BEACON ROOFING SUPPLY INC
Form 10-Q
August 08, 2007

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 June 30, 2007

OR

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

FOR THE TRANSITION PERIOD FROM TO .

COMMISSION FILE NO.: 000-50924

BEACON ROOFING SUPPLY, INC.

(Exact name of Registrant as specified in its charter)

DELAWARE	**36-4173371**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
One Lakeland Park Drive, Peabody, Massachusetts	**01960**
(Address of principal executive offices)	(Zip Code)

978-535-7668

(Registrant s telephone number, including area code)

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

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

Large Accelerated Filer x Accelerated Filer o Non-Accelerated Filer o

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

As of August 1, 2007, there were 44,273,312 outstanding shares of the registrant s common stock, $.01 par value per share.

BEACON ROOFING SUPPLY, INC.

Form 10-Q

For the Quarter Ended June 30, 2007

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BEACON ROOFING SUPPLY, INC.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Consolidated Balance Sheets

	(Unaudited) June 30, 2007 (Dollars in thousands)	(Unaudited) June 30, 2006	(Note) September 30, 2006
Assets			
Current assets:			
Cash and cash equivalents	$ 7,232	$ 1,129	$ 1,847
Accounts receivable, less allowance for doubtful accounts of $6,695 at June 30, 2007, $5,891 at June 30, 2006, and $5,020 at September 30, 2006	263,688	189,791	210,676
Inventories	192,735	181,484	164,285
Prepaid expenses and other assets	40,452	39,034	38,133
Deferred income taxes	13,578	11,324	10,704
Total current assets	517,685	422,762	425,645
Property and equipment, net	74,010	57,950	59,291
Goodwill, net	353,781	270,034	289,282
Other assets, net	98,310	58,735	65,672
Total assets	$ 1,043,786	$ 809,481	$ 839,890
Liabilities and stockholders equity			
Current liabilities:			
Accounts payable	$ 198,115	$ 154,177	$ 154,878
Accrued expenses	79,373	78,676	58,719
Current portions of long-term debt and other obligations	6,654	28,271	6,657
Total current liabilities	284,142	261,124	220,254
Borrowings under revolving lines of credit	44,571	199,288	229,752
Senior notes payable, net of current portion	344,750	46,511	69,282
Deferred income taxes	32,651	20,661	18,823
Long-term obligations under equipment financing and other, net of current portion	23,021	6,715	10,610
Commitments and contingencies			
Stockholders equity:			
Common Stock (voting); $.01 par value; 100,000,000 shares authorized; 44,273,312 issued in June of 2007, 43,820,467 in June of 2006 and 43,866,484 issued in September of 2006	443	441	439
Undesignated preferred stock; 5,000,000 shares authorized, none issued or outstanding			
Additional paid-in capital	210,333	201,993	203,433
Treasury stock			
Retained earnings	95,332	66,789	81,361
Accumulated other comprehensive income	8,543	5,959	5,936

Total stockholders equity	314,651	275,182	291,169
Total liabilities and stockholders equity	$ 1,043,786	$ 809,481	$ 839,890

Note: The balance sheet at September 30, 2006

has been derived from the audited financial statements at that date.

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

BEACON ROOFING SUPPLY, INC.
Consolidated Statements of Operations

Unaudited

(Dollars in thousands, except per share data)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2007	**2006**	**2007**	**2006**
Net sales	$ 484,870	$ 407,102	$ 1,152,024	$ 1,069,384
Cost of products sold	377,036	306,794	886,288	807,609
Gross profit	107,834	100,308	265,736	261,775
Operating expenses (includes stock-based compensation expense of $1,338 and $833 for the three months ended in 2007 and 2006, respectively, and $3,943 and $2,166 for the nine months in 2007 and 2006, respectively)	81,183	67,829	222,249	191,228
Income from operations	26,651	32,479	43,487	70,547
Interest expense, net	7,401	4,845	20,110	13,157
Income before income taxes	19,250	27,634	23,377	57,390
Income taxes	7,745	10,580	9,406	22,651
Net income	$ 11,505	$ 17,054	$ 13,971	$ 34,739
Net income per share:				
Basic	$ 0.26	$ 0.39	$ 0.32	$ 0.82
Diluted	$ 0.26	$ 0.38	$ 0.31	$ 0.79
Weighted average shares used in computing net income per share:				
Basic	44,263,602	43,799,489	44,020,089	42,598,829
Diluted	45,017,314	45,003,474	44,938,812	43,900,509

