

Builders FirstSource, Inc.
Form 10-K
February 28, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2013

OR

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

For the transition period from _____ to _____

Commission File Number: 0-51357

BUILDERS FIRSTSOURCE, INC.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	52-2084569 (I.R.S. Employer Identification No.)
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2001 Bryan Street, Suite 1600

Dallas, Texas (Address of principal executive offices)	75201 (Zip Code)
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Registrant's telephone number, including area code:

(214) 880-3500

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Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Exchange on Which Registered
Common stock, par value \$0.01 per share	NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

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

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant as of June 28, 2013 was approximately \$280.1 million based on the closing price per share on that date of \$5.98 as reported on the NASDAQ Stock Market LLC.

The number of shares of the registrant's common stock, par value \$0.01, outstanding as of February 26, 2014 was 97,950,006.

DOCUMENTS INCORPORATED BY REFERENCE

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Portions of the registrant's definitive proxy statement for its annual meeting of stockholders to be held on May 21, 2014 are incorporated by reference into Part II and Part III of this Form 10-K.

BUILDERS FIRSTSOURCE, INC.

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PART I

Item 1. Business

CAUTIONARY STATEMENT

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

OVERVIEW

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 53 distribution centers and 47 manufacturing facilities, many of which are located on the same premises as our distribution centers. In this annual report, references to the “company,” “we,” “our,” “ours” or “us” refer to Builders FirstSource, Inc. and its consolidated subsidiaries, unless otherwise stated or the context otherwise requires.

Builders FirstSource, Inc. is a Delaware corporation formed in 1998, as BSL Holdings, Inc. On October 13, 1999, our name changed to Builders FirstSource, Inc. Our common stock is listed on the NASDAQ Stock Market LLC under the ticker symbol “BLDR”.

OUR INDUSTRY

We compete in the professional segment (“Pro Segment”) of the U.S. residential new construction building products supply market. Suppliers in the Pro Segment primarily focus on serving professional customers such as homebuilders and remodeling contractors. The Pro Segment consists predominantly of small, privately owned suppliers including framing and shell construction contractors, local and regional materials distributors, single or multi-site lumberyards, and truss manufacturing and millwork operations. Because of the predominance of smaller privately owned companies and the overall size and diversity of the target customer market, the Pro Segment remains fragmented. There were only eight building product suppliers with manufacturing capabilities in the Pro Segment that generated more than \$500 million in sales according to ProSales magazine’s 2012 ProSales 100 list. On this list, we were the third largest building product supplier with manufacturing capabilities.

Our industry is driven primarily by the residential new construction market, which is in turn dependent upon a number of factors, including demographic trends, interest rates, employment levels, supply and demand for housing stock, availability of credit, foreclosure rates, consumer confidence and the economy in general. The homebuilding industry experienced a significant downturn which began in 2006. During this downturn, many homebuilders significantly decreased their housing starts because of lower demand and a surplus of both existing and new home inventory. The

weakness in the homebuilding industry resulted in a significant reduction in demand for our products and services. Beginning in late 2011, the industry began to stabilize and housing activity has strengthened over the past two years. According to the National Association of Homebuilders (“NAHB”), the single-family residential construction market was an estimated \$168.8 billion in 2013, which is 28% higher than 2012, though still down significantly from the historical high of \$413.2 billion in 2006.

Beginning in 2007, the mortgage markets experienced substantial disruption due to increased defaults, primarily as a result of credit quality deterioration. This disruption resulted in a stricter regulatory environment and reduced availability of mortgages for potential homebuyers due to an illiquid credit market and more restrictive standards to qualify for mortgages. Mortgage financing and commercial credit for smaller homebuilders continue to be constrained, which is slowing a recovery in our industry. However, we believe there are several meaningful trends that indicate U.S. housing demand will likely recover to levels consistent with the historical average of the past fifty years in the long term. These trends include relatively low interest rates, the aging of housing stock, and population growth due to immigration and birthrate exceeding death rate. U.S. single-family housing starts increased 15.5% in 2013 compared to 2012. The NAHB is predicting that U.S. single-family housing starts will increase to approximately 821,800 in 2014, which would represent a 32.3% increase from 2013 actual NAHB U.S. single-family housing starts of 621,300.

OUR CUSTOMERS

We serve a broad customer base ranging from production homebuilders to small custom homebuilders. We believe we have a diverse geographic footprint as we serve 34 markets in 9 states. Based on 2013 U.S. Census data, we have operations in 18 of the top 50 U.S. Metropolitan Statistical Areas, as ranked by single family housing permits in 2013. In addition, approximately 46% of U.S. housing permits in 2013 were issued in states in which we operate.

Our customer mix is a balance of large national homebuilders, regional homebuilders, and local builders. Our customer base is highly diversified. For the year ended December 31, 2013, our top 10 customers accounted for approximately 22.5% of sales, and no single customer accounted for more than 5% of sales. Our top 10 customers are comprised primarily of the largest production homebuilders, including publicly traded companies such as Beazer Homes USA, Inc., D.R. Horton, Inc., Hovnanian Enterprises, Inc., Standard Pacific Corporation., and The Ryland Group, Inc.

In addition to the largest production homebuilders, we also service and supply regional and local custom homebuilders. Custom homebuilders require high levels of service; our sales team must work very closely with the designers on a day-to-day basis in order to ensure the appropriate products are produced and delivered on time to the building site. To account for these increased service costs, pricing in the industry is tied to the level of service provided and the volumes purchased.

Our primary focus has been and continues to be on single-family residential new construction. However, we will continue to identify opportunities for incremental profitable growth in the multi-family and light commercial markets.

OUR PRODUCTS AND SERVICES

We offer an integrated solution to our customers providing manufacturing, supply, and installation of a full range of structural and related building products. We provide a wide variety of building products and services directly to homebuilder customers. We also manufacture floor trusses, roof trusses, wall panels, stairs, millwork, windows, and doors. In addition to our comprehensive offering of products that includes approximately 70,000 stock keeping units (“SKUs”), we also provide a full range of construction services. We believe our broad product and service offering, combined with our scale and experienced sales force, has driven market share gains with both large and small homebuilders.

We group our building products and services into five product categories: prefabricated components, windows & doors, lumber & lumber sheet goods, millwork, and other building products & services. For the year ended December 31, 2013, our combined sales of prefabricated components, windows & doors and millwork product categories represented 49.6% of total sales. Each of these categories includes both manufactured and distributed products. Products in these categories typically carry a higher margin and provide us with opportunities to cross-sell other products and services, thereby increasing customer penetration. Sales by product category for the years ended December 31, 2013, 2012 and 2011 can be found under the caption “Management’s Discussion and Analysis of Financial Condition and Results of Operations” contained in Item 7 of this annual report on Form 10-K.

Prefabricated Components. Prefabricated components are factory-built substitutes for job-site framing and include floor trusses, roof trusses, wall panels, stairs, and engineered wood that we design, cut, and assemble for each home. Our manufactured prefabricated components allow builders to build higher quality homes more efficiently. Roof trusses, floor trusses, wall panels and stair units are built in a factory controlled environment. Engineered floors and beams are cut to the required size and packaged for the given application at many of our locations. Without prefabricated components, builders construct these items on site, where weather and variable labor quality can negatively impact construction cost, quality and installation time. In addition, engineered wood beams have greater structural strength than conventional framing materials, allowing builders to frame houses with more open space creating a wider variety of house designs. Engineered wood floors are also stronger and straighter than conventionally

framed floors.

Prior to the housing downturn, homebuilders were increasingly using prefabricated components in order to realize increased efficiency and improved quality. Shortening cycle time from start to completion was a key imperative of the homebuilders during periods of strong consumer demand. During the housing downturn, that trend decelerated as cycle time had less relevance. Customers who traditionally used prefabricated components, for the most part, still do. However, the conversion of customers to this product offering slowed during the downturn. We are seeing this trend reverse as the residential new construction market continues to strengthen.

Windows & Doors. The windows & doors category comprises the manufacturing, assembly and distribution of windows, and the assembly and distribution of interior and exterior door units. We manufacture aluminum and vinyl windows in our plant in Houston, Texas which allows us to supply builders, primarily in the Texas market, with cost-competitive products. Our pre-hung interior and exterior doors consist of a door slab with hinges and door jambs attached, reducing on-site installation time and providing higher quality finished door units than those constructed on site. These products typically require a high degree of product knowledge and training to sell. As we continue to emphasize higher margin product lines, we expect value-added goods like windows & doors to increasingly contribute to our sales and overall profitability.

Lumber & Lumber Sheet Goods. Lumber & lumber sheet goods include dimensional lumber, plywood and oriented strand board (“OSB”) products used in on-site house framing. In 2013, this product line was 35.4% of our total sales, a 2.9% increase from 2012. We expect the lumber & lumber sheet goods business to remain a stable revenue source in the future.

Millwork. Millwork includes interior trim, exterior trim, columns and posts that we distribute, as well as custom exterior features that we manufacture under the Synboard[®] brand name. Synboard is produced from extruded PVC and offers several advantages over traditional wood features, such as greater durability and no ongoing maintenance such as periodic caulking and painting.

Other Building Products & Services. Other building products & services consist of various products, including hardware, composite materials, roofing and insulation. This category also includes services such as turn-key framing, shell construction, design assistance and professional installation of products spanning all our product categories. We provide professional installation and turn-key services as a solution for our homebuilder customers. Through our installation services program, we help homebuilders realize efficiencies through improved scheduling, resulting in reduced cycle time and better cost controls. By utilizing an energy efficiency software program, we also assist homebuilders in designing energy efficient homes in order to meet increasingly stringent energy rating requirements. Upgrading to our premium windows, doors, and insulating products reduces overall cost to the homebuilder by minimizing costs of the required heating/cooling system. We work closely with the homebuilder to select the appropriate mix of our products in order to meet current and forthcoming energy codes. We believe these services require scale, capital and sophistication that smaller competitors do not possess.

MANUFACTURING

Our manufacturing facilities utilize the latest technology and the highest quality materials to improve product quality, increase efficiency, reduce lead times and minimize production errors. We manufacture products within three of our product categories: prefabricated components, millwork, and windows and doors.

Prefabricated Components — Trusses and Wall Panels. Truss and wall panel production has two steps — design and fabrication. Each house requires its own set of designed shop drawings, which vary by builder type: production versus custom builders. Production builders use prototype house plans as they replicate houses. These house plans may be minimally modified to suit individual customer demand. The number of changes made to a given prototype house, and the number of prototype houses used, varies by builder and their construction and sales philosophy. We maintain an electronic master file of trusses and wall panels for each builder’s prototype houses. There are three primary benefits to master filing. First, master filing is cost effective as the electronic master file is used rather than designing the components individually each time the prototype house is built. Second, it improves design quality as a house’s design is based on the proven prototype except for any minor builder modifications. Third, master filing allows us to change one file and update all related prototype house designs automatically as we improve the design over time or as the builder modifies the base prototype house. We do not maintain a master file for custom builders who do not replicate houses, as it is not cost effective. For these builders, the components are designed individually for each house.

After we design shop drawings for a given house, we download the shop drawings into a proprietary software system to review the design for potential errors and to schedule the job for production. The fabrication process begins by cutting individual pieces of lumber to required lengths in accordance with the shop drawings. We download the shop drawings from our design department to computerized saws. We assemble the cut lumber to form roof trusses, floor trusses or wall panels, and store the finished components by house awaiting shipment to the job site.

We generate fabrication time standards for each component during the design step. We use these standards to measure efficiency by comparing actual production time with the calculated standard. Each plant’s performance is benchmarked by comparing efficiency across plants.

Prefabricated Components — Engineered Wood. As with trusses and wall panels, engineered wood components have a design and fabrication step. We design engineered wood floors using a master filing system similar to the truss and wall panel system. Engineered wood beams are designed to ensure the beam will be structurally sound in the given application. After the design phase, a printed layout is generated. We use this layout to cut the engineered wood to the required length and assemble all of the components into a house package. We then install the components on the job site. We design and fabricate engineered wood at many of our distribution locations.

Prefabricated Components — Stairs. We manufacture box stairs at some of our locations. After a house is framed, our salesman takes measurements at the job site prior to manufacturing to account for any variation between the blueprints and the actual framed house. We fabricate box stairs based on these measurements.

Custom Millwork. Our manufactured custom millwork consists primarily of synthetic exterior trim, custom windows, features and box columns that we sell under our Synboard brand name and throughout our company.

We sand, cut, and shape sheets of 4 foot by 18 or 20 foot Celuka-blown, extruded PVC, or Synboard, to produce the desired product. We produce exterior trim boards by cutting the Synboard into the same industry-standard dimensions used for wood-based exterior trim boards. We form exterior features by assembling pieces of Synboard and other PVC-based moldings that have been cut, heated and bent over forms to achieve the desired shape. For custom windows, we build the frame from Synboard and glaze the glass into place. We fabricate box columns from sections of PVC that are cut on a 45 degree angle and mitered together.

Windows. We manufacture a full line of traditional aluminum and vinyl windows at an approximately 200,000 square foot manufacturing facility located in Houston, Texas. The process begins by purchasing aluminum and vinyl lineal extrusions. We cut these extrusions to size and join them together to form the window frame and sash. We then purchase sheet glass and cut it to size. We combine two pieces of identically shaped glass with a sealing compound to create a glass unit with improved insulating capability. We then insert the sealed glass unit and glaze it into the window frame and sash. The unit is completed when we install a balance to operate the window and add a lock to secure the window in a closed position.

Pre-hung Doors. We pre-hang interior and exterior doors at many of our locations. We insert door slabs and pre-cut door jambs into a door machine, which bores holes into the doors for the door hardware and applies the jambs and hinges to the door slab. We then apply the casing that frames interior doors at a separate station. Exterior doors do not have a casing, and instead may have sidelights applied to the sides of the door, a transom attached over the top of the door unit and a door sill applied to the threshold.

OUR STRATEGY

Our long-term strategy is to leverage our competitive strengths to grow sales, earnings, and cash flow and remain a preferred supplier to the homebuilding industry. We modified our strategy in response to the extended downturn that affected our industry. During this time, our goal was to maximize financial performance without impairing our ability to compete and create long term value. We implemented this strategy through generating new business, controlling costs, diligently managing working capital, improving operating efficiencies, and most importantly conserving cash. While we continue to focus on these areas, we also plan to prudently utilize our improved liquidity to support anticipated sales growth as the housing industry recovers. As the housing industry and our sales improve, we believe our operating leverage will also enhance our financial results.

We intend to build on our strong market positions and increase our sales and profits by pursuing the following strategies:

Utilize our strengths to capitalize on housing market recovery and growth. We intend to utilize our leading market positions and integrated product and service offerings to capitalize on the housing market recovery and to capture additional market share. The NAHB forecasts that U.S. single-family housing starts will grow by 32.3% and 41.0% in 2014 and 2015, respectively. We believe that our scale, local-market presence and our customers' desire to seek strategic relationships with a limited number of full-line suppliers position us to increase our market share and benefit from the expected continuing recovery in new home construction.

Maximize our "share of wallet" with individual customers and across our served markets. Homebuilding customers of the Pro Segment continue to emphasize the importance of competitive pricing across a broad product portfolio, sales force knowledge, on-site services and overall "ease-of-use" of their building products suppliers. We believe that our homebuilding customers will continue to consolidate the number of supplier relationships they maintain, offering a greater "share of wallet" to their remaining suppliers. In our ongoing pursuit to increase our market share, we will continue to look for ways to enhance our "one-stop shop" strategy by bolstering our service offerings and manufacturing capabilities in ways that will drive additional pull through of our products. We believe that homebuilders will continue to place an increased value on these capabilities, which should further differentiate us from most of our competitors.

Optimize cash flow with highly scalable cost structure. Through the downturn we focused on standardizing processes and technology-based workflows to maximize operational efficiencies, reduce costs and enhance working capital efficiency. Our focus on cost controls, working capital and operating improvements proved to be valuable during the downturn and will be an integral part of our strategy going forward. Our largest controllable cost is our salaries and wages. Our ability to identify and implement operating efficiencies is evident in the fact that our salaries and benefits expense, excluding stock compensation expense, as a percentage of sales decreased to 11.5% in 2013 from 12.8% in 2012. We were also able to reduce as a percentage of sales our remaining selling, general and administrative expenses during the current year. Industry forecasters are predicting that single family housing starts will show continued improvements in 2014, which could require us to increase our operating expenses, headcount and working capital in order to support the additional demand. We will work to minimize these increases to ensure that we prudently adjust our variable costs with the change in sales volumes. We are extremely focused on expenses and working capital to remain a low cost supplier. Our cost structure is scalable, and we expect these efficiencies will drive enhanced profit margins and cash flow conversion as we grow with improving market conditions.

Continue to leverage our strategic vendor relationships. We strive to continually enhance our role as a preferred channel partner for our building products vendors. Our size, liquidity position and access to the capital markets address a major concern for many vendors, who otherwise must invest significant time and effort to monitor the credit worthiness of a large number of smaller customers. Our relative size and strong homebuilder relationships also provide our vendors access to a large customer base with significant purchasing power. This channel strength and our financial position allow us to negotiate favorable pricing (including back-end rebates) and to receive a higher priority with our vendors when product supply is limited. Furthermore, our broad product portfolio, which includes a variety of higher-margin specialty products, enhances our preferred partner status, enabling us to participate in mutually beneficial, joint marketing programs with our vendors. We anticipate our strategic vendor relationships will become even more critical in the event that demand exceeds product availability and vendors will need to prioritize their partners and product allocations.

Selectively pursue opportunities for organic growth and strategic acquisitions. The fragmented nature of our industry provides numerous organic growth and strategic acquisition opportunities. We plan to continue to grow our business by investing in our existing sales force and by adding talented new members to our sales force. We also plan to grow by acquiring competitors in our existing markets and by selectively entering new markets through the opening of new facilities or acquiring existing suppliers. When adding facilities, we seek to leverage our strong brand name and economies of scale to increase our profitability and expand our market penetration. Furthermore, from time to time, our customers request that we enter new markets to support their growth. We assess potential new markets while adhering to a disciplined selection process by analyzing demographic, economic and competitive factors, while also focusing on site selection and the long-term profit opportunity in such market. Accordingly, we plan to continue to take a disciplined approach to organic growth and strategic acquisitions that strengthen our business, broaden our product and service offerings, leverage our existing infrastructure and enhance our existing customer and vendor relationships.

SALES AND MARKETING

We seek to attract and retain customers through exceptional customer service, leading product quality, broad product and service offerings, and competitive pricing. This strategy is centered on building and maintaining strong customer relationships rather than traditional marketing and advertising. We strive to add value for the homebuilders through shorter lead times, lower material costs, faster project completion and higher quality. By executing this strategy, we believe we will continue to generate new business.

Our experienced, locally focused sales force is at the core of our sales effort. This sales effort involves deploying salespeople who are skilled in housing construction to meet with a homebuilder's construction superintendent, local purchasing agent, or local executive with the goal of becoming their primary product supplier. If selected by the homebuilder, the salesperson and his or her team review blueprints for the contracted homes and advise the homebuilder in areas such as opportunities for cost reduction, increased energy efficiencies, and regional aesthetic preferences. Next, the team determines the specific package of products that are needed to complete the project and schedules a sequence of site deliveries. Our large delivery fleet and comprehensive inventory management system enable us to provide "just-in-time" product delivery, ensuring a smoother and faster production cycle for the homebuilder. Throughout the construction process, the salesperson makes frequent site visits to ensure timely delivery and proper installation and to make suggestions for efficiency improvements. We believe this level of service is highly valued by our customers and generates significant customer loyalty. At December 31, 2013, we employed approximately 415 sales representatives, who are typically paid a commission based on gross margin dollars collected and work with approximately 215 sales coordinators and product specialists.

BACKLOG

Due to the nature of our business, backlog information is not meaningful. While our customers may provide an estimate of their future needs, in most cases we do not receive a firm order from them until just prior to the anticipated

delivery dates. Accordingly, in many cases the time frame from receipt of a firm order and shipment does not exceed a few days.

MATERIALS AND SUPPLIER RELATIONSHIPS

We purchase inventory primarily for distribution, some of which is also utilized in our manufacturing plants. The key materials we purchase include dimensional lumber, plywood, OSB, engineered wood, windows, doors, and millwork. Our largest suppliers are national lumber and wood products producers and distributors such as Boise Cascade Company, U.S. Lumber Group, Canfor Corporation, Louisiana-Pacific Corporation, BlueLinx Holdings Inc., and Weyerhaeuser Company and building products manufacturers such as Masonite International Corporation, M I Windows and Doors, Inc., Gilman Building Products, and Norbord, Inc. We believe there is sufficient supply in the marketplace to competitively source most of our requirements without reliance on any particular supplier and that our diversity of suppliers affords us purchasing flexibility. Due to our centralized oversight of purchasing and our large lumber and OSB purchasing volumes, we believe we are better able to maximize the advantages of both our, and our suppliers', broad footprints and negotiate purchases in multiple markets to achieve more favorable contracts with respect to price, terms of sale, and supply than our regional competitors. Additionally, for certain customers, we institute purchasing programs on raw materials such as OSB to align portions of our procurement costs with our customer pricing commitments. We balance our lumber and OSB purchases with a mix of contract and spot market purchases to ensure consistent quantities of product necessary to fulfill customer contracts, to source products at the lowest possible cost, and to minimize our exposure to the volatility of commodity lumber prices.

