

Builders FirstSource, Inc.
Form 10-Q
April 28, 2011

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended March 31, 2011

OR

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

For the transition period from to

Commission File Number 0-51357

BUILDERS FIRSTSOURCE, INC.

(Exact name of registrant as specified in its charter)

Delaware

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

52-2084569

*(I.R.S. Employer
Identification No.)*

2001 Bryan Street, Suite 1600

Dallas, Texas

(Address of principal executive offices)

75201

(Zip Code)

(214) 880-3500

(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 ☐ *Registrant is not subject to the requirements of Rule 405 of Regulation S-T at this time

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 type="checkbox"/>	Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>
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Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act).
Yes ☐ No ☐

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The number of shares of the issuer's common stock, par value \$0.01, outstanding as of April 26, 2011 was 96,768,427.

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CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

	Three Months Ended March 31,	
	2011	2010
	(Unaudited)	
	(In thousands,	
	except per share amounts)	
Sales	\$ 162,829	\$ 161,373
Cost of sales	131,396	131,942
Gross margin	31,433	29,431
Selling, general and administrative expenses	46,723	49,450
Loss from operations	(15,290)	(20,019)
Interest expense, net	5,875	11,325
Loss from continuing operations before income taxes	(21,165)	(31,344)
Income tax benefit	(17)	(144)
Loss from continuing operations	(21,148)	(31,200)
Loss from discontinued operations (net of income tax benefit of \$0 in 2011 and 2010)	(101)	(186)
Net loss	\$ (21,249)	\$ (31,386)
<i>Basic and diluted net loss per share:</i>		
Loss from continuing operations	\$ (0.22)	\$ (0.38)
Loss from discontinued operations	(0.00)	(0.00)
Net loss	\$ (0.22)	\$ (0.38)
<i>Weighted average common shares outstanding:</i>		
Basic and diluted	94,904	81,849

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**

	March 31, 2011	December 31, 2010
	(Unaudited)	
	(In thousands, except per share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 77,615	\$ 103,234
Trade accounts receivable, less allowances of \$2,364 and \$2,444 at March 31, 2011 and December 31, 2010, respectively	68,804	55,631
Other receivables	2,909	4,060
Inventories	72,759	63,810
Other current assets	7,837	8,614
Total current assets	229,924	235,349
Property, plant and equipment, net	53,960	57,068
Goodwill	111,193	111,193
Other assets, net	8,857	9,194
Total assets	\$ 403,934	\$ 412,804
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 55,193	\$ 44,866
Accrued liabilities	26,869	26,284
Current maturities of long-term debt	5,299	5,301
Total current liabilities	87,361	76,451
Long-term debt, net of current maturities	163,791	163,801
Other long-term liabilities	13,098	13,047
Total liabilities	264,250	253,299
Commitments and contingencies (Note 6)		
Stockholders' equity:		
Preferred stock, \$0.01 par value, 10,000 shares authorized; zero shares issued and outstanding at March 31, 2011 and December 31, 2010, respectively		
Common stock, \$0.01 par value, 200,000 shares authorized; 96,768 and 96,769 shares issued and outstanding at March 31, 2011 and December 31, 2010, respectively	949	949
Additional paid-in capital	356,243	355,194
Accumulated deficit	(215,730)	(194,481)
Accumulated other comprehensive loss	(1,778)	(2,157)
Total stockholders' equity	139,684	159,505

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Total liabilities and stockholders' equity	\$ 403,934	\$ 412,804
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The accompanying notes are an integral part of these condensed consolidated financial statements.

