Builders FirstSource, Inc.
Form PRE 14A
November 03, 2009

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

SCHEDULE 14A
(Rule 14a-101)
INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934

Filed by the Registrant þ

Filed by a Party other than the Registrant o

Check the appropriate box:

þ Preliminary Proxy Statement
o Confidential, for Use of the Commission only (as permitted by Rule 14a-6(e)(2))
o Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to § 240.14a-12

BUILDERS FIRSTSOURCE, INC.
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

þ No fee required.

o Fee computed on table below per Exchange Act Rules 14a 6(i)(4) and 0-11.

1. Title of each class of securities to which transaction applies:

2. Aggregate number of securities to which transaction applies:

3. Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

4. Proposed maximum aggregate value of transaction:

5. Total fee paid:

o Fee paid previously with preliminary materials.

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

Builders FirstSource, Inc.
2001 Bryan Street, Suite 1600, Dallas, Texas 75201

To our Stockholders:

The severity and duration of the downturn in the homebuilding industry has presented significant challenges to our business. Our revenues have declined from approximately $2.1 billion for the year ended December 31, 2006, to approximately $1.0 billion for the year ended December 31, 2008, with further declines in 2009. Despite the efforts of our management to reduce our costs, our operating results have continued to deteriorate and our liquidity has decreased and is becoming constrained. In light of these conditions, our Board of Directors determined that certain recapitalization transactions, involving a common stock rights offering and a debt exchange, would be in the best interests of our Company and its stockholders. The proposed transactions would (i) provide us with significant additional liquidity to fund operations, (ii) deleverage our balance sheet, and (iii) extend the maturity of our remaining outstanding indebtedness in order to provide us with additional time to recover from the current industry downturn. Pursuant to the recapitalization transactions, we propose to:

- raise up to $205 million of new equity capital by way of a rights offering to our stockholders to purchase up to 58,571,428 shares of our common stock at a subscription price of $3.50 per share;

- conduct a debt exchange in which certain holders of our outstanding Second Priority Senior Secured Floating Rate Notes due 2012 (the 2012 notes) will exchange, at par, in transactions exempt from the registration requirements of the federal securities laws, their outstanding 2012 notes for (i) up to $145.0 million aggregate principal amount of new Second Priority Senior Secured Floating Rate Notes due 2016 (the 2016 notes), (ii) up to $130.0 million in cash from the proceeds of the rights offering, or (iii) a combination of cash and 2016 notes, and, (iv) to the extent the rights offering is not fully subscribed, shares of our common stock; and

- solicit consents to amend the indenture under which the 2012 notes were issued to eliminate certain restrictive covenants, conditions to defeasement, and events of default and to release the liens on the collateral securing the 2012 notes.

Our goal with the recapitalization transactions is to improve our financial flexibility through the rights offering and debt exchange. Upon completion of the recapitalization transactions, the Company will receive $75.0 million for general corporate purposes and to pay the expenses of the recapitalization transactions, with any remaining proceeds of the rights offering being used to repurchase a portion of our outstanding 2012 notes in the debt exchange. We will reduce our outstanding indebtedness by $130.0 million through the debt exchange.

In connection with the recapitalization transactions, we have entered into an investment agreement with JLL Partners Fund V, L.P. (JLL) and Warburg Pincus Private Equity IX, L.P. (Warburg Pincus), who collectively beneficially own approximately 50% of our common stock, before giving effect to the recapitalization transactions, under which JLL and Warburg Pincus have severally agreed to purchase from us, at the subscription price, unsubscribed shares of our common stock such that gross proceeds of the rights offering will be no less than $75.0 million. In addition, each of JLL and Warburg Pincus has agreed (i) to exchange up to $48.909 million aggregate principal amount of 2012 notes indirectly held by it in the debt exchange and (ii) to the extent gross proceeds of the rights offering are less than $205 million, to exchange such 2012 notes for shares of our common stock at an exchange price equal to the rights offering subscription price, subject to proration from the participation of other holders of 2012 notes who submit for exchange their 2012 notes for shares of our common stock not subscribed for through the exercise of rights in the rights offering. In addition, each of JLL and Warburg Pincus has agreed to vote (or cause to be voted) the shares of common stock owned by them in favor of the issuance of our common stock in the rights offering, pursuant to the investment agreement and to certain holders of our 2012 notes in the debt exchange.

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We have also entered into a support agreement with certain holders of outstanding 2012 notes, under which such noteholders have agreed to exchange their 2012 notes in the debt exchange and to consent to the proposed amendments to the indenture governing the 2012 notes.

Pursuant to the support agreement, holders of approximately 75% of the aggregate principal amount of our outstanding 2012 notes held by holders other than JLL and Warburg Pincus have agreed to consent to the proposed amendments to the indenture governing the 2012 notes (which amount satisfies the minimum consent requirement for effectiveness of the proposed amendments), and pursuant to the support agreement and investment agreement, holders of approximately 84% of the aggregate principal amount of the 2012 notes have agreed to exchange their 2012 notes in the debt exchange.

You are cordially invited to attend a special meeting of stockholders of Builders FirstSource, Inc., which will take place at the corporate headquarters of Builders FirstSource, Inc. at 2001 Bryan Street, Suite 1600, Dallas, Texas 75201 on [l], 2009, at [l]:00 a.m., local time.

At the special meeting, you will be asked to consider and vote on the following proposals: (1) to approve the issuance of our common stock in the rights offering, pursuant to the investment agreement and to certain holders of our 2012 notes in the debt exchange and (2) to approve an amendment to our 2007 Incentive Plan to increase the number of shares of common stock that may be granted pursuant to awards under the 2007 Incentive Plan from 2,500,000 shares to [l] shares and re-approve a list of qualified business criteria for performance-based awards in order to preserve federal income tax deductions.

Even if you intend to join us in person, we encourage you to vote in advance so we will know we have a quorum of stockholders for the meeting. When you vote in advance, please indicate your intention to personally attend the special meeting. Please see the Question and Answer section on page 3 of the accompanying proxy statement for instructions if you plan to personally attend the special meeting.

Whether or not you are able to personally attend the special meeting, it is important that your shares be represented and voted. Your prompt vote over the internet, by telephone via toll-free number, or, for stockholders who elect to receive their proxy materials by mail, by written proxy, will save us the expense and extra work of additional proxy solicitation. Voting by any of these methods at your earliest convenience will ensure your representation at the special meeting if you choose not to attend in person. If you decide to attend the special meeting, you will be able to vote in person, even if you have previously submitted your proxy. Please review the instructions on the proxy card or the information forwarded by your bank, broker, or other stockholder of record, as applicable, concerning each of these voting options.

On behalf of the Board of Directors, I would like to express our appreciation for your continued support of Builders FirstSource, Inc.

Paul S. Levy
Chairman of the Board

[l], 2009

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Builders FirstSource, Inc.
2001 Bryan Street, Suite 1600, Dallas, Texas 75201
Official Notice of Special Meeting of Stockholders

To our Stockholders:

A special meeting of stockholders of Builders FirstSource, Inc. will take place at the corporate headquarters of Builders FirstSource, Inc. at 2001 Bryan Street, Suite 1600, Dallas, Texas 75201 on [l], 2009, at [l]:00 a.m., local time, for the purpose of considering and acting upon the following:

(1) to approve (a) the issuance and sale of up to 58,571,428 shares of our common stock (common stock) upon exercise of subscription rights to purchase shares of common stock at a subscription price of $3.50 per share pursuant to a rights offering to raise up to $205.0 million, (b) the issuance and sale of our common stock pursuant to the Investment Agreement dated as of October 23, 2009, among us, JLL Partners Fund V, L.P. (JLL) and Warburg Pincus Private Equity IX, L.P. (Warburg Pincus) (the Investment Agreement) and (c) the issuance of our common stock to certain holders of our Second Priority Senior Secured Floating Rate Notes due 2012 (the 2012 notes) pursuant to a debt exchange, in which certain holders of our outstanding 2012 notes will exchange, at par, in transactions exempt from the registration requirements of the Securities Act of 1933, as amended, their outstanding 2012 notes for (i) up to $145.0 million aggregate principal amount of newly-issued Second Priority Senior Secured Floating Rate Notes due 2016 (the 2016 notes), (ii) up to $130.0 million in cash from the proceeds of the rights offering, or (iii) a combination of cash and 2016 notes, and, (iv) to the extent the rights offering is not fully subscribed, shares of our common stock; and

(2) to approve an amendment to the Builders FirstSource, Inc. 2007 Incentive Plan to increase the number of shares of common stock that may be granted pursuant to awards under the 2007 Incentive Plan from 2,500,000 shares to [l] shares and re-approve a list of qualified business criteria for performance-based awards in order to preserve federal income tax deductions.

Copies of the Investment Agreement and the Support Agreement dated as of October 23, 2009, among the Company and certain holders of the 2012 notes (the Support Agreement), are attached as Annex A and Annex B to this proxy statement, respectively.

After careful consideration and upon the recommendation of the special committee of our Board of Directors comprised entirely of independent directors, our Board of Directors (i) determined that the rights offering, the Investment Agreement, the debt exchange, the Support Agreement, and the transactions contemplated by such agreements are advisable and in the best interests of our company and our stockholders, (ii) approved and authorized the rights offering, the Investment Agreement, the debt exchange, and the Support Agreement and (iii) **recommends that you vote FOR the approval of the issuance of our common stock pursuant to proposal (1) and FOR the approval of the amendment to our 2007 Incentive Plan and re-approval of a list of qualified business criteria for performance-based awards in order to preserve federal income tax deductions pursuant to proposal (2).** Pursuant to the Investment Agreement, each of JLL and Warburg Pincus, who collectively beneficially own approximately 50% of our common stock, has agreed to vote (or cause to be voted) the shares of common stock owned by them in favor of proposal (1) at the special meeting.

Neither our Board of Directors nor the special committee of our Board of Directors has made, nor will they make, any recommendation to stockholders or noteholders regarding the exercise of subscription rights under the rights offering or the exchange of 2012 notes in the debt exchange. We refer to the rights offering and the debt exchange (described herein) as the Recapitalization Transactions. Stockholders and holders of 2012 notes should make an independent investment decision whether to exercise their rights or exchange their 2012 notes.

Only holders of record of our common stock at the close of business on [l], 2009, will be entitled to vote at the meeting. No business other than the proposals described in this notice will be considered at the special meeting or any adjournment or postponement thereof.

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Your vote is very important, regardless of the number of shares of common stock you own. Builders FirstSource cannot complete the Recapitalization Transactions unless proposal (1) is approved by the affirmative vote of a majority of the shares of common stock represented and entitled to vote at the meeting. Please submit your proxy as soon as possible to make sure that your shares are represented at the special meeting.

For your shares to be voted, you may complete, sign, date, and return the enclosed proxy card or you may submit your proxy by telephone or over the Internet. If you are a holder of record, you may also cast your vote in person at the special meeting. If your shares are held in an account by a broker, bank, or other nominee, you must instruct them on how to vote your shares. **If you vote by proxy but abstain from voting on the proposals, your abstention will have the same practical effect as a vote against the proposals.**

By Order of the Board of Directors,

Donald F. McAleenan
Corporate Secretary
[l], 2009

IMPORTANT:

Please see the Question and Answer section on page 3 of this proxy statement for instructions on what you need to do to attend the special meeting in person. Please note that the doors to the special meeting will open at [l]:00 a.m. and will close promptly at [l]:00 a.m. Whether or not you expect to personally attend, we urge you to vote your shares at your earliest convenience to ensure the presence of a quorum at the meeting. Promptly voting your shares via the internet, by telephone via toll-free number, or by signing, dating, and returning the enclosed proxy card, will save us the expense and extra work of additional solicitation. Because your proxy is revocable at your option, submitting your proxy now will not prevent you from voting your shares at the meeting if you desire to do so. Please refer to the voting instructions included on the proxy card or the voting instructions forwarded by your bank, broker, or other stockholder of record, as applicable.

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Builders FirstSource, Inc.
2001 Bryan Street, Suite 1600, Dallas, Texas 75201
Proxy Statement
Special Meeting of Stockholders
[l], 2009

This Proxy Statement is being furnished by Builders FirstSource, Inc. (the Corporation, the Company, or Builders FirstSource) in connection with a solicitation of proxies by its Board of Directors (the Board of Directors or the Board) to be voted at the special meeting of the Corporation s stockholders to be held on **[l]**, 2009 (the special meeting or the meeting). Whether or not you personally attend, it is important that your shares be represented and voted at the special meeting. Most stockholders have a choice of voting over the internet, by using a toll-free telephone number, or by completing a proxy card and mailing it in the postage-paid envelope provided. Check your proxy card, or the information forwarded by your bank, broker, or other stockholder of record, as applicable, to determine which voting options are available to you. Please be aware that if you vote over the internet, you may incur costs, such as telecommunication and internet access charges, for which you will be responsible. The internet voting and telephone voting facilities for stockholders of record will be available until 11:59 p.m. eastern time on **[l]**, 2009.

SOLICITATION AND RATIFICATION OF PROXIES

If any matters not specifically set forth in this Proxy Statement properly come to a vote at the meeting, the members of the Proxy Committee, comprised of Charles L. Horn and Donald F. McAleenan, will vote regarding those matters in accordance with their best judgments. If a proxy card is signed and returned, it will be voted as specified on the proxy card, or, if no vote is specified, it will be voted FOR Proposals (1) and (2). At any time before it is exercised, you may revoke your proxy by timely delivery of written notice to the Corporate Secretary, by timely delivery of a properly executed, later-dated proxy (including by internet or telephone vote), or by voting via ballot at the special meeting. Voting in advance of the special meeting will not limit your right to vote at the special meeting if you decide to attend in person. If you are a beneficial owner, but your shares are registered in the name of a bank, broker, or other stockholder of record, to be able to vote in person at the special meeting you must obtain, from the stockholder of record, a proxy in your name and present it at the meeting. See Questions and Answers about the Meeting and Voting in this Proxy Statement for an explanation of the term stockholder of record.

The proxy accompanying this Proxy Statement is being solicited by the Board of Directors. The Corporation will bear the entire cost of this solicitation, including the preparation and delivery of this Proxy Statement, the proxy, and any additional information furnished to stockholders. In addition to using the mail and the internet, proxies may be solicited by directors, executive officers, and other employees of Builders FirstSource or its subsidiaries, in person or by telephone. No additional compensation will be paid to directors, executive officers, or other employees for their services in this regard. Builders FirstSource will also request banks, brokers, and other stockholders of record to forward proxy materials, at the Corporation s expense, to the beneficial owners of the Corporation s shares.

GENERAL INFORMATION ABOUT PROXIES AND VOTING

Outstanding Stock

The stockholders of record of Builders FirstSource, Inc. common stock (common stock) at the close of business on **[l]**, 2009, will be entitled to vote in person or by proxy at the special meeting. At that

time, the Corporation had **[l]** outstanding shares of its common stock. Each stockholder will be entitled to one vote in person or by proxy for each share of common stock held. A quorum for the transaction of business shall be constituted by the presence at the special meeting, in person or by proxy, of a majority of the outstanding shares of common stock entitled to vote. All shares for which proxies or voting instructions are returned are counted as present for purposes of determining the existence of a quorum at the special meeting.

Voting Procedures

Votes cast by proxy or in person at the meeting will be tabulated by representatives from [l], which has been appointed the Inspector of Election. In addition, the following voting procedures will be in effect for each proposal described in this Proxy Statement:

Proposals (1) and (2). **(1) Approval of the issuance of shares of our common stock in the rights offering, to JLL and Warburg Pincus pursuant to the Investment Agreement, and to our holders of 2012 notes in the debt exchange and (2) approval of the amendment to our 2007 Incentive Plan to increase the number of shares of common stock that may be granted pursuant to awards under the 2007 Incentive Plan from 2,500,000 shares to [l] shares and re-approval of a list of qualified business criteria for performance-based awards in order to preserve federal income tax deductions. Each proposal requires the affirmative vote of a majority of the shares represented and entitled to vote at the special meeting. If you vote by proxy, but abstain from voting on the proposals, your abstention will have the same practical effect as a vote against the proposals. Please see page 4. Pursuant to the Investment Agreement, each of JLL and Warburg Pincus has agreed to vote (or cause to be voted) the shares of common stock owned by them in favor of proposal (1) at the special meeting.**

NO PERSON IS AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS OTHER THAN THOSE CONTAINED IN THIS PROXY STATEMENT. IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATIONS MAY NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED. THE DELIVERY OF THIS PROXY STATEMENT SHALL, UNDER NO CIRCUMSTANCES, CREATE ANY IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE CORPORATION SINCE THE DATE OF THIS PROXY STATEMENT.

QUESTIONS AND ANSWERS ABOUT THE MEETING AND VOTING

1. What is a proxy?

A proxy is your legal designation of another person, called a proxy holder, to vote the shares that you own. We designated Charles L. Horn, our Senior Vice President and Chief Financial Officer, and Donald F. McAleenan, our Senior Vice President and General Counsel, to act as proxy holders at the special meeting as to all shares for which proxy cards are returned or voting instructions are provided by internet or telephone.

2. What is a proxy statement?

A proxy statement is a document that Securities and Exchange Commission (SEC) regulations require us to give you when we ask you to provide a proxy (by voting by phone or internet or, if applicable, by returning a proxy card) designating the proxy holders described above to vote on your behalf.

3. What is the difference between a stockholder of record and a stockholder who holds stock in street name, also called a beneficial owner ?

If your shares are registered in your name at our transfer agent, BNY Mellon Shareholder Services, you are a stockholder of record.

If your shares are registered at BNY Mellon Shareholder Services in the name of a broker, bank, trustee, nominee, or other similar stockholder of record on your behalf, your shares are held in street name and you are the beneficial owner of the shares.

4. How do you obtain admission to the special meeting?

Stockholders of Record. Stockholders of record must bring a government-issued photo identification card to gain admission to the special meeting.

Street Name Holders. To obtain admission to the special meeting, a street name holder must (1) bring a government-issued photo identification card and (2) ask his or her broker or bank for a legal proxy and must bring that legal proxy with him or her to the meeting. If you do not receive the legal proxy in time, bring your most recent brokerage statement with you to the meeting. We can use that to verify your ownership of common stock and admit you to the meeting. However, you will not be able to vote your shares at the meeting without a legal proxy. Please note that if you own shares in street name, and you are issued a legal proxy, any previously executed proxy will be revoked, and your vote will not be counted unless you appear at the meeting and vote in person.

5. What different methods can you use to vote?

By Written Proxy. Stockholders who elect to receive their proxy materials by mail may vote by mailing the written proxy card.

By Telephone and Internet Proxy. All stockholders of record may also vote by telephone from the U.S., using the toll-free telephone number provided on the proxy card or by the internet, using the procedures and instructions described on the proxy card. Street name holders may vote by telephone or the internet if their bank, broker, or other stockholder of record makes those methods available. If that is the case, the bank, broker, or other stockholder of record will enclose the instructions with the Proxy Statement or other notice of the meeting. The telephone and internet voting procedures, including the use of control numbers, are designed to authenticate stockholders identities, allow stockholders to vote their shares, and confirm that their instructions have been properly recorded.

In Person. All stockholders may vote in person at the meeting (unless they are street name holders without a legal proxy, as described in question 4).

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6. What is the record date and what does it mean?

The record date for the special meeting is [l], 2009. The record date was established by the Board of Directors as required by Delaware law. Stockholders of record at the close of business on the record date are entitled to receive notice of the special meeting and to vote their shares at the meeting.

7. How many votes do I have?

You will be entitled to one vote for each outstanding share of our common stock you own as of the record date. As of the record date for the special meeting, there were [l] shares of common stock outstanding and eligible to vote.

8. What are your voting choices for Proposals (1) and (2), and what vote is needed to approve Proposals (1) and (2)?

For the vote to approve Proposals (1) and (2), you may vote FOR or AGAINST either or both proposal(s) or you may abstain from voting with respect to either or both proposal(s).

The approval of Proposals (1) and (2) will require the affirmative vote of a majority of the shares represented and entitled to vote at the special meeting. Accordingly, abstentions will have the effect of a vote against Proposals (1) and (2). **The Board recommends a vote FOR each of Proposals (1) and (2).**

Consummation of the Recapitalization Transactions is dependent on the approval of Proposal (1). Pursuant to the Investment Agreement, each of JLL and Warburg Pincus has agreed to vote (or cause to be voted) the shares of common stock owned by them in favor of Proposal (1) at the special meeting.

9. What if a stockholder does not specify a choice for a matter when returning a proxy card?

Stockholders should specify their choice for each proposal described on the proxy card, if they receive one. However, proxy cards that are signed and returned will be voted FOR proposals described in this Proxy Statement for which no specific instructions are given.

10. How are broker non-votes counted?

When a broker returns a proxy or voting instructions, but has not received voting instructions from its customer with respect to any proposal and does not vote with respect to such proposal, those shares will be counted as present for purposes of determining the existence of a quorum but are not entitled to vote, and therefore will not have an effect on the outcome of such proposal.

11. If the rights offering is approved by the stockholders, am I required to exercise the rights I receive in the rights offering?

No. If the rights offering is approved, you may exercise any number of your rights, or you may choose not to exercise any rights.

12. Where can I find the voting results of the special meeting?

We intend to announce the preliminary voting results at the special meeting and publish the final results in a Current Report on Form 8-K following the meeting.

13. Whom should I contact if I have other questions?

If you have other questions or need assistance, please contact the information agent, [l] at [l].

SUMMARY

This summary highlights information contained elsewhere in this Proxy Statement. This summary is not complete and may not contain all of the information that you should consider before deciding whether or not you should approve the proposals. You should read the entire Proxy Statement carefully, including the section entitled Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2008, which we refer to as our 2008 10-K, and all other information included in this Proxy Statement, the appendices to this Proxy Statement, and the documents we refer to in this Proxy Statement in their entirety before you decide whether to approve the proposals. See Where You Can Find More Information on page 63 of this Proxy Statement.

Unless otherwise indicated, Builders FirstSource, the Company, we, us, and our refer to Builders FirstSource, In its subsidiaries.

Builders FirstSource, Inc.

