Builders FirstSource, Inc.
Form 10-Q
November 09, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2015

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number 0-51357

BUILDERS FIRSTSOURCE, INC.

(Exact name of registrant as specified in its charter)

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

(214) 880-3500

(Registrant’s telephone number, including area code)

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

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

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

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

The number of shares of the issuer’s common stock, par value $0.01, outstanding as of November 4, 2015 was 109,267,591.

BUILDERS FIRSTSOURCE, INC.

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements (unaudited)

BUILDERS FIRSTSOURCE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
	(Unaudited)			
	(In thousands, except per share amounts)			
Net sales	$1,276,063	$434,907	$2,108,570	$1,207,359
Cost of sales	951,289	337,260	1,589,449	940,998
Gross margin	324,774	97,647	519,121	266,361
Selling, general and administrative expenses	286,533	82,062	464,299	227,988
Income from operations	38,241	15,585	54,822	38,373
Interest expense, net	46,005	6,393	66,185	21,725
Income (loss) from continuing operations before income taxes	(7,764)	9,192	(11,363)	16,648
Income tax expense	993	453	990	601
Income (loss) from continuing operations	(8,757)	8,739	(12,353)	16,047
Income (loss) from discontinued operations (net of income tax expense of $0 in 2015 and $0 in 2014)	—	(235)	102	(318)
Net Income (loss)	$(8,757)	$8,504	$(12,251)	$15,729
Comprehensive Income (loss)	$(8,757)	$8,504	$(12,251)	$15,729
Basic net income (loss) per share:				
Income (loss) from continuing operations	$(0.08)	$0.09	$(0.12)	$0.16
Income (loss) from discontinued operations	0.00	(0.00)	0.00	(0.00)
Net Income (loss)	$(0.08)	$0.09	$(0.12)	$0.16
Diluted net income (loss) per share:				
Income (loss) from continuing operations	$(0.08)	$0.07	$(0.12)	$0.14
Income (loss) from discontinued operations	0.00	(0.00)	0.00	(0.00)
Net Income (loss)	$(0.08)	$0.07	$(0.12)	$0.14
Weighted average common shares:				
Basic	105,856	98,104	101,096	98,010
Diluted	105,856	100,360	101,096	100,628

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

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BUILDERS FIRSTSOURCE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2015 (Unaudited)	December 31, 2014
	(In thousands, except per share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	$101,185	$17,773
Accounts receivable, less allowance of $11,300 and $3,153 at September 30, 2015 and December 31, 2014, respectively	657,867	140,064
Other receivables	53,380	24,070
Inventories, net	502,269	138,156
Other current assets	25,832	11,477
Total current assets	1,340,533	331,540
Property, plant and equipment, net	736,632	75,679
Assets held for sale	10,581	1,395
Goodwill	596,407	139,774
Intangible assets, net	334,150	17,228
Other assets, net	19,531	8,449
Total assets	$3,037,834	$574,065
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Checks outstanding	$58,629	$—
Accounts payable	420,229	74,427
Accrued liabilities	314,584	67,666
Current maturities of long-term debt and lease obligations	30,365	30,074
Total current liabilities	823,807	172,167
Long-term debt and lease obligations, net of current maturities, debt discount and deferred loan costs	1,996,818	344,829
Other long-term liabilities	61,691	16,869
Total liabilities	2,882,316	533,865
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Preferred stock, $0.01 par value, 10,000 shares authorized; zero shares issued and outstanding at September 30, 2015 and December 31, 2014, respectively	—	—
Common stock, $0.01 par value, 200,000 shares authorized; 109,267 and 98,226 shares issued and outstanding at September 30, 2015 and December 31, 2014, respectively	1,092	982
Additional paid-in capital	507,550	380,091
Accumulated deficit	(353,124)	(340,873)
Total stockholders' equity	155,518	40,200

Total liabilities and stockholders' equity	$3,037,834	$574,065

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

BUILDERS FIRSTSOURCE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine months ended September 30,	
	2015	2014
	(Unaudited)	
	(In thousands)	
Cash flows from operating activities:		
Net income (loss)	$(12,251)	$15,729
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	30,635	6,413
Asset impairments	1,438	—
Amortization and write-off of deferred loan costs	16,751	1,816
Amortization of debt discount	120	—
Fair value adjustment of stock warrants	4,563	(1,321)
Deferred income taxes	396	361
Bad debt expense	797	(364)
Stock compensation expense	4,972	3,910
Net gain on sale of assets	(587)	(119)
Changes in assets and liabilities, net of assets acquired and liabilities assumed:		
Receivables	(30,513)	(23,744)
Inventories	31,615	(6,595)
Other current assets	(2,255)	(2,289)
Other assets and liabilities	2,227	(490)
Accounts payable and checks outstanding	32,380	15,798
Accrued liabilities	38,481	21,391
Net cash provided by operating activities	118,769	30,496
Cash flows from investing activities:		
Purchases of property, plant and equipment	(28,313)	(14,522)
Proceeds from sale of property, plant and equipment	2,409	120
Cash used for acquisitions, net	(1,465,117)	(33,165)
Net cash used in investing activities	(1,491,021)	(47,567)
Cash flows from financing activities:		
Borrowings under revolving credit facility	320,000	30,000
Repayments under revolving credit facility	(215,000)	—
Proceeds from issuance of notes	700,000	—
Proceeds from term loan	594,000	—
Repayments of long-term debt and other loans	(1,365)	(50)
Payments of loan costs	(56,632)	(34)
Proceeds from public offering of common stock, net of issuance costs	111,315	—
Exercise of stock options	4,332	1,535
Repurchase of common stock	(986)	(1,306)
Net cash provided by financing activities	1,455,664	30,145

Net change in cash and cash equivalents	83,412	13,074
Cash and cash equivalents at beginning of period	17,773	54,696
Cash and cash equivalents at end of period	$101,185	$67,770

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

BUILDERS FIRSTSOURCE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

	Common Stock Shares	Common Stock Amount	Additional Paid in Capital	Accumulated Deficit	Total
	(Unaudited) (In thousands)				
Balance at December 31, 2014	98,226	$ 982	$ 380,091	$ (340,873)	$ 40,200
Issuance of common stock from public offering, net of issuance costs	9,200	92	111,223	—	111,315
Vesting of restricted stock units	495	5	(5)	—	—
Stock compensation expense	—	—	4,972	—	4,972
Exercise of stock options	929	9	4,323	—	4,332
Exercise of stock warrants	569	6	7,930	—	7,936
Repurchase of common stock	(152)	(2)	(984)	—	(986)
Comprehensive loss:					
Net loss	—	—	—	(12,251)	(12,251)
Total comprehensive loss	—	—	—	—	(12,251)
Balance at September 30, 2015	109,267	$ 1,092	$ 507,550	$ (353,124)	$ 155,518

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. Following our acquisition of ProBuild Holdings, LLC ("ProBuild") in July 2015, the company operates 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 (including ProBuild as of July 31, 2015), unless otherwise stated or the context otherwise requires.

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

The condensed consolidated balance sheet as of December 31, 2014 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, 2014 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, 2014 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, except as noted below, with the accounting policies described in the Notes to Consolidated Financial Statements included in our Form 10-K.

Certain prior period amounts have been reclassified to conform to the current year presentation due to the ProBuild acquisition and the adoption of updated accounting guidance.

The accompanying condensed consolidated balance sheet as of December 31, 2014 has been revised to present deferred loan costs associated with term debt as a reduction to long-term debt instead of a component of other assets. In the accompanying condensed consolidated balance sheet as of December 31, 2014, $9.0 million has been reclassified from other assets to long-term debt. Deferred loan costs associated with revolving debt arrangements continue to be presented as a component of other assets. Previously the Company presented all deferred loan costs as a component of other assets. This change in accounting principle was made in accordance with the updated guidance issued by the Financial Standards Accounting Board ("FASB") described in Note 12. This update had no impact on guidance relating to the recognition and measurement of deferred loan costs.

2. Acquisitions

On February 9, 2015, the Company acquired certain assets and the operations of Timber Tech Texas, Inc. and its affiliates ("Timber Tech") for $5.8 million in cash (including certain adjustments). Timber Tech is based in Cibolo, Texas, which is approximately 25 miles northeast of downtown San Antonio. Timber Tech is a manufacturer of roof trusses, floor trusses, wall panels and sub-components, as well as a supplier of glue laminated timber and veneer lumber beams.

On July 31, 2015, we acquired all of the operating affiliates of ProBuild through the purchase of all issued and outstanding equity interests of ProBuild for $1.63 billion in cash, subject to certain adjustments. The purchase price was funded by the net proceeds received from the financing transactions described in Note 4. Headquartered in Denver, Colorado, ProBuild is one of the nation's largest professional building materials suppliers. As a result of the ProBuild acquisition, the Company has a greater diversification of products and services and a significantly improved geographic footprint.

