

Builders FirstSource, Inc.  
Form 10-Q  
May 04, 2012

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**Form 10-Q**

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

**For the quarterly period ended March 31, 2012**

**OR**

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

**For the transition period from        to**

**Commission File Number 0-51357**

**BUILDERS FIRSTSOURCE, INC.**

*(Exact name of registrant as specified in its charter)*

**Delaware**  
*(State or other jurisdiction of  
incorporation or organization)*

**52-2084569**  
*(I.R.S. Employer  
Identification No.)*

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**2001 Bryan Street, Suite 1600**

**Dallas, Texas**  
*(Address of principal executive offices)*

**(214) 880-3500**

**75201**  
*(Zip Code)*

*(Registrant's telephone number, including area code)*

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

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

The number of shares of the issuer's common stock, par value \$0.01, outstanding as of May 2, 2012 was 96,683,747.

**BUILDERS FIRSTSOURCE, INC.**

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## PART I FINANCIAL INFORMATION

## Item 1. Financial Statements (unaudited)

## BUILDERS FIRSTSOURCE, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

	Three Months Ended March 31,	
	2012	2011
	(Unaudited)	
	(In thousands,	
	except per share amounts)	
Sales	\$ 219,389	\$ 162,829
Cost of sales	174,270	131,396
Gross margin	45,119	31,433
Selling, general and administrative expenses	50,961	46,723
Loss from operations	(5,842)	(15,290)
Interest expense, net	13,105	5,875
Loss from continuing operations before income taxes	(18,947)	(21,165)
Income tax expense (benefit)	174	(17)
Loss from continuing operations	(19,121)	(21,148)
Loss from discontinued operations (net of income tax benefit of \$0 in 2012 and 2011)	(67)	(101)
Net loss	\$ (19,188)	\$ (21,249)
Comprehensive loss	\$ (19,188)	\$ (20,870)
<i>Basic and diluted net loss per share:</i>		
Loss from continuing operations	\$ (0.20)	\$ (0.22)
Loss from discontinued operations	(0.00)	(0.00)
Net loss	\$ (0.20)	\$ (0.22)
<i>Weighted average common shares outstanding:</i>		
Basic and diluted	95,261	94,904

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

**BUILDERS FIRSTSOURCE, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS**

	March 31, 2012	December 31, 2011
	(Unaudited)	
	(In thousands, except per share amounts)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 129,629	\$ 146,833
Restricted cash	13,378	13,229
Accounts receivable, less allowances of \$2,201 and \$2,138 at March 31, 2012 and December 31, 2011, respectively	93,736	76,429
Inventories	82,075	73,327
Other current assets	8,719	9,843
Total current assets	327,537	319,661
Property, plant and equipment, net	47,240	48,224
Goodwill	111,193	111,193
Other assets, net	9,349	9,725
Total assets	\$ 495,319	\$ 488,803
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 65,449	\$ 48,618
Accrued liabilities	30,290	25,183
Current maturities of long-term debt	56	54
Total current liabilities	95,795	73,855
Long-term debt, net of current maturities	297,769	297,455
Other long-term liabilities	19,314	16,269
Total liabilities	412,878	387,579
Commitments and contingencies (Note 6)		
Stockholders' equity:		
Preferred stock, \$0.01 par value, 10,000 shares authorized; zero shares issued and outstanding at March 31, 2012 and December 31, 2011, respectively		
Common stock, \$0.01 par value, 200,000 shares authorized; 96,644 and 96,806 shares issued and outstanding at March 31, 2012 and December 31, 2011, respectively	954	950
Additional paid-in capital	360,151	359,750
Accumulated deficit	(278,664)	(259,476)
Total stockholders' equity	82,441	101,224
Total liabilities and stockholders' equity	\$ 495,319	\$ 488,803

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

## BUILDERS FIRSTSOURCE, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended March 31, 2012                  2011 (Unaudited) (In thousands)	
Cash flows from operating activities:		
Net loss	\$ (19,188)	\$ (21,249)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	2,850	3,685
Amortization of deferred loan costs	171	209
Amortization of debt discount	328	-
Fair value adjustment of stock warrants	3,148	-
Deferred income taxes	116	(66)
Bad debt expense	62	147
Stock compensation expense	803	1,051
Net gain on sales of assets	(31)	(165)
Changes in assets and liabilities:		
Receivables	(17,369)	(12,169)
Inventories	(8,748)	(8,949)
Other current assets	1,124	777
Other assets and liabilities	(723)	(512)
Accounts payable	16,831	10,327
Accrued liabilities	5,721	1,584
Net cash used in operating activities	(14,905)	(25,330)
Cash flows from investing activities:		
Purchases of property, plant and equipment	(1,746)	(527)
Proceeds from sale of property, plant and equipment	31	252
Decrease in restricted cash	114	-
Net cash used in investing activities	(1,601)	(275)
Cash flows from financing activities:		
Payments of long-term debt and other loans	(13)	(12)
Deferred loan costs	(287)	-
Exercise of stock options	98	-
Repurchase of common stock	(496)	(2)
Net cash used in financing activities	(698)	(14)
Net change in cash and cash equivalents	(17,204)	(25,619)
Cash and cash equivalents at beginning of period	146,833	103,234
Cash and cash equivalents at end of period	\$ 129,629	\$ 77,615