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

BEACON ROOFING SUPPLY, INC.
Consolidated Statements of Cash Flows

	Nine Months ended June 30, 2007	2006
	Unaudited (in thousands)	
Operating activities:		
Net income	$ 13,971	$ 34,739
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	23,321	17,143
Stock-based compensation	3,943	2,166
Unrealized gain on interest rate collar		(709)
Deferred income taxes	(1,183)	92
Changes in assets and liabilities, net of the effects of businesses acquired:		
Accounts receivable	(19,626)	(4,481)
Inventories	(13,875)	(35,359)
Prepaid expenses and other assets	2,756	293
Accounts payable and accrued expenses	43,030	51,871
Net cash provided by operating activities	52,337	65,755
Investing activities:		
Purchases of property and equipment, net of sale proceeds	(21,470)	(16,103)
Acquisition of businesses, net of cash acquired	(120,154)	(285,701)
Net cash used in investing activities	(141,624)	(301,804)
Financing activities:		
Borrowings (repayments) under revolving lines of credit	(185,181)	135,305
Net borrowings under senior notes payable, and other	279,742	52,031
Net proceeds from sale of common stock		51,576
Proceeds from exercise of options	1,115	1,500
Deferred financing costs	(3,047)	(2,228)
Income tax benefit from stock-based compensation deductions in excess of the associated compensation costs	2,040	5,264
Net cash provided by financing activities	94,669	243,448
Effect of exchange rate changes on cash	3	(163)
Net increase in cash	5,385	7,236
Cash and cash equivents (overdraft) at beginning of year	1,847	(6,107)
Cash and cash equivalents (overdraft) at end of period	$ 7,232	$ 1,129
Non-cash transations:		
Conversion of senior notes payable to new senior notes payable	$ 66,839	$ 25,160

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

BEACON ROOFING SUPPLY, INC.
Notes to Consolidated Financial Statements (Unaudited)

1. Basis of Presentation

Beacon Roofing Supply, Inc. (the Company) prepared the consolidated financial statements following accounting principles generally accepted in the United States (GAAP) for interim financial information and the requirements of the Securities and Exchange Commission (SEC). As permitted under those rules, certain footnotes or other financial information required by GAAP for complete financial statements have been condensed or omitted. The balance sheet as of June 30, 2006 has been presented for a better understanding of the impact of seasonal fluctuations on our financial condition. Certain prior-year amounts have been reclassified to conform to the current-year presentation.

In management s opinion, the financial statements include all normal and recurring adjustments that are considered necessary for the fair presentation of our financial position and operating results. The results for the three-month period (third quarter) and the nine-month period ended June 30, 2007 are not necessarily indicative of the results to be expected for the twelve months ending September 29, 2007 (2007).

The Company s fiscal year ends on the close of business on the last Saturday in September of each year. Except for the fourth quarter of 2007, each of the Company s 2007 and 2006 quarters ends or ended on the last day of the respective third calendar month. The results for the nine months ended June 30, 2007 included 189 business days as compared to 194 business days during the nine months ended June 30, 2006.

During the first quarter of 2007, the Company refinanced its prior credit facilities (Note 6) and invested the associated excess funds in a money market account, which have been classified as cash equivalents. The Company considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents.

On December 16, 2005, the Company sold three million shares of common stock in a public offering at $18.33 per share (after the stock split discussed below). Selling stockholders also sold shares in the offering. The net proceeds to the Company from this offering, after all associated expenses, totaled approximately $51.6 million and were used to pay down revolver borrowings. The Company did not receive any proceeds from the sales by the selling stockholders.