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BUILDERS FIRSTSOURCE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended March 31,	
	2011	2010
	(Unaudited)	
	(In thousands)	
Cash flows from operating activities:		
Net loss	\$ (21,249)	\$ (31,386)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	3,685	3,768
Amortization of deferred loan costs	209	4,491
Bad debt expense	147	410
Net non-cash income from discontinued operations		(3)
Stock compensation expense	1,051	1,041
Deferred income taxes	(66)	(329)
Net gain on sales of assets	(165)	(61)
Changes in assets and liabilities:		
Receivables	(12,169)	(10,677)
Inventories	(8,949)	(15,362)
Other current assets	777	193
Other assets and liabilities	(512)	(387)
Accounts payable	10,327	18,023
Accrued liabilities	1,584	3,388
Net cash used in operating activities	(25,330)	(26,891)
Cash flows from investing activities:		
Purchases of property, plant and equipment	(527)	(1,858)
Proceeds from sale of property, plant and equipment	252	118
Net cash used in investing activities	(275)	(1,740)
Cash flows from financing activities:		
Payments of long-term debt and other loans	(12)	(105,152)
Proceeds from rights offering		180,107
Payment of recapitalization costs		(5,574)
Repurchase of common stock	(2)	(31)
Net cash provided by (used in) financing activities	(14)	69,350
Net change in cash and cash equivalents	(25,619)	40,719
Cash and cash equivalents at beginning of period	103,234	84,098
Cash and cash equivalents at end of period	\$ 77,615	\$ 124,817

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, 2010 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, 2010 and the unaudited condensed consolidated financial statements included herein should be read in conjunction with the more detailed audited consolidated financial statements for the years ended December 31, 2010 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 1.9 million and 1.8 million restricted stock shares excluded from the computations of basic EPS for the three months ended March 31, 2011 and 2010, respectively, because we generated a net loss. For the purpose of computing diluted EPS, options to purchase 5.9 million and 6.2 million shares of common stock were not included in the computations of diluted EPS for the three months ended March 31, 2011 and 2010, respectively, because their effect was anti-dilutive.

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

	March 31, 2011	December 31, 2010
Revolving credit facility	\$ 20,000	\$ 20,000
Floating rate notes:		
2012 notes	5,249	5,249
2016 notes	139,718	139,718
Other	4,123	4,135
	169,090	169,102
Less: current portion of long-term debt	5,299	5,301
Total long-term debt, net of current maturities	\$ 163,791	\$ 163,801

On January 21, 2010, we completed a common stock rights offering and debt exchange for our Second Priority Senior Secured Floating Rate Notes due 2012 (2012 notes). As part of these transactions, we raised \$180.1 million of new equity capital through the issuance of 51,459,184 shares of common stock in the rights offering at a subscription price of \$3.50 per share. Holders of the 2012 notes exchanged, at par, \$269.8 million aggregate principal amount of 2012 notes for (i) \$139.7 million aggregate principal amount of Second Priority Senior Secured Floating Rate Notes due 2016 (2016 notes), (ii) \$105.1 million in cash from the proceeds of the rights offering, and (iii) 7,112,244 shares of our common stock. We used a portion of the remaining \$75.0 million of proceeds to pay the expenses of the rights offering and the debt exchange and the remainder was used for general corporate purposes. In the first quarter of 2010 in connection with these transactions, we expensed \$1.6 million of unamortized debt issue costs related to the long-term debt repaid and \$2.5 million of various third-party fees and expenses.

We have a \$150 million senior secured revolving credit facility (the 2007 Agreement) with a consortium of banks. Our borrowing base consists of trade accounts receivable, inventory and fixed assets, which meet specific criteria contained within the 2007 Agreement, minus agent specified reserves. Our net available borrowing capacity in excess of the minimum liquidity requirement at March 31, 2011 was \$37.8 million. At March 31, 2011, the minimum liquidity requirement, which is determined on a sliding scale based on our ninety-day average gross availability, was \$16.25 million. The 2007 Agreement has certain restrictive covenants, which, among other things, relate to the payment of dividends, incurrence of indebtedness, and asset sales. We were not in violation of any of these covenants as of March 31, 2011. The 2007 Agreement also has a fixed charge coverage ratio of 1:1 that is triggered if our available borrowing capacity, as determined under the borrowing base formula, is less than a minimum liquidity requirement. The calculation allows cash on deposit with the agent to be included as eligible borrowing base. The fixed charge coverage ratio is defined as the ratio of earnings before interest expenses, income taxes, depreciation and amortization expenses minus capital expenditures, cash taxes paid, dividends, distributions and share repurchases or redemptions to the sum of scheduled principal payments and interest expense on a trailing twelve month basis from the trigger date. Based on our 2011 forecast, we will not meet the fixed charge coverage ratio, but we anticipate that we will not fall below the minimum liquidity covenant in 2011 including the use of cash on deposit with the agent; therefore, we will not trigger the fixed charge coverage ratio requirement.