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

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**BUILDERS FIRSTSOURCE, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(unaudited)

**1. Basis of Presentation**

Builders FirstSource, Inc., a Delaware corporation formed in 1998, is a leading supplier and manufacturer of structural and related building products for residential new construction in the United States. In this quarterly report, references to the company, we, our, ours or us refer to Builders FirstSource, Inc. and its consolidated subsidiaries, unless otherwise stated or the context otherwise requires.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements include all recurring adjustments and normal accruals necessary for a fair statement of the company's financial position, results of operations and cash flows for the dates and periods presented. Results for interim periods are not necessarily indicative of the results to be expected during the remainder of the current year or for any future period. All significant intercompany accounts and transactions have been eliminated in consolidation.

The condensed consolidated balance sheet as of December 31, 2011 is derived from the audited consolidated financial statements but does not include all disclosures required by accounting principles generally accepted in the United States of America. This condensed consolidated balance sheet as of December 31, 2011 and the unaudited condensed consolidated financial statements included herein should be read in conjunction with the more detailed audited consolidated financial statements for the year ended December 31, 2011 included in our most recent annual report on Form 10-K. Accounting policies used in the preparation of these unaudited condensed consolidated financial statements are consistent with the accounting policies described in the Notes to Consolidated Financial Statements included in our Form 10-K.

**2. Net Loss per Common Share**

Net loss per common share (EPS) is calculated in accordance with the *Earnings per Share* topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (Codification), which requires the presentation of basic and diluted EPS. Basic EPS is computed using the weighted average number of common shares outstanding during the period. Diluted EPS is computed using the weighted average number of common shares outstanding during the period, plus the dilutive effect of potential common shares.

Our restricted stock shares include rights to receive dividends that are not subject to the risk of forfeiture even if the underlying restricted stock shares on which the dividends were paid do not vest. In accordance with the *Earnings per Share* topic of the Codification, unvested share-based payment awards that contain non-forfeitable rights to dividends are deemed participating securities and should be considered in the calculation of basic EPS. Since the restricted stock shares do not include an obligation to share in losses, they will be included in our basic EPS calculation in periods of net income and excluded from our basic EPS calculation in periods of net loss. Accordingly, there were 1.2 million and 1.9 million restricted stock shares excluded from the computations of basic EPS for the three months ended March 31, 2012 and 2011, respectively, because we generated a net loss. For the purpose of computing diluted EPS, options to purchase 5.6 million and 5.9 million shares of common stock were not included in the computations of diluted EPS for the three months ended March 31, 2012 and 2011, respectively, because their effect was anti-dilutive. Warrants to purchase 1,600,000 shares of common stock were not included in the computation of diluted EPS for the three months ended March 31, 2012 because their effect was anti-dilutive. No warrants were outstanding in the three months ended March 31, 2011.

**3. Debt**

Long-term debt consisted of the following (in thousands):

	March 31, 2012	December 31, 2011
Term loan	\$ 160,000	\$ 160,000
Floating rate notes	139,718	139,718
Other long-term debt	4,073	4,085
	303,791	303,803
Unamortized debt discount	(5,966)	(6,294)
	297,825	297,509
Less: current portion of long-term debt	56	54
Total long-term debt, net of current maturities	\$ 297,769	\$ 297,455

We issued detachable warrants in connection with the term loan entered into in 2011. These warrants, which allow for the purchase of up to 1.6 million shares of our common stock at a price of \$2.50 per share, were exercisable immediately upon issuance and expire in December 2018.

In the past, we entered into interest rate swaps in order to mitigate a portion of the interest rate risk that we were exposed to in the normal course of business on our floating rate notes. We had two interest rate swap agreements with notional amounts of \$100 million and \$50 million, which expired in May 2011.

The only financial instruments measured at fair value on a recurring basis were our warrants and the expired interest rate swaps.

The table below presents the effect of our derivative financial instruments on the condensed consolidated statements of operations for the three months ended March 31 (in thousands):

Derivatives Not Designated as Hedging Instruments	Location of Loss Recognized in Income	Amount of Loss Recognized in Income*	
		Three Months Ended March 31, 2012	2011
Interest rate swaps	Interest expense, net	\$ -	\$ (386)
Warrants	Interest expense, net	(3,148)	-
Total		\$ (3,148)	\$ (386)

\* Net of tax

We use the income approach to value our warrants by using the Black-Scholes option-pricing model. Using this model, the risk-free interest rate is based on the U.S. Treasury yield curve in effect on the valuation date. The expected life is based on the period of time until the expiration of the warrants. Expected volatility is based on the historical volatility of our common stock over the most recent period equal to the expected life of the warrants. The expected dividend yield is based on our history of not paying regular dividends in the past and our current intention to not pay regular dividends in the foreseeable future.

