

Builders FirstSource, Inc.
Form 10-Q
August 04, 2017

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 June 30, 2017

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	52-2084569
(State or other jurisdiction of	(I.R.S. Employer
incorporation or organization)	Identification No.)
2001 Bryan Street, Suite 1600	
Dallas, Texas	75201
(Address of principal executive offices)	(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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

(Do not check if a small reporting company) Small reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 August 2, 2017 was 112,639,175.

BUILDERS FIRSTSOURCE, INC.

Index to Form 10-Q

	Page
	<u>PART I — FINANCIAL INFORMATION</u>
Item 1.	<u>Financial Statements</u> 3
	<u>Condensed Consolidated Statements of Operations and Comprehensive Income (Unaudited) for the Three and Six Months Ended June 30, 2017 and 2016</u> 3
	<u>Condensed Consolidated Balance Sheets (Unaudited) as of June 30, 2017 and December 31, 2016</u> 4
	<u>Condensed Consolidated Statements of Cash Flows (Unaudited) for the Six Months Ended June 30, 2017 and 2016</u> 5
	<u>Condensed Consolidated Statement of Changes in Stockholders' Equity (Unaudited) for the Six Months Ended June 30, 2017</u> 6
	<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u> 7
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> 15
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u> 24
Item 4.	<u>Controls and Procedures</u> 24
	<u>PART II — OTHER INFORMATION</u>
Item 1.	<u>Legal Proceedings</u> 26
Item 1A.	<u>Risk Factors</u> 26
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u> 26
Item 3.	<u>Defaults Upon Senior Securities</u> 27
Item 4.	<u>Mine Safety Disclosures</u> 27
Item 5.	<u>Other Information</u> 27
Item 6.	<u>Exhibits</u> 28

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements (unaudited)

BUILDERS FIRSTSOURCE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
	(Unaudited)			
	(In thousands, except per share amounts)			
Sales	\$1,843,297	\$1,677,300	\$3,376,361	\$3,074,415
Cost of sales	1,382,500	1,258,969	2,539,512	2,306,335
Gross margin	460,797	418,331	836,849	768,080
Selling, general and administrative expenses	369,456	341,909	705,231	668,878
Income from operations	91,341	76,422	131,618	99,202
Interest expense, net	33,710	42,802	69,867	78,027
Income before income taxes	57,631	33,620	61,751	21,175
Income tax expense	19,721	4,179	20,019	8,714
Net Income	\$37,910	\$29,441	\$41,732	\$12,461
Comprehensive Income	\$37,910	\$29,441	\$41,732	\$12,461
Net income per share:				
Basic	\$0.34	\$0.27	\$0.37	\$0.11
Diluted	\$0.33	\$0.26	\$0.36	\$0.11
Weighted average common shares:				
Basic	112,443	110,339	112,205	110,133
Diluted	115,465	113,504	115,025	112,922

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

BUILDERS FIRSTSOURCE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2017 (Unaudited)	December 31, 2016
	(In thousands, except per share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$6,931	\$14,449
Accounts receivable, less allowances of \$12,657 and \$11,571 at June 30, 2017 and December 31, 2016, respectively	720,639	569,208
Other receivables	52,519	55,781
Inventories, net	651,041	541,771
Other current assets	39,331	34,772
Total current assets	1,470,461	1,215,981
Property, plant and equipment, net	643,295	656,101
Assets held for sale	4,493	4,361
Goodwill	740,411	740,411
Intangible assets, net	145,600	159,373
Deferred income taxes	108,636	115,320
Other assets, net	17,814	18,340
Total assets	\$3,130,710	\$2,909,887
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Checks outstanding	\$32,687	\$35,606
Accounts payable	503,533	409,759
Accrued liabilities	265,605	293,115
Current maturities of long-term debt and lease obligations	12,939	16,217
Total current liabilities	814,764	754,697
Long-term debt and lease obligations, net of current maturities, debt discount and debt issuance costs	1,887,802	1,785,835
Other long-term liabilities	61,039	59,735
Total liabilities	2,763,605	2,600,267
Commitments and contingencies (Note 6)		
Stockholders' equity:		
Preferred stock, \$0.01 par value, 10,000 shares authorized; zero shares issued and outstanding	—	—

Edgar Filing: Builders FirstSource, Inc. - Form 10-Q

at June 30, 2017 and December 31, 2016, respectively

Common stock, \$0.01 par value, 200,000 shares authorized; 112,582 and 111,564 shares issued

and outstanding at June 30, 2017 and December 31, 2016, respectively	1,126	1,115
Additional paid-in capital	534,721	527,868
Accumulated deficit	(168,742)	(219,363)
Total stockholders' equity	367,105	309,620
Total liabilities and stockholders' equity	\$3,130,710	\$2,909,887

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

BUILDERS FIRTSOURCE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six months ended	
	June 30,	2016
	(Unaudited)	
	(In thousands)	
Cash flows from operating activities:		
Net income	\$41,732	\$12,461
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	47,765	61,349
Amortization and write-off of deferred loan costs and debt discount	3,790	4,084
Gain on extinguishment of debt	—	(6,015)
Deferred income taxes	15,573	6,650
Bad debt expense	(588)	(87)
Stock compensation expense	6,379	5,127
Net loss on sale of assets and asset impairments	2,988	996
Changes in assets and liabilities:		
Receivables	(147,501)	(124,728)
Inventories	(107,865)	(67,472)
Other current assets	(3,605)	3,448
Other assets and liabilities	3,417	3,663
Accounts payable and checks outstanding	89,226	111,741
Accrued liabilities	(27,657)	(43,016)
Net cash used in operating activities	(76,346)	(31,799)
Cash flows from investing activities:		
Purchases of property, plant and equipment	(24,568)	(22,672)
Proceeds from sale of property, plant and equipment	2,004	923
Cash used for acquisitions, net	—	(3,970)
Net cash used in investing activities	(22,564)	(25,719)
Cash flows from financing activities:		
Borrowings under revolving credit facility	687,000	479,000
Repayments under revolving credit facility	(588,000)	(435,000)
Repayments of long-term debt and other loans	(5,294)	(42,189)
Payments of debt extinguishment costs	—	(1,050)
Payments of loan costs	(2,799)	(4,452)
Exercise of stock options	2,958	3,430
Repurchase of common stock	(2,473)	(1,092)
Net cash provided by (used in) financing activities	91,392	(1,353)
Net change in cash and cash equivalents	(7,518)	(58,871)
Cash and cash equivalents at beginning of period	14,449	65,063

Cash and cash equivalents at end of period	\$6,931	\$6,192
--	---------	---------

Supplemental disclosure of non-cash activities

For the six months ended June 30, 2017 and 2016, the Company retired assets subject to lease finance obligations of \$5.9 million and \$11.6 million and extinguished the related lease finance obligation of \$5.9 million and \$11.6 million, respectively.

The Company purchased equipment which was financed through capital lease obligations of \$9.9 million and \$5.3 million in the six months ended June 30, 2017 and 2016, respectively.

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

BUILDERS FIRSTSOURCE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

	Common Stock		Additional Paid	Accumulated	Total
	Shares	Amount	in	Deficit	
	(Unaudited)		Capital		
	(In thousands)				
Balance at December 31, 2016	111,564	\$ 1,115	\$ 527,868	\$ (219,363)	\$ 309,620
Vesting of restricted stock units	684	7	(7)	—	—
Stock compensation expense	—	—	6,379	—	6,379
Exercise of stock options	537	6	2,952	—	2,958
Repurchase of common stock	(203)	(2)	(2,471)	—	(2,473)
Cumulative effect adjustment (Note 1)	—	—	—	8,889	8,889
Net income	—	—	—	41,732	41,732
Balance at June 30, 2017	112,582	\$ 1,126	\$ 534,721	\$ (168,742)	\$ 367,105

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

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 of building materials, manufactured components and construction services to professional contractors, sub-contractors, and consumers. The Company operates 400 locations in 40 states across 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. Intercompany transactions are eliminated in consolidation.

