

BEACON ROOFING SUPPLY INC  
Form 10-Q  
May 07, 2010

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D. C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2010

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 NO.: 000-50924

BEACON ROOFING SUPPLY, INC.

(Exact name of Registrant as specified in its charter)

DELAWARE  
(State or other jurisdiction of  
incorporation or organization)

36-4173371  
(I.R.S. Employer  
Identification No.)

One Lakeland Park Drive,  
Peabody, Massachusetts  
(Address of principal executive offices)

01960  
(Zip Code)

978-535-7668

(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 x 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 (§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

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

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

As of May 1, 2010, there were 45,549,243 outstanding shares of the registrant's common stock, \$.01 par value per share.

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BEACON ROOFING SUPPLY, INC.  
 Form 10-Q  
 For the Quarterly Period Ended March 31, 2010  
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BEACON ROOFING SUPPLY, INC.  
PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## Consolidated Balance Sheets

|  | (Unaudited)<br>March 31,<br>2010 | (Unaudited)<br>March 31,<br>2009 | (Note)<br>September 30,<br>2009 |
|--|----------------------------------|----------------------------------|---------------------------------|
| (Dollars in thousands)   |                                  |                                  |                                 |
| <b>Assets</b>  |                                  |                                  |                                 |
| <b>Current assets:</b>   |                                  |                                  |                                 |
| Cash and cash equivalents  | \$ 89,869                        | \$ 98,106                        | \$ 82,742                       |
| Accounts receivable, less allowance of \$12,469 at March 31, 2010, \$14,216 at March 31, 2009, and \$13,442 at September 30, 2009  | 162,080                          | 166,939                          | 227,379                         |
| Inventories  | 220,163                          | 207,042                          | 195,011                         |
| Prepaid expenses and other assets  | 55,835                           | 45,045                           | 52,714                          |
| Deferred income taxes  | 16,342                           | 22,664                           | 19,323                          |
| <b>Total current assets</b>  | <b>544,289</b>                   | <b>539,796</b>                   | <b>577,169</b>                  |
| Property and equipment, net  | 48,329                           | 51,850                           | 52,965                          |
| Goodwill   | 358,749                          | 352,319                          | 354,193                         |
| Other assets, net  | 52,350                           | 67,093                           | 56,459                          |
| <b>Total assets</b>  | <b>\$ 1,003,717</b>              | <b>\$ 1,011,058</b>              | <b>\$ 1,040,786</b>             |
| <b>Liabilities and stockholders' equity</b>  |                                  |                                  |                                 |
| <b>Current liabilities:</b>  |                                  |                                  |                                 |
| Accounts payable   | \$ 130,012                       | \$ 158,166                       | \$ 151,683                      |
| Accrued expenses   | 60,750                           | 70,226                           | 75,536                          |
| Current portion of long-term obligations   | 8,639                            | 15,066                           | 15,092                          |
| <b>Total current liabilities</b>   | <b>199,401</b>                   | <b>243,458</b>                   | <b>242,311</b>                  |
| Senior notes payable, net of current portion   | 320,449                          | 330,750                          | 322,090                         |
| Deferred income taxes  | 36,034                           | 34,858                           | 36,555                          |
| Long-term obligations under equipment financing and other, net of current portion  | 13,377                           | 22,924                           | 16,257                          |
| <b>Commitments and contingencies</b>   |                                  |                                  |                                 |
| <b>Stockholders' equity:</b>   |                                  |                                  |                                 |
| Common stock (voting); \$.01 par value; 100,000,000 shares authorized; 45,490,506 issued and outstanding at March 31, 2010, 45,072,897 at March 31, 2009, and 45,244,837 at September 30, 2009 | 455                              | 451                              | 452                             |
| Undesignated preferred stock; 5,000,000 shares authorized, none issued or outstanding  | -                                | -                                | -                               |
| Additional paid-in capital   | 231,690                          | 222,982                          | 226,793                         |

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|   |              |              |              |
|---|--------------|--------------|--------------|
| Retained earnings                             | 200,735      | 163,145      | 199,364      |
| Accumulated other comprehensive income (loss) | 1,576        | (7,510)      | (3,036)      |
| Total stockholders' equity                    | 434,456      | 379,068      | 423,573      |
| Total liabilities and stockholders' equity    | \$ 1,003,717 | \$ 1,011,058 | \$ 1,040,786 |

Note: The balance sheet at September 30, 2009  
has been derived from the audited financial statements at that date.

The accompanying Notes are an integral part of the Consolidated Financial Statements.

BEACON ROOFING SUPPLY, INC.  
Consolidated Statements of Operations

|  | Three Months Ended March 31, |            | Six Months Ended March 31, |            |
|--|------------------------------|------------|----------------------------|------------|
|  | 2010                         | 2009       | 2010                       | 2009       |
| Unaudited<br>(Dollars in thousands, except per share data)             |                              |            |                            |            |
| Net sales  | \$ 285,366                   | \$ 319,303 | \$ 653,087                 | \$ 782,632 |
| Cost of products sold  | 224,302                      | 245,025    | 503,682                    | 592,356    |
| Gross profit   | 61,064                       | 74,278     | 149,405                    | 190,276    |
| Operating expenses   | 67,051                       | 72,820     | 136,880                    | 151,143    |
| Income (loss) from operations  | (5,987)                      | 1,458      | 12,525                     | 39,133     |
| Interest expense   | 5,499                        | 5,589      | 11,086                     | 11,738     |
| Income (loss) before income taxes                                      | (11,486)                     | (4,131)    | 1,439                      | 27,395     |
| Income tax expense (benefit)   | (5,030)                      | (1,688)    | 68                         | 11,196     |
| Net income (loss)  | \$ (6,456)                   | \$ (2,443) | \$ 1,371                   | \$ 16,199  |
| Net income (loss) per share:   |                              |            |                            |            |
| Basic  | \$ (0.14)                    | \$ (0.05)  | \$ 0.03                    | \$ 0.36    |
| Diluted  | \$ (0.14)                    | \$ (0.05)  | \$ 0.03                    | \$ 0.36    |
| Weighted average shares used in computing net income (loss) per share: |                              |            |                            |            |
| Basic  | 45,397,905                   | 44,941,782 | 45,338,943                 | 44,881,846 |
| Diluted  | 45,397,905                   | 44,941,782 | 45,830,171                 | 45,339,821 |

The accompanying Notes are an integral part of the Consolidated Financial Statements.