In May 2006, the Company s Board of Directors declared a three-for-two common stock split, which was paid in the form of a stock dividend on June 12, 2006 to the stockholders of record at the close of business on May 31, 2006. Accordingly, all share and per share data and the related capital amounts for all periods presented reflect the effects of this split. The Company s treasury stock was retired in May 2006.

You should also read the financial statements and notes included in our 2006 Annual Report on Form 10-K. The accounting policies used in preparing these financial statements are the same as those described in that Annual Report.

2. Earnings Per Share

The Company calculates basic income (loss) per share by dividing net income (loss) by the weighted-average number of common shares outstanding. Diluted net income per share includes the dilutive effects of stock awards.. As discussed in Note 1, the Company sold three million additional shares of common stock in December 2005 and completed a three-for-two stock split on June 12, 2006.

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

	Three Months Ended June 30,		**Nine Months Ended June 30,**	
	2007	**2006**	**2007**	**2006**
Weighted-average common shares outstanding for basic	44,263,602	43,799,489	44,020,089	42,598,829
Dilutive effect of employee stock options	753,712	1,203,985	918,723	1,301,680
Weighted-average shares assuming dilution	45,017,314	45,003,474	44,938,812	43,900,509

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3. Stock-Based Compensation

Effective September 25, 2005, the Company adopted Statement of Financial Accounting Standards (SFAS) 123R, *Share-Based Payments*, using the modified-prospective transition method. Under this method, compensation expense recognized in 2007 and 2006 included: (a) compensation cost for all unvested share-based awards granted prior to September 25, 2005, based on the grant date fair value estimated in accordance with SFAS 123, *Accounting For Stock-Based Compensation,* and (b) compensation cost for all share-based awards granted subsequent to September 24, 2005, based on the grant date fair value estimated in accordance with SFAS 123R. SFAS 123R also requires the Company to estimate forfeitures in calculating the expense related to stock-based compensation.

Compensation cost arising from stock options granted to employees and non-employee directors is recognized as an expense using the straight-line method over the vesting period. As of June 30, 2007, there was $7.8 million of total unrecognized compensation cost related to stock options. That cost is expected to be recognized over a period of 2.1 years. The Company recorded stock-based compensation expense of $1.3 million ($0.8 million net of tax) and $0.8 million ($0.5 million net of tax) for the three months ended June 30, 2007 and 2006, respectively and $3.9 million ($2.4 million net of tax) and $2.2 million ($1.3 million net of tax) for the nine months ended June 30, 2007 and 2006, respectively.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for grants issued in the first three quarters of 2007 and 2006:

	Nine Months Ended June 30, 2007		2006	
Risk free interest rate	4.52 - 4.81	%	4.49 5.08	%
Expected life	5.0 years		5.0 years	
Expected volatility	45	%	45	%
Expected dividend yield	0	%	0	%

Expected lives of the options granted and expected volatilities are based on the expected lives and historical volatilities of the options and stocks of comparable public companies and other factors. An estimated cumulative forfeiture rate of 8.0% was used for expensing the fair value of unvested options during both of the periods above.

The following table summarizes stock options outstanding as of June 30, 2007, as well as activity during the nine months then ended:

	Shares	Weighted-Average Exercise Price	Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value (in Millions)
Outstanding at September 30, 2006	2,800,659	$ 8.47		
Granted	733,250	21.92		
Exercised	(406,831)	2.74		
Forfeited	(78,658)	20.20		
Outstanding at June 30, 2007	3,048,420	$ 12.17	7.3	$ 20.1
Vested or expected to vest at June 30, 2007	2,974,734	$ 11.97	7.3	$ 20.1
Exercisable at June 30, 2007	1,820,328	$ 6.91	6.3	$ 19.4

As of June 30, 2007, there were remaining options to purchase 1,325,622 shares of common stock available for grant under the Company s 2004 Stock Plan. The weighted-average grant date fair values of stock options granted during the nine months ended June 30, 2007 and 2006 were $10.07 and $10.13, respectively. The intrinsic values of stock options exercised during the nine months ended June 30, 2007 and 2006 were $5.7 million and $15.8 million, respectively. At June 30, 2007, the Company had $10.3 million of excess tax benefits available for potential deferred tax write-offs related to option accounting.

