008:

Name	Grant Approval		Estimated Possible Payouts Under Equity Incentive Plan Awards (a)			Non-Estimated Possible Payouts Under Equity Incentive Plan Awards (b)			All Other Stock Awards: Number of Shares of Stock or Units (\$) (c)	Grant Date Fair Value of Stock and Option Awards (\$)
	Grant Date	Date	Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (\$)	Target (\$)	Maximum (\$)		
Mr. Chambers	12/15/2007	12/6/2007	225,000	750,000	N/A	56,250	375,000	562,500	375,000	496,875
Mr. Johnson	12/15/2007	12/6/2007	74,700	249,000	N/A	10,500	70,000	105,000	105,000	127,750
Mr. Dobbins	12/15/2007	12/6/2007	70,875	236,250	N/A	10,500	70,000	105,000	105,000	127,750
Mr. Dickinson	12/15/2007	12/6/2007	65,363	217,875	N/A	10,500	70,000	105,000	105,000	127,750
Mr. Fischer	12/15/2007	12/6/2007	65,363	217,875	N/A	10,500	70,000	105,000	105,000	127,750
Mr. A.R. Ginn	12/15/2007	12/6/2007			N/A	75,000	500,000	750,000	500,000	662,500
Ms. Hawes	12/15/2007	12/6/2007	30,000	100,000	N/A	15,000	100,000	150,000	100,000	132,500
Mr. Kelly Ginn	12/15/2007	12/6/2007			N/A	15,000	100,000	150,000	150,000	182,500

- (a) Represents threshold and target amounts payable under NCI's Bonus Program which is earned during fiscal 2008. There is no maximum payout under the Bonus Program. Actual payouts with respect to fiscal 2008 are reflected in the Non-Equity Incentive Plan Compensation column of the Summary Compensation Table.
- (b) Represents the threshold, target and maximum value of each executive's variable portion of their restricted stock award opportunity, as established in advance by the Compensation Committee. Payouts for awards shown in this column were made in December 2008 and will be reflected in our proxy statement for fiscal 2009. The actual number of shares awarded equals the dollar value of the award divided by the closing sale price of NCI's common stock on the date of grant, or if the date of grant is not a trading day, on the last trading day prior to the date of grant. Each recipient of a restricted stock award is required to pay the Company an amount equal to the aggregate par value (\$0.01 per share) of the award at the date of grant. Grants vest over four years, and vesting is accelerated upon a change in control or certain terminations of employment.
- (c) Represents the fixed portion of their restricted stock award opportunity.

**Table of Contents****Outstanding Equity Awards at Fiscal Year-End**

The following table sets forth information concerning unexercised stock options and unvested restricted stock of each of our named executive officers as of November 2, 2008:

Name	Option Awards				Stock Awards	
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable (a)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#) (a)	Market Value of Shares or Units of Stock That Have Not Vested (\$) (b)
Mr. Chambers					64,516(c)	1,199,998
					342(d)	6,361
					377(e)	7,012
					569(f)	10,583
	1,500		18.30	5/29/13	8,712(g)	162,043
	150,000		31.00	4/26/14	19,221(h)	357,511
Mr. Johnson					2,000(i)	37,200
					2,510(g)	46,686
					4,942(h)	91,921
Mr. Dobbins	4,000		16.50	1/20/10		
	2,222		18.00	12/15/10		
	2,614		15.30	6/15/11		
	5,281		15.15	12/15/11		
	2,286		17.50	6/15/12		
	2,907		20.64	12/15/12		
	3,311		18.12	6/15/13		
	2,455		24.44	12/15/13		
	1,988		30.18	6/15/14		
	1,229	410	36.62	12/15/14	25,000(c)	465,000
	1,356	452	33.19	6/15/15	2,928(g)	54,461
	682	682	44.00	12/15/15	4,942(h)	91,921

Edgar Filing: NCI BUILDING SYSTEMS INC - Form DEF 14A

Mr. Dickinson	858		17.50	6/15/12		
	727		20.64	12/15/12		
	1,656		18.12	6/15/13		
	1,842		24.44	12/15/13		
	1,988		30.18	6/15/14		
	1,229	410	36.62	12/15/14	25,000(c)	465,000
	1,356	452	33.19	6/15/15	2,928(g)	54,461
	682	682	44.00	12/15/15	4,942(h)	91,921
Mr. Fischer	10,000		21.20	5/30/12		
	3,429		17.50	6/15/12		
	2,907		20.64	12/15/12		
	3,311		18.12	6/15/13		
	2,455		24.44	12/15/13		
	1,988		30.18	6/15/14		
	1,229	410	36.62	12/15/14		
	1,356	452	33.19	6/15/15	2,928(g)	54,461
682	682	44.00	12/15/15	4,942(h)	91,921	
Mr. A.R. Ginn (k)	98,088		29.20	5/28/14	25,629(h)	476,699
Ms. Hawes (l)					1,250(j)	23,250
					283(e)	5,264
					427(f)	7,942
					3,485(g)	64,821
		6,250	6,250	38.01	2/24/15	5,126(h)
Mr. Kelly Ginn (m)	2,143		17.50	6/15/12		
	3,634		20.64	12/15/12		
	4,139		18.12	6/15/13		

- (a) Options and restricted stock generally become exercisable, except as noted, in four equal annual installments after the date of grant. In addition, such awards become fully vested and exercisable upon change of control and restricted stock becomes fully vested and exercisable upon termination without cause or upon termination for good reason.
- (b) This column represents the closing price of our common stock on October 31, 2008, the last business day of fiscal 2008, of \$18.61 multiplied by the number of shares of restricted stock less the par value of the shares paid by the grantee.



**Table of Contents**

- (c) Vests upon retirement at or after age 65.
- (d) Vested on December 15, 2008.
- (e) Vests on June 15, 2009.
- (f) Vests ratably on December 15th of 2008 and 2009.
- (g) Vests ratably on December 15th of 2008, 2009 and 2010.
- (h) Vests ratably on December 15th of 2008, 2009, 2010 and 2011.
- (i) Vests ratably on February 6th of 2009 and 2010.
- (j) Vests on February 14, 2009.
- (k) Mr. A.R. Ginn resigned as Chief Executive Officer of NCI on December 31, 2006 and as Chairman of the Board effective December 31, 2007. His options will remain exercisable through the term of the options, provided that he remains in employment with NCI, and his restricted stock and option awards will continue to vest in accordance with the award agreements pursuant to which they were made.
- (l) Ms. Powell Hawes resigned from her position of Executive Vice President, Chief Financial Officer and Treasurer on March 31, 2008. According to the terms of her employment agreement with us, any restricted stock awards granted prior to December 31, 2007 and stock options granted prior to March 27, 2008, will continue to vest in accordance with the award agreements pursuant to which they were made. Restricted stock awards granted after December 31, 2007 will cease vesting on March 31, 2009.
- (m) Kelly Ginn resigned from his position of Executive Vice President of Operations on March 31, 2008. Pursuant to the terms of his consulting agreement with us, any restricted stock awards granted to Mr. Ginn prior to December 31, 2007 would fully vest as of March 30, 2008. The terms of Mr. Ginn's nonqualified option agreements will continue to govern with respect to option awards previously granted to him.

**Option Exercises and Stock Vested**

The following table sets forth information concerning exercises of stock options and vesting of restricted stock of each of our named executive officers during fiscal 2008:

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$) (a)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$) (b)
Mr. Chambers			16,950	415,206
Mr. Johnson			1,836	49,362
Mr. Dobbins			975	25,194
Mr. Dickinson			975	25,194
Mr. Fischer			975	25,194
Mr. A.R. Ginn			102,798	2,958,526
Ms. Hawes			2,907	83,924
Mr. Kelly Ginn			69,579	1,683,116

- (a) This column represents the market price less the exercise price multiplied by the number of options exercised. During fiscal 2008, there were no options exercised.
- (b) This column represents the market price on the vesting date multiplied by the number of shares of restricted stock, less the par value of shares paid by the grantee.

**Table of Contents****Nonqualified Deferred Compensation Plans**

The following table sets forth information concerning nonqualified deferred compensation benefits of each of our named executive officers during fiscal 2008:

Name	Executive Contributions in Last FY (\$) (a)	Registrant Contributions in Last FY (\$) (b)	Aggregate Losses in Last FY (\$)	Aggregate Withdrawals/Distributions (\$)	Aggregate Balance at Last FY (c) (\$)
Mr. Chambers	117,120	75,450	(121,081)		383,422
Mr. Johnson	43,424	21,684	(12,231)		77,105
Mr. Dobbins	98,947	19,998	(45,186)		143,403
Mr. Dickinson	50,763	17,568	(23,212)		83,463
Mr. Fischer	97,096	17,568	(57,958)		113,038
Mr. A.R. Ginn	32,093		(35,507)	(278,929)	
Ms. Hawes	22,899		(15,262)		53,290
Mr. Kelly Ginn	33,540		(19,660)	(60,638)	

(a) Executive contributions in last fiscal year are included in such executive's salary and bonus amounts, as applicable, as reported in the Summary Compensation Table.

(b) Registrant contributions in last fiscal year are included in all other compensation in the Summary Compensation Table.

(c) Of the totals in this column, the following amounts were reported as compensation in the Summary Compensation Table of our proxy statements in previous years: Mr. Chambers - \$268,678, Mr. Johnson - \$88,307, Mr. Dobbins - \$156,600, Mr. Dickinson - \$106,019, Mr. Fischer - \$153,537, Mr. A.R. Ginn - \$116,209, Ms. Hawes - \$66,967 and Mr. Kelly Ginn - \$77,303.

Please see Compensation Discussion and Analysis Retirement Benefits Deferred Compensation Plan for a description of our Deferred Compensation Plan.

**Pension Benefits**

The following table sets forth information concerning supplemental retirement benefits for each of our participating named executive officers as of November 2, 2008:

Name	Plan Name	Number of Years Credited Service (#)	Present Value of Accumulated Benefit (\$)	Payments During Last Fiscal Year (\$)
Mr. A.R. Ginn	Supplemental Retirement Plan	N/A	1,249,378	200,000

We maintain a supplemental retirement plan, which is a nonqualified, unfunded benefit plan under which Mr. Ginn receives monthly benefits at an amount determined by our board of directors. Mr. Ginn became vested in his retirement benefit under the plan at the rate of 20% for each year of service with us and is fully vested. He has agreed not to compete with us in the ten-year period during which he receives benefits pursuant to the plan.

**Employment Agreements**

*Chambers Employment Agreement.* On April 12, 2004 we entered into a ten-year employment agreement with Mr. Chambers. The agreement provides for Mr. Chambers to receive: (i) a base salary of not less than \$400,000 per year; (ii) an annual bonus calculated pursuant to the terms of our existing bonus program, with Mr. Chambers being considered a Level I participant for purposes thereof; (iii) a lump sum payment of \$250,000 payable upon commencement of Mr. Chambers' employment in consideration for sums he would have been entitled to but forfeited upon his termination of his employment with his prior employer; (iv) a grant under the Incentive Plan of 200,000 nonqualified options to purchase our common stock at an exercise price of \$31.00 per share, subject to the terms and conditions set forth in a separate Nonqualified Stock Option Agreement; (v) the right to receive semi-annual grants of additional options to purchase our common stock as a Level SEI participant under the Incentive Plan in the discretion of the compensation



---

**Table of Contents**

committee of our board of directors; (vi) a grant of 50,000 shares of our common stock under the Incentive Plan pursuant to the terms of a separate Restricted Stock Agreement; (vii) a special long-term restricted stock award of a number of shares of our common stock having an aggregate fair market value of approximately \$2 million, subject to the terms of a separate Restricted Stock Agreement; (viii) health insurance and other benefits available to other members of senior management as well as a car allowance plus reimbursement for automobile insurance and mileage incurred which is related to business use; and (ix) four weeks paid vacation per year.

The employment agreement also provides for certain payments to be made upon the termination of Mr. Chambers' employment with us. If Mr. Chambers is terminated for cause or resigns without good reason (each as defined under the employment agreement), then he will be entitled to receive only salary and benefits earned by him or accrued for his account through the date of his termination. If, however, Mr. Chambers is terminated without cause or resigns for good reason, he will continue to receive his base salary for the term of the employment agreement on the same terms as he received it while an employee. If Mr. Chambers is terminated without cause or resigns for good reason within two years after a change in control (as defined in the employment agreement), then he shall receive, within seven days of such termination, a lump-sum payment equal to the present value of all future payments of base salary owed to him under the employment agreement.

Mr. Chambers is subject to certain confidentiality obligations during and after his employment with us. In addition, Mr. Chambers is subject to certain noncompetition and nonsolicitation provisions for a period equal to three years following the longer of (i) the date of his termination of employment with us, and (ii) the end of the period during which Mr. Chambers is entitled to receive compensation payments from us under the employment agreement.

*A.R. Ginn Separation and Consulting Agreement.* We have entered into a separation and consulting agreement with Mr. A.R. Ginn (the Consulting Agreement) that provides, among other things, that from his retirement at December 31, 2007 until December 31, 2017, Mr. A.R. Ginn will serve the Company in a consultant capacity, be paid a salary and will be eligible to participate in our group health and medical benefit programs (including long-term healthcare coverage, if any, which is made available to employees of the Company) on the same terms available to our employees generally.

From January 1, 2008 through December 31, 2009, Mr. A.R. Ginn will receive a base salary of \$200,000 per annum, and from January 1, 2010 through the Termination Date, a base salary of \$100,000 per annum. He is not eligible for a bonus unless it is approved by senior management of our board in their discretion.

Pursuant to the Consulting Agreement, Mr. A.R. Ginn received an award of restricted stock pursuant to our Incentive Plan in December 2007, which vests ratably over four years subject to Mr. A.R. Ginn's continued service to the Company and has terms consistent with the terms generally applicable to other executive officers of the Company; provided, however, such award does not provide for full vesting solely due to Mr. A.R. Ginn's attainment of retirement age. All other awards granted to Mr. A.R. Ginn prior to December 31, 2006 vested fully as a result of his retirement, on January 1, 2008.

Under the Consulting Agreement, if Mr. A.R. Ginn's employment is terminated without cause or due to disability, he will be entitled to continued benefits as if no termination had occurred. In the event of his death, salary payments and group health coverage will continue to be provided to his surviving spouse (if any) through the Termination Date. If any successor to all or substantially all of the business or assets of NCI fails to either expressly assume the Consulting Agreement or assume it by operation of law, Mr. A.R. Ginn shall be entitled to an accelerated cash payout of his remaining salary and the value of his health care benefits, without reduction for early payment, subject to limitations on acceleration imposed by applicable tax law.

Mr. A.R. Ginn is subject to certain confidentiality obligations during and after his employment with us, and is also subject to certain noncompetition and nonsolicitation provisions until December 31, 2012.



## Table of Contents

*Frances P. Hawes Employment Agreement.* On March 27, 2008, we entered into an employment agreement with Ms. Hawes that provides, among other things, that from her retirement on March 31, 2008 until March 31, 2009, Ms. Hawes will continue to serve the Company in an employee capacity, be paid a salary (at a rate of  $\frac{3}{12}$  her prior base salary on an annualized basis, or \$83,000), continue to participate in our employee benefit plans and programs and will be eligible to participate in our group health and medical benefit programs, on the same terms available to our employees generally.

*Kelly R. Ginn Consulting Agreement.* On March 27, 2008, we entered into an consulting agreement with Mr. Kelly Ginn that provides, among other things, that from his retirement on March 31, 2008 until March 31, 2009, Mr. Kelly Ginn will continue to serve the Company in a consulting capacity on an as-needed basis (but no more than twenty (20) hours per month), continue to be paid his base salary and will be eligible to participate in our group health and medical benefit programs, on the same terms available to our employees generally.

Mr. Kelly Ginn is subject to certain confidentiality obligations during and after his consulting work with us, and is also subject to certain noncompetition and nonsolicitation provisions until March 31, 2014.

*Long-Term Restricted Stock Grants.* Several of our executive officers have received special long-term restricted stock awards. The agreements for those awards provide that each such grantee has the right to vote the shares and to receive dividends paid by us, whether in cash or stock, but may not transfer the shares until they are vested. The shares of restricted stock of each grantee vest when such grantee retires from his employment with us at or after attaining age 65. The shares of restricted stock will vest immediately if the grantee dies or becomes disabled while employed by us, is terminated without cause or resigns for good reason (each as defined under the agreement) or if there is a change in control of NCI. The grantee will forfeit the shares of restricted stock if such grantee's employment with us is terminated for any other reason, including voluntary termination or resignation without good reason (as defined under the agreement) or termination of employment by us with cause. In addition, each grantee must comply with a covenant not to compete with us for the five years immediately following his receipt of any vested shares under his restricted stock award. If the grantee breaches his covenant not to compete, such grantee must either return to us the shares granted to him pursuant to the special long-term grant, if he still owns them, or pay us the then current market value of the shares if he does not then own them. For more information regarding the special long-term restricted stock grants, see Compensation Discussion and Analysis Determination and Administration of Compensation Programs and Amounts Long-Term Incentive Compensation Long-Term Restricted Stock Grants and Executive Compensation Outstanding Equity Awards at Fiscal Year-End.

*Employment Agreements for Executive Officers.* In fiscal 2007, we also adopted employment agreements for each executive officer who did not already have a change of control benefit by virtue of a long-term restricted stock award or other agreement that provided benefits upon a change of control. We also adopted a severance policy for middle management personnel. Pursuant to each of these agreements, we must pay each executive officer party to such an agreement, a base salary at the current annualized rate. Each executive officer party to an employment agreement is also entitled to participate in our Bonus Program. Please refer to Compensation Discussion and Analysis Determination and Administration of Compensation Programs and Amounts Base Salary and Annual Bonus for more information regarding our payment scheme. Pursuant to these agreements, our executive officers serve in an at-will capacity and we may terminate employment at any time with or without cause. If employment is terminated for any reason other than termination in connection with a change in control, the executive officer will be entitled to receive the portion of such officer's earned annual base salary through the date of termination and any bonus to which such officer is entitled pursuant to the Bonus Program. Following a change in control or a potential change in control, the executive officer is entitled to receive a certain specified amount times his or her annual base salary and medical and dental coverage for a period of up to 18 months. Each executive officer is further bound by a covenant not to compete with us for the term of his or her employment and, in the event such executive officer receives a change in control payment, for a period of two (2) years following such executive officer's termination.

**Table of Contents****Potential Payments upon Termination or Change-in-Control**

The following table estimates the value of the termination payments and benefits that each of our named executive officers would receive if his or her employment terminated or a change of control occurred on October 31, 2008 (the last business day of fiscal 2008) under the circumstances shown and making the indicated assumptions. The table excludes (i) amounts accrued through fiscal year-end that would be paid in the normal course of continued employment, such as accrued but unpaid salary, (ii) benefits generally available to all of our salaried employees and (iii) excludes stock options as the strike price was below the stock price at October 31, 2008.

