

Builders FirstSource, Inc.  
Form 10-Q  
October 31, 2012  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form 10-Q**

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

For the quarterly period ended September 30, 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)

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|                                                                                                              |                                                              |
|--------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------|
| <b>Delaware</b><br>(State or other jurisdiction of<br>incorporation or organization)                         | <b>52-2084569</b><br>(I.R.S. Employer<br>Identification No.) |
| <b>2001 Bryan Street, Suite 1600</b><br><br><b>Dallas, Texas</b><br>(Address of principal executive offices) | <b>75201</b><br>(Zip Code)                                   |
| <b>(214) 880-3500</b><br><br>(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 <input type="checkbox"/> | Accelerated filer <input checked="" type="checkbox"/> |
| Non-accelerated filer <input type="checkbox"/>   | Smaller reporting company <input type="checkbox"/>    |

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 October 29, 2012 was 96,846,431.

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**BUILDERS FIRSTSOURCE, INC.**

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**Table of Contents****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<br>September 30,      |             | Nine Months Ended<br>September 30, |             |
|------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------|-------------|------------------------------------|-------------|
|                                                                                                                                                | 2012                                     | 2011        | 2012                               | 2011        |
|                                                                                                                                                | (Unaudited)                              |             |                                    |             |
|                                                                                                                                                | (In thousands, except per share amounts) |             |                                    |             |
| Sales                                                                                                                                          | \$ 291,780                               | \$ 217,194  | \$ 783,088                         | \$ 586,416  |
| Cost of sales                                                                                                                                  | 234,067                                  | 172,755     | 626,592                            | 467,741     |
| Gross margin                                                                                                                                   | 57,713                                   | 44,439      | 156,496                            | 118,675     |
| Selling, general and administrative expenses                                                                                                   | 58,650                                   | 50,200      | 164,443                            | 145,866     |
| Facility closure costs                                                                                                                         | 692                                      | 115         | 896                                | 2,019       |
| Loss from operations                                                                                                                           | (1,629)                                  | (5,876)     | (8,843)                            | (29,210)    |
| Interest expense, net                                                                                                                          | 10,618                                   | 5,319       | 34,184                             | 16,859      |
| Loss from continuing operations before income taxes                                                                                            | (12,247)                                 | (11,195)    | (43,027)                           | (46,069)    |
| Income tax expense                                                                                                                             | 33                                       | 268         | 351                                | 1,917       |
| Loss from continuing operations                                                                                                                | (12,280)                                 | (11,463)    | (43,378)                           | (47,986)    |
| Loss from discontinued operations (net of income tax expense of \$0 for the three months and nine months ended in 2012 and 2011, respectively) | (1,285)                                  | (101)       | (1,430)                            | (311)       |
| Net loss                                                                                                                                       | \$ (13,565)                              | \$ (11,564) | \$ (44,808)                        | \$ (48,297) |
| Comprehensive loss                                                                                                                             | \$ (13,565)                              | \$ (11,564) | \$ (44,808)                        | \$ (46,140) |
| <i>Basic and diluted net loss per share:</i>                                                                                                   |                                          |             |                                    |             |
| Loss from continuing operations                                                                                                                | \$ (0.13)                                | \$ (0.12)   | \$ (0.46)                          | \$ (0.51)   |
| Loss from discontinued operations                                                                                                              | (0.01)                                   | (0.00)      | (0.01)                             | (0.00)      |
| Net loss                                                                                                                                       | \$ (0.14)                                | \$ (0.12)   | \$ (0.47)                          | \$ (0.51)   |
| <i>Weighted average common shares outstanding:</i>                                                                                             |                                          |             |                                    |             |
| Basic and diluted                                                                                                                              | 95,514                                   | 94,976      | 95,401                             | 94,929      |