The Timber Tech and ProBuild acquisitions were accounted for by the acquisition method, and accordingly the results of operations were included in the Company's consolidated financial statements from the acquisition date. The purchase price was allocated to the assets acquired based on estimated fair values at the acquisition date, with the excess of purchase price over the estimated fair value of the net assets acquired recorded as goodwill. The accounting for these acquisitions is preliminary and subject to adjustment as it has not been completed at the date of this filing given the proximity to the acquisition dates. Therefore, the allocations related to the ProBuild acquisition which are shown in the table below are preliminary and are subject to adjustment.

We incurred $8.8 million and $20.4 million in costs related to the acquisitions during the three and nine months ended September 30, 2015, respectively. These costs include due diligence costs and transaction costs to complete the acquisition, and have been recognized in selling, general and administrative expense in the accompanying condensed consolidated statements of operations and comprehensive income (loss) for the three months and nine months ended September 30, 2015.

The following table summarizes the aggregate fair values of the assets acquired and liabilities assumed at the acquisition date for ProBuild, net of cash (in thousands):

Accounts receivable	$490,562
Other receivables	34,718
Inventory	394,633
Other current assets	12,101
Property, plant and equipment	655,037
Assets held for sale	10,912
Goodwill (Note 9)	459,472
Intangible assets (Note 10)	321,209
Other assets	2,028
Total assets acquired	2,380,672
Checks outstanding	(32,378)
Current maturities of long term debt and lease obligations	(25,456)
Accounts payable	(339,673)
Accrued expenses	(215,395)
Other long-term liabilities	(46,059)
Long-term debt and lease obligations, net of current maturities	(262,391)
Total liabilities assumed	(921,352)
Total net assets acquired	$1,459,320

All of the goodwill and intangible assets recognized from the Timber Tech and ProBuild acquisitions are expected to be deductible for tax purposes, with the goodwill recognized from these acquisitions being amortized ratably over a 15 year period. The ProBuild acquisition will be treated as an asset purchase for tax purposes.

The operating results of the acquisitions have been included in the consolidated statements of operations and comprehensive income (loss) from their acquisition dates through September 30, 2015. Net sales and net income attributable to ProBuild were $811.9 million and $24.8 million, respectively, for the period of August 1, 2015 through September 30, 2015. Net sales and net income attributable to Timber Tech are not material.

The following table reflects the unaudited pro forma operating results for the Company for the three and nine months ended September 30, 2015 and 2014, which gives effect to the acquisition of ProBuild as if it had occurred on January 1, 2014. The pro forma results are based on assumptions that the Company believes are reasonable under the circumstances. The pro forma results are not necessarily indicative of future results. The pro forma financial information includes the historical results of the Company and ProBuild adjusted for certain items, which are described below, and does not include the effects of any synergies or cost reduction initiatives related to the acquisition of ProBuild. Pro forma information for Timber Tech is not presented as it is not material.

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
	(unaudited pro forma)			
	(in thousands, except per share amounts)			
Net sales	$1,698,971	$1,711,263	$4,610,937	$4,601,555
Net income (loss)	$19,233	$14,244	$(21,362)	$(105,878)
Basic net income (loss) per share	$0.18	$0.13	$(0.20)	$(0.99)
Diluted net income (loss) per share	$0.17	$0.12	$(0.20)	$(1.00)

Pro forma net income (loss) for the three and nine months ended September 30, 2015 and 2014 reflects adjustments primarily related to depreciation and amortization, the conversion from last-in, first-out to first-in, first out inventory valuation, and interest expense. Pro forma net income (loss) was adjusted to exclude transaction-related expenses of $33.3 million ($22.8 million incurred by the Company and $10.5 million incurred by ProBuild) and $46.7 million ($34.4 million incurred by the Company and $12.3 million incurred by ProBuild) in the three and nine months ended September 30, 2015, respectively. Pro forma net income (loss) for the nine months ended September 30, 2014 was adjusted to include these transaction-related expenses.

3. Net Income (Loss) per Common Share

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

Our restricted stock shares include rights to receive dividends that are not subject to the risk of forfeiture even if the underlying restricted stock shares on which the dividends were paid do not vest. In accordance with the Earnings per Share topic of the Codification, unvested share-based payment awards that contain non-forfeitable rights to dividends are deemed participating securities and should be considered in the calculation of basic EPS. Since the restricted stock shares do not include an obligation to share in losses, they will be included in our basic EPS calculation in periods of net income and excluded from our basic EPS calculation in periods of net loss. Accordingly, there were 13,000 restricted stock shares excluded from our calculation of basic EPS for the three and nine months ended September 30, 2015, as we generated a net loss. 27,000 restricted stock shares were included in the computation of basic EPS for the three and nine months ended September 30, 2014 as we generated net income.

For the purpose of computing diluted EPS, options to purchase 5.5 million shares of common stock and 1.5 million restricted stock units (“RSUs’) were not included in the computations of diluted EPS for the three and nine months ended September 30, 2015 because their effect was anti-dilutive. Incremental shares attributable to average warrants outstanding during the nine months ended September 30, 2015 were not included in the computation of diluted EPS for the nine months ended September 30, 2015 as their effect was anti-dilutive. There were no outstanding warrants as of September 30, 2015 as all of the remaining stock warrants were exercised in April 2015.

Weighted average shares outstanding have been adjusted for common shares underlying 6.3 million options, 1.9 million RSUs, and 0.7 million warrants for the three and nine months ended September 30, 2014. In addition, $1.3 million of income due to fair value adjustments related to the warrants was excluded from net income in the computation of diluted EPS for the three and nine months ended September 30, 2014.

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 September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Weighted average shares for basic EPS	105,856	98,104	101,096	98,010
Dilutive effect of options, warrants, and RSUs	—	2,256	—	2,618
Weighted average shares for diluted EPS	105,856	100,360	101,096	100,628

4. Debt

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

	September 30, 2015	December 31, 2014
2021 notes	$ 350,000	$ 350,000
2023 notes	700,000	—
2013 facility	—	30,000
2015 facility	135,000	—
2015 term loan	600,000	—
Lease finance obligations	281,366	3,904
Capital lease obligations (Note 5)	8,208	—
	2,074,574	383,904
Unamortized debt discount and debt issuance costs	(47,391)	(9,001)
	2,027,183	374,903
Less: current maturities of long-term debt and lease obligations	30,365	30,074
Long-term debt and lease obligations, net of current maturities	$ 1,996,818	$ 344,829

ProBuild Acquisition Financing

As described in Note 2, we acquired all of the operating affiliates of ProBuild on July 31, 2015 through the purchase of all issued and outstanding equity interests of ProBuild for $1.63 billion in cash, subject to certain adjustments. The purchase price was funded with the net cash proceeds from (i) the sale of $700.0 million in aggregate principal amount of 10.75% senior unsecured notes due 2023 (the "2023 notes"), (ii) entry into a $600.0 million term loan credit agreement (the "2015 term loan") provided by a syndicate of financial institutions led by Deutsche Bank AG, New York Branch, as administrative and collateral agent, (iii) a $295.0 million draw on an amended and restated $800.0 million senior secured revolving credit facility (the"2015 facility") provided by a syndicate of financial institutions led by SunTrust Bank as administrative and collateral agent, and (iv) a public offering of 9.2 million new shares of our common stock at an offering price of $12.80 per share (the "equity offering").

In connection with the financing transactions described above, we incurred approximately $64.9 million of various third-party fees and expenses. Of these costs, $18.1 million were allocated to the 2023 notes, $16.0 million were allocated to the 2015 term loan, $11.2 million were allocated to the 2015 facility and $6.4 million were allocated to the equity offering. The costs allocated to the 2023 notes and the 2015 term loan have been recorded as reductions to long-term debt and will be amortized over their respective terms using the effective interest method. The costs allocated to the 2015 facility have been recorded as other assets and will be amortized over its term on a straight-line basis. The costs allocated to the equity offering have been recorded as a reduction to additional paid-in capital. In addition, $13.2 million in costs relate to commitment fees paid for bridge and backstop financing facilities entered into in connection with these financing transactions, neither of which was utilized. As such, these fees were recorded as interest expense in the third quarter of 2015. At the closing of these transactions, there were approximately $3.0 million in unamortized debt issuance costs associated with the 2013 $175.0 million senior secured revolving credit facility (the "2013 facility"), provided by a syndicate of financial institutions led by SunTrust Bank as administrative agent . Of these costs, approximately $0.9 million were recorded as interest expense in the third quarter of 2015. The remaining $2.1 million in unamortized costs associated with the 2013 facility are being amortized over the term of the 2015 facility.

Senior Unsecured Notes due 2023

As of September 30, 2015, we have $700.0 million outstanding in aggregate principal amount of the 2023 notes that mature on August 15, 2023. The 2023 notes were sold in a private offering at an issue price equal to 100% of their face value. Interest accrues on the 2023 notes at a rate of 10.75% per annum and is payable semi-annually on March 1 and September 1 of each year, commencing on March 1, 2016.