Name	Benefit	Change in Control (a)(\$)	Termination for Cause (\$)	Termination without Cause or by Executive for Good Reason (\$)	Termination by Executive without Good Reason (\$)	Retirement or Disability (\$)	Death (\$)
Mr. Chambers	Severance Payment(b)	3,226,120		4,117,500			
	Accelerated Stock Vesting(c)(d)	1,743,508		1,023,510		1,743,508	1,743,508
	Life Insurance(e)	N/A	N/A	N/A	N/A	N/A	100,000
Mr. Johnson	Accelerated Stock Vesting(c)	175,807		175,807		175,807	175,807
	Life Insurance(e)	N/A	N/A	N/A	N/A	N/A	100,000
	Change in Control Employment Agreement(f)	678,463					
Mr. Dobbins	Accelerated Stock Vesting(c)(d)	611,382		244,218		611,382	611,382
	Life Insurance(e)	N/A	N/A	N/A	N/A	N/A	100,000
Mr. Dickinson	Accelerated Stock Vesting(c)(d)	611,382		301,320		611,382	611,382
	Life Insurance(e)	N/A	N/A	N/A	N/A	N/A	100,000
Mr. Fischer	Accelerated Stock Vesting(c)	146,382		146,382		146,382	146,382
	Life Insurance(e)	N/A	N/A	N/A	N/A	N/A	100,000
	Change in Control Employment Agreement(f)	595,463					
Mr. A.R. Ginn(g)	Severance Payment(h)			1,000,000(j)		1,000,000(k)	1,000,000
	Supplemental Benefit(i)	1,249,378		1,800,000	1,800,000	1,800,000(k)	1,800,000
	Health Insurance			54,714(j)		54,714(k)	54,714
Ms. Hawes	Severance payment(l)	34,583		34,583		34,583	34,583
	Accelerated Stock Vesting(c)	196,621		196,621		196,621	196,621
	Life Insurance(e)	N/A	N/A	N/A	N/A	N/A	100,000
Mr. Kelly Ginn	Severance payment (m)	153,009		153,009		153,009	153,009
	Life Insurance(e)	N/A	N/A	N/A	N/A	N/A	100,000

(a) Payable upon termination without cause or for good reason following a change in control.

(b) Severance payment under Mr. Chambers' employment agreement. Upon a change of control, Mr. Chambers will receive a lump-sum payment equal to the present value of his annual salary for the remaining term of the agreement, while upon a termination without cause or for good reason, Mr. Chambers will receive his then-current salary paid annually for the remaining term of the agreement (5.5 years at November 2, 2008). Please see Employment Agreements - Chambers Employment Agreement.

(c) Based upon the closing price per share of NCI's common stock on the New York Stock Exchange on October 31, 2008 of \$18.61, multiplied by the number of shares of restricted stock that would vest upon occurrence of the event indicated on October 31, 2008, less the par value of the shares paid by the executive. The executive officer is required to forfeit shares received as restricted stock if he or she does not comply with certain noncompetition and nonsolicitation requirements.

(d)

## Edgar Filing: NCI BUILDING SYSTEMS INC - Form DEF 14A

Messrs. Chambers, Dobbins and Dickinson have received special long-term restricted stock grants that will vest in full only on retirement, as defined in the agreements governing such grants, unless vesting is accelerated by the occurrence of certain limited events, as indicated in the table above. For additional information regarding these special long-term grants, please see Compensation Discussion and Analysis Determination and Administration of Compensation Programs and Amounts Long-Term Incentive Compensation Long-Term Restricted Stock Grants.

- (e) Under the executive officer's employment agreement, the executive officer's designated beneficiaries would have been entitled to the amounts set forth in the table above if the officer had died in fiscal 2008.

**Table of Contents**

- (f) Upon a change in control, executive will be entitled to receive two times his annual base salary at the highest annualized rate in effect during the one year period immediately preceding the date of the change in control event.
- (g) Mr. A.R. Ginn retired as chairman of the board of directors on December 31, 2007.
- (h) Under the agreement relating to his retirement, Mr. Ginn is entitled to receive his salary for the remaining term of the agreement if he is terminated without cause or becomes disabled. Upon his death, his spouse is entitled to receive his salary for the remaining term of the agreement until her death. Please see Employment Agreements A.R. Ginn Separation and Consulting Agreement.
- (i) Mr. A.R. Ginn is a participant in our supplemental retirement plan. Under such plan, he is entitled to the amounts shown above following his retirement with us. Under a change of control, Mr. A.R. Ginn will receive a lump-sum payment equal to the present value of future payments. Please see Executive Compensation Pension Benefits.
- (j) Mr. A.R. Ginn will receive payment upon termination without cause only.
- (k) Mr. A.R. Ginn will receive payment upon disability only.
- (l) Pursuant to her current employment agreement with NCI, Ms. Hawes received her base salary as of March 27, 2008 on an annualized basis until March 31, 2008. From March 31, 2008 through March 31, 2009, Ms. Hawes is entitled to receive a salary of \$83,000, or <sup>3</sup>/<sub>12</sub> of her annualized base salary as of March 27, 2008. Please see Employment Agreements Frances P. Hawes Employment Agreement.
- (m) According to the terms of his current consulting agreement with NCI, Mr. Kelly Ginn is entitled to receive his base salary as of March 27, 2008 until March 31, 2009, payable in accordance with NCI's regular payroll practices. Please see Employment Agreements Kelly R. Ginn Consulting Agreement.

**Compensation Committee Interlocks and Insider Participation**

The Compensation Committee of our board of directors is responsible for determining executive compensation. Mr. Breedlove, Mr. Edwards, Mr. Forbes, Mr. Hawk, Mr. Pieper and Mr. Sterling are the only members of the Compensation Committee. None of the Compensation Committee members were at any time during fiscal 2008, or at any other time, an officer or employee of NCI or any of our subsidiaries. No member on the Compensation Committee serves as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving as a member of our board of directors or compensation committee.

**Table of Contents**

**PROPOSAL TO ADOPT THE 2003 LONG-TERM STOCK INCENTIVE PLAN, AS AMENDED AND RESTATED**

Our board of directors has unanimously adopted a resolution to submit to a vote of our shareholders a proposal to approve our 2003 Long-Term Stock Incentive Plan, as amended and restated, as set forth in Annex C to this proxy statement. The amendment and restatement of the Incentive Plan will, among other things, increase the number of shares of common stock reserved for issuance under the Incentive Plan by 1,060,000 shares of common stock and provide for extension of the effective date of the Incentive Plan to 10 years after its approval, as amended and restated, by the shareholders of the Company. For information on the deductibility of compensation related to awards granted under the Incentive Plan, see *Federal Income Tax Consequences Certain Tax Code Limitations on Deductibility* below. There are currently 2,600,000 shares of common stock reserved for awards under the Incentive Plan.

The plan's purposes remain unchanged and are to:

attract and retain the best available personnel;

provide additional incentives to employees, directors and consultants;

increase the Incentive Plan participants' interest in our welfare; and

promote the success of our business.

Our shareholders originally approved the Incentive Plan at the annual meeting of shareholders held on March 14, 2003, and our shareholders approved the plan as amended and restated at the annual meeting of shareholders held on March 11, 2005. Our board of directors believes that the Incentive Plan is achieving its objectives and believes that to continue to carry out its objectives. At December 19, 2008, we had 48,514 shares remaining under the Incentive Plan. Therefore, our board of directors believes it is necessary to increase the number of shares of common stock reserved for issuance under the Incentive Plan.

**Summary of the 2003 Long-Term Stock Incentive Plan, as Amended and Restated**

The following summary of the Incentive Plan, as amended and restated, is qualified by reference to the full text thereof, which is attached as Annex C to this proxy statement.

***General***

The Compensation Committee of our board of directors administers the Incentive Plan. In the future, the board of directors or other committees may be allocated some or all of the Compensation Committee's duties. The Compensation Committee consists solely of two or more directors who are independent in accordance with the Internal Revenue Code and Rule 16b-3 under the Securities Exchange Act. The Compensation Committee is authorized to:

interpret the Incentive Plan and all awards;

establish and amend rules and regulations for the Incentive Plan's operation;

select recipients of awards;

determine the form, amount and other terms and conditions of awards;

modify or waive restrictions on awards;

amend awards; and

grant extensions and accelerate awards.

## Table of Contents

Our officers and other employees, directors and consultants, in addition to those of our subsidiaries, are eligible to be selected to participate in the Incentive Plan. Incentive stock options may be granted only to our employees and employees of our subsidiaries in which we own directly or indirectly more than a 50% voting equity interest. The Compensation Committee has the sole discretion to select participants from among the eligible persons. It is estimated that the total number of persons who are eligible to receive awards under the Incentive Plan at present would not exceed 210.

The aggregate number of shares of common stock which may be issued under the Incentive Plan with respect to awards may not exceed 2,600,000. The Incentive Plan is being amended and restated to increase this number of shares to 3,660,000. No awards relating to any of these additional 1,060,000 shares will be granted under the Incentive Plan if the Incentive Plan, as amended and restated, is not approved by shareholders. The proposed 3,660,000 share limit is subject to adjustment for certain transactions affecting the common stock. Each share issued pursuant to awards of stock options or stock appreciation rights under the Incentive Plan will reduce the share limit by one full share. Each share issued pursuant to an award of restricted stock, restricted stock unit, phantom stock or performance share awards granted under the Incentive Plan on or after March 11, 2005 will reduce the share limit by 1.5 shares. If an award is cancelled, forfeited or expires unexercised, the number of shares of common stock under such award will be added back to the shares available for grant under the Incentive Plan. The number of shares available for grant under the Incentive Plan shall not be increased by (a) any shares not issued or delivered as a result of a net settlement of an award, (b) any shares withheld to pay an exercise price or withholding taxes related to an award, or (c) shares of our common stock repurchased on the open market with the proceeds of an option exercise. No individual may be granted, in any fiscal year, awards under the Incentive Plan covering or relating to an aggregate of more than 250,000 shares of our common stock. No individual shall receive payment for cash awards made under the Incentive Plan during any fiscal year aggregating in excess of \$5,000,000. The shares issued under the Incentive Plan may be issued from shares held in treasury or from authorized but unissued shares.

The Incentive Plan provides for the grant of:

stock options, including incentive stock options and nonqualified stock options;

stock appreciation rights, in tandem with stock options or freestanding;

restricted stock awards;

restricted stock unit awards;

performance share awards;

phantom stock awards; and

cash awards.

The Compensation Committee may grant awards individually, in combination, or in tandem.

All awards will be evidenced by award agreements, as determined by the Compensation Committee. The award will be effective on the date of grant unless the Compensation Committee specifies otherwise.

The exercise or measurement price will be at least equal to the fair market value of our common stock. The fair market value generally is determined to be the closing sales price quoted on The New York Stock Exchange on the day preceding the grant of the award.





## **Table of Contents**

Awards will normally terminate on the earlier of (i) 10 years from the date of grant, (ii) 30 days after termination of employment or service for a reason other than death, disability or retirement, (iii) one year after death or (iv) one year (for incentive stock options) or five years (for other awards) after disability or retirement.

Awards are non-transferable except by disposition on death or to certain family members, trusts and other family entities as the Compensation Committee may approve.

The Compensation Committee may authorize the assumption of awards granted by other entities that are acquired by us or otherwise.

Awards may be paid in cash, shares of our common stock or a combination, in lump sum or installments, as determined by the Compensation Committee.

A participant's breach of the terms of the Incentive Plan or the award agreement will result in a forfeiture of the award.

### ***Options***

Options granted under the Incentive Plan may be:

incentive stock options, as defined in the Internal Revenue Code, as amended; or

nonqualified options, which do not qualify for treatment as incentive stock options.

The Compensation Committee selects the recipients of options and sets the terms of the options, including:

the number of shares for which an option is granted;

the term of the option; and

the time(s) when the option can be exercised.

The Compensation Committee determines how an option may be exercised, whether for cash, securities or a promissory note. The exercise price of an option may not be less than the fair market value of a share of our common stock on the grant date, and the option term may be no longer than ten years. Arrangements may also be made, if permitted by law, for same-day-sale and margin account transactions through NASD dealers.

An option agreement or the Compensation Committee's procedures may set forth conditions respecting the exercise of an option. The Compensation Committee may in its discretion waive any condition respecting the exercise of any option and may accelerate the time at which any option is exercisable.

### ***Stock Appreciation Rights***

A stock appreciation right is a grant entitling the participant to receive an amount in cash or shares of common stock or a combination thereof, as the Compensation Committee may determine, in an amount equal to the increase in the fair market value between the grant and exercise dates of the shares of common stock with respect to which the stock appreciation right is exercised. The exercise price of a stock appreciation right may not be less than the fair market value of a share of our common stock on the grant date, and the term of a stock appreciation right may be no longer than ten years. Stock appreciation rights may be granted separately or in tandem with the grant of an option.



## **Table of Contents**

A stock appreciation right granted in tandem with a nonqualified option may be granted either at or after the time of the grant of the nonqualified option. A stock appreciation right granted in tandem with an incentive stock option may be granted only at the time of the grant of the incentive stock option. A stock appreciation right granted in tandem with an option terminates and is no longer exercisable upon the termination or exercise of the related option. The Compensation Committee may set the terms and conditions of stock appreciation rights, subject to the limitations set forth in the Incentive Plan. At any time it may accelerate the exercisability of any stock appreciation right and otherwise waive or amend any conditions to the grant of a stock appreciation right.

### ***Restricted Stock***

A restricted stock grant entitles the recipient to acquire, at no cost or for a purchase price determined by the Compensation Committee on the date of the grant, shares of our common stock subject to such restrictions and conditions as the Compensation Committee may determine at the time of the grant. The recipient may have all the rights of a shareholder with respect to the restricted stock. These rights include voting and dividend rights, and they are effective as soon as:

restricted stock is granted (or upon payment of the purchase price for restricted stock); and

issuance of the restricted stock is recorded by our transfer agent.

A grant of restricted stock will be subject to non-transferability restrictions, repurchase and forfeiture provisions and such other conditions (including conditions on voting and dividends) as the Compensation Committee may impose at the time of grant.

Any restricted shares cease to be restricted stock and will be deemed vested after the lapse of all restrictions. Restrictions lapse, and restricted stock becomes vested, ratably over a minimum period of four years or upon the participant's death, disability or retirement, the occurrence of a change of control, or other appropriate event as determined by the Compensation Committee.

If a participant's employment or service is terminated for any reason prior to shares of restricted stock becoming vested, we have the right, in the discretion of the Compensation Committee, to:

repurchase the unvested shares at their purchase price; or

require forfeiture of those shares if acquired at no cost.

### ***Restricted Stock Unit Awards***

A restricted stock unit award is an award denominated in units evidencing the right to receive shares of our common stock, subject to vesting or such other terms and conditions as determined by the Compensation Committee. Prior to vesting, the recipient has no voting or dividend rights with respect to the shares evidenced by a restricted stock unit award, however, the Compensation Committee may award cash dividend equivalents with respect to a restricted stock unit award. Upon vesting or satisfaction of any other conditions established by the Compensation Committee, the recipient of a restricted stock unit award becomes entitled to receive a share of our common stock with respect to each restricted stock unit.

### ***Performance Share Awards***

The Compensation Committee may grant performance share awards, which are rights to receive shares of our common stock or their cash equivalent based on the attainment of pre-established performance goals and such other conditions, restrictions and contingencies as the Compensation Committee may determine. Performance measures may include future performance by the grantee, us or any subsidiary, division or department.



## **Table of Contents**

Payment will be made after the performance period based on the achievement of the performance measures as determined by the Compensation Committee.

### ***Phantom Stock Awards***

The Compensation Committee may grant phantom stock awards, which are rights to receive the fair market value of shares of our common stock, or the increase in the fair market value, during a period of time. The award may vest over a period of time specified by the Compensation Committee. Payment will be made following the prescribed period and may be made in cash, shares of our common stock or a combination as the Compensation Committee determines.

### ***Cash Awards***

The Compensation Committee may grant cash awards, which are bonuses paid in cash that are based solely upon the attainment of one or more performance goals that have been established by the Compensation Committee. The terms, conditions and limitations applicable to any cash awards will be determined by the Compensation Committee.

### ***Performance Awards***

At the discretion of the Compensation Committee, any of the above-described awards may be designated a performance award. Cash awards may only be designated as performance awards. Performance awards will be contingent upon performance measures applicable to a particular period, as established by the Compensation Committee, based upon any one or more of the following:

revenue or increased revenue;

net income measures (including, but not limited to, income after capital costs, economic profit and income before or after taxes);

profit measures (including, but not limited to, gross profit, operating profit, net profit before taxes and adjusted pre-tax profit);

stock price measures (including, but not limited to, growth measures and total shareholder return);

price per share of common stock;

market share;

earnings;

earnings per share or adjusted earnings per share (actual or growth in);

earnings before interest, taxes, depreciation and amortization (EBITDA);

earnings before interest and taxes (EBIT);

economic value added (or an equivalent metric);

market value added;

debt to equity ratio;

cash flow measures (including, but not limited to, cash flow return on capital, cash flow return on tangible capital, net cash flow and net cash flow before financing activities);

**Table of Contents**

return measures (including, but not limited to, return on equity, return on assets, return on capital, risk-adjusted return on capital, return on investors' capital and return on average equity);

operating measures (including operating income, funds from operations, cash from operations, after-tax operating income, sales volumes, production volumes and production efficiency);

expense measures (including, but not limited to, overhead costs and general and administrative expense);

changes in working capital;

margins;

shareholder value;

total shareholder return;

proceeds from dispositions;

total market value;

customer satisfaction or growth;

employee satisfaction; and

corporate values measures (including ethics compliance, environmental and safety).

Such performance measures may apply to the grantee, to one or more business units, divisions or subsidiaries of our company or the applicable sector of the company, or to our company as a whole. Goals may also be based upon performance relative to a peer group of companies. The Compensation Committee may modify or waive the performance goals or conditions to the granting or vesting of a performance award unless the performance award is intended to qualify as performance-based compensation under Section 162(m) of the Code. Section 162(m) of the Code generally disallows deductions for compensation in excess of \$1 million for some executive officers unless the awards meet the requirements for being performance-based. Please see "Compensation Discussion and Analysis - Deductibility of Compensation" for more information regarding Section 162(m) of the Code.

***Provisions Relating To A Change In Control, Death, Disability And Retirement***

The Incentive Plan provides certain benefits in the event of a change in control. A change in control is deemed to have occurred if:

any person acquires beneficial ownership of 20% or more of our voting securities;

## Edgar Filing: NCI BUILDING SYSTEMS INC - Form DEF 14A

as a result of, or in connection with, a tender or exchange offer, merger or other business combination, there is a change in the composition of a majority of our Board of Directors;

we merge or consolidate with, or transfer substantially all of our assets to, another corporation, after which less than 50% of the voting securities of us or the surviving entity outstanding immediately thereafter is owned by our former shareholders; or

a tender or exchange offer results in the acquisition of 30% or more of our outstanding voting securities.



## **Table of Contents**

Upon the occurrence of a change in control, or a participant's death, disability or retirement, all outstanding awards will immediately vest or become exercisable or payable, and all forfeiture restrictions will lapse, unless the related agreements provide otherwise.