The condensed consolidated balance sheet as of December 31, 2016 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, 2016 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, 2016 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.

Recent Accounting Pronouncements

In May 2017, the Financial Accounting Standards Board (“FASB”) issued an update to the existing guidance under the Compensation-Stock Compensation topic of the Accounting Standards Codification (“Codification”) to clarify when modification accounting would be applied for a change to the terms or conditions of a share-based award. Under this new guidance modification accounting is required only if the fair value, the vesting conditions, or the classification of the award changes as a result of the change in terms or conditions. This guidance is required to be adopted on a prospective basis for annual periods beginning on or after December 15, 2017 with early adoption permitted. The Company does not regularly modify the terms and conditions of its share-based awards and does not expect the adoption of this guidance to have a significant impact on our financial statements.

In January 2017, the FASB issued an update to the existing guidance under the Intangibles-Goodwill and Other topic of the Codification to simplify the accounting for goodwill impairment. The guidance removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. A goodwill impairment will now be the amount by which a reporting unit’s carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. All of the other goodwill impairment guidance will remain largely unchanged, including the option to perform a qualitative assessment to determine if a quantitative impairment test is necessary. This update is effective for annual and any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early

adoption of this guidance is permitted for annual or interim goodwill tests performed after January 1, 2017. As such, the Company intends to adopt this guidance in the fourth quarter of 2017 in connection with its annual goodwill impairment test. This guidance will be applied on a prospective basis following adoption.

In January 2017, the FASB issued an update to the existing guidance under the Business Combinations topic of the Codification. This update revises the definition of a business. Under this guidance when substantially all of the assets acquired are concentrated in a single asset (or group of similar assets) the assets acquired would not be considered a business. If this initial screen is met the need for further assessment is eliminated. If this screen is not met in order to be considered a business an acquisition would have to include an input and a substantive process that together significantly contribute to the ability to create outputs. This update is effective for public companies for annual and interim reporting periods beginning after December 15, 2017. Early adoption of this guidance is permitted. This guidance requires prospective application following adoption. While the Company is still evaluating this updated guidance, the impact on our financial statements will depend upon the occurrence of any future acquisition activity.

In March 2016, the FASB issued an update to the existing guidance under the Compensation-Stock Compensation topic of the Codification. This update simplifies several aspects of accounting for stock compensation including accounting for income taxes, classification of awards as liabilities or equity, forfeitures and classification on the statement of cash flows. This update was effective for public companies for annual and interim reporting periods beginning after December 15, 2016. As such, we adopted this guidance effective January 1, 2017. Upon adoption the Company recognized \$8.9 million in previously unrecorded windfall benefits on a modified retrospective basis through a cumulative-effect adjustment to the beginning balance of our accumulated deficit. All windfalls

or shortfalls are now recognized as a component of income tax expense in the period they occur. The Company elected to recognize the effect of pre-vesting forfeitures as they actually occur rather than estimating forfeitures each period.

In February 2016, the FASB issued an update to the existing guidance under the Leases topic of the Codification. Under the new guidance, lessees will be required to recognize the following for all leases, with the exception of short-term leases, at the commencement date: (1) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. This update requires a modified retrospective transition as of the beginning of the earliest comparative period presented in the financial statements. This update is effective for public companies for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with early adoption permitted. The Company has a significant number of leases, primarily related to real estate and rolling stock, which are accounted for as operating leases under existing guidance. While we are currently evaluating the impact of this new guidance on our financial statements, we are expecting a significant impact to our balance sheet upon adoption.

In July 2015, the FASB issued an update to the existing guidance under the Inventory topic of the Codification. This update changes the subsequent measurement of inventory from lower of cost or market to lower of cost and net realizable value. We adopted this guidance effective January 1, 2017 on a prospective basis. The adoption of this guidance did not have an impact on our financial statements.

In May 2014, the FASB issued an update to the existing guidance under the Revenue Recognition topic of the Codification which is a comprehensive new revenue recognition model requiring a company to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Subsequent to issuance of the original update, the FASB issued several further updates amending this new guidance. In April 2016, the FASB issued an update clarifying issues related to identifying performance obligations and licensing. In May 2016, the FASB issued an update regarding the assessment of collectability criteria, presentation of sales taxes, measurement of noncash consideration and transition guidance for completed contracts and contract modifications. The Company intends to adopt this guidance beginning on January 1, 2018 on a modified retrospective basis. While we are still evaluating the impact of these updates on our financial statements, we anticipate that this guidance will primarily impact our contracts with service elements. Under current guidance, we recognize sales from contracts with service elements on the completed contract method when these contracts are completed within 30 days. The remaining contracts with service elements are recognized under the percentage of completion method. Under this updated guidance, we anticipate that revenue related to our contracts with service elements will generally be recognized over time based on the extent of progress towards completion of the performance obligation because of continuous transfer of control to the customer. We anticipate the impact from adoption to primarily be associated with deferred revenue on contracts outstanding at December 31, 2017 accounted for under the completed contract method, which is anticipated to be generally recognized earlier under this new guidance.

2. Net Income per Common Share

Net income 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.

For the purpose of computing diluted EPS, weighted average shares outstanding have been adjusted for common shares underlying 3.0 million options and 2.2 million restricted stock units (“RSUs”) for the three and six months ended June 30, 2017. Weighted average shares outstanding have been adjusted for common shares underlying 4.3 million options and 2.2 million RSUs for the three and six months ended June 30, 2016.

The table below presents a reconciliation of weighted average common shares used in the calculation of basic and diluted EPS (in thousands):

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
Weighted average shares for basic EPS	112,443	110,339	112,205	110,133
Dilutive effect of options and RSUs	3,022	3,165	2,820	2,789
Weighted average shares for diluted EPS	115,465	113,504	115,025	112,922

3. Debt

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

	June 30,	December 31,
	2017	2016
2022 facility	\$99,000	\$ —
2023 notes	367,608	367,608
2024 notes	750,000	750,000
2024 term loan	465,300	467,650
Lease finance obligations	231,975	238,539
Capital lease obligations	15,131	7,427
	1,929,014	1,831,224
Unamortized debt discount and debt issuance costs	(28,273)	(29,172)
	1,900,741	1,802,052
Less: current maturities of long-term debt and lease obligations	12,939	16,217
Long-term debt and lease obligations, net of current maturities	\$ 1,887,802	\$ 1,785,835

2017 Debt Transactions

In the first quarter of 2017 the Company executed two debt transactions which are described in more detail below. These transactions included a repricing and extension of our \$470.0 million term loan facility originally due 2022 (“2015 term loan”) as well as increasing the borrowing capacity and extending the maturity of our \$800.0 million revolving credit facility (“2015 facility”). These transactions have further extended our debt maturity profile and reduced our annual cash interest on a go forward basis.

Term Loan Amendment

On February 23, 2017, we repriced our 2015 term loan through an amendment and extension of the term loan credit agreement providing for a \$467.7 million senior secured term loan facility due 2024 (“2024 term loan”). This repricing reduces the interest rate by 0.75% and extends the maturity by 19 months to February 29, 2024.

The 2024 term loan bears interest based on either a eurodollar or base rate (a rate equal to the highest of an agreed commercially available benchmark rate, the federal funds effective rate plus 0.50% or the eurodollar rate plus 1.0%, as selected by the Company) plus, in each case, an applicable margin. The applicable margin in the 2024 term loan is (x) 3% in the case of Eurodollar rate loans and (y) 2% in the case of base rate loans. These rates represents a 0.75% reduction from the 2015 term loan. Deutsche Bank AG New York Branch continues to serve as administrative agent and collateral agent under the 2024 term loan agreement.

In connection with the 2024 term loan amendment we recognized \$0.4 million in interest expense in the first quarter of 2017 related to the write-off of unamortized debt discount and debt issuance costs. We incurred \$1.2 million in lender fees which, together with \$10.0 million in remaining unamortized debt discount and debt issuance costs, have been recorded as a reduction of long-term debt and are being amortized over the remaining contractual life of the 2024 term loan using the effective interest method. In addition, we also incurred \$1.4 million in various third-party fees and expenses related to the 2024 term loan amendment which were recorded to interest expense in the first quarter of

2017.