The terms of the notes are governed by an indenture, dated as of July 31, 2015, among the Company, the guarantors named therein and Wilmington Trust, National Association, as trustee (the "trustee"). The notes are subject to an indenture and a supplemental indenture, each dated as of July 31, 2015, among the Company, the guarantors named therein and Wilmington Trust, National Association, as trustee (the "trustee"). Pursuant to the indenture and supplemental indenture, the company's significant operating subsidiaries, including ProBuild and certain of its subsidiaries, agreed to serve as guarantors of the 2023 notes. The 2023 notes are the Company's senior unsecured obligations and will rank equally with all of its existing and future senior unsecured debt and will be senior to all of its existing and future subordinated debt.

The indenture contains certain restrictive covenants, which among other things, limit the ability of the Company to incur additional debt, issue preferred stock, create liens, pay dividends, make certain investments, sell certain assets, enter into certain types of transactions with affiliates, and effect mergers and consolidations. At any time prior to August 15, 2018, the Company may redeem the 2023 notes in whole or in part at a redemption price equal to 100% of the principal amount of the 2023 notes plus a premium as specified in the indenture. At any time on or after August

15, 2018, the Company may redeem the 2023 notes at the redemption prices set forth in the indenture plus accrued and unpaid interest. In addition, the Company may redeem up to 40% of the aggregate principal amount of the 2023 notes with the net cash proceeds of one or more equity offerings, as described in the indenture, at a price equal to 110.75% of the principal amount thereof, plus accrued and unpaid interest. In the event of a change in control, we may be required to repurchase all or part of the 2023 notes at a price equal to 101% of the principal amount thereof, plus accrued and unpaid interest.

2015 Term Loan Credit Agreement

As of September 30, 2015, we have $600.0 million outstanding under the 2015 term loan, which matures on July 31, 2022. The 2015 term loan, which was issued at 99%, bears interest, at our option, at either a eurodollar rate or a base rate, plus, in each case an applicable margin. The margin will be 5.0% per annum in the case of eurodollar rate loans and 4.0% per annum in the case of base rate loans. The 2015 term loan has mandatory principal repayments of $1.375 million which are payable in March, June, September, and December of each year, commencing in December 2015, provided that each such payment is subject to reduction as a result of certain prepayments of the loans in accordance with the loan documentation. The weighted average interest rate of the term loan was 6.0% during the third quarter of 2015.

2015 Senior Secured Revolving Credit Facility

The 2015 facility provides for an $800.0 million revolving credit line to be used for working capital and general corporate purposes. The available borrowing capacity, or borrowing base, is derived from a percentage of the Company’s eligible receivables and inventory, as defined by the agreement, subject to certain reserves. As of September 30, 2015, the net borrowing availability under the 2015 facility is $584.5 million after being reduced by outstanding letters of credit of $80.5 million and $135.0 million of borrowings currently outstanding. During the third quarter of 2015, we borrowed $295.0 million and repaid $160.0 million at a weighted average interest rate of 1.7%. The 2015 facility matures on July 31, 2020.

Borrowings under the 2015 facility bear interest, at our option, at either a eurodollar rate or a base rate, plus, in each case an applicable margin. The applicable margin ranges from 1.25% to 1.75% per annum in the case of eurodollar rate loans and 0.25% to 0.75% per annum in the case of base rate loans. The margin in either case is based on a measure of availability under the 2015 facility. A variable commitment fee, currently 0.375% per annum, is charged on the unused amount of the revolver based on quarterly average loan utilization. Letters of credit under the 2015 facility are assessed at a rate equal to the applicable eurodollar margin, currently 1.5%, as well as a fronting fee at a rate of 0.125% per annum. These fees are payable quarterly in arrears at the end of March, June, September, and December.

All obligations under the 2015 term loan and 2015 facility will be guaranteed jointly and severally by the Company and all other subsidiaries that guarantee the 2021 notes. All obligations and the guarantees of those obligations will be secured by substantially all of the assets of the Company and the guarantors subject to certain exceptions and permitted liens, including (i) with respect to the 2015 term loan, a first-priority security interest in such assets that constitute Notes Collateral (as defined below) and a second priority security interest in such assets that constitute ABL Collateral (as defined below), and (ii) with respect to the 2015 facility, a first-priority security interest in such assets that constitute ABL Collateral and a second-priority security interest in such assets that constitute Notes Collateral.

“ABL Collateral” includes substantially all presently owned and after-acquired accounts receivable, inventory, rights of unpaid vendors with respect to inventory, deposit accounts, commodity accounts, securities accounts and lock boxes, investment property, cash and cash equivalents, and general intangibles, books and records, supporting obligations and documents and related letters of credit, commercial tort claims or other claims related to and proceeds of each of the foregoing. “Notes Collateral” includes all collateral which is not ABL collateral.

The 2015 term loan and the 2015 facility contain restrictive covenants which, among other things, limit the Company’s ability to incur additional indebtedness, incur liens, engage in mergers or other fundamental changes, sell certain assets, pay dividends, make acquisitions or investments, prepay certain indebtedness, change the nature of our business, and engage in certain transactions with affiliates, respectively. In addition, the 2015 facility also contains a financial covenant requiring the satisfaction of a minimum fixed charge ratio of 1.00 to 1.00 in the event that the Company does not meet a minimum measure of availability, currently the larger of $80.0 million or 10% of the maximum borrowing amount under the 2015 facility.

As of September 30, 2015, we were not in violation of any covenants or restrictions imposed by any of our debt agreements.

Fair Value

The only financial instrument which was measured at fair value on a recurring basis was our warrants. However, on April 14, 2015, the remaining 0.7 million of outstanding, detachable warrants were exercised. The warrants were considered to be derivative financial instruments and were classified as liabilities. We recognized a non-cash, fair value adjustment of approximately $4.7 million in the second quarter of 2015. This fair value adjustment was recorded as interest expense in the accompanying condensed consolidated statement of operations and comprehensive income (loss).

The table below presents the effect of our derivative financial instrument on the condensed consolidated statements of operations and comprehensive income (loss) (in thousands):

Derivative Not Designated as Hedging Instrument	Location of Gain (Loss) Recognized in Income	Amount of Gain (Loss) Recognized in Income Three Months Ended September 30, 2015	2014	Nine Months Ended September 30, 2015	2014
Warrants	Interest expense, net	$—	$1,340	$(4,563)	$1,321

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

These techniques incorporated Level 1 and Level 2 inputs. Significant inputs to the derivative valuation for the warrants were observable in the active markets and are classified as Level 2 in the hierarchy.

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

	Carrying Value As of September 30, 2015	Fair Value Measurement as of September 30, 2015	Carrying Value As of December 31, 2014	Fair Value Measurement as of December 31, 2014
Warrants (included in Other long-term liabilities)	$ —	$ —	$ 3,375	$ 3,375

We have elected to report the value of our 2021 notes, 2023 notes, and the 2015 term loan at amortized cost. The fair values of the 2021 notes and the 2023 notes at September 30, 2015 were approximately $367.8 million and $708.7 million, respectively, and were determined using Level 2 inputs based on market prices. The carrying value of the 2015 term loan at September 30, 2015 approximates fair value as the 2015 term loan agreement contains a variable interest rate. As such, the fair value measurement of the term loan was also classified as level 2 in the hierarchy.

Lease Finance Obligations

As a result of the ProBuild acquisition, the Company is party to 172 individual property lease agreements with a single lessor as of September 30, 2015. These lease agreements have initial terms ranging from nine to fifteen years (expiring from 2016 through 2021) and renewal options in five-year increments providing for up to approximately 30-year remaining total lease terms. A related agreement between the lessor and the Company gives the Company the right to acquire a limited number of the leased facilities at fair market value. As a result of these purchase rights, the Company treats all of the properties that it leases from this lessor as a financing arrangement. The Company is also party to certain additional agreements with the same lessor which commit the Company to perform certain repair and maintenance obligations under the leases in a specified manner and timeframe.

Since July 31, 2015, the Company has exercised purchase right options on 2 properties that were subject to leases with the lessor resulting in a non-cash retirement of assets and related lease obligations of $1.5 million for the three and nine months ended September 30, 2015.

In 2006, we completed construction on a new multi-purpose facility. Based on the evaluation of the construction project in accordance with the Leases topic of the Codification, we were deemed the owner of the facility during the construction period. Effectively, a sale and leaseback of the facility occurred when construction was completed and the lease term began. This transaction did not qualify for sale-leaseback accounting. As a result the Company treats the lease of this facility as a financing arrangement.

As of September 30, 2015, lease finance obligations consist of $281.4 million, with cash payments of $4.1 million for the nine months ended September 30, 2015. These lease finance obligations are included on the condensed consolidated balance sheet as a component of long-term debt and lease obligations. The related assets are recorded as components of property, plant, and equipment on the condensed consolidated balance sheet.