### ***Other Modifications***

In the event of specified changes in our capital structure, the Compensation Committee will have the power to adjust the number and kind of shares authorized by the Incentive Plan (including any limitations on individual awards) and the number, option price or kinds of shares covered by outstanding awards. The Compensation Committee will also have the power to make other appropriate adjustments in awards under the Incentive Plan.

### ***Federal Income Tax Consequences***

The Internal Revenue Code provides that a participant receiving a nonqualified option ordinarily does not realize taxable income upon the grant of the option. A participant does, however, realize compensation income taxed at ordinary income tax rates upon the exercise of a nonqualified option to the extent that the fair market value of the common stock on the date of exercise exceeds the option price. Subject to the discussion under *Certain Tax Code Limitations on Deductibility* below, we are entitled to a federal income tax deduction for compensation in an amount equal to the ordinary income so realized by the participant. When the participant sells the shares acquired pursuant to a nonqualified option, any gain or loss will be capital gain or loss. This assumes that the shares represent a capital asset in the participant's hands, although there will be no tax consequences for us.

The grant of an incentive stock option does not result in taxable income to a participant. The exercise of an incentive stock option also does not result in taxable income, provided that the circumstances satisfy the employment requirements in the Internal Revenue Code. However, the exercise of an incentive stock option may give rise to alternative minimum tax liability for the participant. In addition, if the participant does not dispose of the common stock acquired upon exercise of an incentive stock option during the statutory holding period, then any gain or loss upon subsequent sale of the common stock will be a long-term capital gain or loss. This assumes that the shares represent a capital asset in the participant's hands.

The statutory holding period lasts until the later of:

two years from the date the option is granted; and

one year from the date the common stock is transferred to the participant pursuant to the exercise of the option.

If the employment and statutory holding period requirements are satisfied, we may not claim any federal income tax deduction upon either the exercise of the incentive stock option or the subsequent sale of the common stock received upon exercise. If these requirements are not satisfied (a *disqualifying disposition*), the amount of ordinary income taxable to the participant is the lesser of:

the fair market value of the common stock on the date of exercise minus the option price; and

the amount realized on disposition minus the option price.

Any excess is long-term or short-term capital gain or loss, assuming the shares represent a capital asset in the participant's hands. Subject to the discussion under *Certain Tax Code Limitations on Deductibility* below, in the case of a disqualifying disposition, we are entitled to a federal income tax deduction in an amount equal to the ordinary income realized by the participant.

The exercise of an option through the exchange of previously-acquired stock will generally be treated as a non-taxable like-kind exchange as to the number of shares given up and the identical number of



---

**Table of Contents**

shares received under the option. That number of shares will take the same tax basis and, for capital gain purposes, the same holding period as the shares that are given up. The value of the shares received upon such an exchange which are in excess of the number given up will be taxed to the participant at the time of the exercise as ordinary income, taxed as compensation. The excess shares will have a new holding period for capital gains purposes and a tax basis equal to the value of such shares determined at the time of exercise. If the tendered shares were acquired through the prior exercise of an incentive stock option and do not satisfy the statutory two-year and one-year holding periods ( disqualified shares ), then the tender will result in compensation income to the optionee taxed as ordinary income equal to the excess of the fair market value of the disqualified shares, determined when the prior incentive stock option was exercised, over the exercise price of the disqualified shares. The optionee will increase his tax basis in the number of shares received on exercise equal to the number of shares of disqualified shares tendered by the amount of compensation income recognized by the optionee with respect to the disqualified shares. Generally, the federal income tax consequences to the optionee are similar to those described above relating to the exercise of an option through the exchange of non-disqualified shares.

If an optionee exercises an option through the cashless exercise method by authorizing a broker designated by the Company to sell a specified number of the shares to be acquired through the option exercise having a market value equal to the sum of the option exercise plus any transaction costs (the cashless shares ), the optionee should be treated as constructively receiving the full amount of option shares, followed immediately by a sale of the cashless shares by the optionee. In the case of an incentive stock option, the cashless exercise method would result in the cashless shares becoming disqualified shares and taxed in a manner described above for disqualified shares.

In the case of a nonqualified option, the cashless exercise method would result in compensation income to the optionee with respect to both the cashless shares and remaining option shares as discussed above relating to nonqualified options. Since the optionee's tax basis in the cashless shares that are deemed received and simultaneously sold on exercise of the option is equal to the sum of the exercise price and the compensation to the optionee, no additional gain should be recognized by the optionee upon the deemed sale of the cashless shares.

Under Section 83(b) of the Internal Revenue Code, an employee may elect to include in ordinary income, as compensation at the time restricted stock is first issued, the excess of the fair market value of the stock at the time of issuance over the amount paid, if any, by the employee. In this event, any subsequent change in the value of the shares will be recognized for tax purposes as capital gain or loss upon disposition of the shares, assuming that the shares represent a capital asset in the hands of the employee. An employee makes a Section 83(b) election by filing the election with the IRS no later than 30 days after the restricted stock is transferred to the employee. If a Section 83 election is properly made, the employee will not be entitled to any loss deduction if the shares with respect to which a Section 83(b) election was made are later forfeited. Unless a Section 83(b) election is made, no taxable income will generally be recognized by the recipient of a restricted stock award until the shares are no longer subject to the restrictions or the risk of forfeiture. When either the restrictions or the risk of forfeiture lapses, the employee will recognize ordinary income, taxable as compensation, in an amount equal to the excess of the fair market value of the common stock on the date of lapse over the amount paid, if any, by the employee for the stock. Absent a Section 83(b) election, any cash dividends or other distributions paid with respect to the restricted stock prior to the lapse of the restrictions or risk of forfeiture will be included in the employee's ordinary income as compensation at the time of receipt and subsequent appreciation or depreciation will be recognized as capital gain or loss, assuming that the shares represent a capital asset in the hands of the employee.

Generally, an employee will not recognize any taxable income upon the grant of stock appreciation rights, performance shares, restricted stock units, phantom stock or a cash award. At the time the employee receives the payment for the stock appreciation right, performance shares, restricted stock units, phantom stock or cash award, the fair market value of shares of common stock or the amount of any cash received in payment for such awards generally is taxable to the employee as ordinary income, taxable as compensation.

---

**Table of Contents**

Subject to the discussion under **Certain Tax Code Limitations on Deductibility** below, we or one of our subsidiaries will be entitled to a deduction for federal income tax purposes at the same time and in the same amount that an employee recognizes ordinary income from awards under the Incentive Plan.

The exercisability of an option or a stock appreciation right, the payment of performance share or phantom stock awards or the elimination of restrictions on restricted stock, may be accelerated, and special cash settlement rights may be triggered and exercised, as a result of a change in control. If any of the foregoing occurs, all or a portion of the value of the relevant award at that time may be a parachute payment. This is relevant for determining whether a 20% excise tax (in addition to income tax otherwise owed) is payable by the participant as a result of the receipt of an excess parachute payment pursuant to the Internal Revenue Code. We will not be entitled to a deduction for that portion of any parachute payment which is subject to the excise tax.

***Certain Tax Code Limitations on Deductibility***

Section 162(m) of the Internal Revenue Code generally disallows a federal income tax deduction to any publicly held corporation for compensation paid in excess of \$1.0 million in any taxable year to the chief executive officer or any of the four other most highly compensated executive officers who are employed by the corporation on the last day of the taxable year, but does not disallow a deduction for performance-based compensation the material terms of which are disclosed to and approved by shareholders. We have structured and intend to implement the Incentive Plan so that resulting compensation would be performance-based compensation. To allow us to qualify the compensation, we are seeking shareholder approval of the Incentive Plan and the material terms of the related performance goals. However, we may, in our sole discretion, determine that in one or more cases it is in our best interests not to satisfy the requirements for the performance-based exception. Please see **Compensation Discussion and Analysis** **Deductibility of Compensation** for more information regarding Section 162(m) of the Code.

***Effect of American Jobs Protection Act of 2004***

On October 22, 2004, the American Jobs Creation Act of 2004 (H.R. 4520) ( **AJCA** ) was signed into law by the President. The AJCA significantly alters the rules relating to the taxation of deferred compensation.

The AJCA adds a new Section 409A to the Internal Revenue Code, which generally provides that any deferred compensation arrangement which does not meet specific requirements regarding (i) timing of payouts, (ii) advance election of deferrals and (iii) restrictions on acceleration of payouts results in immediate taxation of any amounts deferred to the extent not subject to a substantial risk of forfeiture. In addition, tax on the amounts included in income as a result of not complying with the new Section 409A are increased by an interest component as specified by statute, and the amounts included in income are also subject to a 20% excise tax. In general, to avoid a Section 409A violation, amounts deferred may only be paid out on separation from service, disability, death, a specified time, a change in control (as defined by the Treasury Department) or an unforeseen emergency. Furthermore, the election to defer generally must be made in the calendar year prior to performance of services, and any provision for accelerated payout other than for reasons specified by the Treasury may cause the amounts deferred to be subject to early taxation and to the imposition of the excise tax.

The AJCA is broadly applicable to any form of deferred compensation other than tax-qualified retirement plans and bona fide vacation, sick leave, compensatory time, disability pay or death benefits, and may be applicable to certain awards under the Incentive Plan. The new Section 409A is effective with respect to amounts deferred after December 31, 2004, but may also apply to amounts deferred earlier under arrangements which are materially modified after October 3, 2004. We intend that awards under the Incentive Plan satisfy the requirements of Section 409A to avoid the imposition of excise taxes thereunder.

THE ABOVE SUMMARY OF THE EXPECTED EFFECT OF THE FEDERAL INCOME TAX UPON PARTICIPANTS IN OUR INCENTIVE PLAN IS NOT COMPLETE, AND WE RECOMMEND

**Table of Contents**

THAT THE PARTICIPANTS CONSULT THEIR OWN TAX ADVISORS FOR COUNSELING. MOREOVER, THE ABOVE SUMMARY IS BASED UPON CURRENT FEDERAL INCOME TAX LAWS, WHICH ARE SUBJECT TO CHANGE. THE TAX TREATMENT UNDER FOREIGN, STATE OR LOCAL LAW IS NOT COVERED IN THE ABOVE SUMMARY.

***New Plan Benefits***

Participation in the Incentive Plan is determined on an individual basis by the Compensation Committee from time to time. Accordingly, future benefits under the equity plan are not determinable. The Compensation Committee has adopted a policy under which it grants awards under the Incentive Plan on June 15 and December 15 of each year.

Equity grants to each of our named executive officers for fiscal year 2008 are set forth above under Executive Compensation Grants of Plan-Based Awards. For fiscal year 2008, (i) executive officers as a group acquired 56,937 shares of our restricted common stock; (ii) non-executive employees as a group acquired 129,237 shares of our restricted common stock; (iii) non-executive directors as a group acquired 16,247 shares of our restricted common stock; and (iv) retired executives as a group acquired 43,724 shares of our restricted stock.

**OUR BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR THE PROPOSAL TO ADOPT THE 2003 LONG-TERM STOCK INCENTIVE PLAN, AS AMENDED AND RESTATED.**

**SECURITIES RESERVED FOR ISSUANCE UNDER****EQUITY COMPENSATION PLANS**

The following table sets forth the number of shares of our common stock reserved for issuance under our equity compensation plans as of the end of fiscal 2008:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))(2) (c)
Equity compensation plans approved by security holders	693,273(1)	\$ 28.09	494,750
Equity compensation plans not approved by security holders			
<b>Total</b>	<b>693,273</b>	<b>\$ 28.09</b>	<b>494,750</b>

- (1) The weighted average term of outstanding options is 5.2 years. As of December 19, 2008, 687,212 shares were subject to issuance under outstanding option awards, having a weighted average exercise price of \$28.11 and a weighted average term of 5.0 years.
- (2) All shares of common stock remaining available for issuance are under the Incentive Plan. As of December 19, 2008, we had 49,573 shares remaining available for issuance under the Incentive Plan. As of December 19, 2008, 684,105 shares were outstanding in the form of full value awards, consisting of awards of restricted stock, which reduce the number of shares available under the Incentive Plan by 1.5 shares. Please see Proposal to Adopt the 2003 Long-Term Stock Incentive Plan, as Amended and Restated for more information.

---

**Table of Contents**

**BOARD OF DIRECTORS**

**Independence and Meetings**

We have a majority of independent directors on our board of directors as required by the listing standards of the New York Stock Exchange. Our board of directors has determined, after considering all of the relevant facts and circumstances, that Messrs. Breedlove, Edwards, Forbes, Hawk, Lukens, Martinez, Phipps, Pieper and Sterling are independent from our management, as independence is defined by the rules and regulations of the SEC and the listing standards of the New York Stock Exchange. This means that none of the independent directors have any direct or indirect material relationship with us, either directly or as a partner, stockholder or officer of an organization that has a relationship with us. Other than as disclosed below, none of the directors whom our board has determined are independent have any relationships with NCI. Our Nominating and Corporate Governance Committee has carefully reviewed each of the relationships discussed below, and on its recommendation, the members of our board of directors have unanimously determined (with the directors affected abstaining) that such relationships are not material.

Mr. Sterling's spouse is, and was at all times during our 2008 fiscal year, a general partner at Gardere Wynne Sewell LLP (Gardere). Gardere has performed legal services for us in each of our last three fiscal years. Our board of directors has determined that our relationship with Gardere is not material. In making such determination, the board of directors considered the fact that the legal fees NCI has paid to Gardere were significantly less than 1% of Gardere's total firm revenues for each of its last three fiscal years.

Our board of directors met seven times during the fiscal year ended November 2, 2008. No director attended fewer than 75% of the aggregate of (i) the total number of meetings of the board of directors (held during the period for which he has been a director) and (ii) the total number of meetings held by all committees of the board on which he served (during the periods that he served). It is our policy to schedule a meeting of the board of directors on the date of the Annual Meeting, and we encourage all of our directors to attend that meeting. All of our current directors attended last year's Annual Meeting.

Our independent directors meet without the presence of management at regularly scheduled executive sessions. These executive sessions occur before or after regularly scheduled meetings of our board of directors. The presiding director of these executive sessions is the Chairman of the Nominating and Corporate Governance Committee, currently Mr. Pieper. For information on how you can communicate with our non-management directors, please see Communications With Our Board.

**Board Committees**

Our board of directors has appointed four committees—the Executive Committee, the Audit Committee, the Compensation Committee and the Nominating and Corporate Governance Committee.

**Executive Committee**

The Executive Committee is generally authorized to act on behalf of our board of directors between scheduled meetings of our board of directors to the fullest extent permitted by Delaware corporate law; provided, however, that the Executive Committee does not have the authority to approve amendments to our charter or By-Laws or approve specified extraordinary corporate transactions. The Executive Committee operates under a charter adopted by our board of directors, a copy of which is available on our website at [www.ncilp.com](http://www.ncilp.com) under the heading Investor Relations - Corporate Governance.

During fiscal 2008, the members of the Executive Committee were Mr. Forbes, Mr. Martinez and Mr. Chambers, with Mr. Chambers serving as Chairman. The Executive Committee met seven times during the fiscal year ended November 2, 2008.

## **Table of Contents**

### **Audit Committee**

The Audit Committee is responsible for engaging and discharging the independent auditors and for monitoring audit functions and procedures. The Audit Committee provides assistance to the board of directors regarding the corporate accounting and reporting practices of NCI and the quality and integrity of its financial reports. The members of the Audit Committee are Mr. Forbes, Mr. Hawk, Mr. Lukens, Mr. Martinez and Mr. Phipps, with Mr. Forbes serving as Chairman. The Audit Committee met six times during the fiscal year ended November 2, 2008.

The Audit Committee is composed solely of directors who are not our officers or employees, have the requisite financial literacy to serve on the Audit Committee, as determined by our board of directors, and whom our board of directors has determined are independent under the standards of the New York Stock Exchange and the rules and regulations of the SEC.

Our board of directors, after reviewing all of the relevant facts, circumstances and attributes, has determined that Gary L. Forbes, the Chairman of our Audit Committee, is an audit committee financial expert as defined by Item 401(h) of Regulation S-K.

The Audit Committee operates under an Audit Committee Charter adopted by our board of directors, a copy of which is available on our website at [www.ncilp.com](http://www.ncilp.com) under the heading Investor Relations - Corporate Governance and of which is also attached as Annex B to this proxy statement.

### **Compensation Committee**

The Compensation Committee is responsible for reviewing and making recommendations to our board of directors on all matters relating to compensation and benefits provided to executive management. The members of the Compensation Committee are Mr. Breedlove, Mr. Edwards, Mr. Forbes, Mr. Hawk, Mr. Pieper and Mr. Sterling, with Mr. Breedlove serving as Chairman. The Compensation Committee met four times during the fiscal year ended November 2, 2008.

The Compensation Committee is composed solely of directors who are not our officers or employees and whom our board of directors have determined are independent under the standards of the New York Stock Exchange and the rules and regulations of the SEC.

The Compensation Committee operates under a Compensation Committee Charter adopted by our board of directors, a copy of which is available on our website at [www.ncilp.com](http://www.ncilp.com) under the heading Investor Relations - Corporate Governance.

### **Nominating and Corporate Governance Committee**

The Nominating and Corporate Governance Committee is responsible for reviewing and interviewing qualified candidates to serve on our board of directors and to make nominations to fill vacancies on our board of directors and to select the management nominees for the directors to be elected by our stockholders at each Annual Meeting. In addition, the Nominating and Corporate Governance Committee is responsible for evaluating, implementing and overseeing the standards and guidelines for the governance of the Company, including monitoring compliance with those standards and guidelines, as well as overseeing succession planning and evaluating the performance of our board of directors. The members of the Nominating and Corporate Governance Committee are Mr. Breedlove, Mr. Lukens, Mr. Martinez, Mr. Sterling, and Mr. Pieper, with Mr. Pieper serving as the Chairman. The Nominating and Corporate Governance Committee met four times during the fiscal year ended November 2, 2008.

The Nominating and Corporate Governance Committee is composed solely of directors who are not our officers or employees and whom our board of directors has determined are independent under the standards of the New York Stock Exchange and the rules and regulations of the SEC.

## **Table of Contents**

The Nominating and Corporate Governance Committee operates under a Nominating and Corporate Governance Committee Charter adopted by our board of directors, a copy of which is available on our website at [www.ncilp.com](http://www.ncilp.com) under the heading Investor Relations - Corporate Governance. Our Corporate Governance Guidelines adopted by our board of directors, a copy of which is included as Annex A to this proxy statement, include the criteria our board of directors believes are important in the selection of director nominees.

Our board of directors believes that a nominee for director should be, about to be or have been a senior manager, chief operating officer, chief financial officer or chief executive officer of a relatively complex organization such as a corporation, university, foundation or governmental entity or unit or, if in a professional or scientific capacity, be accustomed to dealing with complex problems, or otherwise have obtained and excelled in a position of leadership. In addition, directors and nominees for director should have the education, experience, intelligence, independence, fairness, reasoning ability, practical wisdom and vision to exercise sound, mature judgments on a macro and entrepreneurial basis and should have high personal and professional ethics, strength of character, integrity and values. Directors and nominees for director also should be free and willing to attend regularly scheduled meetings of our board of directors and its committees and otherwise able to contribute a reasonable amount of time to our affairs, with participation on other boards of directors encouraged to provide breadth of experience to our board of directors. The age at the time of election of any nominee for director should be such to assure a minimum of three years of service as a director.