Builders FirstSource, Inc. is a leading supplier and manufacturer of structural and related building products for residential new construction. We have operations principally in the southern and eastern United States with 55 distribution centers and 51 manufacturing facilities, many of which are located on the same premises as our distribution centers. We have successfully acquired and integrated 27 companies since our formation and are currently managed as three regional operating groups Atlantic, Southeast, and Central with centralized financial and operational oversight. We compete in the professional segment of the U.S. residential new construction building products supply market. Because of the predominance of smaller privately owned companies and the overall size and diversity of the target customer market, the professional segment remains fragmented.

We serve a highly diversified customer base, ranging from production homebuilders to small custom homebuilders. For the year ended December 31, 2008 and the nine months ended September 30, 2009, our top 10 customers accounted for approximately 19.0% and 21.3% of sales, respectively, and no single customer accounted for more than 5% of sales. We believe we have a diverse geographical footprint, in 32 markets in 9 states. We offer an integrated solution to our customers providing manufacturing, supply, and installation of a full range of structural and related building products. We group our building products and services into five product categories: prefabricated components, windows and doors, lumber and lumber sheet goods, millwork, and other building products and services. In addition to our full range of construction services, we offer a comprehensive offering of products that includes approximately 60,000 stock keeping units.

We are incorporated under the laws of the State of Delaware. Our principal executive offices are located at 2001 Bryan Street, Suite 1600, Dallas, Texas 75201, and our telephone number is (214) 880-3500. Our website is *www.bldr.com*. The information on our website does not constitute part of this Proxy Statement and should not be relied upon in connection with making any investment in our securities.

The Recapitalization Transactions (Page 22)

The Recapitalization Transactions have the following components:

A rights offering to our existing stockholders to raise up to $205 million. In the rights offering, we are distributing subscription rights exercisable for up to an aggregate of 58,571,428 shares of our common stock, which will entitle the holder of each whole subscription right to purchase one share of common stock at a subscription price of $3.50 per share.

A debt exchange in which certain holders of our outstanding 2012 notes will exchange, at par, in transactions exempt from registration under the Securities Act of 1933, as amended, their outstanding 2012 notes for (i) up to $145.0 million aggregate principal amount of our 2016 notes, (ii) up to $130.0 million in cash from the proceeds of the rights offering, or (iii) a combination of cash and 2016 notes, and, (iv) to the extent the rights offering is not fully subscribed, shares of our common stock. The 2016 notes will have substantially similar terms to the 2012 notes but will have an interest rate of 3-month LIBOR (subject to a 3.00% floor) plus 10% and will mature in 2016 instead of 2012. For each

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$1,000 aggregate principal amount of 2012 notes validly submitted and accepted for exchange in the debt exchange, a noteholder will receive, at the noteholder s election, (a) $1,000 in principal amount of the 2016 notes, or (b) $1,000 in cash, or (c) a combination of cash and 2016 notes, subject to proration and certain adjustments, including the receipt of our common stock instead of cash if we receive gross proceeds of less than $205.0 million in the rights offering.

A solicitation of consents to amend the indenture under which the 2012 notes were issued to eliminate certain restrictive covenants, conditions to defeasement, and events of default and to release the liens on the collateral securing the 2012 notes. Holders of approximately 662/3% of the aggregate principal amount of the 2012 notes, excluding JLL and Warburg Pincus, must consent to the proposed amendments to the indenture governing the 2012 notes in order for the proposed amendments to become effective.

In connection with the Recapitalization Transactions, we have entered into the Investment Agreement with JLL and Warburg Pincus, who collectively beneficially own approximately 50% of our common stock, before giving effect to the Recapitalization Transactions, under which JLL and Warburg Pincus have severally agreed to purchase from us, at the subscription price, unsubscribed shares of common stock such that gross proceeds of the rights offering will be no less than $75.0 million. In addition, each of JLL and Warburg Pincus has agreed (i) to exchange up to $48.909 million aggregate principal amount of 2012 notes indirectly held by it in the debt exchange and (ii) to the extent gross proceeds of the rights offering are less than $205 million, to exchange such 2012 notes for shares of our common stock at an exchange price equal to the rights offering subscription price, subject to proration from the participation of other holders of 2012 notes who submit for exchange their 2012 notes for shares of our common stock not subscribed for through the exercise of rights in the rights offering. Each of JLL and Warburg Pincus has agreed to vote (or cause to be voted) the shares of common stock owned by them in favor of Proposal (1) described in this Proxy Statement at the special meeting.

We have also entered into the Support Agreement with certain holders of outstanding 2012 notes, under which such noteholders have agreed to exchange their 2012 notes in the debt exchange and to consent to the proposed amendments to the indenture governing the 2012 notes.

Pursuant to the Support Agreement, holders of approximately 75% of the aggregate principal amount of our outstanding 2012 notes held by holders other than JLL and Warburg Pincus have agreed to consent to the proposed amendments to the indenture governing the 2012 notes (which amount satisfies the minimum consent requirement for effectiveness of the proposed amendments), and pursuant to the Support Agreement and Investment Agreement, holders of approximately 84% of the aggregate principal amount of the 2012 notes have agreed to exchange their 2012 notes in the debt exchange.

We intend to commence the rights offering on or about [l], 2009, and the rights offering, debt exchange, and consent solicitation are scheduled to expire on [l], 2009, unless extended by the special committee of our Board of Directors.

Reasons for the Proposed Recapitalization Transactions and Recommendation of Our Board of Directors (Page 23)

Our Board of Directors recommends that you vote FOR approval of the issuance of shares of our common stock pursuant to Proposal (1) and FOR the proposal to amend our 2007 Incentive Plan to increase the number of shares of common stock available for grant pursuant to awards issued thereunder and re-approve a list of qualified business criteria for performance-based awards in order to preserve federal income tax deductions pursuant to Proposal (2). In reaching its determination that the Recapitalization Transactions are advisable and in the best interests of our Company and our stockholders, our Board of Directors considered a number of factors, including:

the determination of the special committee of independent members of our Board of Directors, which special committee acted with the advice and assistance of our management and its independent legal and financial advisors and was comprised at all times of directors with no financial interest in a transaction other than as equity holders in the Company, that the proposed Recapitalization Transactions were advisable and in the best interests of the Company and its stockholders;

the financial analyses of Moelis & Company, LLC (Moelis) and the special committee s receipt of the opinion of Moelis, a copy of which is attached hereto as Annex C, to the effect that the financial terms of the rights offering are fair from a financial point of view to the stockholders of the Company, other than JLL and Warburg Pincus, taken as a whole (See Proposal One: The Recapitalization Proposal Positive Effects of the Restructuring Transaction);

the Recapitalization Transactions will substantially reduce the Company s outstanding indebtedness from approximately $299.2 million to approximately $169.2 million as of September 30, 2009, on an as adjusted basis;

the Recapitalization Transactions will provide an additional $75.0 million of working capital, less expenses of the Recapitalization Transactions;

the extended maturities of our remaining outstanding indebtedness from 2012 to 2016 will provide us additional time to recover from the current industry downturn;

the Recapitalization Transactions allow our existing stockholders who elect to participate in the rights offering to maintain their proportionate ownership in the Company; and

the Recapitalization Transactions allow our existing stockholders who do not participate in the rights offering to transfer their subscription rights.

Neither our Board of Directors nor the special committee of our Board of Directors has made, nor will they make, any recommendation to stockholders regarding the exercise of rights under the rights offering or to noteholders regarding the exchange of 2012 notes in the debt exchange. Stockholders and holders of 2012 notes should make an independent investment decision about whether or not to exercise their rights or exchange their 2012 notes.

Consummation of the Recapitalization Transactions is dependent on the approval of Proposal (1). Pursuant to the Investment Agreement each of JLL and Warburg Pincus, who collectively beneficially own approximately 50% of our common stock, has agreed to vote (or cause to be voted) the shares of common stock owned by them in favor of Proposal (1) at the special meeting.

Interests of Our Officers, Directors, and Principal Stockholders in the Recapitalization Transactions (Page 33)

JLL and Warburg Pincus, who collectively beneficially own approximately 50% of our common stock, before giving effect to the Recapitalization Transactions, also own approximately 36%, or approximately $98 million aggregate principal amount, of our 2012 notes. Six of our ten directors hold positions with affiliates of either JLL or Warburg Pincus. We have entered into the Investment Agreement with JLL and Warburg Pincus under which JLL and Warburg Pincus have severally agreed to purchase from us, at the subscription price, unsubscribed shares of common stock such that gross proceeds of the rights offering will be no less than $75.0 million. In addition, each of JLL and Warburg Pincus has agreed (i) to exchange up to $48.909 million aggregate principal amount of 2012 notes indirectly held by it in the debt exchange and, (ii) to the extent gross proceeds of the rights offering are less than $205.0 million, to exchange such 2012 notes for shares of our common stock at an exchange price equal to the rights offering subscription price, subject to proration from the participation of other holders of 2012 notes who submit for exchange their 2012 notes for shares of our common stock not subscribed for through the exercise of rights in the rights offering. See Proposal One: The Recapitalization Transactions The Rights Offering The Backstop Purchasers. JLL s and Warburg Pincus obligations, collectively, under this commitment are limited to $75.0 million in cash and the exchange of approximately $98 million aggregate principal amount of the 2012 notes in the debt exchange. In the event gross proceeds of the rights offering are less than $205.0 million, JLL and Warburg Pincus will likely increase their percentage ownership of our issued and outstanding common stock.

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BUILDERS FIRSTSOURCE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited in thousands, except per share amounts)

The following selected consolidated financial data of the Company, for each of the fiscal years in the three-year period ended December 31, 2008, have been derived from our audited consolidated financial statements. The following selected consolidated financial data for each of the nine-month periods ended September 30, 2008 and 2009, have been derived from the Company s unaudited condensed consolidated financial statements and are not necessarily indicative of the results for the remainder of the fiscal year or any future period. We believe that the unaudited condensed consolidated financial data reflects all normal and recurring adjustments necessary for a fair presentation of the results for the interim periods presented. This information is only a summary and should be read in conjunction with financial statements and the notes thereto filed with the SEC and the Management s Discussion and Analysis of Financial Condition and Results of Operations section contained in our 2008 10-K, as updated by our Current Report on Form 8-K filed on October 30, 2009, and our Third Quarter 2009 10-Q.

	Fiscal Year Ended December 31,			Nine Months Ended September 30,	
	2006	2007	2008	2008	2009
	(In thousands, except per share amounts)				
Statement of Operations Data:					
Sales	$ 2,063,466	$ 1,468,428	$ 992,014	$ 799,109	$ 523,923
Gross margin	544,814	363,161	215,541	174,007	112,115
Selling, general, and administrative expenses(1)	401,536	341,941	280,010	216,889	151,658
Asset impairments		350	46,948	10,130	470
Facility closure costs		101	1,192	866	1,190
(Loss) income from continuing operations(2)	71,233	(2,607)	(120,583)	(72,384)	(63,119)
(Loss) income from continuing operations per share basic	$ 2.09	$ (0.07)	$ (3.38)	$ (2.03)	$ (1.76)
(Loss) income from continuing operations per share diluted	$ 1.96	$ (0.07)	$ (3.38)	$ (2.03)	$ (1.76)
Balance Sheet Data (End of Period):					
Cash and cash equivalents	$ 93,258	$ 97,574	$ 106,891	$ 131,210	$ 96,317
Total assets	748,515	647,423	521,140	640,078	435,311
Total debt (including current portion)	319,200	279,266	319,226	339,237	299,194
Stockholders equity	256,864	241,547	102,474	168,307	37,016
Other Financial Data:					
Depreciation and amortization (excluding discontinued operations)	$ 20,410	$ 22,447	$ 20,833	$ 15,978	$ 13,882

(1) Includes stock-based compensation expense of $8,474, $6,970, and $4,060 for the years ended December 31, 2008, 2007, and 2006, respectively, and $2,521 and $6,360 for the nine months ended in 2009 and 2008, respectively.

(2) (Loss) income from continuing operations included a valuation allowance of $31.6 million against primarily all of our deferred tax assets for the year ended December 31, 2008, as discussed in Note 12 to the consolidated financial statements included in Item 8 of our 2008 10-K, as updated by our Current Report on Form 8-K filed on October 30, 2009.

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RISK FACTORS

You should carefully consider the specific risks described below, the risks described in our 2008 10-K and any risks described in our other filings with the SEC, before voting on the proposals. See the section of this Proxy Statement entitled Where You Can Find More Information. Any of the risks we describe below, the risks described in our 2008 10-K and any risks described in our other filings with the SEC could cause our business, financial condition, or operating results to suffer. The market price of our common stock could decline if one or more of these risks and uncertainties develop into actual events. You could lose all or part of your investment. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition, or operating results. Some of the statements in this section of the Proxy Statement are forward-looking statements. For more information about forward-looking statements, please see the section of this Proxy Statement entitled Forward-Looking Statements.

Risks Related to Our Business and Industry

The industry in which we operate is dependent upon the homebuilding industry, the economy, the credit markets, and other important factors.

The building products industry is highly dependent on new home construction, which in turn is dependent upon a number of factors, including interest rates, consumer confidence, foreclosure rates, and the health of the economy and mortgage markets. Unfavorable changes in demographics, credit markets, consumer confidence, housing affordability, or inventory levels, or weakening of the national economy or of any regional or local economy in which we operate, could adversely affect consumer spending, result in decreased demand for homes, and adversely affect our business. Production of new homes may also decline because of shortages of qualified tradesmen, reliance on inadequately capitalized sub-contractors, and shortages of material. In addition, the homebuilding industry is subject to various local, state, and federal statutes, ordinances, rules, and regulations concerning zoning, building design and safety, construction, and similar matters, including regulations that impose restrictive zoning and density requirements in order to limit the number of homes that can be built within the boundaries of a particular area. Increased regulatory restrictions could limit demand for new homes and could negatively affect our sales and earnings. Because we have substantial fixed costs, relatively modest declines in our customers production levels could continue to have a significant adverse effect on our financial condition, operating results and cash flows.

The homebuilding industry is undergoing a significant and sustained downturn. According to the U.S. Census Bureau, actual single family housing starts in the U.S. during 2008 declined 57.5% from 2006 to 2008 and declined 34.5% for the nine months ended September 30, 2009 compared to the prior year period. We believe that the market downturn is attributable to a variety of factors including: an economic recession; limited credit availability; excess home inventories; a substantial reduction in speculative home investment; a decline in consumer confidence; higher unemployment; and an industry-wide softening of demand. The downturn in the homebuilding industry has resulted in a substantial reduction in demand for our products and services, which in turn had a significant adverse effect on our business and operating results during fiscal 2007, 2008, and 2009 to date.

In addition, beginning in 2007, the mortgage markets experienced substantial disruption due to increased defaults, primarily as a result of credit quality deterioration. The disruption has continued to date and has precipitated evolving changes in the regulatory environment and reduced availability of mortgages for potential homebuyers due to an illiquid credit market, substantial declines in housing prices, and more restrictive standards to qualify for mortgages. During 2008, the conditions in the credit markets worsened and the economy fell into a recession. In addition, the credit markets and the financial services industry experienced a significant crisis characterized by the bankruptcy or failure of various financial institutions and severe limitations on credit availability. As a result, the credit markets have become highly illiquid as financial and lending institutions have severely restricted lending in order to conserve cash and protect their balance sheets. Although Congress and applicable regulatory authorities have enacted legislation and implemented programs designed to protect financial institutions and free up the credit markets, it is unclear whether these actions have been effective to date or will be effective in the future. Mortgage financing and commercial credit for homebuilders continues to be severely constrained. 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 there will be further damage to an already weak housing industry until conditions in the economy and the credit markets substantially improve.

We cannot predict the duration of the current market conditions, or the timing or strength of a future recovery of housing activity in our markets, if any. We also cannot provide any assurances that the homebuilding industry will not weaken further or that the operational strategies we have implemented to address the current market conditions will be successful. Continued weakness in the homebuilding industry would have a significant adverse effect on our business, financial condition and operating results.

In view of the current housing downturn, we may be required to take additional impairment charges relating to our operations or close under-performing locations.

During 2008, we recorded impairment charges related to the carrying value of goodwill for two of our reporting units and some of our assets. If the current weakness in the homebuilding industry continues, we may need to take additional goodwill and/or asset impairment charges relating to certain of our reporting units. Any such non-cash charges would have an adverse effect on our financial results. In addition, in response to industry and market conditions, we may have to close certain facilities in under-performing markets. Such facility closures could have a significant adverse effect on our financial condition, operating results, and cash flows.

We may have future capital needs and may not be able to obtain additional financing on acceptable terms.

We are substantially reliant on cash on hand and our $250 million senior secured revolving credit facility to provide working capital and fund our operations. Our inability to renew or replace this facility when required or when business conditions warrant could have a material adverse effect on our business, financial condition, and results of operations. As of September 30, 2009, our outstanding borrowings under this facility were $20 million, and our net available borrowing capacity in excess of our minimum liquidity covenant was $0. Our inability to borrow additional funds under this facility to fund our working capital requirements and our operations could have a significant adverse effect on our financial condition, operating results and cash flows. Current economic conditions and conditions in the credit markets, the economic climate affecting our industry, and the success of our Recapitalization Transactions, as well as other factors, may constrain our financing abilities. Our ability to secure additional financing, if available, and to satisfy our financial obligations under indebtedness outstanding from time to time will depend upon our future operating performance, the availability of credit generally, economic conditions, and financial, business, and other factors, many of which are beyond our control. The prolonged continuation or worsening of the current market and macroeconomic conditions that affect our industry could require us to seek additional capital and have a material adverse effect on our ability to secure such capital on favorable terms, if at all. In addition, there can be no assurance that, if the Recapitalization Transactions are consummated, the additional liquidity provided will be sufficient to fund our operations until the housing market recovers.

We may be unable to secure additional financing or financing on favorable terms or our operating cash flow may be insufficient to satisfy our financial obligations under indebtedness outstanding from time to time, including our 2012 notes, our senior secured revolving credit facility, and the 2016 notes being offered in the debt exchange. The indenture governing the 2016 notes, moreover, is expected to, among other restrictions, reduce the amount of permitted indebtedness allowed the Company. In addition, if financing is not available when needed, or is available on unfavorable terms, we may be unable to take advantage of business opportunities or respond to competitive pressures, any of which could have a material adverse effect on our business, financial condition, and results of operations. If additional funds are raised through the issuance of additional equity or convertible debt securities, our stockholders may experience significant dilution.

Our level of indebtedness could adversely affect our ability to raise additional capital to fund our operations, limit our ability to react to changes in the economy or our industry, and prevent us from meeting our obligations under our debt instruments.

As of September 30, 2009, our funded debt was $295.0 million, of which $20.0 million consisted of outstanding borrowings under our senior secured revolving credit facility and $275.0 million was indebtedness under our 2012 notes. In addition, we have significant obligations under ongoing operating leases that are not reflected in our balance sheet.

As of September 30, 2009, $295.0 million of our debt was at a variable interest rate. If interest rates rise, our interest expense would increase. However, our interest rate swap contracts fix interest rates on a portion of our outstanding long-term debt balances. Based on debt outstanding at September 30, 2009, a 1% increase in interest rates would result in approximately $1.0 million of additional interest expense annually. In addition, the 2016 notes to be issued in the debt exchange bear interest at a significantly higher interest rate (3-month LIBOR (subject to a 3% floor) plus 10%) than the interest rate under the 2012 notes (3-month LIBOR plus 4.25%).

Our substantial debt could have important consequences to us, including:

- increasing our vulnerability to general economic and industry conditions;
- requiring a substantial portion of our cash flow used in operations to be dedicated to the payment of principal and interest on our indebtedness, therefore reducing our ability to use our cash flow to fund our operations, capital expenditures, and future business opportunities;
- exposing us to the risk of increased interest rates, and corresponding increased interest expense, because a significant portion of our borrowings are at variable rates of interest;
- limiting our ability to obtain additional financing for working capital, capital expenditures, debt service requirements, acquisitions, and general corporate or other purposes; and
- limiting our ability to adjust to changing market conditions and placing us at a competitive disadvantage compared to our competitors who have less debt.

In addition, some of our debt instruments, including those governing our senior secured credit facility and our notes, contain cross-default provisions that could result in our debt being declared immediately due and payable under a number of debt instruments, even if we default on only one debt instrument. In such event, it is unlikely that we would be able to satisfy our obligations under all of such accelerated indebtedness simultaneously.

We may incur additional indebtedness.

We may incur additional indebtedness under our senior secured credit facility, which provides for up to $250.0 million of revolving credit borrowings. Given the severe housing downturn, we are currently substantially reliant on our cash on hand and our credit facility to fund our operations. In addition, we may be able to incur substantial additional indebtedness in the future, including collateralized debt, subject to the restrictions contained in the credit agreement governing our senior secured credit facility, the indenture currently governing our 2012 notes, and the proposed indenture that will govern the 2016 notes. If new debt is added to our current debt levels, the related risks that we now face could intensify.

Our debt instruments contain various covenants that limit our ability to operate our business.

Our financing arrangements, including our senior secured revolving credit facility and the indenture currently governing our 2012 notes, contain, and the proposed indenture that will govern the 2016 notes will contain, various provisions that limit our ability to, among other things:

- transfer or sell assets, including the equity interests of our restricted subsidiaries, or use asset sale proceeds;

incur additional debt;

pay dividends or distributions on our capital stock or repurchase our capital stock;

make certain restricted payments or investments;

create liens to secure debt;

enter into transactions with affiliates;

merge or consolidate with another company or continue to receive the benefits of these financing arrangements under a change in control scenario (as defined in those agreements); and

engage in unrelated business activities.

In addition, our senior secured revolving credit facility requires us to meet a specified financial ratio. This financial ratio is a fixed charge coverage ratio of 1:1 that is triggered if our available borrowing capacity, as determined under the borrowing base formula, is less than $35 million. The fixed charge coverage ratio is defined as the ratio of earnings before interest expenses, income taxes, depreciation, and amortization expenses minus capital expenditures, cash taxes paid, dividends, distributions and share repurchases or redemptions to the sum of scheduled principal payments and interest expense on a trailing 12 month basis from the trigger date. These covenants may restrict our ability to expand or fully pursue our business strategies. Our ability to comply with these and other provisions of the indenture governing our notes and the senior secured revolving credit facility may be affected by changes in our operating and financial performance, changes in general business and economic conditions, adverse regulatory developments, a change in control or other events beyond our control. The breach of any of these covenants, including those contained in our senior secured revolving credit facility, the indenture governing our 2012 notes and the proposed indenture that will govern our 2016 notes, could result in a default under our indebtedness, which could cause those and other obligations to become due and payable. If any of our indebtedness is accelerated, we may not be able to repay it.