We do not trade in swaps or hold them for speculative purposes, therefore, the retail market that exists for swaps would have been the most advantageous market for our interest rate swaps. As such, we used the market approach to value our interest rate swaps by obtaining a quote from the counterparty that was based on a discounted cash flow analysis which incorporated information obtained from third-party market sources and was adjusted for company specific credit risk. We validated the fair value quote obtained from the counterparty by using an independent, third-party discounted cash flow analysis which also utilized market information. In addition to the term and notional amount inputs, the valuation also factored in discount rate, forward yield curves, and credit risk.



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These techniques incorporate Level 1 and Level 2 inputs. Significant inputs to the derivative valuation for interest rate swaps and warrants are observable in the active markets and are classified as Level 2 in the hierarchy.

The following fair value hierarchy table presents information about our financial instruments measured at fair value on a recurring basis using significant other observable inputs (Level 2) (in thousands):

	Carrying Value As of March 31, 2012	Fair Value Measurement as of March 31, 2012	Carrying Value As of December 31, 2011	Fair Value Measurement as of December 31, 2011
Warrants (included in Other long-term liabilities)	\$ 5,484	\$ 5,484	\$ 2,336	\$ 2,336

We have elected to continue to report the value of our term loan and floating rate notes at amortized cost. The fair value of the floating rate notes at March 31, 2012, was approximately \$125.7 million and was determined using Level 2 inputs based on market prices. The carrying value of the term loan at March 31, 2012, approximates fair value as the term loan agreement contains a variable interest rate and the value of qualified cash and specified collateral exceeded the minimum value required per the agreement. As such, the fair value measurement of the term loan was also classified as Level 2 in the hierarchy.

#### 4. Comprehensive Loss

The following table presents the components of comprehensive loss for the three months ended March 31, 2012 and 2011 (in thousands):

	Three Months Ended March 31,	
	2012	2011
Net loss	\$ (19,188)	\$ (21,249)
Other comprehensive income changes related to interest rate swap agreements, net of related tax effect	-	379
Total comprehensive loss	\$ (19,188)	\$ (20,870)

#### 5. Income Taxes

In accordance with the *Income Taxes* topic of the Codification, we evaluate our deferred tax assets quarterly to determine if a valuation allowance is required. The *Income Taxes* topic requires that companies assess whether valuation allowances should be established based on the consideration of all available evidence. We recorded an additional valuation allowance of \$7.0 million and \$8.1 million for the three months ended March 31, 2012 and 2011, respectively, related to the net deferred tax assets generated by our loss from continuing operations.

To the extent we generate sufficient taxable income in the future to fully utilize the tax benefits of the net deferred tax assets on which a valuation allowance is recorded, our effective tax rate may decrease as the valuation allowance is reversed. However, to the extent we generate future operating losses, we would be required to increase the valuation allowance on our net deferred tax assets and our income tax expense will be adversely affected.

#### 6. Commitments and Contingencies

We are a party to various legal proceedings in the ordinary course of business. Although the ultimate disposition of these proceedings cannot be predicted with certainty, management believes the outcome of any claim that is pending or threatened, either individually or on a combined basis, will not have a material adverse effect on our consolidated financial position, cash flows or results of operations. However, there can be no assurances that future costs would not be material to our results of operations or liquidity for a particular period.

**7. Segment and Product Information**

We have three regional operating segments Atlantic, Southeast and Central with centralized financial and operational oversight. We believe that these operating segments meet the aggregation criteria prescribed in the *Segment Reporting* topic of the Codification, and thus have one reportable segment.

Sales by product category for the three month periods ended March 31, 2012 and 2011 were as follows (in thousands):

	<b>Three Months Ended March 31,</b>	
	<b>2012</b>	<b>2011</b>
Prefabricated components	\$ 43,449	\$ 30,783
Windows & doors	49,726	38,265
Lumber & lumber sheet goods	66,430	48,110
Millwork	21,403	17,691
Other building products & services	38,381	27,980
 Total sales	 \$ 219,389	 \$ 162,829

**8. Recent Accounting Pronouncements**

There were no new accounting pronouncements or changes to existing guidance that were applicable to us.

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The following discussion of our financial condition and results of operations should be read in conjunction with the Management's

Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and notes thereto for the year ended December 31, 2011 included in our most recent annual report on Form 10-K. The following discussion and analysis should also be read in conjunction with the unaudited condensed consolidated financial statements appearing elsewhere in this report. In this quarterly report on Form 10-Q, references to the company, we, our, ours or us refer to Builders FirstSource, Inc. and its consolidated subsidiaries, unless otherwise stated or the context otherwise requires.

**Cautionary Statement**

Statements in this report which are not purely historical facts or which necessarily depend upon future events, including statements regarding our anticipations, beliefs, expectations, hopes, intentions or strategies for the future, may be forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. All forward-looking statements in this report are based upon information available to us on the date of this report. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Any forward-looking statements made in this report involve risks and uncertainties that could cause actual events or results to differ materially from the events or results described in the forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements. In addition, oral statements made by our directors, officers and employees to the investor and analyst communities, media representatives and others, depending upon their nature, may also constitute forward-looking statements. As with the forward-looking statements included in this report, these forward-looking statements are by nature inherently uncertain, and actual results may differ materially as a result of many factors. Further information regarding the risk factors that could affect our financial and other results are included as Item 1A of our annual report on Form 10-K.