In identifying and evaluating nominees for director, the Nominating and Corporate Governance Committee first looks at the overall size and structure of our board of directors to determine the need to add or remove directors and to determine if there are any specific qualities or skills that would complement the existing strengths of our board of directors.

The Nominating and Corporate Governance Committee uses multiple sources for identifying and evaluating nominees for directors including referrals from our current directors and management, as well as input from third party executive search firms. The Chairman of the Nominating and Corporate Governance Committee and our Chairman of the Board will then interview qualified candidates. Qualified candidates are then invited to meet the remaining members of the Nominating and Corporate Governance Committee. The remaining directors also have an opportunity to meet and interview qualified candidates. The Nominating and Corporate Governance Committee then determines, based on the background information and the information obtained in the interviews, whether to recommend to the board of directors that a candidate be nominated to our board of directors.

In fiscal 2007, the Nominating and Corporate Governance Committee and the board determined that, in light of the scheduled retirement of A.R. Ginn, the board had a need to add directors with expertise in the area of manufacturing operations. The Nominating and Corporate Governance Committee engaged an executive search firm to search for individuals qualified to become directors of NCI and having the requisite experience. As a result of this search, the Nominating and Corporate Governance Committee recommended that Larry D. Edwards and Ed. L. Phipps become directors of NCI, and they were elected to the board effective January 1, 2008.

The Nominating and Corporate Governance Committee will consider qualified nominees recommended by stockholders, who may submit recommendations to the Nominating and Corporate Governance Committee in care of our Chairman of the Board and Secretary at our address set forth on page one of this proxy statement. To be considered by the Nominating and Corporate Governance Committee, stockholder nominations must be submitted before our fiscal year-end and must be accompanied by a description of the qualifications of the proposed candidate and a written statement from the proposed candidate that he or she is willing to be nominated and desires to serve, if elected. Nominees for director who are recommended by our stockholders will be evaluated in the same manner as any other nominee for director.

Nominations by stockholders may also be made at an annual meeting of stockholders in the manner provided in our By-Laws. Our By-Laws provide that a stockholder entitled to vote for the election of



**Table of Contents**

directors may make nominations of persons for election to our board of directors at a meeting of stockholders by complying with required notice procedures. To be timely, nominations must be received at our principal executive offices not less than 90 or more than 110 days before any annual meeting of stockholders. If, however, notice or prior public disclosure of an annual meeting is given or made less than 90 days before the date of the annual meeting, the notice must be received no later than the 10th day following the date of mailing of the notice of the annual meeting or the date of public disclosure of the date of the annual meeting, whichever is earlier.

The notice must specify:

as to each person the stockholder proposes to nominate for election or re-election as a director:

the name, age, business address and residence address of the person;

the principal occupation or employment of the person;

the class and number of shares of our capital stock that are owned of record or beneficially by the person; and

any other information relating to the person that is required to be disclosed in solicitations for proxies for election of directors under Regulation 14A of the Exchange Act; and

as to the stockholder giving the notice:

the name and record address of the stockholder and any other stockholder known to be supporting the nominee; and

the class and number of shares of our capital stock that are owned of record or beneficially by the stockholder making the nomination and by any other supporting stockholders.

We may require that the proposed nominee furnish us with other information as we may reasonably request to assist us in determining the eligibility of the proposed nominee to serve as a director. At any meeting of stockholders, the presiding officer may disregard the purported nomination of any person not made in compliance with these procedures.

**Compensation of Directors**

Directors of NCI who are employees of NCI do not receive compensation as directors. In addition to the expenses incurred to attend and/or participate in meetings, we pay non-employee directors the following amounts:

Annual Retainer Fee	\$ 35,000
Board Meeting Fee	\$ 3,000
Committee Meeting Fee (in the absence of board meeting on the same day)	\$ 1,500
Executive Committee Fee (in the absence of board meeting on the same day)	\$ 750
Chairman of Audit Committee	\$ 15,000
Chairman of Nominating and Corporate Governance Committee	\$ 10,000
Chairman of Compensation Committee	\$ 10,000



**Table of Contents**

In addition, each non-employee director receives grants of restricted stock having an aggregate fair market value of \$60,000 under our 2003 Long-Term Stock Incentive Plan on December 15 and June 15 of each year, provided that the non-employee director has served as a director for at least six months. Upon initial election to the board, new directors receive a grant of 1,500 shares of restricted stock.

The following table provides information concerning the compensation of our non-employee directors during fiscal 2008.

**DIRECTOR COMPENSATION FISCAL YEAR 2008**

Name	Fees Earned or Paid in			Total (\$)
	Cash (\$ (a))	Stock Awards (\$ (b))	Option Awards (\$ (c))	
William D. Breedlove	71,250	28,136		99,386
Larry D. Edwards	47,250	8,997		56,247
Gary L. Forbes	83,750	42,518		126,268
Phillip J. Hawk	60,500	37,521	9,720	107,741
Max L. Lukens	63,500	40,124		103,624
George Martinez	68,750	28,138	13,402	110,290
Ed L. Phipps	50,250	8,997		59,247
W. Bernard Pieper	69,000	28,138		97,138
John K. Sterling	59,000	46,413		105,413

- (a) Includes annual retainer fees, supplemental retainer fees for Committee Chairmen, Board meeting fees and Committee meeting fees for each director more fully explained in the preceding paragraphs.
- (b) Amounts in the Stock Awards column represent the dollar amount recognized for financial statement reporting purposes for the fiscal year ended November 2, 2008, as determined under FASB Statement No. 123(R) ( FAS 123(R) ). Pursuant to SEC rules, the amounts shown exclude the impact of estimated forfeitures related to service-based vesting conditions. See Note 14, Share-Based Compensation in the Notes to the Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the year ended November 2, 2008, for a discussion of the relevant assumptions used in this determination. Shares generally vest in four equal annual installments, beginning on the first anniversary of the grant date. Vesting is accelerated by the occurrence of certain limited events.
- (c) We did not grant any option awards in fiscal 2008. The amounts included in the Option Awards column represent the compensation cost we recognized in fiscal 2008 related to option awards in prior years, as described in FAS 123(R).

**CORPORATE GOVERNANCE**

Our board of directors has adopted Corporate Governance Guidelines to address significant corporate governance issues, a copy of which is included as Annex A to this proxy statement. These

## **Table of Contents**

guidelines provide a framework for our corporate governance initiatives and cover topics including, but not limited to, director qualification and responsibilities, board of director composition, director compensation and management and succession planning. The Nominating and Corporate Governance Committee is responsible for overseeing and reviewing the guidelines and reporting and recommending to our board of directors any changes to the guidelines. You may obtain copies of the charters for our Audit Committee, Compensation Committee, Executive Committee and our Nominating and Corporate Governance Committee, and our Corporate Governance Guidelines, free of charge, from our website at [www.ncilp.com](http://www.ncilp.com) under the heading Investor Relations - Corporate Governance or by writing to the Investor Relations Administrator, NCI Building Systems, Inc., 10943 North Sam Houston Parkway West, Houston, Texas 77064.

Our board of directors has adopted a Code of Business Conduct and Ethics, which is designed to help officers, directors and employees resolve ethical issues in an increasingly complex business environment. The Code of Business Conduct and Ethics is applicable to all of our officers, directors and employees, including our principal executive officer, principal financial officer, principal accounting officer or controller and other persons performing similar functions. The Code of Business Conduct and Ethics covers topics, including but not limited to, conflicts of interest, confidentiality of information and compliance with laws and regulations. Our Code of Business Conduct and Ethics is available, free of charge, on our website, along with other corporate governance information, at [www.ncilp.com](http://www.ncilp.com) under the heading Investor Relations - Corporate Governance. You may also obtain a copy by writing to Investor Relations Administrator at the address above.

Waivers from our Code of Business Conduct and Ethics are discouraged, but any waivers from the Code of Business Conduct and Ethics that relate to our principal executive officer, principal financial officer, principal accounting officer or controller and other persons performing similar functions or any other executive officer or director must be approved by our Nominating and Corporate Governance Committee, which is composed solely of directors whom we believe are independent of management, and will be posted on our website at [www.ncilp.com](http://www.ncilp.com) within four business days of any such waiver.

### **COMMUNICATIONS WITH OUR BOARD**

Any stockholder or interested party who wishes to communicate with our board of directors or any specific directors, including non-management directors, may write to:

Board of Directors

NCI Building Systems, Inc.

10943 North Sam Houston Parkway West

Houston, TX 77064

Depending on the subject matter, management will:

forward the communication to the director or directors to whom it is addressed (for example, if the communication received deals with questions, concerns or complaints regarding accounting, internal accounting controls and auditing matters, it will be forwarded by management to the Chairman of the Audit Committee for review);

attempt to handle the inquiry directly, for example where it is a request for information about us or our operations or it is a stock-related matter that does not appear to require direct attention by our board of directors or an individual director; or

not forward the communication if it is primarily commercial in nature or if it relates to an improper or irrelevant topic (in accordance with the explicit instructions of our non-management directors).

## **Table of Contents**

At each meeting of the board of directors, our Chairman of the Board presents a summary of all communications received since the last meeting of the board of directors that were not forwarded and makes those communications available to any director on request.

### **SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16(a) of the Exchange Act requires our directors and officers, and persons who own more than 10% of our common stock, to file initial reports of ownership and reports of changes in ownership with the SEC and the New York Stock Exchange. These persons are required by the Exchange Act to furnish us with copies of all Section 16(a) forms they file.

Based solely on our review of the copies of the forms received by us with respect to fiscal or calendar 2008, or written representations from the reporting persons, none of these reporting persons was late with respect to any required filings except a filing on behalf of Mr. Forbes with respect to his stock grant of December 15, 2008.

### **TRANSACTIONS WITH DIRECTORS, OFFICERS AND AFFILIATES**

With respect to transactions between us and our Named Executive Officers, please see [Executive Compensation](#), [Employment Agreements](#) and [Potential Payments upon Termination or Change-in-Control](#). With respect to transactions between us and certain members of our board of directors, please see [Board of Directors](#), [Independence and Meetings](#).

In December 2007, Ms. Frances Powell Hawes and Mr. Kenneth W. Maddox, both former executive officers of NCI, purchased \$100,000 and \$200,000, respectively, principal amount of our 2.124% Convertible Senior Subordinated Notes Due 2024 from an independent broker. As a result of their purchases of the notes, Ms. Hawes and Mr. Maddox are treated like any other holder of the notes. While the purchase or sale of our equity securities would not be deemed a related transaction under SEC regulations, the purchase or sale of our debt securities is not afforded the same treatment even though the purchaser of such debt security receives the same benefits on a pro rata basis as all other holders of the debt securities and the holder did not purchase the debt securities directly from us.

The Nominating and Corporate Governance Committee has approved and adopted a statement of policy and procedures with respect to related party transactions covering the review, approval or ratification of transactions involving the Company and Related Parties (generally, directors, executive officers and employees required to file reports under Section 16 of the Exchange Act and their immediate family members and 5% stockholders). The policy covers transactions in which the Company and any Related Party is a participant in which a Related Party has a material interest, other than transactions involving less than \$25,000 when aggregated with all similar transactions. The policy generally requires that such transactions be approved by the Nominating and Corporate Governance Committee in advance of the consummation or material amendment of the transaction. Under the policy, prior to entering into a related party transaction, full disclosure of all of the facts and circumstances relating to the transaction must be made to the Nominating and Corporate Governance Committee, which will approve such transaction only if it is in, or is not inconsistent with, the best interests of the Company and its stockholders. In the event a transaction is not identified as a related party transaction in advance, it will be submitted promptly to the Nominating and Corporate Governance Committee or the Chair thereof, and such committee or Chair, as the case may be will evaluate the transaction and evaluate all options, including but not limited to ratification, amendment or termination of the transaction.

**Table of Contents**

**AUDIT COMMITTEE AND AUDITORS**

**Report of the Audit Committee**

We have reviewed and discussed the audited financial statements of NCI for fiscal 2008 with management. We also have discussed the audited financial statements with Ernst & Young LLP, NCI's independent registered public accountants. Our discussions with Ernst & Young LLP included, among other things, discussions relating to those topics set forth in the Codification of Statements on Auditing Standards, AU§380, Communication with Audit Committees or Others with Equivalent Authority and Responsibility, including but not limited to, the auditor's responsibility under generally accepted auditing standards, the processes used by our management in formulating accounting estimates, significant adjustments made during the audit, any disagreements with our management and any difficulties encountered by the independent auditors in performing the audit. We also reviewed written disclosures from Ernst & Young LLP in accordance with applicable requirements of the Public Company Accounting Oversight Board, relating to any and all relationships between it and NCI, and we discussed with Ernst & Young LLP any relationship that might affect the objectivity or independence of Ernst & Young LLP. Based on those discussions, we are not aware of any relationship between Ernst & Young LLP and NCI that affects the objectivity or independence of Ernst & Young LLP.

Based on those discussions and review, we recommended to the board of directors that the audited financial statements for fiscal 2008 be included in NCI's 2008 Annual Report to Stockholders. We have appointed Ernst & Young LLP as NCI's independent auditors for fiscal 2009, and have submitted the appointment for shareholder ratification.

We also reviewed and discussed the fees paid to NCI's independent auditors during fiscal 2008 for audit and non-audit services, which fees and services are described below under the title *Our Independent Auditors and Fees*, and have determined that the provision of the non-audit services and the fees that we pay for them are compatible with maintaining Ernst & Young LLP's independence.

This report is submitted by the members of the Audit Committee.

GARY L. FORBES

PHILIP J. HAWK

MAX L. LUKENS

GEORGE MARTINEZ

ED L. PHIPPS

In accordance with the rules and regulations of the SEC, the above report of the Audit Committee shall not be deemed to be soliciting material or to be filed with the SEC or subject to Regulations 14A or 14C of the Securities Exchange Act of 1934 or to the liabilities of Section 18 of the Exchange Act and shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Exchange Act, notwithstanding any general incorporation by reference of this proxy statement into any other filed document.

**Our Independent Registered Public Accounting Firm and Audit Fees**

Ernst & Young LLP served as our independent registered public accountants for fiscal 2008. A representative of Ernst & Young LLP is expected to attend our Annual Meeting and will have the opportunity to make a statement if he so desires and will be available to answer appropriate stockholder questions.

*Audit Fees.* We incurred fees of \$2,102,356 during fiscal 2008 and \$1,912,566 during fiscal 2007 for Ernst & Young LLP's independent audit of our annual financial statements, review of the financial statements contained in our quarterly reports on Form 10-Q and assistance regarding other SEC filings. All of the audit services provided to us by Ernst & Young LLP during fiscal 2008 and fiscal 2007 were pre-approved by the Audit Committee.

---

**Table of Contents**

*Audit-Related Fees.* We did not incur any fees during fiscal 2008 and fiscal 2007 for other services rendered by Ernst & Young LLP that are reasonably related to its audit and review of our financial statements, including reviews of internal control design and operation and assistance in evaluating the requirements of the Sarbanes-Oxley Act of 2002. All of the audit-related services provided to us by Ernst & Young LLP during fiscal 2008 and fiscal 2007 were pre-approved by the Audit Committee.

*Tax Fees.* We incurred fees of \$6,500 during fiscal 2008 and \$7,838 during fiscal 2007 for Ernst & Young LLP's professional services related to transfer pricing. All of these services are permitted non-audit services. All of the tax-related services provided to us by Ernst & Young LLP during fiscal 2008 and fiscal 2007 were pre-approved by the Audit Committee.

*All Other Fees.* We incurred fees of \$1,624 during both fiscal 2008 and fiscal 2007 for research tool subscriptions rendered by Ernst & Young LLP. All of the research tool subscriptions provided to us by Ernst & Young LLP during fiscal 2008 and fiscal 2007 were pre-approved by the Audit Committee.

**Pre-Approval Policies and Procedures for Audit and Non-Audit Services**

The Audit Committee has developed policies and procedures concerning its pre-approval of the performance of audit and non-audit services for us by Ernst & Young LLP. These policies and procedures provide that the Audit Committee must pre-approve all audit and permitted non-audit services (including the fees and terms thereof) to be performed for us by Ernst & Young LLP, subject to the de minimus exception for non-audit services described in Section 10A(i)(1)(B) of the Securities Exchange Act of 1934 that are approved by the Audit Committee before the completion of the audit. In pre-approving all audit services and permitted non-audit services, the Audit Committee or a delegated member must consider whether the provision of the permitted non-audit services is compatible with maintaining the independence of Ernst & Young LLP and its status as our independent auditors.

The Audit Committee has delegated to its members the authority to consider and approve management proposals for the engagement of Ernst & Young LLP to perform certain permitted non-audit services for fees of up to an aggregate of \$25,000 between quarterly meetings of the Audit Committee; provided that those pre-approvals are presented to the entire Audit Committee at its then next regularly scheduled meeting. Management proposals arising between quarterly Audit Committee meetings are presented for pre-approval to the Chairman of the Audit Committee, Gary Forbes, and in the event of his unavailability, to another member of the Audit Committee.

All of the services performed by Ernst & Young LLP in fiscal 2008 were approved in advance by the Audit Committee pursuant to the foregoing pre-approval policy and procedures. Additionally, during fiscal 2008, Ernst & Young LLP did not provide any services prohibited by the Sarbanes-Oxley Act.

**RATIFICATION OF APPOINTMENT OF**

**INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

**General**

The Audit Committee has appointed the firm of Ernst & Young LLP as the Company's independent registered public accounting firm for the year ending November 1, 2009, subject to ratification by the Company's stockholders. Ernst & Young LLP has served as the Company's independent registered public accounting firm since our initial public offering. Representatives of Ernst & Young LLP are expected to be present at the Annual Meeting of Stockholders and will have an opportunity to make a statement, if they desire to do so, and to respond to appropriate questions from those attending the meeting.

**Required Affirmative Vote**

If a majority of the votes cast in person or by proxy at the 2009 Annual Meeting of Stockholders are voted in favor of this proposal, the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm for the year ending November 1, 2009 will be ratified. If the appointment of Ernst & Young LLP is not ratified, the Audit Committee will reconsider the appointment.

## **Table of Contents**

The Audit Committee recommends that stockholders vote **FOR** ratification of Ernst & Young LLP's appointment as the Company's independent registered public accounting firm for the year ending November 1, 2009, and proxies executed and returned will be so voted unless contrary instructions are indicated thereon.

## **ADDITIONAL INFORMATION**

### **Stockholder Proposals for 2009 Annual Meeting**

In order for stockholder proposals to have been properly submitted for presentation at our Annual Meeting, we must have received notice not earlier than November 22, 2008 nor later than December 12, 2008. We received no such notice, and therefore no stockholder proposals will be presented at our Annual Meeting.