We currently have two interest rate swap agreements with notional amounts of \$100 million and \$50 million. The swap agreements expire on May 15, 2011. We entered into these 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.

The table below presents the effect of our interest rate swap derivatives on the condensed consolidated statements of operations for the three months ended March 31:

Amount of Loss

Derivatives Not Designated as Hedging Instruments	Location of Loss Recognized in Income	Recognized in Income*	
		2011	2010
Interest rate swaps	Interest expense, net	\$ (386)	\$(1,606)

* Net of tax

When our interest rate swap agreements are in a net asset position, we are exposed to credit losses in the event of non-performance by counterparties. The amount of such credit exposure is limited to the unrealized gains on our swaps. We have not experienced any credit loss as a result of counterparty nonperformance in the past. To manage credit risks, we generally select counterparties who are part of our banking syndicate and settle on a net basis. We perform a quarterly assessment of our counterparty credit risk, including a

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review of credit ratings, credit default swap rates, and potential nonperformance of the counterparty. Since the counterparty is part of the bank syndicate, we also would have the ability to net amounts owed to us against any outstanding borrowings under the 2007 Agreement, thereby reducing the credit risk.

When interest rate swap agreements are in a net liability position, we are required to establish a reserve against our borrowing base equal to 110% of the fair value of the interest rate swaps on the last day of the month. This reserve effectively reduces our available borrowing capacity under the 2007 Agreement. At March 31, 2011, the reserve for the swaps is \$1.2 million. The swaps are also collateralized in a manner similar to the loans under the 2007 Agreement. In the event of default, or if we or the counterparty fail to be part of the 2007 Agreement, an early termination event would be triggered which could require us to settle the swaps on the termination date at the then fair market value.

Our interest rate swaps are measured at fair value on a recurring basis. We do not trade in swaps or hold them for speculative purposes, therefore, the retail market that exists for swaps would be the most advantageous market for our interest rate swaps. As such, we use the market approach to value our interest rate swaps by obtaining a quote from the counterparty that is based on a discounted cash flow analysis which incorporates information obtained from third-party market sources and is adjusted for company specific credit risk. We validate the fair value quote obtained from the counterparty by using an independent, third-party discounted cash flow analysis which also utilizes market information. These discounted cash flow techniques incorporate Level 1 and Level 2 inputs. In addition to the term and notional amount inputs, the valuation also factors in discount rate, forward yield curves, and credit risk. Significant inputs to the derivative valuation for interest rate swaps are observable in the active markets and are classified as Level 2 in the hierarchy.

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

	Carrying Value As of March 31, 2011	Fair Value Measurement as of March 31, 2011	Carrying Value As of December 31, 2010	Fair Value Measurement as of December 31, 2010
Interest rate swaps (included in Total liabilities)	\$ 1,091	\$ 1,091	\$ 2,209	\$ 2,209

4. Comprehensive Loss

The following table presents the components of comprehensive loss for the three months ended March 31, 2011 and 2010 (in thousands):

	Three Months Ended March 31, 2011	2010
Net loss	\$ (21,249)	\$ (31,386)
Other comprehensive income changes related to interest rate swap agreements, net of related tax effect	379	783
Total comprehensive loss	\$ (20,870)	\$ (30,603)

5. Income Taxes

In accordance with the *Income Taxes* topic of the Codification, we evaluate our deferred tax assets quarterly to determine if a valuation allowance is required. The *Income Taxes* topic requires that companies assess whether valuation allowances should be established based on the consideration of all available evidence. We recorded additional valuation allowance of \$8.1 million and \$11.6 million for the three months ended March 31, 2011 and

2010, respectively, related to the net deferred tax assets generated by our loss from continuing operations.