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

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

|                                                                                                                                                                      | September 30,<br>2012                       | December 31,<br>2011 |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------|----------------------|
|                                                                                                                                                                      | (Unaudited)                                 |                      |
|                                                                                                                                                                      | (In thousands,<br>except per share amounts) |                      |
| <b>ASSETS</b>                                                                                                                                                        |                                             |                      |
| Current assets:                                                                                                                                                      |                                             |                      |
| Cash and cash equivalents                                                                                                                                            | \$ 90,675                                   | \$ 146,833           |
| Restricted cash                                                                                                                                                      | 11,058                                      | 13,229               |
| Accounts receivable, less allowances of \$2,747 and \$2,138 at September 30, 2012 and December 31, 2011, respectively                                                | 123,080                                     | 76,429               |
| Inventories                                                                                                                                                          | 90,168                                      | 73,327               |
| Other current assets                                                                                                                                                 | 14,376                                      | 9,843                |
| Total current assets                                                                                                                                                 | 329,357                                     | 319,661              |
| Property, plant and equipment, net                                                                                                                                   | 49,471                                      | 48,224               |
| Goodwill                                                                                                                                                             | 111,193                                     | 111,193              |
| Other assets, net                                                                                                                                                    | 8,751                                       | 9,725                |
| Total assets                                                                                                                                                         | \$ 498,772                                  | \$ 488,803           |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>                                                                                                                           |                                             |                      |
| Current liabilities:                                                                                                                                                 |                                             |                      |
| Accounts payable                                                                                                                                                     | \$ 84,173                                   | \$ 48,618            |
| Accrued liabilities                                                                                                                                                  | 36,346                                      | 25,183               |
| Current maturities of long-term debt                                                                                                                                 | 59                                          | 54                   |
| Total current liabilities                                                                                                                                            | 120,578                                     | 73,855               |
| Long-term debt, net of current maturities                                                                                                                            | 298,433                                     | 297,455              |
| Other long-term liabilities                                                                                                                                          | 20,901                                      | 16,269               |
| Total liabilities                                                                                                                                                    | 439,912                                     | 387,579              |
| Commitments and contingencies (Note 8)                                                                                                                               |                                             |                      |
| Stockholders' equity:                                                                                                                                                |                                             |                      |
| Preferred stock, \$0.01 par value, 10,000 shares authorized; zero shares issued and outstanding at September 30, 2012 and December 31, 2011                          |                                             |                      |
| Common stock, \$0.01 par value, 200,000 shares authorized; 96,813 and 96,806 shares issued and outstanding at September 30, 2012 and December 31, 2011, respectively | 956                                         | 950                  |
| Additional paid-in capital                                                                                                                                           | 362,188                                     | 359,750              |
| Accumulated deficit                                                                                                                                                  | (304,284)                                   | (259,476)            |
| Total stockholders' equity                                                                                                                                           | 58,860                                      | 101,224              |
| Total liabilities and stockholders' equity                                                                                                                           | \$ 498,772                                  | \$ 488,803           |