4. Comprehensive Income (Loss)

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

Unaudited (Dollars in thousands, except per share data)	Three Months Ended June 30, 2007	2006	Nine Months Ended June 30, 2007	2006
Net income	$ 11,505	$ 17,054	$ 13,971	$ 34,739
Net change in the value of financial derivatives, net of tax effect	1,571		1,175	
Foreign currency translation adjustment	2,559	1,077	1,432	1,191
Comprehensive income	$ 15,635	$ 18,131	$ 16,578	$ 35,930

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5. Acquisitions

North Coast Commercial Roofing Systems, Inc.

On April 2, 2007, the Company purchased 100% of the outstanding stock of North Coast Commercial Roofing Systems, Inc. and certain of its subsidiaries and affiliates (together North Coast), a Twinsburg, Ohio-based distributor of commercial roofing systems and related accessories, with 16 locations in eight U.S. states. North Coast has branches in Ohio, Illinois, Indiana, Kentucky, Michigan, New York, Pennsylvania and West Virginia. This purchase was funded with cash on hand along with funds borrowed under the Company s U.S. revolving line of credit. North Coast had net sales of $235 million (unaudited), excluding the impact of North Coast recording gross commission sales of $18.4 million, for the year ended March 31, 2006. A total of $10.3 million of cash remains in escrow at June 30, 2007 for post-closing purchase price adjustments and indemnification claims, with $2.5 million included in other current assets and accrued expenses and $7.8 million in other long-term assets and liabilities. The Company has included the results of operations for North Coast from the date of acquisition and applied purchase accounting, which, along with certain purchase price adjustments, resulted in recorded goodwill of $61.7 million as follows (in 000 s):

Accounts receivable	$ 31,737
Inventories	13,349
Prepaid expenses and other	949
Property and equipment	5,720
Deferred taxes	(11,297)
Accounts payable and accrued expenses	(19,165)
Net assets	21,293
Non-compete	3,300
Customer relationships	29,550
Goodwill	61,657
Purchase price	$ 115,800

Roofing and Sheet Metal Supply, Inc.

On August 30, 2006, the Company purchased certain assets of Roofing & Sheet Metal Supply, Inc. (RSM), a Tulsa, Oklahoma-based distributor of residential and commercial roofing products with locations in Tulsa, Oklahoma, Joplin, Missouri and Springdale and Fort Smith, Arkansas. This purchase was funded through the Company s U.S. revolving line of credit. A total of $1.0 million of cash remains in escrow at June 30, 2007 for post-closing indemnification claims and is included in other current assets. RSM had net sales of $33 million (unaudited) for the year ended November 30, 2005. The Company has included the results of operations for RSM from the date of acquisition and applied preliminary purchase accounting, which, along with certain purchase price adjustments, has resulted in recorded goodwill of $15.3 million as follows (in 000 s):

Net assets	$ 3,376
Customer relationships	6,739
Goodwill	15,258
Purchase price	$ 25,373

Roof Depot, Inc.

On August 25, 2006, the Company purchased certain assets of Roof Depot, Inc. (Roof Depot), a Minnesota-based distributor of residential and commercial roofing and other related building products with locations in Minneapolis and Stillwater, Minnesota. This purchase was funded through the Company s U.S. revolving line of credit. A total of $1.0 million of cash remains in escrow at June 30, 2007 for post-closing indemnification claims and is included in other current assets. Roof Depot had net sales of $31 million (unaudited) for the year ended December 31, 2005. The Company has included the results of operations for Roof Depot from the date of acquisition and applied preliminary purchase accounting, which, along with certain purchase price adjustments, has resulted in recorded goodwill of $4.0 million as follows (in 000 s):