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

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

7. Segment and Product Information

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

Sales by product category for the three month periods ended March 31, 2011 and 2010 were as follows (in thousands):

	Three Months Ended March 31,	
	2011	2010
Prefabricated components	\$ 30,783	\$ 31,970
Windows & doors	38,265	36,937
Lumber & lumber sheet goods	48,110	44,388
Millwork	17,691	17,778
Other building products & services	27,980	30,300
Total sales	\$ 162,829	\$ 161,373

8. Recent Accounting Pronouncements

In October 2009, the FASB issued guidance under the *Multiple Element Revenue Arrangements* topic of the Codification which requires separation of the consideration received in such arrangements by establishing a selling price hierarchy for determining the selling price of a deliverable, which will be based on available information in the following order: vendor-specific objective evidence, third-party evidence, or estimated selling price. It also eliminates the residual method of allocation, requires that the consideration be allocated at the inception of the arrangement to all deliverables using the relative selling price method, which allocates any discount in the arrangement to each deliverable on the basis of each deliverable's selling price, and requires that a vendor determine its best estimate of selling price in a manner that is consistent with that used to determine the price to sell the deliverable on a standalone basis. These changes became effective for us on January 1, 2011, but did not have a material impact on our financial position or results of operations.

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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, 2010 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 brand name.

Other building products & services. Other building products & services are comprised of products such as cabinets, gypsum, roofing and insulation and services such as turn-key framing, shell construction, design assistance, and professional installation spanning all of 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 interest rates, consumer confidence, foreclosure rates, and the health of the economy and

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

Targeting Large Production Homebuilders. Over the past 10 years, the homebuilding industry has undergone significant consolidation, with the larger homebuilders substantially increasing their market share. We expect that trend to continue due to the better liquidity 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 production homebuilders, decreased only 14.2% compared to the first quarter of 2010, while actual U.S. single-family housing starts decreased 21.4% over that same time period. We expect that our ability to maintain strong relationships with the largest builders will be vital to our ability to grow and expand into new markets as well as maintain our current market share through the downturn. Additionally, during this downturn, we have been successful in expanding our custom homebuilder base while maintaining our credit standards.

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

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

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. During 2007, the mortgage markets experienced substantial disruption due to increased defaults, primarily as a result of credit quality deterioration. The disruption has continued and 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 severely 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 recover until conditions in the economy and the credit markets substantially improve and unemployment rates decline.

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

our ability to pass on increases on in-bound freight costs on our products due to the price of fuel. Our inability to pass on material price increases to our customers could adversely impact our operating results.

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

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CURRENT OPERATING CONDITIONS AND OUTLOOK

Challenging conditions in the homebuilding industry continued, as the annualized rate for U.S. single-family housing starts, according to the U.S. Census Bureau, at March 31, 2011 was 422,000, down 21.1% from one year ago. For the quarter, actual U.S. single-family housing starts were 89,900, down 21.4% from last year. The housing industry continues to struggle due to the limited availability of credit to smaller homebuilders and potential homebuyers, a slow economic recovery, and high unemployment rates, among other factors. In fact, the National Association of Homebuilders (NAHB) is now forecasting 471,200 U.S. single-family housing starts for 2011, which is flat with 2010 actual starts.

Our sales in the current quarter were up 0.9% over the same period a year ago despite the difficult housing environment and commodity prices for lumber and lumber sheet goods being, on average, comparable to the first quarter of 2010. We have continued to experience the same competitive pricing conditions that we have been faced with in recent years. However, our gross margin increased 1.1 percentage points during the quarter compared to the prior year due to a slight increase in sales volume along with a decrease of fixed costs in cost of goods sold. We have continued to manage our operating expenses during this downturn with our key focus being to conserve liquidity. During the quarter, our selling, general and administrative expenses decreased \$2.7 million, or 5.5%, from the same period a year ago largely due to a reduction of our average full-time equivalent headcount of approximately 7.0%. The continued execution of our cost containment strategies along with our improved operating results contributed to us ending the quarter with \$115.4 million of total liquidity, which includes \$77.6 million of cash and \$37.8 million of net borrowing availability under our credit facility.