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

**Table of Contents****BUILDERS FIRSTSOURCE, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

|                                                                             | Nine Months Ended<br>September 30,<br>2012                      2011<br>(Unaudited)<br>(In thousands) |                  |
|-----------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------|------------------|
| Cash flows from operating activities:                                       |                                                                                                       |                  |
| Net loss                                                                    | \$ (44,808)                                                                                           | \$ (48,297)      |
| Adjustments to reconcile net loss to net cash used in operating activities: |                                                                                                       |                  |
| Depreciation and amortization                                               | 8,253                                                                                                 | 10,569           |
| Amortization of deferred loan costs                                         | 514                                                                                                   | 628              |
| Amortization of debt discount                                               | 1,022                                                                                                 |                  |
| Fair value adjustment of stock warrants                                     | 4,417                                                                                                 |                  |
| Deferred income taxes                                                       | 338                                                                                                   | 1,692            |
| Bad debt expense                                                            | 458                                                                                                   | 366              |
| Stock compensation expense                                                  | 2,672                                                                                                 | 3,645            |
| Net gain on sale of assets                                                  | (27)                                                                                                  | (276)            |
| Changes in assets and liabilities:                                          |                                                                                                       |                  |
| Receivables                                                                 | (47,109)                                                                                              | (27,594)         |
| Inventories                                                                 | (16,841)                                                                                              | (7,223)          |
| Other current assets                                                        | (4,533)                                                                                               | (2,643)          |
| Other assets and liabilities                                                | 103                                                                                                   | 340              |
| Accounts payable                                                            | 35,555                                                                                                | 17,495           |
| Accrued liabilities                                                         | 11,140                                                                                                | 3,360            |
| <b>Net cash used in operating activities</b>                                | <b>(48,846)</b>                                                                                       | <b>(47,938)</b>  |
| Cash flows from investing activities:                                       |                                                                                                       |                  |
| Purchases of property, plant and equipment                                  | (9,156)                                                                                               | (2,735)          |
| Proceeds from sale of property, plant and equipment                         | 219                                                                                                   | 394              |
| Decrease in restricted cash                                                 | 2,250                                                                                                 |                  |
| <b>Net cash used in investing activities</b>                                | <b>(6,687)</b>                                                                                        | <b>(2,341)</b>   |
| Cash flows from financing activities:                                       |                                                                                                       |                  |
| Payments of long-term debt and other loans                                  | (39)                                                                                                  | (36)             |
| Deferred loan costs                                                         | (358)                                                                                                 |                  |
| Exercise of stock options                                                   | 268                                                                                                   |                  |
| Repurchase of common stock                                                  | (496)                                                                                                 | (2)              |
| <b>Net cash used in financing activities</b>                                | <b>(625)</b>                                                                                          | <b>(38)</b>      |
| <b>Net change in cash and cash equivalents</b>                              | <b>(56,158)</b>                                                                                       | <b>(50,317)</b>  |
| Cash and cash equivalents at beginning of period                            | 146,833                                                                                               | 103,234          |
| <b>Cash and cash equivalents at end of period</b>                           | <b>\$ 90,675</b>                                                                                      | <b>\$ 52,917</b> |

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 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 1.8 million restricted stock shares excluded from the computations of basic EPS for the three and nine months ended September 30, 2012 and 2011, respectively, because we generated a net loss. For the purpose of computing diluted EPS, options to purchase 5.6 million and 5.7 million shares of common stock were not included in the computations of diluted EPS for the three and nine months ended September 30, 2012 and 2011, respectively, because their effect was anti-dilutive. Warrants to purchase 1.6 million shares of common stock were not included in the computation of diluted EPS for the three and nine months ended September 30, 2012 because their effect was anti-dilutive. No warrants were outstanding in the three and nine months ended September 30, 2011.

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

|                                            | September 30,<br>2012 | December 31,<br>2011 |
|--------------------------------------------|-----------------------|----------------------|
| Term loan                                  | \$ 160,000            | \$ 160,000           |
| Floating rate notes                        | 139,718               | 139,718              |
| Other long-term debt                       | 4,046                 | 4,085                |
|                                            | 303,764               | 303,803              |
| Unamortized debt discount                  | (5,272)               | (6,294)              |
|                                            | 298,492               | 297,509              |
| Less: current maturities of long-term debt | 59                    | 54                   |
| Long-term debt, net of current maturities  | \$ 298,433            | \$ 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 and nine months ended September 30 (in thousands):

**Derivatives****Not Designated as****Hedging**

| Instruments         | Location of Loss Recognized in Income | Amount of Loss Recognized<br>in Income* |      |                                    |            |
|---------------------|---------------------------------------|-----------------------------------------|------|------------------------------------|------------|
|                     |                                       | Three Months Ended<br>September 30,     |      | Nine Months Ended<br>September 30, |            |
|                     |                                       | 2012                                    | 2011 | 2012                               | 2011       |
| Interest rate swaps | Interest expense, net                 | \$                                      | \$   | \$                                 | \$ (2,165) |
| Warrants            | Interest expense, net                 | (691)                                   |      | (4,417)                            |            |
| Total               |                                       | \$ (691)                                | \$   | \$ (4,417)                         | \$ (2,165) |

\* 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.

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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.

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.