Revolving Credit Facility Amendment

On March 22, 2017, the Company extended the maturity date and increased the revolving commitments under its 2015 facility. This transaction resulted in an amended and restated \$900.0 million revolving credit facility (“2022 facility”) and extended the maturity by 20 months to March 22, 2022. SunTrust Bank continues to serve as administrative agent and collateral agent under the 2022 facility agreement. All other material terms of the 2022 facility remain unchanged from those of the 2015 facility.

In connection with the 2022 facility amendment, we recognized \$0.6 million in interest expense in the first quarter of 2017 related to the write-off of unamortized debt issuance costs. We incurred \$1.6 million in lender and third-party fees which, together with \$8.5 million in remaining unamortized debt issuance costs, have been recorded as other assets and are being amortized over the remaining contractual life of the 2022 facility on a straight-line basis.

9

2022 Facility Borrowings

As of June 30, 2017, we have \$99.0 million in borrowings outstanding under our 2022 facility. During the first six months of 2017, we borrowed \$687.0 million and repaid \$588.0 million at a weighted average interest rate of 2.8%.

2024 Term Loan

As of June 30, 2017, we have \$465.3 million in borrowings outstanding under our 2024 term loan at a weighted average interest rate of 4.3%. During the first six months of 2017, we repaid \$2.4 million of the 2024 term loan.

We were not in violation of any covenants or restrictions imposed by any of our debt agreements at June 30, 2017.

Fair Value

As of June 30, 2017 and December 31, 2016, the Company does not have any financial instruments which are measured at fair value on a recurring basis. We have elected to report the value of our 2023 notes, 2024 notes, and 2024 term loan at amortized cost. The fair values of the 2023 notes, the 2024 notes and the 2024 term loan at June 30, 2017 were approximately \$425.4 million, \$781.8 million and \$464.7 million, respectively, and were determined using Level 2 inputs based on market prices.

4. Employee Stock-Based Compensation

Time Based Restricted Stock Unit Grants

In the first quarter of 2017, our board of directors granted 405,000 RSUs to employees under our 2007 and 2014 Incentive Plans for which vesting is based solely on continuous employment over the requisite service period. 348,000 of the RSUs vest at 33% per year at each anniversary of the grant date over the next three years and 57,000 RSUs vest at 25% per year at each anniversary of the grant date over the next four years. The weighted average grant date fair value for these RSUs was \$14.31 per share, which was based on the closing stock price on the grant dates.

Performance and Service Condition Based Restricted Stock Unit Grants

In the first quarter of 2017, our board of directors granted 174,000 RSUs to employees under our 2007 and 2014 Incentive Plans, that vest if the compound annual growth rate of the Company's total sales in 2019 over 2016 exceeds a composite annual growth rate based on single-family housing starts, multi-family housing starts, and growth in repair and remodeling sales over the same period. Assuming continued employment and if the performance vesting condition is achieved, these awards will cliff vest on the third anniversary of the grant date. The weighted average grant date fair value for these RSUs was \$14.54 per share, which was based on the closing stock price on the grant dates.

Market and Service Condition Based Restricted Stock Unit Grants

In the first quarter of 2017, our board of directors granted 174,000 RSUs to employees under our 2007 and 2014 Incentive Plans for which vesting is contingent upon the Company's total shareholder return exceeding the median total shareholder return of the Company's peer group over a three year measurement period. Assuming continued employment and if the market vesting condition is met, these awards will cliff vest on the third anniversary of the grant date. The weighted average grant date fair value for these RSUs was \$11.49 per share, which was determined using the Monte Carlo simulation model using the following weighted average assumptions:

Expected volatility (company)	73.7%
Expected volatility (peer group median)	33.8%
Correlation between the company and peer group median	0.33
Expected dividend yield	0.00%
Risk-free rate	1.5%

The expected volatilities and correlation are based on the historical daily returns of our common stock and the common stocks of the constituents of the Company's peer group over the most recent period equal to the measurement period. 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. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant and has a term equal to the measurement period.

Stock Option Grant

In the first quarter of 2017, our board of directors granted 57,000 stock options to employees under our 2014 Incentive Plan. All the awards vest at 25% per year at each anniversary of the grant date over four years. The exercise price for the options was \$12.94 per share, which was the closing stock price on the grant date. The weighted average grant date fair value of the options was \$7.26 and was determined using the Black-Scholes option-pricing model with the following weighted average assumptions:

Expected life	6.0 years
Expected volatility	59.2%
Expected dividend yield	0.00%
Risk-free rate	2.2%

The expected life represents the period of time the options are expected to be outstanding. We used the simplified method for determining the expected life assumption due to limited historical exercise experience on our stock options. The expected volatility is based on the historical volatility of our common stock over the most recent period equal to the expected life of the option. 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. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant and has a term equal to the expected life of the options.

5. Income Taxes

A reconciliation of the statutory federal income tax rate to our effective rate for continuing operations is provided below:

	Three Months Ended		Six Months Ended	
	June 30, 2017	2016	June 30, 2017	2016
Statutory federal income tax rate	35.0 %	35.0 %	35.0 %	35.0 %
State income taxes, net of federal income tax	5.0	5.0	5.1	5.1
Valuation allowance	(6.4)	(29.5)	(6.0)	(1.3)
Stock compensation windfall benefit	(0.6)	—	(3.4)	—
Permanent differences	1.4	1.9	1.3	2.4
Other	(0.2)	0.0	0.4	0.0
	34.2 %	12.4 %	32.4 %	41.2 %

As discussed in Note 1 the Company adopted updated guidance related to the accounting for stock compensation in the first quarter of 2017. As a result of this updated guidance all windfalls or shortfalls are now recognized as a component of income tax expense in the period they occur.

We evaluate our deferred tax assets on a quarterly basis to determine whether a valuation allowance is required. In accordance with the Income Taxes topic of the Codification we assess whether it is more likely than not that some or all of our deferred tax assets will not be realized. Significant judgment is required in estimating valuation allowances for deferred tax assets and in making this determination, we consider all available positive and negative evidence and make certain assumptions. The realization of a deferred tax asset ultimately depends on the existence of sufficient taxable income in the applicable carryback or carryforward periods. We consider nature, frequency, and severity of current and cumulative losses, as well as historical and forecasted financial results, the overall business environment, our industry's historic cyclical, the reversal of existing deferred tax liabilities, and tax planning strategies in our assessment. Changes in our estimates of future taxable income and tax planning strategies will affect our estimate of the realization of the tax benefits of these tax carryforwards. As of June 30, 2017, the Company needed to generate approximately \$262.9 million of pre-tax income in future periods to fully realize its net federal deferred tax assets.

We recorded a full valuation allowance in 2008 due to our cumulative three year loss position at that time, compounded by the negative industry-wide business trends and outlook. We remained in a cumulative three year loss position until the second quarter of 2016. In the third quarter of 2016 management determined that there was sufficient positive evidence to conclude that it is more likely than not that the valuation allowance should be released against our net federal and some state deferred tax assets.

During the second quarter of 2017, as a result of executing certain tax planning strategies related to legal entity conversions, we consider it more likely than not that we will utilize almost all of our state net operating loss carryovers. Therefore, we recorded a reduction to the associated valuation allowance of \$3.7 million for the three and six months ended June 30, 2017. We recorded

reductions to the valuation allowance of \$16.0 million and \$10.9 million for the three and six months ended June 30, 2016, respectively, against our net deferred tax assets as we generated income during those periods.

Section 382 of the Internal Revenue Code imposes annual limitations on the utilization of net operating loss (“NOL”) carryforwards, other tax carryforwards, and certain built-in losses upon an ownership change as defined under that section. In general terms, an ownership change may result from transactions that increase the aggregate ownership of certain stockholders in the Company’s stock by more than 50 percentage points over a three year testing period (“Section 382 Ownership Change”). In the first quarter of 2017, affiliates of a significant shareholder sold approximately 41.1% of their investment in the Company, which did not trigger a Section 382 Ownership change. Future significant sales of our common stock could cause the Company to experience a Section 382 Ownership Change. If the Company were to experience a Section 382 Ownership Change, an annual limitation would be imposed on certain of the Company’s tax attributes, including NOL and capital loss carryforwards, and certain other losses, credits, deductions or tax basis.