**COMPANY OVERVIEW**

We are a leading supplier and manufacturer of structural and related building products for residential new construction in the U.S. We offer an integrated solution to our customers providing manufacturing, supply and installation of a full range of structural and related building products. Our manufactured products include our factory-built roof and floor trusses, wall panels and stairs, aluminum and vinyl windows, custom millwork and trim, as well as engineered wood that we design and cut for each home. We also assemble interior and exterior doors into pre-hung units. Additionally, we supply our customers with a broad offering of professional grade building products not manufactured by us, such as dimensional lumber and lumber sheet goods, various window, door and millwork lines, as well as cabinets, roofing and gypsum wallboard. Our full range of construction-related services includes professional installation, turn-key framing and shell construction, and spans all our product categories.

We group our building products into five product categories:

*Prefabricated Components.* Our prefabricated components consist of wood floor and roof trusses, steel roof trusses, wall panels, stairs, and engineered wood.

*Windows & Doors.* Our windows & doors category is comprised of the manufacturing, assembly, and distribution of windows and the assembly and distribution of interior and exterior door units.

*Lumber & Lumber Sheet Goods.* Lumber & lumber sheet goods include dimensional lumber, plywood, and OSB products used in on-site house framing.

*Millwork.* Millwork includes interior trim, exterior trim, columns and posts that we distribute, as well as custom exterior features that we manufacture under the Synboard<sup>®</sup> brand name.

*Other Building Products & Services.* Other building products & services are comprised of products such as cabinets, gypsum, roofing and insulation and services such as turn-key framing, shell construction, design assistance, and professional installation spanning all of

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our product categories.

Our operating results are dependent on the following trends, events and uncertainties, some of which are beyond our control:

*Homebuilding Industry.* Our business is driven primarily by the residential new construction market, which is in turn dependent upon a number of factors, including demographic trends, interest rates, consumer confidence, employment rates, foreclosure

rates, and the health of the economy and mortgage markets. Over the past few years, many homebuilders significantly decreased their housing starts because of lower demand and an excess of home inventory. Due to the decline in housing starts and increased competition for homebuilder business, we have and will continue to experience pressure on our gross margins. Housing starts remain at low levels, but industry forecasters expect to see some improvement over the next few years. We also believe there are several meaningful trends that indicate U.S. housing demand will likely recover in the long term and that the current downturn in the housing industry is likely a trough in the cyclical nature of the residential construction industry. These trends include relatively low interest rates, the aging of housing stock, and normal population growth due to immigration and birthrate exceeding death rate.

*Targeting Large Production Homebuilders.* Over the past ten years, the homebuilding industry has undergone consolidation, and the larger homebuilders have increased their market share. We expect that trend to continue due to the better liquidity and land positions of the larger homebuilders relative to the smaller, less capitalized homebuilders. Our focus is on maintaining relationships and market share with these customers while balancing the competitive pressures we are facing in our markets with certain profitability expectations. Our sales to the Builder 100, the country's largest 100 homebuilders, increased 46.7% compared to the first quarter of 2011, while actual U.S. single-family housing starts increased 16.8% over that same time period. We expect that our ability to maintain strong relationships with the largest builders will be vital to our ability to grow and expand into new markets as well as maintain our current market share through the current downturn. Additionally, during this downturn, we have been successful in expanding our custom homebuilder base while maintaining acceptable credit standards.

*Expand into Multi-Family and Light Commercial Business.* We continue to look for ways to expand our multi-family and light commercial business to further diversify our customer base and lessen our dependence on single-family residential new construction.

*Use of Prefabricated Components.* Prior to the current housing downturn, homebuilders were increasingly using prefabricated components in order to realize increased efficiency and improved quality. Shortening cycle time from start to completion was a key imperative of the homebuilders during periods of strong consumer demand. With the current housing downturn, that trend decelerated as cycle time had less relevance. Customers who traditionally used prefabricated components, for the most part, still do. However, the conversion of customers to this product offering has slowed. We expect this trend to continue at least for the duration of this downturn.

*Economic Conditions.* Economic changes both nationally and locally in our markets impact our financial performance. The building products supply industry is highly dependent upon new home construction and subject to cyclical market changes. Our operations are subject to fluctuations arising from changes in supply and demand, national economic conditions, labor costs, competition, government regulation, trade policies and other factors that affect the homebuilding industry such as demographic trends, interest rates, single-family housing starts, employment levels, consumer confidence, and the availability of credit to homebuilders, contractors, and homeowners. Over the past few years, the mortgage markets have experienced substantial disruption due to increased defaults. This disruption resulted in a stricter regulatory environment and reduced availability of mortgages for potential homebuyers due to an illiquid credit market and tighter standards to qualify for mortgages. Mortgage financing and commercial credit for smaller homebuilders continue to be constrained. As the housing industry is dependent upon the economy and employment levels as well as potential homebuyers' access to mortgage financing and homebuilders' access to commercial credit, it is likely that the housing industry will not significantly improve until conditions in the economy and the credit markets improve and unemployment rates decline.