BEACON ROOFING SUPPLY, INC.  
Consolidated Statements of Cash Flows

|  | Six Months Ended March 31, |           |
|--|----------------------------|-----------|
|  | 2010                       | 2009      |
|  | Unaudited (in thousands)   |           |
| <b>Operating activities:</b>   |                            |           |
| Net income   | \$ 1,371                   | \$ 16,199 |
| <b>Adjustments to reconcile net income to net cash provided by operating activities:</b>                   |                            |           |
| Depreciation and amortization  | 14,015                     | 15,311    |
| Stock-based compensation   | 2,607                      | 2,385     |
| Deferred income taxes  | (406)                      | (317)     |
| <b>Changes in assets and liabilities:</b>  |                            |           |
| Accounts receivable  | 66,904                     | 113,356   |
| Inventories  | (23,469)                   | 269       |
| Prepaid expenses and other assets  | (2,657)                    | 405       |
| Accounts payable and accrued expenses  | (32,795)                   | (62,763)  |
| Net cash provided by operating activities  | 25,570                     | 84,845    |
| <b>Investing activities:</b>   |                            |           |
| Purchases of property and equipment, net of sales proceeds   | (3,264)                    | (4,761)   |
| Acquisition of businesses  | (6,618)                    | -         |
| Net cash used in investing activities  | (9,882)                    | (4,761)   |
| <b>Financing activities:</b>   |                            |           |
| Advances (repayments) under revolving lines of credit, net   | 64                         | (4,627)   |
| Repayments under senior notes payable and other, net   | (11,063)                   | (4,188)   |
| Proceeds from exercise of options  | 1,812                      | 845       |
| Income tax benefit from stock-based compensation deductions in excess of the associated compensation costs | 480                        | 86        |
| Net cash used by financing activities  | (8,707)                    | (7,884)   |
| Effect of exchange rate changes on cash  | 146                        | (132)     |
| Net increase in cash and cash equivalents  | 7,127                      | 72,068    |
| Cash and cash equivalents at beginning of year   | 82,742                     | 26,038    |
| Cash and cash equivalents at end of period   | \$ 89,869                  | \$ 98,106 |
| <b>Cash paid during the year for:</b>  |                            |           |
| Interest   | \$ 11,300                  | \$ 11,875 |
| Income taxes, net of refunds   | 8,740                      | 33,686    |

The accompanying Notes are an integral part of the Consolidated Financial Statements.





BEACON ROOFING SUPPLY, INC.

Notes to Condensed Consolidated Financial Statements (Unaudited)

1. Basis of Presentation

Beacon Roofing Supply, Inc. (the "Company") prepared the consolidated financial statements following accounting principles generally accepted in the United States (GAAP) for interim financial information and the requirements of the Securities and Exchange Commission (SEC). As permitted under those rules, certain footnotes or other financial information required by GAAP for complete financial statements have been condensed or omitted. The balance sheet as of March 31, 2009 has been presented for a better understanding of the impact of seasonal fluctuations on the Company's financial condition.

On October 1, 2009, the Company merged all of its U.S. subsidiaries into Beacon Sales Acquisition, Inc. After this merger, the Company's remaining subsidiaries are Beacon Sales Acquisition, Inc., Beacon Canada, Inc. and Beacon Roofing Supply Canada Company. The Company continues to operate its regional businesses under trade names associated with the former subsidiary corporate names.

In management's opinion, the financial statements include all normal and recurring adjustments that are considered necessary for the fair presentation of the Company's financial position and operating results. The results for the three-month period (second quarter) and the six-month period (year-to-date) ended March 31, 2010 are not necessarily indicative of the results to be expected for the twelve months ending September 30, 2010.

The Company's fiscal year ends on the last day in September of each year and each quarter ends on the last day of the respective third calendar month. The six-month periods ended March 31, 2010 and March 31, 2009 both had 125 business days, while the three-month periods ended March 31, 2010 and March 31, 2009 both had 63 business days. Certain reclassifications have been made to the prior year information to conform to the current year presentation.

You should also read the financial statements and notes included in the Company's fiscal year 2009 Annual Report on Form 10-K. The accounting policies used in preparing these financial statements are the same as those described in that Annual Report.

Adoption of Recent Accounting Pronouncements

In March 2007, the FASB issued guidance that significantly changes the accounting for and reporting of business combination transactions and noncontrolling (minority) interests in consolidated financial statements. This guidance is effective for the Company in fiscal year 2010. The adoption of this guidance did not have a significant impact on the Company's financial statements in the current year but could have a material impact on the accounting for its future acquisitions, depending on the circumstances and the terms of the acquisitions.

In April 2009, the FASB issued disclosure guidance about fair value of financial instruments in interim financial statements. This was effective for the Company beginning in the third quarter of fiscal year 2009 but had no impact on the financial statements.

In May 2009, the FASB issued guidance on subsequent events that establishes general standards of accounting for and disclosure of events that occur after the balance sheet date and requires the disclosure of the date through which an entity has evaluated subsequent events and whether that represents the date the financial statements were issued or were available to be issued. The Company has evaluated all subsequent events under this guidance.

In June 2009, the FASB issued guidance related to the FASB Accounting Standards Codification (“ASC”). Effective for interim and annual financial periods ended after September 15, 2010, the ASC has become the source of authoritative generally accepted accounting principles in the United States and supersedes all existing non-SEC accounting and reporting standards. All other non-grandfathered non-SEC accounting literature not included in the ASC has become non-authoritative. This new guidance affected the way in which the Company references and reports accounting and reporting standards beginning with its fiscal year 2009 Annual Report.

## 2. Income (Loss) Per Share

The Company calculates basic income (loss) per share by dividing net income (loss) by the weighted-average number of common shares outstanding. Diluted net income per share includes the dilutive effects of outstanding stock awards.

## BEACON ROOFING SUPPLY, INC.

## Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)

The following table reflects the calculation of weighted-average shares outstanding for each period presented:

|  | Three Months Ended March 31, |            | Six Months Ended March 31, |            |
|--|------------------------------|------------|----------------------------|------------|
|  | 2010                         | 2009       | 2010                       | 2009       |
| Weighted-average common shares outstanding for basic | 45,397,905                   | 44,941,782 | 45,338,943                 | 44,881,846 |
| Dilutive effect of stock options                     | -                            | -          | 491,228                    | 457,975    |
| Weighted-average shares assuming dilution            | 45,397,905                   | 44,941,782 | 45,830,171                 | 45,339,821 |

### 3. Stock-Based Compensation

The Company accounts for employee and non-employee director stock-based compensation using the fair value method of accounting. Compensation cost arising from stock options granted to employees and non-employee directors is recognized as an expense using the straight-line method over the vesting period, which represents the requisite service period. The Company estimates forfeitures in calculating the expense related to stock-based compensation.

As of March 31, 2010, there was \$8.0 million of total unrecognized compensation cost related to unvested stock options. That cost is expected to be recognized over a weighted-average period of 2.3 years. The Company recorded stock-based compensation expense of \$1.2 million (\$0.7 million net of tax) in each of the second quarters ended March 31, 2010 and 2009 and \$2.6 million (\$1.5 million net of tax) and \$2.4 million (\$1.4 million net of tax) in the six months ended March 31, 2010 and 2009, respectively.

The fair values of the options were estimated on the dates of grants using the Black-Scholes option-pricing model with the following weighted-average assumptions:

|                         | Six Months Ended March 31, |        |
|-------------------------|----------------------------|--------|
|                         | 2010                       | 2009   |
| Risk-free interest rate | 2.45%                      | 2.49%  |
| Expected life in years  | 7                          | 7      |
| Expected volatility     | 48.00%                     | 48.00% |
| Dividend yield          | 0.00%                      | 0.00%  |

Expected lives of the options granted are based primarily on history, while expected volatilities are based on historical volatilities of the Company's stock and stocks of comparable public companies. Estimated forfeiture rates vary by grant and ranged from 0%-10% as of March 31, 2010.