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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<br>As of<br>September 30,<br>2012 | Fair Value<br>Measurement as of<br>September 30, 2012 | Carrying Value<br>As of<br>December 31,<br>2011 | Fair Value<br>Measurement as of<br>December 31,<br>2011 |
|----------------------------------------------------|--------------------------------------------------|-------------------------------------------------------|-------------------------------------------------|---------------------------------------------------------|
| Warrants (included in Other long-term liabilities) | \$ 6,753                                         | \$ 6,753                                              | \$ 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 September 30, 2012 was approximately \$131.3 million and was determined using Level 2 inputs based on market prices. The carrying value of the term loan at September 30, 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. Discontinued Operations**

During the third quarter of 2012 we recognized \$1.3 million of expense, which was primarily related to revisions of sub-rental income estimates for a previously closed Ohio facility. This amount was included in loss from discontinued operations in the accompanying condensed consolidated statements of operations and comprehensive loss for the three and nine months ended September 30, 2012. The facility and other exit cost reserves associated with our discontinued operations are related to future minimum lease payments on this vacated facility and totaled \$2.9 million at September 30, 2012, of which \$2.3 million is recorded as other long-term liabilities.

**5. Comprehensive Loss**

The following table presents the components of comprehensive loss for the three and nine months ended September 30, 2012 and 2011 (in thousands):

|                                                                                                       | Three Months Ended<br>September 30, |             | Nine Months Ended<br>September 30, |             |
|-------------------------------------------------------------------------------------------------------|-------------------------------------|-------------|------------------------------------|-------------|
|                                                                                                       | 2012                                | 2011        | 2012                               | 2011        |
| Net loss                                                                                              | \$ (13,565)                         | \$ (11,564) | \$ (44,808)                        | \$ (48,297) |
| Other comprehensive income change related to interest rate swap agreements, net of related tax effect |                                     |             |                                    | 2,157       |
| Comprehensive loss                                                                                    | \$ (13,565)                         | \$ (11,564) | \$ (44,808)                        | \$ (46,140) |

**6. Facility Closure Costs**

During the third quarter of 2012 we recognized \$0.7 million in facility closure costs primarily related to revisions of sub-rental income estimates on two previously closed facilities in South Carolina and Tennessee. There were no additional facilities closed during the third quarter of 2012. The facility and other exit cost reserves are primarily related to future minimum lease obligations on vacated facilities and totaled \$3.0 million at September 30, 2012, of which \$2.2 million is recorded as other long-term liabilities.

In situations where multiple facilities serve the same market we may temporarily close, or idle, facilities with plans to reopen these facilities once demand returns to the market. Should conditions in our markets worsen, or recovery take significantly longer than forecasted, we may

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temporarily idle or permanently close additional facilities, at which time we may incur additional facility closure costs or asset impairment charges. Future non-cash impairment charges would have the effect of decreasing our earnings or increasing our losses in such period, but would not impact our current outstanding debt obligations or compliance with covenants contained in the related debt agreements.

### 7. **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. During the three and nine months ended September 30, 2012, we

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recorded valuation allowances of \$4.6 million and \$15.9 million against the net deferred tax assets generated from the net losses during the periods related to our continuing operations. During the three and nine months ended September 30, 2011, we recorded a valuation allowance of \$4.7 million and \$19.6 million against the net deferred tax assets generated from the net losses during the periods related to our continuing operations. In connection with the expiration of our interest rate swaps in 2011, we reclassified \$1.3 million of valuation allowance from accumulated other comprehensive loss to income tax expense for the nine months ended September 30, 2011.

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.

**8. 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 related to legal proceedings would not be material to our results of operations or liquidity for a particular period.

**9. 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 and nine month periods ended September 30, 2012 and 2011 were as follows (in thousands):

|                                    | Three Months Ended |            | Nine Months Ended |            |
|------------------------------------|--------------------|------------|-------------------|------------|
|                                    | September 30,      |            | September 30,     |            |
|                                    | 2012               | 2011       | 2012              | 2011       |
| Prefabricated components           | \$ 56,137          | \$ 41,038  | \$ 150,818        | \$ 112,048 |
| Windows & doors                    | 61,821             | 51,300     | 170,841           | 136,142    |
| Lumber & lumber sheet goods        | 97,305             | 61,900     | 251,677           | 170,749    |
| Millwork                           | 28,048             | 22,174     | 75,845            | 61,417     |
| Other building products & services | 48,469             | 40,782     | 133,907           | 106,060    |
| Sales                              | \$ 291,780         | \$ 217,194 | \$ 783,088        | \$ 586,416 |

**10. Recent Accounting Pronouncements**

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

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### **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

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spanning all of 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

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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 likely continue to experience pressure on our gross margins. Housing starts remain at historically low levels, but industry forecasters expect to see continued 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 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 enhanced 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 37.0% compared to the first nine months of 2011, while actual U.S. single-family housing starts increased 23.5% over that same time period. We expect that our ability to maintain strong relationships with the larger builders will be vital to our ability to grow market share and expand into new markets. We have also 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 recent 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. During the recent 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 until the residential new construction market returns to more normal levels.