We base our estimate of deferred tax assets and liabilities on current tax laws and rates. In certain cases, we also base our estimate on business plan forecasts and other expectations about future outcomes. Changes in existing tax laws or rates could affect our actual tax results, and future business results may affect the amount of our deferred tax liabilities or the valuation of our deferred tax assets over time. Due to uncertainties in the estimation process, particularly with respect to changes in facts and circumstances in future reporting periods, as well as the residential homebuilding industry’s cyclicity and sensitivity to changes in economic conditions, it is possible that actual results could differ from the estimates used in previous analyses.

Accounting for deferred taxes is based upon estimates of future results. Differences between the anticipated and actual outcomes of these future results could have a material impact on our consolidated results of operations or financial position.

6. Commitments and Contingencies

Since the fourth quarter of 2016, the Company has seen an increased occurrence of known and threatened construction defect legal claims primarily in two states. While these claims are generally covered under the Company’s existing insurance programs to the extent any loss exceeds the deductible, there is a reasonable possibility of loss that is not able to be estimated at this time because (i) many of the proceedings are in the discovery stage, (ii) the outcome of future litigation is uncertain, and/or (iii) the complex nature of the claims. Although the Company cannot estimate a reasonable range of loss based on currently available information, the resolution of these matters could have a material adverse effect on the Company's financial position, results of operations or cash flows.

In addition, we are involved in various other 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 such claims and lawsuits. Although the ultimate disposition of these other proceedings cannot be predicted with certainty, management believes the outcome of any such claims that are 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 adverse judgments and costs would not be material to our results of operations or liquidity for a particular period.

7. Segment and Product Information

We offer an integrated solution to our customers providing manufacturing, supply, and installation of a full range of structural and related building products. We provide a wide variety of building products and services directly to homebuilder customers. We manufacture floor trusses, roof trusses, wall panels, stairs, millwork, windows, and doors. We also provide a full range of construction services. These product and service offerings are distributed across approximately 400 locations operating in 40 states across the United States, which are organized into nine geographical regions. Centralized financial and operational oversight, including resource allocation and assessment of performance on an income (loss) before income taxes basis, is performed by our CEO, whom we have determined to be our chief operating decision maker (“CODM”).

The Company has nine operating segments aligned with its nine geographical regions (Regions 1 through 9). While all of our operating segments have products, distribution methods and customers of a similar nature, certain of our operating segments have been aggregated due to also containing similar economic characteristics, resulting in the following composition of reportable segments:

• Regions 1 and 2 have been aggregated to form the “Northeast” reportable segment

• Regions 3 and 5 have been aggregated to form the “Southeast” reportable segment

12

Regions 4 and 6 have been aggregated to form the “South” reportable segment

Region 7, 8 and 9 have been aggregated to form the “West” reportable segment

In addition to our reportable segments, our consolidated results include corporate overhead, other various operating activities that are not internally allocated to a geographical region nor separately reported as a single unit to the CODM, and certain reconciling items primarily related to allocations of corporate overhead and rent expense, which have collectively been presented as “All Other”. The accounting policies of the segments are consistent with those referenced in Note 1, except for noted reconciling items.

The following tables present Net sales, income (loss) before income taxes and certain other measures for the reportable segments, reconciled to consolidated total continuing operations, for the periods indicated (in thousands):

Three months ended June 30, 2017				
				Income (loss)
		Depreciation & Amortization	Interest	before income taxes
Reportable segments	Net Sales			
Northeast	\$325,526	\$ 3,475	\$5,353	\$11,853
Southeast	389,743	2,687	5,866	14,356
South	481,099	4,936	6,138	25,165
West	589,241	7,126	8,064	36,647
Total reportable segments	1,785,609	18,224	25,421	88,021
All other	57,688	5,949	8,289	(30,390)
Total consolidated	\$1,843,297	\$ 24,173	\$33,710	\$57,631

Three months ended June 30, 2016				
				Income (loss)
		Depreciation & Amortization	Interest	before income taxes
Reportable segments	Net Sales			
Northeast	\$325,765	\$ 5,406	\$4,608	\$12,456
Southeast	363,982	3,134	4,751	12,702
South	427,727	5,812	5,661	19,822
West	522,812	9,733	7,092	28,477
Total reportable segments	1,640,286	24,085	22,112	73,457
All other	37,014	6,473	20,690	(39,837)
Total consolidated	\$1,677,300	\$ 30,558	\$42,802	\$33,620

Six months ended June 30, 2017				
				Income (loss)
		Depreciation & Amortization	Interest	before income taxes
Reportable segments	Net Sales			
Northeast	\$608,296	\$ 6,953	\$10,252	\$14,790
Southeast	743,716	5,193	11,191	24,418
South	930,952	9,729	11,722	46,496
West	998,278	14,064	15,164	33,495
Total reportable segments	3,281,242	35,939	48,329	119,199
All other	95,119	11,826	21,538	(57,448)
Total consolidated	\$3,376,361	\$ 47,765	\$69,867	\$61,751

Six months ended June 30, 2016				
				Income (loss)
		Depreciation & Amortization	Interest	before income taxes
Reportable segments	Net Sales			
Northeast	\$583,785	\$ 10,889	\$8,758	\$15,065
Southeast	670,588	6,304	9,066	19,650
South	833,124	11,882	10,841	35,673
West	908,791	19,386	13,211	27,248
Total reportable segments	2,996,288	48,461	41,876	97,636
All other	78,127	12,888	36,151	(76,461)
Total consolidated	\$3,074,415	\$ 61,349	\$78,027	\$21,175

Asset information by segment is not reported internally or otherwise reviewed by the CODM nor does the Company earn revenues or have long-lived assets located in foreign countries. The Company's net sales by product category for the periods indicated were as follows (in thousands):

	Three Months Ended		Six Months Ended	
	June 30, 2017	2016	June 30, 2017	2016
Lumber & lumber sheet goods	\$657,016	\$560,877	\$1,187,711	\$1,022,292

Edgar Filing: Builders FirstSource, Inc. - Form 10-Q

Manufactured products	312,496	286,446	582,315	522,679
Windows, doors & millwork	359,514	329,424	669,212	626,092
Gypsum, roofing & insulation	144,250	138,662	261,457	250,964
Siding, metal & concrete products	178,208	168,070	315,418	300,036
Other building products & services	191,813	193,821	360,248	352,352
Net sales	\$1,843,297	\$1,677,300	\$3,376,361	\$3,074,415

8. Related Party Transactions

Floyd F. Sherman, our chief executive officer, and Brett Milgrim, a member of the Company's board of directors, serve on the board of directors for PGT, Inc. We purchased windows from PGT, Inc. totaling \$4.1 million and \$3.1 million for the three months ended June 30, 2017 and 2016 respectively. We purchased windows from PGT, Inc. totaling \$6.5 million and \$5.2 million for the six months ended June 30, 2017 and 2016 respectively. We had accounts payable to PGT, Inc. in the amounts of \$1.7 million and \$1.4 million as of June 30, 2017 and December 31, 2016, respectively.

Transactions between the Company and other related parties occur in the ordinary course of business. However, the Company carefully monitors and assesses related party relationships. Management does not believe that any of these transactions with related parties had a material impact on the Company's results for the three and six months ended June 30, 2017 and 2016.

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, 2016 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 and the schedules hereto that are not purely historical facts or that necessarily depend upon future events, including statements about expected market share gains, forecasted financial performance or other statements about 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. Readers are cautioned not to place undue reliance on 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. All forward-looking statements are based upon information available to Builders FirstSource, Inc. on the date this report was submitted. Builders FirstSource, Inc. undertakes 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 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, including risks or uncertainties related to the Company's growth strategies, including gaining market share, or the Company's revenues and operating results being highly dependent on, among other things, the homebuilding industry, lumber prices and the economy. Builders FirstSource, Inc. may not succeed in addressing these and other risks. Further information regarding factors that could affect our financial and other results can be found in the risk factors section of Builders FirstSource, Inc.'s most recent annual report on Form 10-K filed with the Securities and Exchange Commission. Consequently, all forward-looking statements in this report are qualified by the factors, risks and uncertainties contained therein.