## BEACON ROOFING SUPPLY, INC.

## Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)

The following table summarizes stock options outstanding as of March 31, 2010, as well as activity during the six months then ended:

|  | Number of<br>Shares | Weighted-<br>Average<br>Exercise<br>Price | Weighted-<br>Average<br>Remaining<br>Contractual<br>Life<br>(in Years) | Aggregate<br>Intrinsic<br>Value<br>(in Millions) |
|--|---------------------|---|--|--|
| Outstanding at September 30, 2009            | 3,417,754           | \$ 13.70                                  |  |  |
| Granted                                      | 859,614             | 14.62                                     |  |  |
| Exercised                                    | (245,669)           | 7.37                                      |  |  |
| Canceled                                     | (27,382)            | 15.72                                     |  |  |
| Outstanding at March 31, 2010                | 4,004,317           | \$ 14.27                                  | 7.2  | \$ 21.9  |
| Vested or Expected to Vest at March 31, 2010 | 3,899,327           | \$ 14.29                                  | 7.2  | \$ 21.4  |
| Exercisable at March 31, 2010                | 2,441,178           | \$ 14.97                                  | 6.1  | \$ 12.6  |

The aggregate intrinsic values above include only in-the-money options. As of March 31, 2010, there were remaining options to purchase 902,531 shares of common stock available for grants under the Company's 2004 Stock Plan. The weighted-average grant date fair values of stock options granted during the six months ended March 31, 2010 and March 31, 2009 were \$7.59 and \$6.35, respectively. The intrinsic value of stock options exercised during the six months ended March 31, 2010 and March 31, 2009 was \$2.4 and \$2.2 million, respectively. At March 31, 2010, the Company had \$14.7 million of excess tax benefits available for potential deferred tax write-offs related to option accounting.

## 4. Comprehensive Income (Loss)

Comprehensive income (loss) consists of net income (loss) and other gains and losses affecting stockholders' equity that, under GAAP, are excluded from net income. For the Company, these consisted of the following items:

| Unaudited<br>(Dollars in thousands, except per share<br>data) | Three Months Ended March<br>31, |            | Six Months Ended March 31, |           |
|---|---------------------------------|------------|----------------------------|-----------|
|   | 2010                            | 2009       | 2010                       | 2009      |
| Net income (loss)   | \$ (6,456)                      | \$ (2,443) | \$ 1,371                   | \$ 16,199 |
| Foreign currency translation adjustment                       | 1,466                           | (1,147)    | 2,326                      | (6,250)   |
| Tax effect  | (513)                           | 401        | (814)                      | 2,366     |
| Foreign currency translation adjustment,<br>net               | 953                             | (746)      | 1,512                      | (3,884)   |

|  |            |            |          |          |
|--|------------|------------|----------|----------|
| Unrealized gain (loss) on financial derivatives      | (455)      | 260        | 5,274    | (5,461)  |
| Tax effect   | 179        | (105)      | (2,174)  | 2,197    |
| Unrealized gain (loss) on financial derivatives, net | (276)      | 155        | 3,100    | (3,264)  |
| Comprehensive income (loss)                          | \$ (5,779) | \$ (3,034) | \$ 5,983 | \$ 9,051 |

#### 5. Acquisitions

In February 2010, the Company purchased certain assets of Independent Building Materials, LLC (“IBM”), a distributor of primarily residential roofing products with one branch in Orlando, Florida. In December 2009, the Company purchased certain assets of Lookout Supply Company (“Lookout”), a distributor of roofing products and related accessories with one branch in Chattanooga, Tennessee. As of March 31, 2010, the purchase price allocations for IBM and Lookout were preliminary.

BEACON ROOFING SUPPLY, INC.

Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)

6. Debt

The Company currently has the following credit facilities:

- a senior secured credit facility in the U.S.;
- a Canadian senior secured credit facility; and
- an equipment financing facility.

Senior Secured Credit Facilities

On November 2, 2006, the Company entered into an amended and restated seven-year \$500 million U.S. senior secured credit facility and a C\$15 million senior secured Canadian credit facility with GE Antares Capital ("GE Antares") and a syndicate of other lenders (combined, the "Credit Facility"). The Credit Facility consists of a U.S. revolving credit facility of \$150 million, which includes a sub-facility of \$20 million for letters of credit, and an initial \$350 million term loan (the "Term Loan"). The Credit Facility also includes a C\$15 million senior secured revolving credit facility provided by GE Canada Finance Holding Company.

As of March 31, 2010, there was approximately \$0.1 million of outstanding revolver borrowings and \$323.8 million of outstanding Term Loan maturing in November 2013. The Company is in compliance with the covenants under the Credit Facility. The current portion of long-term obligations at March 31, 2009 and September 30, 2009 included a \$7 million accelerated payment that was due under the Term Loan. The current year payment of \$7 million was made early in February 2010. Substantially all of the Company's assets, including the capital stock and assets of wholly-owned subsidiaries secure obligations under the Credit Facility.

Equipment Financing Facility

There was a total of \$17.5 million of equipment financing loans outstanding under prior equipment financing facilities at March 31, 2010, with fixed interest rates ranging from 4.1% to 7.4% and payments due through September 2014. The Company's current equipment financing facility allows for the financing of up to \$5.5 million of purchased transportation and material handling equipment through May 1, 2011 at an interest rate approximately 2% above the 5-year term swap rate at the time of the advances. There were no amounts outstanding under this facility at March 31, 2010.

7. Foreign Net Revenue

Foreign (Canadian) net revenue totaled \$42.2 and \$33.7 million in the six months ended March 31, 2010 and 2009, respectively.

8. Financial Instruments

Financial Derivatives

The Company uses derivative financial instruments for hedging and non-trading purposes to manage its exposure related to fluctuating cash flows from changes in interest rates. Use of derivative financial instruments in hedging programs subjects the Company to certain risks, such as market and credit risks. Market risk represents the possibility that the value of the derivative instrument will change. In a hedging relationship, the change in the value of the derivative is offset to a great extent by the change in the value of the underlying hedged item. Credit risk related to derivatives represents the possibility that the counterparty will not fulfill the terms of the contract. The notional, or contractual, amount of the Company's derivative financial instruments is used to measure interest to be paid or received and does not represent the Company's exposure due to credit risk. The Company's current derivative instruments are with large financial counterparties rated highly by nationally recognized credit rating agencies.

The Company is using interest rate derivative instruments to manage the risk related to fluctuating cash flows from interest rate changes by converting a portion of its variable-rate borrowings into fixed-rate borrowings. As of March 31, 2010, the following interest rate derivative instruments were outstanding: a) interest rate swaps totaling \$200 million, expiring in April 2010, with a fixed rate of 4.97%; b) a \$50 million interest rate collar expiring in April 2010 with a floor rate of 3.99% and a cap rate of 5.75%; c) a \$50 million interest rate collar expiring in April 2010 with a floor rate of 3.75% and a cap rate of 6.00%; d) a \$100 million future-starting interest rate swap, with interest cash flows commencing in April 2010 and expiring in April 2013 and with a fixed rate of 2.72%; e) a \$50 million future-starting interest rate swap, with interest cash flows commencing in April 2010 and expiring in April 2013 and with a fixed rate of 3.12%; and f) a \$50 million future-starting interest rate swap, with interest cash flows commencing in April 2010 and expiring in April 2013 and with a fixed rate of 3.11%. At no time during the terms of the forward-starting derivatives do the associated cash flows overlap with those associated with the derivatives expiring in April 2010.