*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.

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*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 level of housing starts remains near historic lows, the homebuilding industry has shown moderate improvement in recent quarters. According to the U.S. Census Bureau, the annualized rate for U.S. single-family housing starts at September 30, 2012 was 603,000, a 42.9% improvement from one year ago but approximately 58% lower than when the downturn began in 2006. For the current quarter, actual U.S. single-family housing starts were 151,800, a 29.0% increase compared to the third quarter of 2011. Actual single-family housing starts in the South Region, as defined by the U.S. Census Bureau and which encompasses our entire geographic footprint, increased to 78,800 in the current quarter, up 27.7% from the third quarter of 2011. However, single-family units under construction in the South Region increased only 12.4% during the third quarter of 2012 compared to the same quarter a year ago. While the housing industry has shown recent signs of improvement, 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 could delay a recovery. The National Association of Homebuilders ( NAHB ) is forecasting 528,000 U.S. single-family housing starts for 2012, which is up approximately 21.5% from 2011, but still well below historical averages.

Our sales for the third quarter of 2012 were up 34.3% over the same period last year. We believe our broad offering of building products and construction services, as well as our exceptional customer service, 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 at a rate in excess of the increase in residential new construction activity during the current quarter, as we gained market share by expanding our customer base and promoting our wide array of products and services to existing and new customers. However, our gross margin percentage decreased by 0.7 percentage point during the third quarter of 2012 compared to the third quarter of 2011. Our gross margin percentage decreased 1.5 percentage points primarily due to commodity lumber inflation relative to customer pricing commitments; however, this was partially offset by a 0.8 percentage point gross margin improvement due to increased sales volume. 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 3.0% in the quarter compared to the same period a year ago. We have made significant changes to our business during the recent 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 \$55.7 million of liquidity, consisting of \$90.7 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 to continue to increase our market share. We will continue to focus on working capital by closely monitoring our credit exposure with 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 as 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, resulting in 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.

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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 and nine months ended September 30, 2012 and 2011, the percentage relationship to sales of certain costs, expenses and income items:

|                                               | Three Months Ended<br>September 30, |        | Nine Months Ended<br>September 30, |        |
|-----------------------------------------------|-------------------------------------|--------|------------------------------------|--------|
|                                               | 2012                                | 2011   | 2012                               | 2011   |
| Sales                                         | 100.0%                              | 100.0% | 100.0%                             | 100.0% |
| Cost of sales                                 | 80.2%                               | 79.5%  | 80.0%                              | 79.8%  |
| Gross margin                                  | 19.8%                               | 20.5%  | 20.0%                              | 20.2%  |
| Selling, general and administrative expenses  | 20.1%                               | 23.1%  | 21.0%                              | 24.9%  |
| Facility closure costs                        | 0.3%                                | 0.1%   | 0.1%                               | 0.3%   |
| Loss from operations                          | (0.6)%                              | (2.7)% | (1.1)%                             | (5.0)% |
| Interest expense, net                         | 3.6%                                | 2.5%   | 4.4%                               | 2.9%   |
| Income tax expense                            | 0.0%                                | 0.1%   | 0.0%                               | 0.3%   |
| Loss from continuing operations               | (4.2)%                              | (5.3)% | (5.5)%                             | (8.2)% |
| Loss from discontinued operations, net of tax | (0.4)%                              | (0.0)% | (0.2)%                             | (0.0)% |
| Net loss                                      | (4.6)%                              | (5.3)% | (5.7)%                             | (8.2)% |