Future maturities of long-term debt and lease finance obligations as of September 30, 2015 were as follows (in thousands):

2015 (from October 1, 2015)	$	1,770
2016		23,126
2017		17,492
2018		7,322
2019		7,464
Thereafter		2,009,192
Total long-term debt and lease finance obligations (including current maturities)	$	2,066,366

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5. Capital Lease Obligations

The Company leases certain property and equipment under capital leases expiring through 2022. These leases require monthly payments of principal and interest, imputed at various interest rates. Future minimum lease payments as of September 30, 2015 are as follows (in thousands):

Years ending December 31,	
2015 (from October 1, 2015)	$1,125
2016	6,585
2017	265
2018	232
2019	232
Thereafter	228
Total minimum lease payments	8,667
Less: amount representing interest	(459)
Present value of net minimum payments	8,208
Less: current portion	(7,242)
Long-term capital lease obligations, net of current portion	$966

6. Employee Stock-Based Compensation and Retirement Plans

Stock Option Grant

On February 11, 2015, our board of directors granted 142,000 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 $6.35 per share, which was the closing stock price on the grant date. The weighted average grant date fair value of the options was $4.20 and was determined using the Black-Scholes option-pricing model with the following weighted average assumptions:

Expected life	6.0 years
Expected volatility	75.2%
Expected dividend yield	0.00%
Risk-free rate	1.75%

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.

Restricted Stock Units Grant

On February 11, 2015, our board of directors granted 142,000 RSUs to employees under our 2014 Incentive Plan. All of the awards vest at 25% per year at each anniversary of the grant date over the next four years. The grant date fair value for the restricted stock units was $6.35 per share, which was the closing stock price on the grant date.

Retirement Plans

Through the ProBuild acquisition, the Company acquired a defined benefit plan, the ProBuild Retirement Plan, which was terminated as of January 30, 2015 and is currently being actively liquidated. Accrued pension costs, which represent the unfunded status of the ProBuild Retirement Plan, were $5.5 million at September 30, 2015. The Company expects to fully fund all plan benefits and make distributions of all remaining plan benefits upon completion of termination, which is expected to occur in the fourth quarter of 2015. In addition, as a result of the ProBuild acquisition the Company now maintains two active defined contribution 401(k) plans.

7. Income Taxes

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. 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 the nature, frequency, and severity of current and cumulative losses, among other matters, the reversal of existing deferred tax liabilities, historical and forecasted taxable income, 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. To the extent we generate sufficient taxable income in the future to fully utilize the tax benefits of the net deferred tax assets on which a valuation allowance was recorded, our effective tax rate may decrease as the valuation allowance is reversed.

Poor housing market conditions have contributed to our cumulative loss position for the past several years. We believe this, as well as uncertainty around the extent and timing of the continued housing market recovery, represents significant negative evidence in considering whether our deferred tax assets are realizable. Further, we do not believe that relying on projections of future taxable income to support the recovery of deferred tax assets is sufficient. Based on an evaluation of positive and negative evidence, we concluded that the negative evidence regarding our ability to realize our deferred tax assets outweighed the positive evidence as of September 30, 2015.

During the three and nine months ended September 30, 2015 we recorded net increases to the valuation allowance of $1.1 million and $2.9 million against the net deferred tax assets as we generated net operating losses during those periods related to our continuing operations. During the three and nine months ended September 30, 2014, we recorded net reductions to the valuation allowance of $3.3 million and $6.3 million against our net deferred tax assets as we generated net income during these periods. Our effective tax rate was (12.8%) and (8.7%) for the three and nine months ended September 30, 2015, respectively. For the three and nine months ended September 30, 2014 our effective tax rate was 4.9% and 3.6%, respectively. Tax expense typically remains relatively constant as it primarily reflects the accrual of income tax expense related to a valuation allowance in connection with the tax amortization of the Company’s goodwill that was not available to offset existing deferred tax assets. Due to the uncertain timing of the reversal of this temporary difference, it cannot be considered as a source of future taxable income for purposes of determining a valuation allowance; therefore the tax liability cannot offset deferred tax assets. The comparison of our effective tax rate between periods is significantly impacted by the level of pre-tax income earned and projected for the year.

Without continued improvement in housing activity, we could be required to establish additional valuation allowances. However, we had positive earnings before taxes in 2014. To the extent we continue to generate sufficient taxable income in the same jurisdictions in the future to utilize the tax benefits of the related net deferred tax assets, we may reverse some or all of the valuation allowance. We currently estimate that we will likely transition into a three year cumulative income position, including an evaluation of ProBuild’s historical results, on a rolling three year period at some time during the year ending December 31, 2016. However, there continues to be uncertainty around housing market projections. Simply coming out of a cumulative loss is not viewed as a bright line and may not be considered sufficient positive evidence to reverse some or all of the valuation allowance if there are other offsetting negative factors. In upcoming quarters, we will closely monitor the positive and negative evidence surrounding our ability to realize our deferred tax assets.

Utilization of deferred tax assets could be limited by Section 382 of the Internal Revenue Code, which 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”). 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 cyclicality 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.

8. Commitments and Contingencies

We lease certain land, buildings and equipment used in operations. These leases are generally accounted for as operating leases with initial terms ranging from one to 20 years and they generally contain renewal options. Certain operating leases are subject to contingent rentals based on various measures, primarily consumer price index increases. In addition, we have residual value guarantees on certain equipment leases. Total rent expense under operating leases was approximately $12.7 million and $26.1 million for the three and nine months ended September 30, 2015, respectively, and $6.9 million and $18.7 million for the three and nine months ended September 30, 2014, respectively.

Future minimum commitments for noncancelable operating leases with initial or remaining lease terms in excess of one year are as follows:

	Related Party	Total*
	(In thousands)	
Years ending December 31,		
2015 (from October 1, 2015)	$578	$14,658
2016	2,024	55,962
2017	1,999	49,096
2018	1,617	38,984
2019	1,543	26,818
Thereafter	2,426	52,042
	$10,187	$237,560

*Includes related party future minimum commitments for noncancelable operating leases.

As of September 30, 2015, we had outstanding letters of credit totaling $80.5 million under our 2015 facility that principally support our self-insurance programs.

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

9. Goodwill

The following table sets forth the change in the carrying amount of goodwill for the Company in 2015 (in thousands):

	2015
Balance as of January 1,	
Goodwill	$184,410
Accumulated impairment losses	(44,636)
	139,774
Acquisitions and other purchase price adjustments	456,633
Balance as of September 30,	
Goodwill	$641,043
Accumulated impairment losses	(44,636)
	$596,407

In 2015, the change in the carrying amount of goodwill is attributable to our acquisitions of ProBuild and Timber Tech and to purchase price adjustments related to previous acquisitions. The amount allocated to goodwill is attributable to the assembled workforce of the acquired companies as well as the synergies expected to arise as a result of these acquisitions. The accounting for the acquisition of ProBuild is preliminary and therefore the assignment of goodwill to reporting units following the ProBuild acquisition has not been completed due to the proximity of the closing date of the ProBuild acquisition to the date of the financial statements.

10. Intangible Assets

The following table presents intangible assets as of:

	September 30, 2015		December 31, 2014	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
	(In thousands)			
Customer relationships	$206,910	$ (7,593)	$18,423	$ (2,695)
Non-compete agreements	766	(132)	392	(31)
Trade names	130,061	(2,263)	1,234	(95)
Favorable lease intangibles	6,409	(8)	—	—
Total intangible assets	$344,146	$ (9,996)	$20,049	$ (2,821)
Unfavorable lease obligations (included in Accrued liabilities and Other long-term liabilities)	$(19,547)	$ 443	$—	$ —

In connection with the acquisition of ProBuild, we recorded intangible assets of $321.2 million, which includes $128.8 million of trade names, $186.0 million of customer relationships and $6.4 million of favorable lease intangibles. We also recorded $19.5 million of unfavorable lease obligations. The weighted average useful lives of the acquired assets are 11.0 years for trade names, 17.8 years for customer relationships, and 10.0 years for both the favorable and unfavorable lease intangibles. The accounting for the ProBuild acquisition is preliminary, as such the amounts recorded as intangible assets are also preliminary.

During the three and nine months ended September 30, 2015, we recorded net amortization expense in relation to the above-listed intangible assets of $4.6 million and $5.7 million, respectively. In addition, as a result of the facility closure activities following the ProBuild acquisition, we recorded a $1.4 million impairment charge against our intangible assets for both the three and nine months ended September 30, 2015. During the three and nine months ended September 30, 2014, we recorded amortization expense of $0.3 million and $0.5 million, respectively. The following table presents the estimated net amortization expense for these intangible assets for the years ending December 31 (in thousands):

2015 (from October 1, 2015)	$ 6,191
2016	24,249
2017	24,052
2018	24,868
2019	25,685
Thereafter	210,001
Total future net intangible amortization expense	$315,046

11. 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 450 locations operating in 40 states across the United States, which have been reorganized into nine geographical regions following the ProBuild acquisition. Centralized financial and operational oversight, including resource allocation and assessment of performance on an income (loss) from continuing operations before income taxes basis, is performed by our CEO, whom we have determined to be our chief operating decision maker ("CODM").

As a result of the reorganization following the ProBuild acquisition, the Company has nine operating segments aligned with its nine geographical regions (Regions 1 through 9). While all of our operating segments have similar nature of products, distribution methods and customers, 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
- 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 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 described in Note 1, except for noted reconciling items.