## BEACON ROOFING SUPPLY, INC.

## Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)

These derivative instruments are designated as cash flow hedges, for which the Company records the effective portions of changes in their fair value, net of taxes, in other comprehensive income (Note 4). The effectiveness of the hedges is periodically assessed by the Company during the lives of the hedges by 1) comparing the current terms of the hedges with the related hedged debt to assure they continue to coincide and 2) through an evaluation of the counterparties to the hedges to honor their obligations under the hedges. Any ineffective portion of the hedges is recognized in earnings, of which there has been none to date and none is anticipated.

The Company records any differences paid or received on its interest rate hedges as adjustments to interest expense. Since inception, the Company has not recognized any gains or losses on these hedges and there has been no effect on income from hedge ineffectiveness. The table below presents the combined fair value of the interest rate swap and collar instruments:

| Location on Balance Sheet | March 31,<br>2010 | Unrealized Losses |                        | September 30,<br>2009 | Fair Value Hierarchy |
|---------------------------|-------------------|-------------------|------------------------|-----------------------|----------------------|
|                           |                   | March 31,<br>2009 | (Dollars in thousands) |                       |                      |
| Accrued expenses          | \$ 7,074          | \$ 12,857         | \$ 12,348              |                       | Level 2              |

The fair values of the interest rate swaps and collars were determined through the use of pricing models, which utilize verifiable inputs such as market interest rates that are observable at commonly quoted intervals (generally referred to as the “LIBOR Curve”) for the full terms of the swap and collar agreements.

#### Cash and Cash Equivalents

The Company considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents. Cash and cash equivalents also include unsettled credit card transactions. As of March 31, 2010, the cash equivalents were mostly comprised of money market funds, which invest primarily in commercial paper or bonds with a rating of A-1 or better, and bank certificates of deposit. The carrying values of the cash equivalents for the periods presented equaled the fair values, which were determined under Level 1 of the Fair Value Hierarchy.

#### 9. Recent Accounting Pronouncements

In June 2009, the FASB issued guidance that changes the way entities account for securitizations and special purpose entities. This new guidance is effective for annual reporting periods beginning after November 15, 2009. The Company believes this change will not have a material impact on its financial statements.

#### 10. Subsequent Events

On April 12, 2010, the Company purchased certain assets of Phoenix Sales, Inc. (“Phoenix”), a distributor of commercial roofing systems and related accessories with four branches located in Tampa, Orlando, Pompano and Ft. Myers, Florida. On April 16, 2010, the Company purchased certain assets of Louisiana Roofing Supply (“LRS”), a distributor of mostly residential roofing systems and related accessories with one location in Baton Rouge, Louisiana.





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

You should read the following discussion in conjunction with Management's Discussion and Analysis included in our 2009 Annual Report on Form 10-K. Unless otherwise specifically indicated, all references to "2010" and "YTD 2010" refer to the three months (second quarter) and six months (year-to-date) ended March 31, 2010, respectively, of our fiscal year ending September 30, 2010, and all references to "2009" and "YTD 2009" refer to the three months (second quarter) and six months (year-to-date) ended March 31, 2009, respectively, of our fiscal year ended September 30, 2009. Certain tabular information may not foot due to rounding.

Overview

We are one of the largest distributors of residential and non-residential roofing materials in the United States and Canada. We are also a distributor of other complementary building products, including siding, windows, specialty lumber products and waterproofing systems for residential and non-residential building exteriors. We purchase products from a large number of manufacturers and then distribute these goods to a customer base consisting of contractors and, to a lesser extent, general contractors, retailers and building materials suppliers.

We distribute up to 10,000 SKUs through 177 branches in the United States and Canada. We had 2,114 employees as of March 31, 2010, including our sales and marketing team of 906 employees.

In fiscal year 2009, approximately 94% of our net sales were in the United States. We stock one of the most extensive assortments of high-quality branded products in the industry, enabling us to deliver products to our customers on a timely basis.

Execution of the operating plan at each of our branches drives our financial results. Revenues are impacted by the relative strength of the residential and non-residential roofing markets we serve. We allow each of our branches to develop its own marketing plan and mix of products based upon its local market. We differentiate ourselves from the competition by providing customer services, including job site delivery, tapered insulation layouts and design and metal fabrication, and by providing credit. We consider customer relations and our employees' knowledge of roofing and exterior building materials to be very important to our ability to increase customer loyalty and maintain customer satisfaction. We invest significant resources in training our employees in sales techniques, management skills and product knowledge. Although we consider these attributes important drivers of our business, we continually pay close attention to controlling operating costs.

Our growth strategy includes both internal growth (opening branches, growing sales with existing customers, adding new customers and introducing new products) and acquisition growth. Our main acquisition strategy is to target market leaders in geographic areas that we do not service. Our April 2007 acquisition of North Coast Commercial Roofing Systems, Inc. ("North Coast") is one example of this approach. North Coast is a distributor of commercial roofing systems and related accessories that operated 16 branches in eight states in the Midwest and Northeast at the time of the acquisition. North Coast had minimal branch overlap with our existing operations. In addition, we also acquire smaller companies to supplement branch openings within existing markets. Our December 2009 acquisition of Lookout Supply Company ("Lookout"), which operated one branch and was integrated into our Mid-Atlantic region, is one example of such an acquisition.

## Results of Operations

The following table presents, for the periods indicated, information derived from our consolidated statements of operations expressed as a percentage of net sales for the periods presented. Percentages may not foot due to rounding.

|                                   | Three Months Ended March |             | Six Months Ended March 31, |        |
|-----------------------------------|--------------------------|-------------|----------------------------|--------|
|                                   | 2010                     | 31,<br>2009 | 2010                       | 2009   |
| Net sales                         | 100.0%                   | 100.0%      | 100.0%                     | 100.0% |
| Cost of products sold             | 78.6                     | 76.7        | 77.1                       | 75.7   |
| Gross profit                      | 21.4                     | 23.3        | 22.9                       | 24.3   |
| Operating expenses                | 23.5                     | 22.8        | 21.0                       | 19.3   |
| Income (loss) from operations     | (2.1)                    | 0.5         | 1.9                        | 5.0    |
| Interest expense                  | (1.9)                    | (1.8)       | (1.7)                      | (1.5)  |
| Income (loss) before income taxes | (4.0)                    | (1.3)       | 0.2                        | 3.5    |
| Income tax benefit (expense)      | 1.8                      | 0.5         | -                          | (1.4)  |
| Net income (loss)                 | (2.3)%                   | (0.8)%      | 0.2%                       | 2.1%   |

In managing our business, we consider all growth, including the opening of new branches, to be internal (organic) growth unless it results from an acquisition. When we have referred to growth in existing markets or internal growth in our prior filings, we included growth from existing and newly opened branches but excluded growth from acquired branches until they have been under our ownership for at least four full fiscal quarters at the start of the fiscal reporting period. At March 31, 2010, we had a total of 172 branches in operation, all of which are considered existing-market branches. We deemed the acquisitions of Lookout, our new Chattanooga branch, and IBM, our new Orlando branch immaterial for reporting purposes.

Three Months Ended March 31, 2010 ("2010") Compared to the Three Months Ended March 31, 2009 ("2009")

## Net Sales

Consolidated net sales decreased \$33.9 million, or 10.6%, to \$285.4 million in 2010 from \$319.3 million in 2009. We attribute the sales decrease primarily to the following factors:

- decrease in re-roofing activity in the areas affected by Hurricane Ike in 2009;
- harsher winter conditions in several markets; and
- continued general weakness in residential and non-residential roofing activities in some markets.