**Three Months Ended September 30, 2012 Compared with the Three Months Ended September 30, 2011**

*Sales.* Sales for the three months ended September 30, 2012 were \$291.8 million, a 34.3% increase from sales of \$217.2 million for the three months ended September 30, 2011. Actual U.S. single-family housing starts increased 29.0% in the third quarter of 2012 as compared to the third quarter of 2011. In the South Region, actual single-family housing starts increased 27.7% during the third quarter of 2012 compared to the same quarter a year ago, however, the number of single-family units under construction increased only 12.4% over this same time period. We achieved increased sales volume across all product categories, as we continued to expand our customer base while increasing our sales to existing customers. We estimate that our sales volume increased approximately 27%, while commodity price inflation resulted in an additional 7% increase in sales during the current quarter compared to the same quarter a year ago. Commodity prices for lumber and lumber sheet goods were on average 32.0% higher in the current quarter compared to the same period a year ago. Prices have risen to levels not seen on a consistent basis since 2005 and 2006. This commodity price inflation has resulted in sales growth for lumber & lumber sheet goods and prefabricated components exceeding that of our other product categories.

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

|                          | Three Months Ended September 30, |            |         |            |          |
|--------------------------|----------------------------------|------------|---------|------------|----------|
|                          | 2012                             |            | 2011    |            | % Change |
|                          | Sales                            | % of Sales | Sales   | % of Sales |          |
| Prefabricated components | \$ 56.1                          | 19.2%      | \$ 41.0 | 18.9%      | 36.8%    |
| Windows & doors          | 61.8                             | 21.2%      | 51.3    | 23.6%      | 20.5%    |

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|                                    |          |        |          |        |       |
|------------------------------------|----------|--------|----------|--------|-------|
| Lumber & lumber sheet goods        | 97.3     | 33.4%  | 61.9     | 28.5%  | 57.2% |
| Millwork                           | 28.1     | 9.6%   | 22.2     | 10.2%  | 26.5% |
| Other building products & services | 48.5     | 16.6%  | 40.8     | 18.8%  | 18.8% |
| Total sales                        | \$ 291.8 | 100.0% | \$ 217.2 | 100.0% | 34.3% |

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*Gross Margin.* Gross margin increased \$13.3 million to \$57.7 million. Our gross margin percentage was 19.8% in the current quarter, a 0.7 percentage point decrease from 20.5% in the third quarter of 2011. Our gross margin percentage decreased 1.5 percentage points primarily due to commodity lumber price inflation in the current quarter relative to quarterly customer pricing commitments, as higher than expected sales volume resulted in us replacing inventory during the current quarter at higher costs. However, the decrease was partially offset by a 0.8 percentage point gross margin improvement due to increased sales volume and our ability to leverage fixed costs in cost of goods sold.

*Selling, General and Administrative Expenses.* Selling, general and administrative expenses increased \$8.5 million, or 16.8%. Our salaries and benefits expense, excluding stock compensation expense, was \$35.6 million, an increase of \$6.8 million from the third quarter of 2011. The increase in salaries and benefits expense, excluding stock compensation expense, was primarily related to higher sales commissions and additional staffing needs to service the increased sales volume. Delivery expense increased \$1.8 million primarily due to higher fuel costs and increased maintenance costs on our delivery equipment.

As a percentage of sales, selling, general and administrative expenses decreased from 23.1% in 2011 to 20.1% in 2012. As a percentage of sales, salaries and benefits expense, excluding stock compensation expense, decreased 1.1%, office general and administrative expense decreased 0.4%, occupancy costs decreased by 0.5%, and delivery costs decreased by 0.5%. We continue to monitor our operating cost structure closely and make adjustments as necessary.

*Interest Expense, Net.* Interest expense was \$10.6 million in the third quarter of 2012, an increase of \$5.3 million from the third 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 \$0.7 million of non-cash, fair value adjustments on the warrants issued as part of the term loan.

*Income Tax Expense.* We recorded income tax expense of \$0.0 million and \$0.3 million during the three months ended September 30, 2012 and 2011, respectively. We recorded an after-tax, non-cash valuation allowance of \$4.6 million and \$4.7 million, in 2012 and 2011, respectively, related to our net deferred tax assets. Absent this valuation allowance, our effective tax rate would have been 37.6% and 39.2% in 2012 and 2011, respectively.