We still believe that the long-term outlook for the housing industry is positive due to growth in the underlying demographics. At this point, it is unclear if housing activity has hit bottom, but we believe our market leadership, financial resources and operating efficiencies afford us the ability to manage through the downturn. We will continue to focus on working capital, maintain our credit standards with our customers and also work with our vendors to improve our payment terms and pricing on our products. We will also continue to work diligently to achieve the appropriate balance of short-term cost reductions while maintaining the expertise to grow the business when market conditions improve. We want to create long-term shareholder value and avoid taking steps that will limit our ability to compete.

SEASONALITY AND OTHER FACTORS

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

- The volatility of lumber prices;
- The cyclical nature of the homebuilding industry;
- General economic conditions in the markets in which we compete;
- The pricing policies of our competitors;
- The production schedules of our customers; and
- The effects of weather.

The composition and level of working capital typically change during periods of increasing sales as we carry more inventory and receivables. Working capital levels typically increase in the second and third quarters of the year due to higher sales during the peak residential construction season. These increases have in the past resulted in negative operating cash flows during this peak season, which generally 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 helped to partially offset this negative cash flow. We have also from time to time utilized our credit facility to cover working capital needs.

Table of Contents**RESULTS OF OPERATIONS**

The following table sets forth, for the three months ended March 31, 2011 and 2010, the percentage relationship to sales of certain costs, expenses and income items:

	Three Months Ended March 31,	
	2011	2010
Sales	100.0%	100.0%
Cost of sales	80.7%	81.8%
Gross margin	19.3%	18.2%
Selling, general and administrative expenses	28.7%	30.6%
Loss from operations	(9.4)%	(12.4)%
Interest expense, net	3.6%	7.0%
Income tax benefit	(0.0)%	(0.1)%
Loss from continuing operations	(13.0)%	(19.3)%
Loss from discontinued operations, net of tax	(0.0)%	(0.1)%
Net loss	(13.0)%	(19.4)%

Three Months Ended March 31, 2011 Compared with the Three Months Ended March 31, 2010

Sales. Sales for the three months ended March 31, 2011 were \$162.8 million, a 0.9% increase from sales of \$161.4 million for the three months ended March 31, 2010. Market prices for lumber and lumber sheet goods in the quarter were, on average, comparable to the same period a year ago. However, actual U.S. single-family housing starts decreased approximately 21% compared to the first quarter of 2010. Despite the trend in housing starts, commodity sales increased by \$3.7 million, or 8.4%, quarter over quarter primarily due to an increase in pricing and to a lesser degree volume. This increase was partially offset by a decline in sales of other building products and services of approximately \$2.3 million.

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

	Three Months Ended March 31,		2010		
	2011	% of	2010	% of	%
	Sales	Sales	Sales	Sales	Change
Prefabricated components	\$ 30.8	18.9%	\$ 32.0	19.8%	(3.7)%
Windows & doors	38.2	23.5%	36.9	22.9%	3.6%
Lumber & lumber sheet goods	48.1	29.5%	44.4	27.5%	8.4%
Millwork	17.7	10.9%	17.8	11.0%	(0.5)%
Other building products & services	28.0	17.2%	30.3	18.8%	(7.7)%
Total sales	\$ 162.8	100.0%	\$ 161.4	100.0%	0.9%

Gross Margin. Gross margin increased \$2.0 million to \$31.4 million. Our gross margin percentage increased from 18.2% in the first quarter of 2010 to 19.3% in the current quarter, a 1.1 percentage point increase. Our gross margin percentage increased primarily due to slightly increased sales volume combined with a decrease of fixed costs in cost of goods sold.

Selling, General and Administrative Expenses. Selling, general and administrative expenses decreased \$2.7 million, or 5.5%. Average full-time equivalent employee headcount for the quarter was 7.0% lower than the year ago quarter, and our salaries and benefits expense, excluding stock compensation expense, decreased \$1.6 million compared to a 0.9% increase in sales. Additionally, our delivery expense decreased \$0.8 million, or 8.3%.

As a percent of sales, selling, general and administrative expenses decreased from 30.6% in 2010 to 28.7% in 2011. Salaries and benefits expense as a percentage of sales decreased 1.1% and delivery costs decreased by 0.6%. We continue to monitor our operating cost structure closely and make adjustments as necessary.