We closed one branch and acquired one branch in this year's second quarter, while we closed two branches in last year's second quarter. We estimate inflation had no material impact on results in this quarter compared to last year's first quarter. We had 63 business days in both 2010 and 2009. Net sales by geographical region grew or (declined) as follows: Northeast (7.0%); Mid-Atlantic 4.9%; Southeast 2.5%; Southwest (39.1%); Midwest (4.1%); West (21.3%); and Canada 42.0%. These variations were primarily caused by short-term factors such as local economic conditions, winter weather conditions, and previous year's storm activity. Included in our 2010 sales was \$1.5 million of primarily

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residential roofing sales from our two newly acquired branches, which represented 47 basis points of growth. Actual organic contraction was therefore 11.1%. Our total product group sales were as follows:

For the Three Months Ended

|                                  | March 31,<br>2010 |        | March 31,<br>2009 |        | Change      |        |
|----------------------------------|-------------------|--------|-------------------|--------|-------------|--------|
|                                  | Sales             | Mix    | Sales             | Mix    |             |        |
| Residential roofing products     | \$ 143,018        | 50.1%  | \$ 172,236        | 53.9%  | \$ (29,218) | -17.0% |
| Non-residential roofing products | 96,769            | 33.9%  | 101,202           | 31.7%  | (4,433)     | -4.4   |
| Complementary building products  | 45,579            | 16.0%  | 45,865            | 14.4%  | (286)       | -0.6   |
|                                  | \$ 285,366        | 100.0% | \$ 319,303        | 100.0% | \$ (33,937) | -10.6% |

## Gross Profit

For the Three Months Ended

|              | March 31,<br>2010     | March 31,<br>2009 | Change    |        |
|--------------|-----------------------|-------------------|-----------|--------|
|              | (dollars in millions) |                   |           |        |
| Gross profit | \$ 61.1               | \$ 74.3           | \$ (13.2) | -17.8% |
| Gross margin | 21.4%                 | 23.3%             |           | -1.9%  |

Our gross profit decreased \$13.2 million or 17.8% in 2010, while our gross margin also decreased to 21.4% in 2010 from 23.3% in 2009. The margin rate decrease was the result of a more competitive market in a seasonally slower-than-normal quarter, an increase in sales to lumberyards and other similar end-sellers, commonly referred to as two-step sales, and a slightly higher sales mix of non-residential roofing products, which have lower gross margins. These negative factors were partially offset by higher 2010 vendor incentive income, primarily from short-term buying programs.

Direct sales (products shipped by our vendors directly to our customers), which typically have substantially lower gross margins than our warehouse sales, represented 21.9% and 18.9% of our net sales for 2010 and 2009, respectively. The increase in the percentage of direct sales was attributable to the higher mix of non-residential roofing product sales and the increase in our two-step sales mentioned above, especially in our Midwest region. Beyond those changes, there were no other material regional impacts from changes in the direct sales mix of our geographical regions.

## Operating Expenses

For the Three Months Ended

|                                       | March 31,<br>2010     | March 31,<br>2009 | Change   |       |
|---------------------------------------|-----------------------|-------------------|----------|-------|
|                                       | (dollars in millions) |                   |          |       |
| Operating expenses                    | \$ 67.1               | \$ 72.8           | \$ (5.7) | -7.9% |
| Operating expenses<br>as a % of sales | 23.5%                 | 22.8%             |          | 0.7%  |

Our operating expenses decreased by \$5.7 million or 7.9% in 2010 to \$67.1 million, including \$0.5 million in expenses at our two recently acquired branches, from \$72.8 million in 2009. The following factors were the leading causes of our lower operating expenses:

- savings of \$2.8 million in payroll and related costs, due to a lower employee headcount, lower incentive-based pay, and a lower profit-sharing accrual;
- savings of \$2.2 million in other general & administrative expenses, from a reduction in the provision for bad debts of \$1.8 million and certain cost saving actions; and
- reduced depreciation and amortization expense of \$0.8 million due to lower amortization of intangible assets.

In 2010, we expensed a total of \$2.4 million for the amortization of intangible assets recorded under purchase accounting compared to \$3.0 million in 2009. Our operating expenses as a percentage of net sales increased to 23.5% in 2010 from 22.8% in 2009 as we were unable to reduce costs to the extent of the large drop in sales.

#### Interest Expense

Interest expense decreased \$0.1 million to \$5.5 million in 2010 from \$5.6 million in 2009. This decrease was primarily due to a paydown of debt, partially offset by slightly higher average interest rates in 2010 that affected the unhedged portion of our variable-rate debt. Interest expense would have been \$3.1 and \$2.3 million less in 2010 and 2009, respectively, without the impact of our derivatives.

## Income Taxes

An income tax benefit of \$5.0 million was recorded in 2010, an effective tax benefit of 43.8%, compared to \$1.7 million in 2009, an effective tax benefit of 40.9%. The increase in the effective benefit rate includes the beneficial impact of a \$0.5 million reversal of a discrete tax reserve and a higher percentage of Canadian income in 2010 than in 2009. We currently expect our full fiscal year 2010 effective income tax rate to be approximately 39.4%, excluding any future discrete items.

Six Months Ended March 31, 2010 ("YTD 2010") Compared to the Six Months Ended March 31, 2009 ("YTD 2009")

## Net Sales

Consolidated net sales decreased \$129.5 million, or 16.6%, to \$653.1 million in YTD 2010 from \$782.6 million in YTD 2009. We attribute the sales decrease primarily to the same factors mentioned above for the second quarter, although the YTD 2010 non-residential sales decrease was larger due to a more significant decline in the first quarter compared to the second quarter. The impact from inflation on YTD 2010 sales was immaterial. We closed one branch and acquired two in YTD 2010, while we closed six branches in YTD 2009. We had 125 business days in both YTD 2010 and YTD 2009. Included in our YTD 2010 sales was \$1.5 million of primarily residential roofing sales from our two newly acquired branches, which represented 19 basis points of growth. Actual organic contraction was therefore 16.8%. Our total product group sales were as follows:

For the Six Months Ended

|                                  | March 31,<br>2010 |        | March 31,<br>2009 |        | Change       |        |
|----------------------------------|-------------------|--------|-------------------|--------|--------------|--------|
|                                  | Sales             | Mix    | Sales             | Mix    |              |        |
| Residential roofing products     | \$ 316,252        | 48.4%  | \$ 406,973        | 52.0%  | \$ (90,721)  | -22.3% |
| Non-residential roofing products | 236,022           | 36.1%  | 265,958           | 34.0%  | (29,936)     | -11.3  |
| Complementary building products  | 100,813           | 15.4%  | 109,701           | 14.0%  | (8,888)      | -8.1   |
|                                  | \$ 653,087        | 100.0% | \$ 782,632        | 100.0% | \$ (129,545) | -16.6% |

## Gross Profit

For the Six Months Ended

|              | March 31,<br>2010     | March 31,<br>2009 | Change    |        |
|--------------|-----------------------|-------------------|-----------|--------|
|              | (dollars in millions) |                   |           |        |
| Gross profit | \$ 149.4              | \$ 190.3          | \$ (40.9) | -21.5% |
| Gross margin | 22.9%                 | 24.3%             | -1.4%     |        |

Our gross profit decreased \$40.9 million or 21.5% in YTD 2010, while our gross margin also decreased to 22.9% in YTD 2010 from 24.3% in YTD 2009. In addition to the factors mentioned for the quarter, the YTD 2010 margin rate decrease was also the result of lower weighted-average costs of residential roofing products (in comparison to the prices of those products in the marketplace) that benefitted the early 2009 margin. We continue to expect our future overall annual gross margin average to range from 23-24.5%, dependant upon product mix.