### **Stockholder Proposals for Fiscal Year 2010 Proxy Statement**

If you wish to present a proposal for inclusion in our proxy material for consideration at our Annual Meeting to be held in 2010, you must submit the proposal in writing to our Secretary at the address shown on the first page of this proxy statement, and we must receive your proposal not later than October 7, 2009 (the 120th day prior to February 4, 2010, the anniversary of the date on which this year's proxy was mailed to you). That proposal must comply with Section 8 of Article II of our By-Laws and, if it is to be included in our proxy materials, Rule 14a-8 under the Exchange Act.

### **Advance Notice Required for Stockholder Nominations and Proposals**

Our By-Laws require timely advance written notice of stockholder nominations of director candidates and of any other proposals to be presented at an annual meeting of stockholders. Notice will be considered timely for the Annual Meeting of Stockholders to be held in 2010 if it is received not less than 90 nor more than 110 days prior to the date of the 2010 Annual Meeting of Stockholders. Our By-Laws require our board of directors or the presiding officer of the Annual Meeting to reject any untimely or non-complying proposal.

### **Delivery of Proxy Statement**

The Securities and Exchange Commission has adopted rules that permit companies and intermediaries (e.g., brokers) to satisfy the delivery requirements for proxy statements with respect to two or more security holders sharing the same address by delivering a single proxy statement addressed to those security holders. This process, which is commonly referred to as "householding," potentially means extra convenience for security holders and cost savings for companies. This year, a number of brokers with account holders who are NCI stockholders will be householding our proxy materials. A single proxy statement will be delivered to multiple stockholders sharing an address unless contrary instructions have been received from the affected stockholder. Once you have received notice from your broker that they will be householding communications to your address, householding will continue until you are notified otherwise or until you revoke your consent. If, at any time, you no longer wish to participate in householding and would prefer to receive a separate proxy statement, please notify your broker or direct your written request to us at NCI Building Systems, Inc., Attention: Investor Relations Administrator, 10943 North Sam Houston Parkway West, Houston, Texas 77064 or call Todd R. Moore at 281-897-7788. The Company will promptly deliver a separate copy to you upon request.



**Table of Contents**

**MISCELLANEOUS**

Our board of directors knows of no business other than that described above to be transacted at our Annual Meeting. If other matters requiring a vote of the stockholders arise, the persons designated as proxies will vote the shares of common stock represented by the proxies in accordance with their judgment on those matters.

The information contained in the proxy statement relating to the occupations and security holdings of our directors and officers and their transactions with us is based upon information received from the individual directors and officers. Unless otherwise indicated, all information relating to any beneficial owner of more than 5% of our common stock is based upon information contained in reports filed by that owner with the SEC.

The Annual Report to Stockholders for the fiscal year ended November 2, 2008, which includes our financial statements and accompanies this proxy statement, does not form any part of the materials for the solicitation of proxies. **You may obtain a copy of (i) our Annual Report to Stockholders and (ii) our Annual Report on Form 10-K for the fiscal year ended November 2, 2008, in each case, including any financial statements and schedules and exhibits thereto, without charge by submitting a written request to Mr. Todd R. Moore, Secretary, NCI Building Systems, Inc., 10943 North Sam Houston Parkway West, Houston, Texas 77064.**

By Order of the Board of Directors

Todd R. Moore  
*Executive Vice President, General Counsel*

*and Secretary*

Houston, Texas

February 4, 2009

**Table of Contents**

ANNEX A

ANNEX A

NCI BUILDING SYSTEMS, INC.

**Corporate Governance Guidelines**

[Amended and Restated as of December 11, 2008]

The Board of Directors (the Board) of NCI Building Systems, Inc. (the Company) has adopted these guidelines to promote the effective functioning of the Board and its committees.

**1. Director Qualification and Board Composition**

- (a) **Independence:** The Board will consist of a majority of non-employee directors who meet the criteria for independence set by the New York Stock Exchange ( NYSE ) and any other applicable rules and regulations. The Nominating and Corporate Governance Committee of the Board is responsible for annually evaluating whether members qualify as independent under applicable standards. During the year, directors are expected to inform the Nominating and Corporate Governance Committee of any material changes in their circumstances or relationships that may impact their designation by the board as independent so that it may re-evaluate the director's independent status. The Board will affirmatively determine that a director has no material relationship with the Company.
- (b) **Board Size:** The Board has the authority under the Company's Amended and Restated By-Laws (the By-Laws) to set the number of directors. The Board believes that six to ten people is an appropriate size based on the Company's present circumstances. The Board will periodically evaluate whether a larger or smaller number of directors would better serve the Company.
- (c) **Board Election and Vacancies:** The Company's Board is divided into three classes who serve staggered terms. One class of directors is elected annually by the Company's stockholders to serve a three-year term, except as noted below. Each year, at the Company's annual meeting of stockholders, the Board recommends a class of directors for election by the stockholders. The Board's recommendations are based on the recommendation of the Nominating and Corporate Governance Committee as to the suitability of each individual to serve as a director of the Company, taking into account the membership criteria set forth herein. The Board may fill vacancies in existing or new director positions based on the recommendation of the Nominating and Corporate Governance Committee. Such directors elected by the Board serve only until the next election of directors unless elected by the stockholders to a further term at that time.
- (d) **Board Membership Criteria:** The Nominating and Corporate Governance Committee is responsible for reviewing with the Board, on an annual basis, the requisite skills and characteristics that the Board seeks in Board members, including without limitation, the characteristics attached hereto as Exhibit A, as well as the composition of the Board as a whole. The Nominating and Corporate Governance Committee is responsible for identifying, screening and recommending the Board candidates for membership on the Board. The entire Board shall have formal approval of all Board candidates.
- (e) **Term Limits; Mandatory Retirement:** The Board does not believe it should limit the number of terms for which an individual may serve as a director. Directors who have served on the Board for an extended period of time are able to provide valuable insight into the operations and future of the Company based on their experience with and



**Table of Contents**

ANNEX A

understanding of the Company's history, policies and objectives. The Board believes that, as an alternative to term limits, it can ensure that the Board continues to evolve and adopt new viewpoints through the evaluation and nomination process described in these guidelines. Under the Company's By-Laws, no person may stand for election as a director after such person shall have surpassed the age of 78.

- (f) **Limitation on Other Board Service:** The Board does not believe that its members should be prohibited from serving on boards and/or committees of other organizations, and the Board has not adopted any guidelines limiting such activities; provided, however, that members of the Company's Audit Committee may not simultaneously serve on the audit committee of more than two other public companies without prior review and approval of the Board (with proper disclosure of such approval to the fullest extent required by the rules and regulations of the NYSE). The Nominating and Corporate Governance Committee and the Board will take into account the nature of and time involved in a director's service on other boards in evaluating the suitability of individual directors and making its recommendations to Company stockholders. Service on boards and/or committees of other organizations should be consistent with the Company's conflict of interest policies set forth in the Company's Code of Business Conduct and Ethics.

**2. Director Responsibilities**

- (a) **Responsibilities:** The director's primary responsibility is to provide effective governance over the Company's affairs for the benefit of its stockholders. In all actions taken by a director, the director is expected to exercise his or her business judgment in what he or she believes to be in the best interests of the Company. In discharging this obligation, directors are entitled to rely on the honesty and integrity of the Company's senior executives and its outside advisors and auditors.
- (b) **Attendance at Meetings:** The Board has five regularly scheduled meetings per year. The Chairman of the Board shall distribute to each director a calendar of the regularly scheduled Board meetings before the start of each calendar year. Special meetings are called as necessary. It is the responsibility of the directors to attend the meetings. In addition, members of the Board are expected to attend the Company's Annual Planning Conference, at which long-term strategic and business plans will be reviewed.
- (c) **Executive Sessions:** The independent directors will meet in executive sessions without the Company's management before or after each of the Board's regularly scheduled meetings. The Chairman of the Nominating and Corporate Governance Committee shall serve as the presiding director at each executive session of the independent directors. The name of the presiding director will be disclosed in the manner required by the NYSE and applicable federal securities laws.

The Audit Committee will maintain procedures for interested parties to communicate directly with the non-employee directors, both on a confidential and non-confidential basis. These procedures will be published in the Company's proxy statement for each annual meeting of stockholders and posted on the Company's internet website.

- (d) **Selection of Agenda:** The Chairman of the Board establishes the agenda for each Board meeting, although other Board members are free to suggest items for inclusion on the agenda. Each director is free to raise at any Board meeting subjects that are not on the agenda for that meeting.
- (e) **Distribution of Materials:** In advance of each Board or Committee meeting, an agenda will be distributed to each member. In addition, to the extent feasible or appropriate, information and data important to the members' understanding of the matters to be considered, including background summaries of presentations to be made at the meeting,



---

**Table of Contents**

ANNEX A

will be distributed in advance of the meeting. Directors shall also routinely receive internal financial statements, earnings reports, press releases, analyst reports, copies of filings made with the Securities and Exchange Commission and other information designed to keep them informed of the material aspects of the Company's business, performance and prospects.

- (f) **Board Committees**: The Board has established the following committees to assist the Board in discharging its responsibilities:

Audit Committee

Compensation Committee

Nominating and Corporate Governance Committee

Executive Committee

The Audit, Compensation, Nominating and Corporate Governance and Executive Committees each have Charters establishing their authority and responsibilities. The current Charters of these committees shall be published on the Company's website.

- (g) **Committee Members**: Each member of the Audit, Compensation and Nominating and Corporate Governance Committees will meet the criteria for independence set by the NYSE and any other applicable rules and regulations. Members of the Audit Committee shall also satisfy any additional legal or NYSE requirements regarding financial literacy and expertise.

Committee meetings will generally be held on the same day as Board meetings. However, during the course of each year, some committee meetings, especially Audit Committee meetings, may be held on days that do not coincide with regularly scheduled Board meetings. At each Board meeting, the Chairman of each committee shall report to the full Board with respect to any meetings held by the Committee since the last Board meeting, if any. In addition, each committee shall distribute to the full Board copies of the minutes of any committee meeting.

### **3. Access to Management and Outside Advisors**

- (a) **Access to Management**: The Board shall have full and free access to senior management and all other employees of the Company in order to ensure that directors can ask all questions and glean all information necessary to fulfill their duties. Any meetings or contacts that a director wishes to initiate may be arranged through the Chairman of the Board or the Chief Executive Officer of the Company; provided, however, that any director has the right to directly contact the Company's internal auditor (or persons performing the internal audit function) without informing senior management. The Board may specify a protocol for making such inquiries.

Management is encouraged to invite Company personnel to any Board meeting at which their presence and expertise would help the Board have a full understanding of matters being considered.

- (b) **Access to Outside Advisors**: The Board and each committee of the Board shall have the right to retain such outside advisors, including, without limitation, accountants, legal counsel or other experts or consultants, as the Board and such committee, in its sole and absolute discretion, deems advisable or appropriate. The Company shall pay all of the fees and expenses of any such advisors.



---

**Table of Contents**

ANNEX A

**4. Director Compensation**

- (a) **Non-Employee Directors:** The form and amount of director compensation is determined by the Board upon the recommendation of the Compensation Committee in accordance with the policies and principles set forth in its charter and applicable legal and regulatory guidelines. The Compensation Committee will conduct reviews, from time to time, of director compensation. The Compensation Committee will consider that a director's independence may be jeopardized if director compensation and perquisites exceed customary levels, if the Company makes substantial charitable contributions to organizations with which a director is affiliated, or if the Company enters into a consulting contract with (or provides other indirect forms of compensation to) an organization with which the director is affiliated.
- (b) **Employee Directors:** Employees of the Company who serve as a director do not receive compensation for serving as a director.

**5. Director Orientation and Continuing Education**

- (a) **Initial Orientation:** New non-employee directors will receive a comprehensive orientation from appropriate senior management of the Company regarding the Company's business and affairs.

All directors will receive a director fact book, which shall contain such information the Board requests or as the Chairman of the Board deems appropriate, including, without limitation, copies of the Company's organizational documents, equity compensation plans, material agreements and a list of other items that directors may request if they deem it advisable.

- (b) **Continuing Education:** The Board expects that, at least annually, all directors will participate in a continuing education event (which may coincide with a regular Board meeting) addressing among other things, current developments and best practices in corporate governance. Members of the Company's senior management may also review with the Board from time to time certain aspects of the Company's operations as part of regularly scheduled Board meetings. In addition, the Board will also normally conduct an on-site visit to one of the Company's manufacturing facilities in conjunction with a regular Board meeting at least once every other year.

**6. Management Succession Planning**

- (a) **Annual Performance Review:** At least annually, the non-employee directors will, in conjunction with the Compensation Committee, review the performance of the Company's Chief Executive Officer and other senior management in light of the Company's goals and objectives.
- (b) **Succession Planning:** At least annually, the Board will review succession plans for the Company's Chief Executive Officer and other senior management. The Chairman of the Nominating and Corporate Governance Committee shall chair any Board session called for the purpose of discussing succession issues. Succession planning will address both succession in the ordinary course of business and contingency planning in case of unexpected events. The offices of Chairman of the Board and Chief Executive Officer have been at times combined and at times separated. The Board has the discretion to combine or separate these positions as it deems appropriate in light of prevailing circumstances. The Board believes that the combination or separation of these offices should be considered as part of the succession planning process. The Board further believes that it is in the best interests of the Company for the Board to make a determination as to the combination or separation of the offices of Chairman of the Board and the Chief Executive Officer each time it elects a new Chief Executive Officer.





**Table of Contents**

ANNEX A

**7. Annual Performance Evaluation**

- (a) **Board and Committees**: The Board will conduct an annual self-evaluation to determine whether it and its committees are functioning effectively. The Nominating and Corporate Governance Committee will receive comments from all directors and report annually to the Board with an assessment of the Board's performance. This report will be discussed at the first Board meeting immediately following the end of the Company's fiscal year. The assessment will focus on the Board's contribution to the Company and specifically focus on areas in which the Board or management believes that the Board could improve.
  
- (b) **Corporate Governance Guidelines**: In addition, the Board will conduct an annual review of the corporate governance principles and make such changes, modifications and amendments as the Board determines.

**8. Code of Business Conduct and Ethics**

The Company has adopted a Code of Business Conduct and Ethics that applies to the Company's directors, management and all employees. Each director is expected to be familiar with and to follow these policies. In addition, directors must avoid any conflict between their own interests and the interests of the Company in dealing with suppliers, customers and other third parties, and in the conduct of their personal affairs, including transactions in the Company's securities, with any affiliate or with any non-affiliated organization.

The Nominating and Corporate Governance Committee will review any allegation that a director or executive officer may have violated the Code of Business Conduct and Ethics and will report its findings to the full Board.

**Table of Contents**

ANNEX A

**Exhibit A**

**CRITERIA FOR THE SELECTION OF DIRECTORS**

1. The nominee shall have the highest personal and professional ethics, strength of character, integrity and values.
2. The nominee shall be, about to be or have been a senior manager, chief operating officer, chief financial officer or chief executive officer of a relatively complex organization such as a corporation, university, foundation or unit of government with a proven record of success or, if in a professional or scientific capacity, be accustomed to dealing with complex problems, or otherwise shall have obtained and excelled in a position of leadership.
3. The nominee shall have the education, experience, intelligence, independence, fairness, reasoning ability, practical wisdom and vision to exercise sound, mature judgments on a macro and entrepreneurial basis on matters which relate to the current and long-term objectives of the Company.
4. The nominee shall have the competence and willingness to learn the Company's business and confidence to express his/her personal views.
5. The nominee shall be free and willing to attend regularly scheduled meetings of the board of directors and its committees over a sustained period and otherwise able to contribute a reasonable amount of time to the affairs of the Company and its affiliates. Participation on other boards is desirable in providing a breadth of experience to the board.
6. The nominee shall have the breadth of viewpoint and experience necessary for an understanding of the diverse and sometimes conflicting interests of stockholders and other constituencies, while still recognizing the particular responsibilities of the board of directors.
7. The nominee should be of such an age at the time of election to assure a minimum of three years of service as a director.
8. The nominee shall have the personality, tact, sensitivity and perspective to work well with others.
9. The nominee shall have the stature and capability to represent the corporation before the public, stockholders and other various individuals and groups that affect the Company. The nominee should have the capability to network with others for the benefit of the corporation.
10. The nominee shall be willing to appraise objectively the performance of management in the interest of the stockholders. The nominee shall possess an inquiring and independent mind willing to question management's assumptions when inquiry is appropriate.

---

**Table of Contents**

ANNEX B

**ANNEX B**

**NCI BUILDING SYSTEMS, INC.**

**Audit Committee Charter**

**[Amended and Restated December 11, 2008]**

**Organization**

There shall be a permanent committee of the Board of Directors (the Board) known as the Audit Committee (the Committee). The Committee shall be composed of three or more directors. The Board intends that the members of the Committee shall meet the independence and experience requirements of the New York Stock Exchange (NYSE), Section 10A(m)(3) of the Securities Exchange Act of 1934 (the Exchange Act) and the rules and regulations of the Securities and Exchange Commission (the SEC). At least one member of the Committee shall be a person who the Board determines is an audit committee financial expert as defined by the SEC.

The members of the Committee shall be appointed by the Board based on the recommendations of the Nominating and Governance Committee, and shall serve for such term or terms as the Board determines or until their successors are elected or appointed. Members of the Committee may be removed at any time without cause by the affirmative vote of a majority of the Board. Vacancies resulting from resignation or removal shall be filled by the Board based on the recommendations of the Nominating and Governance Committee. The Board shall designate a chairperson for the Committee.

A Committee member shall not simultaneously serve on the audit committees of more than two other public companies, unless the Board affirmatively determines that such simultaneous service would not impair the ability of that director to effectively serve on the Committee. Service on more than two other audit committees and the Board's determination to allow such simultaneous service shall be disclosed to the fullest extent required by the rules and regulations of the NYSE and applicable law.

**Meetings**

The Committee shall meet as often as it determines, but not less than quarterly. The Chairman of the Committee, any two members of the Committee or, at the request of any Committee member, the Chairman of the Board may call meetings of the Committee. Meetings of the Committee may be held telephonically and any member may participate in any meeting telephonically.

The Committee shall meet periodically with management, persons performing internal audit functions, and the independent auditor in separate executive sessions and with or without the presence of anyone or more of the foregoing present at a particular executive session. The Committee may request any officer or employee of the Company or the Company's outside counselor independent auditor to attend a meeting of the Committee or to meet with any members of, or consultants to, the Committee.

**Purposes of the Committee**

The Committee shall provide assistance to the Board in fulfilling its responsibilities relating to corporate accounting and reporting practices of the Company and the quality and integrity of the financial reports of the Company. In particular, the Committee will assist the Board in monitoring:

- (1) The integrity of the financial statements of the Company;
- (2) The compliance by the Company with legal and regulatory requirements;



---

**Table of Contents**

ANNEX B

(3) The independence and qualifications of the Company's independent auditors; and

(4) The performance of the Company's internal audit function and of its independent auditors.

The Committee shall also prepare the report of the Committee required by the rules of the SEC to be included in the Company's annual proxy statement.