At September 30, 2009, our net available borrowing capacity under our senior secured revolving credit facility in excess of the $35 million liquidity covenant was zero due to a drop in our eligible borrowing base coupled with lower seasonal advance rates set forth under the credit agreement. Approximately $4.3 million of cash on hand at September 30, 2009 supported a short-fall in the calculation of the $35 million minimum liquidity covenant contained in the credit agreement. This covenant calculates as eligible borrowing base less outstanding borrowings. The resulting amount must exceed $35 million or we are required to meet a fixed charge coverage ratio of 1:1, which we currently would not meet. Further declines in our borrowing base, if any, could compel us to either repay outstanding borrowings under the senior secured revolving credit facility or increase cash on deposit with the agent

We occupy most of our facilities under long-term non-cancelable leases. We may be unable to renew leases at the end of their terms. If we close a facility, we are still obligated under the applicable lease.

Most of our facilities are located in leased premises. Many of our current leases are non-cancelable and typically have terms ranging from 5 to 15 years and most provide options to renew for specified periods of time. We believe that leases we enter into in the future will likely be long-term and non-cancelable and have similar renewal options. If we close or idle a facility, we generally remain committed to perform our obligations under the applicable lease, which would include, among other things, payment of the base rent for the balance of the lease term. During 2007, 2008, and 2009, we closed or idled a number of facilities for which we remain liable on the lease obligations. Our obligation to continue making rental payments in respect of leases for closed or idled facilities could have a material adverse effect on our business and results of operations. Alternatively, at the end of the lease term and any renewal period for a facility, we may be unable to renew the lease without substantial additional cost, if at all. If we are unable to renew our facility leases, we may close or relocate a facility, which could subject us to construction and other costs and risks, and could have a material adverse effect on our business and results of operations. For example, closing a facility, even during the time of relocation, will reduce the sales that the facility would have contributed to our revenues.

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Additionally, the revenue and profit, if any, generated at a relocated facility may not equal the revenue and profit generated at the existing one.

We are a holding company and conduct all of our operations through our subsidiaries.

We are a holding company that derives all of our operating income from our subsidiaries. All of our assets are held by our direct and indirect subsidiaries. We rely on the earnings and cash flows of our subsidiaries, which are paid to us by our subsidiaries in the form of dividends and other payments or distributions, to meet our debt service obligations. The ability of our subsidiaries to pay dividends or make other payments or distributions to us will depend on their respective operating results and may be restricted by, among other things, the laws of their jurisdiction of organization (which may limit the amount of funds available for the payment of dividends and other distributions to us), the terms of existing and future indebtedness and other agreements of our subsidiaries, the senior secured revolving credit facility, the terms of the indenture governing our 2012 notes, the terms of the proposed indenture that will govern our 2016 notes, and the covenants of any future outstanding indebtedness we or our subsidiaries incur.

Our financial condition and operating performance and that of our subsidiaries is also subject to prevailing economic and competitive conditions and to certain financial, business, and other factors beyond our control. We cannot assure you that we will maintain a level of cash flows from operating activities sufficient to permit us to pay the principal, premium, and interest on our indebtedness.

If our cash flows and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce or delay capital expenditures, sell assets, seek additional capital, or restructure or refinance our indebtedness. These alternative measures may not be successful and may not permit us to meet our scheduled debt service obligations. In the absence of such operating results and resources, we could face substantial liquidity problems and might be required to dispose of material assets or operations to meet our debt service and other obligations. The credit agreement governing our senior secured revolving credit facility, the indenture governing the 2012 notes, without giving effect to the proposed amendments in the consent solicitation, and the proposed indenture that will govern our 2016 notes restrict our ability to dispose of assets and use the proceeds from such disposition. We may not be able to consummate those dispositions or be able to obtain the proceeds that we could realize from them, and these proceeds may not be adequate to meet any debt service obligations then due.

The building supply industry is cyclical and seasonal.

The building products supply industry is subject to cyclical market pressures. Prices of building products are subject to fluctuations arising from changes in supply and demand, national and international economic conditions, labor costs, competition, market speculation, government regulation, and trade policies, as well as from periodic delays in the delivery of lumber and other products. For example, prices of wood products, including lumber and panel products, are subject to significant volatility and directly affect our sales and earnings. In particular, low market prices for wood products over a sustained period can adversely affect our financial condition, operating results and cash flows. For the nine months ended September 30, 2009, average prices for lumber and lumber sheet goods were 16.2% lower than the prior year. The current housing downturn has resulted in a prolonged period of relatively low market prices for wood products. Our lumber and lumber sheet goods product category represented 23.9% of total sales for the nine months ended September 30, 2009. We have no ability to control the timing and amount of pricing changes for building products. In addition, the supply of building products fluctuates based on available manufacturing capacity. A shortage of capacity or excess capacity in the industry can result in significant increases or declines in market prices for those products, often within a short period of time. Such price fluctuations can adversely affect our financial condition, operating results and cash flows.

In addition, although weather patterns affect our operating results throughout the year, adverse weather historically has reduced construction activity in the first and fourth quarters in our markets. To the extent that hurricanes, severe storms, floods, other natural disasters, or similar events occur in the markets in which we

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operate, our business may be adversely affected. We anticipate that fluctuations from period to period will continue in the future.

The loss of any of our significant customers could affect our financial health.

Our 10 largest customers generated approximately 19.0% and 21.3% of our sales for the year ended December 31, 2008 and the nine months ended September 30, 2009, respectively. We cannot guarantee that we will maintain or improve our relationships with these customers or that we will continue to supply these customers at historical levels. Due to the current housing downturn, many of our homebuilder customers have substantially reduced construction activity. Some homebuilder customers have exited or severely curtailed building activity in certain of our markets. This trend is likely to continue until there is a housing recovery in our markets. A continued housing downturn could have a significant adverse effect on our financial condition, operating results, and cash flows.

In addition to these factors, production homebuilders and other customers may: (1) seek to purchase some of the products that we currently sell directly from manufacturers, (2) elect to establish their own building products manufacturing and distribution facilities, or (3) give advantages to manufacturing or distribution intermediaries in which they have an economic stake. In addition, continued consolidation among production homebuilders could also result in a loss of some of our present customers to our competitors. The loss of one or more of our significant customers or deterioration in our relations with any of them could significantly affect our financial condition, operating results and cash flows. Furthermore, our customers are not required to purchase any minimum amount of products from us. The contracts into which we have entered with most of our professional customers typically provide that we supply particular products or services for a certain period of time when and if ordered by the customer. Should our customers purchase our products in significantly lower quantities than they have in the past, such decreased purchases could have a material adverse effect on our financial condition, operating results, and cash flows.

Our industry is highly fragmented and competitive, and increased competitive pressure may adversely affect our results.

The building products supply industry is highly fragmented and competitive. We face significant competition from local and regional building materials chains, as well as from privately-owned single site enterprises. Any of these competitors may (1) foresee the course of market development more accurately than do we, (2) develop products that are superior to our products, (3) have the ability to produce similar products at a lower cost, (4) develop stronger relationships with local homebuilders, or (5) adapt more quickly to new technologies or evolving customer requirements than do we. As a result, we may not be able to compete successfully with them. In addition, home center retailers, which have historically concentrated their sales efforts on retail consumers and small contractors, may in the future intensify their marketing efforts to professional homebuilders. Furthermore, certain product manufacturers sell and distribute their products directly to production homebuilders. The volume of such direct sales could increase in the future. Additionally, manufacturers of products distributed by us may elect to sell and distribute directly to homebuilders in the future or enter into exclusive supplier arrangements with other distributors. Consolidation of production homebuilders may result in increased competition for their business. Finally, we may not be able to maintain our operating costs or product prices at a level sufficiently low for us to compete effectively. If we are unable to compete effectively, our financial condition, operating results, and cash flows may be adversely affected.

We are subject to competitive pricing pressure from our customers.

Production homebuilders historically have exerted significant pressure on their outside suppliers to keep prices low because of their market share and their ability to leverage such market share in the highly fragmented building products supply industry. The current housing industry downturn has resulted in significantly increased pricing pressures from production homebuilders and other customers. In addition, continued consolidation among production homebuilders, and changes in production homebuilders purchasing policies or payment practices, could result in additional pricing pressure. If we are unable to generate sufficient cost savings to offset any price reductions, our financial condition, operating results and cash flows

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may be adversely affected. In addition, as a result of the housing downturn, several of our homebuilder customers have defaulted on amounts owed to us, or their payable days have become extended as a result of their financial condition. Such payment failures or delays may significantly adversely affect our financial condition, operating results, and cash flows.

The ownership position of JLL and Warburg Pincus limits other stockholders ability to influence corporate matters.

JLL and Warburg Pincus control Building Products, LLC, which owns approximately 50% of our outstanding common stock. Six of our ten directors hold positions with affiliates of either JLL or Warburg Pincus. Accordingly, JLL and Warburg Pincus have significant influence over our management and affairs and over all matters requiring stockholder approval, including the election of directors and significant corporate transactions, such as a merger or other sale of our Company or its assets. In addition, beneficial ownership of our common stock by JLL and Warburg Pincus could increase significantly as a result of the Recapitalization Transactions. This concentrated ownership position limits other stockholders ability to influence corporate matters and, as a result, we may take actions that some of our stockholders do not view as beneficial. Additionally, JLL and Warburg Pincus are in the business of making investments in companies and may, from time to time, acquire and hold interests in businesses that compete directly or indirectly with us. These entities may also pursue, for their own accounts, acquisition opportunities that may be complementary to our business, and, as a result, those acquisition opportunities may not be available to us. Further, certain provisions of our amended and restated certificate of incorporation and amended and restated bylaws may limit your ability to influence corporate matters, and, as a result, we may take actions that some of our stockholders do not view as beneficial.

Our continued success will depend on our ability to retain our key employees and to attract and retain new qualified employees.

Our success depends in part on our ability to attract, hire, train, and retain qualified managerial, sales, and marketing personnel. We face significant competition for these types of employees in our industry and from other industries. We may be unsuccessful in attracting and retaining the personnel we require to conduct and expand our operations successfully. In addition, key personnel may leave us and compete against us. Our success also depends to a significant extent on the continued service of our senior management team. We may be unsuccessful in replacing key managers who either quit or retire. The loss of any member of our senior management team or other experienced, senior employees could impair our ability to execute our business plan, cause us to lose customers and reduce our net sales, or lead to employee morale problems and/or the loss of other key employees. In any such event, our financial condition, operating results, and cash flows could be adversely affected.

The nature of our business exposes us to product liability and warranty claims and other legal proceedings.

We are involved in product liability and product warranty claims relating to the products we manufacture and distribute that, if adversely determined, could adversely affect our financial condition, operating results, and cash flows. We rely on manufacturers and other suppliers to provide us with many of the products we sell and distribute. Because we do not have direct control over the quality of such products manufactured or supplied by such third-party suppliers, we are exposed to risks relating to the quality of such products. In addition, we are exposed to potential claims arising from the conduct of homebuilders and their subcontractors, for which we may be contractually liable. Although we currently maintain what we believe to be suitable and adequate insurance in excess of our self-insured amounts, there can be no assurance that we will be able to maintain such insurance on acceptable terms or that such insurance will provide adequate protection against potential liabilities. Product liability claims can be expensive to defend and can divert the attention of management and other personnel for significant periods, regardless of the ultimate outcome. Claims of this nature could also have a negative impact on customer confidence in our products and our Company. In

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addition, we are involved on an ongoing basis in other types of legal proceedings. We cannot assure you that any current or future claims will not adversely affect our financial condition, operating results, and cash flows.

Product shortages, loss of key suppliers, and our dependence on third-party suppliers and manufacturers could affect our financial health.

Our ability to offer a wide variety of products to our customers is dependent upon our ability to obtain adequate product supply from manufacturers and other suppliers. Generally, our products are obtainable from various sources and in sufficient quantities. However, the loss of, or a substantial decrease in the availability of, products from our suppliers or the loss of key supplier arrangements could adversely impact our financial condition, operating results, and cash flows.

Although in many instances we have agreements with our suppliers, these agreements are generally terminable by either party on limited notice. Failure by our suppliers to continue to supply us with products on commercially reasonable terms, or at all, could put pressure on our operating margins or have a material adverse effect on our financial condition, operating results, and cash flows. Short-term changes in the cost of these materials, some of which are subject to significant fluctuations, are sometimes, but not always, passed on to our customers. Our delayed ability to pass on material price increases to our customers could adversely impact our financial condition, operating results, and cash flows.

A range of factors may make our quarterly revenues and earnings variable.

We have historically experienced, and in the future will continue to experience, variability in revenues and earnings on a quarterly basis. The factors expected to contribute to this variability include, among others: (1) the volatility of prices of lumber and wood products, (2) the cyclical nature of the homebuilding industry, (3) general economic conditions in the various local markets in which we compete, (4) the pricing policies of our competitors, (5) the production schedules of our customers, and (6) the effects of the weather. These factors, among others, make it difficult to project our operating results on a consistent basis, which may affect the price of our stock.

We may be adversely affected by any disruption in our information technology systems.

Our operations are dependent upon our information technology systems, which encompass all of our major business functions. Our primary enterprise resource planning (ERP) system, which we use for operations representing approximately 97% of our sales, is a proprietary system that has been highly customized by our computer programmers. Our centralized financial reporting system currently draws data from our ERP systems. We rely upon such information technology systems to manage and replenish inventory, to fill and ship customer orders on a timely basis, and to coordinate our sales activities across all of our products and services. A substantial disruption in our information technology systems for any prolonged time period (arising from, for example, system capacity limits from unexpected increases in our volume of business, outages, or delays in our service) could result in delays in receiving inventory and supplies or filling customer orders and adversely affect our customer service and relationships. Our systems might be damaged or interrupted by natural or man-made events or by computer viruses, physical or electronic break-ins, or similar disruptions affecting the global Internet. As part of our continuing integration of our computer systems, we plan to integrate our ERPs into a single system. This integration may divert management s attention from our core businesses. In addition, we may experience delays in such integration or problems with the functionality of the integrated system, which could increase the expected cost of the integration. There can be no assurance that such delays, problems, or costs will not have a material adverse effect on our financial condition, operating results and cash flows.

We may be adversely affected by any natural or man-made disruptions to our distribution and manufacturing facilities.

We currently maintain a broad network of distribution and manufacturing facilities throughout the southern and eastern U.S. Any serious disruption to our facilities resulting from fire, earthquake, weather-

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related events, an act of terrorism, or any other cause could damage a significant portion of our inventory and could materially impair our ability to distribute our products to customers. Moreover, we could incur significantly higher costs and longer lead times associated with distributing our products to our customers during the time that it takes for us to reopen or replace a damaged facility. In addition, any shortages of fuel or significant fuel cost increases could seriously disrupt our ability to distribute products to our customers. If any of these events were to occur, our financial condition, operating results, and cash flows could be materially adversely affected.

We may be unable to successfully implement our growth strategy, which includes increasing sales of our prefabricated components and other value-added products, pursuing strategic acquisitions, and opening new facilities.

Our strategy depends in part on growing our sales of prefabricated components and other value-added products and increasing our market share. If any of these initiatives are not successful, or require extensive investment, our growth may be limited, and we may be unable to achieve or maintain expected levels of growth and profitability.

Our long-term business plan also provides for continued growth through strategic acquisitions and organic growth through the construction of new facilities or the expansion of existing facilities. Failure to identify and acquire suitable acquisition candidates on appropriate terms could have a material adverse effect on our growth strategy. Moreover, a significant change in our business, the economy, or the housing market, an unexpected decrease in our cash flow for any reason, or the requirements of our senior secured revolving credit facility, the indenture governing the 2012 notes, or the proposed indenture that will govern the 2016 notes could result in an inability to obtain the capital required to effect new acquisitions or expansions of existing facilities. Our failure to make successful acquisitions or to build or expand facilities, including manufacturing facilities, produce saleable product, or meet customer demand in a timely manner could result in damage to or loss of customer relationships, which could adversely affect our financial condition, operating results, and cash flows. In addition, although we have been successful in the past in integrating 27 acquisitions, we may not be able to integrate the operations of future acquired businesses with our own in an efficient and cost-effective manner or without significant disruption to our existing operations. Acquisitions, moreover, involve significant risks and uncertainties, including difficulties integrating acquired personnel and corporate cultures into our business, the potential loss of key employees, customers or suppliers, difficulties in integrating different computer and accounting systems, exposure to unforeseen liabilities of acquired companies, and the diversion of management attention and resources from existing operations. We may be unable to successfully complete potential acquisitions due to multiple factors, such as issues related to regulatory review of the proposed transactions. We may also be required to incur additional debt in order to consummate acquisitions in the future, which debt may be substantial and may limit our flexibility in using our cash flow from operations. Our failure to integrate future acquired businesses effectively or to manage other consequences of our acquisitions, including increased indebtedness, could prevent us from remaining competitive and, ultimately, could adversely affect our financial condition, operating results, and cash flows.

Federal, state, local, and other regulations could impose substantial costs and/or restrictions on our operations that would reduce our net income.

We are subject to various federal, state, local, and other regulations, including, among other things, regulations promulgated by the Department of Transportation and applicable to our fleet of delivery trucks, work safety regulations promulgated by the Department of Labor s Occupational Safety and Health Administration, employment regulations promulgated by the United States Equal Employment Opportunity Commission, accounting standards issued by the Financial Accounting Standards Board or similar entities, and state and local zoning restrictions and building codes. More burdensome regulatory requirements in these or other areas may increase our general and administrative costs and adversely affect our financial condition, operating results, and cash flows. Moreover, failure to comply with the regulatory requirements applicable to our business could expose us to substantial penalties that could adversely affect our financial condition, operating results and cash flows.

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We are subject to potential exposure to environmental liabilities and are subject to environmental regulation.

We are subject to various federal, state, and local environmental laws, ordinances, and regulations. Although we believe that our facilities are in material compliance with such laws, ordinances, and regulations, as owners and lessees of real property, we can be held liable for the investigation or remediation of contamination on such properties, in some circumstances, without regard to whether we knew of or were responsible for such contamination. No assurance can be provided that remediation may not be required in the future as a result of spills or releases of petroleum products or hazardous substances, the discovery of unknown environmental conditions, or more stringent standards regarding existing residual contamination. More burdensome environmental regulatory requirements may increase our general and administrative costs and adversely affect our financial condition, operating results, and cash flows.

We may be adversely affected by uncertainty in the economy and financial markets, including as a result of terrorism and the war in the Middle East and Afghanistan.

Instability in the economy and financial markets, including as a result of terrorism and the war in the Middle East and Afghanistan, may result in a decrease in housing starts, which would adversely affect our business. In addition, the war, related setbacks or adverse developments, including a retaliatory military strike or terrorist attack, may cause unpredictable or unfavorable economic conditions and could have a material adverse effect on our financial condition, operating results, and cash flows. In addition, any shortages of fuel or significant fuel cost increases related to geopolitical conditions could seriously disrupt our ability to distribute products to our customers. Terrorist attacks similar to the ones committed on September 11, 2001, may directly affect our ability to keep our operations and services functioning properly and could have a material adverse effect on our financial condition, operating results, and cash flows.

Risks Related to our Common Stock, the Rights Offering and the Debt Exchange

The price of our common stock is volatile and may decline before or after the subscription rights expire.

The market price of our common stock historically has experienced and may continue to experience significant price fluctuations similar to those experienced by the broader stock market in recent years. In addition, the price of our common stock may fluctuate significantly in response to various factors, including:

- the Recapitalization Transactions, which will involve the issuance of an additional 58,571,428 shares of our common stock;
- actual or anticipated fluctuations in our results of operations;
- announcements by us or our competitors of significant business developments, changes in customer relationships, acquisitions, or expansion plans;
- changes in the prices of products we sell;
- our involvement in litigation, including litigation related to the Recapitalization Transactions;
- our sale of common stock or other securities in the future;
- market conditions in our industry;

changes in key personnel;

changes in market valuation or earnings of our competitors;

the trading volume of our common stock;

changes in the estimation of the future size and growth rate of our markets; and

general economic and market conditions.

Broad market and industry factors may materially harm the market price of our common stock, regardless of our operating performance. In the past, following periods of volatility in the market price of a company s securities, securities class action litigation has often been instituted against that company. If we were involved in any similar litigation we could incur substantial costs and our management s attention and resources could be diverted, which could adversely impact our financial condition, results of operations and cash flows. As a result, it may be difficult for you to resell your shares of common stock in the future.

If the closing of the Recapitalization Transactions is delayed or prevented, our liquidity and operations may be adversely affected and the market price of our common stock may decline.

If the closing of the Recapitalization Transactions is delayed, or if the Recapitalization Transactions are not consummated, our liquidity position may be constricted and we may be unable to reduce or refinance our existing indebtedness when it becomes due. In addition, we will have incurred significant costs, including the diversion of management resources, from which we will have received little or no benefit. Moreover, we may experience negative reactions from the financial markets and from our suppliers, customers, and employees. Each of these factors may adversely affect the trading price of our common stock and financial results and operations. There can also be no assurance that if the recapitalization transactions close, the additional liquidity provided will be sufficient to fund our operations until the housing market recovers.

Any outstanding 2012 notes not exchanged in the debt exchange will remain outstanding, and, if we cannot extend the maturity of such 2012 notes, we may be required to redeem them before their maturity date; failure to do so will result in an earlier maturity for our senior secured revolving credit facility.