## Operating Expenses

For the Six Months Ended

|                                       | March 31,<br>2010     | March 31,<br>2009 | Change    |       |
|---------------------------------------|-----------------------|-------------------|-----------|-------|
|                                       | (dollars in millions) |                   |           |       |
| Operating expenses                    | \$ 136.9              | \$ 151.1          | \$ (14.2) | -9.4% |
| Operating expenses<br>as a % of sales | 21.0%                 | 19.3%             |           | 1.7%  |

Our operating expenses decreased by \$14.2 million or 9.4% in YTD 2010 to \$136.9 million, including \$0.5 million of expenses at our two recently acquired branches, from \$151.1 million in YTD 2009. The following factors were the leading causes of our lower operating expenses:

- savings of \$7.0 million in payroll and related costs, due to a lower employee headcount, a reduction in overtime, lower incentive-based pay, and lower related benefits (including a lower profit-sharing accrual);
- savings of \$4.0 million in other general & administrative expenses, from a reduction in the provision for bad debts of \$2.6 million, reduced claim costs in our self-insurance programs and from other cost saving actions;
- savings of \$1.6 million in various selling expenses, such as reduced credit card fees due to the lower sales volume and certain cost saving actions;
- reduced depreciation and amortization expense of \$1.3 million due to lower amortization of intangible assets; and
  - savings of \$0.3 million in warehouse expenses resulting mainly from lower branch closing costs.

In YTD 2010, we expensed a total of \$5.0 million for the amortization of intangible assets recorded under purchase accounting compared to \$6.2 million in YTD 2009. Our operating expenses as a percentage of net sales increased to 21.0% in 2010 from 19.3% in 2009 as we were unable to reduce costs to the extent of the large drop in sales.

## Interest Expense

Interest expense decreased \$0.6 million to \$11.1 million in YTD 2010 from \$11.7 million in YTD 2009. This decrease was primarily due to a paydown of debt, partially offset by slightly higher average interest rates in YTD 2010 that affected the unhedged portion of our variable-rate debt. Interest expense would have been \$6.4 and \$2.8 million less in YTD 2010 and 2009, respectively, without the impact of our derivatives.

## Income Taxes

Income tax expense of \$0.1 million was recorded in YTD 2010, an effective tax rate of 4.7%, compared to an income tax expense of \$11.2 million in YTD 2009, an effective tax rate of 40.9%. The income tax expense for YTD 2010 includes the benefits from the reversal of a \$0.5 million discrete tax reserve and a higher percentage of Canadian income in YTD 2010 than in YTD 2009. Without those benefits, our effective tax rate would have been 39.5%.

## Seasonality and Quarterly Fluctuations

In general, sales and net income are highest during our first, third and fourth fiscal quarters, which represent the peak months of construction and reroofing, especially in our branches in the northeastern U.S. and in Canada. Our

sales are substantially lower during the second quarter, when we historically have incurred low net income levels or net losses.

We generally experience an increase in inventory, accounts receivable and accounts payable during the third and fourth quarters of the year as a result of the seasonality of our business. Our peak borrowing level generally occurs during the third quarter, primarily because dated accounts payable offered by our suppliers typically are payable in April, May and June, while our peak accounts receivable collections typically occur from June through November.

We generally experience a slowing of collections of our accounts receivable during our second quarter, mainly due to the inability of some of our customers to conduct their businesses effectively in inclement weather in certain of our regions. We continue to attempt to collect those receivables, which require payment under our standard terms. We do not provide any concessions to our customers during this quarter of the year, although we may take advantage of seasonal incentives from our vendors. Also during the second quarter, we generally experience our lowest availability under our senior secured credit facilities, which are asset-based lending facilities.

## Certain Quarterly Financial Data

The following table sets forth certain unaudited quarterly data for fiscal year 2010 (ending September 30, 2010) and fiscal year 2009 which, in the opinion of management, reflect all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of this data. Results of any one or more quarters are not necessarily indicative of results for an entire fiscal year or of continuing trends. Totals may not total due to rounding.

|  | Fiscal year 2010                             |           | Fiscal year 2009 |           |          |          |
|--|--|-----------|------------------|-----------|----------|----------|
|  | Qtr 1  | Qtr 2     | Qtr 1            | Qtr 2     | Qtr 3    | Qtr 4    |
|  | (dollars in millions, except per share data) |           |                  |           |          |          |
|  | (unaudited)                                  |           |                  |           |          |          |
| Net sales  | \$ 367.7                                     | \$ 285.4  | \$ 463.3         | \$ 319.3  | \$ 463.6 | \$ 487.7 |
| Gross profit   | 88.3   | 61.1      | 116.0            | 74.3      | 107.8    | 113.0    |
| Income (loss) from operations  | 18.5   | (6.0)     | 37.7             | 1.5       | 33.6     | 36.5     |
| Net income (loss)  | \$ 7.8                                       | \$ (6.5)  | \$ 18.6          | \$ (2.4)  | \$ 17.2  | \$ 19.0  |
| Earnings (loss) per share - basic                                      | \$ 0.17                                      | \$ (0.14) | \$ 0.42          | \$ (0.05) | \$ 0.38  | \$ 0.42  |
| Earnings (loss) per share - fully diluted                              | \$ 0.17                                      | \$ (0.14) | \$ 0.41          | \$ (0.05) | \$ 0.38  | \$ 0.42  |
| Quarterly sales as % of year's sales                                   |  |           | 26.7%            | 18.4%     | 26.7%    | 28.1%    |
| Quarterly gross profit as % of year's gross profit                     |  |           | 28.2%            | 18.1%     | 26.2%    | 27.5%    |
| Quarterly income from operations as % of year's income from operations |  |           | 34.5%            | 1.4%      | 30.7%    | 33.4%    |

The calculations of the net loss per share for the second quarters of fiscal year 2010 and 2009 do not include the effect of stock options since the impact would have been anti-dilutive.

## Liquidity and Capital Resources

We had cash and cash equivalents of \$89.9 million at March 31, 2010 compared to \$98.1 million at March 31, 2009 and \$82.7 million at September 30, 2009. Our net working capital was \$344.9 million at March 31, 2010 compared to \$296.3 million at March 31, 2009 and \$334.9 million at September 30, 2009.

## YTD 2010 Compared to YTD 2009

Our net cash provided by operating activities was \$25.6 million in YTD 2010 compared to \$84.8 million in YTD 2009. The lower cash from operations was partially due to the drop of \$26.6 million in our income from operations. In addition, inventory increased \$23.5 million, as we increased purchases during the quarter in anticipation of price increases. Furthermore, we saw a decrease of \$32.8 million in accounts payable and accrued expenses, primarily due to normal seasonal declines, partially offset by the impact from the higher second quarter purchasing levels and much

lower income tax payments in YTD 2010 than in YTD 2009. Accounts receivable decreased by \$66.9 million in 2010 primarily due to a normal seasonal decline and lower second quarter sales. Due mostly to the large decrease in sales, the number of days outstanding for accounts receivable, based upon YTD 2010 sales, were higher compared to YTD 2009, while inventory turns were down due to the lower sales and the higher inventory level.