**Committee Authority and Responsibilities**

The Committee shall have and may exercise all the powers of the Board, except as may be prohibited by law, with respect to all matters encompassed by this Charter, and all the power and authority required under the Sarbanes-Oxley Act of 2002. The Committee shall have the sole authority to appoint, retain, replace or terminate the independent auditor. Prior to the initial engagement of any public accounting firm as the Company's independent auditors, the Committee shall obtain and review a written report from such independent auditors regarding all relationships between such independent auditors or their affiliates (as defined by the Public Company Accounting Oversight Board (PCAOB)) and the Company or persons in a financial reporting oversight role, including all matters set forth in PCAOB Rule 3526. The Committee shall discuss such report and the potential effects of such relationships with the independent auditors before their initial engagement. The substance of such discussions shall be documented in writing. The Committee shall be directly responsible for the compensation, evaluation and oversight of the work of the independent auditor (including resolution of disagreements between management and the independent auditor regarding financial reporting) for the purpose of preparing or issuing an audit report, performing other audit, review, attestation or related services or work for the Company. The independent auditor shall report directly to the Committee.

The Committee shall pre-approve all auditing services and permitted non-audit services (including the fees and terms thereof) to be performed for the Company by its independent auditor, subject to the de minimus exceptions for non-audit services described in Section 10A(i)(1)(B) of the Exchange Act which are approved by the Committee prior to the completion of the audit.

The Committee may form and delegate authority to subcommittees consisting of one or more members when appropriate, including the authority to grant pre-approvals of audit and permitted non-audit services, provided that decisions of such subcommittee to grant pre-approvals shall be presented to the full Committee at its next scheduled meeting.

The Committee shall have the authority, to the extent it deems necessary or appropriate, to retain, set the compensation and other terms of engagement of and terminate the retention of independent legal, accounting or other advisors or consultants. The Company shall provide for appropriate funding, as determined by the Committee, for payment of compensation to the independent auditor for the purpose of rendering or issuing an audit report or performing other audit, review or attest services, and compensation to any advisors or consultants employed by the Committee.

The internal auditor shall report directly to the Committee and tasks or duties assigned to the internal auditor by the Committee shall take precedence over tasks and duties assigned by management.

The Committee shall make regular reports to the Board. The Committee shall review and reassess the adequacy of this Charter annually and, if appropriate, recommend any proposed changes to the Board for approval. The Committee shall annually review and evaluate the Committee's own performance. The Committee shall conduct such review and evaluation in such manner as it deems appropriate and report the results of its review and evaluation to the entire Board.

In carrying out its responsibilities, the Committee, and each member of the Committee in his or her capacity as such, shall be entitled to rely, in good faith, on information, opinions, reports or statements, or other information prepared or presented to them by (i) officers and other employees of the Company or its subsidiaries, whom such member believes to be reliable and competent in the matters presented, and (ii) counsel, public accountants, consultants or other persons as to matters which the member believes to be

---

**Table of Contents**

ANNEX B

within the professional competence of such person, including, without limitation, representations by management and the independent auditors regarding non-audit services provided to the Company by the independent auditors.

In carrying out its responsibilities, the Committee's policies and procedures will remain flexible, to best react to changing conditions and to ensure to the Board and stockholders that the corporate accounting and reporting practices of the Company are in accordance with all requirements and are of the highest quality.

In carrying out these responsibilities, the Committee, to the extent it deems necessary or appropriate, shall:

**Financial Statement and Disclosure Matters**

1. Review and discuss with management and the independent auditor the annual audited financial statements, including disclosures made in management's discussion and analysis, and recommend to the Board whether the audited financial statements should be included in the Company's Annual Report on Form 10-K.
2. Review and discuss with management and the independent auditor the Company's quarterly financial statements, including disclosures made in management's discussion and analysis, prior to the filing of its Quarterly Reports on Form 10-Q, including the results of the independent auditor's review of the quarterly financial statements.
3. Discuss with management and the independent auditor (i) major issues regarding accounting principles and financial statement presentations, including significant changes in the selection or application of accounting principles, (ii) analyses prepared by management and/or the independent auditor of significant financial reporting issues and judgments made in connection with the preparation of the Company's financial statements, including any significant changes in the Company's selection or application of accounting principles, including analyses of the effects of alternative methods of generally accepted accounting principles on the financial statements, and (iii) any major issues as to the adequacy of the Company's internal control over financial reporting and any special steps adopted in light of material control deficiencies.
4. Review and discuss with the independent auditors, not less than quarterly, reports of the independent auditors regarding:
  - (a) Critical accounting policies and practices to be used;
  - (b) Alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditor; and
  - (c) Other material written communications between the independent auditor and management, such as any management letter provided by the independent auditor and management's response to that letter, any management representation letter, any reports on observations and recommendations on internal control over financial reporting, any schedules of unadjusted audit differences and a listing of adjustments and reclassifications not recorded, if any, and any engagement or independence letters.

Edgar Filing: NCI BUILDING SYSTEMS INC - Form DEF 14A

5. Discuss with management the Company's earnings press releases, including the use of pro forma or adjusted non-GAAP information, as well as financial information and

B-3



---

**Table of Contents**

ANNEX B

earnings guidance provided to analysts and rating agencies. Such discussion may be done generally (consisting of discussing the types of information to be disclosed and the types of presentations to be made).

6. Discuss with management and the independent auditor the effect of regulatory and accounting initiatives as well as off-balance sheet structures on the Company's financial statements, including oversight and review of commitments and responsibilities of joint ventures of the Company.
7. Discuss with management the Company's major financial risk exposures and the steps management has taken to monitor and control such exposures, including the Company's risk assessment and risk management policies and guidelines.
8. Discuss with the independent auditor the matters required to be discussed by Statement on Auditing Standards No. 61 relating to the conduct of the audit, including any difficulties encountered in the course of the audit work and any restrictions on the scope of activities or access to requested information, including management's response thereto, and any significant disagreements with management.
9. Review disclosures made to the Audit Committee by the Company's Chief Executive Officer, Chief Financial Officer and any other certifying officer during their certification process for the Annual Report on Form 10-K and Quarterly Reports on Form 10-Q about any significant deficiencies in the design or operation of internal controls or material weaknesses therein and any fraud involving management or other employees who have a significant role in the Company's internal controls.

**Oversight of the Company's Relationship with the Independent Auditor**

10. Review and evaluate the lead (or coordinating) partner and senior members of the independent auditor team.
11. Obtain and review a report from the independent auditor at least annually regarding (a) the independent auditor's internal quality-control procedures, (b) any material issues raised by the most recent internal quality-control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities within the preceding five years respecting one or more independent audits carried out by the firm and (c) any steps taken to deal with any such issues.
12. Obtain and review at least annually a written statement from the independent auditor (a) delineating all relationships between the independent auditor and its affiliates and the Company or persons in a financial reporting oversight role at the Company, including the matters set forth in PCAOB Rule 3526, and (b) affirming the independence of the independent auditors as of the date of the written statement. In addition, the Committee shall engage in active dialogue with the independent auditors on all matters that could affect the independence of the auditors, including those relationships described in the independent auditors' annual written statement. The substance of such discussions shall be documented in writing.
13. Evaluate the qualifications, performance and independence of the independent auditor, including considering whether the auditor's quality controls are adequate and the provision of permitted non-audit services is compatible with maintaining the auditor's independence, and taking into account the opinions of management and persons performing internal audit functions for the Company. The Audit Committee shall present its conclusions with respect to the independent auditor to the Board.



**Table of Contents**

ANNEX B

14. Ensure the rotation of the lead (or coordinating) audit partner having primary responsibility for the audit and the audit partner responsible for reviewing the audit as required by law.
15. Annually recommend an independent auditing firm to the Board to ratify said independent auditing firm and consider from time to time whether, in order to assure continuing auditor independence, it is appropriate to change the independent auditing firm then serving the Company or to adopt a policy of rotating the independent auditing firm on a regular basis.
16. Recommend to the Board policies for the Company's hiring of employees or former employees of the independent auditor who participated in any capacity in the audit of the Company, in accordance with rules of the SEC, and review those policies on a regular basis.
17. Discuss with the independent auditor auditing or accounting issues presented by the engagement on which the Company's audit team consulted their national office and matters of audit quality and consistency.
18. Discuss with management and the independent auditor any accounting adjustments that were noted or proposed by the independent auditor but were not adopted or reflected.
19. Meet with the independent auditor prior to the audit to review the scope, planning and staffing of the audit.

**Audit and Non-Audit Services Pre-Approval**

20. Maintain policies to approve independent auditors' services to assure the auditors' independence, including (a) pre-approval policies not requiring consideration of specific, case-by-case services ( General Pre-Approval ), and (b) pre-approval policies requiring consideration of specific, case-by-case services ( Specific Pre-Approval ).
21. Between meetings, be permitted to delegate either General Pre-Approval or Specific Pre-Approval authority to one or more members.
22. Identify the services that require General Pre-Approval and Specific Pre-Approval, provided that:
  - (a) annual audit services require Specific Pre-Approval;
  - (b) Audit-Related Services, those services reasonably related to the performance of the audit (e.g., due diligence, disclosure matters, and implementing new accounting guidance) require only General Pre-Approval;
  - (c) tax services require Specific Pre-Approval;

- (d) tax avoidance work is not permitted;
  - (e) tax work for executive officers or directors is not permitted;
  - (f) all other services require Specific Pre-Approval; and
  - (g) prohibited services are not allowed.
23. Annually establish fee levels or budgeted amounts for services requiring Pre-Approval.

B-5

**Table of Contents**

ANNEX B

24. Require the CFO, at the beginning each year, to provide a schedule of considered services to the Committee and the fees for these services will be reviewed at each in-person meeting of the Committee.

**Oversight of the Company's Internal Audit Function**

25. Review and discuss with management and the independent auditor the manner in which the internal audit function is performed by or for the Company, including the staffing of the internal audit function (whether staffed as part of an internal audit department or as an outsourced service), the responsibilities of the persons performing the internal audit function, the scope and frequency of internal audits and budgeting.

26. Review the appointment and replacement of the senior internal auditing executive, if one be appointed, or of the firm to which the internal audit function has been outsourced, if one be engaged.

27. Review the significant reports to management prepared by the persons performing the internal audit function, and management's responses.

28. At the discretion of the Committee, discuss and review with the internal auditor any of the matters identified in this Charter as included within the authority and responsibility of the Committee.

29. At the discretion of the Committee, include the internal auditor in any of the meetings or sessions held between the Committee and management or the independent auditor.

**Compliance Oversight Responsibilities**

30. Obtain annually from the independent auditor assurance that Section 10A(b) of the Exchange Act has not been implicated.

31. Obtain advice and assistance from management, the senior person performing the internal audit function and the independent auditors with respect to the conformity of the Company and its subsidiaries with applicable legal requirements and the Company's Code of Business Conduct and Ethics. Obtain quarterly reports from management and the senior person performing the internal audit function regarding the same.

32. Review quarterly the reports and disclosures of insider and affiliated party transactions in securities of the Company.

33. Advise the Board with respect to any non-compliance by the Company's accounting, internal accounting controls and auditing policies and procedures with applicable laws and regulations and with the Company's Code of Business Conduct and Ethics (with respect to financial and accounting matters).

34. Establish procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters, and the confidential, anonymous submission by employees of concerns regarding

questionable accounting or auditing matters.

35. Discuss with management and the independent auditor any correspondence with regulators or governmental agencies and any published reports which raise material issues regarding the Company's financial statements or accounting policies.

B-6

**Table of Contents**

ANNEX B

36. Discuss with the Company's in-house general counsel and outside legal counsel, if appropriate, legal matters that may have a material impact on the financial statements or the Company's compliance policies.
37. Review with management, the internal auditor and the independent auditors the integrity and effectiveness of the Company's electronic accounting, data processing and management information systems.

**General**

38. Have and exercise such other powers, authority and responsibilities as may be determined by the Board. The responsibilities and duties set forth above are meant to serve as a guide, with the understanding that the Committee may diverge from the specific duties enumerated as necessary or appropriate given the facts and circumstances.

**Limitation of Committee's Role**

While the Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Committee to plan or conduct audits or to determine that the Company's financial statements and disclosure are complete and accurate and are in accordance with generally accepted accounting principles and applicable rule and regulations. These are the responsibilities of management and the independent auditor. In carrying out its oversight responsibilities set forth in this Charter, members of the Committee are not providing expert or special assurance with respect to the Company's financial statements, or any professional certification as to the work of the independent auditor, including with respect to auditor independence.

B-7

**Table of Contents**

ANNEX C

**NCI BUILDING SYSTEMS, INC.**

**2003 LONG-TERM STOCK INCENTIVE PLAN**

**(As Amended and Restated [March 12, 2009])**

1. **PURPOSE.** The purposes of the Plan are to attract and retain for the Company and its Subsidiaries the best available personnel, to provide additional incentives to Employees, Directors and Consultants, to increase their interest in the Company's welfare, and to promote the success of the business of the Company and its Subsidiaries.
2. **INCENTIVE AWARDS AVAILABLE UNDER THE PLAN.** Awards granted under this Plan may be (a) Incentive Stock Options, (b) Non-Qualified Stock Options, (c) Restricted Stock Awards; (d) Stock Appreciation Rights; (e) Cash Awards; (f) Performance Share Awards; (g) Phantom Stock Awards and (h) Restricted Stock Unit Awards.
3. **SHARES SUBJECT TO PLAN.** Subject to adjustment pursuant to Section 12(a) hereof, the total number of shares of Common Stock that may be issued with respect to Awards granted under the Plan shall not exceed 3,660,000 (the Pool Limit). At all times during the term of the Plan, the Company shall allocate and keep available such number of shares of Common Stock as will be required to satisfy the requirements of outstanding Awards under the Plan. Shares of Common Stock issued pursuant to (i) Awards of Options or Stock Appreciation Rights granted at any time or (ii) Restricted Stock Awards, Restricted Stock Unit Awards, Phantom Stock Awards or Performance Share Awards granted prior to March 11, 2005 shall each count against the Pool Limit as one (1) full share of Common Stock. Shares of Common Stock issued pursuant to a Restricted Stock Award, Restricted Stock Unit Award, Phantom Stock Award or Performance Share Award granted on or after March 11, 2005 shall each count against the Pool Limit as one and one-half (1.5) shares of Common Stock. The number of shares reserved for issuance under the Plan shall be reduced only to the extent that shares of Common Stock are issued in connection with the exercise or settlement of an Award; provided, however, that the number of shares reserved for issuance shall be reduced by the total number of Options or Stock Appreciation Rights exercised. Any shares of Common Stock covered by an Award (or a portion of an Award) that is forfeited or canceled or that expires shall be deemed not to have been issued for purposes of determining the maximum aggregate number of shares of Common Stock which may be issued under the Pool Limit and shall remain available for Awards under the Plan. Notwithstanding the foregoing, the following shares of Common Stock may not again be made available for issuance as Awards under the Plan: (a) shares of Common Stock not issued or delivered as a result of the net settlement of an outstanding Option or Stock Appreciation Right, (b) shares of Common Stock used to pay the exercise price or withholding taxes related to an outstanding Award, or (c) shares of Common Stock repurchased on the open market with the proceeds of the Option exercise price. The shares to be delivered under the Plan shall be made available from authorized but unissued shares of Common Stock or Common Stock held in the treasury of the Company.
4. **ELIGIBILITY.** Awards other than Incentive Stock Options may be granted to Employees, Directors and Consultants. Incentive Stock Options may be granted only to Employees. The Committee in its sole discretion shall select the recipients of Awards. A Grantee may be granted more than one Award under the Plan, and Awards may be granted at any time or times during the term of the Plan. The grant of an Award to an Employee, Director or Consultant shall not be deemed either to entitle that individual to, or to disqualify that individual from, participation in any other grant of Awards under the Plan.
5. **LIMITATION ON INDIVIDUAL AWARDS.** Except for Cash Awards described in Section 10(a), no individual shall be granted, in any fiscal year, Awards under the Plan covering or relating to an aggregate of more than 250,000 shares of Common Stock. No individual shall receive payment for Cash Awards during any fiscal year aggregating in excess of \$5,000,000. The preceding shall be applied in a manner which will permit compensation generated under the Plan, where appropriate, to constitute performance-based compensation for purposes of Section 162(m) of the Code.



**Table of Contents**

ANNEX C

6. STOCK OPTIONS.

(a) Grant of Options. An Option is a right to purchase shares of Common Stock during the option period for a specified exercise price. The Committee shall determine whether each Option shall be granted as an Incentive Stock Option or a Non-Qualified Stock Option and the provisions, terms and conditions of each Option including, but not limited to, the vesting schedule, the number of shares of Common Stock subject to the Option, the exercise price of the Option, the period during which the Option may be exercised, repurchase provisions, forfeiture provisions, methods of payment, and all other terms and conditions of the Option.

(b) Limitations on Incentive Stock Options. The aggregate Fair Market Value (determined as of the date of grant of an Option) of Common Stock which any Employee is first eligible to purchase during any calendar year by exercise of Incentive Stock Options granted under the Plan and by exercise of Incentive Stock Options granted under any other incentive stock option plan of the Company or a Subsidiary shall not exceed \$100,000. If the Fair Market Value of stock with respect to which all Incentive Stock Options described in the preceding sentence held by any one Optionee are exercisable for the first time by such Optionee during any calendar year exceeds \$100,000, the Options (that are intended to be Incentive Stock Options on the date of grant thereof) for the first \$100,000 worth of shares of Common Stock to become exercisable in such year shall be deemed to constitute Incentive Stock Options and the Options (that are intended to be Incentive Stock Options on the date of grant thereof) for the shares of Common Stock in the amount in excess of \$100,000 that become exercisable in that calendar year shall be treated as Non-Qualified Stock Options. If the Code or the Treasury regulations promulgated thereunder are amended after the effective date of the Plan to provide for a different limit than the one described in this Section 6(b), such different limit shall be incorporated herein and shall apply to any Options granted after the effective date of such amendment.

(c) Acquisitions and Other Transactions. Notwithstanding the provisions of Section 11(h), in the case of an Option issued or assumed pursuant to Section 11(h), the exercise price and number of shares for the Option shall be determined in accordance with the principles of Section 424(a) of the Code and the Treasury regulations promulgated thereunder.

(d) Payment on Exercise. Payment for the shares of Common Stock to be purchased upon exercise of an Option may be made in cash (by check) or, if elected by the Optionee where permitted by law: (i) if a public market for the Common Stock exists, through a same day sale arrangement between the Optionee and a NASD Dealer whereby the Optionee elects to exercise the Option and to sell a portion of the shares of Common Stock so purchased to pay for the exercise price and whereby the NASD Dealer commits upon receipt of such shares of Common Stock to forward the exercise price directly to the Company; (ii) if a public market for the Common Stock exists, through a margin commitment from the Optionee and an NASD Dealer whereby the Optionee elects to exercise the Option and to pledge the shares of Common Stock so purchased to the NASD Dealer in a margin account as security for a loan from the NASD Dealer in the amount of the exercise price, and whereby the NASD Dealer commits upon receipt of such shares of Common Stock to forward the exercise price directly to the Company; or (iii) by surrender for cancellation of Qualifying Shares at the Fair Market Value per share at the time of exercise (provided that such surrender does not result in an accounting charge for the Company). No shares of Common Stock may be issued until full payment of the purchase price therefor has been made.