*Cost of Materials.* Prices of wood products, which are subject to cyclical market fluctuations, may adversely impact operating income when prices rapidly rise or fall within a relatively short period of time. We purchase certain materials, including lumber products, which are then sold to customers as well as used as direct production inputs for our manufactured and prefabricated products. Short-term changes in the cost of these materials, some of which are subject to significant fluctuations, are sometimes passed on to our customers, but our pricing quotation periods may limit our ability to pass on such price changes. We may also be limited in our ability to pass on increases on in-bound freight costs on our products due to the price of fuel. Our inability to pass on material price increases to our customers could adversely impact our operating results.

*Controlling Expenses.* Another important aspect of our strategy is controlling costs and enhancing our status as a low-cost building materials supplier in the markets we serve. We pay close attention to managing our working capital and operating expenses. We have a best practices operating philosophy, which encourages increasing efficiency, lowering costs, improving working capital, and maximizing profitability and cash flow. We constantly analyze our workforce productivity to achieve the optimum, cost-efficient labor mix for our facilities. Further, we pay careful attention to our logistics function and its effect on our shipping and handling costs.



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## CURRENT OPERATING CONDITIONS AND OUTLOOK

Though the homebuilding industry has shown some improvements, a difficult environment still persists as the level of housing starts remains near historic lows. According to the U.S. Census Bureau, the annualized rate for U.S. single-family housing starts at March 31, 2012 was 462,000, a 10.5% improvement from one year ago but approximately 71% lower than when the downturn began in 2006. For the current quarter, actual U.S. single-family housing starts were 104,600, a 16.8% increase compared to the first quarter of 2011. The housing industry continues to struggle due to the limited availability of credit to smaller homebuilders and potential homebuyers, a slow economic recovery, excess home inventory and high unemployment rates, among other factors. The National Association of Homebuilders ( NAHB ) is forecasting 506,000 U.S. single-family housing starts for 2012, which is up approximately 16.6% from 2011, but still well below historical averages.

Despite these difficult conditions, our sales for the first quarter of 2012 were up 34.7% over the same period last year. We believe our broad offering of building products and construction services represents a value proposition to our customers that is superior to that of our competitors. We believe this allowed us to increase our sales volume despite these difficult housing conditions, as we gained market share by expanding our customer base and promoting our wide array of products and services to existing and new customers. We were also able to increase our gross margin percentage by 1.3 percentage points during the first quarter of 2012 compared to the first quarter of 2011, largely due to increased sales volume and our ability to leverage fixed costs within cost of goods sold. We have continued to manage our operating expenses with a key focus on conserving liquidity. Our selling, general and administrative expenses, as a percentage of sales, decreased 5.5% in the quarter compared to the same period a year ago. We have made significant changes to our business during the downturn that have improved our operating efficiency and allowed us to better leverage our operating costs against changes in sales. The continued execution of our cost containment strategies along with our improved operating results contributed to us ending the quarter with \$94.6 million of liquidity, which includes \$129.6 million of cash reduced by the \$35.0 million minimum cash requirement in our term loan.

We still believe that the long-term outlook for the housing industry is positive due to growth in the underlying demographics. We believe we are well-positioned to take advantage of any construction activity in our markets and will continue to increase our market share. We will continue to focus on working capital by closely monitoring the credit exposure of our customers and by working with our vendors to improve our payment terms and pricing on our products. We will also continue to work diligently to achieve the appropriate balance of short-term cost reductions while maintaining the expertise to grow the business when market conditions improve. We want to create long-term shareholder value and avoid taking steps that will limit our ability to compete.

## SEASONALITY AND OTHER FACTORS

Our first and fourth quarters have historically been, and are expected to continue to be, adversely affected by weather patterns in some of our markets, causing reduced construction activity. In addition, quarterly results historically have reflected, and are expected to continue to reflect, fluctuations from period to period arising from the following:

The volatility of lumber prices;

The cyclical nature of the homebuilding industry;

General economic conditions in the markets in which we compete;

The pricing policies of our competitors;

The production schedules of our customers; and

The effects of weather.

The composition and level of working capital typically change during periods of increasing sales as we carry more inventory and receivables. Working capital levels typically increase in the second and third quarters of the year due to higher sales during the peak residential construction season. These increases have in the past resulted in negative operating cash flows during this peak season,





which historically have been financed through available cash. Collection of receivables and reduction in inventory levels following the peak building and construction season have in the past positively impacted cash flow. In the past, we have also utilized borrowing availability under credit facilities to cover working capital needs.

## RESULTS OF OPERATIONS

The following table sets forth, for the three months ended March 31, 2012 and 2011, the percentage relationship to sales of certain costs, expenses and income items:

	Three Months Ended March 31,	
	2012	2011
Sales	100.0%	100.0%
Cost of sales	79.4%	80.7%
Gross margin	20.6%	19.3%
Selling, general and administrative expenses	23.2%	28.7%
Loss from operations	(2.6)%	(9.4)%
Interest expense, net	6.0%	3.6%
Income tax expense (benefit)	0.1%	(0.0)%
Loss from continuing operations	(8.7)%	(13.0)%
Loss from discontinued operations, net of tax	(0.0)%	(0.0)%
Net loss	(8.7)%	(13.0)%

### *Three Months Ended March 31, 2012 Compared with the Three Months Ended March 31, 2011*

*Sales.* Sales for the three months ended March 31, 2012 were \$219.4 million, a 34.7% increase over sales of \$162.8 million for the three months ended March 31, 2011. We achieved this increase in sales despite actual U.S. single-family housing starts increasing only 16.8% in the first quarter of 2012 as compared to the first quarter of 2011. The increase was primarily due to increased sales volume as commodity prices for lumber and lumber sheet goods in the quarter were, on average, comparable to the same period a year ago. The increased sales volume was achieved across all product categories, as we continued to expand our customer base while increasing our sales to existing customers.