Net cash used in investing activities was \$9.9 million in YTD 2010 compared to \$4.8 million in YTD 2009, mainly due to the acquisitions of IBM and Lookout, partially offset by lower capital spending for transportation and material handling equipment. We continue to closely manage our capital expenditures during these challenging economic times and we expect full fiscal year 2010 capital expenditures to total between 0.7% to 1.0% of net sales, mostly dependant upon our sales volume and exclusive of the impact of branch openings.

Net cash used by financing activities was \$8.7 million in YTD 2010 compared to \$7.9 million in YTD 2009. These amounts primarily reflected repayments under our credit facilities, including the \$7 million excess cash flow payment made earlier this year.

#### Capital Resources

Our principal source of liquidity at March 31, 2010 was our cash and cash equivalents of \$89.9 million and our available borrowings of \$130.1 million under revolving lines of credit, subject to compliance with the maximum consolidated leverage ratio below. Our borrowing base availability is determined primarily by trade accounts receivable, less outstanding borrowings and letters of credit. Borrowings outstanding under the revolving lines of credit in the accompanying balance sheets have been classified as short-term debt since there were no current expectations of a minimum level of outstanding revolver borrowings in the following twelve months.

Liquidity is defined as the current amount of readily available cash and the ability to generate adequate amounts of cash to meet the current needs for cash. We assess our liquidity in terms of our cash and cash equivalents on hand and the ability to generate cash to fund our operating activities, taking into consideration the seasonal nature of our business.

Significant factors which could affect future liquidity include the following:

- the adequacy of available bank lines of credit;
- the ability to attract long-term capital with satisfactory terms;
- cash flows generated from operating activities;
  - acquisitions; and
  - capital expenditures.

Our primary capital needs are for working capital obligations and other general corporate purposes, including acquisitions and capital expenditures. Our primary sources of working capital are cash from operations and cash equivalents supplemented by bank borrowings. In the past, we have financed acquisitions initially through increased bank borrowings, the issuance of common stock and other borrowings. We then repay any such borrowings with cash flows from operations. We have funded most of our past capital expenditures with cash on hand or through increased bank borrowings, including equipment financing, and then have reduced those obligations with cash flows from operations.

We believe we have adequate current liquidity and availability of capital to fund our present operations, meet our commitments on our existing debt and fund anticipated growth, including expansion in existing and targeted market areas. We seek potential acquisitions from time to time and hold discussions with certain acquisition candidates. If suitable acquisition opportunities or working capital needs arise that would require additional financing, we believe that our financial position and earnings history provide a sufficient base for obtaining additional financing resources at reasonable rates and terms, as we have in the past. We may also issue additional shares of common stock to raise funds, which we did in December 2005, or we may issue preferred stock.

#### Indebtedness

We currently have the following credit facilities:

- a senior secured credit facility in the U.S.;
- a Canadian senior secured credit facility; and
- an equipment financing facility.

#### Senior Secured Credit Facilities

On November 2, 2006, we entered into an amended and restated seven-year \$500 million U.S. senior secured credit facility and a C\$15 million senior secured Canadian credit facility with GE Antares Capital ("GE Antares") and a syndicate of other lenders (combined, the "Credit Facility"). The Credit Facility provides for a cash receipts lock-box arrangement that gives us sole control over the funds in lock-box accounts, unless excess availability is less than \$10 million or an event of default occurs, in which case the senior secured lenders would have the right to take control over such funds and to apply such funds to repayment of the senior debt.

The Credit Facility consists of a U.S. revolving credit facility of \$150 million (the "US Revolver"), which includes a sub-facility of \$20 million for letters of credit, and provided an initial \$350 million term loan (the "Term Loan"). The Credit Facility also includes a C\$15 million senior secured revolving credit facility provided by GE Canada Finance Holding Company (the "Canada Revolver"). There was a combined \$130.1 million available for

revolver borrowings at March 31, 2010, subject to compliance with the maximum consolidated leverage ratio below, with less than \$0.1 million outstanding under the US Revolver at an interest rate of 3.25%. Borrowings outstanding under the revolving lines of credit in the accompanying balance sheets were classified as short-term debt since there were no current expectations of a minimum level of outstanding revolver borrowings in the following twelve months. There were \$4.8, \$5.1 and \$5.1 million of outstanding standby letters of credit at March 31, 2010, March 31, 2009 and September 30, 2009, respectively. The Term Loan requires amortization of 1% per year, payable in quarterly installments of approximately \$0.9 million, and the remainder is due in 2013. The Credit Facility may also be expanded by up to an additional \$200 million under certain conditions. There are mandatory prepayments under the Credit Facility under certain conditions, including the following cash flow condition:

#### Excess Cash Flow

By May 15 of each fiscal year, we must pay an amount equal to 50% of the Excess Cash Flow (as defined in the Credit Facility) for the prior fiscal year, not to exceed \$7.0 million with respect to any fiscal year. Based on our results for fiscal year 2009, a required payment of \$7.0 million was made early in February 2010. A payment of \$7.0 million was made in April 2009 for fiscal year 2008. The amounts payable under this provision are classified as short-term debt.

## Interest

Interest on borrowings under the U.S. credit facility is payable at our election at either of the following rates:

- the base rate (that is the higher of (a) the base rate for corporate loans quoted in The Wall Street Journal or (b) the Federal Reserve overnight rate plus 1/2 of 1%) plus a margin of 0.75% for the Term Loan, or
  - the current LIBOR Rate plus a margin of 1.00% (for U.S. Revolver loans) or 2.00% (for Term Loan).

Interest under the Canadian credit facility is payable at our election at either of the following rates:

- an index rate (that is the higher of (1) the Canadian prime rate as quoted in The Globe and Mail and (2) the 30-day BA Rate plus 0.75%), or
  - the BA rate as described in the Canadian facility plus 1.00%.

The US Revolver currently carries an interest rate at the base rate (3.25% at March 31, 2010), while the Canada revolver carries an interest rate of the Canadian prime rate plus 0.75% (3.00% at March 31, 2010), and the Term Loan carries an interest rate of LIBOR plus 2% (2.25% for both of the LIBOR arrangements under the Term Loan at March 31, 2010). Unused fees on the revolving credit facilities are 0.25% per annum. Availability under the revolving credit facilities is limited to 85% of eligible accounts receivable, increasing to 90% from January through April of each year.

Financial covenants, which apply only to the Term Loan, are limited to a leverage ratio and a yearly capital expenditure limitation as follows:

### Maximum Consolidated Leverage Ratio

On the last day of each fiscal quarter, our Consolidated Leverage Ratio, as defined, must not be greater than 4.00:1.0. At March 31, 2010, this ratio was 2.20:1.

### Capital Expenditures

We cannot incur aggregate Capital Expenditures, as defined, in excess of three percent (3.00%) of consolidated gross revenue for any fiscal year.

As of March 31, 2010, we were in compliance with these covenants.

Substantially all of our assets, including the capital stock and assets of wholly-owned subsidiaries secure obligations under the Credit Facility.