Any outstanding 2012 notes not exchanged in the debt exchange will remain outstanding and continue to be indebtedness of the Company. While the outside maturity date of our senior secured revolving credit facility is December 14, 2012, if by November 11, 2011 the 2012 notes have not been paid in full (or otherwise cease to be outstanding), or if the maturity date of the 2012 notes that remain outstanding has not been extended to a date no earlier than March 14, 2013, the senior secured revolving credit facility maturity date will be November 11, 2011. As a result, in order to prevent the obligations under our senior secured revolving credit facility from becoming due and payable (and to prevent the facility from terminating) on November 11, 2011, we will likely seek to redeem or extend the maturity date of the 2012 notes that remain outstanding following the completion of the Recapitalization Transactions. However, there can be no assurance that we will satisfy the applicable tests under the senior secured revolving credit facility in order to redeem the 2012 notes that remain outstanding, that we will have sufficient cash available to redeem the outstanding 2012 notes or that we will be able to obtain such an extension on favorable terms or at all. Moreover, any such redemption would negatively affect our liquidity and may require us to seek additional financing, which we may not be able to obtain on favorable terms, if at all. Should we be unable to extend the maturity date of outstanding 2012 notes not exchanged in the debt exchange, or should we fail to redeem such 2012 notes prior to November 11, 2011, all outstanding principal and interest under our senior secured revolving credit facility will become due and payable and our financial condition, operating results, and cash flows may be adversely affected.

The Company could incur significant liability in connection with stockholder class and derivative litigation related to the Recapitalization Transactions.

Several lawsuits related to the Recapitalization Transactions were filed in September 2009 that are being consolidated into one action in the Delaware Court of Chancery. On October 23, 2009, the parties entered into a memorandum of understanding with respect to the settlement of this consolidated litigation. Court approval of such settlement is a condition to the completion of the rights offering. If the parties to the memorandum of understanding do not receive the approval of the Delaware Court of Chancery to the proposed settlement prior to the closing of the Recapitalization

Transactions, the Company, JLL, and Warburg Pincus would have to waive the closing condition related to the settlement of the stockholder class and derivative litigation to complete the Recapitalization Transactions. The failure to receive court approval of the settlement could lead to protracted litigation that we intend to defend vigorously, would be expensive and could have an adverse effect on our financial condition, operating results, and cash flows.

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If you do not exercise your rights in full in the rights offering, you will suffer significant dilution in your percentage ownership of the Company.

If you do not exercise any rights in the rights offering, the number of shares of our common stock that you own will not change. However, because 58,571,428 shares of our common stock will be issued if the Recapitalization Transactions are completed, if you do not exercise your rights in full, your percentage ownership will be diluted after completion of the rights offering and the debt exchange.

If the rights offering is not fully subscribed, JLL and Warburg Pincus may increase their ownership and your ownership percentage will decrease.

We have entered into the Investment Agreement with JLL and Warburg Pincus, under which JLL and Warburg Pincus have severally agreed to purchase from us, at the subscription price, unsubscribed shares of common stock such that gross proceeds of the rights offering will be no less than $75.0 million. In addition, each of JLL and Warburg Pincus has agreed (i) to exchange up to $48.909 million aggregate principal amount of 2012 notes indirectly held by it in the debt exchange and (ii) to the extent gross proceeds of the rights offering are less than $205.0 million, to exchange such 2012 notes for shares of our common stock at an exchange price equal to the rights offering subscription price, subject to proration from the participation of other holders of 2012 notes who submit for exchange their 2012 notes for shares of our common stock not subscribed for through the exercise of rights in the rights offering. The other participants in the debt exchange will also be permitted to submit for exchange, to the extent of the exchange deficiency, 2012 notes held by them for shares of our common stock, in lieu of 2016 notes and cash, at an exchange price equal to the rights offering subscription price.

On the record date for the rights offering, JLL beneficially owned approximately [l]% of our outstanding common stock, and Warburg Pincus beneficially owned approximately [l]% of our outstanding common stock. As stockholders of the Company as of the record date, JLL and Warburg Pincus will have the right to subscribe for and purchase shares of our common stock under the basic subscription privilege of the rights offering, although they will not have the right to participate in the over-subscription privilege. If JLL and Warburg Pincus are the only holders of rights who exercise their rights in the rights offering and JLL and Warburg Pincus each exchange $48.909 million aggregate principal amount of 2012 notes for common stock, the Company will issue an aggregate of [l] and [l] shares of common stock to JLL and Warburg Pincus, respectively, and [l] shares of common stock to the other 2012 noteholders participating in the debt exchange. Under such circumstances, JLL s ownership percentage of our outstanding common stock would increase to approximately [l]%, and Warburg Pincus ownership percentage of our outstanding common stock would increase to approximately [l]%, in each case after giving effect to this rights offering and the debt exchange. As a result, JLL and Warburg Pincus would be able to exercise substantial control over matters requiring stockholder approval. Your interests as a holder of common stock may differ from the interests of JLL and Warburg Pincus.

The subscription price determined for the rights offering is not an indication of the fair value of our common stock.

The special committee of our board of directors determined the subscription price after considering the likely cost of capital from other sources and the price at which our stockholders might be willing to backstop the rights offering and after negotiations with JLL and Warburg Pincus for their commitment to backstop the rights offering and participate in the debt exchange. The subscription price for a subscription right is $3.50 per share. The subscription price is not intended to bear any relationship to the book value of our assets or our past operations, cash flows, losses, financial condition, net worth, or any other established criteria used to value securities. You should not consider the subscription price to be an indication of the fair value of the common stock to be offered in the rights offering. After the date of this Proxy Statement, our common stock may trade at prices above or below the subscription price.

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FORWARD-LOOKING STATEMENTS

This Proxy Statement includes forward-looking statements, within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Exchange Act, regarding, among other things, our financial condition and business strategy. We based these forward-looking statements on our current expectations and projections about future events. All statements, other than statements of historical facts, included in this Proxy Statement, including, without limitation, statements under the headings Summary and Risk Factors and located elsewhere in this Proxy Statement, regarding the prospects of our industry and our prospects, plans, financial position, and business strategy may constitute forward-looking statements. In addition, forward-looking statements generally can be identified by the use of forward-looking terminology such as may, will, expect, intend, estimate, anticipate, plan, foresee, continue, or the negatives of these terms or variations of them or similar terminology. Although we believe that the expectations reflected in these forward-looking statements are reasonable, we can give no assurance that these expectations will prove to be correct. All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements included in this document. These forward-looking statements speak only as of the date of this Proxy Statement. We will not update these statements except as may be required by applicable securities laws. Factors, risks, and uncertainties that could cause actual outcomes and results to be materially different from those projected include, among others:

- dependence on the homebuilding industry and other important factors;
- uncertainty surrounding the economy and credit markets, particularly in light of the current economic downturn;
- cyclical and seasonal nature of the building products supply industry;
- product shortages, loss of key suppliers, and our dependence on third-party suppliers and manufacturers;
- loss of significant customers;
- competition in the highly fragmented building products supply industry;
- pricing pressure from our customers;
- our level of indebtedness;
- our incurrence of additional indebtedness;
- our inability to take certain actions because of restrictions in our debt agreements;
- our reliance on our subsidiaries;
- dependence on key personnel;
- exposure to product liability and warranty claims;
- variability of our quarterly revenues and earnings;

disruptions in our information technology systems;

disruptions at our facilities;

our ability to execute our strategic plans;

effects of regulatory conditions on our operations;

exposure to environmental liabilities and regulation;

economic and financial uncertainty resulting from terrorism and war;

the costs of, and our ability to meet, the requirements of the Sarbanes-Oxley Act of 2002; and

failure to close the rights offering and the debt exchange on the terms discussed herein.

PROPOSAL ONE:
THE RECAPITALIZATION TRANSACTIONS

Consummation of the Recapitalization Transactions requires stockholder approval of Proposal (1). **If Proposal (1) is not approved by our stockholders at the special meeting, then we can not consummate the Recapitalization Transactions and Proposal (2) in this Proxy Statement will not become effective.**

Introduction

The severity and duration of the downturn in the homebuilding industry has presented significant challenges to our business. Our revenues have declined from approximately $2.2 billion for the year ended December 31, 2006, to approximately $1.0 billion for the year ended December 31, 2008, with further declines in 2009. Despite the efforts of our management to reduce our costs, our operating results have continued to deteriorate and our liquidity has decreased and is becoming constrained. In light of these conditions, our Board of Directors determined that certain recapitalization transactions, involving a common stock rights offering and a debt exchange, would be in the best interests of our Company and its stockholders. The proposed transactions would (i) provide the Company with significant additional liquidity to fund operations, (ii) deleverage our balance sheet, and (iii) extend the maturity of our remaining outstanding indebtedness in order to provide us with additional time to recover from the current industry downturn. Pursuant to the recapitalization transactions:

We will conduct a rights offering to our existing stockholders to raise up to $205 million. In the rights offering, we are distributing subscription rights exercisable for up to an aggregate of 58,571,428 shares of our common stock, which will entitle the holders of each whole subscription right to purchase one share of common stock at a subscription price of $3.50 per share.

We will conduct a debt exchange, in which certain holders of our outstanding 2012 notes will exchange, at par, in transactions exempt from registration under the Securities Act of 1933, as amended, their outstanding 2012 notes for (i) up to $145.0 million aggregate principal amount of our 2016 notes, (ii) up to $130.0 million in cash from the proceeds of the rights offering, or (iii) a combination of cash and 2016 notes, and, (iv) to the extent the rights offering is not fully subscribed, shares of our common stock. The 2016 notes will have substantially similar terms to the 2012 notes but will have an interest rate of 3-month LIBOR (subject to a 3.00% floor) plus 10% and will mature in 2016 instead of 2012. For each $1,000 aggregate principal amount of 2012 notes validly submitted and accepted for exchange in the debt exchange, a noteholder will receive, at the noteholder s election, (a) $1,000 in principal amount of the 2016 notes, or (b) $1,000 in cash, or (c) a combination of cash and 2016 notes, subject to proration and certain adjustments, including the receipt of our common stock instead of cash if we receive gross proceeds of less than $205.0 million in the rights offering.

We will solicit consents to amend the indenture under which the 2012 notes were issued to eliminate certain restrictive covenants, conditions to defeasement, and events of default and to release the liens on the collateral securing the 2012 notes. Holders of approximately 662/3% of the aggregate principal amount of the 2012 notes, excluding JLL and Warburg Pincus, must consent to the proposed amendments to the indenture governing the 2012 notes in order for the proposed amendments to become effective.

Our goal is to improve our financial flexibility through the rights offering and debt exchange. Upon completion of the Recapitalization Transactions, the Company will receive $75.0 million for general corporate purposes and to pay the expenses of the Recapitalization Transactions, with any remaining proceeds of the rights offering being used to repurchase a portion of our outstanding 2012 notes in the debt exchange. We will reduce outstanding indebtedness by

$130.0 million through the debt exchange.

In connection with the Recapitalization Transactions, we have entered into the Investment Agreement with JLL and Warburg Pincus, who collectively beneficially own approximately 50% of our common stock, before giving effect to the Recapitalization Transactions, under which JLL and Warburg Pincus have severally agreed to purchase from us, at the subscription price, unsubscribed shares of common stock such that gross proceeds of the rights offering will be no less than $75.0 million. In addition, each of JLL and Warburg Pincus has agreed (i) to exchange up to $48.909 million aggregate principal amount of 2012 notes indirectly held by it in the debt exchange and (ii) to the extent gross proceeds of the rights offering are less than $205 million, to exchange such 2012 notes for shares of our common stock at an exchange price equal to the rights offering subscription price, subject to proration from the participation of other holders of 2012 notes who submit for exchange their 2012 notes for shares of our common stock not subscribed for through the exercise of rights in the rights offering.

Pursuant to the Support Agreement, holders of approximately 75% of the aggregate principal amount of our outstanding 2012 notes held by holders other than JLL and Warburg Pincus have agreed to consent to the proposed amendments to the indenture governing the 2012 notes (which amount satisfies the minimum consent requirement for effectiveness of the proposed amendments), and pursuant to the Support Agreement and Investment Agreement, holders of approximately 84% of the aggregate principal amount of the 2012 notes have agreed to exchange their 2012 notes in the debt exchange.

We intend to commence the rights offering on or about [l], 2009. The rights offering, debt exchange, and contract solicitation are scheduled to expire on [l], 2009, unless extended by the special committee of our Board of Directors.

We intend to close the rights offering and the debt exchange and consent solicitation by [l], 2010, but we cannot assure you that we will do so.

The completion of the Recapitalization Transactions is conditioned on our stockholders approving Proposal (1) at the special meeting of stockholders. This proposal is discussed in greater detail in this Proxy Statement. **If Proposal (1) is not approved by our stockholders at the special meeting, then we can not consummate the Recapitalization Transactions and Proposal (2) in this Proxy Statement will not become effective.**

There are no appraisal rights provided to dissenting stockholders under our amended and restated certificate of incorporation or the laws of the State of Delaware in connection with the proposals being voted upon at the special meeting.

Background of the Recapitalization Transactions

Preliminary Exploration of Liquidity Issues

The severity and duration of the downturn in the homebuilding industry has presented significant challenges to our business. Our revenues have declined from approximately $2.2 billion for the year ended December 31, 2006, to approximately $1.0 billion for the year ended December 31, 2008, with further declines in 2009. Despite the efforts of our management to reduce our costs, our operating results have continued to deteriorate and our liquidity has decreased and is becoming constrained. In light of these conditions, our Board of Directors determined that certain recapitalization transactions involving a common stock rights offering and a debt exchange would be in the best interests of our Company and its stockholders. The proposed transactions would (i) provide us with significant additional liquidity to fund operations, (ii) deleverage our balance sheet, and (iii) extend the maturity of our remaining outstanding indebtedness in order to provide us with additional time to recover from the current industry downturn.

Formation of the Special Committee of our Board of Directors

At a meeting of our Board of Directors held on August 31, 2009, JLL and Warburg Pincus delivered a written proposal (the Initial Proposal) to the Company for a recapitalization transaction that called for an exchange of the Company s outstanding $275.0 million aggregate principal amount of 2012 notes for new notes and common stock and a $75.0 million common stock rights offering at a subscription price of $2.00 per share that would be backstopped by JLL and Warburg Pincus.

At that same meeting, our Board of Directors established a special committee of independent directors (the Special Committee), consisting of Robert C. Griffin, Cleveland A. Christophe and Craig A. Steinke, to

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review and evaluate the Initial Proposal from JLL and Warburg Pincus and consider any alternative transactions. Mr. Griffin was appointed Chair of the Special Committee. Messrs. Griffin, Christophe and Steinke were specifically selected because of their independence.

Later that same day, the Special Committee held its first meeting and retained Morris, Nichols, Arsht & Tunnell, LLP (Morris Nichols) as its Delaware counsel and Alston & Bird LLP (Alston) as its securities counsel. At this meeting, the Special Committee discussed the retention of a financial advisor.

On September 1, 2009, the Company publicly announced that it had received the Initial Proposal and that it had formed the Special Committee of independent directors to evaluate the Initial Proposal.

The Special Committee interviewed four investment banking firms to select a financial advisor. Following these interviews, the Special Committee selected Moelis & Company LLC (Moelis) as its financial advisor because of its expertise and experience in financial restructurings and its knowledge of the building products industry. On September 5, 2009, the Special Committee entered into an engagement letter with Moelis.

Over the next three weeks, at the direction of the Special Committee, Moelis met with the Company s management to discuss the Company s business, capital structure and liquidity needs. Moelis also analyzed the Company s capital needs based on the Company s current and projected liquidity needs and independently compiled industry information and analyses. Moelis also analyzed comparable pricing models for the proposed rights offering. In addition, Moelis explored alternatives to the Initial Proposal, including by contacting 82 individual parties about a potential capital raising transaction. Only one of those parties entered into a confidentiality agreement and none made a formal expression of interest concerning an alternative transaction.

The Special Committee met on September 11, 2009 and September 18, 2009 to receive updates from Moelis on its analyses and to review the status of its process for exploring alternatives to the Initial Proposal.

During the week of September 18, representatives of the Special Committee met with representatives of various stockholders to hear their concerns regarding the Initial Proposal.

Between September 10, 2009 and September 15, 2009, four lawsuits were filed in the Delaware Court of Chancery challenging aspects of the Initial Proposal. On September 18, 2009, these suits were consolidated into a single action. A fifth lawsuit challenging aspects of the Initial Proposal was filed in the Delaware Court of Chancery on September 30, 2009 and was consolidated with the earlier filed lawsuits on October 30, 2009.

On September 24, 2009, the Special Committee met and received Moelis analysis and conclusions concerning the Company s capital needs and the Initial Proposal.

On the evening of September 26, 2009, the Special Committee met telephonically to review Moelis analysis and conclusions. Having considered the analyses provided by Moelis, the Special Committee members unanimously agreed that they could not recommend the Initial Proposal. However, the Special Committee also concluded that, given the Company s need for additional capital, it would propose to the Board of Directors a stand-alone rights offering on more favorable terms or that some other capital-raising alternative be pursued. The Special Committee authorized Moelis to communicate these points to JLL and Warburg Pincus, through their financial advisor Evercore Partners (Evercore).

During the week of September 28, Moelis and Evercore met several times to discuss the Special Committee s conclusions and the data and analysis that formed the basis for those conclusions. Also during that week, the Special Committee requested that a Board of Directors meeting be held to permit the Special Committee to present to and discuss with the Board of Directors the Special Committee s conclusions. That meeting was scheduled for October 6, 2009.

On the morning of October 6, 2009, our Board of Directors met to hear a presentation from the Special Committee and Company management. Mr. Griffin presented the Special Committee s conclusions and Mr. Charles Horn, our Chief Financial Officer, presented the Company s internal financial and liquidity analyses. The members of the Board of Directors then discussed the presentation by the Special Committee and Company management and their conclusions. Following an adjournment of the meeting of our Board of Directors, the Special Committee convened to review the points raised by the Board of Directors, including the representatives of JLL and Warburg Pincus serving on our Board of Directors.

The Board of Directors reconvened and discussed various matters regarding the Company s liquidity and the Special Committee asked that representatives of JLL, Warburg Pincus, management, Evercore, and Moelis meet to attempt to develop an alternative transaction. Following the meeting of our Board of Directors, representatives of JLL, Warburg Pincus, management, Evercore, and Moelis met to discuss possible alternatives. On October 7, a revised term sheet was circulated by counsel to JLL and Warburg Pincus. Under the revised proposal, the rights offering was increased to $205.0 million, as opposed to the original amount of $75.0 million, and was to be backstopped by JLL and Warburg Pincus up to $75.0 million. The revised terms also included an exchange of outstanding 2012 notes, at par, for up to $145.0 million aggregate principal amount of new notes, up to $130.0 million in cash from the proceeds of the rights offering, or a combination of cash and new notes. To the extent stockholders did not subscribe for the full $205.0 million in the rights offering, the notes would be exchanged, at par, for common stock at the rights offering subscription price, with JLL and Warburg Pincus agreeing to exchange the approximately $98 million aggregate principal amount of outstanding 2012 notes indirectly owned by them in the debt exchange if the rights offering were not fully subscribed.

On October 8, 2009, the Special Committee met to review and discuss the revised term sheet from JLL and Warburg Pincus.

The Special Committee met again on October 9, 2009 to consider the terms of the revised proposal. At the Special Committee s request, Moelis presented an analysis of the proposed terms.

The Special Committee discussed a number of the terms, including price, whether the rights would be transferable, the availability of over-subscription rights, whether or not JLL and Warburg Pincus would be paid a backstop commitment fee, and the substantive terms of the new notes to be issued in the debt exchange. Using Moelis s analysis of the proposed terms, the Special Committee determined that it would direct Moelis to negotiate these terms, including a $4.00 rights offering subscription price, with JLL, Warburg Pincus and certain holders of the 2012 notes.

Between October 12 and October 21, Moelis and Evercore, and counsel for the Special Committee, JLL, Warburg Pincus and certain holders of the 2012 notes negotiated the terms of the revised proposal, including a proposal of a $3.00 rights offering subscription price submitted by JLL and Warburg Pincus without a backstop commitment fee. The Special Committee met six times to review and consider the progress of the negotiations with respect to such terms.

During this period, the advisors and counsel to the Special Committee met with the lead attorneys in the consolidated lawsuit challenging aspects of the Initial Proposal. These settlement discussions occurred through October 22, 2009, and on October 23, 2009, the representatives for the stockholders agreed to a proposed Memorandum of Understanding, subject to the terms and conditions thereof, including court approval, that provided a release of all claims arising from the transaction. The representatives for the fifth stockholder lawsuit subsequently agreed to join this settlement memorialized in the Memorandum of Understanding discussed below. See Settlement of Stockholder Class and Derivative Litigation below.

Also, during this period, drafts of the Investment Agreement and the Support Agreement were distributed to, and negotiated by, representatives of the Company, the Special Committee, JLL, Warburg Pincus and the holders of the 2012 notes and their respective counsel, and representatives for JLL and Warburg Pincus, Evercore and Moelis met with the holders of the 2012 notes to negotiate the terms of the new notes that would be issued in the debt exchange.

On October 21, 2009, the Special Committee met to consider the most recent proposal from JLL and Warburg Pincus.

On the night of October 22, 2009, the Special Committee met to consider a revised proposal from JLL and Warburg Pincus, which included a rights offering subscription price proposed by the Special Committee of $3.50. Moelis and counsel to the Special Committee advised the Special Committee on the terms of the

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current transaction as proposed. The Special Committee reviewed the draft Investment Agreement and Support Agreement and discussed the transactions contemplated by those two documents. Moelis delivered its opinion to the Special Committee that the financial terms of the rights offering taken as a whole were fair to the stockholders of the Company, other than JLL and Warburg Pincus, from a financial point of view. The Special Committee voted unanimously to recommend that the Board approve the Investment Agreement and Support Agreement and the transactions contemplated by those two documents.

Moelis subsequently issued a written fairness opinion, a copy of which is attached hereto as Annex C, confirming the opinion it had delivered orally to the Special Committee at the October 22 meeting.

On October 23, 2009, our Board of Directors met and received the recommendation of the Special Committee. At the request of our Board of Directors, members of the Special Committee communicated the Special Committee s reasons for recommending that our Board of Directors approve the proposed recapitalization transactions. A discussion followed during which members of our Board of Directors reviewed the terms of the proposed Recapitalization Transactions. Following that discussion, our Board of Directors (i) determined that the rights offering, the Investment Agreement, the debt exchange and the Support Agreement and the transactions contemplated by such agreements, are advisable and in the best interests of our company and our stockholders, and (ii) approved and authorized the rights offering, the Investment Agreement, the debt exchange and the Support Agreement. Following such determination, representatives of the Company, JLL and Warburg Pincus executed and delivered the Investment Agreement and representatives of the Company and certain holders of the 2012 notes executed and delivered the Support Agreement, and the Company publicly announced execution of the Investment Agreement and the Support Agreement.