***Nine Months Ended September 30, 2012 Compared with the Nine Months Ended September 30, 2011***

*Sales.* Sales for the nine months ended September 30, 2012 were \$783.1 million, a 33.5% increase from sales of \$586.4 million for the nine months ended September 30, 2011. Actual U.S. single-family housing starts increased 23.5% in the first nine months of 2012 as compared to the first nine months of 2011. In the South Region, actual single-family housing starts increased 22.7% compared to a year ago, however, the number of single-family units under construction increased only 3.7% over this same time period. We achieved increased sales volume across all product categories, as we continued to expand our customer base while increasing our sales to existing customers. We estimate that our sales volume increased approximately 31%, while commodity price inflation resulted in an additional 3% increase in sales during the first nine months of 2012 compared to the same time period a year ago. Commodity prices for lumber and lumber sheet goods were on average 17.8% higher in the first nine months of 2012 compared to the first nine months of 2011. Prices have risen to levels not seen on a consistent basis since 2005 and 2006. This commodity price inflation has resulted in sales growth for lumber & lumber sheet goods and prefabricated components exceeding that of our other product categories.

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

|                                    | Nine Months Ended September 30,<br>2012 |            | 2011     |            | % Change |
|------------------------------------|-----------------------------------------|------------|----------|------------|----------|
|                                    | Sales                                   | % of Sales | Sales    | % of Sales |          |
| Prefabricated components           | \$ 150.8                                | 19.3%      | \$ 112.0 | 19.1%      | 34.6%    |
| Windows & doors                    | 170.8                                   | 21.8%      | 136.1    | 23.2%      | 25.5%    |
| Lumber & lumber sheet goods        | 251.7                                   | 32.1%      | 170.8    | 29.1%      | 47.4%    |
| Millwork                           | 75.9                                    | 9.7%       | 61.4     | 10.5%      | 23.5%    |
| Other building products & services | 133.9                                   | 17.1%      | 106.1    | 18.1%      | 26.3%    |
| Total sales                        | \$ 783.1                                | 100.0%     | \$ 586.4 | 100.0%     | 33.5%    |



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*Gross Margin.* Gross margin increased \$37.8 million to \$156.5 million. Our gross margin percentage decreased from 20.2% in the first nine months of 2011 to 20.0% in the current period, a 0.2 percentage point decrease. Our gross margin percentage decreased 1.0 percentage points primarily due to commodity lumber price inflation in the second and third quarters of 2012 relative to quarterly customer pricing commitments, as higher than expected sales volume in the second and third quarters of 2012 resulted in us replacing inventory during these quarters at higher costs. However, the decrease was offset by a 0.8 percentage point gross margin improvement due to increased sales volume and our ability to leverage fixed costs in cost of goods sold.

*Selling, General and Administrative Expenses.* Selling, general and administrative expenses increased \$18.6 million, or 12.7%. Our salaries and benefits expense, excluding stock compensation expense, was \$100.7 million, an increase of \$17.4 million from the first nine months of 2011. This increase was primarily due to higher sales commissions and additional staffing needs to service the increased sales volume. Delivery expense increased \$2.7 million as compared to the first nine months of 2011, primarily due to fuel costs related to higher prices and increased sales volume. Our office general and administrative expense decreased \$0.5 million from the first nine months of 2011, primarily due to a reduction in professional service fees.

As a percentage of sales, selling, general and administrative expenses decreased from 24.9% in 2011 to 21.0% in 2012. As a percentage of sales, salaries and benefits expense, excluding stock compensation expense, decreased 1.3%, office general and administrative expense decreased 0.7%, occupancy expense decreased 0.6%, and delivery costs decreased by 0.9%. We continue to monitor our operating cost structure closely and make adjustments as necessary.

*Interest Expense, Net.* Interest expense was \$34.2 million in the first nine months of 2012, an increase of \$17.3 million from the same period in 2011. The increase was primarily due to \$14.0 million of interest expense on our term loan agreement entered into during the fourth quarter of 2011 and \$4.4 million of non-cash, fair value adjustments on the warrants issued as part of the term loan. These increases were partially offset by \$0.8 million of non-cash, fair value adjustments in 2011 related to our interest rate swaps, which expired in 2011.