The following tables present Net sales, Income (loss) from continuing operations 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 September 30, 2015			
Reportable segments	Net Sales	Depreciation & Amortization	Interest	Income (loss) from continuing operations before income taxes
Northeast	$238,329	$ 1,457	$2,589	$ 13,553
Southeast	290,407	1,664	4,187	7,360
South	360,636	4,077	5,236	14,951
West	353,394	2,327	2,595	21,200
Total reportable segments	1,242,766	9,525	14,607	57,064
All other	33,297	14,328	31,398	(64,828)
Total consolidated	$1,276,063	$ 23,853	$46,005	$ (7,764)

	Nine months ended September 30, 2015			
Reportable segments	Net Sales	Depreciation & Amortization	Interest	Income (loss) from continuing operations before income taxes

Northeast	$350,238	$ 1,983	$4,298	$ 17,190
Southeast	631,409	3,163	10,435	10,694
South	682,923	7,180	12,706	17,897
West	353,395	2,327	2,595	21,200
Total reportable segments	2,017,965	14,653	30,034	66,981
All other	90,605	15,982	36,151	(78,344)
Total consolidated	$2,108,570	$ 30,635	$66,185	$ (11,363)

	Three months ended September 30, 2014			
Reportable segments	Net Sales	Depreciation & Amortization	Interest	Income (loss) from continuing operations before income taxes
Northeast	$63,825	$ 256	$931	$ 2,134
Southeast	184,791	673	3,090	2,905
South	153,289	780	3,248	2,321
West	—	—	—	—
Total reportable segments	401,905	1,709	7,269	7,360
All other	33,002	682	(876)	1,832
Total consolidated	$434,907	$ 2,391	$6,393	$ 9,192

	Nine months ended September 30, 2014			
Reportable segments	Net Sales	Depreciation & Amortization	Interest	Income (loss) from continuing operations before income taxes
Northeast	$179,668	$ 820	$2,794	$ 3,255
Southeast	512,444	2,080	8,983	3,887
South	422,617	1,641	9,455	4,162
West	—	—	—	—
Total reportable segments	1,114,729	4,541	21,232	11,304
All other	92,630	1,872	493	5,344
Total consolidated	$1,207,359	$ 6,413	$21,725	$ 16,648

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		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Lumber & lumber sheet goods	$414,662	$152,429	$690,080	$432,715
Windows, doors & millwork	279,336	136,789	546,006	372,284
Manufactured products	222,097	91,263	405,414	253,710
Gypsum, roofing & insulation	110,037	12,647	133,810	34,975
Siding, metal & concrete products	113,243	11,656	135,381	30,844
Other building products & services	136,688	30,123	197,879	82,831
Net sales	$1,276,063	$434,907	$2,108,570	$1,207,359

12. Recent Accounting Pronouncements

In September 2015, the Financial Accounting Standards Board (FASB) issued an update to the existing guidance under the Business Combinations topic. This update simplifies the accounting for measurement-period adjustments. The amendments in this update require that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. This update will be effective for all annual and interim periods beginning after December 15, 2015. The amendments in this update should be applied prospectively to adjustments to provisional amounts that occur after the effective date of this update with earlier application permitted for financial statements that have not been issued. We are currently evaluating the impact of this guidance on our financial statements.

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. This guidance is effective for interim and annual reporting periods beginning after December 15, 2016. Early adoption of this guidance is permitted as of the beginning of an interim or annual reporting period. This guidance requires prospective application. We do not expect the adoption of this guidance to have an impact on our financial statements.

In April 2015 the FASB issued an update to the existing guidance under the Interest topic of the Codification. This update requires debt issuance costs to be presented on the balance sheet as a direct reduction from the carrying amount of the related debt liability instead of a deferred charge. This guidance is effective for interim and annual reporting periods beginning after December 15, 2015. This guidance requires retrospective application. Early adoption is permitted for financial statements that have not been previously issued. As discussed in Note 1 we elected to adopt this guidance in the third quarter of 2015.

In January 2015 the FASB issued an update to the existing guidance under the Income Statement topic of the Codification. This update eliminates the concept of extraordinary items and the requirement to assess whether an event or transaction is both unusual in nature and infrequent in occurrence and to separately present any such items on the statement of operations after income from continuing operations. Under the updated guidance such items will either be presented as a separate component of income from continuing operations or disclosed in the notes to the financial statements. This guidance is effective for interim and annual periods beginning after December 15, 2015. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption, but not required. The guidance allows either prospective or retrospective methods of adoption. We do not currently expect that the adoption of this update will have an impact on our financial statements.

In August 2014, the FASB issued an update to the existing guidance under the Presentation of Financial Statements topic of the Codification. This update requires management to perform interim and annual assessments on whether there are conditions or events that raise substantial doubt about the entity’s ability to continue as a going concern within one year of the date the financial statements are issued and to provide related disclosures, if required. This new guidance is effective for the annual period ending after December 15, 2016, and for annual and interim periods thereafter. Early adoption is permitted, but not required. We are currently evaluating the impact of this guidance 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. This new guidance was originally effective for annual reporting periods beginning after December 15, 2016. However, in July 2015 the FASB approved an optional one year deferral of the effective date to annual reporting periods beginning after December 15, 2017. As such, this guidance will be effective for us beginning on January 1, 2018. Early adoption is permitted; however, this guidance cannot be adopted earlier than the original effective date. This guidance allows either full retrospective or modified retrospective methods of adoption. We are currently evaluating the impact of this guidance on our financial statements.

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, 2014 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, including ProBuild Holdings, LLC ("ProBuild"), as of July 31, 2015, unless otherwise stated or the context otherwise requires.

Cautionary Statement

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

COMPANY OVERVIEW

We are a leading supplier of building materials, manufactured components and construction services to professional contractors, sub-contractors, and consumers. Following our acquisition of ProBuild in July 2015, the Company operates approximately 450 locations in 40 states across the United States. We offer an integrated solution to our customers providing manufacturing, supply and installation of a full range of structural and related building products. Our manufactured products include our factory-built roof and floor trusses, wall panels and stairs, aluminum and vinyl windows, custom millwork and trim, as well as engineered wood that we design, 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.
- 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, exterior trim, columns and posts that we distribute, as well as custom exterior features that we manufacture under the

Synboard ® brand name.

- Manufactured Products. Manufactured products consist of wood floor and roof trusses, steel roof trusses, wall panels, stairs, and engineered wood.
- Gypsum, Roofing & Insulation. Gypsum, roofing, & insulation include wallboard, metal studs and trims, ceilings, joint treatment and finishes, stucco and exteriors.
- Siding, metal, and concrete. Siding, metal, and concrete includes vinyl, composite, and wood siding, other exteriors, 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, and the health of the economy and mortgage markets. During the housing downturn, which began in 2006, many homebuilders significantly decreased their housing starts because of lower demand and an excess of home inventory. The housing industry started to strengthen in 2011. According to the U.S. Census Bureau, the annualized rate for U.S. single-family housing starts was 740,000 as of September 30, 2015. However, single-family housing starts remain well below the historical average (from 1959 through 2014) of 1.0 million per year. Due to the lower levels of housing starts and increased 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 recent 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 likely recover further in the long term and that the downturn in the housing industry was likely a trough in the cyclical nature of the residential construction industry. These trends include relatively low interest rates, the aging of housing stock, and normal population growth due to immigration and birthrate exceeding death rate. 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.
- Use of Prefabricated Components. Prior to the housing downturn, homebuilders were increasingly using prefabricated components in order to realize increased efficiency and improved quality. Shortening cycle time from start to completion was a key imperative of the homebuilders during periods of strong consumer demand. During the housing downturn, that trend decelerated as cycle time had less relevance. Customers who traditionally used prefabricated components, for the most part, still do. However, the conversion of customers to this product offering slowed during the downturn. We are now seeing the demand for prefabricated components increase 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, employment levels, consumer confidence, and the availability of credit to homebuilders, contractors, and homeowners. Beginning in 2007, the mortgage markets experienced substantial disruption due to increased defaults. This resulted in a stricter regulatory environment and reduced availability of mortgages for potential homebuyers due to an illiquid credit market and tighter standards to qualify for mortgages. Mortgage financing and commercial credit for smaller homebuilders continue to be constrained, although there have been recent signs of easing. 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 economy and the credit markets further improve.

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 enhancing our status as a low-cost building materials supplier in the markets we serve. We pay close attention to managing our working capital and operating expenses. We have a "best practices" operating philosophy, which encourages increasing efficiency, lowering costs, improving working capital, and maximizing profitability and cash flow. We constantly analyze our workforce productivity to achieve the optimum, cost-efficient labor mix for our facilities. Further, we pay careful attention to our logistics function and its effect on our shipping and handling costs.
- Multi-Family and Light Commercial Business. Our primary focus has been, and continues to be, on single-family residential new construction. However, we have recently acquired companies with multi-family manufacturing capabilities to further diversify our customer base. We will continue to identify opportunities for profitable growth in the multi-family and light commercial markets.
- Successful integration of the ProBuild business: The acquisition of ProBuild has substantially increased the scale of our company. Successfully integrating ProBuild will be critical to achieving our future objectives. Combining our two companies may be more difficult, costly, or time consuming than expected, which could result in the acquisition not achieving its intended results, including the expected operational synergies and cost savings. In addition, as a result of the ProBuild acquisition we have substantially increased indebtedness. Reduction of our outstanding debt will be a key imperative as we work to achieve the intended results of the acquisition.