Interest Expense, net. Interest expense was \$5.9 million in the first quarter of 2011, a decrease of \$5.4 million. Interest expense in the first quarter of 2010 included a write-off of \$1.6 million of unamortized debt issuance costs related to long-term debt repaid during the quarter and \$2.5 million of expense related to our rights offering and debt exchange. Interest expense also decreased \$0.8 million from the first quarter of 2010 due to a reduction in fair value adjustments on our interest rate swaps.

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Income Tax Benefit. We recorded no income tax benefit during the quarter compared to \$0.1 million for the three months ended March 31, 2010. We recorded an after-tax, non-cash valuation allowance of \$8.1 million and \$11.6 million, in 2011 and 2010, respectively, related to our net deferred tax assets. Excluding the effect of the valuation allowance, our tax benefit rate would have been 38.4% and 37.6% in 2011 and 2010, respectively.

LIQUIDITY AND CAPITAL RESOURCES

Availability under our \$150 million senior secured revolving credit facility is determined by a borrowing base. The following table shows our borrowing base, excess availability, borrowing availability and fixed charge coverage ratio as of March 31, 2011 and December 31, 2010 (in millions):

	As of	
	March 31, 2011	December 31, 2010
Accounts Receivable Availability	\$ 57.8	\$ 42.8
Inventory Availability	32.0	26.4
Equipment Availability	2.6	2.9
Gross Availability	92.4	72.1
Less:		
Agent Reserves	(2.4)	(3.6)
Borrowing Base	90.0	68.5
Plus:		
Qualified Cash		
Less:		
Outstanding Borrowings	(20.0)	(20.0)
Letters of Credit	(15.9)	(15.9)
Excess Availability	\$ 54.1	\$ 32.6
Less:		
Minimum Liquidity Requirement	(16.3)	(10.0)
Borrowing Availability	\$ 37.8	\$ 22.6
Actual Fixed Charge Coverage Ratio	-1.73 x	-2.06 x
Required Fixed Charge Coverage Ratio*	1.00 x	1.00 x

* Required to be met only if excess availability falls below our minimum liquidity requirement.

Our borrowing base consists of trade accounts receivable, inventory and fixed assets, which meet specific criteria contained within the credit agreement, minus agent specified reserves. Our borrowing base availability, net of the minimum liquidity requirement, at March 31, 2011 was \$37.8 million. Excess availability is the sum of borrowing base plus qualified cash, defined as cash on deposit with the agent subject to a control agreement, minus outstanding borrowings and letters of credit. This amount must equal or exceed a specified minimum liquidity requirement at the monthly reporting dates or we are required to meet a fixed charge coverage ratio of 1 to 1, which we currently would

not meet.

Further declines in our borrowing base, if any, could compel us to either repay outstanding borrowings under the senior secured revolving credit facility or increase our cash on deposit with the agent in order to meet the excess availability requirement. At March 31, 2011, we had \$77.6 million of cash that can be used to either repay the \$35.9 million currently funded under the facility or support any shortfall in the net borrowing base availability. At March 31, 2011, we were not in violation of any covenants or restrictions imposed by any of our debt agreements.

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At March 31, 2011, our total liquidity of \$115.4 million, which consisted of \$77.6 million of cash on hand and \$37.8 million of net borrowing base availability, was slightly better than anticipated. As a result, we still expect our cash usage for fiscal 2011 will be in the range of \$55-\$65 million and to end the year with total liquidity of approximately \$65-\$70 million. We believe our current liquidity is sufficient to meet our needs over the next twelve months. We do not expect working capital or our credit facility to be a significant source of funds during this time period.

On April 4, 2011, we announced our intent to (i) offer \$250 million aggregate principal amount of senior secured notes due 2019 and (ii) amend and extend our senior secured revolving credit facility in conjunction with, and subject to the success of, the notes offering. Given our current liquidity position of over \$115 million, and given that our current revolving credit facility will not expire until December 2012, this proposed financing transaction was opportunistic in nature. The transaction terms being suggested by the market were not acceptable to us, and as a result, we have decided not to move forward with this transaction.