COMPANY OVERVIEW

We are a leading supplier of building materials, manufactured components and construction services to professional contractors, sub-contractors, and consumers. The Company operates 400 locations in 40 states across the United States. Given the span and depth of our geographical reach, our locations are organized into nine geographical regions (Regions 1 through 9), which are also our operating segments and these are further aggregated into four reportable segments: Northeast, Southeast, South and West. All of our segments have similar customers, products and services, and distribution methods. Our financial statements contain additional information regarding segment performance which is discussed in Note 7 to the condensed consolidated financial statements included in Item 1 of this quarterly report on Form 10-Q.

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, vinyl windows, custom millwork and trim, as well as engineered wood that we design, cut, and assemble 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 and various window, door and millwork lines. 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 six product categories:

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

• **Manufactured Products.** Manufactured products consist of wood floor and roof trusses, steel roof trusses, wall panels, stairs, and engineered wood.

• **Windows, Door & Millwork.** Windows & doors are comprised of the manufacturing, assembly, and distribution of windows and the assembly and distribution of interior and exterior door units. Millwork includes interior trim and custom features that we manufacture under the Synboard[®] brand name.

• **Gypsum, Roofing & Insulation.** Gypsum, roofing, & insulation include wallboard, ceilings, joint treatment and finishes.

15

Siding, Metal, and Concrete. Siding, metal, and concrete includes vinyl, composite, and wood siding, exterior trim, other exteriors, metal studs and cement.

Other Building Products & Services. Other building products & services are comprised of products such as cabinets and hardware as well as services such as turn-key framing, shell construction, design assistance, and professional installation spanning the majority 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 both the residential new construction market and the residential repair and remodel market, which are in turn dependent upon a number of factors, including demographic trends, interest rates, consumer confidence, employment rates, foreclosure rates, the availability of skilled construction labor, and the health of the economy and mortgage markets. According to the U.S. Census Bureau, the annualized rate for U.S. single-family housing starts was 849,000 as of June 30, 2017. However, single-family housing starts remain well below the normalized historical average of 1.1 million per year. The housing industry is currently experiencing a shortage of skilled construction labor, which we believe is constraining housing activity. Due to the lower levels in housing starts and substantial competition for homebuilder business, we have and will continue to experience pressure on our gross margins. In addition to these factors, there has been a trend of consolidation within the building products supply industry. However, our industry remains highly fragmented and competitive and we will continue to face significant competition from local and regional suppliers. We still believe there are several meaningful trends that indicate U.S. housing demand will recover to the historical average in the long term and that the downturn in the housing industry was 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. Industry forecasters, including the National Association of Homebuilders (“NAHB”), expect to see continued improvement in housing demand over the next few years.

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 as larger homebuilders have better liquidity and land positions 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 servicing large homebuilders with certain profitability expectations. We expect that our ability to maintain strong relationships with the largest builders will be vital to our ability to expand into new markets as well as grow our market share. Additionally, we have been successful in expanding our custom homebuilder customer base while maintaining acceptable credit standards.

Repair and remodel end market. Although the repair and remodel end market is influenced by housing starts to a lesser degree than the homebuilding market, the repair and remodel end market is still dependent upon some of the same factors as the homebuilding market, including demographic trends, interest rates, consumer confidence, employment rates, foreclosure rates, and the health of the economy and home financing markets. We expect that our ability to remain competitive in this space as well as grow our market share will depend on our continued ability to provide a high level of customer service coupled with a broad product offering.

Use of Prefabricated Components. Homebuilders are increasingly using prefabricated components in order to realize increased efficiency and improved quality. Shortening cycle time from start to completion is a key imperative of the homebuilders during periods of strong consumer demand. While the conversion of customers to this product offering slowed during the downturn, we see the demand for prefabricated components increasing as the residential new construction market continues to strengthen and the availability of skilled construction labor remains limited.

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 and local economic conditions, labor costs and availability, competition, government regulation, trade policies and other factors that affect the homebuilding industry such as demographic trends, interest rates,

single-family housing starts, the availability of suitable building lots, employment levels, consumer confidence, and the availability of credit to homebuilders, contractors, and homeowners. During the downturn, mortgage financing and commercial credit for smaller homebuilders was severely constrained and continues to slow a recovery in our industry despite some recent improvement. As the housing industry is dependent upon the economy as well as potential homebuyers' access to mortgage financing and homebuilders' access to commercial credit, it is likely that the housing industry will not fully recover to the historical average until conditions in the consumer economy and credit markets further improve.

16

• **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. 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 striving to be the low-cost building materials supplier in the markets we serve. We pay close attention to managing our working capital and operating expenses. Further, we pay careful attention to our logistics function and its effect on our shipping and handling costs.

• **Multi-Family and Light Commercial Business.** Our primary focus has been, and continues to be, on single-family residential new construction and the repair and remodel end market. However, we will continue to identify opportunities for profitable growth in the multi-family and light commercial markets.

• **Reduction of Debt:** As a result of the 2015 ProBuild acquisition, we have substantial indebtedness. Debt reduction will continue to be a key area of focus for the Company.

RECENT DEVELOPMENTS

In the first quarter of 2017, the Company executed two debt transactions which are described in more detail below. These transactions further extended our debt maturity profile and reduced our annual cash interest on a go forward basis.

On February 23, 2017, we repriced and extended our \$470.0 million term loan facility originally due in 2022 through an amendment and extension of the term loan credit agreement providing for a \$467.7 million senior secured term loan facility due 2024 (“2024 term loan”). This repricing reduces the interest rate by 0.75% and extends the maturity by 19 months to February 29, 2024. As a result of this amendment, we recognized \$1.8 million in interest expense in the first quarter of 2017, of which \$1.4 million related to third-party fees incurred in connection with the transaction and \$0.4 million related to the write-off of unamortized debt discount and debt issuance costs.

On March 22, 2017, the Company extended the maturity date and increased the revolving commitments under its existing \$800.0 million revolving credit facility. This transaction resulted in an amended and restated \$900.0 million revolving credit facility (“2022 facility”) with a maturity date of March 22, 2022. As a result of this amendment, we recognized \$0.6 million in interest expense in the first quarter of 2017 related to the write-off of unamortized debt issuance costs.

CURRENT OPERATING CONDITIONS AND OUTLOOK

Though the level of housing starts remains below the historical average, the homebuilding industry has shown improvement since 2011. For the second quarter of 2017, actual U.S. single-family housing starts were 237,300, a 9.0% increase compared to the second quarter of 2016. U.S. single-family units under construction increased 6.8% during the second quarter of 2017 compared to the same quarter a year ago. While the housing industry has strengthened over the past few years, the limited availability of credit to smaller homebuilders and potential homebuyers, as well as the high demand for a limited supply of skilled construction labor and the slow economic recovery, among other factors, have hampered a stronger recovery. A composite of third party sources, including the NAHB, are forecasting 855,000 U.S single family housing starts for 2017, which is an increase of 9.4% from 2016. In addition, the Home Improvement Research Institute (“HIRI”) is forecasting sales in the professional repair and remodel end market to increase approximately 4.5% in 2017 compared to 2016.

Our net sales for the second quarter of 2017 were up 9.9% over the same period last year. We estimate that our sales volume increased 3.8%, while commodity price inflation resulted in an additional 6.1% increase in sales during the second quarter of 2017 compared to the second quarter of 2016. Our gross margin percentage increased by 0.1% during the second quarter of 2017 compared to the second quarter of 2016. Our gross margin percentage increased due to procurement savings, which were mostly offset by commodity price inflation during the second quarter of 2017 relative to our short-term customer pricing commitments. We continue to invest in our business to improve our operating efficiency, which has allowed us to better leverage our operating costs against changes in net sales. Our selling, general and administrative expenses, as a percentage of net sales, were 20.0% in the second quarter of 2017, a 0.4% decrease from 20.4% in the second quarter of 2016. This decrease in selling, general and administrative expenses, as a percentage of net sales, was primarily attributable to the decline in depreciation and amortization on acquired ProBuild assets, offset by investments the Company made towards growth initiatives, including additional sales associates.