### Equipment Financing Facility

There was a total of \$17.5 million of equipment financing loans outstanding under prior equipment financing facilities at March 31, 2010, with fixed interest rates ranging from 4.1% to 7.4% and payments due through September 2014. The Company currently has an equipment financing facility that allows for the financing of up to \$5.5 million of purchased transportation and material handling equipment through May 1, 2011 at an interest rate approximately 2% above the 5-year term swap rate at the time of the advances. There were no amounts outstanding under this facility at March 31, 2010.

Cautionary Statement for Purposes of the "Safe Harbor" Provisions of the Private Securities Litigation Reform Act of 1995

Our disclosure and analysis in this report contains forward-looking information that involves risks and uncertainties. Our forward-looking statements express our current expectations or forecasts of possible future results or events, including projections of future performance, statements of management's plans and objectives, future contracts, and forecasts of trends and other matters. You can identify these statements by the fact that they do not relate strictly to historic or current facts and often use words such as "anticipate," "estimate," "expect," "believe," "will likely result," "outlook," "project" and other words and expressions of similar meaning. No assurance can be given that the results in any forward-looking statements will be achieved and actual results could be affected by one or more factors, which could cause them to differ materially. For these statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act.



Certain factors that may affect our business and could cause actual results to differ materially from those expressed in any forward-looking statements include those set forth under the heading "Risk Factors" in our Form 10-K for the fiscal year ended September 30, 2009.

### Item 3. Quantitative and Qualitative Disclosures about Market Risk

#### Interest Rate Risk

Our interest rate risk relates primarily to the variable-rate borrowings under our Credit Facility. The following discussion of our interest rate swaps and collars (see "Financial Derivatives" below) is based on a 10% change in interest rates. These changes are hypothetical scenarios used to calibrate potential risk and do not represent our view of future market changes. As the hypothetical figures discussed below indicate, changes in fair value based on the assumed change in rates generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. The effect of a variation in a particular assumption is calculated without changing any other assumption. In reality, changes in one factor may result in changes in another, which may magnify or counteract the sensitivities.

At March 31, 2010, we had \$323.8 million of term loans outstanding under our Credit Facility, less than \$0.1 million of borrowings under revolving lines of credit, and \$17.5 million of equipment financing outstanding. Our weighted-average effective interest rate on that debt, after considering the effect of the interest rate swaps, was 6.26% at March 31, 2010 (6.12% at March 31, 2009). As noted below, certain of our financial derivatives expire in early April 2010 and are being replaced with three new future interest rate swaps. If these future swaps had been in effect at March 31, 2010, the weighted-average effective interest rate of our debt would have been approximately 4.0%. Regarding the swaps actually in effect at March 31, 2010, a hypothetical 10% increase in interest rates in effect at that date would have increased annual interest expense by only \$0.1 million, since most of the interest expense was fixed by the financial derivatives.

We enter into interest rate swaps and collars to minimize the risks and costs associated with financing activities, as well as to maintain an appropriate mix of fixed-and floating-rate debt. The swap agreements discussed below are contracts to exchange variable-rate for fixed-interest rate payments over the life of the agreements. The collar agreements, also discussed below, provide for fixed-rate caps and floors. The aggregate fair value of these swaps and collars represented an unrealized loss of \$7.1 million at March 31, 2010. A hypothetical increase (or decrease) of 10% in interest rates from the level in effect at March 31, 2010, would result in an aggregate unrealized gain or (loss) in value of the swaps and collars of approximately \$0.1 million or (\$0.1) million, respectively.

#### Financial Derivatives

As discussed above, we use interest rate derivative instruments to manage our exposure related to fluctuating cash flows from changes in interest rates by converting a portion of our variable-rate borrowings into fixed-rate borrowings. As of March 31, 2010, we had the following interest rate derivative instruments outstanding: a) interest rate swaps totaling \$200 million, expiring in April 2010, with a fixed rate of 4.97%; b) a \$50 million interest rate collar expiring in April 2010 with a floor rate of 3.99% and a cap rate of 5.75%; c) a \$50 million interest rate collar expiring in April 2010 with a floor rate of 3.75% and a cap rate of 6.00%; d) a \$100 million future-starting interest rate swap executed in May 2010, with interest cash flows commencing in April 2010 and expiring in April 2013 and with a fixed rate of 2.72%; e) a \$50 million future-starting interest rate swap executed in June 2010, with interest cash flows commencing in April 2010 and expiring in April 2013 and with a fixed rate of 3.12%; and f) a \$50 million future-starting interest rate swap executed in June 2010, with interest cash flows commencing in April 2010 and expiring in April 2013 and with a fixed rate of 3.11%. At no time during the terms of the forward-stating derivatives do the associated cash flows overlap with those associated with the derivatives expiring in April 2010.

## Foreign Exchange Risk

There have been no material changes from what we reported in our Form 10-K for the year ended September 30, 2010.

## Item 4. Controls and Procedures

The term "disclosure controls and procedures" is defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 (the "Act"). The rules refer to the controls and other procedures designed to ensure that information required to be disclosed in reports that we file or submit under the Act is recorded, processed, summarized and reported within the time periods specified. As of March 31, 2010, management, including the CEO and CFO, performed an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures. Based on that evaluation, management, including the CEO and CFO, concluded that as of March 31, 2010, our disclosure controls and procedures were effective at ensuring that material information related to us or our consolidated subsidiaries is made known to them and is disclosed on a timely basis in our reports filed under the Act. We maintain a system of internal control over financial reporting that is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States. Based on the most recent evaluation, we have concluded that no significant change in our internal control over financial reporting occurred during the last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## Part II. Other Information

Items 1-4 are not applicable and have been omitted.

## Item 5. Other Information

Our Annual Meeting of Shareholders was held on February 5, 2010 to ratify the selection of Ernst & Young LLP as the Company's auditors for the fiscal year ending September 30, 2010 and to elect a board of seven directors.

The numbers of votes to ratify the selection of Ernst & Young LLP were as follows:

| VOTES FOR  | VOTES AGAINST | VOTES ABSTAINED |
|------------|---------------|-----------------|
| 41,947,824 | 644,450       | 81,663          |

The numbers of votes for each director nominee were as follows:

| DIRECTOR NOMINEE       | VOTES FOR  | VOTES WITHHELD |
|------------------------|------------|----------------|
| Robert R. Buck         | 37,741,653 | 1,538,974      |
| Andrew R. Logie        | 39,046,266 | 234,361        |
| H. Arthur Bellows, Jr. | 39,151,006 | 129,621        |
| James J. Gaffney       | 38,678,911 | 601,716        |
| Peter M. Gotsch        | 37,662,413 | 1,618,214      |
| Stuart A. Randle       | 38,803,983 | 476,644        |
| Wilson B. Sexton       | 38,806,913 | 473,714        |

## Item 6. Exhibits

(a) Exhibits required by Item 601 of Regulation S-K

| Exhibit Number | Document Description   |
|----------------|--|
| 31.1           | Certification by Robert R. Buck pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.              |
| 31.2           | Certification by David R. Grace pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.              |
| 32.1           | Certification by Robert R. Buck and David R. Grace pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

Signature Page

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 on May 7, 2010.

BEACON ROOFING SUPPLY, INC.

BY:

/s/ DAVID R. GRACE

David R. Grace, Senior Vice President & Chief Financial Officer, and duly  
authorized signatory on behalf of the Registrant

Index to Exhibits

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|-------------------|--|
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