We currently source products from approximately 3,500 suppliers in order to reduce our dependence on any single company and to maximize purchasing leverage. Although no purchases from any single supplier represented more than 10% of our total materials purchases in 2013, we believe we are one of the largest customers for many suppliers, and therefore have significant purchasing leverage. We have found that using multiple suppliers ensures a stable source of products and the best purchasing terms as the suppliers compete to gain and maintain our business.

We maintain strong relationships with our suppliers, and we believe opportunities exist to improve purchasing terms in the future, including inventory storage or “just-in-time” delivery to reduce our inventory carrying costs. We will continue to pursue additional procurement cost savings and purchasing synergies which would further enhance our margins and cash flow.

COMPETITION

Due to the current market conditions, we have and will continue to experience competition for homebuilder business. Many of our competitors in the Pro Segment are small, privately owned companies, including framing and shell construction contractors, local and regional materials distributors, single or multi-site lumberyards, and truss manufacturing and millwork operations. Most of these companies have limited access to capital and lack sophisticated information technology systems and large-scale procurement capabilities. We believe we have substantial competitive advantages over these smaller competitors due to our long-standing customer relationships, local market knowledge and competitive pricing. Our largest competitors in our markets include 84 Lumber Co. and Pro-Build Holdings, Inc., which are privately held, as well as Stock Building Supply, which is publicly held.

We compete in the Pro Segment of the U.S. residential new construction building products supply market. We focus on a distinctly different target market than the home center retailers such as The Home Depot and Lowe’s, who currently primarily serve do-it-yourself and professional remodeling customers. By contrast, our customers consist of professional homebuilders and those that provide construction services to them, with whom we have developed strong relationships. The principal methods of competition in the Pro Segment are the development of long-term relationships with professional builders and retaining such customers by delivering a full range of high-quality products on time and offering trade credit, competitive pricing, flexibility in transaction processing, and integrated service and product packages, such as turn-key framing and shell construction, as well as prefabricated components and installation. Our leading market positions in the highly competitive Pro Segment create economies of scale that allow us to cost-effectively supply our customers, which both enhances profitability and reduces the risk of losing customers to competitors.

EMPLOYEES

At December 31, 2013, we had approximately 3,330 full-time equivalent employees, none of whom were represented by a union. We believe that we have good relations with our employees.

INFORMATION TECHNOLOGY SYSTEMS

Our primary enterprise resource planning (“ERP”) system, which we use for operations representing approximately 98% of our sales, is a proprietary system that has been highly customized by our computer programmers. The system has been designed to operate our businesses in a highly efficient manner. The materials required for thousands of standard builder plans are stored by the system for rapid quoting or order entry. Hundreds of price lists are maintained on thousands of SKUs, facilitating rapid price changes in a changing product cost environment. A customer’s order can be tracked at each stage of the process and billing can be customized to reduce a customer’s administrative costs and speed payment.

We have a single financial reporting system that has been highly customized for our business. Consolidated financial, sales and workforce reporting is integrated using Hyperion Business Intelligence system, which aggregates data from

our ERP systems along with workforce information from our third-party payroll administrator. This technology platform provides management with robust corporate and location level performance management by leveraging standardized metrics and analytics allowing us to plan, track and report performance and compensation measures.

We have developed a proprietary program for use in our component plants. This software reviews product designs for errors, schedules the plants and provides the data used to measure plant efficiency. In addition, we have purchased several software products that have been integrated with our primary ERP system. These programs assist in analyzing blueprints to generate material lists and in purchasing lumber products at the lowest cost.

SEASONALITY AND OTHER FACTORS

Our first and fourth quarters have historically been, and are generally expected to continue to be, adversely affected by weather causing reduced construction activity during these quarters. In addition, quarterly results historically have reflected, and are expected to continue to reflect, fluctuations from period to period arising from the following:

The volatility of lumber prices;
The cyclical nature of the homebuilding industry;

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General economic conditions in the markets in which we compete;
The pricing policies of our competitors;
The production schedules of our customers; and
The effects of weather.

The composition and level of working capital typically change during periods of increasing sales as we carry more inventory and receivables. Working capital levels typically increase in the second and third quarters of the year due to higher sales during the peak residential construction season. These increases have in the past resulted in negative operating cash flows during this peak season, which historically have been financed through available cash and our borrowing availability under credit facilities. Collection of receivables and reduction in inventory levels following the peak building and construction season have in the past positively impacted cash flow.

AVAILABLE INFORMATION

We are subject to the informational requirements of the Securities Exchange Act of 1934, as amended, and in accordance therewith, we file reports, proxy and information statements and other information with the Securities and Exchange Commission (“SEC”). Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy and information statements and other information and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are available through the investor relations section of our website under the links to “Financial Information.” Our Internet address is www.blldr.com. Reports are available on our website free of charge as soon as reasonably practicable after we electronically file them with, or furnish them to, the SEC. In addition, our officers and directors file with the SEC initial statements of beneficial ownership and statements of change in beneficial ownership of our securities, which are also available on our website at the same location. We are not including this or any other information on our website as a part of, nor incorporating it by reference into, this Form 10-K or any of our other SEC filings.

In addition to our website, you may read and copy public reports we file with or furnish to the SEC at the SEC’s Public Reference Room at 100 F Street, N.E., Washington, DC 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains our reports, proxy and information statements, and other information that we electronically file with, or furnish to, the SEC at www.sec.gov.

EXECUTIVE OFFICERS

Floyd F. Sherman, Chief Executive Officer, President and Director, age 74. Mr. Sherman has been our Chief Executive Officer and a director since 2001, when he joined the company. He served as President of the company from 2001 until October 2006 and also served from February 2008 to the present. Prior to joining the company, he spent 28 years at Triangle Pacific/Armstrong Flooring, the last nine of which he served as Chairman and Chief Executive Officer. Mr. Sherman is currently a director of PGT, Inc. Mr. Sherman has over 40 years of experience in the building products industry. A native of Kerhonkson, New York and a veteran of the U.S. Army, Mr. Sherman is a graduate of the New York State College of Forestry at Syracuse University. He also holds an M.B.A. degree from Georgia State University.

M. Chad Crow, Senior Vice President and Chief Financial Officer, age 45. Mr. Crow joined the company in September 1999 as Assistant Controller. He served as Vice President – Controller of the company from May 2000 and was promoted to Senior Vice President and Chief Financial Officer in November 2009. Prior to joining the company, Mr. Crow served in a variety of positions at Pier One Imports, most recently as Director of Accounting. Mr. Crow also has five years of public accounting experience with Price Waterhouse LLP. Mr. Crow is a C.P.A. and received his B.B.A. degree from Texas Tech University.

Donald F. McAleenan, Senior Vice President and General Counsel, age 59. Mr. McAleenan has served as Senior Vice President and General Counsel of the company since 1998. Prior to joining the company, Mr. McAleenan served as

Vice President and Deputy General Counsel of Fibreboard Corporation from 1992 to 1997. Mr. McAleenan was also Assistant General Counsel of AT&E Corporation and spent nine years as a securities lawyer at two New York City law firms. Mr. McAleenan has a B.S. from Georgetown University and a J.D. from New York University Law School.

Morris E. Tolly, Senior Vice President — Operations, age 70. Mr. Tolly has served as Senior Vice President — Operations of the company since January 25, 2007. Mr. Tolly has been with Builders FirstSource since 1998 when the company acquired Pelican Companies, Inc. (“Pelican”) and has over 40 years of experience in the building products industry. He served in a myriad of roles at Pelican, including sales, Sales Manager and General Manager. Mr. Tolly was an Area Vice President responsible for 12 locations at the time of Pelican’s acquisition. In 2000, he was promoted to President of the company’s Southeast Group, with responsibility for 48 locations.

Item 1A. Risk Factors

Risks associated with our business, an investment in our securities, and with achieving the forward-looking statements contained in this report or in our news releases, websites, public filings, investor and analyst conferences or elsewhere, include, but are not limited to, the risk factors described below. Any of the risk factors described below could cause our actual results to differ materially from expectations and could have a material adverse effect on our business, financial condition or operating results. We may not succeed in addressing these challenges and risks.

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, employment rates, foreclosure rates, housing inventory levels, housing demand and the health of the economy and mortgage markets. Unfavorable changes in demographics, credit markets, consumer confidence, housing affordability, or housing inventory levels, or a 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 homebuilders and 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, energy conservation 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. Regulatory restrictions may increase our operating expenses and limit the availability of suitable building lots for our customers, which could negatively affect our sales and earnings. Because we have substantial fixed costs, relatively modest declines in our customers' production levels could have a significant adverse effect on our financial condition, operating results and cash flows.

The homebuilding industry underwent a significant downturn that began in mid-2006 and began to stabilize in late 2011. U.S. homebuilding activity increased significantly in 2013 to 618,400 single-family starts, although it remains well below the historical average (from 1959 through 2012) of 1.0 million single-family starts. According to the U.S. Census Bureau, actual single family housing starts in the U.S. during 2013 were 57.8% lower than in 2006. We believe that the slow recovery of the housing market is due to a variety of factors including: a severe economic recession, followed by an economic recovery that has been modest to date; high unemployment; limited credit availability; shortage of suitable building lots in many markets; a shortage of experienced labor; a substantial reduction in speculative home investment; and soft housing demand. The downturn in the homebuilding industry 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 years 2007 through 2012.

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 resulted in a stricter regulatory environment and reduced availability of mortgages for potential homebuyers due to a tight credit market and stricter standards to qualify for mortgages. Mortgage financing and commercial credit for smaller homebuilders continue to be constrained, which is slowing a recovery in our industry. Since the housing industry is dependent upon the economy and employment levels as well as potential homebuyers' access to mortgage financing and homebuilders' access to commercial credit, it is likely that the housing industry will not fully recover until conditions in the economy and the credit markets further improve and unemployment rates decline further.

If the housing market declines, we may be required to take additional impairment charges relating to our operations or temporarily idle or permanently close under-performing locations.

We recorded no goodwill or significant asset impairment charges in continuing operations in 2013, 2012, or 2011. If conditions in the housing industry deteriorate, 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 temporarily idle or permanently close certain facilities in under-performing markets, although we have no specific plans to close or idle additional facilities at this time. Any such facility closures could have a significant adverse effect on our financial condition, operating results, and cash flows.

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 December 31, 2013, our debt consisted of \$350.0 million of our 7.625% Senior Secured Notes due in 2021 (“2021 notes”). We also have a \$175.0 million senior secured revolving credit facility (“2013 facility”). As of December 31, 2013 we had no outstanding borrowings under the 2013 facility, although we had \$13.9 million of letters of credit outstanding under the 2013 facility. In addition, we have significant obligations under ongoing operating leases that are not reflected in our balance sheet. See Note 8 to the consolidated financial statements included in Item 8 of this annual report on Form 10-K.

As of December 31, 2013, none of our debt was at a variable interest rate, although any amounts borrowed in the future under the 2013 facility would bear interest at a variable rate. Therefore if interest rates rise, our interest expense could increase if we were to borrow under the 2013 facility. Based on debt outstanding at December 31, 2013, a 1.0% increase in interest rates would not result in any additional interest expense.

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 liquidity and 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 any future borrowings under the 2013 facility would be 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 may have less debt.

In addition, some of our debt instruments, including those governing the 2013 facility and our 2021 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.

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. There are no assurances that we will maintain a level of liquidity 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 in an effort to meet our debt service and other obligations. The agreement governing the 2013 facility and the indenture governing our 2021 notes restrict our ability to dispose of assets and to use the proceeds from such dispositions. 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.

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 borrowing availability under the 2013 facility, which totaled \$211.8 million at December 31, 2013, to provide working capital and fund our operations. Our working capital requirements are likely to grow as the housing market improves. Our inability to renew, amend or replace the 2013 facility or our 2021 notes when required or when business conditions warrant, could have a material adverse effect on our business, financial condition, and results of operations.

Economic and credit market conditions, the performance of the homebuilding industry, and our financial performance, 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, economic conditions, and financial, business, and other factors, many of which are beyond our control. Any worsening of current housing market conditions and the macroeconomic factors 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.

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 2021 notes and the 2013 facility. The agreement governing the 2013 facility, and the indenture governing the 2021 notes, moreover, restrict the amount of permitted indebtedness allowed. 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.

We may incur additional indebtedness.

We may incur additional indebtedness in the future, including collateralized debt, subject to the restrictions contained in the financing agreement governing the 2013 facility and the indenture governing our 2021 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 the financing agreement governing the 2013 facility, and the indenture governing our 2021 notes, 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.

The agreement governing the 2013 facility contains a financial covenant requiring the satisfaction of a minimum fixed charge coverage ratio of 1.00 to 1.00 if our excess availability, defined as the sum of our net borrowing availability plus qualified cash, falls below the greater of \$17.5 million or 10% of the maximum borrowing amount. As of December 31, 2013, our excess availability was \$211.3 million. Qualified cash is defined as the amount of unrestricted cash and cash equivalents held in deposit or securities accounts which are subject to control agreements in favor of our lenders.

These provisions may restrict our ability to expand or fully pursue our business strategies. Our ability to comply with the agreement governing the 2013 facility, and the indenture governing our 2021 notes 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 provisions, including those contained in the 2013 facility, and the indenture governing our 2021 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.

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 initial 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, most likely we remain committed to perform our obligations under the applicable lease, which would include, among other things, payment of the base rent, insurance, taxes, and other expenses on the leased property for the balance of the lease term. During the period from 2007 through 2012, 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, which in turn 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. 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 2013 facility, the terms of the indenture governing our 2021 notes, and the covenants of any future outstanding indebtedness we or our subsidiaries incur.

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, as can excessive spikes in market prices. For the year ended December 31, 2013, average prices for lumber and lumber sheet goods were 17.8% higher than the prior year. Our lumber and lumber sheet goods product category represented 35.4% of total sales for the year ended December 31, 2013. We have limited 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 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 22.5% and 22.8% of our sales for the years ended December 31, 2013 and 2012, 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 weak housing market over the past several years, many of our homebuilder customers substantially reduced their construction activity. Some homebuilder customers exited or severely curtailed building activity in certain of our markets.

In addition, 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. 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 we do, (2) develop products that

are superior to our products, (3) have the ability to produce or supply similar products at a lower cost, (4) develop stronger relationships with local homebuilders, (5) adapt more quickly to new technologies or evolving customer requirements than we do, or (6) have access to financing on more favorable terms that we can obtain in the market. 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 housing industry downturn resulted in significantly increased pricing pressures from production homebuilders and other customers. Over the past few years, these pricing pressures have adversely affected our operating results and cash flows. In addition, continued consolidation among production homebuilders, and changes in production homebuilders' purchasing policies or payment practices, could result in additional pricing pressure.

The ownership position of affiliates of JLL Partners Inc. and Warburg Pincus LLC limits other stockholders' ability to influence corporate matters.

JLL Partners Inc. ("JLL") and Warburg Pincus LLC ("Warburg Pincus") together own in excess of 50% of our outstanding common stock. Five 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. 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, operational, sales, and other 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 resign 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, product warranty, casualty, construction defect, and other claims and legal proceedings.

We are involved in product liability, product warranty, casualty, construction defect, and other claims relating to the products we manufacture and distribute, and services we provide 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 our employees, and 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, product warranty, casualty, construction defect, and other 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 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, wood products and other building 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 ERP system, which we use for operations representing approximately 98% 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. 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 widespread disruption to our facilities resulting from fire, earthquake, weather-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 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 long-term 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, our reduced operating results during the housing downturn, our liquidity position, or the requirements of the 2013 facility or the indenture governing our 2021 notes, could prevent us from obtaining 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 uncertainties as to the future financial performance of the acquired business, 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.

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, more stringent standards regarding existing residual contamination, or changes in legislation, laws, rules or regulations. 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 or unrest in the Middle East or elsewhere.

Instability in the economy and financial markets, including as a result of terrorism or unrest in the Middle East or elsewhere, may result in a decrease in housing starts, which would adversely affect our business. In addition, such unrest or related 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. Any shortages of fuel or significant fuel cost increases related to geopolitical conditions could seriously disrupt our ability to distribute products to our customers. In addition, domestic terrorist attacks may 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.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We have a broad network of distribution and manufacturing facilities in 9 states throughout the southern and eastern U.S. We have 53 distribution facilities and 47 manufacturing facilities, many of which are co-located in the following markets:

Alabama	Maryland/Virginia	South Carolina
Auburn	Baltimore/Washington*	Seneca
Central Alabama*	Northeast Maryland*	Charleston*
		Columbia*
Florida	North Carolina	Florence
Bunnell	Charlotte*	Grand Strand*
Emerald Coast*	Fayetteville	Greenville*
Jacksonville*	High Point*	Southeast South Carolina
Orlando	Raleigh*	
South Florida*	Washington	Tennessee
Tampa*	Western North Carolina*	Eastern Tennessee*
	Wilmington	Knoxville
Georgia		Nashville*
Atlanta*		
Central Georgia		Texas
Northern Georgia		Dallas/Fort Worth*
		San Antonio*
		Austin*
		Houston*

*Markets with manufacturing facilities

Distribution centers typically include 15 to 25 acres of outside storage, a 60,000 square foot warehouse, 10,000 square feet of office space, and 30,000 square feet of covered storage. The outside area provides space for lumber storage and a staging area for delivery while the warehouse stores millwork, windows and doors. The distribution centers are usually located in industrial areas with low cost real estate and easy access to freeways to maximize distribution

efficiency and convenience. A majority of the distribution centers are situated on rail lines for efficient receipt of goods.

Our manufacturing facilities produce trusses, wall panels, engineered wood, stairs, windows, pre-hung doors and custom millwork. In many cases, they are located on the same premises as our distribution facilities. Truss and panel manufacturing facilities vary in size from 30,000 square feet to 60,000 square feet with 8 to 10 acres of outside storage for lumber and for finished goods. Our window manufacturing facility in Houston, Texas has approximately 200,000 square feet.

We lease 52 facilities and own 20 facilities. These leases typically have an initial operating lease term of 5 to 15 years and most provide options to renew for specified periods of time. A majority of our leases provide for fixed annual rentals. Certain of our leases include provisions for escalating rent, as an example, based on changes in the consumer price index. Most of the leases require us to pay taxes, insurance and common area maintenance expenses associated with the properties.

We operate a fleet of approximately 1,100 trucks to deliver products from our distribution and manufacturing centers to job sites. Through our emphasis on local market flexibility and strategically placed locations, we minimize shipping and freight costs while maintaining a high degree of local market expertise. Through knowledge of local homebuilder needs, customer coordination and rapid restocking ability, we reduce working capital requirements and guard against out-of-stock products. We believe that this reliability is highly valued by our customers and reinforces customer relationships.

Item 3. Legal Proceedings

We are involved in various claims and lawsuits incidental to the conduct of our business in the ordinary course. We carry insurance coverage in such amounts in excess of our self-insured retention as we believe to be reasonable under the circumstances and that may or may not cover any or all of our liabilities in respect of claims and lawsuits. We do not believe that the ultimate resolution of these matters will have a material adverse effect on our consolidated financial position, cash flows or operating results.

Although our business and facilities are subject to federal, state and local environmental regulation, environmental regulation does not have a material effect on our operations. We believe that our facilities are in material compliance with such laws and regulations. As owners and lessees of real property, we can be held liable for the investigation or remediation of contamination on such properties, in some circumstances without regard to whether we knew of or were responsible for such contamination. Our current expenditures with respect to environmental investigation and remediation at our facilities are minimal, although no assurance can be provided that more significant remediation may not be required in the future as a result of spills or releases of petroleum products or hazardous substances or the discovery of unknown environmental conditions, or changes in legislation, laws, rules or regulations.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is traded on the NASDAQ Stock Market LLC under the symbol “BLDR”. On February 26, 2014, the closing price of our common stock as reported on the NASDAQ Stock Market LLC was \$8.51. The approximate number of stockholders of record of our common stock on that date was 93, although we believe that the number of beneficial owners of our common stock is substantially greater.

The table below sets forth the high and low sales prices of our common stock for the periods indicated:

	High	Low
2013		
First quarter	\$6.55	\$5.13
Second quarter	\$7.33	\$5.00
Third quarter	\$6.94	\$5.15
Fourth quarter	\$7.94	\$5.55
2012		
First quarter	\$4.55	\$1.95
Second quarter	\$4.95	\$3.38
Third quarter	\$5.49	\$3.50
Fourth quarter	\$6.05	\$4.27

We have not declared or paid cash dividends in the two most recent fiscal years. Any future determination relating to dividend policy will be made at the discretion of our board of directors and will depend on a number of factors, including restrictions in our debt instruments, as well as our future earnings, capital requirements, financial condition, prospects and other factors that our board of directors may deem relevant. The financing agreement governing the 2013 facility and the indenture governing our 2021 notes currently restrict our ability to pay dividends. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources” contained in Item 7 of this annual report on Form 10-K.

Recent Sales of Unregistered Securities

On December 18, 2013, the Company issued 280,796 shares of its common stock to Highbridge Principal Strategies – Senior Loan Fund II, L.P. (“Highbridge SLF II”) upon the cashless exercise of warrants held by Highbridge SLF II to purchase 435,855 shares of the Company’s common stock at a price of \$2.50 per share. In the cashless exercise, Highbridge SLF II surrendered its right to receive 155,059 shares of our common stock in payment of the exercise price. These shares had a value of \$1,089,631 based on the dollar volume-weighted average price of our common stock on the exercise date. The shares of common stock were issued in reliance on the exemption from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended.