Net assets	$ 10,218
Customer relationships	3,863
Goodwill	4,019
Purchase price	$ 18,100

Mississippi Roofing Supply, Inc., Sunbelt Supply LLC and Alabama Roofing Supply LLC

On January 17, 2006, the Company purchased certain assets of Mississippi Roofing Supply, Inc., Sunbelt Supply LLC, and Alabama Roofing Supply LLC (together the Supply Companies), three affiliated distributors of roofing and other building products with two locations in Alabama and one in Mississippi. This purchase was funded through the Company s U.S. revolving line of credit and term loans. A total of $0.8 million of cash was in escrow at June 30, 2007 for post-closing indemnification claims and was included in other current assets. These escrow funds were disbursed to the sellers in July 2007. The Supply Companies had combined net sales of $76 million (unaudited) for the year ended December 31, 2005. The Company has included the results of operations for the Supply Companies from the date of acquisition. The purchase price was adjusted for the Supply Companies financial performance for the year ended December 31, 2005. The Company applied purchase accounting, which, along with certain final purchase price adjustments for the final working capital levels and the 2005 financial results, has resulted in recorded goodwill of $53.5 million as follows (in 000 s):

Net assets	$ 7,754
Non-compete	315
Customer relationships	7,825
Goodwill	53,531
Purchase price	$ 69,425

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C&S Roofing Materials, Inc. D/B/A Pacific Supply Company

On January 10, 2006, the Company purchased certain assets of C&S Roofing Materials, Inc. D/B/A Pacific Supply Company (Pacific), a distributor of roofing and other building products with four locations in Orange and Los Angeles counties in California. This purchase was funded through the Company s U.S. revolving line of credit. A total of $2.1 million of cash was in escrow at June 30, 2007 for post-closing indemnification claims and was included in other current assets. These escrow funds were disbursed to the sellers in July 2007. Pacific had net sales of $53 million (unaudited) for the year ended December 31, 2005. The Company has included the results of operations for Pacific from the date of acquisition and applied purchase accounting, which, along with certain final purchase price adjustments, resulted in recorded goodwill of $26.7 million as follows (in 000 s):

Net assets	$ 6,740
Non-compete	181
Customer relationships	9,700
Goodwill	26,669
Purchase price	$ 43,290

SDI Holding, Inc.

On October 14, 2005, the Company purchased 100% of the outstanding stock of SDI Holding, Inc. (Shelter), a distributor of roofing and other building products with 51 branches in 14 states at the time of the acquisition. This purchase was funded through the Company s U.S. revolving line of credit and term loans. Based upon Shelter s final performance for the 2005 calendar year, the sellers qualified for an earn-out payment of $6.4 million, which was paid in June 2006. Shelter had net sales of $342 million (unaudited) for the year ended December 31, 2005. The Company has included the results of operations for Shelter from the date of acquisition and applied purchase accounting, which, along with certain final purchase price adjustments, resulted in recorded goodwill of $78.0 million as follows (in 000 s):

Accounts receivable	$ 48,351
Inventories	53,108
Property and equipment	15,317
Other assets	17,271
Accounts payable and accrued expenses	(57,042)
Other liabilities	(8,976)
Beneficial leases	610
Non-compete	842
Customer relationships	25,852
Goodwill	77,993
Purchase price	$ 173,326