RECENT DEVELOPMENTS

Acquisitions

On February 9, 2015, the Company acquired certain assets and the operations of Timber Tech Texas, Inc. and its affiliates ("Timber Tech") for $5.8 million in cash (including certain adjustments). Timber Tech is based in Cibolo, Texas, which is approximately 25 miles northeast of downtown San Antonio. Timber Tech is a manufacturer of roof trusses, floor trusses, wall panels and sub-components, as well as a supplier of glue laminated timber and veneer lumber beams.

On July 31, 2015, we acquired all of the operating affiliates of ProBuild through the purchase of all issued and outstanding equity interests of ProBuild for $1.63 billion in cash, subject to certain adjustments. Previously headquartered in Denver, Colorado, ProBuild is one of the nation's largest professional building materials suppliers. We believe that the ProBuild acquisition will lead to greater diversification and scale, an improved geographic footprint, and significant potential cost savings. In addition, we bring to ProBuild significant sales expertise in value-added products, which we believe, when combined with ProBuild's attractive customer mix, will result in enhanced sales growth of higher margin products for the Company.

The ProBuild purchase price was funded with the net cash proceeds from (i) the sale of $700.0 million in aggregate principal amount of 10.75% senior unsecured notes due 2023 ("2023 notes"), (ii) the entry into a new $600.0 million term loan credit agreement ("2015 term loan"), (iii) a $295.0 million draw on an amended and restated $800.0 million senior secured revolving credit facility ("2015 facility"), and (iv) a public offering of 9.2 million new shares of our common stock at an offering price of $12.80 per share, subject, in each case, to applicable discounts, commissions, fees, and expenses.

The ProBuild and Timber Tech transactions were accounted for by the acquisition method, and accordingly their results of operations were included in the Company's consolidated financial statements from the respective acquisition dates. The purchase price will be allocated to the assets acquired based on estimated fair values at the acquisition date, with the excess of purchase price over the estimated fair value of the net assets acquired recorded as goodwill. The accounting for these acquisitions is preliminary and subject to adjustment as it has not been completed at the date of this filing given the proximity to the acquisition dates.

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 third quarter of 2015, actual U.S. single-family housing starts were 203,400, a 14.5% increase compared to the third quarter of 2014. U.S. single-family units under construction increased 13.3% during the third quarter of 2015 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 and the slow economic recovery, among other factors, have hampered a stronger recovery. The NAHB is forecasting 719,000 U.S. single-family housing starts for 2015, which is up approximately 11.1% from 2014, but still well below the historical average (from 1959 to 2014) of 1.0 million single-family housing starts per year.

Our net sales for the third quarter of 2015 were up 193.4% over the same period last year, 188.9% of which was due to recent acquisitions, primarily the acquisition of ProBuild. Excluding the impact of recent acquisitions, we estimate net sales increased 11.8% due to increased volume, which was partially offset by a 7.3% decrease due to the impact of commodity price deflation on net sales. Our gross margin percentage increased by 3.0% during the third quarter of 2015 compared to the third quarter of 2014. Excluding the impact of the ProBuild acquisition, our gross margin percentage increased 2.1%, primarily due to improved customer pricing relative to our costs and a higher mix of value-added sales. We made significant changes to our business during the downturn that have improved our operating efficiency and allowed us to better leverage our operating costs against changes in net sales. We intend to implement similar changes in ProBuild's business activities to the extent feasible. However, our selling, general and administrative expenses, as a percentage of net sales, were 22.5% in the third quarter of 2015, a 3.7% increase from 18.8% in the third quarter of 2014. Excluding ProBuild, selling, general, and administrative expenses were 22.3% of net sales. The increase was primarily due to acquisition costs related to the ProBuild acquisition, an increase in facility closure costs associated with location consolidations, and an increase in intangible asset amortization. This remaining increase was further affected by the negative impact of commodity price deflation on our net sales.

As a result of the ProBuild acquisition, we have substantially increased indebtedness. As such, reduction of our outstanding debt is a key area of focus for the Company. During the third quarter of 2015, we repaid $160.0 million of the original $295.0 million borrowed under the 2015 facility at the closing of the acquisition.

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 continue 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. 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 nine months ended September 30, 2015 and 2014, the percentage relationship to net sales of certain costs, expenses and income items:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net sales	100.0 %	100.0 %	100.0 %	100.0 %
Cost of sales	74.5 %	77.5 %	75.4 %	77.9 %
Gross margin	25.5 %	22.5 %	24.6 %	22.1 %
Selling, general and administrative expenses	22.5 %	18.8 %	22.0 %	18.9 %
Income from operations	3.0 %	3.7 %	2.6 %	3.2 %
Interest expense, net	3.6 %	1.5 %	3.1 %	1.8 %
Income tax expense	0.1 %	0.1 %	0.1 %	0.1 %
Income (loss) from continuing operations	(0.7)%	2.1 %	(0.6)%	1.3 %
Income (loss) from discontinued operations, net of tax	0.0 %	(0.1)%	0.0 %	(0.0)%
Net income (loss)	(0.7)%	2.0 %	(0.6)%	1.3 %

Three Months Ended September 30, 2015 Compared with the Three Months Ended September 30, 2014

Net Sales. Net sales for the three months ended September 30, 2015 were $1,276.1 million, a 193.4% increase over net sales of $434.9 million for the three months ended September 30, 2014. Net sales increased $821.6 million, or 188.9%, due to recent acquisitions, primarily ProBuild. Excluding the impact of acquisitions, net sales increased $19.5 million, or 11.8% due to increased volume, which was partially offset by a 7.3% decrease due to the impact of commodity price deflation on net sales. According to the U.S. Census Bureau, actual U.S. single-family housing starts increased 14.5% and single-family units under construction increased 13.3% in the third quarter of 2015 compared to the third quarter of 2014.

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

	Three Months Ended September 30,				
	2015		2014		
	Net Sales	% of Net Sales	Net Sales	% of Net Sales	% Change
Lumber & lumber sheet goods	$414.7	32.5 %	$152.4	35.0 %	172.0 %
Windows, doors & millwork	279.4	21.9 %	136.8	31.5 %	104.2 %
Manufactured products	222.1	17.4 %	91.3	21.0 %	143.4 %
Gypsum, roofing & insulation	110.0	8.6 %	12.6	2.9 %	770.1 %
Siding, metal & concrete products	113.2	8.9 %	11.7	2.7 %	871.5 %
Other building products & services	136.7	10.7 %	30.1	6.9 %	353.8 %
Net sales	$1,276.1	100.0 %	$434.9	100.0 %	193.4 %

Due to the ProBuild acquisition, we achieved increased net sales across all product categories. Our sales classification by product categories has shifted as we diversified our product offerings to support a broader customer mix across 40 states through the ProBuild acquisition. Excluding ProBuild, net sales increased across all product categories, except lumber & lumber sheet goods. The $3.4 million decline in net sales of lumber and lumber sheet goods, excluding ProBuild, was largely due to a 15.9% decrease in market prices for such commodities in the third quarter of 2015 compared to the third quarter of 2014, which was mostly offset by an increase in sales volume.

Gross Margin. Gross margin increased $227.1 million to $324.8 million. Of this increase, $210.7 million is due to the ProBuild acquisition. Excluding ProBuild, gross margin increased $16.5 million. Our gross margin percentage increased to 25.5% in the third quarter of 2015 from 22.5% in the third quarter of 2014, a 3.0% increase. Excluding ProBuild, our gross margin percentage increased 2.1%, primarily due to improved customer pricing relative to our costs and a higher mix of value-added sales in the third quarter of 2015 compared to the third quarter of 2014.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased $204.5 million, or 249.2%. Excluding ProBuild, our selling, general, and administrative expense increased $21.3 million or 26.0%. Excluding ProBuild, our salaries and benefits expense, excluding stock compensation expense, was $58.0 million, an increase of $7.0 million from the third quarter of 2014, primarily due to a 7.4% increase in full-time equivalent employees related to increased sales volume and other recent acquisitions. Office general and administrative expense increased $10.4 million, primarily due to $10.3 million in acquisition and integration costs related to the ProBuild acquisition. Facility closure costs increased $3.3 million primarily due to costs associated with location consolidations following the ProBuild acquisition. Intangible asset amortization increased $0.6 million due to other recent acquisitions. Delivery expense increased $0.3 million largely due to increased sales volume.

As a percentage of net sales, selling, general and administrative expenses increased from 18.8% in the third quarter of 2014 to 22.5% in the third quarter of 2015. Excluding ProBuild, selling, general and administrative expenses were 22.3% of net sales. As a percentage of net sales, salaries and benefits expense, excluding stock compensation expense, increased 0.8%, office general and administrative expense increased 2.1%, facility closure costs increased 0.7%, intangible asset amortization increased 0.1% and delivery expenses decreased 0.1%. The increase in selling, general and administrative expenses, as a percentage of net sales, was primarily due to the factors discussed above, and to a lesser degree, the negative impact of commodity price deflation on our net sales.