On December 18, 2013, the Company issued 170,173 shares of its common stock to Highbridge Senior Loan Sector A Investment Fund, L.P. (“Highbridge SLSAIF”) upon the cashless exercise of warrants held by Highbridge SLSAIF to purchase 264,145 shares of the Company’s common stock at a price of \$2.50 per share. In the cashless exercise, Highbridge SLSAIF surrendered its right to receive 93,972 shares of our common stock in payment of the exercise price. These shares had a value of \$660,360 based on the dollar volume-weighted average price of our common stock on the exercise date. The shares of common stock were issued in reliance on the exemption from registration pursuant

to Section 4(2) of the Securities Act of 1933, as amended.

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The following graph and table demonstrate the performance of the cumulative total return to the stockholders of our common stock during the five year period in comparison to the cumulative total returns of the Russell 2000 index and the S&P 600 Building Products index. The graph and table track the performance of a \$100 investment in our common stock and in each of the indexes (with the reinvestment of all dividends) from December 31, 2008 to December 31, 2013.

	Year Ended December 31,					
	2008	2009	2010	2011	2012	2013
Builders FirstSource, Inc.	\$ 100.00	\$ 250.98	\$ 128.76	\$ 133.33	\$ 364.71	\$ 466.01
Russell 2000	\$ 100.00	\$ 127.17	\$ 161.32	\$ 154.59	\$ 179.86	\$ 249.69
S&P 600 Building Products	\$ 100.00	\$ 121.71	\$ 135.26	\$ 123.55	\$ 152.33	\$ 200.97

The information regarding securities authorized for issuance under equity compensation plans appears in our definitive proxy statement for our annual meeting of stockholders to be held on May 21, 2014 under the caption “Equity Compensation Plan Information,” which information is incorporated herein by reference.

Item 6. Selected Financial Data

The following selected consolidated financial data for the years ended December 31, 2013, 2012 and 2011 and as of December 31, 2013 and 2012 were derived from our consolidated financial statements that have been audited by PricewaterhouseCoopers LLP, independent registered public accounting firm, and are included as Item 8 of this annual report on Form 10-K. Selected consolidated financial data as of December 31, 2011 and as of and for the years ended December 31, 2010 and 2009 were derived from our consolidated financial statements that have been audited by PricewaterhouseCoopers LLP, but are not included herein.

The following data should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” contained in Item 7 of this annual report on Form 10-K and with our consolidated financial statements and related notes included as Item 8 of this annual report on Form 10-K.

	Year Ended December 31,				
	2013	2012	2011	2010	2009
	(In thousands, except per share amounts)				
Statement of operations data:					
Sales	\$ 1,489,892	\$ 1,070,676	\$ 779,093	\$ 700,343	\$ 677,886
Gross margin	319,920	214,566	157,945	131,756	142,406
Selling, general and administrative expenses	271,885	222,263	192,959	194,092	201,403
Asset impairments	—	48	—	839	470
Facility closure costs	(7)	958	2,461	558	1,200
Loss from continuing operations(1)(2)	(42,365)	(54,419)	(64,631)	(94,293)	(56,889)
Loss from continuing operations per share — basic and diluted(3)	\$ (0.44)	\$ (0.57)	\$ (0.68)	\$ (1.03)	\$ (1.45)
Balance sheet data (end of period):					
Cash and cash equivalents	\$ 54,696	\$ 131,432	\$ 146,833	\$ 103,234	\$ 84,098
Total assets(4)	515,839	550,841	493,794	419,088	440,392
Total debt (including current portion)	353,971	360,955	297,509	169,102	299,183
Stockholders’ equity	15,368	48,096	101,224	159,505	46,947
Other financial data:					
Depreciation and amortization (excluding discontinued operations)	\$ 9,305	\$ 11,120	\$ 14,041	\$ 15,433	\$ 17,915

(1) Loss from continuing operations included a valuation allowance of \$15.3 million against primarily all of our deferred tax assets for the year ended December 31, 2013, which is exclusive of \$0.6 million related primarily to reversals of uncertain tax positions due to statute expirations that affected our net operating loss carryforward and valuation allowance. Loss from continuing operations included a valuation allowance of \$19.6 million, \$26.1 million, \$35.4 million and \$3.9 million against primarily all of our deferred tax assets for the years ended December 31, 2012, 2011, 2010 and 2009, as discussed in Note 11 to the consolidated financial statements included in Item 8 of this annual report on Form 10-K.

(2) Loss from continuing operations for year ended December 31, 2013 included a \$39.5 million prepayment penalty related to the early termination of our \$225.0 million first-lien term loan due 2015.

(3) For the year ended December 31, 2009, loss from continuing operations per share – basic and diluted—reflects an increase to the number of weighted average common shares by an adjustment factor of 1.09 related to the bonus element created in connection with our common stock rights offering in January 2010.

(4) Total assets for December 31, 2011 have been reclassified to conform to current period presentation. In addition, amounts for December 31, 2011, 2010 and 2009 have been revised to present insurance related receivables and payables on a gross basis. This revision increased total assets by \$4.2 million, \$6.3 million and \$5.4 million, respectively.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion of our financial condition and results of operations should be read in conjunction with the selected financial data and the consolidated financial statements and related notes contained in Item 6. Selected Financial Data and Item 8. Financial Statements and Supplementary Data of this annual report on Form 10-K, respectively. See "Risk Factors" contained in Item 1A. Risk Factors of this annual report on Form 10-K and "Cautionary Statement" contained in Item 1. Business of this annual report on Form 10-K for a discussion of the uncertainties, risks and assumptions associated with these statements.

OVERVIEW

We are a leading supplier and manufacturer of structural and related building products for residential new construction in the U.S. We offer an integrated solution to our customers providing manufacturing, supply and installation of a full range of structural and related building products. Our manufactured products include our factory-built roof and floor trusses, wall panels and stairs, aluminum and vinyl windows, custom millwork and trim, as well as engineered wood that we design and cut for each home. We also assemble interior and exterior doors into pre-hung units. Additionally, we supply our customers with a broad offering of professional grade building products not manufactured by us, such as dimensional lumber and lumber sheet goods, various window, door and millwork lines, as well as cabinets, roofing and hardware. Our full range of construction-related services includes professional installation, turn-key framing and shell construction, and spans all our product categories.

We group our building products into five product categories:

Prefabricated Components. Our prefabricated components consist of wood floor and roof trusses, steel roof trusses, wall panels, stairs, and engineered wood.

Windows & Doors. Our windows & doors category is comprised of the manufacturing, assembly, and distribution of windows and the assembly and distribution of interior and exterior door units.

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

Millwork. Millwork includes interior trim, exterior trim, columns and posts that we distribute, as well as custom exterior features that we manufacture under the Synboard[®] brand name.

Other Building Products & Services. Other building products & services are comprised of products such as cabinets, roofing and insulation and services such as turn-key framing, shell construction, design assistance, and professional installation spanning all of our product categories.

Our operating results are dependent on the following trends, events and uncertainties, some of which are beyond our control:

Homebuilding Industry. Our business is driven primarily by the residential new construction market, which is in turn dependent upon a number of factors, including demographic trends, interest rates, consumer confidence, employment rates, foreclosure rates, and the health of the economy and mortgage markets. During the housing downturn, which began in 2006, many homebuilders significantly decreased their starts because of lower demand and an excess of home inventory. However, U.S. single-family housing starts increased to 618,400 in 2013, which is the highest level achieved since 2008. Despite this increase, single-family housing starts remain well below the historical average (from 1959 through 2012) of 1.0 million per year. Due to the lower levels in housing starts and increased competition for homebuilder business, we have and will continue to experience pressure on our gross margins. We still believe there are several meaningful trends that indicate U.S. housing demand will likely recover in the long term and that the recent downturn in the housing industry is likely a trough in the cyclical nature of the residential construction industry. These trends include relatively low interest rates, the aging of housing stock, and normal population growth due to immigration and birthrate exceeding death rate. Industry forecasters expect to see continued improvement in

housing demand over the next few years.

Targeting Large Production Homebuilders. Over the past ten years, the homebuilding industry has undergone consolidation, and the larger homebuilders have increased their market share. We expect that trend to continue as larger homebuilders have better liquidity and land positions relative to the smaller, less capitalized homebuilders. Our focus is on maintaining relationships and market share with these customers while balancing the competitive pressures we are facing in servicing large homebuilders with certain profitability expectations. Our sales to the “Builder 100,” the country’s largest 100 homebuilders, increased 33.2% during 2013, compared to a 15.5% increase in actual U.S. single-family housing starts for the year. We expect that our ability to maintain strong relationships with the largest builders will be vital to our ability to expand into new markets as well as grow our market share. Additionally, we have been successful in expanding our custom homebuilder base while maintaining acceptable credit standards.

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Use of Prefabricated Components. Prior to the housing downturn, homebuilders were increasingly using prefabricated components in order to realize increased efficiency and improved quality. Shortening cycle time from start to completion was a key imperative of the homebuilders during periods of strong consumer demand. During the housing downturn, that trend decelerated as cycle time had less relevance. Customers who traditionally used prefabricated components, for the most part, still do. However, the conversion of customers to this product offering slowed during the downturn. We are seeing this trend reverse as the residential new construction market continues to strengthen.

Economic Conditions. Economic changes both nationally and locally in our markets impact our financial performance. The building products supply industry is highly dependent upon new home construction and subject to cyclical market changes. Our operations are subject to fluctuations arising from changes in supply and demand, national and local economic conditions, labor costs, competition, government regulation, trade policies and other factors that affect the homebuilding industry such as demographic trends, interest rates, single-family housing starts, employment levels, consumer confidence, and the availability of credit to homebuilders, contractors, and homeowners. Over the past few years, the mortgage markets have experienced substantial disruption due to increased defaults. This resulted in a stricter regulatory environment and reduced availability of mortgages for potential homebuyers due to an illiquid credit market and tighter standards to qualify for mortgages. Mortgage financing and commercial credit for smaller homebuilders continue to be constrained. As the housing industry is dependent upon the economy and employment levels as well as potential homebuyers' access to mortgage financing and homebuilders' access to commercial credit, it is likely that the housing industry will not fully recover until conditions in the economy and the credit markets improve and unemployment rates decline.

Cost of Materials. Prices of wood products, which are subject to cyclical market fluctuations, may adversely impact operating income when prices rapidly rise or fall within a relatively short period of time. We purchase certain materials, including lumber products, which are then sold to customers as well as used as direct production inputs for our manufactured and prefabricated products. Short-term changes in the cost of these materials, some of which are subject to significant fluctuations, are sometimes passed on to our customers, but our pricing quotation periods may limit our ability to pass on such price changes. We may also be limited in our ability to pass on increases on in-bound freight costs on our products due to the price of fuel. Our inability to pass on material price increases to our customers could adversely impact our operating results.

Controlling Expenses. Another important aspect of our strategy is controlling costs and enhancing our status as a low-cost building materials supplier in the markets we serve. We pay close attention to managing our working capital and operating expenses. We have a "best practices" operating philosophy, which encourages increasing efficiency, lowering costs, improving working capital, and maximizing profitability and cash flow. We constantly analyze our workforce productivity to achieve the optimum, cost-efficient labor mix for our facilities. Further, we pay careful attention to our logistics function and its effect on our shipping and handling costs.

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

CURRENT OPERATING CONDITIONS AND OUTLOOK

Though the level of housing starts remains near historic lows, the homebuilding industry has shown improvement since 2011. According to the U.S. Census Bureau, actual U.S. single-family housing starts for 2013 were 618,400, an increase of 15.5% compared to 2012, but approximately 57.8% lower than when the downturn began in 2006. Actual single-family starts in the South Region, as defined by the U.S. Census Bureau and which encompasses our entire geographic footprint, increased to 326,300 in the current year, up 15.5% from 2012, while single-family units under construction in the South Region increased 25.4% compared to 2012. While the housing industry has shown recent signs of improvement, the limited availability of credit to smaller homebuilders and potential homebuyers, a slow economic recovery, and high unemployment rates, among other factors could delay a stronger recovery. The National Association of Homebuilders ("NAHB") is forecasting 821,800 U.S. single-family housing starts for 2014, which is an increase of 32.3% from 2013.

We achieved a 39.2% increase in sales during 2013 as compared to the prior year. We believe our broad offering of building products and construction services represents a value proposition to our customers that is superior to that of

our competitors. We believe this allowed us to increase our sales volumes at a rate in excess of the increase in new residential construction during the current year as we gained market share by expanding our customer base and promoting our wide array of products and services to existing customers. At the same time, our gross margin percentage increased by 1.5% during 2013 compared to 2012. Our gross margin percentage increased 0.9% largely due to improved customer pricing with the remainder due to leveraging fixed costs within cost of goods sold and improved sales mix. We have continued to manage our operating expenses during 2013 with a key focus on conserving liquidity. Our selling, general, and administrative expenses, as a percentage of sales, decreased 2.5% in the current year compared to 2012. We made significant changes to our business during the downturn that have improved our operating efficiency and allowed us to better leverage our operating costs against changes in sales.

We still believe the long-term outlook for the housing industry is positive due to growth in the underlying demographics. We feel we are well-positioned to take advantage of any construction activity in our markets and continue to increase our market share. We will continue to focus on working capital by closely monitoring the credit exposure of our customers and by working with our vendors to improve our payment terms and pricing on our products. We will also continue to work diligently to achieve the appropriate balance of short-term cost reductions while maintaining the expertise to grow the business as market conditions improve. We want to create long-term shareholder value and avoid taking steps that will limit our ability to compete.

DEBT REFINANCING

In May 2013, we completed a private offering of \$350.0 million in aggregate principal amount of 7.625% senior secured notes due 2021 (“2021 notes”) at a price equal to 100% of their face value. In conjunction with the offering, we also entered into a new 5-year \$175.0 million senior secured revolving credit facility agreement (“2013 facility”) provided by a syndicate of financial institutions led by SunTrust Bank as administrative agent.

We used the proceeds from the 2021 notes offering, together with cash on hand, to redeem \$139.7 million in Second Priority Senior Secured Floating Rate Notes due 2016 (“2016 notes”), to pay off our \$225.0 million first-lien term loan due 2015 (“term loan”), including the prepayment premium, and to pay fees and expenses related to the transaction.

Upon the repayment of the outstanding borrowings and payment of the prepayment premium and accrued interest, we terminated the term loan, which included a \$15.0 million letter of credit sub-facility (“sub-facility”). The \$12.7 million of outstanding letters of credit under the sub-facility at the time were transferred to the 2013 facility. At the same time, we also terminated our \$10.0 million letter of credit stand-alone facility (“stand-alone facility”). There were no letters of credit outstanding under the stand-alone facility at the time of termination.

For the year ended December 31, 2013, interest expense included refinancing costs of approximately \$48.4 million. These refinancing costs include the \$39.5 million prepayment premium on the Term Loan, a \$6.8 million write-off of unamortized debt discount on the Term Loan, and a \$2.1 million write-off of unamortized deferred loan costs on the Term Loan and 2016 Notes.

These refinancing charges negatively impacted our results for the year ended December 31, 2013. However, as a result of our new capital structure our annual cash interest going forward will decrease by approximately \$16.0 million, to approximately \$28.0 million, assuming there are no borrowings under the 2013 facility.

RESULTS OF OPERATIONS

The following table sets forth the percentage relationship to sales of certain costs, expenses and income items for the years ended December 31:

	2013	2012	2011
Sales	100.0%	100.0%	100.0%
Cost of sales	78.5 %	80.0 %	79.7 %
Gross margin	21.5 %	20.0 %	20.3 %
Selling, general and administrative expenses	18.3 %	20.8 %	24.8 %
Asset impairments	0.0 %	0.0 %	0.0 %
Facility closure costs	0.0 %	0.0 %	0.3 %
Income (loss) from operations	3.2 %	(0.8)%	(4.8)%
Interest expense, net	6.0 %	4.2 %	3.2 %
Income tax expense	0.1 %	0.1 %	0.3 %

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Loss from continuing operations	(2.9)%	(5.1)%	(8.3)%
Loss from discontinued operations, net of tax	(0.0)%	(0.2)%	(0.0)%
Net loss	(2.9)%	(5.3)%	(8.3)%

2013 Compared with 2012

Sales. Sales for the year ended December 31, 2013 were \$1,489.9 million, a 39.2% increase from sales of \$1,070.7 million for 2012. Actual U.S. single-family housing starts increased 15.5% in 2013 as compared to 2012. In the South Region, actual single-family starts also increased 15.5% compared to 2012, and single-family units under construction increased 25.4% over this same time period. We achieved this increase in sales as we continued to expand our customer base while increasing sales to current customers. We estimate sales increased 29.2% due to volume and 10.0% due to price for the year ended December 31, 2013 compared to the year ended December 31, 2012.

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

	2013		2012		% Change		
	Sales	% of Sales	Sales	% of Sales			
Prefabricated components	\$294.0	19.7	% \$203.7	19.0	%	44.3	%
Windows & doors	308.6	20.7	% 233.1	21.8	%	32.4	%
Lumber & lumber sheet goods	526.6	35.4	% 348.1	32.5	%	51.3	%
Millwork	136.9	9.2	% 104.2	9.7	%	31.4	%
Other building products & services	223.8	15.0	% 181.6	17.0	%	23.2	%
Total sales	\$1,489.9	100.0	% \$1,070.7	100.0	%	39.2	%

Increased sales volume was achieved across all product categories. Commodity prices for lumber and lumber sheet goods were on average 17.8% higher in 2013 compared to 2012. During 2013 and 2012, prices rose to levels not seen on a consistent basis since 2005 and 2006. This commodity price inflation contributed to sales growth for lumber & lumber sheet goods and prefabricated components exceeding that of our other product categories. Growth in prefabricated components was also due to increased customer demand for these products as builders have become more focused on reducing construction cycle time.

Gross Margin. Gross margin increased \$105.4 million to \$319.9 million. Our gross margin percentage increased from 20.0% in 2012 to 21.5% in 2013, a 1.5% increase. Our gross margin percentage increased 0.9% due to improved customer pricing, 0.5% due to leveraging fixed costs within cost of goods sold and 0.1% due to improved sales mix.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased \$49.6 million, or 22.3%. Our salaries and benefits expense, excluding stock compensation expense, was \$171.7 million for 2013, an increase of \$34.1 million from 2012. Delivery expenses increased \$6.7 million primarily due to higher fuel costs and increased maintenance costs on vehicles as a result of increased sales volume. Occupancy expenses increased \$1.6 million and our office general and administrative expense increased \$6.5 million, primarily due to increased sales volumes in the current year.

As a percent of sales, selling, general and administrative expenses, excluding asset impairments and stock compensation expense, decreased from 20.4% in 2012 to 18.0% in 2013. Salaries and benefits expense, excluding stock compensation expense, decreased 1.3% and delivery costs decreased by 0.7%. Occupancy decreased by 0.4% due to the fixed nature of the category and our office general and administrative expense decreased 0.1%.

Interest Expense, net. Interest expense was \$89.6 million in 2013, an increase of \$44.5 million primarily related to our 2013 refinancing. The increase includes \$6.8 million of unamortized debt discount and \$2.1 million of debt issuance cost write-offs, as well as a \$39.5 million prepayment premium all related to the early termination of our term loan. These increases were partially offset by a \$3.5 million decrease in fair value adjustments in 2013 from 2012 on the warrants issued as part of the term loan entered into in 2011.

Income Tax Expense. We recorded income tax expense of \$0.8 million and \$0.6 million during 2013 and 2012, respectively. We recorded an after-tax, non-cash valuation allowance of \$15.3 million related to our net deferred tax assets for 2013, which is exclusive of \$0.6 million primarily related to reversals of uncertain tax positions due to statute expirations that affected our net operating loss carryforward and valuation allowance. We recorded an after-tax valuation allowance of \$19.6 million related to our net deferred tax assets for 2012. Absent this valuation allowance, our effective tax rate would have been 35.0% and 35.3% for 2013 and 2012, respectively.

2012 Compared with 2011

Sales. Sales for the year ended December 31, 2012 were \$1,070.7 million, a 37.4% increase from sales of \$779.1 million for 2011. Actual U.S. single-family housing starts increased 24.2% in 2012 as compared to 2011. In the South Region, actual single-family starts increased 23.1% compared to 2011, however the number of single-family units under construction increased only 7.7% over this same time period. We achieved this increase in sales as we continued to expand our customer base while increasing sales to current customers. We estimate our sales volume increased approximately 32.2%, while commodity price inflation resulted in an additional 5.2% increase in sales during 2012 compared to 2011.

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

	2012		2011		% Change
	Sales	% of Sales	Sales	% of Sales	
Prefabricated components	\$203.7	19.0	% \$147.6	18.9	% 38.0
Windows & doors	233.1	21.8	% 183.3	23.5	% 27.2
Lumber & lumber sheet goods	348.1	32.5	% 225.0	28.9	% 54.7
Millwork	104.2	9.7	% 81.6	10.5	% 27.7
Other building products & services	181.6	17.0	% 141.6	18.2	% 28.2
Total sales	\$1,070.7	100.0	% \$779.1	100.0	% 37.4

Increased sales volume was achieved across all product categories. Commodity prices for lumber and lumber sheet goods were on average 23.0% higher in 2012 compared to 2011. Prices in 2012 had risen to levels not seen on a consistent basis since 2005 and 2006. This commodity price inflation resulted in sales growth for lumber & lumber sheet goods and prefabricated components exceeding that of our other product categories.