The following table shows sales classified by product category (dollars in millions):

	Three Months Ended March 31,					
	2012		2011		% Change	
	Sales	% of Sales	Sales	% of Sales		
Prefabricated components	\$ 43.5	19.8%	\$ 30.8	18.9%	41.1%	
Windows & doors	49.7	22.7%	38.2	23.5%	30.0%	
Lumber & lumber sheet goods	66.4	30.3%	48.1	29.5%	38.1%	
Millwork	21.4	9.7%	17.7	10.9%	21.0%	
Other building products & services	38.4	17.5%	28.0	17.2%	37.2%	
Total sales	\$ 219.4	100.0%	\$ 162.8	100.0%	34.7%	

*Gross Margin.* Gross margin increased \$13.7 million to \$45.1 million. Our gross margin percentage increased from 19.3% in the first quarter of 2011 to 20.6% in the current quarter, a 1.3 percentage point increase. Our gross margin percentage increased primarily due to increased sales volume and our ability to leverage fixed costs in cost of goods sold.

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*Selling, General and Administrative Expenses.* Selling, general and administrative expenses increased \$4.2 million, or 9.1%. Our salaries and benefits expense, excluding stock compensation expense, was \$31.1 million, an increase of \$4.5 million from the first quarter of 2011. Delivery expense increased \$0.6 million as compared to the first quarter of 2011, primarily due to fuel costs related to higher prices and increased sales volume. Our office general and administrative expense decreased \$0.7 million from the first quarter of 2011, primarily due to a reduction in professional service fees.

As a percentage of sales, selling, general and administrative expenses decreased from 28.7% in 2011 to 23.2% in 2012. As a percentage of sales, salaries and benefits expense, excluding stock compensation expense, decreased 2.1%, office general and administrative expense decreased 1.1%, and delivery costs decreased by 1.2%. We continue to monitor our operating cost structure closely and make adjustments as necessary.

*Interest Expense, net.* Interest expense was \$13.1 million in the first quarter of 2012, an increase of \$7.2 million from the first quarter of 2011. The increase was primarily due to \$4.7 million of interest expense on our term loan agreement entered into during the fourth quarter of 2011 and \$3.1 million of non-cash, fair value adjustments on the warrants issued as part of the term loan. These increases were partially offset by \$0.6 million of non-cash, fair value adjustments in the first quarter of 2011 on our interest rate swaps, which expired during the second quarter of 2011.

*Income Tax Expense (Benefit).* We recorded income tax expense of \$0.2 million during the current quarter compared to a slight income tax benefit for the three months ended March 31, 2011. We recorded an after-tax, non-cash valuation allowance of \$7.0 million and \$8.1 million, in 2012 and 2011, respectively, related to our net deferred tax assets. Absent this valuation allowance, our effective tax rate would have been 36.3% and 38.4% in 2012 and 2011, respectively.

## LIQUIDITY AND CAPITAL RESOURCES

In December 2011, we entered into a \$160.0 million first-lien term loan and a stand-alone letter of credit facility, which provides up to \$20.0 million of letters of credit. Our term loan contains financial covenants, which include maintaining a minimum amount of qualified cash and specified collateral value. Qualified cash is defined as the amount of unrestricted cash and cash equivalents held in deposit or securities accounts which are subject to control agreements in favor of our lenders. Qualified cash must be at least \$35.0 million at all times. Specified collateral value is defined as the amount of qualified cash at such time, plus accounts receivable and inventory which meet specified criteria within the term loan agreement. The minimum specified collateral value must equal at least \$160 million during the period from March 2 through October 31 of each year and at least \$150 million during the balance of the year. The following table shows our qualified cash and specified collateral value as of March 31, 2012 and December 31, 2011 (in thousands):

	March 31, 2012	As of December 31, 2011
Cash and cash equivalents	\$ 129,629	\$ 146,833
Less:		
Non-qualified cash	(426)	(235)
Qualified cash	129,203	146,598
Accounts receivable	93,736	76,429
Less:		
Ineligible receivables	(11)	(89)
Net amount of accounts receivable	93,725	76,340
Inventory	82,075	73,327
Less:		
Inventory limitation*		
Value of inventory	82,075	73,327
Specified collateral value	\$ 305,003	\$ 296,265
Minimum specified collateral value	\$ 160,000	\$ 150,000

\* The value of inventory is limited to 122.222% of the net amount of accounts receivable from November 1 through March 1, and to 100.0% of the net amount of accounts receivable at all other times during the year.