*Income Tax Expense.* We recorded income tax expense of \$0.4 million and \$1.9 million during the nine months ended September 30, 2012 and 2011, respectively. We recorded an after-tax, non-cash valuation allowance of \$15.9 million and \$19.6 million, in 2012 and 2011, respectively, related to our net deferred tax assets. Absent this valuation allowance, our effective tax rate would have been 36.2% and 38.3% in 2012 and 2011, respectively.

**Table of Contents****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 September 30, 2012 and December 31, 2011 (in thousands):

|                                    | As of                 |                      |
|------------------------------------|-----------------------|----------------------|
|                                    | September 30,<br>2012 | December 31,<br>2011 |
| Cash and cash equivalents          | \$ 90,675             | \$ 146,833           |
| Less:                              |                       |                      |
| Non-qualified cash                 | (873)                 | (235)                |
| Qualified cash                     | 89,802                | 146,598              |
| Accounts receivable                | 123,080               | 76,429               |
| Less:                              |                       |                      |
| Ineligible receivables             | (7)                   | (89)                 |
| Net amount of accounts receivable  | 123,073               | 76,340               |
| Inventory                          | 90,168                | 73,327               |
| Less:                              |                       |                      |
| Inventory limitation*              |                       |                      |
| Value of inventory                 | 90,168                | 73,327               |
| Specified collateral value         | \$ 303,043            | \$ 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 September 30, 2012 was \$55.7 million, which includes \$90.7 million in cash, reduced by the \$35.0 million minimum qualified cash requirement in our term loan. Our cash usage for fiscal 2012 is expected to be approximately \$55 million, which is at the high end of our original guidance due to the increase in working capital necessary to support our higher sales volume. As a result, we expect to end the year with approximately \$90 million of unrestricted cash and \$55 million of net liquidity. If our sales growth continues at the current pace, we may be required to seek additional capital to fund even higher working capital requirements in the future. There can be no assurance that any financing options would be available on favorable terms, if at all.

In addition to the \$90.7 million of cash, we also had \$12.8 million in restricted cash at September 30, 2012, of which \$1.8 million was included in other long-term assets on the balance sheet. Restricted cash consists of the \$11.9 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

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December 2011, and reissued them under our new letter of credit facility. In the second quarter, 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. In the third quarter of 2012, we reduced our letters of credit outstanding by \$1.6 million. In October 2012 we issued \$0.6 million letters of credit under our new letter of credit facility. At September 30, 2012, we were not in violation of any covenants or restrictions imposed by any of our debt agreements.

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***Consolidated Cash Flows***

Cash used in operating activities was \$48.8 million and \$47.9 million for the nine months ended September 30, 2012 and 2011, respectively. Of the cash used in operating activities, approximately \$21.8 million and \$16.6 million were due to increases in working capital in the nine months ended September 30, 2012 and 2011, respectively. Cash interest payments were \$28.4 million and \$17.7 million for the nine months ended September 30, 2012 and 2011, respectively. The remaining change in operating activities was primarily due to lower net operating losses.

During the nine months ended September 30, 2012 and 2011, cash used in investing activities was \$6.7 million and \$2.3 million, respectively. The increase was primarily due to a \$6.4 million increase in capital expenditures related to the purchase of our Chelsea, AL location, which was previously a leased facility, and buyouts of expiring vehicle and equipment leases in the current year. This increase in capital expenditures was partially offset by a \$2.3 million reduction in our restricted cash balance related to our new letter of credit facility.

Cash used in financing activities for the nine months ended September 30, 2012 increased \$0.6 million as compared to the nine months ended September 30, 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.

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**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 September 30, 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 September 30, 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.

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**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) None

**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

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**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 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 October 31, 2012, formatted in eXtensible Business Reporting Language (XBRL): (i) Condensed Consolidated Statements of Operations and Comprehensive Loss for the three and nine months ended September 30, 2012 and 2011, (ii) Condensed Consolidated Balance Sheets as of September 30, 2012 and December 31, 2011, (iii) Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 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.

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**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.**

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

October 31, 2012

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

October 31, 2012