Gross Margin. Gross margin increased \$56.6 million to \$214.6 million. Our gross margin percentage decreased from 20.3% in 2011 to 20.0% in 2012, a 0.3% decrease. Our gross margin percentage decreased 1.1% due to commodity lumber price inflation in 2012 relative to customer pricing commitments. However, this decrease was partially offset by a 0.8% gross margin improvement due to increased sales volume and our ability to leverage fixed costs within cost of goods sold.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased \$29.3 million, or 15.2%. Our salaries and benefits expense, excluding stock compensation expense, was \$137.5 million for 2012, an increase of \$27.1 million from 2011. Delivery expenses increased \$4.0 million primarily due to higher fuel costs and increased maintenance costs on vehicles. Occupancy expenses decreased \$0.6 million and our office general and administrative expense decreased \$0.5 million, primarily due to \$0.6 million in proceeds received from a litigation settlement.

As a percent of sales, selling, general and administrative expenses, excluding asset impairments and stock compensation expense, decreased from 24.2% in 2011 to 20.4% in 2012. Salaries and benefits expense, excluding stock compensation expense, decreased 1.3% and delivery costs decreased by 1.0%. Occupancy decreased by 0.7% due to the fixed nature of the category and our office general and administrative expense decreased 0.7%.

Interest Expense, net. Interest expense was \$45.1 million in 2012, an increase of \$20.2 million. The increase was primarily due to \$17.5 million of interest expense on our term loan entered into in December 2011 and \$4.3 million of fair value adjustments on the warrants issued as part of the term loan. These increases were partially offset by a \$1.1 million reduction due to the termination of our revolving credit facility in 2011.

Income Tax Expense. We recorded income tax expense of \$0.6 million and \$2.2 million during 2012 and 2011, respectively. We recorded an after-tax, non-cash valuation allowance of \$19.6 million and \$26.1 million related to our net deferred tax assets for 2012 and 2011, respectively. Absent this valuation allowance, our effective tax rate would have been 35.3% and 38.3% for 2012 and 2011, respectively.

LIQUIDITY AND CAPITAL RESOURCES

Our primary capital requirements are to fund working capital needs and operating expenses, meet required interest and principal payments, and fund capital expenditures. Our capital resources at December 31, 2013 consist of cash on hand and borrowing availability under our revolving credit facility.

Senior Secured Notes due 2021

As of December 31, 2013, we have \$350.0 million outstanding in aggregate principal amount of 2021 notes that mature on June 1, 2021. The 2021 notes were issued pursuant to an indenture, dated as of May 29, 2013 (“Indenture”), by and between us, certain of our subsidiaries, as guarantors (“Guarantors”), and Wilmington Trust, National Association, as trustee and notes collateral agent (“Trustee”). Interest accrues on the 2021 notes at a rate of 7.625% per annum and is payable semi-annually in arrears on June 1 and December 1 of each year. The Indenture contains certain restrictive covenants, which, among other things, relate to the payment of dividends, incurrence of indebtedness, repurchase of common stock, distributions, asset sales and investments.

2013 Senior Secured Revolving Credit Facility

The 2013 facility provides for a \$175.0 million revolving credit line and is scheduled to mature on May 29, 2018. Borrowings under the 2013 facility bear interest, at our option, at either a base rate or eurodollar rate, plus, in each case, an applicable margin. The applicable margin ranges from 0.75% to 1.25% for base rate loans and 1.75% to 2.25% for eurodollar rate loans, in each case based on a measure of our availability under the revolver. A variable commitment fee, currently at a rate of 0.5%, is charged on the unused amount of the revolver based on quarterly average loan utilization. Letters of credit issued and outstanding under the 2013 facility are assessed a fee at a rate equal to the applicable eurodollar rate margin, currently 1.75%, and is payable quarterly in arrears at the end of March, June, September and December. They are also assessed a fronting fee at a rate of 0.125%. The 2013 facility contains certain restrictive covenants, which, among other things, relate to the incurrence of indebtedness, payment of dividends, repurchase of common stock, distributions, asset sales and investments. The agreement also contains a financial covenant requiring the satisfaction of a minimum fixed charge coverage ratio of 1.00 to 1.00 if our excess availability, defined as the sum of our net borrowing availability plus qualified cash, falls below the greater of \$17.5 million or 10% of the maximum borrowing amount.

For more information on our capital resources, see Note 8 to the consolidated financial statements included in Item 8 of this annual report on Form 10-K .

The 2013 facility will primarily be used for working capital and general corporate purposes. Availability under the 2013 facility is determined by a borrowing base. Our borrowing base consists of trade accounts receivable, inventory and other receivables, including progress billings and credit card receivables, that meet specific criteria contained within the credit agreement, minus agent specified reserves. Net borrowing availability is the sum of the maximum borrowing amount minus outstanding borrowings and letters of credit.

The following table shows our borrowing base and excess availability as of December 31, 2013 (in millions):

	As of December 31, 2013
Accounts Receivable Availability	\$ 99.3
Inventory Availability	67.6
Other Receivables Availability	11.0
Gross Availability	177.9
Less:	
Agent Reserves	(6.9)
Borrowing Base	171.0
Aggregate Revolving Commitments	175.0
Maximum Borrowing Amount (lesser of Borrowing Base and Aggregate Revolving Commitments)	171.0
Less:	
Outstanding Borrowings	—
Letters of Credit	(13.9)
Net Borrowing Availability on Revolving Facility	\$ 157.1
Plus:	
Cash in Qualified Accounts	54.2
Excess Availability, as defined	\$ 211.3

As of December 31, 2013, we had no outstanding borrowings under our 2013 facility and our net borrowing availability was \$157.1 million after being reduced by outstanding letters of credit of approximately \$13.9 million. Excess availability is the sum of our net borrowing availability plus qualified cash, defined as cash on deposit that is

subject to a control agreement in favor of the agent. Excess availability must equal or exceed a minimum specified amount, currently \$17.5 million, or we are required to meet a fixed charge coverage ratio of 1 to 1. At December 31, 2013, our excess availability was \$211.3 million, including \$157.1 million in net borrowing availability and \$54.2 in qualified cash. We were not in violation of any covenants or restrictions imposed by any of our debt agreements at December 31, 2013.

Liquidity

Our liquidity at December 31, 2013 was \$211.8 million, which includes \$157.1 million in net borrowing availability under the 2013 facility and \$54.7 million of cash on hand. The homebuilding industry, and therefore our business, experienced a significant downturn that started in 2006. However, activity has improved as 2012 saw the first meaningful increase in housing starts since the downturn began, and 2013 showed a continuation of that trend. We are expecting increased stability and continued improvement in the housing industry in 2014. Beyond 2014, it is difficult for us to predict what will happen as our industry is dependent on a number

of factors, including national economic conditions, employment levels, the availability of credit for homebuilders and potential home buyers, the level of foreclosures, existing home inventory, and interest rates.

We believe our liquidity is sufficient to meet our needs in 2014. We expect to generate cash of approximately \$20-\$30 million in 2014 and to end the year with (i) cash of \$75-\$85 million and (ii) liquidity of approximately \$230-\$240 million. This forecast is based on 725,000 single-family housing starts for 2014, market prices for commodity products remaining relatively stable for the year, improvement in gross margin, an operating expense structure consistent with current levels, and capital expenditures of approximately \$15-\$20 million. We considered various scenarios when evaluating our liquidity for 2014, including housing starts consistent with 2013. We do not expect working capital to be a source of funds for the next twelve months.

In the event that housing starts or sales volume for 2014 are higher or lower than expected, or if other assumptions used in our forecasting differ from actual results, our forecasted cash usage and liquidity levels may change. Should the current industry conditions deteriorate, we may be required to raise additional funds through the sale of common stock or debt in the public capital markets or in privately negotiated transactions. There can be no assurance that any of these financing options would be available on favorable terms, if at all. Alternatives to help supplement our liquidity position could include, but are not limited to, idling or permanently closing additional facilities, adjusting our headcount in response to current business conditions, attempts to renegotiate leases, and divesting of non-core businesses. There are no assurances that these steps will prove successful if housing activity does not improve.

Since the beginning of the housing downturn, a primary focus has been on protecting our liquidity. Our action plan, which consisted of generating new business, reducing physical capacity, adjusting staffing levels, implementing cost containment programs, managing credit tightly, raising additional capital when needed, and conserving cash allowed us to mitigate the effects of the difficult industry conditions. While we continue to focus on these areas, we also plan to prudently utilize our liquidity to support anticipated sales growth, primarily related to our working capital, delivery fleet and staffing levels. We may also selectively pursue strategic acquisitions.

Consolidated Cash Flows

Cash used in operating activities was \$47.6 million and \$66.9 million for 2013 and 2012, respectively. Of the cash used in operating activities approximately \$78.2 million and \$37.8 million were cash interest payments in 2013 and 2012, respectively. The \$78.2 million in cash interest payments for 2013 includes a non-recurring \$39.5 million prepayment premium related to the termination of our term loan. In addition, approximately \$31.8 million and \$34.0 million of the cash used in operating activities were due to increases in working capital for 2013 and 2012, respectively. The increases in accounts receivable and inventory were partially offset by an increase in accounts payable and accrued liabilities. For 2013 and 2012 these increases in working capital and cash interest payments were partially offset by a reduction in cash used in operations primarily due to increased sales and improved profitability.

Cash used in operating activities was \$66.9 million and \$66.4 million for 2012 and 2011, respectively. Of the cash used in operating activities approximately \$34.0 million and \$24.6 million in 2012 and 2011, respectively, were due to increases in working capital which was primarily related to increases in accounts receivable and inventory to support our strong sales growth. The increases in accounts receivable and inventory were partially offset by an increase in accounts payable. Cash interest payments were \$37.8 million and \$22.8 million in 2012 and 2011, respectively. The remaining change in cash used in operations was primarily due to lower net operating losses. Our accounts receivable days increased slightly in 2012 compared to 2011. However, our inventory turns increased in 2012 compared to 2011 and our accounts payable days remained flat. We continue our focus on diligently managing working capital.

Cash provided by investing activities was \$0.6 million in 2013 compared to cash used in investing activities of \$9.0 in 2012. The change was primarily due to a decrease of \$11.9 million in restricted cash during 2013 compared to 2012 as our cash collateral requirement for outstanding letters of credit was eliminated. Proceeds from the sale of property, plant and equipment increased by \$2.4 million in 2013 compared to 2012. Partially offsetting these changes, our

capital expenditures increased \$4.7 million in 2013 compared to 2012 primarily related to purchasing a facility in Knoxville, TN as well as purchasing machinery and equipment to support sales growth and to increase capacity at existing locations.

Cash used in investing activities decreased by \$9.6 million in 2012 compared to 2011. The decrease is primarily due to a \$1.1 million decrease in our restricted cash balance in 2012 compared to a \$14.2 million increase in 2011. This decrease is partially offset by a \$5.6 million increase in capital expenditures primarily related to an increase in buyouts of expiring vehicle and equipment leases, the purchase of our Chelsea, AL location, which was previously a leased facility, and capacity expansion at our Houston, TX window manufacturing facility in the current year.

Cash used in financing activities was \$29.7 million in 2013 compared to cash provided by financing activities of \$60.5 million in 2012. In 2013, we issued \$350.0 million of 2021 notes and repaid our \$225.0 term loan and \$139.7 million of 2016 notes. The remaining change in 2013 is primarily due to \$15.6 million in payments of deferred loan costs related to our 2013 facility and the 2021 notes. In 2012, our net cash provided by financing activities of \$60.5 million was primarily due to the \$62.1 million of proceeds from the amendment to our term loan, net of debt discount, partially offset by \$1.6 million of payments of deferred loan costs.

Net cash provided by financing activities decreased by \$68.1 million in 2012 compared to 2011. In 2012, our net cash provided by financing activities of \$60.5 million was primarily due to the \$62.1 million of proceeds from the amendment to our term loan, net of debt discount, partially offset by \$1.6 million of payments of deferred loan costs. In 2011, our net cash provided by financing activities of \$128.6 million was primarily due to the \$155.2 million of proceeds from our term loan, net of debt discount, partially offset by \$20.0 million of payments under our revolving credit facility and \$5.3 million used to repay our remaining 2012 notes.

Capital Expenditures

Capital expenditures vary depending on prevailing business factors, including current and anticipated market conditions. Historically, capital expenditures have for the most part remained at relatively low levels in comparison to the operating cash flows generated during the corresponding periods. We expect our 2014 capital expenditures to be approximately \$15-\$20 million primarily related to rolling stock, equipment and facility improvements to support our operations.

DISCLOSURES OF CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

The following summarizes our contractual obligations as of December 31, 2013 (in thousands):

Contractual obligations	Payments Due by Period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-term debt	\$353,971	\$ 67	\$ 157	\$ 194	\$ 353,553
Interest on long-term debt(1)	205,452	28,184	56,348	55,669	65,251
Operating leases	97,950	22,031	34,818	23,044	18,057
Uncertain tax positions(2)	—	—	—	—	—
Total contractual cash obligations	\$657,373	\$ 50,282	\$91,323	\$78,907	\$ 436,861

(1) We had no borrowings under the 2013 facility as of December 31, 2013. However, any future borrowings under the 2013 facility would bear interest at a variable rate. Therefore, actual interest may differ from the amounts presented above if we were to borrow under the 2013 facility.

(2) We have \$1.0 million of uncertain tax positions recorded in long-term liabilities or as a reduction to operating loss carryforwards. We also have \$0.2 million in interest and penalties accrued related to these uncertain tax positions.

It is not reasonably possible to predict at this time when (or if) any of these amounts will be settled.

The amounts reflected in the table above for operating leases represent future minimum lease payments under non-cancelable operating leases with an initial or remaining term in excess of one year at December 31, 2013. Purchase orders entered into in the ordinary course of business are excluded from the above table because they are payable within one year. Amounts for which we are liable under purchase orders are reflected on our consolidated balance sheet as accounts payable and accrued liabilities. We plan to lease additional delivery equipment during 2014 to support anticipated sales growth. These operating leases are not included in the table above.

OTHER CASH OBLIGATIONS NOT REFLECTED IN THE BALANCE SHEET

In accordance with accounting principles generally accepted in the United States, commonly referred to as GAAP, our operating leases are not recorded in our balance sheet. In addition to the lease obligations included in the above table, we have residual value guarantees on certain equipment leases. Under these leases we have the option of (1) purchasing the equipment at the end of the lease term, (2) arranging for the sale of the equipment to a third party, or (3) returning the equipment to the lessor to sell the equipment. If the sales proceeds in either case are less than the residual value, then we are required to reimburse the lessor for the deficiency up to a specified level as stated in each lease agreement. The guarantees under these leases for the residual values of equipment at the end of the respective operating lease periods approximated \$1.9 million as of December 31, 2013.

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Critical accounting policies are those that both are important to the accurate portrayal of a company's financial condition and results, and require subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

In order to prepare financial statements that conform to GAAP, we make estimates and assumptions that affect the amounts reported in our financial statements and accompanying notes. Certain estimates are particularly sensitive due to their significance to the financial statements and the possibility that future events may be significantly different from our expectations.

We have identified the following accounting policies that require us to make the most subjective or complex judgments in order to fairly present our consolidated financial position and results of operations.

Vendor Rebates. Many of our arrangements with our vendors provide for us to receive a rebate of a specified amount payable to us when we achieve any of a number of measures, generally related to the volume of purchases from our vendors. We account for these rebates as a reduction of the prices of the vendor's products, which reduces inventory until we sell the product, at which time these rebates reduce cost of sales. Throughout the year, we estimate the amount of rebates based upon our historical level of purchases. We continually revise these estimates to reflect actual purchase levels.

If market conditions were to change, vendors may change the terms of some or all of these programs. Although these changes would not affect the amounts which we have recorded related to product already purchased, it may impact our gross margins on products we sell or sales earned in future periods.

Allowance for Doubtful Accounts and Related Reserves. We maintain an allowance for doubtful accounts for estimated losses due to the failure of our customers to make required payments. We perform periodic credit evaluations of our customers and typically do not require collateral. However, we have, in some cases, required customers to collateralize their debt with us. Consistent with industry practices, we typically require payment from most customers within 30 days. As our business is seasonal in certain regions, our customers' businesses are also seasonal. Sales are lowest in the winter months, and our past due accounts receivable balance as a percentage of total receivables generally increases during this time. Throughout the year, we record estimated reserves based upon our historical write-offs of uncollectible accounts, taking into consideration certain factors, such as aging statistics and trends, customer payment history, independent credit reports, and discussions with customers. Periodically, we perform a specific analysis of all accounts past due and write off account balances when we have exhausted reasonable collection efforts and determined that the likelihood of collection is remote. We charge these write-offs against our allowance for doubtful accounts. Any future decline in the macroeconomic factors that affect the overall housing industry or our specific customers' business could cause us to revise our estimate of expected losses and increase our allowance for doubtful accounts.

Impairment of Long-Lived Assets. Long-lived assets, including property and equipment, are reviewed for possible impairment whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable. The carrying amount of a long-lived asset group is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset group. Our long-lived assets and liabilities are grouped at the lowest level for which identifiable cash flows are largely independent of the cash flows of other groups of assets and liabilities. Our asset groups consist of geographical markets, which are one level below our reporting units. Our judgment regarding the existence of impairment indicators is based on market and operational performance. Determining whether impairment has occurred typically requires various estimates and assumptions, including determining which cash flows are directly related to the potentially impaired asset, the useful life over which cash flows will occur, their amount, and the asset's residual value, if any. In turn, measurement of an impairment loss requires a determination of fair value, which is based on the best information available.

We use internal cash flow estimates, quoted market prices when available and independent appraisals, as appropriate, to determine fair value. We derive the required cash flow estimates from our historical experience and our internal business plans and apply an appropriate discount rate. These cash flow estimates are over the remaining useful lives of the assets within each market. Forecasted housing starts for each market are used to help estimate future revenue. Historical trends are then used to project gross margins and operating expenses based upon various revenue levels. If these projected cash flows are less than the carrying amount, an impairment loss is recognized based on the fair value of the asset group. Due to the uncertainties associated with these projections, actual results could differ from projected results, and further impairment of long-lived assets could be recorded. Future non-cash impairment of long-lived assets would have the effect of decreasing our earnings or increasing our losses in such period, but would not impact our current outstanding debt obligations or compliance with covenants contained in the related debt agreements.

We recorded no significant asset impairment charges in continuing operations in 2013, 2012 or 2011.

Goodwill. Goodwill represents the excess of the amount we paid to acquire businesses over the estimated fair value of tangible assets and identifiable intangible assets acquired, less liabilities assumed. At December 31, 2013, our goodwill balance was \$111.2 million, representing 21.6% of our total assets.

We test goodwill for impairment in the fourth quarter of each year or at any other time when impairment indicators exist by comparing the estimated implied value of a reporting units' goodwill to its book value. Examples of such indicators that could cause us to test goodwill for impairment between annual tests include a significant change in the business climate, unexpected competition or a significant deterioration in market share. We may also consider market capitalization relative to our net assets. Our industry experienced a significant and severe downturn that began in mid-2006. As such, we have closely monitored the trends in economic factors and their effects on operating results to determine if an impairment trigger was present that would warrant a reassessment of the recoverability of the carrying amount of goodwill prior to the required annual impairment test and performed interim impairment tests when warranted. Housing starts are a significant sales driver for us. If there is a significant decline or an expected decline in housing starts, this could adversely affect our expectations for a reporting unit and the value of that reporting unit. We did not have any goodwill impairments in continuing operations in 2013, 2012 or 2011.

The process of evaluating goodwill for impairment involves the determination of fair value of our reporting units. Our reporting units: Atlantic, Raleigh, Southeast, Florida, Dallas and South Texas represent financially discrete, self-sustaining components. We evaluate goodwill for impairment using a two-step process. The first step is to identify potential impairment by comparing the fair value of a reporting unit to the book value, including goodwill. If the fair value of a reporting unit exceeds the book value, goodwill is not impaired. If the book value exceeds the fair value, the second step of the process is performed to measure the amount of impairment. In step two, the estimated fair value of the reporting unit is allocated to all other assets and liabilities of that reporting unit based on their respective fair values. The excess of the fair value of the reporting unit over the amount allocated to its assets and liabilities is the implied fair value of goodwill. Goodwill impairment is measured as the excess of the carrying value over its implied fair value. The fair value of a reporting unit is estimated based upon the projected discounted cash flow expected to be generated from the reporting unit using a discounted cash flow methodology. Where available and appropriate, comparative market multiples are used to corroborate the results of the discounted cash flow.

We developed a range of fair values for our reporting units using a five-year discounted cash flow methodology. Inherent in such fair value determinations are estimates relating to future cash flows, including revenue growth, gross margins, operating expenses and long-term growth rates, and our interpretation of current economic indicators and market conditions and their impact on our strategic plans and operations. Due to the uncertainties associated with such estimates, interpretations and assumptions, actual results could differ from projected results, and further impairment of goodwill could be recorded.