We still believe that the long-term outlook for the housing industry is positive due to growth in the underlying demographics. We feel we are well-positioned to take advantage of the construction activity in our markets and to increase our market share, which may include strategic acquisitions. We will continue to focus on working capital by closely monitoring the credit exposure of our customers and by working with our vendors to improve our payment terms and pricing on our products. We will also continue to work diligently to achieve the appropriate balance of short-term expense control while maintaining the expertise and capacity to grow the business as market conditions improve. In addition, debt reduction will continue to be a key area of focus for the Company. 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 generally expected to continue to be, adversely affected by weather causing reduced construction activity during these quarters. In addition, quarterly results historically have reflected, and are expected to continue to reflect, fluctuations from period to period arising from the following:

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

The composition and level of working capital typically change during periods of increasing sales as we carry more inventory and receivables. Working capital levels typically increase in the second and third quarters of the year due to

higher sales during the peak residential construction season. These increases have in the past resulted in negative operating cash flows during this peak season, which historically have been financed through available cash and borrowing availability under credit facilities. Collection of receivables and reduction in inventory levels following the peak building and construction season have in the past positively impacted cash flow.

RESULTS OF OPERATIONS

The following table sets forth, for the three and six months ended June 30, 2017 and 2016, the percentage relationship to net sales of certain costs, expenses and income items:

	Three Months Ended		Six Months Ended	
	June 30, 2017	2016	June 30, 2017	2016
Net sales	100.0 %	100.0 %	100.0 %	100.0 %
Cost of sales	75.0 %	75.1 %	75.2 %	75.0 %
Gross margin	25.0 %	24.9 %	24.8 %	25.0 %
Selling, general and administrative expenses	20.0 %	20.4 %	20.9 %	21.8 %
Income from operations	5.0 %	4.5 %	3.9 %	3.2 %
Interest expense, net	1.8 %	2.6 %	2.1 %	2.5 %
Income tax expense	1.1 %	0.2 %	0.6 %	0.3 %
Net income	2.1 %	1.7 %	1.2 %	0.4 %

Three Months Ended June 30, 2017 Compared with the Three Months Ended June 30, 2016

Net Sales. Net sales for the three months ended June 30, 2017 were \$1,843.3 million, a 9.9% increase over net sales of \$1,677.3 million for the three months ended June 30, 2016. We estimate that our sales volume increased 3.8%, while commodity price inflation resulted in an additional 6.1% increase in sales during the second quarter of 2017 compared to the second quarter of 2016. According to the U.S. Census Bureau, actual U.S. single-family housing starts increased 9.0% and single-family units under construction increased 6.8% in the second quarter of 2017 compared to the second quarter of 2016.

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

	Three Months Ended June 30, 2017		2016		% Change
	Net Sales	% of Net Sales	Net Sales	% of Net Sales	
Lumber & lumber sheet goods	\$657.0	35.6 %	\$560.9	33.4 %	17.1 %
Manufactured products	312.5	17.0 %	286.4	17.1 %	9.1 %
Windows, doors & millwork	359.5	19.5 %	329.4	19.6 %	9.1 %
Gypsum, roofing & insulation	144.2	7.8 %	138.7	8.3 %	4.0 %
Siding, metal & concrete products	178.2	9.7 %	168.1	10.0 %	6.0 %
Other building products & services	191.9	10.4 %	193.8	11.6 %	(1.0) %
Net sales	\$1,843.3	100.0 %	\$1,677.3	100.0 %	9.9 %

The impact of commodity price inflation in the second quarter of 2017 resulted in the sales growth of our lumber and lumber sheet goods category exceeding the sales growth of our other product categories.

Gross Margin. Gross margin increased \$42.5 million to \$460.8 million. Our gross margin percentage increased to 25.0% in the second quarter of 2017 from 24.9% in the second quarter of 2016, a 0.1% increase. Our gross margin percentage increased due to procurement savings, which was mostly offset by commodity price inflation during the second quarter of 2017 relative to our short-term customer pricing commitments.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased \$27.5 million, or 8.1%. Our salaries and benefits expense was \$244.7 million, an increase of \$20.2 million from the second quarter of 2016, and stock compensation expense increased \$0.9 million. Office general and administrative expense increased \$5.3 million and occupancy expense increased \$2.9 million. These increases were partially offset by a \$1.5 million decrease in delivery expense.

As a percentage of net sales, selling, general and administrative expenses decreased to 20.0% in the second quarter of 2017 from 20.4% in the second quarter of 2016, primarily attributable to the decline in depreciation and amortization on acquired ProBuild assets, offset by investments the Company made towards growth initiatives, including additional sales associates. As a percentage of net sales, salaries and benefits expense decreased 0.1% and delivery expense decreased 0.3%. Partially offsetting these decreases, as a percentage of net sales, office general and administrative expense increased 0.1%.

Interest Expense, Net. Interest expense was \$33.7 million in the second quarter of 2017, a decrease of \$9.1 million from the second quarter of 2016. Of this decrease \$7.2 million was attributable to reduced interest expense resulting from our debt transactions executed in fiscal year 2016 and the first quarter of 2017. In addition, in the second quarter of 2016 interest expense was increased by a loss on debt extinguishment of \$1.7 million related to the note redemption transaction executed in that period.

Income Tax Expense. We recorded income tax expense of \$19.7 million and \$4.2 million in the second quarters of 2017 and 2016, respectively. We recorded reductions of \$3.7 million and \$16.0 million in the after tax non-cash valuation allowance on our net deferred tax assets in the second quarters of 2017 and 2016, respectively. Our effective tax rate was 12.4% in the second quarter of 2016 primarily due to the effect of the valuation allowance decrease in that period as we carried a full valuation allowance against our deferred tax assets at June 30, 2016. In the third quarter of 2016 we released the valuation allowance against our net federal and some state deferred tax assets. Our effective tax rate was 34.2% in the second quarter of 2017. The decrease from our annual effective rate was primarily attributable to tax planning strategies executed during the second quarter of 2017. As a result, we consider it more likely than not that we will utilize our state net operating loss carryovers before they expire.

Six Months Ended June 30, 2017 Compared with the Six Months Ended June 30, 2016

Net Sales. Net sales for the six months ended June 30, 2017 were \$3,376.4 million, a 9.8% increase over net sales of \$3,074.4 million for the six months ended June 30, 2016. We estimate that our sales volume increased 4.7%, while commodity price inflation resulted in an additional 5.1% increase in sales during the first six months of 2017 compared to the first six months of 2016. According to the U.S. Census Bureau, actual U.S. single-family housing starts increased 7.9% and single-family units under construction increased 6.6% during the first six months of 2017 compared to the first six months of 2016.

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

	Six Months Ended June 30,		2016				% Change	
	2017	% of	Net	% of	Net	% of		
	Net Sales	Net Sales	Net Sales	Net Sales	Net Sales	Net Sales		
Lumber & lumber sheet goods	\$1,187.7	35.2 %	\$1,022.3	33.2 %			16.2 %	
Manufactured products	582.3	17.2 %	522.7	17.0 %			11.4 %	
Windows, doors & millwork	669.2	19.8 %	626.1	20.4 %			6.9 %	
Gypsum, roofing & insulation	261.5	7.8 %	251.0	8.2 %			4.2 %	
Siding, metal & concrete products	315.4	9.3 %	300.0	9.7 %			5.1 %	
Other building products & services	360.3	10.7 %	352.3	11.5 %			2.2 %	
Net sales	\$3,376.4	100.0 %	\$3,074.4	100.0 %			9.8 %	

We achieved increased net sales across all of our product categories. The impact of commodity price inflation in the first six months of 2017 resulted in the sales growth of our lumber and lumber sheet goods and manufactured products categories exceeding the sales growth of our other product categories.