Supplemental Pro Forma Information Unaudited

The unaudited pro forma net sales for the nine months ended June 30, 2007, assuming the acquisition of North Coast had occurred at the beginning of the year, were $1,250 million. Pro forma net income and net income per share for that period has not been presented as the impact of the North Coast acquisition was not material. The unaudited pro forma summary information below for the nine months ended June 30, 2006, gives effect to the acquisition of Shelter as if the acquisition had occurred at the beginning of that period and is after giving effect to certain adjustments, including amortization of the intangible assets subject to amortization, interest expense incurred as a consequence of the increased borrowings under the Company s credit facilities, and related income taxes. The impact of North Coast and the aggregate impact of the inclusion of the other 2006 acquisitions - Pacific, the Supply Companies, Roof Depot and RSM - on the pro forma net income and net income per share presented below was not material and therefore has not been presented. However, had the impact from those acquired companies also been included in the pro forma net sales below, total pro forma net sales (unaudited) would have been $1,352 million for the nine months ended June 30, 2006 and $529 million for the three months ended June 30, 2006 (not presented). The unaudited pro forma summary information below is not necessarily indicative of the financial results that would have occurred if the Shelter acquisition had been consummated at the beginning of that period, nor is it necessarily indicative of the financial results which may be attained in the future.

The pro forma summary information is based upon available information and upon certain assumptions that the Company s management believes are reasonable.

Unaudited **(Dollars in thousands, except per share data)**	**Nine Months Ended June 30, 2006**	
Net sales	$	1,085,206
Net income	34,199	
Net income per share:		
Basic	0.80	
Diluted	$	0.78

Other Recent Acquisitions

On May 18, 2007, the Company purchased certain assets of Wholesale Roofing Supply (WRS), a single location distributor of residential and commercial roofing products located in Knoxville, Tennessee. Additionally, on November 23, 2005, the Company purchased certain assets of Easton Wholesale Company, Inc. (Easton), a single location distributor of building products located in Easton, Maryland. Pro forma information has not been provided for these acquisitions since the impact to the financial statements was not material.

6. Debt

Senior Secured Credit Facility

On November 2, 2006, the Company entered into an amended and restated seven-year $500 million U.S. senior secured credit facility and a C$15 million senior secured Canadian credit facility with GE Antares Capital (GE Antares) and a syndicate of other lenders (combined, the Credit Facility). The Credit Facility refinanced the prior credit facilities that also were provided through GE Antares. The Credit Facility provides the Company with lower interest rates and available funds for future acquisitions and ongoing working capital requirements. In addition, the Credit Facility increased the allowable total equipment financing and/or capital lease financing to $35 million. The Credit Facility provides for a cash receipts lock-box arrangement that gives the Company sole control over the funds in lock-box accounts, unless excess availability is less than $10 million or an event of default occurs, in which case the senior secured lenders would have the right to take control over such funds and to apply such funds to repayment of the senior debt.

The Credit Facility consists of a U.S. revolving credit facility of $150 million (the US Revolver), which includes a sub-facility of $20 million for letters of credit, and a $350 million term loan (the Term Loan). The Credit Facility also includes a C$15 million senior secured revolving credit facility provided by GE Canada Finance Holding Company (the Canada Revolver). There was a combined $112.5 million available for borrowings under the US Revolver and Canada Revolver and a combined $44.6 million outstanding at June 30, 2007. There were also $6.5 million of outstanding standby letters of credit at June 30, 2007. The Term Loan has required amortization of 1% per year, payable in quarterly installments of approximately $0.9 million, and the remainder is due in 2013. The Credit Facility may also be expanded by up to an additional $200 million under certain conditions. There are mandatory prepayments under the Credit Facility under certain conditions, including the following cash flow condition:

Excess Cash Flow

On May 15 of each fiscal year, commencing on May 15, 2008, the Company must pay an amount equal to 50% of the Excess Cash Flow (as defined in the Credit Facility) for the prior fiscal year, not to exceed $7.0 million with respect to any fiscal year.

The US Revolver carries an interest rate of LIBOR plus 1% (6.32% at June 30, 2007) and the Term Loan carries an interest rate of LIBOR plus 2% (7.32% at June 30, 2007). The Canada revolver carries an interest rate at the Canadian prime plus 0.75% (6.00% at June 30, 2007). Unused fees on the revolving credit facilities are 0.25% per annum. Availability under the revolving credit facilities is limited to 85% of eligible accounts receivable, increasing to 90% from January through April of each year. Financial covenants, which apply only to the Term Loan, are limited to a leverage ratio and a yearly capital expenditure limitation as follows:

Maximum Consolidated Leverage Ratio

On the last day of each fiscal quarter, commencing with the quarter ended December 31, 2006, the Company s Consolidated Leverage Ratio, as defined, must not be greater than 4.00:1.0.