Significant information and assumptions utilized in estimating future cash flows for our reporting units includes publicly available industry information on projected single-family housing starts and lumber commodity prices which are used to project revenue. Projected gross margins and operating expenses reflect current headcount levels and cost structure and are flexed in future years based upon historical trends at various revenue levels. Long-term growth was based upon terminal value earnings before interest, taxes, depreciation and amortization (EBITDA) multiples of 5.5x for all reporting units to reflect the relevant expected acquisition price. A discount rate of 12.9% was used for all reporting units and is intended to reflect the weighted average cost of capital for a potential market participant and includes all risks of ownership and the associated risks of realizing the stream of projected future cash flows. Decreasing the long-term growth to an EBITDA multiple of 4.5x, or increasing the discount rate by 1.0% to 13.9%, would not have changed the results of our impairment testing.

At December 31, 2013, the fair values of each our reporting units were substantially in excess of their respective carrying values. The excess (or "cushion") of the implied fair value of goodwill over the carrying value of goodwill for each of our five reporting units which have remaining goodwill balances ranged from \$33.1 million to \$284.7 million. The cushion for one of our reporting units at December 31, 2013, was \$33.1 million. Nonetheless, moderate

deviations from projected cash flows for this reporting unit could result in future goodwill impairment. This reporting unit had a goodwill balance of \$11.0 million at December 31, 2013. Factors that could negatively impact the estimated fair value of our reporting units and potentially trigger additional impairment include, but are not limited to, unexpected competition, lower than expected housing starts, an increase in market participant weighted average cost of capital, increases in material or labor cost, and significant declines in our market capitalization. Future non-cash impairment of goodwill would have the effect of decreasing our earnings or increasing our losses in such period, but would not impact our current outstanding debt obligations or compliance with covenants contained in the related debt agreements.

Deferred Income Taxes. We assess whether it is more likely than not that some or all of our deferred tax assets will not be realized. We consider the reversal of existing deferred tax liabilities, future taxable income, and tax planning strategies in our assessment. Changes in our estimates of future taxable income and tax planning strategies will affect our estimate of the realization of the tax benefits of these tax carryforwards. Housing market conditions have contributed to our cumulative loss position for the past several years. Cumulative losses in recent years represent significant negative evidence in considering whether deferred tax assets are realizable, and also usually preclude relying on projections of future taxable income to support the recovery of deferred tax assets. Therefore, we recorded a valuation allowance of approximately \$15.3 million related to our continuing operations in 2013, which is

exclusive of \$0.6 million related primarily to reversals of uncertain tax positions due to statute expirations that affected our net operating loss carryforward and valuation allowance. We recorded a valuation allowance of approximately \$19.6 million and \$26.1 million related to our continuing operations in 2012 and 2011, respectively. Without significant improvement in housing activity we could be required to establish additional valuation allowances. However, we had positive earnings before taxes in the third and fourth quarters of 2013. To the extent we continue to generate sufficient taxable income in the future to fully utilize the tax benefits of the related net deferred tax assets, we may reverse some or all of the valuation allowances.

Insurance. We are insured for general liability, auto liability and workers' compensation exposures, subject to deductible amounts. The expected liability for unpaid claims, including incurred but not reported losses, is determined using the assistance of a third-party actuary and is reflected on our balance sheet as an accrued liability. The amount recoverable from our insurance provider is reflected as an other asset. Our accounting policy includes an internal evaluation and adjustment of our reserve for all insured losses on a quarterly basis. At least on an annual basis, we engage an external actuarial professional to independently assess and estimate the total liability outstanding, which is compared to the actual reserve balance at that time and adjusted accordingly.

Stock-Based Compensation. Calculating stock-based compensation expense requires the input of subjective assumptions. We determine the fair value of each option grant using the Black-Scholes option-pricing model with assumptions based primarily on historical data. Specific inputs to the model include: the expected life of the stock-based awards, stock price volatility, dividend yield and risk-free rate.

The expected life represents the period of time the options are expected to be outstanding. We consider the contractual term, the vesting period and the expected lives used by a peer group with similar option terms in determining the expected life assumption. The expected volatility is based on the historical volatility of our common stock over the most recent period equal to the expected life of the option. The expected dividend yield is based on our history of not paying regular dividends in the past and our current intention to not pay regular dividends in the foreseeable future. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant and has a term equal to the expected life of the options. We record expense for the unvested portion of grants over the requisite service (i.e., vesting) periods.

RECENTLY ISSUED ACCOUNTING STANDARDS

In July 2013 the Financial Accounting Standards Board ("FASB") issued an update to the existing guidance under the Income Taxes topic of the Codification. The objective of this update is to provide guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, similar tax loss, or tax credit carryforward exists. The amendments in this standard are effective for all entities that have unrecognized tax benefits when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists for fiscal years, and interim periods beginning after December 15, 2013. Early adoption and retrospective application is permitted, but not required. We are currently evaluating the impact that the adoption of this update will have on our financial statements.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

We may experience changes in interest expense if there were changes in our debt. Changes in market interest rates could also increase these risks. Our 2021 Notes bear interest at a fixed rate, therefore, our interest expense related to the 2021 Notes would not be affected by an increase in market interest rates. Borrowings under the 2013 facility bear interest at either a base rate or eurodollar rate, plus, in each case, an applicable margin. At December 31, 2013, a 1.0% increase in interest rates would not result in any additional interest expense annually as we had no outstanding borrowings under the 2013 facility. The 2013 facility also assesses variable commitment and outstanding letter of credit fees based on quarterly average loan utilization.

Our share price and, to a lesser extent, the historical volatility of our common stock are the primary factors in the changes to our fair value measurements related to our outstanding warrants. All other inputs being equal, an increase or decrease in our share price or volatility would result in an increase or decrease in the fair value of our warrants and an increase or decrease in interest expense. Based on the warrants outstanding and the historical volatility of our common stock as of December 31, 2013, a 10% change in our share price would result in approximately a \$0.5 million change in our interest expense. Based on the warrants outstanding and our share price as of December 31, 2013, a 10% change in the historical volatility of our common stock would result in approximately a \$0.1 million change in our interest expense.

We purchase certain materials, including lumber products, which are then sold to customers as well as used as direct production inputs for our manufactured products that we deliver. Short-term changes in the cost of these materials and the related in-bound freight costs, some of which are subject to significant fluctuations, are sometimes, but not always, passed on to our customers. Our delayed ability to pass on material price increases to our customers can adversely affect our operating income.

Item 8. Financial Statements and Supplementary Data

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Builders FirstSource, Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations and comprehensive loss, changes in stockholders' equity and cash flows present fairly, in all material respects, the financial position of Builders FirstSource, Inc. and its subsidiaries at December 31, 2013 and December 31, 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control - Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

Dallas, Texas

February 28, 2014

BUILDERS FIRSTSOURCE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

	Years Ended December 31,		
	2013	2012	2011
	(In thousands, except per share amounts)		
Sales	\$1,489,892	\$1,070,676	\$779,093
Cost of sales	1,169,972	856,110	621,148
Gross margin	319,920	214,566	157,945
Selling, general and administrative expenses	271,885	222,263	192,959
Asset impairments	—	48	—
Facility closure costs	(7)	958	2,461
Income (loss) from operations	48,042	(8,703)	(37,475)
Interest expense, net	89,638	45,139	24,939
Loss from continuing operations before income taxes	(41,596)	(53,842)	(62,414)
Income tax expense	769	577	2,217
Loss from continuing operations	(42,365)	(54,419)	(64,631)
Loss from discontinued operations (net of income tax expense of \$0 in 2013, 2012 and 2011)	(326)	(2,437)	(364)
Net loss	\$(42,691)	\$(56,856)	\$(64,995)
Comprehensive loss	\$(42,691)	\$(56,856)	\$(62,838)
Basic and diluted net loss per share:			
Loss from continuing operations	\$(0.44)	\$(0.57)	\$(0.68)
Loss from discontinued operations	(0.00)	(0.03)	(0.00)
Net loss	\$(0.44)	\$(0.60)	\$(0.68)
Weighted average common shares outstanding:			
Basic and diluted	96,449	95,463	94,950

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

BUILDERS FIRSTSOURCE, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31,	
	2013	2012
	(In thousands, except per share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 54,696	\$ 131,432
Restricted cash	—	12,068
Accounts receivable, less allowances of \$3,605 and \$2,831 for 2013 and 2012, respectively	143,036	117,405
Inventories	123,636	108,999
Other current assets	9,793	9,968
Total current assets	331,161	379,872
Property, plant and equipment, net	49,392	44,084
Goodwill	111,193	111,193
Intangible assets, net	827	1,208
Other assets, net	23,266	14,484
Total assets	\$ 515,839	\$ 550,841
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 81,046	\$ 79,397
Accrued liabilities	45,310	37,778
Current maturities of long-term debt	67	60
Total current liabilities	126,423	117,235
Long-term debt, net of current maturities	353,904	360,895
Deferred income taxes	6,670	5,993
Other long-term liabilities	13,474	18,622
Total liabilities	500,471	502,745
Commitments and contingencies (Note 13)		
Stockholders' equity:		
Preferred stock, \$0.01 par value, 10,000 shares authorized; zero shares issued and outstanding at December 31, 2013 and 2012	—	—
Common stock, \$0.01 par value, 200,000 shares authorized; 97,905 and 96,916 shares issued and outstanding at December 31, 2013 and 2012, respectively	973	957
Additional paid-in capital	373,418	363,471
Accumulated deficit	(359,023)	(316,332)
Total stockholders' equity	15,368	48,096
Total liabilities and stockholders' equity	\$ 515,839	\$ 550,841

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

BUILDERS FIRSTSOURCE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2013	2012	2011
	(In thousands)		
Cash flows from operating activities:			
Net loss	\$(42,691)	\$(56,856)	\$(64,995)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	9,305	11,120	14,041
Asset impairments	—	48	—
Amortization and write-off of deferred loan costs	4,067	744	1,344
Amortization and write-off of debt discount	7,794	1,425	106
Fair value adjustment of stock warrants	1,502	4,992	736
Deferred income taxes	917	458	1,817
Bad debt expense	900	751	437
Net non-cash expense (income) from discontinued operations	(195)	1,064	—
Stock compensation expense	4,245	3,628	4,559
Net gain on sales of assets	(284)	(38)	(212)
Changes in assets and liabilities:			
Receivables	(26,531)	(41,727)	(17,175)
Inventories	(14,637)	(31,914)	(13,275)
Other current assets	(177)	(710)	1,792
Other assets and liabilities	(1,344)	(195)	384
Accounts payable	1,649	30,779	3,752
Accrued liabilities	7,904	9,581	281
Net cash used in operating activities	(47,576)	(66,850)	(66,408)
Cash flows from investing activities:			
Purchases of property, plant and equipment	(15,051)	(10,398)	(4,792)
Proceeds from sale of property, plant and equipment	2,592	230	349
Decrease (increase) in restricted cash	13,030	1,135	(14,165)
Net cash provided by (used in) investing activities	571	(9,033)	(18,608)
Cash flows from financing activities:			
Borrowings under revolving credit facility	30,000	—	—
Payments under revolving credit facility	(30,000)	—	(20,000)
Proceeds from issuance of long term debt	350,000	62,075	155,200
Payments of long-term debt and other loans	(364,778)	(54)	(5,298)
Deferred loan costs	(15,634)	(1,639)	(1,285)
Payment of recapitalization costs	(37)	—	—
Exercise of stock options	1,754	596	—
Repurchase of common stock	(1,036)	(496)	(2)
Net cash provided by (used in) financing activities	(29,731)	60,482	128,615
Net increase (decrease) in cash and cash equivalents	(76,736)	(15,401)	43,599
Cash and cash equivalents at beginning of period	131,432	146,833	103,234
Cash and cash equivalents at end of period	\$54,696	\$131,432	\$146,833

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

BUILDERS FIRSTSOURCE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

	Common Stock		Additional Paid	Accumulated	Accumulated	Total
	Shares	Amount	in	Deficit	Other Comprehensive (Loss) Income	
	(In thousands)					
Balance at December 31, 2010	96,769	\$ 949	\$ 355,194	\$ (194,481)	\$ (2,157)	\$ 159,505
Issuance of restricted stock, net of forfeitures	38	—	—	—	—	—
Vesting of restricted stock	—	1	(1)	—	—	—
Stock compensation expense	—	—	4,559	—	—	4,559
Repurchase of common stock	(1)	—	(2)	—	—	(2)
Comprehensive loss:						
Net loss	—	—	—	(64,995)	—	(64,995)
Change in fair value of interest rate swaps	—	—	—	—	2,157	2,157
Total comprehensive loss	—	—	—	—	—	(62,838)
Balance at December 31, 2011	96,806	950	359,750	(259,476)	—	101,224
Issuance of restricted stock, net of forfeitures	89	—	—	—	—	—
Vesting of restricted stock	—	7	(7)	—	—	—
Stock Compensation Expense	—	—	3,628	—	—	3,628
Exercise of stock options	187	2	594	—	—	596
Repurchase of common stock	(166)	(2)	(494)	—	—	(496)
Comprehensive loss:						
Net loss	—	—	—	(56,856)	—	(56,856)
Total comprehensive loss	—	—	—	—	—	(56,856)
Balance at December 31, 2012	96,916	957	363,471	(316,332)	—	48,096
Issuance of restricted stock, net of forfeitures	32	—	—	—	—	—
Vesting of restricted stock	—	7	(7)	—	—	—
Stock compensation expense	—	—	4,245	—	—	4,245
Exercise of stock options	543	5	1,749	—	—	1,754
Exercise of stock warrants	579	6	4,994	—	—	5,000
Repurchase of common stock	(165)	(2)	(1,034)	—	—	(1,036)
Comprehensive loss:						
Net loss	—	—	—	(42,691)	—	(42,691)
Total comprehensive loss	—	—	—	—	—	(42,691)
Balance at December 31, 2013	97,905	\$ 973	\$ 373,418	\$ (359,023)	\$ —	\$ 15,368

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

BUILDERS FIRSTSOURCE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Description of the Business

Builders FirstSource, Inc., a Delaware corporation formed in 1998, is a leading supplier and manufacturer of structural and related building products for residential new construction in the United States. We serve 34 markets in 9 states, principally in the southern and eastern United States. We have 53 distribution centers and 47 manufacturing facilities, many of which are located on the same premises as our distribution centers. We serve a broad customer base ranging from production homebuilders to small custom homebuilders.

In this annual report, references to the “company,” “we,” “our,” “ours” or “us” refer to Builders FirstSource, Inc. and its consolidated subsidiaries, unless otherwise stated or the context otherwise requires.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements present the results of operations, financial position, and cash flows of Builders FirstSource, Inc. and its wholly-owned subsidiaries. All significant intercompany transactions have been eliminated in consolidation.

Accounting Estimates

The preparation of financial statements in conformity with GAAP in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could materially differ from those estimates.

Estimates are used when accounting for items such as revenue, vendor rebates, allowance for returns, discounts and doubtful accounts, employee compensation programs, depreciation and amortization periods, income taxes, inventory values, insurance programs, goodwill, other intangible assets and long-lived assets.

Sales Recognition

We recognize sales of building products upon delivery to the customer. For contracts with service elements, sales are generally recognized on the completed contract method as these contracts are usually completed within 30 days. Contract costs include all direct material and labor, equipment costs and those indirect costs related to contract performance. Provisions for estimated losses on uncompleted contracts are recognized in the period in which such losses are determined. Prepayments for materials or services are deferred until such materials have been delivered or services have been provided. All sales recognized are net of allowances for discounts and estimated returns, based on historical experience. We present all sales tax on a net basis in our consolidated financial statements.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and all highly liquid investments with an original maturity date of three months or less.

Restricted Cash

Restricted cash consists of amounts used to collateralize outstanding letters of credit and other potential casualty insurance obligations and is classified as a current or non-current asset based on its designated purpose.

Financial Instruments

We use financial instruments in the normal course of business as a tool to manage our assets and liabilities. We do not hold or issue financial instruments for trading purposes.

We issued detachable warrants in 2011, which are measured at fair value on a recurring basis as discussed in Note 8.

We utilized interest rate swaps in the past in order to mitigate a portion of the interest rate risk that we were exposed to in the normal course of business on our 2012 floating rate notes. We measured our interest rate swaps at fair value on a recurring basis as discussed in Note 8.

Accounts Receivable

We extend credit to qualified professional homebuilders and contractors, in many cases on a non-collateralized basis. The allowance for doubtful accounts is based on management's assessment of the amount which may become uncollectible in the future and is estimated using specific review of problem accounts, overall portfolio quality, current economic conditions that may affect the borrower's ability to pay, and historical experience. Accounts receivable are written off when deemed uncollectible.

Accounts receivable consisted of the following at December 31:

	2013	2012
	(In thousands)	
Trade receivables	\$136,359	\$111,527
Other	10,282	8,709
Accounts receivable	146,641	120,236
Less: allowance for returns and doubtful accounts	3,605	2,831
Accounts receivable, net	\$143,036	\$117,405

The following table shows the changes in our allowance for doubtful accounts:

	2013	2012	2011
	(In thousands)		
Balance at January 1,	\$1,864	\$1,441	\$1,873
Additions charged to expense	900	751	437
Deductions (write-offs, net of recoveries)	(351)	(328)	(869)
Balance at December 31,	\$2,413	\$1,864	\$1,441

We also establish reserves for credit memos and customer returns. The reserve balance was \$1.2 million, \$1.0 million, and \$0.7 million at December 31, 2013, 2012, and 2011, respectively. The activity in this reserve was not significant for each year presented.

Inventories

Inventories consist principally of materials purchased for resale, including lumber, sheet goods, windows, doors and millwork, as well as certain manufactured products and are stated at the lower of cost or market. Cost is determined using the weighted average method, the use of which approximates the first-in, first-out method. We accrue for shrinkage based on the actual historical shrinkage results of our most recent physical inventories adjusted, if necessary, for current economic conditions. These estimates are compared with actual results as physical inventory counts are taken and reconciled to the general ledger.

During the year, we monitor our inventory levels by market and record provisions for excess inventories based on slower moving inventory. We define potential excess inventory as the amount of inventory on hand in excess of the historical usage, excluding special order items purchased in the last three months. We then apply our judgment as to

forecasted demand and other factors, including liquidation value, to determine the required adjustments to net realizable value. Our inventories are generally not susceptible to technological obsolescence.

Our arrangements with vendors provide for rebates of a specified amount of consideration, payable when certain measures, generally related to a stipulated level of purchases, have been achieved. We account for estimated rebates as a reduction of the prices of the vendor's inventory until the product is sold, at which time such rebates reduce cost of sales in the accompanying consolidated statements of operations and comprehensive loss. Throughout the year we estimate the amount of the rebates based upon the expected level of purchases. We continually revise these estimates based on actual purchase levels.

Shipping and Handling Costs

Handling costs incurred in manufacturing activities are included in cost of sales. All other shipping and handling costs are included in selling, general and administrative expenses in the accompanying consolidated statements of operations and comprehensive loss and totaled \$71.1 million, \$58.5 million and \$49.0 million in 2013, 2012 and 2011, respectively.

Income Taxes

We account for income taxes utilizing the liability method described in the Income Taxes topic of the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“Codification”). Deferred income taxes are recorded to reflect consequences on future years of differences between the tax basis of assets and liabilities and their financial reporting amounts at each year-end based on enacted tax laws and statutory tax rates applicable to the periods in which differences are expected to affect taxable earnings. We record a valuation allowance to reduce deferred tax assets if it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Warranty Expense

We have warranty obligations with respect to most manufactured products; however, the liability for the warranty obligations is not significant as a result of third-party inspection and acceptance processes.

Deferred Loan Costs and Debt Discount

Loan costs are capitalized upon the issuance of long-term debt and amortized over the life of the related debt. Loan costs incurred are amortized using either the straight-line method or the effective interest method. Debt discount is amortized over the life of the related debt using the effective interest method. Amortization of deferred loan costs and the debt discount are included in interest expense. Upon changes to our debt structure, we evaluate debt issuance costs in accordance with the Debt topic of the Codification. We adjust debt issuance costs as necessary based on the results of this evaluation, as discussed in Note 8.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost and depreciated using the straight-line method over the estimated useful lives of the assets. The estimated lives of the various classes of assets are as follows:

Buildings and improvements	20 to 40 years
Machinery and equipment	3 to 10 years
Furniture and fixtures	3 to 5 years
Leasehold improvements	The shorter of the estimated useful life or the remaining lease term

Major additions and improvements are capitalized, while maintenance and repairs that do not extend the useful life of the property are charged to expense as incurred. Gains or losses from dispositions of property, plant and equipment are recorded in the period incurred. We also capitalize certain costs of computer software developed or obtained for internal use, including interest, provided that those costs are not research and development, and certain other criteria are met.

We periodically evaluate the commercial and strategic operation of the land, related buildings and improvements of our facilities. In connection with these evaluations, some facilities may be consolidated, and others may be sold or leased. Net gains or losses related to the sale of real estate and equipment are recorded as selling, general and administrative expenses.

Long-Lived Assets

We evaluate our long-lived assets, other than goodwill, for impairment when events or changes in circumstances indicate, in our judgment, that the carrying value of such assets may not be recoverable. The determination of whether

or not impairment exists is based on our estimate of undiscounted future cash flows before interest attributable to the assets as compared to the net carrying value of the assets. If impairment is indicated, the amount of the impairment recognized is determined by estimating the fair value of the assets based on estimated discounted future cash flows and recording a provision for loss if the carrying value is greater than estimated fair value. The net carrying value of assets identified to be disposed of in the future is compared to their estimated fair value, usually the quoted market price obtained from an independent third-party less the cost to sell, to determine if impairment exists. Until the assets are disposed of, an estimate of the fair value is reassessed when related events or circumstances change. Asset impairment charges are presented in the consolidated statements of operations and comprehensive loss for the respective years.