Our liquidity at March 31, 2012 was \$94.6 million, which includes \$129.6 million in cash, reduced by the \$35.0 million minimum qualified cash requirement in our term loan. Our liquidity at March 31, 2012 was better than anticipated due to our improved operating performance

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combined with our efficient use of working capital. We still expect our cash usage for fiscal 2012 to be in the range of \$45-\$55 million and to end 2012 with (i) cash of \$90-\$100 million and (ii) liquidity of \$55-\$65 million, after deducting the \$35.0 million minimum cash requirement in our term loan.

In addition to the \$129.6 million of cash, we also had \$15.0 million in restricted cash at March 31, 2012, of which \$1.6 million was included in other long-term assets on the balance sheet. Restricted cash consists of the \$14.1 million used to collateralize letters of credit outstanding under the new letter of credit facility and \$0.9 million provided as collateral for other casualty insurance obligations. In the first quarter of 2012, we cancelled \$2.2 million of letters of credit outstanding under our 2007 revolving credit facility ( 2007 Agreement ), which was terminated in December 2011, and reissued them under our new letter of credit facility. In April 2012, we cancelled the remaining \$10.6 million letter of credit outstanding under the 2007 Agreement and reissued it under our new letter of credit facility. At March 31, 2012, we were not in violation of any covenants or restrictions imposed by any of our debt agreements.

### ***Consolidated Cash Flows***

Cash used in operating activities was \$14.9 million and \$25.3 million for the three months ended March 31, 2012 and 2011, respectively. Of the cash used in operating activities, approximately \$2.4 million and \$8.4 million were due to an increase in working capital in the three months ended March 31, 2012 and 2011, respectively. The remaining decrease in cash used in operating activities was primarily due to lower net operating losses partially offset by higher cash interest payments in the first quarter of 2012 as compared to the same period a year ago.

During the three months ended March 31, 2012 and 2011, cash used in investing activities was \$1.6 million and \$0.3 million, respectively. The increase was primarily due to a \$1.2 million increase in capital expenditures related to investments in manufacturing equipment and buyouts of expiring vehicle and equipment leases in the current year.

Cash used in financing activities for the three months ended March 31, 2012 increased \$0.7 million as compared to the three months ended March 31, 2011. The increase was primarily due to the repurchase of our common stock related to restricted stock tendered in order to meet minimum withholding tax requirements for shares vested and payments of deferred loan costs related to the term loan.

### **RECENT ACCOUNTING PRONOUNCEMENTS**

There were no new accounting pronouncements or changes to existing guidance that were applicable to us.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

We may experience changes in interest expense when market interest rates change. LIBOR rates on our term loan are subject to a 2% floor and LIBOR rates on our floating rate notes are subject to a 3% floor. Interest expense on these debt instruments would not change unless LIBOR increased to greater than 2%. Changes in our debt could also increase these risks. Based on debt outstanding and LIBOR rates at March 31, 2012, a 1.0% increase in interest rates would not result in any additional interest expense annually.

We purchase certain materials, including lumber products, which are then sold to customers as well as used as direct production inputs for our manufactured products that we deliver. Short-term changes in the cost of these materials and the related in-bound freight costs, some of which are subject to significant fluctuations, are sometimes, but not always, passed on to our customers. Our delayed ability to pass on material price increases to our customers can adversely impact our operating results.

**Item 4. Controls and Procedures**

*Controls Evaluation and Related CEO and CFO Certifications.* Our management, with the participation of our principal executive officer ( CEO ) and principal financial officer ( CFO ), conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this quarterly report. The controls evaluation was conducted by our Disclosure Committee, comprised of senior representatives from our finance, accounting, internal audit, and legal departments under the supervision of our CEO and CFO.

Certifications of our CEO and our CFO, which are required in accordance with Rule 13a-14 of the Securities Exchange Act of 1934, as amended ( Exchange Act ), are attached as exhibits to this quarterly report. This Controls and Procedures section includes the information concerning the controls evaluation referred to in the certifications, and it should be read in conjunction with the certifications for a more complete understanding of the topics presented.

*Limitations on the Effectiveness of Controls.* We do not expect that our disclosure controls and procedures will prevent all errors and all fraud. A system of controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the system are met. Because of the limitations in all such systems, no evaluation can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. Furthermore, the design of any system of controls and procedures is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how unlikely. Because of these inherent limitations in a cost-effective system of controls and procedures, misstatements or omissions due to error or fraud may occur and not be detected.

*Scope of the Controls Evaluation.* The evaluation of our disclosure controls and procedures included a review of their objectives and design, the Company's implementation of the controls and procedures and the effect of the controls and procedures on the information generated for use in this quarterly report. In the course of the evaluation, we sought to identify whether we had any data errors, control problems or acts of fraud and to confirm that appropriate corrective action, including process improvements, were being undertaken if needed. This type of evaluation is performed on a quarterly basis so that conclusions concerning the effectiveness of our disclosure controls and procedures can be reported in our quarterly reports on Form 10-Q. Many of the components of our disclosure controls and procedures are also evaluated by our internal audit department, our legal department and by personnel in our finance organization. The overall goals of these various evaluation activities are to monitor our disclosure controls and procedures on an ongoing basis, and to maintain them as dynamic systems that change as conditions warrant.