Settlement of Stockholder Class and Derivative Litigation

In September 2009, four lawsuits were filed in the Delaware Court of Chancery challenging certain aspects of the Initial Proposal. On September 18, 2009, these suits were consolidated into a single action in the Delaware Court of Chancery. On September 30, 2009, another lawsuit was filed that also challenged certain aspects of the Initial Proposal. This subsequent lawsuit was consolidated with the earlier filed lawsuits on October 30, 2009.

On October 23, 2009, we and lead counsel for the plaintiffs entered into a Memorandum of Understanding, subject to the terms and conditions thereof, including court approval, that provides a release of all claims arising from the Recapitalization Transactions. The Memorandum of Understanding also provides that upon Court approval of the settlement the Company will form a nominating committee of the Board of Directors comprised solely of independent directors, who will consider, among other things, nominations of directors by significant stockholders of the Company. Court approval of the settlement is a condition to the completion of the rights offering.

Positive Effects of the Recapitalization Transactions

On October 22, 2009, the Special Committee met and, on the following day, our Board of Directors met and considered and approved the proposed Recapitalization Transactions. In evaluating the proposed Recapitalization Transactions, the favorable effects identified and discussed by the Special Committee and our Board of Directors included, but were not limited to, the following:

- the determination of the Special Committee of independent members of our Board of Directors, which Special Committee acted with the advice and assistance of our management and its independent legal and financial advisors and was comprised at all times of directors with no financial interest in a transaction other than as equity holders in the Company, that the proposed Recapitalization Transactions were advisable and in the best interests of the Company and its stockholders;

the financial analyses of Moelis and the special committee s receipt of the opinion of Moelis, a copy of which is attached hereto as Annex C, to the effect that the financial terms of the rights offering are fair from a financial point of view to the stockholders of the Company, other than JLL and Warburg Pincus, taken as a whole;

the Recapitalization Transactions will substantially reduce the Company s outstanding indebtedness from approximately $299.2 million to approximately $169.2 million as of September 30, 2009, on an as adjusted basis;

the Recapitalization Transactions will provide an additional $75.0 million of working capital less expenses of the Recapitalization Transactions;

the extended maturities of our remaining outstanding indebtedness from 2012 to 2016 will provide us additional time to recover from the current industry downturn;

the Recapitalization Transactions allow our existing stockholders who elect to participate in the rights offering to maintain their proportionate ownership in the Company; and

the Recapitalization Transactions allow our existing stockholders who do not participate in the rights offering to transfer their subscription rights.

Negative Effects of the Recapitalization Transactions

The negative effects identified and discussed by the Special Committee and our Board of Directors included, but were not limited to, the following:

to the extent that a stockholder does not exercise its rights in full and the Recapitalization Transactions are consummated, such stockholder s proportionate ownership interest in the Company will be substantially reduced;

sales of substantial amounts of our subscription rights and our common stock in the public market, and the availability of shares for future sale, including up to 58,571,428 shares of our common stock to be issued in the rights offering, and **[l]** shares of our common stock issuable upon exercise of outstanding options to acquire shares of our common stock, as of **[l]**, 2009, could adversely affect the prevailing market price of our common stock and cause the market price of our common stock to remain low for a substantial period of time;

if JLL and Warburg Pincus are the only holders of rights who exercise their rights in the rights offering and JLL and Warburg Pincus each exchange $48.909 million aggregate principal amount of 2012 notes for common stock, the Company will issue an aggregate of [l] and [l] shares of common stock to JLL and Warburg Pincus, respectively, and [l] shares of common stock to the other 2012 noteholders participating in the debt exchange, such that JLL s ownership percentage of our outstanding common stock would increase to approximately [l]%, and Warburg Pincus ownership percentage of our outstanding common stock would increase to approximately [l]%, in each case after giving effect to this rights offering and the debt exchange; and

JLL and Warburg Pincus or former holders of 2012 notes that receive shares of our common stock could sell a substantial number of shares of common stock causing the price per share of common stock to decline.

In addition, if Proposal (1) is not approved by the requisite vote of our stockholders, we will cancel the rights offering and the debt exchange and terminate the Investment Agreement and Support Agreement. In such event, we could be required to seek alternative sources of liquidity in lieu of the Recapitalization Transactions. No assurances can be given that we would be able to obtain such alternative source of financing on commercially reasonable terms, if at all.

Our inability to de-leverage the Company s balance sheet, extend the maturity of the Company s remaining outstanding indebtedness and obtain significant additional liquidity to fund operations could have a material adverse impact on our financial condition and could adversely affect the price of our common stock.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR PROPOSAL (1).

Pursuant to the Investment Agreement, each of JLL and Warburg Pincus, who collectively beneficially own approximately 50% of our common stock, has agreed to vote (or cause to be voted) the shares of common stock owned by them in favor of Proposal (1) at the special meeting.

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Neither our Board of Directors nor the Special Committee of our Board of Directors has made, nor will they make, any recommendation to stockholders regarding the exercise of rights under the rights offering or to noteholders regarding the exchange of 2012 notes in the debt exchange. Stockholders and holders of 2012 notes should make an independent investment decision about whether or not to exercise their rights or exchange their 2012 notes.

The Rights Offering

The Rights

We are distributing to the record holders of our common stock as of **[l]**, 2009 (the record date) transferable subscription rights to purchase shares of our common stock at a subscription price of $3.50 per share. The subscription rights will entitle the holders of those rights to purchase shares of common stock for an aggregate purchase price of $205.0 million.

Stockholders will receive **[l]** subscription rights for every share of our common stock they own at the close of business on the record date, subject to adjustments to eliminate fractional rights. Each subscription right will entitle the holder thereof to purchase, at the subscription price, on or before the expiration time of the rights offering, one share of common stock. Stockholders (other than JLL and Warburg Pincus) who elect to exercise their basic subscription privilege in full may also subscribe, at the subscription price, for additional shares of our common stock under their respective over-subscription privileges (up to the number of shares subscribed for under the basic subscription privilege) to the extent that other rights holders do not exercise their basic subscription privileges in full. If a sufficient number of shares of our common stock are unavailable to fully satisfy the over-subscription privilege requests, the available shares of common stock will be sold *pro rata* to subscription rights holders who exercised their over-subscription privilege based on the number of shares each subscription rights holder subscribed for under the over-subscription privilege.

We will not issue fractional subscription rights or cash in lieu of fractional rights. Fractional subscription rights will be rounded to the nearest whole number, with such adjustments as may be necessary to ensure that we offer 58,571,428 shares of common stock in the rights offering. In the unlikely event that, because of the rounding of fractional subscription rights, the rights offering would have been subscribed in an amount in excess of 58,571,428 shares of common stock, all holders subscription rights will be reduced in an equitable manner. Any excess subscription funds will be promptly returned without interest or deduction.

Conditions to the Rights Offering. The completion of the rights offering is subject to closing conditions, including:

(i) the registration statement relating to the rights offering shall have been declared effective by the SEC and shall continue to be effective, and no stop order shall have been entered by the SEC with respect thereto;

(ii) the rights offering shall have been conducted and the debt exchange shall have been consummated in accordance with the Investment Agreement in all material respects without the waiver of any condition thereto;

(iii) all material governmental and third-party notifications, filings, consents, waivers, and approvals required for the consummation of the rights offering shall have been made or received;

(iv) all terminations or expirations of waiting periods imposed under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the HSR Act) shall have occurred and all other notifications, consents, authorizations, and approvals required to be made or obtained from any competition or antitrust authority shall have been made or obtained for the Recapitalization Transactions;

(v) no action shall have been taken, no statute, rule, regulation, or order shall have been enacted, adopted, or issued by any federal, state, or foreign governmental or regulatory authority, and no judgment, injunction, decree, or order of any federal, state, or foreign court shall have been issued that, in each case, prohibits the implementation of the rights offering and the issuance and sale of our common stock in the rights offering or materially impairs the benefit of implementation thereof, and no action or proceeding by or before any federal, state, or foreign governmental or regulatory authority shall be pending or threatened wherein an adverse judgment, decree, or order would be reasonably likely to result in the prohibition of or material impairment of the benefits of the implementation of the rights offering and the issuance and sale of our common stock in the rights offering;

(vi) at least ninety-five percent (95%) of the aggregate principal amount of outstanding 2012 notes shall have been validly exchanged in the debt exchange;

(vii) all other conditions to our obligation to consummate the debt exchange shall have been satisfied (or waived, to the extent permitted);

(viii) the settlement of the stockholder lawsuits against the Company, its directors, JLL, and Warburg Pincus shall have received final approval by the Delaware Court of Chancery, and such actions shall have been dismissed with prejudice pursuant to such approval;

(ix) stockholder approval for the issuance of shares of our common stock in the rights offering, pursuant to the Investment Agreement, and in the debt exchange shall have been received; and

(x) the shares of our common stock to be issued in the Recapitalization Transactions shall have been approved for listing on the Nasdaq Global Select Market, subject to official notice of issuance.

JLL and Warburg Pincus, who collectively beneficially own approximately 50% of our common stock without giving effect to the Recapitalization Transactions and approximately $98 million aggregate principal amount of the 2012 notes, have agreed to vote (or cause to be voted) the shares of our common stock owned by them in favor of the issuance of shares of common stock in the rights offering, pursuant to the Investment Agreement, and in the debt exchange at the special meeting.

We intend to keep the rights offering open until **[l]**, 2009, unless the special committee of our Board of Directors, in its sole discretion, extends such time. Pursuant to the Investment Agreement, the expiration date of the rights offering may not be extended by more than ten days without the prior written consent of JLL and Warburg Pincus.

This Proxy Statement is not an offer to sell or the solicitation of an offer to buy shares of common stock or any other securities, including the rights or any shares of common stock issuable upon exercise of the rights. Offers and sales of common stock issuable upon exercise of the rights will only be made by means of a prospectus meeting the requirements of the Securities Act of 1933, as amended (the Securities Act), and applicable state securities laws, on the terms and subject to the conditions set forth in such prospectus. In connection with the rights offering, we will file a Registration Statement on Form S-3 with the SEC.

Stockholders are being asked at the special meeting to approve the issuance of shares of our common stock in the rights offering, pursuant to the Investment Agreement and in the debt exchange. A vote in favor of such issuance and sale will not obligate any stockholder to purchase shares in the rights offering.

The Backstop Purchasers

We obtained the commitments of JLL and Warburg Pincus under the Investment Agreement to ensure that, subject to consummation of the Recapitalization Transactions, we would receive a minimum level of gross proceeds from the rights offering of $75.0 million less expenses of the Recapitalization Transactions, to strengthen our cash position, and to ensure the exchange of up to approximately $98 million aggregate principal amount of our 2012 notes in the debt exchange. Through this arrangement, we have a very high degree of certainty that, assuming at least 95% aggregate principal amount of the 2012 notes are submitted for exchange in the debt exchange, we will receive gross proceeds of $75.0 million through the rights offering and the Investment Agreement and reduce the outstanding aggregate principal amount of our indebtedness by at least $130.0 million.

The Investment Agreement. We have entered into the Investment Agreement with JLL and Warburg Pincus, under which JLL and Warburg Pincus have severally agreed to purchase from us, at the rights offering subscription price, unsubscribed shares of common stock such that gross proceeds of the rights offering will be no less than $75.0 million. In addition, each of JLL and Warburg Pincus has agreed (i) to exchange up to $48.909 million aggregate principal amount of 2012 notes indirectly held by it in the debt exchange and (ii) to the extent gross proceeds of the rights offering are less than $205 million, to exchange such 2012 notes for shares of our common stock at an exchange price equal to the rights offering subscription price, subject to proration from the participation of other holders of 2012 notes who submit for exchange their 2012 notes for shares of our common stock not subscribed for through the exercise of rights in the rights offering. JLL and Warburg Pincus obligations, collectively, under this commitment are limited to $75.0 million in cash and the exchange of approximately $98 million aggregate principal amount of 2012 notes in the debt exchange.

The Closing. The closing of the transactions contemplated by the Investment Agreement is subject to satisfaction or waiver of the following conditions: (i) the effectiveness of the registration statement relating to the rights offering; (ii) the rights offering and the debt exchange having been conducted in accordance with the Investment Agreement in all material respects without the waiver of any condition thereto; (iii) receipt of all requisite approvals and authorizations of, filings with, and notifications to, or expiration or termination of any applicable waiting period under applicable antitrust, competition and merger control laws, including the HSR Act; (iv) receipt of all material governmental and third party consents; (v) receipt of approval of the Company s stockholders of the issuance of shares of our common stock in the rights offering, pursuant to the Investment Agreement, and in the debt exchange; (vi) the absence of any legal impediment to the consummation of the Recapitalization Transactions; (vii) the compliance with covenants and the accuracy of representations and warranties provided in the Investment Agreement in all material respects; (viii) entry into a registration rights agreement between the Company and each of JLL and Warburg Pincus; (ix) the exchange of at least 95% of the aggregate principal amount of outstanding 2012 notes in the debt exchange; (x) court approval of the settlement of certain litigation related to the Recapitalization Transactions; and (xi) shares of Company common stock issued in the Recapitalization Transactions having been approved for listing on the Nasdaq Global Select Market.

The Company and JLL will file a Premerger Notification and Report Form under the HSR Act with the Federal Trade Commission (the FTC) and the Antitrust Division of the Department of Justice (the Antitrust Division), in connection with JLL s acquisition of common stock under the Investment Agreement.

Termination. The Investment Agreement may be terminated at any time prior to the closing of the backstop commitment:

- by mutual written agreement of JLL, Warburg Pincus, and us;
- by any party, if the Investment Agreement does not close by February 15, 2010; provided, however, that the right to terminate the Investment Agreement is not available to any party whose failure to comply with any provision of the Investment Agreement is the cause of, or resulted in, the failure of the closing to occur on or prior to such date;
- by us, JLL, or Warburg Pincus, if there is a breach by JLL or Warburg Pincus (in the case of termination by us) or by us (in case of termination by JLL or Warburg Pincus) of any covenant or representation, or warranty that would cause the failure of the satisfaction of a closing condition and is not capable of cure by February 15, 2010; or
- by any party upon the occurrence of any event that results in a failure to satisfy any of such party s closing conditions, which failure is not capable of cure by February 15, 2010.

Expenses. There is no backstop commitment fee payable to JLL and Warburg Pincus in connection with the rights offering; however, we have agreed to reimburse each of JLL and Warburg Pincus for all reasonable and actual out-of-pocket expenses it incurs in connection with the Recapitalization Transactions unless we terminate the Investment Agreement in accordance with its terms due to a breach of a covenant, representation or warranty by either of JLL or Warburg Pincus.

Indemnification. We have agreed to indemnify each of JLL and Warburg Pincus and their respective affiliates and their respective officers, directors, members, partners, employees, agents, and controlling persons for losses arising out of circumstances existing on or prior to the closing date of the rights offering to which an indemnified party becomes subject arising out of a claim instituted by a third party with respect to the Recapitalization Transactions (other than with respect to losses due to statements or omissions made in reliance on information provided to us in writing by each of JLL and Warburg Pincus for use herein and losses attributable to the gross negligence or willful misconduct of the indemnified party or breaches of the Investment Agreement).

Registration Rights Agreement. We have agreed to provide certain customary demand and piggyback registration rights to each of JLL and Warburg Pincus with respect to the shares of common stock owned by them and their affiliates.

Subscription Rights. JLL and Warburg Pincus each maintains the right to subscribe for shares in the rights offering by exercising its basic subscription right. However, we have agreed, pursuant to the Investment Agreement, that neither JLL nor Warburg Pincus will have an over-subscription privilege in the rights offering. Pursuant to the Investment Agreement, JLL and Warburg Pincus are not required to exercise their basic subscription right until two business days after the expiration of the rights offering.

Restrictions on Transfer. Pursuant to the Investment Agreement, JLL and Warburg Pincus have each agreed not to transfer, without the prior written consent of the Special Committee of our Board of Directors, (i) during the pendency of the rights offering, any subscription rights distributed, directly or indirectly, to them and (ii) until the earlier of the closing of the Recapitalization Transactions or termination of the Investment Agreement, any 2012 notes or shares of common stock held, directly or indirectly, by them, except, in each case, to affiliates who agree to be bound by the terms of the Investment Agreement.

Regulatory Limitations

All rights issued to a stockholder of record (other than JLL and Warburg Pincus) who would, in our opinion, be required to obtain prior clearance or approval from any state, federal, or non-U.S. regulatory authority for the ownership or exercise of rights or the ownership of additional shares are null and void and may not be held or exercised by any such holder. We are not undertaking to advise you of any such required clearance or approval or to pay any expenses incurred in seeking such clearance or approval.

We reserve the right to refuse to issue shares of our common stock to any stockholder of record who would, in our opinion, be required to obtain prior clearance or approval from any state, federal, or non-U.S. regulatory authority to own or control such shares if, at the time shares are to be issued upon payment therefor, such holder has not obtained such clearance or approval.

We are not offering or selling, or soliciting any purchase of, shares in any state or other jurisdiction in which the rights offering is not permitted. We reserve the right to delay the commencement of the rights offering in certain states or other jurisdictions if necessary to comply with local laws. We may elect not to offer shares to residents of any state or other jurisdiction whose laws would require a change in this offering in order to carry out this offering in such state or jurisdiction.

The Debt Exchange

In connection with the rights offering, certain holders of outstanding 2012 notes have agreed to exchange, at par, in transactions exempt from registration under the Securities Act of 1933, as amended, their outstanding 2012 notes for (i) up to $145.0 million aggregate principal amount of our 2016 notes, (ii) up to $130.0 million in cash from the proceeds of the rights offering, or (iii) a combination of cash and 2016 notes, and, (iv) to the extent the rights offering is not fully subscribed, shares of our common stock. The 2016 notes will have substantially similar terms to the 2012 notes, but will have an interest rate of 3-month LIBOR (subject to a 3.00% floor) plus 10% and will mature in 2016 instead of 2012. For each $1,000 aggregate principal amount of 2012 notes exchanged in the debt exchange, a noteholder will receive, at the noteholder s election, (a) $1,000 in principal amount of the 2016 notes, (b) $1,000 in cash, or (c) a combination of cash and 2016 notes, subject to proration and subject to the following adjustments:

to the extent that less than 100% of the outstanding 2012 notes are validly exchanged in the debt exchange, the aggregate principal amount of 2016 notes available for exchange in the debt exchange will be reduced on a dollar-for-dollar basis by the aggregate principal amount of the 2012 notes that are not so exchanged;

to the extent that the Company receives less than $205.0 million of gross proceeds from the rights offering, participants in the debt exchange will also be permitted to elect to exchange, and the backstop purchasers will be required to exchange, to the extent of the deficiency between $205.0 million and the proceeds obtained by the Company in the rights offering and pursuant to the backstop commitment, which amount we refer to as the exchange deficiency, 2012 notes held by them for shares of our common stock, in lieu of 2016 notes and cash, at an exchange price equal to the rights offering subscription price, with allocations of available shares of our common stock to be made pro rata in proportion to the aggregate principal amount of 2012 notes validly submitted for exchange in the debt exchange by such holders, including the backstop purchasers, for shares of our common stock; and

to the extent that the aggregate principal amount of 2012 notes so exchanged for shares of our common stock is less than the full amount of the exchange deficiency, including after any exchange of 2012 notes for shares of our common stock by the backstop purchasers and other holders of our 2012 notes who elect to receive shares of common stock in the debt exchange, then all holders of 2012 notes participating in the debt exchange and electing to receive 2016 notes or cash in the debt exchange will receive, in exchange for 2012 notes submitted for exchange in the debt exchange, shares of common stock at an exchange price equal to the rights offering subscription price pro rata in proportion to the amount of 2012 notes validly exchanged by them in the debt exchange for consideration other than shares of our common stock.

Exchanging holders of 2012 notes will be prorated to the extent of any over-subscription for 2016 notes or cash.

We are also soliciting consents to amend the indenture under which the 2012 notes were issued to eliminate certain restrictive covenants, conditions to defeasement, and events of default and to release the liens on the collateral securing the 2012 notes. Holders of approximately 662/3% of the aggregate principal amount of the 2012 notes, excluding JLL and Warburg Pincus, must consent to the amendments to the indenture governing the 2012 notes in order for the consents to become effective.

At least 95% of the aggregate principal amount of the 2012 notes must be exchanged in the debt exchange to complete the Recapitalization Transactions. The debt exchange and consent solicitation are scheduled to expire at [l], 20[l], upon the expiration of the rights offering, unless extended by the Special Committee of our Board of Directors; provided that, the expiration date of the rights offering may not be extended by more than ten days without the prior written consent of JLL and Warburg Pincus.

JLL and Warburg Pincus have each agreed, that in the event that the holders of our 2012 notes that are party to the Support Agreement receive in exchange for 2012 notes held directly or indirectly by such holders pursuant to the debt exchange an aggregate of 2,857,143 shares of our common stock (the Minimum Share Amount), until the earlier of 180 days following the closing of the Recapitalization Transactions and the date upon which such holders own, directly or indirectly, less than the Minimum Share Amount, it will not transfer any shares of common stock held, directly or indirectly, by them, except (i) with the prior written consent of such holders owning, directly or indirectly, a majority of the shares of our common stock held by all such holders, (ii) to affiliates who agree to such restrictions on transfer, and (iii) transfers pursuant to any transaction or series of transaction in which all holders of 2012 notes party to the Support Agreement are entitled to participate on a pro rata basis and receive the same consideration for their shares of our common stock.

The Support Agreement

We have entered into a Support Agreement (the Support Agreement) with holders of approximately 48% of the aggregate principal amount of our outstanding 2012 notes under which such holders have agreed to exchange their 2012 notes in the debt exchange and to consent to the amendments to the indenture governing the 2012 notes.