Insurance

We have established insurance programs to cover certain insurable risks consisting primarily of physical loss to property, business interruptions resulting from such loss, workers' compensation, employee healthcare, and comprehensive general and auto liability. Third party insurance coverage is obtained for exposures above predetermined deductibles as well as for those risks required to be insured by law or contract. Provisions for losses are developed from valuations that rely upon our past claims experience, which considers both the frequency and settlement of claims. We discount our workers' compensation liability based upon estimated future payment streams at our risk-free rate.

Net Loss per Common Share

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

The table below presents a reconciliation of weighted average common shares used in the calculation of basic and diluted EPS for the years ended December 31:

	2013	2012	2011
	(In thousands)		
Weighted average shares for basic EPS	96,449	95,463	94,950
Dilutive effect of options	—	—	—
Weighted average shares for diluted EPS	96,449	95,463	94,950

Our restricted stock shares include rights to receive dividends that are not subject to the risk of forfeiture even if the underlying restricted stock shares on which the dividends were paid do not vest. In accordance with the Earnings Per Share topic of the Codification, unvested share-based payment awards that contain non-forfeitable rights to dividends are deemed participating securities and should be considered in the calculation of basic EPS. Since the restricted stock shares do not include an obligation to share in losses, they will be included in our basic EPS calculation in periods of net income and excluded from our basic EPS calculation in periods of net loss. Accordingly, there were 610,000, 1,229,000 and 1,795,000 restricted stock shares excluded from the computation of basic EPS in 2013, 2012, and 2011, respectively, because we generated a net loss. Options to purchase 4,933,000, 5,514,000, and 5,731,000 shares of common stock were not included in the computations of diluted EPS in 2013, 2012, and 2011, respectively, because their effect was anti-dilutive. Warrants to purchase 700,000, 1,600,000 and 1,600,000 shares of common stock were not included in the computations of diluted EPS in 2013, 2012 and 2011 because their effect was anti-dilutive.

Goodwill and Other Intangible Assets

Intangibles subject to amortization

We recognize an acquired intangible asset apart from goodwill whenever the intangible asset arises from contractual or other legal rights, or whenever it can be separated or divided from the acquired entity and sold, transferred, licensed, rented, or exchanged, either individually or in combination with a related contract, asset or liability. Impairment losses are recognized if the carrying value of an intangible asset subject to amortization is not recoverable from expected future cash flows and its carrying amount exceeds its estimated fair value.

Goodwill

We recognize goodwill as the excess cost of an acquired entity over the net amount assigned to assets acquired and liabilities assumed. Goodwill is tested for impairment on an annual basis and between annual tests whenever impairment is indicated. This annual test takes place as of December 31 each year. Impairment losses are recognized whenever the implied fair value of goodwill is less than its carrying value.

Stock-based Compensation

We have three stock-based employee compensation plans, which are described more fully in Note 9. We issue new common stock shares upon exercises of stock options and grants of restricted stock.

The fair value of each option award is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions for the year ended December 31:

	2012
Expected life	6.0 years
Expected volatility	94.4%
Expected dividend yield	0.00%
Risk-free rate	1.18%

The expected life represents the period of time the options are expected to be outstanding. We consider the contractual term, the vesting period and the expected lives used by a peer group with similar option terms in determining the expected life assumption. The expected volatility is based on the historical volatility of our common stock over the most recent period equal to the expected life of the option. The expected dividend yield is based on our history of not paying regular dividends in the past and our current intention to not pay regular dividends in the foreseeable future. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant and has a term equal to the expected life of the options. We did not grant any stock option awards in 2013 or 2011.

Recently Issued Accounting Pronouncements

In July 2013 the Financial Accounting Standards Board (“FASB”) issued an update to the existing guidance under the Income Taxes topic of the Codification. The objective of this update is to provide guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, similar tax loss, or tax credit carryforward exists. The amendments in this standard are effective for all entities that have unrecognized tax benefits when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists for fiscal years, and interim periods beginning after December 15, 2013. Early adoption and retrospective application is permitted, but not required. We are currently evaluating the impact that the adoption of this update will have on our financial statements.

Comprehensive (Loss) Income

Comprehensive (loss) income is defined as the change in equity (net assets) of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. It consists of net (loss) income and other gains and losses affecting stockholders’ equity that, under GAAP, are excluded from net income. The change in fair value of interest rate swaps was the only item impacting our accumulated other comprehensive loss.

The following table presents the components of comprehensive loss for the years ended December 31, 2013, 2012 and 2011 (in thousands):

	2013	2012	2011
Net loss	\$(42,691)	\$(56,856)	\$(64,995)
Other comprehensive income — change related to interest rate swap agreements, net of related tax effect	—	—	2,157
Comprehensive loss	\$(42,691)	\$(56,856)	\$(62,838)

3. Property, Plant and Equipment

Property, plant and equipment consisted of the following at December 31:

	2013	2012
	(In thousands)	
Land	\$14,437	\$12,815
Buildings and improvements	58,974	56,743
Machinery and equipment	100,109	97,225
Furniture and fixtures	17,734	18,363
Construction in progress	4,978	272
Property, plant and equipment	196,232	185,418
Less: accumulated depreciation	146,840	141,334
Property, plant and equipment, net	\$49,392	\$44,084

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Depreciation expense was \$8.9 million, \$10.7 million and \$13.5 million, of which \$2.4 million, \$3.1 million and \$4.1 million was included in cost of sales, in 2013, 2012, and 2011, respectively.

4. Discontinued Operations

In the second quarter of 2009, we announced our intent to exit the entire Ohio market based upon several factors, including the unfavorable conditions that affected our industry and a poor competitive position which prevented us from generating profitable results. We completed our exit plan in the second quarter of 2009 and have no further significant, continuing involvement in these operations. The cessation of operations in these markets was treated as discontinued operations as they had distinguishable cash flow and operations that have been eliminated from our ongoing operations. As a result, the operating results of the Ohio market for the current and prior periods have been aggregated and reclassified as discontinued operations in the consolidated statements of operations and comprehensive loss for the years ended December 31, 2013, 2012, and 2011.

We recognized \$0.4 million, \$1.3 million, and \$0.3 million of expense in 2013, 2012 and 2011, respectively, which was primarily related to future minimum lease obligations on closed facilities, and revisions to sub-rental income estimates. These amounts are included in loss from discontinued operations in the accompanying consolidated statement of operations and comprehensive loss for the years ended December 31, 2013, 2012, and 2011, respectively.

In December 2012, an Ohio facility met the criteria for held for sale classification. As such, it was reclassified from property, plant, and equipment to other assets. We recorded a \$1.1 million impairment charge to adjust the value of this property to its fair value. This amount was included in loss from discontinued operations in the accompanying consolidated statement of operations and comprehensive loss for the year ended December 31, 2012. In April 2013, this facility was sold and the resulting gain of approximately \$0.2 million was included in loss from discontinued operations in the accompanying consolidated statement of operations and comprehensive loss for the year ended December 31, 2013.

An analysis of our facility closure reserves related to our discontinued operations for the periods reflected is as follows:

	2011	Additions	Payments	2012	Additions	Payments	2013
	(In thousands)						
Facility and other exit costs, net of estimated sub-lease rental income	\$2,237	\$ 1,297	\$ (923)	\$2,611	\$ 373	\$ (867)	\$2,117

The facility and other exit cost reserves related to our discontinued operations at December 31, 2013 were \$2.1 million, of which \$1.4 million is recorded as other long-term liabilities. The reserves are primarily related to future minimum lease payments on vacated facilities.

Our loss before income taxes attributable to our discontinued operations were \$0.3 million, \$2.4 million, and \$0.4 million for the years ended December 31, 2013, 2012, and 2011, respectively.

5. Goodwill

There were no changes in the carrying amount of goodwill in 2013 and 2012.

We closely monitor trends in economic factors and their effects on operating results to determine if an impairment trigger was present that would warrant a reassessment of the recoverability of the carrying amount of goodwill prior to the required annual impairment test in accordance with the Intangibles – Goodwill and Other topic of the Codification.

The process of evaluating goodwill for impairment involves the determination of fair value of our reporting units. Inherent in such fair value determinations are certain judgments and estimates relating to future cash flows, including our interpretation of current economic indicators and market valuations and assumptions about our strategic plans with regard to our operations. Due to the uncertainties associated with such estimates, actual results could differ from such estimates resulting in further impairment of goodwill.

In performing our impairment analysis, we developed a range of fair values for our reporting units using a discounted cash flow methodology. The discounted cash flow methodology establishes fair value by estimating the present value of the projected future cash flows to be generated from the reporting unit. The discount rate applied to the projected future cash flows to arrive at the present value is intended to reflect all risks of ownership and the associated risks of realizing the stream of projected future cash flows. The discounted cash flow methodology uses our projections of financial performance for a five-year period. The most significant assumptions used in the discounted cash flow methodology are the discount rate, the terminal value and the expected future revenues,

gross margins and operating expenses, which vary among reporting units. Significant assumptions used in our financial projections include housing starts, lumber commodity prices, and market share gains.

We recorded no goodwill impairment charges in 2013, 2012, and 2011.

6. Intangible Assets

The following table presents intangible assets as of December 31:

	2013		2012	
	Gross	Accumulated	Gross	Accumulated
	Carrying	Amortization	Carrying	Amortization
	Amount	Amount	Amount	Amount
	(In thousands)			
Customer relationships	\$3,334	\$ (2,507)	\$3,458	\$ (2,250)

During the years ended December 31, 2013, 2012, and 2011, we recorded amortization expense in relation to the above-listed intangible assets of \$0.4 million, \$0.4 million, and \$0.5 million, respectively. The following table presents the estimated amortization expense for these intangible assets for the years ending December 31 (in thousands):

2014	\$ 373
2015	287
2016	167
2017	—
2018	—

7. Accrued Liabilities

Accrued liabilities consisted of the following at December 31:

	2013	2012
	(In thousands)	
Accrued payroll and other employee related expenses	\$11,585	\$7,593
Accrued taxes	8,439	7,130
Self-insurance reserves	7,939	6,262
Accrued interest	2,227	4,134
Facility closure reserves	1,568	1,513
Casualty claims in excess of retained loss limit	2,085	2,437
Deferred revenue	5,540	4,037
Other	5,927	4,672

Total accrued liabilities	\$45,310	\$37,778
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8. Long-Term Debt

Long-term debt consisted of the following at December 31:

	2013	2012
	(In thousands)	
2021 notes	350,000	—
Term loan	—	225,000
2016 notes	—	139,718
Other long-term debt*	3,971	4,031
	353,971	368,749
Unamortized debt discount	—	(7,794)
	353,971	360,955
Less: current portion of long-term debt	67	60
Total long-term debt, net of current maturities	\$353,904	\$360,895

*We completed construction on a new multi-purpose facility during 2006. Other long-term debt represents an unfunded lease obligation for this facility. For accounting purposes, we are deemed the owner. As a result, the building and the offsetting long-

term lease obligation are included on the consolidated balance sheet as a component of fixed assets and other debt, respectively. The building is being depreciated over its useful life, and the lease obligation is being amortized such that there will be no gain or loss recorded if the lease is not extended at the end of the term in January 2021.

Second Priority Senior Secured Floating Rate Notes due 2016

As of December 31, 2012, we had \$139.7 million in aggregate principal amount of Second Priority Senior Secured Floating Rate Notes due 2016 (“2016 notes”) that matured on February 15, 2016. Interest accrued on the 2016 notes at a 3-month LIBOR (subject to a 3.0% floor) plus 10.0%. LIBOR was reset at the beginning of each quarterly period. In May 2013, we repaid the full \$139.7 million in outstanding notes as part of the 2013 refinancing transaction discussed below.

First-Lien Term Loan and Letter of Credit Facilities

In December 2011, we completed a \$160.0 million first-lien term loan (“term loan”) that included detachable warrants that allow for the purchase of up to 1.6 million shares of our common stock at a price of \$2.50 per share. These warrants were exercisable immediately upon issuance and expire in December 2018. The warrant agreement contains certain settlement adjustment features which preclude the warrants from being considered to be indexed to our stock. Specifically, it includes a “down-round” provision that requires an adjustment to be made to the exercise price and number of warrants upon the Company issuing additional common shares or convertible securities at a price that is less than the exercise price of the warrants at that time. This adjustment would be required even if the issue price of the common shares or convertible securities was at-market. As such, the outstanding warrants are considered to be derivative financial instruments and are classified as liabilities. As of December 31, 2013 there were 0.7 million warrants outstanding.

At the same time, we entered into a \$20.0 million stand-alone letter of credit facility (“stand-alone facility”). The term loan and the stand-alone facility were both scheduled to mature on September 30, 2015. The term loan, which was issued at 97%, provided \$119.6 million of net proceeds after repaying the \$20.0 million outstanding under the existing senior secured revolving credit facility, using \$14.2 million to collateralize letters of credit outstanding under the new stand-alone facility, and paying fees and expenses related to this transaction.

In December of 2012, we amended our first-lien term loan to enhance our liquidity position to support both current and anticipated increases in sales volume. Terms of the amendment included increasing the principal amount by \$65.0 million, reducing the minimum cash requirement from \$35.0 million to \$15.0 million, adding a new \$15.0 million letter of credit sub-facility (“sub-facility”), and increasing the minimum specified collateral value to \$225.0 million, contingent upon maintaining certain levels of qualified cash. The additional term loan amount, which was issued at 95.5%, provided \$60.9 million of net proceeds after paying fees and expenses related to the transaction.

The term loan was collateralized by a first lien on substantially all of our assets, and was guaranteed by all of our subsidiaries. Interest accrued on the loan at 3-month LIBOR (subject to a 2% floor) plus 9.5%. The stand-alone facility included a commitment fee of 0.5% on any unused amount and assessed interest at a rate of 2.0% on any outstanding letters of credit. All letters of credit issued under the stand-alone facility were collateralized by cash equal to 105% of the face amount of the letters of credit. The sub-facility also included a commitment fee of 0.5% on any unused amount and assessed interest at a rate of 3.0% on any outstanding letters of credit. Letters of credit issued under the sub-facility were not required to be cash collateralized.

As of December 2012, we had outstanding letters of credit totaling \$12.4 million under our stand-alone facility that principally support our self insurance programs. We collateralized these letters of credit with \$13.0 million of restricted cash. In January 2013, we finalized our letter of credit sub-facility and at the same time, transferred the \$12.4 million of outstanding letters of credit from our stand-alone facility over to the new sub-facility. As such, we

were able to eliminate the cash collateral requirement for our outstanding letters of credit, thus increasing our liquidity by an additional \$13.0 million. We also amended the stand-alone facility from \$20.0 million down to \$10.0 million.

In May 2013, we repaid the full \$225.0 million outstanding term loan as part of the 2013 refinancing transaction discussed below. At the same time, we terminated the term loan and letter of credit sub-facility, as well as the amended stand-alone facility.

2013 Refinancing

In May 2013 we completed a private offering of \$350.0 million in aggregate principal amount of 7.625% senior secured notes due 2021 (“2021 notes”) at a price equal to 100% of their face value. In conjunction with the offering, we also entered into a new 5-year \$175.0 million senior secured revolving credit facility agreement (“2013 facility”) provided by a syndicate of financial institutions led by SunTrust Bank as administrative agent.

We used the net proceeds from the offering of the 2021 notes, together with cash on hand, to (i) redeem \$139.7 million in aggregate outstanding principal amount of our 2016 notes at par plus accrued and unpaid interest thereon to the redemption date, (ii) repay \$225.0 million in borrowings outstanding under our existing first-lien term loan plus a prepayment premium of approximately \$39.5 million and accrued and unpaid interest and (iii) pay the related commissions, fees and expenses. The repayment of the 2016 notes and the term loan was considered to be an extinguishment. As such, we recognized a loss of \$48.4 million, which was recorded as interest expense in the second quarter of 2013. Of this \$48.4 million loss, \$39.5 million was due to the prepayment premium on the term loan, \$6.8 million was due to a write-off of unamortized debt discount on the term loan and \$2.1 million was due to a write-off of unamortized deferred loan costs on the 2016 notes and the term loan.

Upon the repayment of the outstanding borrowings and payment of the prepayment premium and accrued interest, we terminated the term loan, which included the \$15.0 million letter of credit sub-facility. The \$12.7 million of outstanding letters of credit under the sub-facility at the time were transferred to the 2013 facility. At the same time, we also terminated our \$10.0 million letter of credit stand-alone facility. There were no letters of credit outstanding under the stand-alone facility at the time of termination.

In connection with the issuance of the 2021 notes and entering into the 2013 facility we incurred approximately \$15.6 million of various third-party fees and expenses. Of these costs, \$11.2 million were allocated to the 2021 notes and \$4.4 million were allocated to the 2013 facility. These costs have been capitalized and will be amortized over the respective terms of the 2021 notes and the 2013 facility. The \$0.9 million in remaining unamortized deferred loan costs related to the sub-facility and stand-alone facility are being amortized over the term of the 2013 facility.

Senior Secured Notes due 2021

As of December 31, 2013, we have \$350.0 million outstanding in aggregate principal amount of 2021 notes that mature on June 1, 2021. The 2021 notes were issued pursuant to an indenture, dated as of May 29, 2013 (“Indenture”), by and between us, certain of our subsidiaries, as guarantors (“Guarantors”), and Wilmington Trust, National Association, as trustee and notes collateral agent (“Trustee”). Interest accrues on the 2021 notes at a rate of 7.625% per annum and is payable semi-annually in arrears on June 1 and December 1 of each year.

The 2021 notes, subject to certain exceptions, are guaranteed, jointly and severally, on a senior secured basis, by each of the Guarantors. All obligations under the 2021 notes, and the guarantees of those obligations, will be secured by substantially all of our assets and the assets of the Guarantors subject to certain exceptions and permitted liens, including a first-priority security interest in such assets that constitute Notes Collateral (as defined therein) and a second-priority security interest in such assets that constitute ABL Collateral (as defined therein). An intercreditor agreement (“ABL/Bond Intercreditor Agreement”), dated as of May 29, 2013, among us, the Guarantors, SunTrust Bank, as ABL Collateral agent, and the Trustee, as Notes Collateral agent, will govern all arrangements in respect of the priority of the security interest in the ABL Collateral and the Notes Collateral.

“ABL Collateral” includes substantially all presently owned and after-acquired accounts receivable, inventory, rights of an unpaid vendor with respect to inventory, deposit accounts, investment property, cash and cash equivalents, and instruments and chattel paper and general intangibles, books and records and documents related to and proceeds of each of the foregoing. “Notes Collateral” includes substantially all collateral which is not ABL Collateral.

The Indenture contains certain restrictive covenants, which, among other things, relate to the payment of dividends, incurrence of indebtedness, repurchase of common stock, distributions, asset sales and investments. At any time we can redeem some or all of the 2021 notes at a redemption price equal to par plus a specified premium that declines to par by 2019. In the event of a change of control, we may be required to offer to purchase the 2021 notes at a purchase price equal to 101% of the principal, plus accrued and unpaid interest.

2013 Senior Secured Revolving Credit Facility

The 2013 facility provides for a \$175.0 million revolving credit line to be used for working capital and general corporate purposes. The available borrowing capacity, or borrowing base, is derived primarily from a percentage of the Company's eligible receivables and inventory, as defined by the agreement, subject to certain reserves. The 2013 facility is scheduled to mature on May 29, 2018. At December 31, 2013, the net borrowing availability under the 2013 facility totaled \$157.1 million after being reduced by outstanding letters of credit of approximately \$13.9 million. During the second quarter of 2013 we borrowed and repaid \$30.0 million under the 2013 facility at a weighted-average interest rate of 4.0%. There were no outstanding borrowings under the 2013 facility at December 31, 2013.

Borrowings under the 2013 facility bear interest, at our option, at either a base rate or eurodollar rate, plus, in each case, an applicable margin. The applicable margin ranges from 0.75% to 1.25% for base rate loans and 1.75% to 2.25% for eurodollar rate loans, in each case based on a measure of our availability under the revolver. A variable commitment fee, currently at a rate of 0.5%, is charged on the unused amount of the revolver based on quarterly average loan utilization. Letters of credit issued and outstanding under the 2013 facility are assessed a fee at a rate equal to the applicable eurodollar rate margin, currently 1.75%, and is payable quarterly in arrears at the end of March, June, September and December. They are also assessed a fronting fee at a rate of 0.125%.

All obligations under the 2013 facility will be guaranteed jointly and severally by us and all our subsidiaries that guarantee the 2021 notes. All obligations under the 2013 facility, and the guarantees of those obligations, will be secured by substantially all of our assets and the guarantors subject to certain exceptions and permitted liens, including a first-priority security interest in such assets that constitute ABL Collateral and a second-priority security interest in such assets that constitute Notes Collateral.