Interest Expense, Net. Interest expense was $46.0 million in the third quarter of 2015, an increase of $39.6 million from the third quarter of 2014. Excluding interest expense attributable to ProBuild, which is primarily related to non-cash interest expense associated with lease finance obligations, our interest expense was $42.5 million, an increase of $36.1 million. The increase was primarily related to the financing transactions associated with the acquisition of ProBuild. Of the $36.1 million increase, $20.0 million was attributable primarily to increased interest expense related to our 2023 notes, 2015 term loan and 2015 facility, $13.2 million was due to commitment fees related to unutilized bridge and backstop facilities, $3.1 million was related to non-cash interest expense from the amortization of debt discount and deferred loan costs, and fair value adjustments related to our previously outstanding stock warrants in the third quarter of 2014.

Income Tax Expense. We recorded an income tax expense of $1.0 million in the third quarter of 2015 compared to $0.5 million of income tax expense in the third quarter of 2014. We recorded an increase in the after-tax, non-cash valuation allowance on our net deferred tax assets of $1.1 million in the third quarter of 2015 and a $3.3 million reduction in the after-tax, non-cash valuation allowance on our net deferred tax assets in the third quarter of 2014. Our effective tax rate was (12.8%) and 4.9% in the third quarter of 2015 and 2014, respectively.

Nine Months Ended September 30, 2015 Compared with the Nine Months Ended September 30, 2014

Net Sales. Net sales for the nine months ended September 30, 2015 were $2,108.6 million, a 74.6% increase over net sales of $1,207.4 million for the nine months ended September 30, 2014. Net sales increased $859.9 million, or 71.2%, due to recent acquisitions, primarily ProBuild. Excluding the impact of acquisitions, net sales increased $41.3 million, or 8.7% due to increased volume, which was partially offset by a 5.3% decrease due to the impact of commodity price deflation on net sales. According to the U.S. Census Bureau, actual U.S. single-family housing starts increased 11.1% and single-family units under construction increased 9.9% in the first nine months of 2015 compared to the first nine months of 2014.

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

Nine Months Ended September 30,

	2015 Net Sales	% of Net Sales	2014 Net Sales	% of Net Sales	% Change
Lumber & lumber sheet goods	$690.1	32.7 %	$432.7	35.8 %	59.5 %
Windows, doors & millwork	546.0	25.9 %	372.3	30.8 %	46.7 %
Manufactured products	405.4	19.2 %	253.7	21.0 %	59.8 %
Gypsum, roofing & insulation	133.8	6.3 %	35.0	2.9 %	282.6 %
Siding, metal & concrete products	135.4	6.4 %	30.9	2.6 %	338.9 %
Other building products & services	197.9	9.5 %	82.8	6.9 %	138.9 %
Net sales	$2,108.6	100.0 %	$1,207.4	100.0 %	74.6 %

Due to the ProBuild acquisition, we achieved increased net sales across all product categories. Excluding the impact of the ProBuild acquisition, net sales increased across all product categories, except lumber & lumber sheet goods. The $8.3 million decline in net sales of lumber and lumber sheet goods, excluding ProBuild, was largely due to a 10.6% decrease in market prices for such commodities in the first nine months of 2015 compared to the first nine months of 2014, which was mostly offset by an increase in sales volume.

Gross Margin. Gross margin increased $252.8 million to $519.1 million. Of this increase, $210.7 million is due to ProBuild. Excluding ProBuild, gross margin increased $42.1 million. Our gross margin percentage increased to 24.6% in the first nine months of 2015 from 22.1% in the third quarter of 2014, a 2.5% increase. Excluding ProBuild, our gross margin percentage increased 1.7%, primarily due to improved customer pricing relative to our costs and a higher mix of value-added sales in the first nine months of 2015 compared to the first nine months of 2014.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased $236.3 million, or 103.7%. Excluding ProBuild, our selling, general, and administrative expense increased $53.2 million or 23.3%. Excluding ProBuild, our salaries and benefits expense, excluding stock compensation expense, was $163.1 million, an increase of $20.3 million from the first nine months of 2014, primarily due to a 6.9% increase in full-time equivalent employees related to increased sales volume and other recent acquisitions. Office general and administrative expense increased $23.9 million, primarily due to $21.9 million in acquisition and integration costs related to the ProBuild acquisition. Facility closure costs increased $3.5 million primarily due to costs associated with location consolidations following the ProBuild acquisition. Intangible asset amortization increased $1.6 million due to other recent acquisitions. Delivery expense increased $1.2 million largely due to increased sales volume.

As a percentage of net sales, selling, general and administrative expenses increased from 18.9% in the first nine months of 2014 to 22.0% in the first nine months of 2015. Excluding ProBuild, selling, general and administrative expenses were 21.7% of net sales. As a percentage of net sales, salaries and benefits expense, excluding stock compensation expense, increased 0.8%, office general and administrative expense increased 1.7%, facility closure costs increased 0.3%, intangible asset amortization increased 0.1% and delivery expenses decreased 0.1%. The increase in selling, general and administrative expenses, as a percentage of net sales, was primarily due to the factors discussed above, and to a lesser degree, the negative impact of commodity price deflation on our net sales.

Interest Expense, Net. Interest expense was $66.2 million in the first nine months of 2015, an increase of $44.5 million from the first nine months of 2014. Excluding interest expense attributable to ProBuild, which is primarily related to non-cash interest expense associated with lease finance obligations, interest expense was $62.7 million, an increase of $41.0 million. The increase was primarily related to the financing transactions associated with the acquisition of ProBuild. Of the $41.0 million increase, $20.0 million was attributable to increased interest expense related to our 2023 notes, 2015 term loan and 2015 facility, $13.2 million was due to commitment fees related to unutilized bridge and backstop facilities, and $7.7 million was related to non-cash interest expense from the amortization of debt discount and deferred loan costs, and fair value adjustments related to our previously outstanding stock warrants for the first nine months of 2015 compared to the same period one year ago.

Income Tax Expense. We recorded income tax expense of $1.0 million during the nine months ended September 30, 2015 compared to income tax expense of $0.6 million during the nine months ended September 30, 2014. We recorded an increase in the after-tax, non-cash valuation allowance on our net deferred tax assets of $2.9 million during the nine months ended September 30, 2015 and a $6.3 million reduction in the after-tax, non-cash valuation allowance on our net deferred tax assets during the nine months ended September 30, 2014. Our effective tax rate was (8.7%) and 3.6% for the nine months ended September 30, 2015 and 2014, respectively.

Results by Reportable Segment

The following table shows net sales and income (loss) from continuing operations before income taxes by reportable segment (dollars in millions):

	Three months ended September 30,									
	Net sales					Income (loss) from continuing operations before income taxes				
	2015	% of net sales	2014	% of net sales	% change	2015	% of net sales	2014	% of net sales	% change
Northeast	$238,329	19.2 %	$63,825	15.9 %	273.4 %	$13,553	5.7 %	$2,134	3.3 %	535.1 %
Southeast	290,407	23.4 %	184,791	46.0 %	57.2 %	7,360	2.5 %	2,905	1.6 %	153.4 %
South	360,636	29.0 %	153,289	38.1 %	135.3 %	14,951	4.1 %	2,321	1.5 %	544.2 %
West	353,394	28.4 %	—	—	—	21,200	6.0 %	—	—	—
	$1,242,766	100.0 %	$401,905	100.0 %		$57,064	4.6 %	$7,360	1.8 %	

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	Nine months ended September 30,									
	Net sales					Income (loss) from continuing operations before income taxes				
	2015	% of net sales	2014	% of net sales	% change	2015	% of net sales	2014	% of net sales	% change
Northeast	$350,238	17.4 %	$179,668	16.1 %	94.9 %	$17,190	4.9 %	$3,255	1.8 %	428.1 %
Southeast	631,409	31.3 %	512,444	46.0 %	23.2 %	10,694	1.7 %	3,887	0.8 %	175.1 %
South	682,923	33.8 %	422,617	37.9 %	61.6 %	17,897	2.6 %	4,162	1.0 %	330.0 %
West	353,395	17.5 %	—	—	—	21,200	6.0 %	—	—	—
	$2,017,965	100.0 %	$1,114,729	100.0 %		$66,981	3.3 %	$11,304	1.0 %	

As a result of our reorganization following the ProBuild acquisition, we now have four reportable segments based on an aggregation of the geographic regions in which we operate. We achieved increased net sales and profitability across all our reportable segments, primarily due to the ProBuild acquisition. Excluding the impact of recent acquisitions, net sales in the three months ended September 30, 2015 compared to the three months ended September 30, 2014 were flat in our Northeast reportable segment while increasing 5.4% and 6.0% in our Southeast and South reportable segments, respectively, due to volume increases which outpaced the commodity price deflation offset. The same factors, primarily volume increases offset by commodity price deflation, influenced the increase in net sales, excluding the impact of recent acquisitions in our Southeast and South reportable segments by 4.6% and 5.6%, respectively, in the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014. Excluding recent acquisitions, net sales for our Northeast reportable segment decreased 2.3% for the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014 due to slower regional sales growth which was not enough to overcome the commodity price deflation impact. The West reportable segment operations were acquired through the ProBuild acquisition.