Pursuant to the Support Agreement, holders of approximately 75% of the aggregate principal amount of our outstanding 2012 notes held by holders other than JLL and Warburg Pincus have agreed to consent to the proposed amendments to the indenture governing the 2012 notes (which amount satisfies the minimum consent requirement for effectiveness of the proposed amendments), and pursuant to the Support Agreement and Investment Agreement, holders of approximately 84% of the aggregate principal amount of the 2012 notes have agreed to exchange their 2012 notes in the debt exchange.

The debt exchange with the holders of 2012 notes is being made in reliance on the exemption from registration of Section 4(2) of the Securities Act of 1933, as amended. We have agreed to disseminate to holders a private placement offering memorandum related to the debt exchange as promptly as practicable. In addition, we have agreed to file a registration statement to register offers and sales of 2016 notes and shares of our common stock received by the holders of 2012 notes in the debt exchange and have such registration statement declared effective prior to the closing date of the debt exchange and to maintain the effectiveness of the resale registration statement for 180 days following the closing date of the debt exchange.

The holders of 2012 notes party to the Support Agreement have agreed that, prior to the earlier of the closing of the debt exchange or the termination of the Support Agreement, such holders will not, directly or indirectly, effect any short sale or similar hedging transaction in our common stock.

The closing of the transactions contemplated by the Support Agreement is subject to satisfaction or waiver of certain conditions, including: (i) satisfaction of the conditions to the rights offering; (ii) receipt of all material governmental and third-party approvals; (iii) at least 95% of the aggregate principal amount of outstanding 2012 notes shall have been validly submitted for exchange; (iv) at least 662/3% of the aggregate principal amount of the 2012 notes, not including 2012 notes held by JLL or Warburg Pincus, shall have consented to the proposed amendments to the indenture governing the 2012 notes; and (v) a registration statement covering the resale by the holders of 2016 notes and common stock received in the debt exchange having been declared effective.

The Support Agreement may be terminated prior to the expiration date of the debt exchange under certain circumstances including the breach of the Support Agreement by the Company or a holder or in the event the debt exchange does not close prior to February 15, 2010, and will automatically terminate on March 31, 2010, unless such date is extended in accordance with the terms of the Support Agreement.

We have agreed to pay the reasonable fees and expenses of the legal counsel of the holders party to the Support Agreement.

Interests of Our Officers, Directors, and Principal Stockholders in the Recapitalization Transactions

JLL and Warburg Pincus, who collectively beneficially own approximately 50% of our common stock, before giving effect to the Recapitalization Transactions, also own approximately 36%, or approximately $98 million aggregate principal amount, of our 2012 notes. Six of our ten directors hold positions with affiliates of either JLL or Warburg Pincus. We have entered into the Investment Agreement with JLL and Warburg Pincus, under which JLL and Warburg Pincus have severally agreed to purchase from us, at the subscription price, unsubscribed shares of common stock such that gross proceeds of the rights offering will be no less than $75.0 million. In addition, each of JLL and Warburg Pincus has agreed (i) to exchange up to $48.909 million aggregate principal amount of 2012 notes indirectly held by it in the debt exchange and (ii) to the extent gross proceeds of the rights offering are less than $205 million, to exchange such 2012 notes for shares of our common stock at an exchange price equal to the rights offering subscription price, subject to proration from the participation of other holders of 2012 notes who submit for exchange their 2012 notes for shares of our common stock not subscribed for through the exercise of rights in the rights offering. JLL and Warburg Pincus obligations, collectively, under this commitment are limited to $75.0 million in cash and the exchange of approximately $98 million aggregate principal amount of 2012 notes in the debt exchange. In the event gross proceeds of the rights offering are less than $205 million, JLL and Warburg Pincus will likely increase their percentage ownership of our issued and outstanding common stock.

If all of our stockholders, including JLL and Warburg Pincus, exercise the basic subscription rights issued to them in the rights offering and the rights offering is therefore fully subscribed, JLL s and Warburg Pincus beneficial ownership percentage will not change. If JLL and Warburg Pincus are the only holders of rights who exercise their rights in the rights offering and JLL and Warburg Pincus each exchange $48.909 million aggregate principal amount of 2012 notes for common stock, the Company will issue an aggregate of **[l]** and **[l]** shares of common stock to JLL and Warburg Pincus, respectively, and [l] shares of common stock to the other 2012 noteholders participating in the debt exchange. Under such circumstances, JLL s ownership percentage of our outstanding common stock would increase to approximately **[l]**%, and Warburg Pincus ownership percentage of our outstanding common stock would increase to approximately **[l]**%, in each case after giving effect to this rights offering and the debt exchange.

Shares of Common Stock Outstanding after the Recapitalization Transactions

We will issue 58,571,428 shares of common stock in the Recapitalization Transactions and, based on the 36,120,251 shares of our common stock outstanding as of October 31, 2009, 94,691,679 shares of our common stock will be issued and outstanding following the Recapitalization Transactions, excluding any shares that may be issued pursuant to the exercise of 2,581,501 outstanding vested and unvested stock options as of October 31, 2009.

Effect of the Recapitalization Transactions on Our Incentive Plans

The Compensation Committee of our Board of Directors will determine, at the appropriate time, whether the issuance and sale of our common stock in the rights offering will result in an equitable adjustment to outstanding awards under our incentive plans, based upon, among other things, the market price of shares of our common stock for periods prior to and after the record date for the rights offering.

Dilutive Effects of the Recapitalization Transactions

If a stockholder does not exercise any rights in the rights offering, the number of shares of our common stock that such stockholder will own will not change. However, because 58,571,428 shares of our common stock will be issued if the Recapitalization Transactions are completed, if a stockholder does not exercise its rights under the basic subscription privilege in full, its percentage ownership will be diluted after the rights offering and completion of the debt exchange. See also *Risk Factors Risks Related to our Common Stock, the Rights Offering and the Debt Exchange If the rights offering is not fully subscribed, JLL and Warburg Pincus may increase their ownership and your ownership percentage will decrease.*

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CAPITALIZATION

The following table describes capitalization as of September 30, 2009 (i) on an actual basis and (ii) on an as adjusted basis to give effect to the sale of all 58,571,428 shares offered in the Recapitalization Transactions (including application of net proceeds as described above) at a price of $3.50 per share and assuming that all of the holders of our 2012 notes exchange such notes in the debt exchange.

	At September 30, 2009	
	Historical	As Adjusted
	(Unaudited) (In thousands, except share and per share amounts)	
Current liabilities:		
Accounts payable	$ 46,547	$ 46,547
Accrued liabilities	29,148	29,148
Current maturities of long-term debt	47	47
Total current liabilities	75,742	75,742
Long-term debt, net of current maturities:		
Revolving credit facility	20,000	20,000
2012 notes	275,000	0
2016 notes	0	145,000
Other	4,147	4,147
Other long-term liabilities	23,406	23,406
Total liabilities	398,295	268,295
Shareholders equity:		
Preferred stock, $0.01 par value, 10,000 shares authorized; zero shares issued and outstanding as of September 30, 2009		
Common stock, $0.01 par value, 200,000 shares authorized, 36,120 and 94,692 shares issued and outstanding as of September 30, 2009, on a historical and as adjusted basis, respectively	360	945
Additional paid-in-capital	149,166	348,459
Accumulated deficit	(105,547)	(111,141)
Accumulated other comprehensive loss	(6,963)	(6,963)
Total stockholders equity	37,016	231,300
Total liabilities and stockholders equity	$ 435,311	$ 499,595

PROPOSAL TWO:
AMENDMENT TO 2007 INCENTIVE PLAN
AND APPROVAL OF QUALIFIED BUSINESS CRITERIA

The Corporation currently maintains the Builders FirstSource, Inc. 2007 Incentive Plan (the 2007 Plan), which was originally approved by stockholders at the 2007 Annual Meeting. The Corporation also maintains the Builders FirstSource, Inc. 2005 Equity Incentive Plan (the 2005 Plan). The 2007 Plan provides for the issuance of up to 2,500,000 shares pursuant to the grant or exercise of awards granted thereunder, of which 455,968 shares have already been issued or are subject to outstanding awards. The 2005 Plan provides for the issuance of up to 2,200,000 shares pursuant to the grant or exercise of awards granted thereunder, of which 1,431,045 shares have already been issued or are subject to outstanding awards. Given the change in the equity structure of the Corporation contemplated by the Recapitalization Transactions, the Compensation Committee believes the number of shares available under the 2007 Plan and the 2005 Plan will not be sufficient to make the grants it believes will be needed over the next few years to provide adequate long-term equity incentives to our key employees. Therefore, on [l], the Board of Directors approved an amendment (the Amendment) to the 2007 Plan to increase the number of authorized shares to [l], subject to stockholder approval. The increased shares will enable the Company to continue making equity compensation grants that serve as incentives to recruit and retain key employees and to continue aligning the interests of its employees with stockholders.

In addition, the 2007 Plan contains a list of business criteria (Qualified Business Criteria) with respect to which the Compensation Committee may establish objectively determinable performance goals for performance-based awards under the 2007 Plan that are fully deductible without regard to the $1,000,000 deduction limit imposed by Section 162(m) of the U.S. Internal Revenue Code of 1986 (the Code). In order to preserve the Corporation s ability to continue to grant certain fully deductible performance-based awards, a list of Qualified Business Criteria must be approved by the stockholders no less often than every five years. The Board of Directors recommends that the stockholders re-approve at the special meeting the list of Qualified Business Criteria for the 2007 Plan set out below under the caption Performance Goals.

As of [l], 2009 (the record date for the special meeting), there were approximately 2,555 of the Corporation s employees, officers and directors eligible to participate in the 2007 Plan. If the Amendment is not approved by the stockholders at the special meeting, the 2007 Plan will remain in effect in accordance with its terms as currently in effect.

Summary of the Amended 2007 Plan

The following is a summary of the provisions of the 2007 Plan, as proposed to be amended. This summary is qualified in its entirety by the full text of the 2007 Plan, as proposed to be amended, which is attached to this proxy statement as Annex D.

Purpose. The purposes of the 2007 Plan are to retain and incentivize employees, officers, non-employee directors, and consultants of the Corporation and its affiliates, to increase their efforts on behalf of the Corporation, and to promote the success of the Corporation s business.

Administration. The 2007 Plan is administered by the compensation committee (the Compensation Committee) of the Board of Directors, or if the board so determines, by the Board of Directors. The Compensation Committee has the authority to designate participants; determine the type or types of awards to be granted to each participant and the number, terms, and conditions thereof; establish, adopt, or revise any rules and regulations as it may deem advisable to administer the 2007 Plan; and make all other decisions and determinations that may be required under the 2007 Plan.

Eligibility. The 2007 Plan permits the grant of incentive awards to employees, officers, non-employee directors, and consultants of the Corporation and its affiliates as selected by the Compensation Committee.

Permissible Awards. The 2007 Plan authorizes the granting of awards in any of the following forms:

options to purchase shares of the common stock, which may be designated under the Code as nonqualified stock options (which may be granted to all participants) or incentive stock options (which may be granted to officers and employees but not to non-employee directors);

stock appreciation rights (SARs), which give the holder the right to receive the difference (payable in cash or stock, as specified in the award agreement) between the fair market value per share of the common stock on the date of exercise over the grant price of the award (which cannot be less than the fair market value of the underlying stock as of the grant date);

restricted stock, which is subject to restrictions on transferability and subject to forfeiture on terms set by the Compensation Committee;

restricted stock units, which represent the right to receive shares of common stock (or an equivalent value in cash or other property, as specified in the award agreement) in the future, based upon the attainment of stated vesting or performance criteria;

other stock-based awards in the discretion of the Compensation Committee; and

cash-based awards.

Shares Available for Awards. Subject to adjustment as provided in the 2007 Plan, the aggregate number of shares of common stock reserved and available for issuance pursuant to awards granted under the 2007 Plan, as proposed to be amended, is [l]. No more than [l] shares may be made subject to options or SARs. No more than [l] of these shares may be made subject to stock-based awards other than options or SARs.

Limitations on Individual Awards. The maximum aggregate number of shares of common stock subject to stock-based awards that may be granted under the 2007 Plan in any 12-month period to any one participant is (i) 750,000 shares for options and SARs and (ii) 750,000 shares for restricted stock, restricted stock units, and other stock-based awards. The maximum aggregate amount that may be paid with respect to cash-based awards under the 2007 Plan to any one participant in any 12-month period is $5,000,000.

Performance Goals. Any awards granted under the 2007 Plan may be designated as a qualified performance-based award in order to make the award fully deductible without regard to the $1,000,000 deduction limit imposed by Code Section 162(m). If an award is so designated, the Compensation Committee must establish objectively determinable performance goals for the award based on one or more of the following business criteria, which may be expressed in terms of attaining a specified level of the particular criterion or the attainment of a percentage increase or decrease in the particular criterion, and may be applied to one or more of the Corporation or a parent or subsidiary of the Corporation, or a division or strategic business unit of the Corporation, as determined by the Compensation Committee:

pre-tax or after-tax income;

earnings including operating income, earnings before or after taxes, earnings before or after interest, depreciation, amortization, or extraordinary or special items;

net income excluding amortization of intangible assets, depreciation, and impairment of goodwill and intangible assets;

operating income;

earnings or book value per share (basic or diluted);

return on assets (gross or net), return on investment, return on capital, or return on equity;

return on revenues;

net tangible assets (working capital plus property, plants, and equipment) or return on net tangible assets (operating income divided by average net tangible assets);

operating cash flow (operating income plus or minus changes in working capital less capital expenditures);

cash flow, free cash flow, cash flow return on investment (discounted or otherwise), net cash provided by operations, or cash flow in excess of cost of capital;

economic value created;

operating margin or profit margin;

stock price or total stockholder return;

earnings from continuing operations;

cost targets, reductions or savings, productivity, or efficiencies;

strategic business criteria, consisting of one or more objectives based on specified market penetration or market share, geographic business expansion, customer satisfaction, employee satisfaction, human resources management, supervision of litigation, information technology, or goals relating to divestitures, joint ventures, or similar transactions; or

with respect to awards that are not intended to be qualified performance-based awards in order to make the award fully deductible without regard to the $1,000,000 deduction limit imposed by Code Section 162(m), any other criteria determined by the Compensation Committee to be appropriate.

Limitations on Transfer; Beneficiaries. A participant may not assign or transfer an award other than by will or the laws of descent and distribution; *provided, however,* that the Compensation Committee may permit other transfers (other than transfers for value) where it concludes that such transferability does not result in accelerated taxation, does not cause any option intended to be an incentive stock option to fail to qualify as such, and is otherwise appropriate and desirable, taking into account any factors deemed relevant, including without limitation, any state or federal tax or securities laws or regulations applicable to transferable awards.

Treatment of Awards upon a Change in Control. Unless otherwise provided in an award agreement, upon a change in control, all outstanding options and SARs will become fully vested, all restrictions on outstanding awards will lapse, and any performance conditions on outstanding awards will be deemed to have been fully earned at the target level.

Adjustments. If any dividend or other distribution (whether in the form of cash, stock, or other property), recapitalization, stock split, reverse split, reorganization, merger, consolidation, spin-off, combination, repurchase, share exchange, or other similar corporate transaction or event affects the common stock such that an adjustment is appropriate in order to prevent dilution or enlargement of the rights of the participants, then the Compensation Committee will make such equitable changes or adjustments as it deems necessary or appropriate to any or all of: (i) the number and kind of shares of stock or other property (including cash) that may be issued in connection with awards; (ii) the number and kind of shares of stock or other property (including cash) issued or issuable in respect of outstanding awards; (iii) the exercise price, grant price, or purchase price relating to any award; and (iv) the performance goals applicable to outstanding awards. In addition, the Compensation Committee may determine that any such equitable adjustment may be accomplished by making a payment to the award holder in the form of cash or other property (including but not limited to shares of stock). The Compensation Committee will determine, at the appropriate time, whether the issuance and sale of our common stock in the Recapitalization Transactions will result in an equitable adjustment to outstanding awards under the 2007 Plan and our other incentive plans, based upon, among other things, the market price of shares of our common stock for periods prior to and after the record date for the rights offering.

Termination and Amendment. The Board of Directors or the Compensation Committee may, at any time and from time to time, terminate or amend the 2007 Plan, but if an amendment would constitute a material amendment requiring stockholder approval under applicable listing requirements, laws, policies, or regulations, then such amendment will be subject to stockholder approval. The Board of Directors or the Compensation Committee may amend or terminate outstanding awards. No termination or amendment of the 2007 Plan or any award granted thereunder may, without the consent of the participant, adversely affect the rights of any participant under such award.

Prohibition on Repricing. Except as set forth above in Adjustments, outstanding stock options and SARs cannot be repriced, directly or indirectly, without stockholder approval. The exchange of an underwater option (i.e., an option having an exercise price in excess of the current market value of the underlying stock) for another award would be considered an indirect repricing and would, therefore, require stockholder approval.

Certain U.S. Federal Income Tax Effects

The U.S. federal income tax discussion set forth below is intended for general information only and does not purport to be a complete analysis of all of the potential tax effects of the 2007 Plan. It is based upon laws, regulations, rulings, and decisions now in effect, all of which are subject to change. State and local income tax consequences are not discussed, and may vary from locality to locality.

Nonqualified Stock Options. There will be no federal income tax consequences to the optionee or to the Corporation upon the grant of a nonqualified stock option under the 2007 Plan. When the optionee exercises a nonqualified option, however, he or she will recognize ordinary income in an amount equal to the excess of the fair market value of the stock received upon exercise of the option at the time of exercise over the exercise price and the Corporation will be allowed a corresponding federal income tax deduction. Any gain that the optionee realizes when he or she later sells or disposes of the option shares will be short-term or long-term capital gain, depending on how long the shares were held.

Incentive Stock Options. There typically will be no federal income tax consequences to the optionee or to the Corporation upon the grant or exercise of an incentive stock option. If the optionee holds the option shares for the required holding period of at least two years after the date the option was granted and one year after exercise, the difference between the exercise price and the amount realized upon sale or disposition of the option shares will be long-term capital gain or loss, and the Corporation will not be entitled to a federal income tax deduction. If the optionee disposes of the option shares in a sale, exchange, or other disqualifying disposition before the required holding period ends, he or she will recognize taxable ordinary income in an amount equal to the excess of the fair market value of the option shares at the time of exercise over the exercise price and the Corporation will be allowed a federal income tax deduction equal to such amount. While the exercise of an incentive stock option does not result in current taxable income, the excess of the fair market value of the option shares at the time of exercise over the exercise price will be an item of adjustment for purposes of determining the optionee s alternative minimum taxable income.

SARs. A participant receiving a SAR under the 2007 Plan will not recognize income, and the Corporation will not be allowed a tax deduction, at the time the award is granted. When the participant exercises the SAR, the amount of cash and the fair market value of any shares of stock received will be ordinary income to the participant and the Corporation will be allowed a corresponding federal income tax deduction at that time.

Restricted Stock. Unless a participant makes an election to accelerate recognition of the income to the date of grant as described below, a participant will not recognize income, and the Corporation will not be allowed a tax deduction, at the time a restricted stock award is granted, provided that the award is nontransferable and is subject to a substantial risk of forfeiture. When the restrictions lapse, the participant will recognize ordinary income equal to the fair market value of the stock as of that date (less any amount he or she paid for the stock) and the Corporation will be allowed a corresponding federal income tax deduction at that time, subject to any applicable limitations under Code Section 162(m). If the participant files an election under Code Section 83(b) within 30 days after the date of grant of the restricted stock, he or she will recognize ordinary income as of the date of grant equal to the fair market value of the stock as of that date (less any amount paid for the stock) and the Corporation will be allowed a corresponding federal income tax deduction at that time, subject to any applicable limitations under Code Section 162(m). Any future appreciation in the stock will be taxable to the participant at capital gains rates. However, if the stock is later forfeited, the participant will not be able to recover the tax previously paid pursuant to the Code Section 83(b) election.

Restricted Stock Units. A participant will not recognize income, and the Corporation will not be allowed a tax deduction, at the time a restricted stock unit award is granted. Upon receipt of shares of stock (or the equivalent value in cash or other property) in settlement of a restricted stock unit award, a participant will recognize ordinary income equal to the fair market value of the stock or other property as of that date (less any amount he or she paid for the stock or property) and the Corporation will be allowed a corresponding federal income tax deduction at that time, subject to any applicable limitations under Code Section 162(m).

Cash-Based Awards. A participant will not recognize income, and the Corporation will not be allowed a tax deduction, at the time a cash-based award is granted (for example, when the performance goals are established). Upon receipt of cash in settlement of the award, a participant will recognize ordinary income equal to the cash received and the Corporation will be allowed a corresponding federal income tax deduction at that time, subject to any applicable limitations under Code Section 162(m).

Code Section 409A. The 2007 Plan permits the grant of various types of incentive awards, which may or may not be exempt from Code Section 409A. If an award is subject to Section 409A, and if the requirements of Section 409A are not met, the taxable events as described above could apply earlier than described and could result in the imposition of additional taxes and penalties. Restricted stock awards, and stock options and SARs that comply with the terms of the 2007 Plan, are generally exempt from the application of Section 409A. Restricted stock units, other stock-based awards and cash-based awards that are granted in one year and payable in a later year generally are subject to Section 409A unless they are designed to satisfy the short-term deferral exemption from such law. If not exempt, such awards must be specially designed to meet the requirements of Section 409A in order to avoid early taxation and penalties.

Tax Withholding. The Corporation has the right to deduct or withhold, or require a participant to remit to the Corporation, an amount sufficient to satisfy federal, state, and local taxes (including employment taxes) required by law to be withheld with respect to any exercise, lapse of restriction, or other taxable event arising as a result of the 2007 Plan.

Benefits to Named Executive Officers and Others

The Compensation Committee may consider making additional grants of equity awards following consummation of the Recapitalization Transactions in light of the dilution that may result from such transactions. No final decision has been made to date. All awards after the date hereof under the 2007 Plan or the 2005 Plan will be made at the discretion of the Compensation Committee or the Board. Therefore, it is not presently possible to determine the benefits or amounts that will be received by any particular person or group pursuant to the 2007 Plan or the 2005 Plan in the future.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR PROPOSAL (2).

EQUITY COMPENSATION PLAN INFORMATION

The following table sets forth certain information regarding securities authorized for issuance under the Corporation s equity compensation plans as of October 31, 2009.