The 2013 facility contains certain restrictive covenants, which, among other things, relate to the incurrence of indebtedness, payment of dividends, repurchase of common stock, distributions, asset sales and investments. The agreement also contains a financial covenant requiring the satisfaction of a minimum fixed charge coverage ratio of 1.00 to 1.00 if our excess availability, defined as the sum of our net borrowing availability plus qualified cash, falls below the greater of \$17.5 million or 10% of the maximum borrowing amount. Qualified cash is defined as cash on deposit that is subject to a control agreement in favor of the agent. As of December 31, 2013, our excess availability was \$211.3 million, which includes \$157.1 million in net borrowing availability and \$54.2 million in qualified cash. The agreement governing the 2013 facility also includes customary events of default, including change of control. If an event of default occurs, the lenders under the 2013 facility would be entitled to take various actions, including the acceleration of amounts due under the revolver and all actions permitted to be taken by a secured creditor (subject to the terms of the ABL/Bond Intercreditor Agreement).

At December 31, 2013, we were not in violation of any covenants or restrictions imposed by any of our debt agreements.

Interest Rate Swaps

We entered into interest rate swaps in the past in order to mitigate a portion of the interest rate risk that we were exposed to in the normal course of business on our 2012 floating rate notes. We had two interest rate swap agreements with notional amounts of \$100 million and \$50 million, which expired in May 2011.

Fair Value

The Fair Value Measurements and Disclosures topic of the Codification provides a framework for measuring the fair value of assets and liabilities and establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The fair value hierarchy can be summarized as follows:

Level 1 — unadjusted quoted prices for identical assets or liabilities in active markets accessible by us

Level 2 — inputs that are observable in the marketplace other than those inputs classified as Level 1

Level 3 — inputs that are unobservable in the marketplace and significant to the valuation

If a financial instrument uses inputs that fall in different levels of the hierarchy, the instrument will be categorized based upon the lowest level of input that is significant to the fair value calculation.

The only financial instruments measured at fair value on a recurring basis were our warrants and the expired interest rate swaps.

The tables below present the effect of our derivative financial instruments on the consolidated statements of operations and comprehensive loss for the years ended December 31 (in thousands):

Derivatives Not Designated as Hedging Instruments		Location of Loss Recognized in Income	Amount of Loss Recognized in Income*		
			2013	2012	2011
Interest rate swaps		Interest expense, net	\$—	\$—	\$(2,165)
Warrants		Interest expense, net	(1,502)	(4,992)	(736)
Total			\$(1,502)	\$(4,992)	\$(2,901)

*Net of tax

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

We do not trade in swaps or hold them for speculative purposes, therefore, the retail market that exists for swaps would have been the most advantageous market for our interest rate swaps. As such, we used the market approach to value our interest rate swaps by obtaining a quote from the counterparty that was based on a discounted cash flow analysis which incorporated information obtained from third-party market sources and was adjusted for company specific credit risk. We validated the fair value quote obtained from the counterparty by using an independent, third-party discounted cash flow analysis which also utilized market information. In addition to the term and notional amount inputs, the valuation also factored in discount rate, forward yield curves, and credit risk.

These techniques incorporate Level 1 and Level 2 inputs. Significant inputs to the derivative valuation for interest rate swaps and warrants are observable in the active markets and are classified as Level 2 in the hierarchy.

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

	Carrying Value As of December 31, 2013	Fair Value Measurement as of December 31, 2013	Carrying Value As of December 31, 2012	Fair Value Measurement as of December 31, 2012
Warrants (included in Other long-term liabilities)	\$ 3,830	\$ 3,830	\$ 7,328	\$ 7,328

We have elected to report the value of our 2021 Notes at amortized cost. The fair value of the 2021 Notes at December 31, 2013 was approximately \$365.3 million and was determined using Level 2 inputs based on market prices.

Other Long-Term Debt

In 2006, we completed construction on a new multi-purpose facility. Based on the evaluation of the construction project in accordance with the Leases topic of the Codification, we were deemed the owner of the facility during the construction period. Effectively, a sale and leaseback of the facility occurred when construction was completed and the lease term began. This transaction did not qualify for sale-leaseback accounting. As a result, the building and the offsetting long-term lease obligation are included on the consolidated balance sheet as a component of fixed assets and other long-term debt, respectively. The building is being depreciated over its useful life, and the lease obligation is being amortized such that there will be no gain or loss recorded if the lease is not extended at the end of the term.

Future maturities of long-term debt as of December 31, 2013 were as follows (in thousands):

Year ending December 31, 2014	\$67
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2015	74
2016	83
2017	92
2018	102
Thereafter	353,553

Total long-term debt (including current portion) \$353,971

9. Employee Stock-Based Compensation

2007 Incentive Plan

Under our 2007 Incentive Plan (“2007 Plan”), the Company is authorized to grant awards in the form of incentive stock options, non-qualified stock options, restricted stock, other common stock-based awards and cash-based awards. In January 2010, our shareholders approved an amendment to our 2007 Plan which increased the number of shares of common stock that may be granted pursuant to awards under the 2007 Plan from 2.5 million shares to 7.0 million shares. The maximum number of common shares reserved for the grant of awards under the 2007 Plan is 7.0 million, subject to adjustment as provided by the 2007 Plan. No more than 7.0 million shares may be made subject to options or stock appreciation rights (“SARs”) granted under the 2007 Plan, and no more than 3.5 million shares may be made subject to stock-based awards other than options or SARs. Stock options and SARs granted

under the 2007 Plan may not have a term exceeding 10 years from the date of grant. The 2007 Plan also provides that all awards will become fully vested and/or exercisable upon a change in control (as defined in the 2007 Plan). Other specific terms for awards granted under the 2007 Plan shall be determined by our Compensation Committee (or the board of directors if so determined by the board of directors). Historically, awards granted under the 2007 Plan generally vest ratably over a three to four-year period. As of December 31, 2013, 1.7 million shares were available for issuance under the 2007 Plan, 1.7 million of which may be made subject to stock-based awards other than options or SARs.

2005 Equity Incentive Plan

Under our 2005 Equity Incentive Plan (“2005 Plan”), we are 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 common shares reserved for the grant of awards under the 2005 Plan is 2.2 million, subject to adjustment as provided by the 2005 Plan. No more than 2.2 million shares may be made subject to options or SARs granted under the 2005 Plan, and no more than 1.1 million shares may be made subject to stock-based awards other than options or SARs. Stock options and SARs granted under the 2005 Plan may not have a term exceeding 10 years from the date of grant. The 2005 Plan also provides that all awards will become fully vested and/or exercisable upon a change in control (as defined in the 2005 Plan). Other specific terms for awards granted under the 2005 Plan shall be determined by our board of directors (or a committee of its members). Historically, awards granted under the 2005 Plan generally vest ratably over a three-year period. As of December 31, 2013, 552,000 shares were available for issuance under the 2005 Plan, 228,000 of which may be made subject to stock-based awards other than options or SARs.

1998 Stock Incentive Plan

Under the Builders FirstSource, Inc. 1998 Stock Incentive Plan (“1998 Plan”), we were authorized to issue shares of common stock pursuant to awards granted in various forms, including incentive stock options, non-qualified stock options and other stock-based awards. The 1998 Plan also authorized the sale of common stock on terms determined by our board of directors.

Stock options granted under the 1998 Plan generally cliff vest after a period of seven to nine years with certain option grants subject to acceleration if certain financial targets were met. The expiration date is generally 10 years subsequent to date of issuance. As of January 1, 2005, no further grants will be made under the 1998 Plan.

In 2011, our board of directors approved a ten year extension of the option termination date for all outstanding awards under the 1998 Plan. These awards originally had a contractual life of ten years and were set to expire at various times within the next three years. No other terms and conditions of the original agreements were modified. This extension of the option termination date was treated as a modification of the original options. The compensation expense for the incremental difference between the fair value of the modified options and the fair value of the original options on the date of modification, reflecting the current facts and circumstances on the modification date, was recorded immediately as all of the modified awards were fully vested and the modification only changed the option termination date. The \$0.9 million of additional stock compensation expense is included in selling, general and administrative expenses for the year ended December 31, 2011, in the accompanying consolidated statements of operations and comprehensive loss.

The following table summarizes our stock option activity:

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	Options (In thousands)	Weighted Average Exercise Price	Weighted Average Remaining Years	Aggregate Intrinsic Value (In thousands)
Outstanding at December 31, 2012	5,514	\$ 3.94		
Granted	–	\$ –		
Exercised	(543)	\$ 3.23		
Forfeited	(38)	\$ 4.74		
Outstanding at December 31, 2013	4,933	\$ 4.01	6.2	\$ 15,415
Exercisable at December 31, 2013	3,698	\$ 4.27	6.2	\$ 10,592

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The outstanding options at December 31, 2013 include options to purchase 3,326,000 shares granted under the 2007 Plan, 775,000 shares granted under the 2005 Plan and 832,000 shares granted under the 1998 Plan. As of December 31, 2013, options to purchase 2,090,000 shares under the 2007 Plan, 775,000 shares under the 2005 Plan and 832,000 shares under the 1998 Plan awards were exercisable. The weighted average grant date fair value of options granted during the year ended December 31, 2012 was \$2.83. No option awards were granted during 2013 or 2011. The total intrinsic value of options exercised during the years ended December 31, 2013 and 2012 were \$1.8 million and \$0.4 million, respectively. We realized no tax benefits for stock options exercised during the years ended December 31, 2013 and 2012. No options were exercised in 2011.

Outstanding and exercisable stock options at December 31, 2013 were as follows (shares in thousands):

Range of Exercise Prices	Outstanding			Exercisable	
	Shares	Weighted Average Exercise Price	Weighted Average Remaining Years	Shares	Weighted Average Exercise Price
\$3.15	832	\$ 3.15	8.9	832	\$ 3.15
\$3.19 - \$3.72	3,053	\$ 3.20	6.2	1,818	\$ 3.19
\$6.70 - \$7.15	1,048	\$ 7.03	4.3	1,048	\$ 7.03
\$3.15 - \$7.15	4,933	\$ 4.01	6.2	3,698	\$ 4.27

The following table summarizes restricted stock activity for the year ended December 31, 2013 (shares in thousands):

	Shares	Weighted Average Grant Date Fair Value
Nonvested at December 31, 2012	1,229	\$ 3.20
Granted	42	\$ 6.00
Vested	(651)	\$ 3.18
Forfeited	(10)	\$ 3.19
Nonvested at December 31, 2013	610	\$ 3.42

Our results of operations included stock compensation expense of \$4.2 million (\$4.2 million net of taxes), \$3.6 million (\$3.6 million net of taxes) and \$4.6 million (\$4.6 million net of taxes) for the years ended December 31, 2013, 2012 and 2011, respectively. The total fair value of options vested during the years ended December 31, 2013, 2012, and 2011 were \$3.0 million, \$3.1 million and \$0.7 million, respectively. The total fair value of restricted stock vested during the years ended December 31, 2013, 2012 and 2011 were \$2.1 million, \$2.0 million and \$0.2 million, respectively.

As of December 31, 2013, there was \$0.7 million of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Plans. That cost is expected to be recognized over a weighted-average period of 0.9 years.

On February 11, 2014, our board of directors granted 1,268,000 stock options to employees under our 2007 Plan and 549,000 stock options to employees under our 2005 Plan. All the awards vest at 25% per year at each anniversary of the grant date over four years. The exercise price for the options was \$7.67 per share, which was the closing stock price on the grant date.

10. Facility Closure Costs

In 2013, we recognized \$0.1 million in expense primarily related to revisions of sub-rental income estimates on a previously closed facility in Tennessee and future minimum lease obligations on our vacated facilities, net of estimated sub-rental income. We recognized this expense in facility closure costs and interest expense, net in the accompanying consolidated statement of operations and comprehensive loss. There were no new facility closures in 2013.

In 2012 we recognized \$1.1 million in expense, which was primarily related to revisions of sub-rental income estimates on two previously closed facilities in South Carolina and Tennessee and future minimum lease obligations on our vacated facilities, net of estimated sub-rental income. Of the \$1.1 million expense we recognized during 2012, \$1.0 million was included in facility closure costs and \$0.1 million was included in interest expense, net in the accompanying consolidated statement of operations and comprehensive loss. There were no new facility closures in 2012.

During 2011, we developed and executed plans to close five facilities: a distribution facility and a manufacturing facility in South Carolina, a distribution facility in Georgia, a distribution facility in Maryland, and a manufacturing facility in Florida. We also idled a manufacturing facility in South Carolina. Of the five facilities we closed in 2011, two of the distribution facilities and one of the manufacturing facilities were previously idled. These previously idled facilities were closed due to the continued depressed market conditions, the housing recovery taking longer than originally anticipated, our ability to adequately service our customers from other existing locations in the market, and in one location our success in finding a subtenant to partially offset our remaining future lease obligations. In 2011, we recognized \$2.6 million in expense, which was primarily related to future minimum lease obligations on our vacated facilities, net of estimated sub-rental lease income. Of the \$2.6 million expense we recognized during 2011, \$2.5 million was included in facility closure costs and \$0.1 million was included in interest expense, net in the accompanying consolidated statement of operations and comprehensive loss.

An analysis of our facility closure reserves for the periods reflected is as follows:

	2011	Additions	Payments	2012	Additions	Payments	2013
	(In thousands)						
Facility and other exit costs, net of estimated sub-lease rental income	\$3,148	\$ 1,062	\$(1,376)	\$2,834	\$ 82	\$(1,216)	\$1,700

The facility and other exit cost reserves of \$1.7 million at December 31, 2013, of which \$0.8 million is recorded as other long-term liabilities, are primarily related to future minimum lease payments on vacated facilities.

As plans to close facilities are developed and executed, assets that can be used at other facilities are transferred and assets to be abandoned or sold are written down to their net realizable value, including any long-lived assets. In situations where multiple facilities serve the same market we may temporarily close, or idle, facilities with plans to reopen these facilities once demand returns to the market. At December 31, 2013, we had five idled facilities; two in Florida, two in South Carolina, and one in Maryland. In these situations, finite lived assets continue to be depreciated and assessed for impairment. Should conditions in our markets worsen, or recovery take significantly longer than forecasted, we may temporarily idle or permanently close additional facilities, at which time we may incur additional facility closure costs or asset impairment charges. Future non-cash impairment charges would have the effect of decreasing our earnings or increasing our losses in such period, but would not impact our current outstanding debt obligations or compliance with covenants contained in the related debt agreements. We continuously monitor economic conditions in all our markets, and while at the present time there are no plans to close or idle additional facilities, changes in market conditions may warrant future closings or idling of facilities.

11. Income Taxes

The components of income tax expense (benefit) included in continuing operations were as follows for the years ended December 31:

	2013	2012	2011
	(In thousands)		
Current:			
Federal	\$(594)	\$—	\$—

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State	446	119	400
	(148)	119	400
Deferred:			
Federal	827	378	1,689
State	90	80	128
	917	458	1,817
Income tax expense	\$769	\$577	\$2,217

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Temporary differences, which give rise to deferred tax assets and liabilities, were as follows as of December 31:

	2013	2012
	(In thousands)	
Deferred tax assets related to:		
Accrued expenses	\$1,897	\$1,055
Insurance reserves	3,596	2,848
Facility closure reserves	1,486	2,118
Stock-based compensation expense	7,943	6,940
Accounts receivable	921	715
Inventories	5,117	1,666
Operating loss and credit carryforwards	116,926	107,124
Goodwill and other intangible assets	2,593	3,540
Property, plant and equipment	6,307	5,022
Other	435	460
	147,221	131,488
Valuation allowance	(143,682)	(127,700)
Total deferred tax assets	3,539	3,788
Deferred tax liabilities related to:		
Prepaid expenses	(1,383)	(1,133)
Goodwill and other intangible assets	(7,812)	(7,394)
Total deferred tax liabilities	(9,195)	(8,527)
Net deferred tax liability	\$(5,656)	\$(4,739)

A reconciliation of the statutory federal income tax rate to our effective rate for continuing operations is provided below for the years ended December 31:

	2013	2012	2011
Statutory federal income tax rate	35.0 %	35.0 %	35.0 %
State income taxes, net of federal income tax	0.1	3.5	3.9
Valuation allowance	(36.9)	(36.3)	(41.8)
Warrant mark to market	(1.3)	(3.3)	(0.7)
Other	1.2	—	—
	(1.9)%	(1.1)%	(3.6)%

We have \$507.3 million of state operating loss carry-forwards, which includes \$2.7 million of state tax credit carry-forwards expiring at various dates through 2033. We also have \$268.2 million of federal net operating loss carry-forwards that will expire at various dates through 2033. The federal and state operating loss carry-forwards exclude approximately \$4.5 million of gross windfall tax benefits from stock option exercises that have not been recorded as of December 31, 2013. These deferred tax assets will be recorded as an increase to additional paid in capital when the related tax benefits are realized.

Section 382 of the Internal Revenue Code imposes annual limitations on the utilization of net operating loss (“NOL”) carryforwards, other tax carryforwards, and certain built-in losses upon an ownership change as defined under that section. In general terms, an ownership change may result from transactions that increase the aggregate ownership of certain stockholders in the Company’s stock by more than 50 percentage points over a three year testing period (“Section 382 Ownership Change”). If the Company were to experience a Section 382 Ownership Change, an annual

limitation would be imposed on certain of the Company's tax attributes, including NOL and capital loss carryforwards, and certain other losses, credits, deductions or tax basis.

We evaluate our deferred tax assets on a quarterly basis to determine whether a valuation allowance is required. We assess whether a valuation allowance should be established based on our determination of whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. Housing market conditions have contributed to our cumulative loss position for the past several years. Cumulative losses in recent years represent significant negative evidence in considering whether deferred tax assets are realizable, and also generally preclude relying on projections of future taxable income to support the recovery of deferred tax assets. As such, we recorded a valuation allowance of approximately \$15.3 million in 2013 related to our continuing operations, which is exclusive of \$0.6 million related primarily to reversals of uncertain tax positions due to statute expirations that affected our net operating loss carryforward and valuation allowance. We recorded a valuation allowance of approximately \$19.6 million, and \$26.1 million in 2012, and 2011, respectively, related to our continuing operations. In connection with the expiration of our interest rate swaps we reclassified \$1.3 million of valuation allowance from accumulated other comprehensive loss to income tax

expense in 2011. We excluded the deferred tax liabilities related to certain indefinite lived intangibles when calculating the amount of valuation allowance needed as these liabilities cannot be considered as a source of income when determining the realizability of the net deferred tax assets. The valuation allowance was recorded as a reduction to income tax benefit.

The deferred tax assets for which there is no valuation allowance relate to amounts that can be realized through future reversals of existing taxable temporary differences or through the generation of sufficient taxable income. To the extent we generate sufficient taxable income in the future to fully utilize the tax benefits of the net deferred tax assets on which a valuation allowance was recorded, our effective tax rate may decrease as the valuation allowance is reversed.

The following table shows the changes in our valuation allowance:

	2013	2012	2011
	(In thousands)		
Balance at January 1,	\$ 127,700	\$ 112,392	\$ 87,664
Additions charged to expense:			
Continuing operations	15,878	19,559	26,090
Discontinued operations	178	905	147
Deductions	(74)	(5,156)	(1,509)
Balance at December 31,	\$ 143,682	\$ 127,700	\$ 112,392

We accrue interest and penalties on our uncertain tax positions as a component of our provision for income taxes. We accrued interest and penalties of \$0.1 million, \$0.0 million and \$0.0 million in 2013, 2012 and 2011, respectively. We had a total of \$0.2 million and \$0.3 million accrued for interest and penalties for our uncertain tax positions as of December 31, 2013 and 2012, respectively.

The following table shows the changes in the amount of our uncertain tax positions (exclusive of the effect of interest and penalties):

	2013	2012	2011
	(In thousands)		
Balance at January 1,	\$ 2,080	\$ 2,257	\$ 2,069
Tax positions taken in prior periods:			
Gross increases	—	22	18
Gross decreases	—	(64)	—
Tax positions taken in current period:			
Gross increases	11	7	170
Settlements with taxing authorities	—	(142)	—
Lapse of applicable statute of limitations	(1,141)	—	—
Balance at December 31,	\$ 950	\$ 2,080	\$ 2,257

The balance for uncertain tax positions was \$1.0 million as of December 31, 2013 excluding penalties and interest. If this balance were recognized, the tax provision would decrease by \$0.2 million excluding the impact to the valuation allowance.

We are subject to U.S. federal income tax as well as income tax of multiple state jurisdictions. Based on completed examinations and the expiration of statutes of limitations, we have concluded all U.S. federal income tax matters for years through 2004. We report in 17 states with various years open to examination.

12. Employee Benefit Plans

We maintain one active defined contribution 401(k) plan. Our employees are eligible after completing six months of employment to participate in the Builders FirstSource, Inc. 401(k) Plan. Participants can contribute up to 15% of their annual compensation, subject to federally mandated maximums. Participants are immediately vested in their own contributions. We match a certain percentage of the contributions made by participating employees, subject to IRS limitations. Our matching contributions are subject to a pro-rata five-year vesting schedule. We recognized expense of \$0.4 million, \$0.3 million and \$0.3 million in 2013, 2012 and 2011, respectively, for contributions to the plan.

13. Commitments and Contingencies

We lease certain land, buildings and equipment used in operations. These leases are generally accounted for as operating leases with initial terms ranging from one to 20 years and they generally contain renewal options. Certain operating leases are subject to contingent rentals based on various measures, primarily consumer price index increases. Total rent expense under operating leases was approximately \$20.5 million, \$19.0 million and \$22.3 million for the years ended December 31, 2013, 2012, and 2011, respectively.