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 September 30, 2015 consist of cash on hand and borrowing availability under our revolving credit facility.

Our 2015 facility will be primarily used for working capital, general corporate purposes, and funding acquisitions. Availability under the 2015 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 September 30, 2015 (in millions):

	As of September 30,

	2015
Accounts Receivable Availability	$ 475.0
Inventory Availability	311.2
Other Receivables Availability	38.3
Gross Availability	824.5
Less:	
Agent Reserves	(23.7)
Plus:	
Cash in Qualified Accounts	94.1
Borrowing Base	894.9
Aggregate Revolving Commitments	800.0
Maximum Borrowing Amount (lesser of Borrowing Base and Aggregate Revolving Commitments)	800.0
Less:	
Outstanding Borrowings	(135.0)
Letters of Credit	(80.5)
Net Excess Borrowing Availability on Revolving Facility	$ 584.5

As of September 30, 2015, we had $135.0 million in outstanding borrowings under our 2015 facility and our net excess borrowing availability was $584.5 million after being reduced by outstanding letters of credit of approximately $80.5 million. Excess availability must equal or exceed a minimum specified amount, currently $80.0 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 September 30, 2015.

Liquidity

Our liquidity at September 30, 2015 was $685.7 million, which consists of net borrowing availability under the 2015 facility and cash on hand.

We have substantially increased indebtedness following completion of the ProBuild acquisition in comparison to our indebtedness on a recent historical basis, which will increase our interest expense and could have the effect of, among other things, reducing our flexibility to respond to changing business and economic conditions.

Should the current industry conditions deteriorate or we pursue additional acquisitions, we may be required to raise additional funds through the sale of common 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.

Consolidated Cash Flows

Cash provided by operating activities was $118.8 million and $30.5 million for the nine months ended September 30, 2015 and 2014, respectively. Our working capital decreased $69.7 million in the first nine months of 2015 compared to a decrease of $4.6 million in the first nine months of 2014. However, our cash interest payments increased $10.8 million for the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014. In addition, during the nine months ended September 30, 2015, we had $13.2 million in one-time cash interest payments attributable to commitment fees related to unutilized bridge and backstop facilities. The remaining increase in cash provided by operations is primarily related to increased sales and profitability during the nine months ended September 30, 2015, as a result of higher sales volume and the acquisition of ProBuild.

Cash used in investing activities was $1,491.0 million and $47.6 million for the nine months ended September 30, 2015 and 2014, respectively. The change is primarily due to the $1,459.3 million ProBuild acquisition. In addition, we acquired Timber Tech for $5.8 million, during the nine months ended September 30, 2015. During the nine months ended September 30, 2014, $33.2 million of cash was used for acquisitions. Capital expenditures for the nine months ended September 30, 2015 was $28.3 million compared to $14.5 million of capital expenditures for the nine months ended September 30, 2014. The increase in capital expenditures primarily relates to purchasing machinery, equipment and vehicles to support sales growth and to increase capacity at existing locations.

Cash provided by financing activities was $1,455.7 million and $30.1 million for the nine months ended September 30, 2015 and 2014, respectively. During the nine months ended September 30, 2015, the cash provided by financing activities was primarily due to $700.0 million of proceeds from the issuance of notes, $594.0 million of proceeds from a new term loan agreement, $320.0 million of borrowings under the revolving credit facilities, and $111.3 million of proceeds from the public offering of common stock, net of issuance costs. Slightly offsetting this, we repaid $215.0 million under the revolving credit facilities during the nine months ended September 30, 2015. In addition, during the nine months ended September 30, 2015, we paid $56.6 million of deferred loan costs. The cash provided by financing activities during the nine months ended September 30, 2014, primarily relates to $30.0 million of borrowings under our 2013 facility.

DISCLOSURES OF CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

The following summarizes our contractual obligations as of September 30, 2015 (in thousands):

	Payments Due by Period				
Contractual obligations	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-term debt	$1,788,849	$ 5,580	$11,189	$11,233	$ 1,760,847
Interest on long-term debt(1)	1,013,244	143,121	284,749	284,221	301,153
Lease finance obligations(2)	422,977	21,483	41,659	41,454	318,381
Capital lease obligations	8,208	7,242	653	313	—
Operating leases	237,560	56,908	92,828	46,635	41,189
Uncertain tax positions(3)	—	—	—	—	—
Total contractual cash obligations	$3,470,838	$ 234,334	$431,078	$383,856	$ 2,421,570

(1) We had $135.0 million in borrowings under the 2015 facility as of September 30, 2015. Borrowings under the 2015 facility bear interest at a variable rate. Therefore, actual interest may differ from the amounts presented above due to any future borrowing activity under the 2015 facility.

(2) Includes lease finance obligations and the related interest obligation.

(3) We have $0.2 million of uncertain tax positions recorded in long-term liabilities or as a reduction to operating loss carryforwards. We also have $0.3 million in interest and penalties accrued related to these uncertain tax positions. It is not reasonably possible to predict at this time when (or if) any of these amounts will be settled.

The amounts reflected in the table above for operating leases represent future minimum lease payments under non-cancelable operating leases with an initial or remaining term in excess of one year at September 30, 2015. Purchase orders entered into in the ordinary course of business are excluded from the above table because they are payable within one year. Amounts for which we are liable under purchase orders are reflected on our consolidated balance sheet as accounts payable and accrued liabilities. We plan to lease additional delivery equipment during the remainder of 2015 to support anticipated sales growth. These operating leases are not included in the table above.

OTHER CASH OBLIGATIONS NOT REFLECTED IN THE BALANCE SHEET

In accordance with accounting principles generally accepted in the United States, commonly referred to as GAAP, our operating leases are not recorded in our balance sheet. In addition to the lease obligations included in the above table, we have residual value guarantees on certain equipment leases. Under these leases we have the option of (1) purchasing the equipment at the end of the lease term, (2) arranging for the sale of the equipment to a third party, or (3) returning the equipment to the lessor to sell the equipment. If the sales proceeds in either case are less than the residual value, then we are required to reimburse the lessor for the deficiency up to a specified level as stated in each lease agreement.

Based upon the expectation that none of these leased assets will have a residual value at the end of the lease term that is materially less than the value specified in the related operating lease agreement or that we will purchase the equipment at the end of the lease term, we do not believe it is probable that we will be required to fund any amounts under the terms of these guarantee arrangements. Accordingly, no accruals have been recognized for these guarantees.

In addition, the Company is party to certain agreements related to its lease finance obligations which commit the Company to perform certain repairs and maintenance obligations under the leases in a specified manner and timeframe that generally will occur throughout the next year.

RECENT ACCOUNTING PRONOUNCEMENTS

In September 2015, the Financial Accounting Standards Board ("FASB") issued an update to the existing guidance under the Business Combinations topic. This update simplifies the accounting for measurement-period adjustments. The amendments in this update require that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. This update will be effective for all annual and interim periods beginning after December 15, 2015. The amendments in this update should be applied prospectively to adjustments to provisional amounts that occur after the effective date of this update with earlier application permitted for financial statements that have not been issued. We are currently evaluating the impact of this guidance on our financial statements.

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. This guidance is effective for interim and annual reporting periods beginning after December 15, 2016. Early adoption of this guidance is permitted as of the beginning of an interim or annual reporting period. This guidance requires prospective application. We do not expect the adoption of this guidance to have an impact on our financial statements.

In April 2015 the FASB issued an update to the existing guidance under the Interest topic of the Codification. This update requires debt issuance costs to be presented on the balance sheet as a direct reduction from the carrying amount of the related debt liability instead of a deferred charge. This guidance is effective for interim and annual reporting periods beginning after December 15, 2015. This guidance requires retrospective application. Early adoption is permitted for financial statements that have not been previously issued. The Company elected to adopt this guidance in the third quarter of 2015.

In January 2015 the FASB issued an update to the existing guidance under the Income Statement topic of the Codification. This update eliminates the concept of extraordinary items and the requirement to assess whether an event or transaction is both unusual in nature and infrequent in occurrence and to separately present any such items on the statement of operations after income from continuing operations. Under the updated guidance such items will either be presented as a separate component of income from continuing operations or disclosed in the notes to the financial statements. This guidance is effective for interim and annual periods beginning after December 15, 2015. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption, but not required. The guidance allows either prospective or retrospective methods of adoption. We do not currently expect that the adoption of this update will have an impact on our financial statements.

In August 2014, the FASB issued an update to the existing guidance under the Presentation of Financial Statements topic of the Codification. This update requires management to perform interim and annual assessments on whether there are conditions or events that raise substantial doubt about the entity’s ability to continue as a going concern within one year of the date the financial statements are issued and to provide related disclosures, if required. This new guidance is effective for the annual period ending after December 15, 2016, and for annual and interim periods thereafter. Early adoption is permitted, but not required. We are currently evaluating the impact of this guidance on our financial statements.

In May 2014, the FASB issued an update to the existing guidance under the Revenue Recognition