Consolidated Cash Flows

Cash used in operating activities was \$25.3 million and \$26.9 million for the three months ended March 31, 2011 and March 31, 2010, respectively. The decrease in cash used in operating activities was primarily due to lower net operating losses partially offset by an increase in working capital in the first quarter of 2011 compared to the same period a year ago.

During the three months ended March 31, 2011 and 2010, cash used in investing activities was \$0.3 million and \$1.7 million, respectively. The decrease was primarily due to a \$1.3 million decrease in capital expenditures related to buyouts of expiring vehicle and equipment leases in the prior year.

For the three months ended March 31, 2011, there were no cash financing activities compared to cash provided by financing activities of \$69.4 million for the three months ended March 31, 2010. The decrease was primarily due to the net proceeds received upon completion of our rights offering and debt exchange in the first quarter of 2010.

RECENT ACCOUNTING PRONOUNCEMENTS

In October 2009, the FASB issued guidance under the *Multiple Element Revenue Arrangements* topic of the Codification which requires separation of the consideration received in such arrangements by establishing a selling price hierarchy for determining the selling price of a deliverable, which will be based on available information in the following order: vendor-specific objective evidence, third-party evidence, or estimated selling price. It also eliminates the residual method of allocation, requires that the consideration be allocated at the inception of the arrangement to all deliverables using the relative selling price method, which allocates any discount in the arrangement to each deliverable on the basis of each deliverable's selling price, and requires that a vendor determine its best estimate of selling price in a manner that is consistent with that used to determine the price to sell the deliverable on a standalone basis. These changes became effective for us on January 1, 2011, but did not have a material impact on our financial position or results of operations.

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

We experience changes in interest expense when market interest rates change. However, interest expense accrues on our 2016 notes at a 3-month LIBOR (subject to a 3.0% floor) plus 10.0% and would not change unless LIBOR increased to greater than 3.0%. Changes in our debt could also increase these risks. Based on debt outstanding and LIBOR rates at March 31, 2011, a 1.0% increase in interest rates would result in approximately \$0.2 million of additional interest expense annually.

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

Item 4. *Controls and Procedures*

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

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

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

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

Conclusions regarding Disclosure Controls. Based on the required evaluation of our disclosure controls and procedures, our CEO and CFO have concluded that, as of March 31, 2011, 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.

Table of Contents**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, 2010, which could materially affect our business, financial condition or future results. The risks described in our annual report on Form 10-K are not the only risks facing our company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

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

(a) None

Use of Proceeds

(b) Not applicable

Company Stock Repurchases

(c) The following table provides information with respect to our purchases of Builders FirstSource, Inc. common stock during the first quarter of fiscal year 2011:

				Maximum
		Total	Total	Number of
		Number	Average	Shares
		of	Price	That
		Shares	Paid	May
			per	Yet be
			Share	Purchased
				Under the
				Plans
Period		Purchased		or Programs
January 1, 2011	January 31, 2011			
February 1, 2011	February 28, 2011	860	\$ 2.35	
March 1, 2011	March 31, 2011			
Total		860	\$ 2.35	

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

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Item 3. *Defaults upon Senior Securities*

(a) None

(b) None

Item 4. *Reserved*

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 February 11, 2005, among Builders FirstSource, Inc., the Guarantors party thereto, and Wilmington Trust Company, as Trustee (incorporated by reference to Exhibit 4.1 to Amendment No. 1 to the Registration Statement of the Company on Form S-1, filed with the Securities and Exchange Commission on April 27, 2005, File Number 333-122788)
4.3	Supplemental Indenture, dated as of January 8, 2010, among Builders FirstSource, Inc., the Guarantors party thereto, and Wilmington Trust Company, as Trustee (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the Securities Exchange Commission on January 14, 2010, File Number 0-51357)
4.4	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
*	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.

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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)

April 28, 2011

/s/ M. CHAD CROW

M. Chad Crow

Senior Vice President Chief Financial

Officer (Principal Financial Officer)

April 28, 2011

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