Capital Expenditures

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

As of June 30, 2007, the Company was in compliance with these covenants. Substantially all Company assets, including the capital stock and assets of wholly owned subsidiaries, secure obligations under the Credit Facility. In consideration of the refinancing, the Company evaluated the treatment of pre-existing and new financing costs in accordance with Emerging Issues Task Force (EITF) 96-19: *Debtor s Accounting for a Modification or Exchange of Debt Instruments,* and EITF 98-14: Debtor s *Accounting for Changes in Line-of-Credit or Revolving-Debt Arrangement,* and accordingly most of those costs are being amortized over the term of the Credit Facility.

Prior Senior Secured Credit Facilities

The credit facilities in place prior to the Credit Facility discussed above were amended in October 2005 and January 2006, scheduled to mature on October 14, 2010 and consisted of a $280 million U.S. revolving line of credit and a $C15 million Canadian revolving line of credit, referred to as revolvers, and term loans totaling $90 million. These facilities provided for the same lock-box arrangements as under the Credit Facility.

At the time of the refinancing discussed above, there was $227.8 million of borrowings outstanding under the prior revolvers. The outstanding revolver borrowings at that date carried a weighted-average interest rate of 7.03%. The outstanding revolver borrowings at September 30, 2006 and June 30, 2006 carried weighted-average interest rates of 6.97% and 7.05%, respectively, and were classified as long-term debt since the amounts were expected to be outstanding for greater than one year.

Equipment Financing Facilities

The Company has two equipment financing facilities that allow for the financing of purchased transportation and material handling equipment totaling $32.9 million, with $14.9 million of remaining availability as of June 30, 2007. There was $18.0 million of equipment financing loans outstanding at June 30, 2007, with fixed interest rates ranging from 4.7% to 7.4%.

7. Foreign Sales

Foreign (Canadian) sales totaled $31.3 and $69.4 million in the three and nine months ended June 30, 2007, respectively, and $29.2 and $68.2 million in the three and nine months ended June 30, 2006, respectively.

8. Financial Derivatives

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

The Company is using interest rate derivative instruments to manage the risk of interest rate changes by converting a portion of its variable-rate borrowings into fixed-rate borrowings. There were interest rate derivative instruments outstanding in a total notional amount of $300 million at June 30, 2007, which consisted of: a) interest rate swaps totaling $200 million, expiring in February 2010, with a fixed rate of 4.97%; b) a $50 million interest rate collar expiring in March 2010 with a floor rate of 3.99% and a cap rate of 5.75%; and c) a $50 million interest rate collar expiring in February 2010 with a floor rate of 3.75% and a cap rate of 6.00%. The combined fair market value of the agreements resulted in a recorded asset of approximately $2.0 million at June 30, 2007, which was determined based on current interest rates and expected future trends. The Company entered into these instruments during the second quarter of 2007 and cancelled the prior interest rate derivative instruments that had notional amounts totaling $150 million. The current derivative instruments are designated as cash flow hedges, for which the Company records the effective portions of changes in their fair value, net of tax, in other comprehensive income (Note 4). Any ineffective portion of the hedges is recognized in earnings, of which there has been none to date. The prior derivative instruments were not designated as hedges and therefore changes in their fair values were recorded in interest expense.

9. Recent Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), which clarifies when tax benefits should be recorded in financial statements, requires certain disclosures of uncertain tax matters and provides guidance on how any tax reserves should be classified in a balance sheet. FIN 48 will be effective for the Company in the fiscal year beginning September 30, 2007. The Company is currently evaluating the impact that the adoption of FIN 48 will have on its consolidated financial statements, although the impact is not currently expected to be material.