*Conclusions regarding Disclosure Controls.* Based on the required evaluation of our disclosure controls and procedures, our CEO and CFO have concluded that, as of March 31, 2012, we maintain disclosure controls and procedures that are effective in providing reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

*Changes in Internal Control over Financial Reporting.* During the period covered by this report, there have been no changes in our internal control over financial reporting identified in connection with the evaluation described above that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II OTHER INFORMATION

### Item 1. *Legal Proceedings*

We are involved in various claims and lawsuits incidental to the conduct of our business in the ordinary course. We carry insurance coverage in such amounts in excess of our self-insured retention as we believe to be reasonable under the circumstances and that may or may not cover any or all of our liabilities in respect of claims and lawsuits. We do not believe that the ultimate resolution of these matters will have a material adverse impact on our consolidated financial position, cash flows or results of operations.

Although our business and facilities are subject to federal, state and local environmental regulation, environmental regulation does not have a material impact on our operations. We believe that our facilities are in material compliance with such laws and regulations. As owners and lessees of real property, we can be held liable for the investigation or remediation of contamination on such properties, in some circumstances without regard to whether we knew of or were responsible for such contamination. Our current expenditures with respect to environmental investigation and remediation at our facilities are minimal, although no assurance can be provided that more significant remediation may not be required in the future as a result of spills or releases of petroleum products or hazardous substances or the discovery of unknown environmental conditions.

### Item 1A. *Risk Factors*

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part 1, Item 1A. Risk Factors in our annual report on Form 10-K for the year ended December 31, 2011, which could materially affect our business, financial condition or future results. The risks described in our annual report on Form 10-K are not the only risks facing our company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

### Item 2. *Unregistered Sales of Equity Securities and Use of Proceeds*

#### *Unregistered Sales of Equity Securities*

(a) None

#### *Use of Proceeds*

(b) Not applicable

#### *Company Stock Repurchases*

(c) The following table provides information with respect to our purchases of Builders FirstSource, Inc. common stock during the first quarter of fiscal year 2012:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet be Purchased Under the Plans or Programs
January 1, 2012 – January 31, 2012				
February 1, 2012 – February 29, 2012	166,565	\$ 2.98		
March 1, 2012 – March 31, 2012				
Total	166,565	\$ 2.98		

The shares presented in the above table represent restricted stock tendered in order to meet minimum withholding tax requirements for shares vested.





**Item 3. *Defaults upon Senior Securities***

(a) None

(b) None

**Item 4. *Mine Safety Disclosures***

Not applicable.

**Item 5. *Other Information***

(a) None

(b) None

**Item 6. Exhibits**

Exhibit Number	Description
3.1	Amended and Restated Certificate of Incorporation of Builders FirstSource, Inc. (incorporated by reference to Exhibit 3.1 to Amendment No. 4 to the Registration Statement of the Company on Form S-1, filed with the Securities and Exchange Commission on June 6, 2005, File Number 333-122788)
3.2	Amended and Restated By-Laws of Builders FirstSource, Inc. (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on March 5, 2007, File Number 0-51357)
4.1	Registration Rights Agreement, dated as of January 21, 2010, among Builders FirstSource, Inc., JLL Partners Fund V, L.P., and Warburg Pincus Private Equity IX, L.P. (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, filed with the Securities Exchange Commission on January 22, 2010, File Number 0-51357)
4.2	Indenture, dated as of January 21, 2010, among Builders FirstSource, Inc., the Guarantors party thereto, and Wilmington Trust Company, as Trustee (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on January 22, 2010, File Number 0-51357)
31.1*	Written statement pursuant to 17 CFR 240.13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, signed by Floyd F. Sherman as Chief Executive Officer
31.2*	Written statement pursuant to 17 CFR 240.13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, signed by M. Chad Crow as Chief Financial Officer
32.1**	Written statement pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, signed by Floyd F. Sherman as Chief Executive Officer and M. Chad Crow as Chief Financial Officer
101***	The following financial information from Builders FirstSource, Inc.'s Form 10-Q filed on May 4, 2012, formatted in eXtensible Business Reporting Language (XBRL): (i) Condensed Consolidated Statements of Operations and Comprehensive Loss for the three months ended March 31, 2012 and 2011, (ii) Condensed Consolidated Balance Sheets as of March 31, 2012 and December 31, 2011, (iii) Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2012 and 2011, and (iv) the Notes to Condensed Consolidated Financial Statements.

\* Filed herewith.

\*\* Builders FirstSource, Inc. is furnishing, but not filing, the written statement pursuant to Title 18 United States Code 1350, as added by Section 906 of the Sarbanes-Oxley Act of 2002, of Floyd F. Sherman, our Chief Executive Officer, and M. Chad Crow, our Chief Financial Officer.

\*\*\* The Interactive Data Files on Exhibit 101 shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that section and shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, except to the extent that the Company specifically incorporates such information by reference.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**BUILDERS FIRSTSOURCE, INC.**

May 4, 2012

/s/ FLOYD F. SHERMAN  
Floyd F. Sherman  
Chief Executive Officer  
(Principal Executive Officer)

May 4, 2012

/s/ M. CHAD CROW  
M. Chad Crow  
Senior Vice President Chief Financial Officer  
(Principal Financial Officer)