Plan category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants, and Rights (a)	Weighted Average Exercise Price of Outstanding Options, Warrants, and Rights (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)
Equity compensation plans approved by security holders	1,259,834(1)	$ 7.02	2,812,987(2)(3)
Equity compensation plans not approved by security holders	1,321,667(4)	$ 3.15	
Total	2,581,501	$ 5.04	2,812,987

(1) Includes securities to be issued upon exercise under the Builders FirstSource, Inc. 2005 Equity Incentive Plan, approved by the Corporation s stockholders in June 2005, and the Builders FirstSource, Inc. 2007 Incentive Plan, approved by the Corporation s stockholders in May 2007.

(2) Includes securities remaining available for issuance pursuant to the 2005 Equity Incentive Plan, approved by the Corporation s stockholders in June 2005. Of these awards, at October 31, 2009, 575,154 were available to be made subject to stock-based awards other than options or SARs. Under the 2005 Equity Incentive Plan, the Corporation is authorized to grant stock-based awards in the form of incentive stock options, non-qualified stock options, restricted stock, and other common stock-based awards. The maximum number of shares of Common Stock reserved for the grant of awards under the 2005 Equity Incentive Plan is 2,200,000, subject to adjustment as provided by the plan. No more than 2,200,000 shares may be made subject to options or stock appreciation rights (SARs) granted under the plan. No more than 1,100,000 shares of Common Stock may be made subject to stock-based awards other than options or SARs. Stock options and SARs granted under the 2005 Equity Incentive Plan may not have a term exceeding 10 years from the date of grant. If our Board of Directors determines that any dividend or other distribution, recapitalization, stock split, reverse split, reorganization, merger, consolidation, spin-off, combination, or other similar corporate transaction or event affects our Common Stock such that an adjustment is appropriate in order to prevent dilution or enlargement of participants rights under the plan, our Board of Directors will make such changes or adjustments as it deems necessary or appropriate including with respect to any or all of (i) the number and kind of shares or other property that may thereafter be issued in connection with awards, (ii) the number and kind of shares or other property subject to

outstanding awards, (iii) the exercise or purchase price of any award, and (iv) the performance goals applicable to outstanding awards. In addition, our Board of Directors may determine that an equitable adjustment may take the form of a payment to an award holder in the form of cash or other property.

(3) Includes securities remaining available for issuance pursuant to the 2007 Incentive Plan, approved by the Corporation s stockholders in May 2007. Of these awards, at October 31, 2009, 1,148,666 were available to be made subject to stock-based awards other than options or SARs. Under the 2007 Incentive Plan, the Corporation is authorized to grant stock-based awards in the form of incentive stock options, non-qualified stock options, restricted stock, and other common stock-based awards. The maximum number of shares of Common Stock reserved for the grant of awards under the 2007 Incentive Plan is 2,500,000, subject to adjustment as provided by the plan. No more than 2,500,000 shares may be made subject to options or stock appreciation rights (SARs) granted under the plan. No more than 1,250,000 shares of Common Stock may be made subject to stock-based awards other than options or SARs under the plan. Stock options and SARs granted under the 2007 Incentive Plan may not have a term exceeding 10 years from the date of grant. If our Compensation Committee determines that any dividend or other distribution, recapitalization, stock split, reverse split, reorganization, merger, consolidation, spin-off, combination, or other similar corporate transaction or event affects our Common Stock such that an adjustment is

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appropriate in order to prevent dilution or enlargement of participants rights under the plan, our Compensation Committee will make such changes or adjustments as it deems necessary or appropriate including with respect to any or all of (i) the number and kind of shares or other property that may thereafter be issued in connection with awards, (ii) the number and kind of shares or other property subject to outstanding awards, (iii) the exercise or purchase price of any award, and (iv) the performance goals applicable to outstanding awards. In addition, our Compensation Committee may determine that an equitable adjustment may take the form of a payment to an award holder in the form of cash or other property.

(4) Includes securities to be issued upon exercise under the Builders FirstSource, Inc. 1998 Stock Incentive Plan, as amended. No grants were made under this plan after the Corporation s initial public offering. No further grants will be made under this plan.

EXECUTIVE COMPENSATION AND OTHER INFORMATION

Compensation Discussion and Analysis

Overview

In the discussion that follows, we will give an overview and analysis of our compensation program and policies, the material compensation decisions we have made under those programs and policies with respect to our top executive officers, and the material factors that we considered in making those decisions. The persons who served as our Chief Executive Officer and Chief Financial Officer during 2008, as well as the other individuals named in the Summary Compensation Table, are referred to as the named executive officers or NEOs throughout this Proxy Statement.

Executive Summary

As for nearly all companies in the housing industry, 2008 was a very challenging year for us. According to the U.S. Census Bureau, actual single-family housing starts in the U.S. during 2008 declined 40.5% from 2007. Our management and our Board of Directors responded to the ongoing financial crises and the severe housing downturn by reviewing our business strategy, facility requirements, expense structure, and staffing levels. As discussed in further detail below, the Company made some important decisions regarding executive compensation and implemented some significant changes to its compensation programs for 2008, many of which were a direct response to the current economic conditions, including the following:

The Compensation Committee and the Board adopted a new annual incentive bonus program for 2008, which focuses on maximizing current year profitability.

As a result of our disappointing financial results in 2008, no annual incentive bonuses were earned by our executive officers under the new program. In addition, as part of the Company s cost reduction program, and in accordance with our NEOs recommendation, the Compensation Committee decided that no discretionary bonuses would be paid to our executive officers for the 2008 year.

Based on senior management s recommendation, the Compensation Committee and the Board decided that no new equity awards would be made to our executive officers in 2008 (other than a de minimis award to one officer), but instead approved a stock option exchange program pursuant to which managers could exchange underwater stock options for an equivalent number of replacement options with an exercise price equal to the current fair market value of the Company s Common Stock.

In addition, faced with the deteriorating state of the housing industry and the economy in general, the Company made a number of important compensation decisions for 2009, including the following:

Based on senior management s recommendation, the Compensation Committee and the Board implemented a company-wide freeze on salaries, including the salaries of our NEOs, as part of the Company s expense control program.

The Compensation Committee agreed with management s proposal that the bonus program for 2009 not include a discretionary bonus component.

In accordance with senior management s recommendation, the Compensation Committee decided that no new equity awards would be granted to the executive officers or any of the other Company managers in 2009.

The Compensation Committee decided to engage a new compensation consultant, Towers Perrin, for 2009. The Committee believes that Towers Perrin will be an effective advisor to the Committee and will provide a new perspective on our executive compensation practices and policies.

Compensation Principles

Our executive compensation program has been designed to provide a total compensation package that allows us to attract, retain, and motivate executives who have the talent to capably manage our business. Our executive compensation program is guided by several key principles:

Our compensation program should provide total compensation opportunities at levels that are competitive for comparable positions at companies with whom we compete for talent.

Our compensation program should provide incentives to our executive officers to achieve key financial objectives set by the Board of Directors.

Our compensation program should provide an appropriate mix of fixed and variable pay components to establish a pay-for-performance oriented compensation program.

Our compensation program should align the financial interests of executives with stockholder interests by providing significant compensation opportunities in the form of equity awards.

2008 Executive Compensation Process

Role of the Compensation Committee. Under its charter, the Compensation Committee is responsible for designing our executive compensation program and assisting the Board in discharging its responsibilities relating to executive compensation. The Compensation Committee approved, and recommended to the Board of Directors for its approval, the 2008 base salary amounts, annual bonus program, long-term incentive compensation levels, and perquisites of our executive officers.

During a series of meetings between October 2007 and February 2008, the Compensation Committee established the 2008 compensation framework for our executive officers. As part of its evaluation process, the Committee reviewed compensation proposals and related information from a number of sources, including a compensation consultant and certain members of our management team, as described below. In February 2008, the Compensation Committee recommended to the Board of Directors, for its approval, the 2007 bonus payouts and the 2008 compensation program for our NEOs.

Compensation Consultant. To assist the Committee in its review and evaluation of the 2008 officer compensation program, the Committee selected Mercer Human Resource Consulting (Mercer) to serve as its advisor. Mercer reported directly to the Compensation Committee, and the Committee reviewed and approved the fees payable to Mercer. Mercer was retained by the Committee to conduct a review of our proposed management compensation program for 2008 (including base salary, annual bonus plan, and equity awards), to conduct market total compensation comparisons for the executive officers, and to make recommendations to the Committee regarding any suggested changes to our executive compensation program. The Committee met with Mercer, reviewed its reports, and considered its advice in making its determinations regarding our 2008 officer compensation program.

Role of Executives. Our CEO, CFO, and General Counsel, as well as members of our Legal and Finance Departments, assisted the Compensation Committee, the Board, and Mercer in gathering the information needed for their respective reviews of our 2008 executive compensation program. This assistance included the preparation of tally sheets and the assembly of requested compensation data. The Compensation Committee and the Board also met with our CEO and considered his recommendations for our executive officers (other than himself) with respect to: (i) the bonus payments earned by the executive officers for 2007, (ii) the 2008 base salaries, annual cash incentives, and long-term equity incentives for our NEOs, and (iii) approval of the 2008 stock option exchange program (described below).

Market Comparisons. Using data provided by its consultant, the Compensation Committee periodically examines the competitiveness of our compensation programs to determine how our compensation levels compare to our overall philosophy and target markets. Peer selection is somewhat difficult due to the lack of publicly-traded companies with whom we compete and the lack of available data for privately-held competitors. According to the most recent ProSales 100 rankings by ProSales Magazine, only three (including Builders FirstSource) of the 20 largest competitors in the professional building products market are publicly-traded. Therefore, we expanded the peer group to include additional publicly-traded building products companies of generally similar size that serve additional end markets to provide a proxy for the market in which we compete for executive talent. Peer selection was focused on size based on revenues because revenues provide a reasonable point of reference for comparing like positions and scope of responsibility. For 2008, the primary peer group (our Peer Group) included:

Armstrong World Industries	Building Materials Holding Corp.
American Woodmark	Louisiana-Pacific
NCI Building Systems	Universal Forest Products
USG	Goodman Global
Gilbraltar Industries	Simpson Manufacturing
Apogee Enterprises	Lennox International

Our market comparison analysis consisted of all components of direct compensation, including base salary, annual bonus, and long-term incentives. Information gathered from the proxy statements of the Peer Group as well as from Mercer s proprietary databases were reviewed for this analysis. In addition, in order to more accurately reflect the market in which we compete for executive talent, survey data for comparable positions at industrial companies of generally similar size was analyzed to develop a broader market point of reference. Surveys reviewed were published by leading human resource organizations, including Mercer, and cover approximately 60 to 70 companies per positional match. The companies evaluated in the market surveys are not individually identifiable for a particular executive position, and, therefore, we are not benchmarking against any particular company in this regard. Given the changing nature of our industry, the companies that comprise our Peer Group may vary from year to year, and the Compensation Committee intends to review the Peer Group and make changes as appropriate for 2009.

2008 Review of Total Compensation. A tally sheet affixing dollar amounts for the following components of compensation was prepared by management and reviewed by the Compensation Committee: salary, bonus, long-term incentives, accumulated (unrealized) gains under outstanding equity awards, the cost to the Company of perquisites, and projected payout obligations under potential severance and change-in-control scenarios. Based on its review, and market data provided by Mercer, the Compensation Committee determined that our NEOs total compensation (and, in the case of the severance and change-in-control scenarios, the potential payments) in the aggregate was appropriate based on their contribution toward achieving the Company s business and financial objectives, overall responsibilities, individual performance, and proposed compensation compared to that of comparable positions at peer companies, including those within our Peer Group.

Role of the Board of Directors. The Board of Directors is responsible for reviewing the recommendations of the Compensation Committee and making the final decisions on our executive compensation program. In February 2008, after considering the recommendation of the Compensation Committee, the Board approved the bonus amounts for 2007 for our NEOs and the 2008 executive officer compensation program.

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Elements of our Compensation Program

Components of Compensation. There are only three components of our executive compensation program:

Base Salary;

Annual cash incentives; and

Long-term equity incentives.

Reflecting our philosophy to focus on direct (rather than indirect) compensation as the most appropriate means to attract and retain key executive talent, the Board offers few perquisites to our executive officers and no retirement benefits beyond our company-wide 401(k) plan.

The following sections describe in greater detail each of the elements of our executive compensation program, why they were selected, and how the amounts of each element were determined.

Base Salary

Base salary is designed to compensate the executive officers in part for their roles and responsibilities and to provide a stable and fixed level of compensation that serves as a retention tool throughout the executive s career. In determining base salaries, we consider each executive s role and responsibilities, unique skills, the salary levels for similar positions in our target market, and internal pay equity. Our compensation philosophy is to target base salaries for our NEOs at or below the market median.

In February 2008, the Board determined to raise the NEOs base salaries by amounts ranging from 3.3% to 20%, except that, at his request, the Board did not raise Mr. Sherman s base salary. The Board made the salary adjustments to bring the NEOs more in line with the market and to provide a more effective retention incentive for our executive officers. The Board gave higher raises to Messrs. Horn (20%) and Tolly (12.5%) because of the additional operational responsibilities assumed by them following the departure of Kevin O Meara, the Company s former Chief Operating Officer, in October 2007. After making these adjustments for 2008, the base salaries of our NEOs generally were at or below the median of similar positions at peer companies included in the market surveys referenced above, except that Mr. Horn s salary was between the median and the 75th percentile. Mr. Sherman s base salary remained below the 25th percentile. At Mr. Sherman s request, the Board has not raised Mr. Sherman s salary since he commenced employment with the Corporation in September 2001.

Annual Cash Incentives

We provide annual cash incentive awards under our Management Incentive Plan. These short-term cash incentives are designed to reward the achievement of financial results measured over the current fiscal year. In addition, as referenced below, in order to provide a mechanism to reward individual performance, a portion of each NEO s annual cash incentive bonus award has historically been payable at the Board s discretion.

The Compensation Committee selects the financial performance goals applicable to the Management Incentive Plan, which may be based on one or more criteria. For the 2007 executive bonus program, the Compensation Committee had utilized the following performance criteria and weightings for cash incentive bonus awards:

Return on Net Tangible Assets: 20% weighting;

Cash Flow: 20% weighting;

Year-Over-Year Comparison of Earnings before Interest, Taxes, and Amortization (EBITA): 35% weighting; and

Discretionary Individual Performance Bonus: 25%.

After careful consideration and consultation with Mercer and management, the Committee adopted a new corporate bonus program for 2008 (the 2008 Bonus Program), in which the NEOs participated. The Committee selected substantially different financial performance criteria for the 2008 Bonus Program, as follows:

Earnings Before Taxes (EBT); and

Discretionary Individual Performance Bonus.

The 2008 Bonus Program established a bonus pool equivalent to 18.5% of EBT for the entire company. Of this bonus pool amount, 8.5% is attributable to corporate office personnel (the Corporate Office Bonus Pool), in which the NEOs participate. EBT is calculated as Earnings before Interest, Taxes and Amortization (EBITA) less an interest charge based upon the Company s weighted average cost of capital multiplied by average net tangible assets.

The Committee adopted the 2008 Bonus Program for the following reasons:

The new program eliminates the year-over-year earnings improvement criteria and replaces it with a current year EBT performance criteria. This change focuses management s efforts on maximizing current year profitability rather than compensating for relative year-to-year changes in profitability.

The new plan eliminates the connection of bonus amounts to achievement of operating plan goals (Return on Net Tangible Assets and Cash Flow). Achievement of operating plan or lack thereof can be influenced by non-controllable macroeconomic factors. The Committee believes that an EBT-based performance criteria provides a more effective incentive to maximize profitability in all market environments and more closely aligns management awards to the financial interests of shareholders.

The 2008 Bonus Program provides for a discretionary bonus component. The Committee believes that the ability to incentivize individual achievement by executives is important to the Company s success. In addition, the Committee believes it is critical to have the ability to offer market competitive compensation and to retain key personnel even if overall profitability is down. The discretionary portion of the bonus program provides the Committee with this tool. Any payments under the discretionary bonus component are in addition to any awards under the EBT pool.

For 2008, the Committee allocated the following percentages of the EBT Corporate Office Bonus Pool (which consists of 8.5% of total company EBT) to the executive officers, as follows:

Floyd Sherman 10.0%;

Charles Horn 5.75%;

Morris Tolly 5.75%;

Don McAleenan 5.25%; and

Fred Schenkel 3.50%.

In selecting the above EBT-based bonus percentages, the Committee reviewed actual bonus payments made to the executive officers over the past few years under the prior bonus plan and compared those payments to the pro-forma amounts that would have been earned if the 2008 Bonus Program performance criteria were in place during those years. The Committee determined that the average bonus payments to the NEOs over the prior four years would have been less under the new program by amounts ranging from 16.5% to 25% and that the volatility of bonus payment amounts year-over-year would also have been reduced under the new plan.

With respect to the discretionary bonus criteria, the Compensation Committee determined that the NEOs would be eligible for a maximum discretionary payment of up to 25% of their base salary in order to provide a mechanism to reward each NEO s individual performance and contribution to the business, as well as to provide an effective retention incentive.

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At the time of adopting the 2008 Bonus Program, it was expected that the Company would realize negative EBT for the 2008 year given the severe housing downturn and, therefore, that the NEOs would not earn any bonus amounts for 2008. The Committee nevertheless adopted the 2008 Bonus Program based on the EBT performance criteria because the Committee and management agreed that the NEOs current bonus potential should be reduced in light of the continuing industry downturn, as well as the Company s program to reduce operating expenses. The Committee believes that the new bonus program will provide appropriate incentives to the management team when the Company returns to profitability.

As expected, the Company incurred a significant operating loss for 2008 and the NEOs did not receive any payments under the EBT performance criteria. Given the expectation of negative EBT for the Company for the 2008 year, the actual target bonus for the NEOs for 2008 was limited to the maximum amount payable under the discretionary component of the bonus program, which was equal to 25% of their base salaries. This target award level is below the 25th percentile of our peer companies.

As noted above, the Committee and the Board, in accordance with senior management s recommendation, decided not to award any discretionary bonuses to the NEOs for performance in 2008. Although the Committee believes that the executive management team performed very well during the year, the Committee decided not to award discretionary bonuses as part of the Company s expense control program.

Long-Term Equity Incentives

A key component of our executive compensation program includes rewards for long-term strategic accomplishments and enhancement of long-term stockholder value through the use of equity-based incentives. We believe that long-term incentive compensation performs an essential role in attracting and retaining executive talent and providing them with incentives to maximize the value of stockholders investments. Historically, the annualized value of the equity awards to our NEOs has been at or below the median of the market, with some variation.

In a departure from past practice, and in accordance with senior management s recommendation, the Committee decided not to grant additional equity awards to the Company s executive officers in 2008 (except for a de minimis award to Mr. Tolly, as reflected in the 2008 Grants of Plan-Based Awards table later in this Proxy Statement). In lieu of additional awards, the Committee and the Board approved the NEOs participation in the stock option exchange program (the Exchange Program) adopted in February 2008. Under the Exchange Program, Company employees who held stock options with exercise prices ranging from $17.90 to $23.87 per share could exchange those options for an equivalent number of replacement options with an exercise price as of May 22, 2008, the closing date of the exchange offer. The Committee and the Board implemented the Exchange Program because many of the Company s key managers held stock options with exercise prices that substantially exceeded the market price of the Company s Common Stock. The Committee and the Board believed that these underwater stock options no longer provided the long-term incentive and retention objectives they were intended to provide when granted. The Exchange Program was intended to remedy this situation by allowing key managers to exchange their underwater options for replacement stock options at the then current market price.

Implementation of the Exchange Program facilitated the Company s ability to provide long-term incentive and retention awards to key managers without the dilution resulting from new equity awards. The Exchange Program was approved by the Company s stockholders at the 2008 annual meeting. The replacement options were granted at an exercise price of $7.15 per share (the closing price on May 22, 2008) and vest in equal installments over approximately three years. The replacement options granted to Mr. Sherman vest over approximately two years, which was the vesting period applicable to his replaced underwater options. Under the Exchange Program, an aggregate of 580,700 options held by the NEOs were exchanged for an equivalent number of new options at $7.15 per share. The value of the replacement options granted to the NEOs under this program is below the median of annual equity award values of our peer group. The incremental value of these replacement options is reflected in the 2008 Grants of Plan-Based Awards table later in this Proxy Statement.

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Executive Benefits and Perquisites

The Corporation seeks to maintain an egalitarian culture in its facilities and operations. The Corporation does not provide its officers with parking spaces or separate dining or other facilities. Corporation-provided air travel for officers is for business purposes only. The Corporation s health care, insurance, 401(k) plan, and other welfare and employee-benefit programs are the same for all eligible employees, including the NEOs, except that employees making over $100,000 annually make higher monthly contributions for their health insurance benefits. The Corporation has no outstanding loans of any kind to any of its executive officers.

Perquisites for our executives, including the named executive officers, are very limited. Other than allowances to the executives for automobiles, our executives are eligible for the same benefits as all other employees. The perquisites and other benefits provided to our named executive officers are set forth in the All Other Compensation column of the Summary Compensation Table later in this Proxy Statement.

Post-Termination Compensation

The Board believes that severance benefits are necessary in order to attract and retain the caliber and quality of executive that Builders FirstSource needs in its most senior positions.

The Corporation has entered into employment agreements with Messrs. Sherman, Horn, Tolly, and McAleenan. The terms of these agreements are described under the caption Employment Agreements later in this Proxy Statement. These agreements provide the Corporation with protection in the form of restrictive covenants, including non-competition, non-solicitation, and confidentiality covenants. The Board considered the advisability of using employment agreements with its executive officers and determined that they are in the best interests of the Corporation insofar as they permit the Corporation to achieve its goals of attracting and retaining the best possible executive talent while obtaining post employment non-competition and non-solicitation covenants from executive officers.

Under the terms of their employment agreements, Messrs. Sherman, Horn, Tolly, and McAleenan are entitled to certain severance benefits in the event their employment is terminated by the Corporation without cause or by the NEO under certain circumstances, as described in the employment agreements. These severance benefits include salary continuation for a period of one year (for Messrs. Horn, Tolly, and McAleenan) and up to two years for Mr. Sherman (depending on the expiration date of the then-current term of his agreement), continuation of health and welfare benefits during this period, and a payment equal to the average annual bonus amount paid to the executive for the prior two fiscal years (for Messrs. Horn, Tolly, and McAleenan). These severance benefits are described under the caption Potential Payments Upon Termination or Change in Control later in this Proxy Statement.