Gross Margin. Gross margin increased \$68.8 million to \$836.8 million. Our gross margin percentage decreased to 24.8% in the first six months of 2017 from 25.0% in the first six months of 2016, a 0.2% decrease. Our gross margin percentage decreased primarily due to the impact of commodity price inflation during the first six months of 2017 relative to our short-term customer pricing commitments, which was mostly offset by procurement savings.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased \$36.4 million, or 5.4%. Our salaries and benefits expense was \$457.1 million, an increase of \$20.9 million from the first six months of 2016, and stock compensation expense increased \$1.3 million. Office general and administrative expense increased \$10.5 million and occupancy expense increased \$3.4 million. In addition, we recognized a \$3.2 million increase in loss on the disposal of assets in the first six months of 2017. These increases were partially offset by a \$3.7 million decrease in delivery expense.

As a percentage of net sales, selling, general and administrative expenses decreased to 20.9% in the first six months of 2017 from 21.8% in the first six months of 2016, largely due to the decline in depreciation and amortization on acquired ProBuild assets and cost savings realized in the first quarter of 2017. As a percentage of net sales, salaries and benefits expense decreased 0.6% and delivery expense decreased 0.4%. Partially offsetting these decreases, as a percentage of net sales, office general and administrative expense increased 0.1%.

Interest Expense, Net. Interest expense was \$69.9 million for the six months ended June 30, 2017, a decrease of \$8.2 million from the six months ended June 30, 2016. Of this decrease, \$15.8 million was attributable to reduced interest expense resulting from our debt transactions executed in fiscal year 2016 and the first quarter of 2017. Partially offsetting this decrease, interest expense for the six months ended June 30, 2017 increased \$2.4 million related to the 2024 term loan and 2022 facility amendments which were completed in the first quarter of 2017. In addition, interest expense for the six months ended June 30, 2016 was reduced by a \$6.0 million net gain on debt extinguishment related to the note exchange and redemption transactions executed in that period. The remaining change is largely due to reduced interest expense on lease obligations in the first six months of 2017 compared to the same period last year.

Income Tax Expense. We recorded income tax expense of \$20.0 million and \$8.7 million for the six months ended June 30, 2017 and 2016, respectively. We recorded reductions of \$3.7 million and \$10.9 million in the after tax non-cash valuation allowance on our net deferred tax assets for the six months ended June 30, 2017 and 2016, respectively. Our effective tax rate was 41.2% for the six months ended June 30, 2016 primarily due to state income taxes. In the third quarter of 2016 we released the valuation allowance against our net federal and some state deferred tax assets. Our effective tax rate was 32.4% for the six months ended June 30, 2017. The decrease from our annual effective rate was primarily attributable to tax planning strategies executed during the six months ended June 30, 2017. As a result, we consider it more likely than not that we will utilize our state net operating loss carryovers before they expire.

Results by Reportable Segment

The following table shows net sales and income before income taxes by reportable segment (dollars in thousands):

	Three months ended June 30,					Income before income taxes				
	Net sales		% of net			sales		% of net		
	2017	% of net sales	2016	% of net sales	% change	2017	% of net sales	2016	% of net sales	% change
Northeast	\$325,526	18.2 %	\$325,765	19.8 %	(0.1)%	\$11,853	3.6 %	\$12,456	3.8 %	(4.8)%
Southeast	389,743	21.8 %	363,982	22.2 %	7.1 %	14,356	3.7 %	12,702	3.5 %	13.0 %
South	481,099	27.0 %	427,727	26.1 %	12.5 %	25,165	5.2 %	19,822	4.6 %	27.0 %
West	589,241	33.0 %	522,812	31.9 %	12.7 %	36,647	6.2 %	28,477	5.4 %	28.7 %
	\$1,785,609	100.0 %	\$1,640,286	100.0 %		\$88,021	4.9 %	\$73,457	4.5 %	

	Six months ended June 30,					Income before income taxes				
	Net sales		% of net			sales		% of net		
	2017	% of net sales	2016	% of net sales	% change	2017	% of net sales	2016	% of net sales	% change
Northeast	\$608,296	18.5 %	\$583,785	19.5 %	4.2 %	\$14,790	2.4 %	\$15,065	2.6 %	(1.8)%
Southeast	743,716	22.7 %	670,588	22.4 %	10.9 %	24,418	3.3 %	19,650	2.9 %	24.3 %
South	930,952	28.4 %	833,124	27.8 %	11.7 %	46,496	5.0 %	35,673	4.3 %	30.3 %
West	998,278	30.4 %	908,791	30.3 %	9.8 %	33,495	3.4 %	27,248	3.0 %	22.9 %
	\$3,281,242	100.0 %	\$2,996,288	100.0 %		\$119,199	3.6 %	\$97,636	3.3 %	

We have four reportable segments based on an aggregation of the geographic regions in which we operate. Our reportable segments do not necessarily align with any single region as defined by the U.S Census Bureau.

According to the U.S. Census Bureau, actual single-family housing starts in the second quarter of 2017 increased 5.2%, 23.7% and 13.2% in the South, West and Midwest regions, respectively, compared to the second quarter of 2016. However, actual single-family housing starts in the Northeast region decreased 12.9% in the second quarter of 2017 compared to the second quarter of 2016. For the second quarter of 2017, we achieved increased net sales and profitability across our Southeast, South and West reportable segments. However, our net sales and profitability decreased in our Northeast reportable segment primarily due to a decline in sales volume in that segment. The effect of decreased volume on net sales for the Northeast reportable segment was mostly offset by commodity price inflation.

According to the U.S. Census Bureau, actual single-family housing starts in the first six months of 2017 increased 6.9%, 14.0% and 8.5% in the South, West and Midwest regions, respectively, compared to the first six months of 2016. However, actual single-family housing starts in the Northeast region decreased 5.2% in the first six months of 2017 compared to the first six months of 2016. For the first six months of 2017, we achieved increased net sales and profitability across our Southeast, South and West reportable segments. We also achieved increased net sales in our Northeast reportable segment. However, our profitability decreased in this segment largely due to the impact of commodity price inflation relative to our costs.

LIQUIDITY AND CAPITAL RESOURCES

Our primary capital requirements are to fund working capital needs and operating expenses, meet required interest and principal payments, and to fund capital expenditures and potential future acquisitions. Our capital resources at June 30, 2017 consist of cash on hand and borrowing availability under our 2022 facility.

Our 2022 facility will be primarily used for working capital, general corporate purposes, and funding acquisitions. In addition, we may use the 2022 facility to facilitate debt consolidation. Availability under the 2022 facility is determined by a borrowing base. Our borrowing base consists of trade accounts receivable, inventory, other receivables, including progress billings and credit card receivables, and qualified cash that all meet specific criteria contained within the credit agreement, minus agent specified reserves. Net excess borrowing availability is equal to the maximum borrowing amount minus outstanding borrowings and letters of credit.

The following table shows our borrowing base and excess availability as of June 30, 2017 and December 31, 2016 (in millions):

	As of	
	June	December 31,
	30,	
	2017	2016
Accounts Receivable Availability	\$504.7	\$ 403.5
Inventory Availability	413.8	332.0
Other Receivables Availability	36.4	27.9
Gross Availability	954.9	763.4

Edgar Filing: Builders FirstSource, Inc. - Form 10-Q

Less:		
Agent Reserves	(27.4)	(26.9)
Plus:		
Cash in Qualified Accounts	32.3	15.5
Borrowing Base	959.8	752.0
Aggregate Revolving Commitments	900.0	800.0
Maximum Borrowing Amount (lesser of Borrowing Base and		
Aggregate Revolving Commitments)	900.0	752.0
Less:		
Outstanding Borrowings	(99.0)	—
Letters of Credit	(84.9)	(84.8)
Net Excess Borrowing Availability on Revolving Facility	\$716.1	\$ 667.2

As of June 30, 2017 we had \$99.0 million in outstanding borrowings under our 2022 facility and our net excess borrowing availability was \$716.1 million after being reduced by outstanding letters of credit of approximately \$84.9 million. Excess availability must equal or exceed a minimum specified amount, currently \$90.0 million, or we are required to meet a fixed charge coverage ratio of 1:00 to 1:00. We were not in violation of any covenants or restrictions imposed by any of our debt agreements at June 30, 2017.