7. RESTRICTED STOCK AWARDS.

(a) Restricted Stock Awards. A Restricted Stock Award is a grant of shares of Common stock for such consideration, if any, and subject to such restrictions on transfer, rights of first refusal, repurchase provisions, forfeiture provisions and other terms and conditions as are established by the Committee.

(b) Forfeiture Restrictions. Shares of Common Stock that are the subject of a Restricted Stock Award shall be subject to restrictions on disposition by the Grantee and to an obligation of the Grantee to forfeit and surrender the shares to the Company under certain circumstances (the Forfeiture

**Table of Contents**

ANNEX C

Restrictions ). The Forfeiture Restrictions shall be determined by the Committee in its sole discretion, and the Committee may provide that the Forfeiture Restrictions shall lapse on the passage of time, the attainment of one or more performance targets established by the Committee, or the occurrence of such other event or events determined to be appropriate by the Committee; provided, however, that except as provided in Section 11 hereof, (i) for a Restricted Stock Award based on the passage of time, the Forfeiture Restrictions shall lapse ratably over a minimum period of four years, and (ii) for a Restricted Stock Award based on performance criteria or any other event, the Forfeiture Restrictions shall not lapse prior to one year after grant of the Restricted Stock Award. The Forfeiture Restrictions applicable to a particular Restricted Stock Award (which may differ from any other such Restricted Stock Award) shall be stated in the Restricted Stock Agreement.

(c) Rights as Stockholder. Shares of Common Stock awarded pursuant to a Restricted Stock Award shall be represented by a stock certificate registered in the name of the Grantee of such Restricted Stock Award. The Grantee shall have the right to receive dividends with respect to the shares of Common Stock subject to a Restricted Stock Award, to vote the shares of Common Stock subject thereto and to enjoy all other stockholder rights with respect to the shares of Common Stock subject thereto, except that, unless provided otherwise in this Plan, or in the Restricted Stock Agreement, (i) the Grantee shall not be entitled to delivery of the shares of Common Stock except as the Forfeiture Restrictions expire, (ii) the Company or an escrow agent shall retain custody of the shares of Common Stock until the Forfeiture Restrictions expire, (iii) the Grantee may not sell, transfer, pledge, exchange, hypothecate or otherwise dispose of the shares of Common Stock until the Forfeiture Restrictions expire.

(d) Stock Certificate Delivery. One or more stock certificates representing shares of Common Stock, free of Forfeiture Restrictions, shall be delivered to the Grantee promptly after, and only after, the Forfeiture Restrictions have expired. The Grantee, by his or her acceptance of the Restricted Stock Award, irrevocably grants to the Company a power of attorney to transfer any shares so forfeited to the Company, agrees to execute any documents requested by the Company in connection with such forfeiture and transfer, and agrees that such provisions regarding transfers of forfeited shares shall be specifically performable by the Company in a court of equity or law.

(e) Payment for Restricted Stock. The Committee shall determine the amount and form of any payment for shares of Common Stock received pursuant to a Restricted Stock Award. In the absence of such a determination, the Grantee shall not be required to make any payment for shares of Common Stock received pursuant to a Restricted Stock Award, except to the extent otherwise required by law.

(f) Forfeiture of Restricted Stock. Unless otherwise provided in a Restricted Stock Agreement, on termination of the Grantee's employment or service prior to lapse of the Forfeiture Restrictions, the shares of Common Stock which are still subject to the Restricted Stock Award shall be forfeited by the Grantee. Upon any forfeiture, all rights of the Grantee with respect to the forfeited shares of the Common Stock subject to the Restricted Stock Award shall cease and terminate, without any further obligation on the part of the Company except to repay any purchase price per share paid by the Grantee for the shares forfeited.

(g) Waiver of Forfeiture Restrictions; Committee's Discretion. With respect to a Restricted Stock Award that has been granted to a Covered Employee where such Award has been designed to meet the exception for performance-based compensation under Section 162(m) of the Code, the Committee may not waive the Forfeiture Restrictions applicable to such Restricted Stock Award.

## 8. STOCK APPRECIATION RIGHTS.

(a) Stock Appreciation Rights. A Stock Appreciation Right is a right to receive, upon exercise of the right, shares of Common Stock or their cash equivalent in an amount equal to the increase in Fair Market Value of the Common Stock between the grant and exercise dates. As of the grant date of an Award of a Stock Appreciation Right, the Committee may specifically designate that the Award will be paid (i) only in cash, (ii) only in stock or (iii) in such other form or combination of forms as the Committee may elect or permit at the time of exercise.

**Table of Contents**

ANNEX C

(b) Tandem Rights. Stock Appreciation Rights may be granted in connection with the grant of an Option, in which case exercise of Stock Appreciation Rights will result in the surrender of the right to purchase the shares under the Option as to which the Stock Appreciation Rights were exercised. Alternatively, Stock Appreciation Rights may be granted independently of Options in which case each Award of Stock Appreciation Rights shall be evidenced by a Stock Appreciation Rights Agreement. With respect to Stock Appreciation Rights that are subject to Section 16 of the Exchange Act, the Committee shall retain sole discretion (i) to determine the form in which payment of the Stock Appreciation Right will be made (i.e., cash, securities or any combination thereof) or (ii) to approve an election by a Grantee to receive cash in full or partial settlement of Stock Appreciation Rights.

(c) Limitations on Exercise of Stock Appreciation Rights. A Stock Appreciation Right shall be exercisable in whole or in such installments and at such times as determined by the Committee.

9. PERFORMANCE SHARE AWARDS, PHANTOM STOCK AWARDS AND RESTRICTED STOCK UNIT AWARDS.

(a) Performance Share Awards. A Performance Share Award is a right to receive shares of Common Stock or their cash equivalent based on the attainment of pre-established performance goals and such other conditions, restrictions and contingencies as the Committee shall determine. Each Performance Share Award may have a maximum value established by the Committee at the time of such Award. The Committee shall establish, with respect to and at the time of each Performance Share Award, a performance period or periods over which the performance applicable to the Performance Share Award of the Grantee shall be measured; provided, however, that the minimum performance period shall be for one year after grant of the Performance Share Award. The Committee shall determine the effect of termination of employment or service during the performance period on a Grantee's Performance Share Award, which shall be set forth in the Award Agreement.

(b) Phantom Stock Awards. Phantom Stock Awards are rights to receive an amount equal to the Fair Market Value of shares of Common Stock or rights to receive an amount equal to any appreciation or increase in the Fair Market Value of the Common Stock over a specified period of time, which may vest over a period of time as established by the Committee, without payment of any amounts by the Grantee thereof (except to the extent otherwise required by law) or satisfaction of any performance criteria or objectives. Each Phantom Stock Award may have a maximum value established by the Committee at the time of such Award. The Committee shall establish, at the time of grant of each Phantom Stock Award, a period over which the Award shall vest with respect to the Grantee, and terms and conditions of forfeiture, which shall be set forth in the Award Agreement.

(c) Restricted Stock Unit Awards. Restricted Stock Unit Awards are Awards denominated in units evidencing the right to receive shares of Common Stock, which may vest over a period of time as established by the Committee, without payment of any amounts by the Grantee thereof (except to the extent otherwise required by law) or satisfaction of any performance criteria or objectives. The Committee shall establish, at the time of grant of each Restricted Stock Unit Award, a period over which the Award shall vest with respect to the Grantee, and terms and conditions of forfeiture, which shall be set forth in the Award Agreement.

(d) Payment. Following the end of the performance period of a Performance Share Award or the determined vesting period for a Phantom Stock Award or a Restricted Stock Unit Award, the Grantee shall be entitled to receive payment of an amount, not exceeding the maximum value of the Award, if any, based on (1) the achievement of the performance measures for such performance period for a Performance Share Award or (2) the then vested value of the Phantom Stock Award or the number of shares of Common Stock evidenced by the Restricted Stock Unit Award, each as determined by the Committee. If awarded, cash dividend equivalents may be paid during, or may be accumulated and paid at the end of, the vesting period with respect to Phantom Stock Awards or Restricted Stock Unit Awards, as determined by the Committee.

---

**Table of Contents**

ANNEX C

**10. CASH AWARDS AND PERFORMANCE AWARDS.**

(a) Cash Awards. In addition to granting Options, Stock Appreciation Rights, Restricted Stock Awards, Performance Share Awards, Phantom Stock Awards and Restricted Stock Unit Awards, the Committee shall, subject to the limitations of the Plan, have authority to grant Cash Awards. Each Cash Award shall be subject to such terms and conditions, restrictions and contingencies as the Committee shall determine. Restrictions and contingencies limiting the right to receive a cash payment pursuant to a Cash Award shall be based upon the achievement of single or multiple Performance Objectives over a performance period established by the Committee. The determinations made by the Committee pursuant to this Section 10(a) shall be specified in the applicable Award Agreement.

(b) Designation as a Performance Award. The Committee shall have the right to designate any Award of Options, Stock Appreciation Rights, Restricted Stock Awards, Performance Share Awards and Phantom Stock Awards as a Performance Award. All Cash Awards shall be designated as Performance Awards.

(c) Performance Objectives. The grant or vesting of a Performance Award shall be subject to the achievement of Performance Objectives over a performance period established by the Committee based upon one or more of the following business criteria that apply to the Grantee, one or more business units, divisions or Subsidiaries of the Company or the applicable sector of the Company, or the Company as a whole, and if so desired by the Committee, by comparison with a peer group of companies: revenue; increased revenue; net income measures (including income after capital costs and income before or after taxes); profit measures (including gross profit, operating profit, economic profit, net profit before taxes and adjusted pre-tax profit); stock price measures (including growth measures and total stockholder return); price per share of Common Stock; market share; earnings per share or adjusted earnings per share (actual or growth in); earnings; earnings before interest, taxes, depreciation, and amortization (EBITDA); earnings before interest and taxes (EBIT); economic value added (or an equivalent metric); market value added; debt to equity ratio; cash flow measures (including cash flow return on capital, cash flow return on tangible capital, net cash flow and net cash flow before financing activities); return measures (including return on equity, return on assets, return on capital, risk-adjusted return on capital, return on investors' capital and return on average equity); operating measures (including operating income, funds from operations, cash from operations, after-tax operating income; sales volumes, production volumes and production efficiency); expense measures (including overhead cost and general and administrative expense); changes in working capital; margins; stockholder value; total stockholder return; proceeds from dispositions; total market value; customer satisfaction or growth; employee satisfaction; and corporate values measures (including ethics compliance, environmental and safety). Unless otherwise stated, such a Performance Objective need not be based upon an increase or positive result under a particular business criterion and could include, for example, maintaining the status quo or limiting economic losses (measured, in each case, by reference to specific business criteria). The Committee shall have the authority to determine whether the Performance Objectives and other terms and conditions of the Award are satisfied, and the Committee's determination as to the achievement of Performance Objectives relating to a Performance Award shall be made in writing.

(d) Section 162(m) of the Code. Notwithstanding the foregoing provisions, if the Committee intends for a Performance Award to be granted and administered in a manner designed to preserve the deductibility of the compensation resulting from such Award in accordance with Section 162(m) of the Code, then the Performance Objectives for such particular Performance Award relative to the particular period of service to which the Performance Objectives relate shall be established by the Committee in writing (i) no later than 90 days after the beginning of such period and (ii) prior to the completion of 25% of such period.

(e) Waiver of Performance Objectives. The Committee shall have no discretion to modify or waive the Performance Objectives or conditions to the grant or vesting of a Performance Award unless such Award is not intended to qualify as qualified performance-based compensation under Section 162(m) of the Code and the relevant Award Agreement provides for such discretion.

**Table of Contents**

ANNEX C

11. GENERAL PROVISIONS REGARDING AWARDS.

(a) Form of Award Agreement. Each Award granted under the Plan shall be evidenced by a written Award Agreement in such form (which need not be the same for each Grantee) as the Committee from time to time approves but which is not inconsistent with the Plan, including any provisions that may be necessary to assure that Awards satisfy the requirements of Section 409A of the Code to avoid the imposition of excise taxes thereunder, and that any Option that is intended to be an Incentive Stock Option will comply with Section 422 of the Code.

(b) Awards Criteria. In determining the amount and value of Awards to be granted, the Committee may take into account the responsibility level, performance, potential, other Awards and such other considerations with respect to a Grantee as it deems appropriate.

(c) Date of Grant. The date of grant of an Award will be the date specified by the Committee as the effective date of the grant of an Award on or following the date the Committee determines to grant the Award or, if the Committee does not so specify, will be the date on which the Committee makes the determination to grant such Award.

(d) Stock Price. The exercise price or other measurement of stock value relative to any Award shall be not less than 100% of the Fair Market Value of the shares of Common Stock for the date of grant of the Award. The exercise price of any Incentive Stock Option granted to a Ten Percent Shareholder shall not be less than 110% of the Fair Market Value of the shares of Common Stock for the date of grant of the Option.

(e) Period of Award. Awards shall be exercisable or payable within the time or times or upon the event or events determined by the Committee and set forth in the Award Agreement. Unless otherwise provided in an Award Agreement, Awards other than Restricted Stock Awards or Restricted Stock Unit Awards shall terminate on (and no longer be exercisable or payable after) the earlier of: (i) ten (10) years from the date of grant; (ii) for an Incentive Stock Option granted to a Ten Percent Shareholder, five (5) years from the date of grant of the Option; (iii) the 30th day after the Grantee is no longer serving in any capacity as an Employee, Consultant or Director of the Company for a reason other than death of the Grantee, Disability or retirement at or after the Normal Retirement Age; (iv) one year after death; or (v) one year (with respect to an Incentive Option) or five years (with respect to any other Award) after Disability of the Grantee or after his or her retirement at or after the Normal Retirement Age from any capacity as an Employee, Consultant or Director of the Company.

(f) Acceleration of Vesting or Lapse of Restrictions. If the Grantee dies or becomes Disabled while serving as an Employee, Consultant or Director of the Company or retires at or after Normal Retirement Age, or if there occurs a Change in Control, then 100% of the benefits dependent upon lapse of time will become vested, all Forfeiture Restrictions and other forfeiture and repurchase provisions will lapse and, subject to meeting any performance or other criteria for such Award, such benefits will be available thereafter for purchase or payment during the Award term.

(g) Transferability. Awards granted under the Plan, and any interest therein, shall not be transferable or assignable by the Grantee, and may not be made subject to execution, attachment or similar process, otherwise than by will or by the laws of descent and distribution, and shall be exercisable or payable during the lifetime of the Grantee only by the Grantee; provided, that the Grantee may designate persons who or which may exercise or receive his Awards following his death. Notwithstanding the preceding sentence, Awards other than Incentive Stock Options may be transferred to such family members, family member trusts, family limited partnerships and other family member entities as the Committee, in its sole discretion, may approve prior to any such transfer. No such transfer will be approved by the Committee if the Common Stock issuable under such transferred Award would not be eligible to be registered on Form S-8 promulgated under the Securities Act.

**Table of Contents**

ANNEX C

(h) Acquisitions and Other Transactions. The Committee may, from time to time, approve the assumption of outstanding awards granted by another entity, whether in connection with an acquisition of such other entity or otherwise, by either (i) granting an Award under the Plan in replacement of or in substitution for the awards assumed by the Company, or (ii) treating the assumed award as if it had been granted under the Plan if the terms of such assumed award could be applied to an Award granted under the Plan. Such assumption shall be permissible if the holder of the assumed award would have been eligible to be granted an Award hereunder if the other entity had applied the rules of this Plan to such grant.

(i) Payment. Payment of an Award (i) may be made in cash, Common Stock or a combination thereof, as determined by the Committee in its sole discretion, (ii) shall be made in a lump sum or in installments as prescribed by the Committee in its sole discretion and (iii) to the extent applicable, shall be based on the Fair Market Value of the Common Stock for the payment or exercise date. The Committee may permit or require the deferral of payment, subject to such rules and procedures as it may establish, which may include provisions for the payment or crediting of interest, dividend equivalents or other forms of investment return; provided, however, that if deferral is permitted, each provision of the Award shall be interpreted to permit the deferral only as allowed in compliance with the requirements of Section 409A of the Code and any provision that would conflict with such requirements shall not be valid or enforceable. The Committee intends that any Awards under the Plan satisfy the requirements of Section 409A of the Code to avoid the imposition of excise taxes thereunder.

(j) Notice. If an Award involves an exercise, it may be exercised only by delivery to the Company of a written exercise notice approved by the Committee, stating the number of shares of Common Stock being exercised, the method of payment, and such other matters as may be deemed appropriate by the Company in connection with the issuance of shares upon exercise, together with payment in full of any exercise price for any shares being purchased.

(k) Withholding Taxes. The Committee may establish such rules and procedures as it considers desirable in order to satisfy any obligation of the Company to withhold the statutory prescribed minimum amount of federal or state income taxes or other taxes with respect to any Award granted under the Plan. Prior to issuance of any shares of Common Stock, the Grantee shall pay or make adequate provision acceptable to the Committee for the satisfaction of the statutory minimum prescribed amount of any federal or state income or other tax withholding obligations of the Company, if applicable. Upon exercise or payment of an Award, the Company shall withhold or collect from the Grantee an amount sufficient to satisfy such tax withholding obligations.

(l) Limitations on Exercise. The obligation of the Company to issue any shares of Common Stock or otherwise make payments hereunder shall be subject to the condition that any exercise and the issuance and delivery of such shares and other actions pursuant thereto comply with the Securities Act, all applicable state securities and other laws and the requirements of any stock exchange or national market system upon which the shares of Common Stock may then be listed or quoted, as in effect on the date of exercise. The Company shall be under no obligation to register the shares of Common Stock with the Securities and Exchange Commission or to effect compliance with the registration, qualification or listing requirements of any state securities laws or stock exchange or national market system, and the Company shall have no liability for any inability or failure to do so.

(m) Privileges of Stock Ownership. Except as provided in the Plan with respect to Restricted Stock Awards, no Grantee will have any of the rights of a shareholder with respect to any shares of Common Stock subject to an Award until such Award is properly exercised and the purchased or awarded shares are issued and delivered to the Grantee, as evidenced by an appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company. No adjustment shall be made for dividends or distributions or other rights for which the record date is prior to such date of issuance and delivery, except as provided in the Plan.

**Table of Contents**

ANNEX C

(n) Breach; Additional Terms. A breach of the terms and conditions of this Plan or established by the Committee pursuant to the Award Agreement shall cause a forfeiture of the Award. At the time of such Award, the Committee may, in its sole discretion, prescribe additional terms, conditions or restrictions relating to the Award, including provisions pertaining to the termination of the Grantee's employment (by retirement, Disability, death or otherwise) prior to expiration of the Forfeiture Restrictions or other vesting provisions. Such additional terms, conditions or restrictions shall also be set forth in an Award Agreement made in connection with the Award.