Retirement / Post-Employment Benefits

The Corporation does not provide any retirement programs or benefits to its NEOs other than its 401(k) program, which is available to all employees. This is consistent with our emphasis on direct compensation and our philosophy of maintaining an egalitarian culture.

Equity Grant Practices

The only new equity awards that were granted to our NEOs in 2008 were in connection with the Exchange Program (except for a de minimis award to Mr. Tolly), as discussed above. In prior years, the Board s practice has been to grant annual equity awards to our NEOs following the release of earnings in February. We do not engage in the practice of timing grants with the release of non-public information. We utilize the closing price on the grant date to establish the exercise price of stock options under our equity plans.

Tax Deductibility Policy

The Board of Directors has carefully considered the implications of Section 162(m) of the Internal Revenue Code. The Board of Directors believes tax deductibility of compensation is an important consideration. Accordingly, the Board of Directors, where possible and considered appropriate, strives to preserve corporate tax deductions, including the deductibility of compensation to NEOs. Amounts paid under the Corporation s 2005 Equity Incentive Plan and the Management Incentive Plan following the Corporation s initial public offering and prior to this annual meeting will not be subject to the Section 162(m) deduction limitations.

The Board of Directors also reserves flexibility, where it is deemed necessary and in the best interests of the Corporation and its stockholders to continue to attract and retain the best possible executive talent, to approve compensation arrangements that are not necessarily fully tax deductible to the Corporation. In this regard, certain portions of compensation paid to the NEOs may not be deductible for federal income tax purposes under Section 162(m). The Board of Directors will continue to review the Corporation s executive compensation practices to determine which elements of executive compensation qualify as performance-based compensation under the Code.

Summary Compensation Table

The following table sets forth the cash and other compensation that we paid to our NEOs, or that was otherwise earned by our NEOs, for their services in all capacities during 2008, 2007, and 2006.

The supplemental tables presented in the footnotes to the Summary Compensation Table are provided as additional information for our stockholders and are not intended as a substitute for the information presented in the Summary Compensation Table, which is required by SEC rules.

nd Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($)(1)	Option Awards ($)(2)	Non-Equity Incentive Plan Compensation ($)(3)	All Other Compensation ($)(4)	Total ($)
Sherman,	2008	600,000		1,980,000(1)	1,255,535(2)			3,835,5
t and Chief Executive	2007	600,000		1,650,000(1)	845,181	147,000		3,242,1
	2006	600,000				506,016		1,106,0
. Horn,	2008	441,346		422,947(1)	338,206(2)		16,877	1,219,3
ice President and	2007	375,000	200,000(5)	403,606	275,849	92,180	17,760	1,364,3
ancial Officer	2006	362,885		268,722	187,367	317,484	401,828(6)	1,538,2
. Tolly,	2008	444,231		536,132(1)	199,139(2)		2,719	1,182,2
ice President	2007	400,000		570,414	153,299	97,440	5,260	1,226,4
ns								
. McAleenan,	2008	386,538		375,527(1)	300,604(2)		15,873	1,078,5
ice President	2007	360,000		358,406	245,142	87,957	17,760	1,069,2
eral Counsel	2006	349,231		238,793	166,384	304,299	17,512	1,076,2
B. Schenkel,	2008	249,077		65,740(1)	52,615(2)		12,695	380,1
sident	2007	242,000		62,740	42,914	51,755	14,860	414,2
turing	2006	239,308		41,773	29,140	180,507	14,612	505,3

(1) Represents the dollar amount recognized for financial statement reporting purposes for restricted stock awards for the applicable fiscal year in accordance with Financial Accounting Standards Board Statement of Financial Accounting Standards No. 123 (revised 2004) *Share-Based Payment* (which we refer to as FAS 123R), and thus includes amounts for awards granted in and/or prior to the applicable fiscal year. The fair value of the stock awards was equal to the closing price of our Common Stock on the grant date.

No stock awards were granted to the NEOs in 2008, other than a grant of 6,850 shares to Mr. Tolly. The 2007 and 2008 restricted share expense for Mr. Sherman relates to an award granted to him in 2007, which is the only grant of restricted shares Mr. Sherman has received since beginning employment with the Corporation in September 2001.

FAS 123R Expense vs. Market Value of Stock Awards. Due to the decline in the price of our Common Stock, the annual expense that would be recognized if the value of the restricted stock awards was calculated as of December 31, 2008 is significantly less than the amount reflected in the Stock Awards column for 2008. If the restricted stock awards reflected in this column were valued based on the market value of our Common Stock as of December 31, 2008, rather than on the grant date in accordance with FAS 123R, the annual accounting expense would differ as shown in the following supplemental table.

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FAS 123R Expense vs. Expense Calculated at 12/31/08
(Supplemental Table)

	Based on Grant Date Fair Value			Based on 12/31/08 Market Value ($1.53 per share)		
Name	**2008 Grants ($)**	**Prior Year Grants ($)**	**Total 2008 Expense ($)(a)**	**2008 Grants ($)**	**Prior Year Grants ($)**	**Total Amount Expense ($)**
Floyd F. Sherman		1,980,000	1,980,000		168,300	168,300
Charles L. Horn		422,947	422,947		29,529	29,529
Morris E. Tolly	12,747	523,385	536,132	2,911	41,871	44,782
Donald F. McAleenan		375,527	375,527		26,214	26,214
Frederick B. Schenkel		65,740	65,740		4,590	4,590

(a) Reflects values in the Stock Awards column of the Summary Compensation Table.

(2) Represents the dollar amount recognized for financial statement reporting purposes for the applicable fiscal year, in accordance with FAS 123R, of stock option awards, and thus includes amounts for awards granted in and/or prior to the applicable fiscal year. The FAS 123R expenses for option awards shown are based on the Black-Scholes valuations of stock options granted, which in turn are based on the value of our Common Stock on the date of grant, which was higher than its market value at December 31, 2008. The assumptions used in determining the grant date fair values of these awards are set forth in Note 2, Summary of Significant Accounting Policies, in the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2008.

Except for a grant of 14,600 options to Mr. Tolly, the only option awards that were granted to the NEOs in 2008 were made in connection with a stock option exchange program (the Exchange Program, as described in more detail below) under which the Corporation s employees, including the NEOs, were given the opportunity to exchange on a one-for-one basis certain underwater options for new options having an exercise price equal to the fair market value of the Common Stock as of the date of the exchange.

FAS 123R Expense vs. Market Value of Option Awards. Due to the decline in the value of our Common Stock, the option awards for which expenses are shown in this column are out of the money and have no intrinsic value (calculated as the difference between the price of our Common Stock as of the market close on December 31, 2008 ($1.53 per share) and the option exercise price), as reflected in the supplemental table below. If, instead, the valuation for annual expense for the same options was calculated as if those options were granted on December 31, 2008 using similar assumptions as used when the options were granted, the expense associated with the options would be very significantly lower, as reflected in the supplemental table below. For example, as shown below, if the total value of options granted to Mr. Sherman was calculated in accordance with the Black-Scholes model as if the options were granted on December 31, 2008, the annual expense would be $101,927.

Intrinsic Value of Stock Options vs. FAS 123R Expense vs. Expense Calculated at 12/31/08
(Supplemental Table)

Name	Total Options (#)	Intrinsic Value as of 12/31/08 ($)	FY2008 Expense per FAS 123R ($)(a)	Total Fair Value if Granted on 12/31/08 ($)	Annual Expense Using Fair Value as if Granted on 12/31/08 ($)
Floyd F. Sherman	330,000		1,255,535	203,854	101,927
Charles L. Horn	96,400		338,206	63,414	21,138
Morris E. Tolly	68,200		199,139	44,863	14,954
Donald F. McAleenan	85,700		300,604	56,375	18,792
Frederick B. Schenkel	15,000		52,615	9,867	3,289

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(a) Reflects values in the Option Awards column of the Summary Compensation Table.

(3) Reflects annual cash incentive awards earned under the Corporation s Management Incentive Plan. No annual incentive awards were paid to any of the NEOs for 2008. For information regarding our Management Incentive Plan, see the discussion in Compensation Discussion and Analysis.

(4) Amounts include the following:
Employer Contributions to 401(k) Plan. Each of Messrs. Horn, Tolly, McAleenan, and Schenkel received a 50% match for their contributions up to 6% of their annual compensation.
Auto Allowance. Messrs. Horn, McAleenan, and Schenkel each received a car allowance. We value auto allowances based on the actual payments made to the executives.

(5) Mr. Horn received a discretionary bonus in 2007 in recognition of his significant contributions to the Corporation in connection with the achievement of certain internal control effectiveness and process improvement goals.

(6) In 2006, Mr. Horn received relocation assistance of $246,701 in connection with the sale of his home, which consisted of mortgage payments, property taxes, utility bills, certain other upkeep expenses, and the loss incurred in connection with the sale of the home (exclusive of real estate commissions). The relocation assistance is valued based on the actual payments made. The relocation assistance of $246,701 was grossed up by $137,615 to cover Mr. Horn s tax obligations. This was comprised of a gross up to cover federal income and Medicare taxes on the relocation assistance.

2008 Grants of Plan-Based Awards

The following table below sets forth the individual grants of plan-based awards made to each of our NEOs during 2008.

Name	Grant Date	Approval Date(1)	Estimated Future Payouts Under Non-Equity Incentive Plan Awards (2) Threshold ($)	Target ($)	All Other Stock Awards: Number of Shares of Stock or Units (#)(4)	All Other Option Awards: Number of Securities Underlying Options (#)(4)	Exercise or Base Price of Option Awards ($/Sh)	Grant Date Fair Value of Stock and Option Awards ($)
Floyd F. Sherman			0	150,000				
	5/22/08	2/26/08				330,000(1)	7.15	723,954(5)
			0	112,500				

Charles L. Horn								
	5/22/08	2/26/08				96,400(1)	7.15	224,790(5)
Morris E. Tolly			0	112,500				
	2/26/08				6,850			45,895(6)
	2/26/08					14,600	6.70	40,087(6)
	5/22/08	2/26/08				53,600(1)	7.15	124,968(5)
Donald F. McAleenan			0	97,500				
	5/22/08	2/26/08				85,700(1)	7.15	199,816(5)
Frederick B. Schenkel			0	62,500				
	5/22/08	2/26/08				15,000(1)	7.15	34,976(5)

(1) Grants of new options in return for the cancellation of an equivalent number of underwater options granted in prior years, as described in Option Repricing below, were approved by the Board on February 26, 2008, subject to approval by the Company s stockholders at the Company s annual meeting on May 22, 2008.

(2) Represents threshold and target payout levels for 2008 performance under the Management Incentive Plan. The Management Incentive Plan did not set forth target payout amounts for 2008. The amounts shown here as target payouts are representative amounts based on (i) a full payout of the portion of the bonus based on discretionary individual performance plus (ii) a payout of the portion of the bonus that would be

earned if 2008 financial performance were equal to 2007 financial performance. There is no maximum payout level. No amounts were paid to the NEOs for 2008 under the Management Incentive Plan, as reported under the Non-Equity Incentive Plan Compensation column in the Summary Compensation Table. For more information regarding the Management Incentive Plan, see the discussion in Compensation Discussion and Analysis.

(3) Reflects awards of time-vesting restricted stock under the 2005 Equity Incentive Plan. Mr. Tolly s restricted stock vests in three equal annual installments on each of the first, second, and third anniversaries of the grant date. None of the other NEOs received restricted stock awards in 2008.

(4) Reflects awards of time-vesting stock options granted under the 2007 Incentive Plan, with regard to Mr. Tolly s options granted February 26, 2008, and under the 2005 Equity Incentive Plan with regard to the other options. The exercise price of the options is equal to the closing price of the Corporation s Common Stock on the date of the grant. For Mr. Sherman, the options vest in two equal annual installments on February 26, 2009 and 2010. For the other NEOs, the options vest in three equal annual installments on each of February 26, 2009, 2010, and 2011. The options expire ten years from the grant date.

(5) Represents the incremental fair value of options granted on May 22, 2008 in return for the cancellation of an equivalent number of underwater options granted in prior years, as described in Option Repricing. The methodology used in determining the incremental fair value of the awards is set forth in Note 10, Summary of Significant Accounting Policies, in the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2008.

(6) Represents the grant date fair value of such award. The grant date fair value of the awards is determined pursuant to FAS 123R. The assumptions used in determining the grant date fair values of the awards are set forth in Note 2, Summary of Significant Accounting Policies, in the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2008.

Employment Agreements

We have employment agreements with Messrs. Sherman, Horn, Tolly, and McAleenan that include the terms described below. Additional information regarding the severance benefits provided under the employment agreements may be found under Potential Payments Upon Termination or Change in Control.

Mr. Sherman. Mr. Sherman s employment agreement was entered into on September 1, 2001 and amended on June 1, 2005 and October 29, 2008. His agreement has a two-year term, with automatic renewals each year commencing on the first anniversary of the effective date of the employment agreement, unless either party provides at least 90 days notice of non-renewal. Mr. Sherman s employment agreement sets his base salary at $600,000, subject to annual review and increase as deemed appropriate by the Board of Directors. At his request, Mr. Sherman s base salary has remained unchanged since September 2001. Mr. Sherman s employment agreement also provides that Mr. Sherman will be eligible for an annual cash incentive bonus of up to 133% of his base salary, as determined by the Board of Directors. The Board of Directors may increase the amount of Mr. Sherman s bonus if it deems such an increase appropriate. Pursuant to his employment agreement, Mr. Sherman is entitled to fully participate in all (i) health and dental benefits and insurance programs, (ii) life and short- and long-term disability benefits and insurance programs, and (iii) defined contribution and equity compensation programs, all as available to senior executive officers of the Corporation generally.

Messrs. Horn, Tolly, and McAleenan. The employment agreements with Messrs. Horn, Tolly, and McAleenan were entered into on January 15, 2004 and amended on October 29, 2008. Each of these agreements has a one-year term, with automatic one-year renewals commencing on the first anniversary of the effective date of the employment agreement, unless either party provides at least 90 days notice of non-renewal. For 2008, the minimum base salaries of Messrs. Horn, Tolly, and McAleenan were $450,000, 450,000, and $390,000, respectively. These amounts were increased from $375,000, $400,000, and $360,000, respectively, effective on February 4, 2008. The employment agreement of each of Messrs. Horn, Tolly, and McAleenan provides for the payment of an annual cash incentive bonus with a minimum target of 100% of their salary. The employment agreements also provide that the executives are entitled to fully participate in all

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(i) health and dental benefits and insurance programs, (ii) life and short- and long-term disability benefits and insurance programs, and (iii) defined contribution and equity compensation programs, all as available to senior executive officers of the Corporation generally.

Option Repricing

In February 2008, as a result of the downturn in the single-family homebuilding industry in 2006 and 2007 and the resulting deterioration in the stock price of many companies engaged in the industry over that period, including Builders FirstSource, the Board determined that a significant number of our key managers held stock options with exercise prices that substantially exceeded the then current market price of our Common Stock. The Board of Directors determined that those options no longer provided the long-term incentive and retention objectives they were intended to provide. As a result, the Board approved an exchange offer intended to address that situation by providing key managers with an opportunity to exchange their underwater option grants (the Underwater Options) for new option grants (the New Options). The Board of Directors approved this exchange offer in lieu of granting additional options in 2008 to the key managers who were eligible optionholders (other than de minimis grants to a few key managers). The exchange offer was approved by the stockholders of the Company on May 22, 2008 (the New Option Grant Date).

As a result of the exchange offer, 943,200 Underwater Options with exercise prices ranging from $17.90 to $23.87 per share were exchanged for New Options with an exercise price of $7.15 per share, the closing price of our Common Stock as reported on the NASDAQ Stock Market on the New Option Grant Date. The Underwater Options exchanged in the exchange offer included 330,000, 96,400, 53,600, 87,500, and 15,000 Underwater Options held by Messrs. Sherman, Horn, Tolly, McAleenan, and Schenkel, respectively. Regardless of the vesting status of the Underwater Options, the New Options were unvested on the New Option Grant Date and vest as follows (i) for Floyd Sherman, our President and Chief Executive Officer, one-half of his New Options become exercisable on each of February 26, 2009 and 2010 and (ii) for all of the other Eligible Optionholders, including Messrs. Horn, Tolly, McAleenan, and Schenkel, one-third of the New Options become exercisable on each of February 26, 2009, 2010, and 2011. All the New Options expire on May 22, 2018, regardless of the expiration date of the options that were exchanged for them. Except with regard to the new exercise price, vesting schedule, and termination date, the terms of the New Options are essentially identical to the terms of the Underwater Options.

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2008 Outstanding Equity Awards at Fiscal Year-End

The following table provides information concerning equity awards that are outstanding as of December 31, 2008 for each of our NEOs.

	Option Awards				Stock Awards	
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price ($)	Option Expiration Date	Number of Shares of Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($)(1)
Floyd F. Sherman	235,753(2)		3.15	1/16/12		
		330,000(3)	7.15	5/22/18		
					110,000(4)	168,300
Charles L. Horn	147,650(2)		3.15	1/16/12		
	74,523(5)		3.15	2/27/14		
		96,400(6)	7.15	5/22/18		
					12,868(7)	19,688
					12,867(8)	19,687
Morris E. Tolly	10,800(9)		3.15	1/1/13		
	62,500(5)		3.15	2/27/14		
		14,600(10)	6.70	2/26/18		
		53,600(6)	7.15	5/22/18		
					7,134(7)	10,915
					7,134(8)	10,915
					6,850(11)	10,481
Donald F. McAleenan	236,714(12)		3.15	1/16/12		
	46,295(5)		3.15	2/27/14		
		85,700(6)	7.15	5/22/18		
					11,434(7)	17,494
					11,400(8)	17,442
Frederick B. Schenkel	5,000(13)		3.15	2/11/12		
	10,400(9)	2,600(9)	3.15	1/1/13		
	5,000(5)		3.15	2/27/14		
		15,000(6)	7.15	5/22/18		
					2,000(7)	3,060
					2,000(8)	3,060

(1) Reflects the value as calculated using the closing market price of our Common Stock as of December 31, 2008 ($1.53).

(2) Stock options awarded to the executive on January 16, 2002 under the 1998 Stock Incentive Plan. The options vested in four equal tranches on each of September 1, 2002, 2003, 2004, and 2005.

(3) Stock options awarded to the executive on May 22, 2008 under the 2005 Equity Incentive Plan. The options vest in two equal tranches on each of February 26, 2009 and 2010. These options were received in exchange for the cancellation of pre-existing options pursuant to an exchange offer described above and approved by the stockholders at the annual meeting on May 22, 2008.

(4) Restricted stock awarded to the executive on February 27, 2007 under the 2005 Equity Incentive Plan. The restricted shares vest on February 27, 2009.

(5) Stock options awarded to the executive on March 1, 2004 under the 1998 Stock Incentive Plan. The options vested based on the Corporation achieving specified performance targets as follows: (i) one sixth on December 31, 2004, based on performance targets for 2004, (ii) one sixth on December 31, 2005, based on performance targets for 2005, (iii) one sixth on December 31, 2006, based on performance targets for 2006, and (iv) one half on December 31, 2006, based on performance targets for the three-year period including 2004, 2005, and 2006.

(6) Stock options awarded to the executive on May 22, 2008 under the 2005 Equity Incentive Plan. The options vest in three equal tranches on each of February 26, 2009, 2010, and 2011. These options were received in exchange for the cancellation of pre-existing options pursuant to an exchange offer described above and approved by the stockholders at the annual meeting on May 22, 2008.

(7) Restricted stock awarded to the executive on February 14, 2006 under the 2005 Equity Incentive Plan. The restricted shares vest on February 14, 2009.

(8) Restricted stock awarded to the executive on February 27, 2007 under the 2005 Equity Incentive Plan. The restricted shares vest in two equal tranches on each of February 27, 2009 and 2010.

(9) Stock options awarded to executive on January 1, 2003 under the 1998 Stock Incentive Plan. The options vest based on the attainment of yearly financial targets on each of January 1, 2004, 2005, 2006, 2007, and 2008. If the targets were not met, any unvested options cliff vest on January 1, 2012.

(10) Stock options awarded to the executive on February 26, 2008 under the 2007 Incentive Plan. The options vest in three equal tranches on each of February 26, 2009, 2010, and 2011.

(11) Restricted stock awarded to the executive on February 26, 2008 under the 2005 Equity Incentive Plan. The restricted shares vest in three equal tranches on each of February 26, 2009, 2010, and 2011.

(12) Stock options awarded to the executive on January 16, 2002 under the 1998 Stock Incentive Plan. The options were 20% vested on the date of grant and an additional 20% vested on each of September 1, 2002, 2003, 2004, and 2005.

(13) Stock options awarded to the executive on February 11, 2002 under the 1998 Stock Incentive Plan. The options vested based on the attainment of yearly financial targets on each of February 11, 2003, 2004, 2005, 2006, and 2007.

2008 Option Exercises and Stock Vested

The following table provides information regarding the vesting of restricted stock awards held by our NEOs in 2008. No stock options were exercised by our NEOs during 2008.

	Stock Awards	
Name	**Number of Shares Acquired on Vesting (#)**	**Value Realized on Vesting ($)(1)**

Floyd F. Sherman	110,000	$	761,200
Charles L. Horn	19,299	$	130,719
Morris E. Tolly	27,367	$	124,139
Donald F. McAleenan	17,133	$	116,045
Frederick B. Schenkel	3,000	$	20,320

(1) Reflects the value as calculated by multiplying the number of shares of stock by the closing market price of our Common Stock on the date of vesting.

Potential Payments Upon Termination or Change in Control

As described above in the narrative following the 2008 Grants of Plan-Based Awards table, we entered into employment agreements with four of our NEOs, which, among other things, provide benefits to such NEOs in the event of a termination of employment under certain circumstances.

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Mr. Sherman s Agreement

Termination without Cause. Mr. Sherman s employment agreement provides that if he is terminated by the Corporation without cause (as defined in the employment agreement) he will be entitled to payment of his annual base salary and health and welfare benefits for