Liquidity

Our liquidity at June 30, 2017 was \$723.0 million, which consists of net borrowing availability under the 2022 facility and cash on hand.

We substantially increased our indebtedness following completion of the 2015 ProBuild acquisition in comparison to our indebtedness on a recent historical basis, which increased our interest expense and could have the effect of, among other things, reducing our flexibility to respond to changing business and economic conditions. From time to time, based on market conditions and other factors and subject to compliance with applicable laws and regulations, the Company may repurchase or call the 2023 notes or 2024 notes, repay debt, or otherwise enter into transactions regarding its capital structure.

Should the current industry conditions deteriorate or we pursue additional acquisitions, we may be required to raise additional funds through the sale of capital stock or debt in the public capital markets or in privately negotiated transactions. There can be no assurance that any of these financing options would be available on favorable terms, if at all. Alternatives to help supplement our liquidity position could include, but are not limited to, idling or permanently closing additional facilities, adjusting our headcount in response to current business conditions, attempts to renegotiate leases, and divesting of non-core businesses. There are no assurances that these steps would prove successful or materially improve our liquidity position.

Consolidated Cash Flows

Cash used in operating activities was \$76.3 million and \$31.8 million for the six months ended June 30, 2017 and 2016, respectively. The \$44.5 million increase in cash used in operations was primarily the result of our working capital increase of \$197.4 million in the first six months of 2017 exceeding the working capital increase of \$120.0 million for the first six months of 2016. This seasonal investment in working capital, primarily related to accounts receivable and inventory, increased in the first half of 2017 compared to the first half of 2016 due to a \$301.9 million increase in sales over the same period. Our accounts receivable days decreased in the first six months of 2017 compared to the first six months of 2016 while inventory turns were consistent with the prior year. The impact of the working capital increase was partially offset by a \$28.5 million decrease in cash interest payments for the six months ended June 30, 2017 compared to the six months ended June 30, 2016.

Cash used in investing activities was \$22.6 million and \$25.7 million for the six months ended June 30, 2017 and 2016, respectively. The change is primarily due to \$4.0 million in cash used for acquisitions in the first six months of 2016. In addition, proceeds from the sale of property, plant and equipment increased \$1.1 million. These decreases in cash used in investing activities was partially offset by a \$1.9 million increase in capital expenditures in the first six months of 2017 compared to the first six months of 2016.

Cash provided by financing activities was \$91.4 million for the six months ended June 30, 2017 compared to cash used in financing activities of \$1.4 million for the six months ended June 30, 2016. The change is primarily related to \$99.0 million in net borrowings on our 2022 facility during the six months ended June 30, 2017 compared to net borrowings of \$44.0 million during the six months ended June 30, 2016. In addition, repayments of long-term debt were \$5.3 million for the first six months of 2017 compared to \$42.2 million in the first months of 2016. In the first six months of 2016 we also paid \$1.1 million in redemption premiums in connection with our note redemption transaction.

RECENT ACCOUNTING PRONOUNCEMENTS

Information regarding recent accounting pronouncements is discussed in Note 1 to the condensed consolidated financial statements included in Item 1 of this quarterly report on Form 10-Q.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We may experience changes in interest expense if changes in our debt occur. Changes in market interest rates could also affect our interest expense. Our 2023 notes and 2024 notes bear interest at a fixed rate, therefore, our interest expense related to these notes would not be affected by an increase in market interest rates. Borrowings under the 2022 facility and the 2024 term loan bear interest at either a base rate or eurodollar rate, plus, in each case, an applicable margin. At June 30, 2017, a 1.0% increase in interest rates would result in approximately \$1.0 million in additional interest expense annually as we had \$99.0 million in outstanding borrowings under the 2022 facility. The 2022 facility also assesses variable commitment and outstanding letter of credit fees based on quarterly average loan utilization. At June 30, 2017, a 1.0% increase in interest rates on the 2024 term loan would result in approximately \$4.7 million in 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

Disclosure 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.

24

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, 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 June 30, 2017, we maintain disclosure controls and procedures that are effective in providing reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to our management, including our CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

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

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

Since the fourth quarter of 2016, the Company has seen an increased occurrence of known and threatened construction defect legal claims primarily in two states. While these claims are generally covered under the Company's existing insurance programs to the extent any loss exceeds the deductible, there is a reasonable possibility of loss that is not able to be estimated at this time because (i) many of the proceedings are in the discovery stage, (ii) the outcome of future litigation is uncertain, and/or (iii) the complex nature of the claims. Although the Company cannot estimate a reasonable range of loss based on currently available information, the resolution of these matters could have a material adverse effect on the Company's financial position, results of operations or cash flows.

In addition, we are involved in various other 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 such claims and lawsuits. Although the ultimate disposition of these other proceedings cannot be predicted with certainty, management believes the outcome of any such claims that are 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 adverse judgments and costs would not be material to our results of operations or liquidity for a particular period.

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, 2016, 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

26

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

27

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 July 31, 2015, among Builders FirstSource, Inc., the guarantors party thereto, and Wilmington Trust, National Association, as trustee (form of Note included therein) (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on August 6, 2015, File Number 0-51357)
- 4.3 Supplemental Indenture, dated as of July 31, 2015, among Builders FirstSource, Inc., the guarantors party thereto, and Wilmington Trust, National Association, as trustee (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on August 6, 2015, File Number 0-51357)
- 4.4 Indenture, dated as of August 22, 2016, among Builders FirstSource, Inc., the guarantors party thereto, and Wilmington Trust, National Association, as trustee and notes collateral agent (form of Note included therein) (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on August 23, 2016, File Number 0-51357)
- 10.1* Third Amendment to Employment, dated as of May 19, 2017, between Builders FirstSource, Inc. and Floyd F. Sherman
- 10.2* First Amendment to Employment Agreement, dated as of May 19, 2017, between Builders FirstSource, Inc. and M. Chad Crow

Edgar Filing: Builders FirstSource, Inc. - Form 10-Q

- 10.3* Second Amendment to Employment Agreement, dated as of May 19, 2017, between Builders FirstSource, Inc. and Morris E. Tolly
- 10.4* Second Amendment to Employment Agreement, dated as of May 19, 2017, between Builders FirstSource, Inc. and Donald F. McAleenan
- 10.5* First Amendment to Employment Agreement, dated as of May 19, 2017, between Builders FirstSource, Inc. and Peter M. Jackson
- 31.1* Certification of Chief Executive Officer 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* Certification of Chief Financial Officer pursuant to 17 CFR 240.13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, signed by Peter M. Jackson as Chief Financial Officer
- 32.1** Certification of Chief Executive Officer and Chief Financial Officer 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 Peter M. Jackson as Chief Financial Officer
- 101* The following financial information from Builders FirstSource, Inc.'s Form 10-Q filed on August 4, 2017 formatted in eXtensible Business Reporting Language ("XBRL"): (i) Condensed Consolidated Statements of Operations and Comprehensive Income for the three and six months ended June 30, 2017 and 2016, (ii) Condensed Consolidated Balance Sheets as of June 30, 2017 and December 31, 2016, (iii) Condensed Consolidated Statements of Cash Flows for the six months ended June 31, 2017 and 2016, (iv) Condensed Consolidated Statements of Changes in Stockholders' Equity for the six months ended June 30, 2017 and (v) 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 Peter M. Jackson, our Chief Financial Officer.

28

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)

August 4, 2017

/s/ PETER M. JACKSON
Peter M. Jackson
Senior Vice President and Chief Financial Officer

(Principal Financial Officer)

August 4, 2017

/s/ JAMI COULTER
Jami Coulter
Vice President and Chief Accounting Officer
(Principal Accounting Officer)

August 4, 2017