In February 2007, the FASB issued Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115* (SFAS 159). SFAS 159 permits companies to measure many financial instruments and certain other items at fair value at specified election dates. SFAS 159 will be effective in the fiscal year beginning September 28, 2008. The Company is currently evaluating the impact that the adoption of SFAS 159 will have on its consolidated financial statements, although the impact is not currently expected to be material.

Item 2. Management s Discussion And Analysis Of Financial Condition And Results of Operations

You should read the following discussion in conjunction with Management s Discussion and Analysis included in our 2006 Annual Report on Form 10-K. Unless otherwise specifically indicated, all references to 2007 and YTD 2007 refer to the three months (third quarter) and nine months (year-to-date) ended June 30, 2007, respectively, of our fiscal year ending September 29, 2007, and all references to 2006 and YTD 2006 refer to the three months (third quarter) and nine months (year-to-date) ended June 30, 2006, respectively, of our fiscal year ended September 30, 2006.

Overview

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

As of August 1, 2007, we distribute up to 10,000 SKUs through 178 branches in the United States and Canada. We had 2,740 employees as of June 30, 2007, including our sales and marketing team of 1,031 employees.

In fiscal year 2006, approximately 93% of our net sales were in the United States. We stock one of the most extensive assortments of high-quality branded products in the industry, enabling us to deliver products to our customers on a timely basis.

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

Our growth strategy includes both internal growth (opening branches, growing sales with existing customers, adding new customers and introducing new products) and acquisition growth. Our main acquisition strategy is to target market leaders in geographic areas that we do not service. Our April 2007 acquisition of North Coast Commercial Roofing Systems, Inc. (North Coast) is one example of this approach. North Coast is a distributor of commercial roofing systems and related accessories with 16 locations in eight states in the Midwest and Northeast. North Coast has minimal branch overlap with our existing operations. In addition, we also acquire smaller companies to supplement branch openings within existing markets. Our August 2006 acquisition of Roof Depot, Inc. (Roof Depot), which was integrated into our Midwest region, is one example of such an acquisition.

Results of Operations

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

	Three Months Ended June 30,				Nine Months Ended June 30,			
	2007		2006		2007		2006	
Net sales	100.0	%	100.0	%	100.0	%	100.0	%
Cost of products sold	77.8		75.4		77.0		75.5	
Gross profit	22.2		24.6		23.1		24.5	
Operating expenses	16.7		16.7		19.3		17.9	
Income from operations	5.5		8.0		3.8		6.6	
Interest expense	(1.5	)	(1.2	)	(1.8	)	(1.2	)
Income before income taxes	4.0		6.8		2.0		5.4	
Income taxes	(1.6	)	(2.6	)	(0.8	)	(2.2	)

Net income	2.4	%	4.2	%	1.2	%	3.2	%

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In managing our business, we consider all growth, including branch expansion, to be internal growth unless it results from an acquisition. When we refer to growth in existing markets or internal growth in our discussion and analysis of financial condition and results of operations, we include growth from existing and newly opened branches but exclude growth from acquired branches until they have been under our ownership for at least four full fiscal quarters at the start of the fiscal reporting period. At June 30, 2007, we had a total of 177 branches in operation. For 2007, 155 branches were included in our existing market calculations and 22 branches were excluded because they were acquired during or after the quarter ended June 30, 2006. Acquired markets for 2007 include North Coast, RSM, Roof Depot and WRS (Note 5). For YTD 2007, 95 branches were included in our existing market calculations and 82 branches were excluded because they were acquired during or after the year ended September 30, 2006. Acquired markets for YTD 2007 include North Coast, RSM, Roof Depot, Pacific, the Supply Companies, Shelter, WRS and Easton (Note 5). Percentages in the tables below may not foot due to rounding.

Three Months Ended June 30, 2007 (2007) Compared to the Three Months Ended June 30, 2006 (2006) Existing and Acquired Markets

For the Three Months Ended
(Dollars in thousands)

	Existing Markets June 30, 2007	2006	Acquired Markets June 30, 2007	2006	Consolidated June 30, 2007	2006
Net Sales	$ 398,396	$				