(o) Prohibition on Repricing of Awards. Except as provided in Section 12, the terms of outstanding Awards may not be amended to reduce the exercise price of outstanding Options or Stock Appreciation Rights or cancel outstanding Options or Stock Appreciation Rights in exchange for cash, other awards or Options or Stock Appreciation Rights with an exercise price that is less than the exercise price of the original Options or Stock Appreciation Rights without stockholder approval.

12. ADJUSTMENT UPON CHANGES IN CAPITALIZATION AND CORPORATE EVENTS.

(a) Capital Adjustments. The number of shares of Common Stock (i) covered by each outstanding Award granted under the Plan, the exercise, target or purchase price of such outstanding Award, and any other terms of the Award that the Committee determines requires adjustment and (ii) available for issuance under Section 3 shall be adjusted to reflect, as deemed appropriate by the Committee, any increase or decrease in the number of shares of Common Stock resulting from a stock dividend, stock split, reverse stock split, combination, reclassification or similar change in the capital structure of the Company without receipt of consideration, subject to any required action by the Board or the shareholders of the Company and compliance with applicable securities laws; provided, however, that a fractional share will not be issued upon exercise of any Award, and either (i) any fraction of a share of Common Stock that would have resulted will be cashed out at Fair Market Value or (ii) the number of shares of Common Stock issuable under the Award will be rounded up to the nearest whole number, as determined by the Committee.

(b) Change in Control. Unless specifically provided otherwise with respect to Change in Control events in an individual Award or Award Agreement or in a then-effective written employment agreement between the Grantee and the Company or a Subsidiary, if, during the effectiveness of the Plan, a Change in Control occurs, (i) each Award which is at the time outstanding under the Plan shall automatically become fully vested and exercisable or payable, as appropriate, and be released from any repurchase or forfeiture provisions, for all of the shares of Common Stock at the time represented by such Award, (ii) the Forfeiture Restrictions applicable to all outstanding Restricted Stock Awards shall lapse and shares of Common Stock subject to such Restricted Stock Awards shall be released from escrow, if applicable, and delivered to the Grantees of the Awards free of any Forfeiture Restriction, and (iii) all other Awards shall become fully vested and payment thereof shall be accelerated using, if applicable, the then-current Fair Market Value to measure any payment that is based on the value of the Common Stock or using such higher amount as the Committee may determine to be more reflective of the actual value of such stock.

(c) Section 409A Adjustments. No adjustment or substitution pursuant to this Section 12 shall be made in a manner that results in noncompliance with the requirements of Section 409A of the Code, to the extent applicable.

13. ADMINISTRATION. This Plan shall be administered by the Committee. The Committee shall interpret the Plan and any Awards granted pursuant to the Plan and shall prescribe such rules and regulations in connection with the operation of the Plan as it determines to be advisable for the administration of the Plan. The Committee may rescind and amend its rules and regulations from time to time. The interpretation by the Committee of any of the provisions of this Plan or any Award granted under this Plan shall be final and binding upon the Company and all persons having an interest in any Award or any shares of Common Stock or other payments received pursuant to an Award.

14. EFFECT OF PLAN. Neither the adoption of the Plan nor any action of the Board or the Committee shall be deemed to give any Employee, Director or Consultant any right to be granted an Award

**Table of Contents**

ANNEX C

or any other rights except as may be evidenced by the Award Agreement, or any amendment thereto, duly authorized by the Committee and executed on behalf of the Company, and then only to the extent and on the terms and conditions expressly set forth therein. The existence of the Plan and the Awards granted hereunder shall not affect in any way the right of the Board, the Committee or the stockholders of the Company to make or authorize any adjustment, recapitalization, reorganization or other change in the Company's capital structure or its business, any merger or consolidation or other transaction involving the Company, any issue of bonds, debentures, or shares of preferred stock ranking prior to or affecting the Common Stock or the rights thereof, the dissolution or liquidation of the Company or any sale or transfer of all or any part of the Company's assets or business, or any other corporate act or proceeding by or for the Company. Nothing contained in the Plan or in any Award Agreement or in other related documents shall confer upon any Employee, Director or Consultant any right with respect to such person's service or interfere or affect in any way with the right of the Company or a Subsidiary to terminate such person's employment or service at any time, with or without cause.

15. NO EFFECT ON RETIREMENT AND OTHER BENEFIT PLANS. Except as specifically provided in a retirement or other benefit plan of the Company or a Subsidiary, Awards shall not be deemed compensation for purposes of computing benefits or contributions under any retirement plan of the Company or a Subsidiary, and shall not affect any benefits under any other benefit plan of any kind or any benefit plan subsequently instituted under which the availability or amount of benefits is related to level of compensation.

16. AMENDMENT OR TERMINATION OF PLAN. The Board in its discretion may, at any time or from time to time after the date of adoption of the Plan, terminate or amend the Plan in any respect, including amendment of any form of agreement or instrument to be executed pursuant to the Plan; provided, however, that the Company shall obtain stockholder approval of any amendment of the Plan that changes its terms and provisions in a manner materially adverse to the Company and, if an amendment of the Plan otherwise requires shareholder approval to comply with the Code, including Sections 162(m) and 422 of the Code, or other applicable laws and regulations or the applicable requirements of any stock exchange or national market system, the Company shall obtain stockholder approval of any Plan amendment in such manner and to such a degree as required. No Award may be granted after termination of the Plan. Any amendment or termination of the Plan shall not adversely affect Awards previously granted, and such Awards shall otherwise remain in full force and effect as if the Plan had not been amended or terminated, unless mutually agreed otherwise in a writing signed by the Grantee and the Company.

17. EFFECTIVE DATE AND TERM OF PLAN. The Plan as set forth herein shall continue in effect for a term of ten (10) years after the Effective Date unless sooner terminated by action of the Board.

18. GOVERNING LAW. The Plan shall be construed and interpreted in accordance with the laws of the State of Texas.

19. DEFINITIONS. As used herein, unless the context requires otherwise, the following terms shall have the meanings indicated below:

- (a) Award means any right granted under the Plan, whether granted singly or in combination, to a Grantee pursuant to the terms, conditions and limitations that the Committee may establish.
- (b) Award Agreement means a written agreement, which may be in electronic form, with a Grantee with respect to any Award.
- (c) Board means the Board of Directors of the Company.
- (d) Cash Award means an Award granted under Section 10(a) of the Plan.
- (e) Change in Control of the Company means the occurrence of any of the following events: (i) any person (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) is



**Table of Contents**

## ANNEX C

or becomes the beneficial owner (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 20 percent or more of the combined voting power of the Company's then outstanding securities; (ii) as a result of, or in connection with, any tender offer or exchange offer, merger, or other business combination (a Transaction), the persons who were directors of the Company immediately before the Transaction shall cease to constitute a majority of the Board of Directors of the Company or any successor to the Company; (iii) the Company is merged or consolidated with another corporation or transfers substantially all of its assets to another corporation and as a result of the merger, consolidation or transfer less than 50 percent of the outstanding voting securities of the surviving or resulting corporation shall then be owned in the aggregate by the former stockholders of the Company; or (iv) a tender offer or exchange offer is made and consummated for the ownership of securities of the Company representing 30 percent or more of the combined voting power of the Company's then outstanding voting securities.

(f) Code means the Internal Revenue Code of 1986, as amended, and any successor statute. Reference in the Plan to any section of the Code shall be deemed to include any amendments or successor provisions to such section and any Treasury regulations promulgated under such section.

(g) Committee means the committee, (or committees), as constituted from time to time, of the Board that is appointed by the Board to administer the Plan; provided, however, that while the Common Stock is publicly traded, the Committee shall be a committee of the Board consisting solely of two or more Outside Directors, in accordance with Section 162(m) of the Code, and/or solely of two or more Non-Employee Directors, in accordance with Rule 16b-3, as necessary in each case to satisfy such requirements with respect to Awards granted under the Plan. Within the scope of such authority, the Board or the Committee may delegate to a committee of one or more members of the Board who are or are not Non-Employee Directors the authority to grant Awards to eligible persons who are not then subject to Section 16 of the Exchange Act, and the term Committee as used herein shall also be applicable to such committee. The Board may assume any or all of the powers and responsibilities prescribed for the Committee, and to the extent it does so, the term Committee as used herein shall also be applicable to the Board.

(h) Common Stock means the Common Stock, \$0.01 par value per share, of the Company or the common stock that the Company may in the future be authorized to issue in replacement or substitution thereof.

(i) Company means NCI Building Systems, Inc., a Delaware corporation.

(j) Consultant means any person who is engaged by the Company or any Subsidiary to render consulting or advisory services to the Company or such Subsidiary and who is a consultant or advisor within the meaning of Rule 701 promulgated under the Securities Act or Form S-8 promulgated under the Securities Act.

(k) Covered Employee means the chief executive officer and the four other most highly compensated officers of the Company for whom total compensation is required to be reported to stockholders under Regulation S-K, as determined for purposes of Section 162(m) of the Code.

(l) Director means a member of the Board or the board of directors of a Subsidiary.

(m) Disability means the disability of a person as defined in a then effective long-term disability plan maintained by the Company that covers such person, or if such a plan does not exist at any relevant time, Disability means the permanent and total disability of a person within the meaning of Section 22(e)(3) of the Code. For purposes of determining the time during which an Incentive Stock Option may be exercised under the terms of an Option Agreement, Disability means the permanent and total disability of a person within the meaning of section 22(e)(3) of the Code. Section 22(e)(3) of the Code provides that an individual is totally and permanently disabled if he is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than twelve (12) months.

---

**Table of Contents**

ANNEX C

- (n) **Effective Date** means the date on which the Plan, as amended and restated herein, is approved by the stockholders of the Company.
- (o) **Employee** means any person who is employed, within the meaning of Section 3401 of the Code, by the Company or a Subsidiary. The term **Employee** shall also include officers of the Company and its Subsidiaries. The provision of compensation by the Company or a Subsidiary to a Director solely with respect to such individual rendering services in the capacity of a Director shall not be sufficient to constitute **employment** by the Company or that Subsidiary.
- (p) **Exchange Act** means the Securities Exchange Act of 1934, as amended, and any successor statute. Reference in the Plan to any section of the Exchange Act shall be deemed to include any amendments or successor provisions to such section and any rules and regulations relating to such section.
- (q) **Fair Market Value** means, as of any date, the value of the Common Stock determined as follows:
- (i) (If the Common Stock is listed on any established stock exchange or traded on the Nasdaq National Market or the Nasdaq SmallCap Market, the Fair Market Value of a share of Common Stock shall be the closing sales price for such a share of Common Stock (or the closing bid, if no sales were reported) as quoted on such exchange or market (or the exchange or market with the greatest volume of trading in the Common Stock) on the day of determination, or if no prices are quoted on such date, on the last market trading day prior to the day of determination, as reported in The Wall Street Journal or such other source as the Committee deems reliable.
- (ii) In the absence of any such established markets for the Common Stock, the Fair Market Value shall be determined in good faith by the Committee.
- (r) **Grantee** means an Employee, Director or Consultant to whom an Award has been granted under the Plan.
- (s) **Incentive Stock Option** means an Option granted to an Employee under the Plan that meets the requirements of Section 422 of the Code.
- (t) **NASD Dealer** means a broker-dealer that is a member of the National Association of Securities Dealers, Inc.
- (u) **Non-Employee Director** means a Director of the Company who either (i) is not an Employee, does not receive compensation (directly or indirectly) from the Company or a Subsidiary in any capacity other than as a Director (except for an amount as to which disclosure would not be required under Item 404(a) of Regulation S-K), does not possess an interest in any other transaction as to which disclosure would be required under Item 404(a) of Regulation S-K and is not engaged in a business relationship as to which disclosure would be required under Item 404(b) of Regulation S-K or (ii) is otherwise considered a **non-employee director** for purposes of Rule 16b-3.
- (v) **Non-Qualified Stock Option** means an Option granted under the Plan that is not intended to be an Incentive Stock Option.
- (w) **Normal Retirement Age** means the age established by the Board from time to time as the normal age for retirement of a Director or Employee, as applicable. In the absence of a determination by the Board with respect to any class of Grantee, the Normal Retirement Age shall be deemed to be 65 years of age.
- (x) **Option** means an award granted under Section 6 of the Plan.

---

**Table of Contents**

ANNEX C

- (y) **Option Agreement** means a written agreement with a Grantee with respect to the Award of an Option.
- (z) **Optionee** means an individual to whom an Option has been granted under the Plan.
- (aa) **Outside Director** means a Director of the Company who either (i) is not a current employee of the Company or a Subsidiary corporation (within the meaning of the Treasury regulations promulgated under Section 162(m) of the Code), is not a former employee of the Company or a Subsidiary corporation receiving compensation for prior services (other than benefits under a tax qualified pension plan), has not been an officer of the Company or a Subsidiary corporation at any time and is not currently receiving (within the meaning of the Treasury regulations promulgated under Section 162(m) of the Code) direct or indirect remuneration from the Company or a Subsidiary corporation for services in any capacity other than as a Director, or (ii) is otherwise considered an outside director for purposes of Section 162(m) of the Code.
- (bb) **Performance Award** means an Award made pursuant to Section 10 of the Plan to a Grantee that is subject to the attainment of one or more Performance Objectives.
- (cc) **Performance Objective** means a standard established by the Committee to determine in whole or in part whether a Performance Award shall be earned.
- (dd) **Performance Share Award** means an Award granted under Section 9(a) of the Plan.
- (ee) **Phantom Stock Award** means an Award granted under Section 9(b) of the Plan.
- (ff) **Plan** means this NCI Building Systems, Inc. 2003 Long-Term Stock Incentive Plan, as set forth herein and as it may be amended from time to time.
- (gg) **Qualifying Shares** means shares of Common Stock which either (i) have been owned by the Grantee for more than six (6) months and have been paid for within the meaning of Rule 144 promulgated under the Securities Act, or (ii) were obtained by the Grantee in the public market.
- (hh) **Regulation S-K** means Regulation S-K promulgated under the Securities Act, as it may be amended from time to time, and any successor to Regulation S-K. Reference in the Plan to any item of Regulation S-K shall be deemed to include any amendments or successor provisions to such item.
- (ii) **Restricted Stock Agreement** means a written agreement with a Grantee with respect to a Restricted Stock Award.
- (jj) **Restricted Stock Award** means an Award granted under Section 7 of the Plan.
- (kk) **Restricted Stock Unit Award** means an Award granted under Section 9(c) of the Plan.
- (ll) **Rule 16b-3** means Rule 16b-3 promulgated under the Exchange Act, as it may be amended from time to time, and any successor to Rule 16b-3.
- (mm) **Section** means a section of the Plan unless otherwise stated or the context otherwise requires.
- (nn) **Securities Act** means the Securities Act of 1933, as amended, and any successor statute. Reference in the Plan to any section of the Securities Act shall be deemed to include any amendments or successor provisions to such section and any rules and regulations relating to such section.

**Table of Contents**

ANNEX C

(oo) Stock Appreciation Right means an Award granted under Section 8 of the Plan.

(pp) Stock Appreciation Rights Agreement means a written agreement with a Grantee with respect to an Award of Stock Appreciation Rights.

(qq) Subsidiary means (i) for purposes of Awards other than Incentive Stock Options, any corporation, partnership or other entity of which a majority of the voting equity securities or equity interest is owned, directly or indirectly, by the Company, and (ii) with respect to an Option that is intended to be an Incentive Stock Option, any subsidiary corporation of the Company as defined in Section 424(f) of the Code, any other entity that is taxed as a corporation under Section 7701(a)(3) of the Code and is a member of the Subsidiary group as defined in Section 1504(a) of the Code of which the Company is the common parent, and any other entity that may be permitted from time to time by the Code or by the Internal Revenue Service to be an employer of Employees to whom Incentive Stock Options may be granted.

(rr) Ten Percent Shareholder means a person who owns (or is deemed to own pursuant to Section 424(d) of the Code) at the time an Option is granted stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or of any of its Subsidiaries.

C-13

**Table of Contents**

**NCI BUILDING SYSTEMS, INC.**

.. Mark this box with an X if you have made changes to your name or address details above.

**Annual Meeting Proxy Card**

**A. Election of Directors**

1. The Board of Directors recommends a vote FOR the listed nominees.

	For	Withhold
01 Larry D. Edwards (term will expire in 2012)	..	..
02 Ed L. Phipps (term will expire in 2012)	..	..
03 W. Bernard Pieper (term will expire in 2012)	..	..
04 John K. Sterling (term will expire in 2012)	..	..

**B. Approval of 2003 Amended and Restated Long-Term Stock Incentive Plan**

1. The Board of Directors recommends a vote FOR approval of the 2003 Long-Term Stock Incentive Plan, as Amended and Restated.

For	Against	Abstain
..	..	..

**C. Ratification of Auditors**

1. The Board of Directors recommends a vote FOR ratification of Ernst & Young LLP for Fiscal 2009.

For	Against	Abstain
..	..	..

**D. Authorized Signatures Sign Here This section must be completed for your instructions to be executed.**

Please sign your name exactly as it appears above. Joint owners must each sign. When signing as an attorney, administrator, executor, guardian or trustee, please add your title as such. If held by a corporation, please sign in full corporate name by the president or other authorized officer. If held by a partnership, please sign in the partnership's name by an authorized partner or officer.

Signature 1 Please keep signature within the box

Signature 2 Please keep signature within the box

Date (mm/dd/yyyy)

**Table of Contents**

**PROXY NCI BUILDING SYSTEMS, INC.**

**THIS PROXY IS SOLICITED BY THE NCI BUILDING SYSTEMS, INC. BOARD OF DIRECTORS.**

**Proxy for Annual Meeting of Stockholders**

**March 12, 2009 10:00 A.M.**

The share owner(s) whose signature(s) appear(s) on the reverse side of this Proxy hereby appoint(s) Norman C. Chambers and Todd R. Moore with or without others, proxies with full power of substitution and resubstitution to vote all shares of common stock that the share owner(s) would be entitled to vote at the Annual Meeting of Stockholders of NCI Building Systems, Inc. (the Company), to be held on Thursday, March 12, 2009 at 10:00 a.m., local time, at the NCI Conference Center located at 7313 Fairview, Houston, Texas 77041, and at any reconvened meeting following any adjournment or postponement thereof, as follows on the reverse side. Receipt of the Notice of Annual Meeting of Stockholders and the Proxy Statement dated February 4, 2009 is hereby acknowledged.

This Proxy is to be voted as specified on the reverse side. If no specification is made, this Proxy is to be voted FOR the nominees listed in Item A, FOR approval of the 2003 Amended and Restated Long-Term Stock Incentive Plan and FOR ratification of Ernst & Young LLP for fiscal 2009 and IN THE DISCRETION OF THE PROXIES upon such other business as may properly come before the meeting.

**PLEASE COMPLETE, SIGN, DATE AND PROMPTLY RETURN THE PROXY CARD USING THE ENCLOSED ENVELOPE. NO POSTAGE IS REQUIRED IF MAILED IN THE UNITED STATES.**