In addition, we have residual value guarantees on certain equipment leases. Under these leases we have the option of (a) purchasing the equipment at the end of the lease term, (b) arranging for the sale of the equipment to a third party, or (c) returning the equipment to the lessor to sell the equipment. If the sales proceeds in any case are less than the residual value, we are required to reimburse the lessor for the deficiency up to a specified level as stated in each lease agreement. If the sales proceeds exceed the residual value, we are entitled to all of such excess amounts. The guarantees under these leases for the residual values of equipment at the end of the respective operating lease periods approximated \$1.9 million as of December 31, 2013. Based upon the expectation that none of these leased assets will have a residual value at the end of the lease term that is materially less than the value specified in the related operating lease agreement or that we will purchase the equipment at the end of the lease term, we do not believe it is probable that we will be required to fund any amounts under the terms of these guarantee arrangements. Accordingly, no accruals have been recognized for these guarantees.

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

Year ending December 31,	Related Party*	
	(In thousands)	
2014	\$644	\$22,031
2015	200	18,953
2016	57	15,865
2017	57	12,571
2018	19	10,473
Thereafter	—	18,057
	\$977	\$97,950

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

As of December 31, 2013, we had outstanding letters of credit totaling \$13.9 million under our 2013 Facility that principally support our self insurance programs.

We received \$0.6 million from litigation settlements in 2012. These settlements were recorded as a reduction of selling, general and administrative expenses in the accompanying consolidated statement of operations and comprehensive loss in 2012.

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

be material to our results of operations or liquidity for a particular period.

14. Segment and Product Information

We offer an integrated solution to our customers providing manufacturing, supply, and installation of a full range of structural and related building products. We provide a wide variety of building products and services directly to homebuilder customers. We manufacture floor trusses, roof trusses, wall panels, stairs, millwork, windows, and doors. We also provide a full range of construction services. We group our building products and services into five product categories: prefabricated components, windows & doors, lumber & lumber sheet goods, millwork, and other building products & services. We have one operating segment with centralized financial and operational oversight.

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Sales by product category were as follows for the years ended December 31:

	2013	2012	2011
	(In thousands)		
Prefabricated components	\$294,008	\$203,687	\$147,608
Windows & doors	308,607	233,111	183,313
Lumber & lumber sheet goods	526,633	348,132	225,002
Millwork	136,883	104,165	81,577
Other building products & services	223,761	181,581	141,593
Total sales	\$1,489,892	\$1,070,676	\$779,093

15. Related Party Transactions

An affiliate of JLL Partners, Inc. is a principal beneficial owner of PGT, Inc. Floyd F. Sherman, our president and chief executive officer, serves on the board of directors for PGT, Inc. We purchased windows from PGT, Inc. totaling \$5.0 million, \$4.4 million and \$3.8 million in 2013, 2012 and 2011, respectively. We had accounts payable to PGT, Inc. in the amounts of \$0.5 million and \$0.5 million as of December 31, 2013 and 2012, respectively.

In 2013, 2012 and 2011, we paid approximately \$0.8 million, \$1.2 million and \$1.2 million, respectively, in rental expense to employees or our non-affiliate stockholders for leases of land and buildings.

16. Concentrations

We maintain cash at financial institutions in excess of federally insured limits. Accounts receivable potentially expose us to concentrations of credit risk. We provide credit in the normal course of business to customers in the residential construction industry. We perform ongoing credit evaluations of our customers and maintain allowances for potential credit losses. Because customers are dispersed among our various markets, our credit risk to any one customer or state economy is not significant.

Our customer mix is a balance of large national homebuilders, regional homebuilders and local homebuilders. For the year ended December 31, 2013, our top 10 customers accounted for approximately 22.5% of our sales, and no single customer accounted for more than 5% of sales.

We source products from a large number of suppliers. No materials purchased from any single supplier represented more than 10% of our total materials purchased in 2013.

17. Supplemental Cash Flow Information

Supplemental cash flow information was as follows for the years ended December 31:

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	2013	2012	2011
	(In thousands)		
Cash payments for interest	\$78,232	\$37,846	\$22,759
Cash payments (refunds) for income taxes	407	281	257

18. Unaudited Quarterly Financial Data

The following tables summarize the consolidated quarterly results of operations for 2013 and 2012 (in thousands, except per share amounts):

	2013			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net sales	\$319,702	\$ 398,148	\$ 402,931	\$ 369,111
Gross margin	62,347	82,232	92,494	82,847
Income (loss) from continuing operations	(11,605)(1)	(48,289)(2)	12,952 (3)	4,577 (4)
Loss from discontinued operations, net of tax	(203)	83	(158)	(48)
Net income (loss)	(11,808)	(48,206)	12,794	4,529
Basic net income (loss) per share				
Income (loss) from continuing operations	\$(0.12)(1)	\$(0.50)(2)	\$ 0.13 (3)	\$ 0.05 (4)
Income (loss) from discontinued operations	(0.00)	(0.00)	(0.00)	(0.00)
Net income (loss)	\$(0.12)	\$(0.50)	\$ 0.13	\$ 0.05
Diluted net income (loss) per share				
Income (loss) from continuing operations	\$(0.12)(1)	\$(0.50)(2)	\$ 0.13 (3)	\$ 0.05 (4)
Income (loss) from discontinued operations	(0.00)	(0.00)	(0.00)	(0.00)
Net income (loss)	\$(0.12)	\$(0.50)	\$ 0.13	\$ 0.05

	2012			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net sales	\$219,389	\$ 271,919	\$ 291,780	\$ 287,588
Gross margin	45,119	53,664	57,713	58,070
Loss from continuing operations	(19,121)(5)	(11,977)(6)	(12,280)(7)	(11,041)(8)
Loss from discontinued operations, net of tax	(67)	(78)	(1,285)	(1,007)
Net loss	(19,188)	(12,055)	(13,565)	(12,048)
Basic and diluted net loss per share				
Loss from continuing operations	\$(0.20)(5)	\$(0.13)(6)	\$(0.13)(7)	\$(0.12)(8)
Loss from discontinued operations	(0.00)	(0.00)	(0.01)	(0.01)
Net loss	\$(0.20)	\$(0.13)	\$(0.14)	\$(0.13)

(1) Includes fair value adjustments for the warrants of \$0.4 million as discussed in Note 8 and a valuation allowance of \$4.4 million as discussed in Note 11.

(2) Includes a pre-payment premium on the term loan of \$39.5 million as discussed in Note 8, debt discount write-off of \$6.8 million as discussed in Note 8, debt issuance cost write-off of \$2.1 million as discussed in Note 8, fair value adjustments for the warrants of \$0.3 million as discussed in Note 8, and a valuation allowance of \$17.0 million as discussed in Note 11.

(3) Includes fair value adjustments for the warrants of \$(0.2) million as discussed in Note 8, facility closure costs of \$(0.2) million as discussed in Note 10, and a valuation allowance of \$(3.4) million as discussed in Note 11.

(4) Includes fair value adjustments for the warrants of \$0.9 million as discussed in Note 8, facility closure costs of \$0.1 million as discussed in Note 10, and a valuation allowance of \$(2.6) million as discussed in Note 11.

(5)

Includes fair value adjustments for the warrants of \$3.1 million as discussed in Note 8 and a valuation allowance of \$7.0 million as discussed in Note 11.

(6) Includes fair value adjustments for the warrants of \$0.6 million as discussed in Note 8, facility closure costs of \$0.1 million as discussed in Note 10, and a valuation allowance of \$4.3 million as discussed in Note 11.

(7) Includes fair value adjustments for the warrants of \$0.7 million as discussed in Note 8, facility closure costs of \$0.7 million as discussed in Note 10, and a valuation allowance of \$4.6 million as discussed in Note 11.

(8) Includes fair value adjustments for the warrants of \$0.6 million as discussed in Note 8, facility closure costs of \$0.1 million as discussed in Note 10, receipt of proceeds from a litigation settlement of \$0.6 million as discussed in Note 13, and a valuation allowance of \$3.6 million as discussed in Note 11.

Earnings per share is computed independently for each of the quarters presented; therefore, the sum of the quarterly earnings per share may not equal the annual earnings per share.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Disclosure Controls Evaluation and Related CEO and CFO Certifications. Our management, with the participation of our principal executive officer (“CEO”) and principal financial officer (“CFO”), conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this annual report. The controls evaluation was conducted by our Disclosure Committee, comprised of senior representatives from our finance, accounting, internal audit, and legal departments under the supervision of our CEO and CFO.

Certifications of our CEO and our CFO, which are required in accordance with Rule 13a-14 of the Securities Exchange Act of 1934, as amended (“Exchange Act”), are attached as exhibits to this annual report. This “Controls and Procedures” section includes the information concerning the controls evaluation referred to in the certifications, and it should be read in conjunction with the certifications for a more complete understanding of the topics presented.

Limitations on the Effectiveness of Controls. We do not expect that our disclosure controls and procedures will prevent all errors and all fraud. A system of controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the system are met. Because of the limitations in all such systems, no evaluation can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. Furthermore, the design of any system of controls and procedures is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how unlikely. Because of these inherent limitations in a cost-effective system of controls and procedures, misstatements or omissions due to error or fraud may occur and not be detected.

Scope of the Controls Evaluation. The evaluation of our disclosure controls and procedures included a review of their objectives and design, the Company’s implementation of the controls and procedures and the effect of the controls and procedures on the information generated for use in this annual report. In the course of the evaluation, we sought to identify whether we had any data errors, control problems or acts of fraud and to confirm that appropriate corrective action, including process improvements, were being undertaken if needed. This type of evaluation is performed on a quarterly basis so that conclusions concerning the effectiveness of our disclosure controls and procedures can be reported in our quarterly reports on Form 10-Q. Many of the components of our disclosure controls and procedures are also evaluated by our internal audit department, our legal department and by personnel in our finance organization. The overall goals of these various evaluation activities are to monitor our disclosure controls and procedures on an ongoing basis, and to maintain them as dynamic systems that change as conditions warrant.

Conclusions regarding Disclosure Controls. Based on the required evaluation of our disclosure controls and procedures, our CEO and CFO have concluded that, as of December 31, 2013, we maintained disclosure controls and procedures that were effective in providing reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to our management, including our CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

Management's Report on Internal Control Over Financial Reporting. Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) of the Exchange Act. Under the supervision and with the participation of our management, including our CEO and CFO, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework set forth in Internal Control — Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework set forth in Internal Control — Integrated Framework, our management concluded that our internal control over financial reporting was effective as of December 31, 2013.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2013, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.

Changes in Internal Control over Financial Reporting. During the quarter ended December 31, 2013, there were no changes in our internal control over financial reporting identified in connection with the evaluation described above that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

Disclosure pursuant to Section 13(r) of the Securities Exchange Act of 1934

Pursuant to Section 13(r) of the Exchange Act, we may be required to disclose in our annual and quarterly reports to the SEC whether we or any of our “affiliates” knowingly engaged in certain activities, transactions or dealings relating to Iran or with certain individuals or entities targeted by US economic sanctions. Disclosure is generally required even where the activities, transactions or dealings were conducted in compliance with applicable law. Because the SEC defines the term “affiliate” broadly, it includes any entity under common “control” with us (and the term “control” is also construed broadly by the SEC).

The description of the activities below has been provided to us by Warburg Pincus LLC (“WP”), affiliates of which: (i) beneficially own more than 10% of our outstanding common stock and/or are members of our board of directors and (ii) beneficially own more than 10% of the equity interests of, and have the right to designate members of the board of directors of, Endurance International Group (“EIG”) and Santander Asset Management Investment Holdings Limited, (“SAMIH”). EIG and SAMIH may therefore be deemed to be under common “control” with us; however, this statement is not meant to be an admission that common control exists.

As to EIG:

The disclosure below relates solely to activities conducted by EIG and its affiliates. The disclosure does not relate to any activities conducted by us or by WP and does not involve our or WP’s management. Neither we nor WP has had any involvement in or control over the disclosed activities of EIG, and neither we nor WP has independently verified or participated in the preparation of the disclosure. Neither we nor WP is representing as to the accuracy or completeness of the disclosure nor do we or WP undertake any obligation to correct or update it.

We understand that EIG’s affiliates intend to disclose in their next annual or quarterly SEC report that:

“[EIG’s] business activities are subject to various restrictions under U.S. export controls and trade and economic sanctions laws, including the U.S. Commerce Department’s Export Administration Regulations and economic and trade sanctions regulations maintained by the U.S. Treasury Department’s Office of Foreign Assets Control, or OFAC. If [EIG] fail[s] to comply with these laws and regulations, [EIG] could be subject to civil or criminal penalties and reputational harm. In addition, if [EIG’s] third-party resellers fail to comply with these laws and regulations in their dealings, [EIG] could face potential liability or penalties for violations. Furthermore, U.S. export control laws and economic sanctions laws prohibit certain transactions with U.S. embargoed or sanctioned countries, governments, persons and entities.

Although [EIG] take[s] precautions to prevent transactions with U.S. sanctions targets, [EIG has] in the past identified limited instances of non-compliance with these rules and believe[s] [EIG has] taken appropriate corrective actions in such instances. For example, on May 1, 2013, during a routine compliance scan of [EIG’s] new and existing subscriber accounts, [EIG] discovered a new subscriber account that was created on April 6, 2013 with information matching ORT France, identified by OFAC as a Specially Designated National, or SDN, under the Global Terrorism Sanctions Regulations, 31 C.F.R. Part 594. [EIG] charged the subscriber \$114.10 for web hosting and domain name registration services at the time the account was opened and without knowledge of any SDN issue. Upon discovery of the potential SDN match, [EIG] promptly suspended the subscriber account, deactivated the website, locked the domain name to prevent it from being transferred and ceased providing services to the subscriber. [EIG] also promptly reported the potential SDN match to OFAC. To date, [EIG has] not received any correspondence from OFAC regarding the matter.

Although [EIG has] implemented compliance measures that are designed to prevent transactions with U.S. sanction targets, there is risk that in the future [EIG] or [EIG's] resellers could provide [EIG's] solutions or services to such targets despite such compliance measures. This could result in negative consequences to [EIG], including government investigations, penalties and reputational harm.

Changes in [EIG's] solutions or changes in export and import regulations may create delays in the introduction and sale of [EIG's] solutions in international markets, prevent [EIG's] subscribers with international operations from deploying [EIG's] solutions or, in some cases, prevent the export or import of [EIG's] solutions to certain countries, governments or persons altogether. Any change in export or import regulations, shift in the enforcement or scope of existing regulations, or change in the countries, governments, persons or technologies targeted by such regulations, could result in decreased use of [EIG's] solutions or decreased ability to export or sell [EIG's] solutions to existing or potential subscribers with international operations. Any decreased use of [EIG's] solutions or limitation on [EIG's] ability to export or sell [EIG's] solutions could adversely affect [EIG's] business, financial condition and operating results.”

As to SAMIH:

The disclosure below relates solely to activities conducted by SAMIH and its non-U.S. affiliates. The disclosure does not relate to any activities conducted by us or by WP and does not involve our or WP's management. Neither we nor WP has had any involvement in or control over the disclosed activities of SAMIH, and neither we nor WP has independently verified or participated in the preparation of the disclosure. Neither we nor WP is representing to the accuracy or completeness of the disclosure nor do we or WP undertake any obligation to correct or update it.

We understand that SAMIH's affiliates intend to disclose in their next annual or quarterly SEC report that an Iranian national, resident in the U.K., who is currently designated by the U.S. and the U.K. under the Iran Sanctions regime, holds two investment accounts with Santander Asset Management UK Limited, a subsidiary of SAMIH and part of the Banco Santander group. We have been advised that the accounts have remained frozen throughout 2013, the investment returns are being automatically reinvested, and no disbursements have been made to the customer. We have also been advised that the total revenue in connection with the investment accounts in 2013 was £247 and net profits in 2013 were negligible relative to the overall profits of Banco Santander, S.A.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this item appears in our definitive proxy statement for our annual meeting of stockholders to be held May 21, 2014 under the captions “Proposal 1 — Election of Directors,” “Continuing Directors,” “Information Regarding the Board and Its Committees,” “Corporate Governance,” “Section 16(a) Beneficial Ownership Reporting Compliance,” and “Executive Officers of the Registrant,” which information is incorporated herein by reference.

Code of Business Conduct and Ethics

Builders FirstSource, Inc. and its subsidiaries endeavor to do business according to the highest ethical and legal standards, complying with both the letter and spirit of the law. Our board of directors approved a Code of Business Conduct and Ethics that applies to our directors, officers (including our principal executive officer, principal financial officer and controller) and employees. Our Code of Business Conduct and Ethics is administered by a compliance committee made up of representatives from our legal, human resources, finance and internal audit departments.

Our employees are encouraged to report any suspected violations of laws, regulations and the Code of Business Conduct and Ethics, and all unethical business practices. We provide continuously monitored hotlines for anonymous reporting by employees.

Our board of directors has also approved a Supplemental Code of Ethics for the Chief Executive Officer, President, and Senior Financial Officers of Builders FirstSource, Inc., which is administered by our general counsel.

Both of these policies are listed as exhibits to this annual report on Form 10-K and can be found in the “investors” section of our corporate Web site at: www.bldr.com.

Stockholders may request a free copy of these policies by contacting the Corporate Secretary, Builders FirstSource, Inc., 2001 Bryan Street, Suite 1600, Dallas, Texas 75201, United States of America.

In addition, within four business days of:

- Any amendment to a provision of our Code of Business Conduct and Ethics or our Supplemental Code of Ethics for Chief Executive Officer, President and Senior Financial Officers of Builders FirstSource, Inc. that applies to our chief executive officer, our chief financial officer or controller; or
- The grant of any waiver, including an implicit waiver, from a provision of one of these policies to one of these officers that relates to one or more of the items set forth in Item 406(b) of Regulation S-K.

We will provide information regarding any such amendment or waiver (including the nature of any waiver, the name of the person to whom the waiver was granted and the date of the waiver) on our Web site at the Internet address above, and such information will be available on our Web site for at least a 12-month period. In addition, we will disclose any amendments and waivers to our Code of Business Conduct and Ethics or our Supplemental Code of Ethics for Chief Executive Officer, President and Senior Financial Officers of Builders FirstSource, Inc. as required by the listing standards of the NASDAQ Stock Market LLC.

Item 11. Executive Compensation

The information required by this item appears in our definitive proxy statement for our annual meeting of stockholders to be held May 21, 2014 under the captions “Executive Compensation and Other Information,” “Information Regarding the Board and its Committees — Compensation of Directors,” and “Compensation Committee Interlocks and Insider Participation,” which information is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this item appears in our definitive proxy statement for our annual meeting of stockholders to be held on May 21, 2014 under the caption “Ownership of Securities” and “Equity Compensation Plan Information,” which information is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this item appears in our definitive proxy statement for our annual meeting of stockholders to be held May 21, 2014 under the caption “Election of Directors and Management Information,” “Information Regarding the Board and its Committees,” and “Certain Relationships and Related Party Transactions,” which information is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

The information required by this item appears in our definitive proxy statement for our annual meeting of stockholders to be held May 21, 2014 under the caption “Proposal 4 — Ratification of Selection of Independent Registered Public Accounting Firm — Fees Paid to PricewaterhouseCoopers LLP,” which information is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) (1) See the index to consolidated financial statements provided in Item 8 for a list of the financial statements filed as part of this report.

(2) Financial statement schedules are omitted because they are either not applicable or not material.

(3) The following documents are filed, furnished or incorporated by reference as exhibits to this report as required by Item 601 of Regulation S-K.

Exhibit

Number Description

- | | |
|------|--|
| 3.1 | Amended and Restated Certificate of Incorporation of Builders FirstSource, Inc. (incorporated by reference to Exhibit 3.1 to Amendment No. 4 to the Registration Statement of the Company on Form S-1, filed with the Securities and Exchange Commission on June 6, 2005, File Number 333-122788) |
| 3.2 | Amended and Restated By-Laws of Builders FirstSource, Inc. (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on March 5, 2007, File Number 0-51357) |
| 4.1 | Registration Rights Agreement, dated as of January 21, 2010, among Builders FirstSource, Inc., JLL Partners Fund V, L.P., and Warburg Pincus Private Equity IX, L.P. (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on January 22, 2010, File Number 0-51357) |
| 4.2 | Indenture, dated as of May 29, 2013, among Builders FirstSource, Inc., the guarantors party thereto, and Wilmington Trust Company, as trustee (form of Note included therein) (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K, filed with the Securities Exchange Commission on June 3, 2013, File Number 0-51357) |
| 10.1 | Credit Agreement, dated as of May 29, 2013, among Builders FirstSource, Inc., as borrower, the additional borrowers party thereto, the lenders party thereto, and SunTrust Bank, as administrative agent, swing line lender, and letter of credit issuer (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the Securities Exchange Commission on June 3, 2013, File Number 0-51357) |
| 10.2 | |

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ABL/Bond Intercreditor Agreement, dated as of May 29, 2013, among Builders FirstSource, Inc. and certain of its subsidiaries, as grantors, SunTrust Bank, as ABL agent, and Wilmington Trust, National Association, as notes collateral agent (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, filed with the Securities Exchange Commission on June 3, 2013, File Number 0-51357)

- 10.3 Notes Collateral Agreement, dated as of May 29, 2013, by and among Builders FirstSource, Inc. and certain of its subsidiaries, as grantors, and Wilmington Trust, National Association, as collateral agent (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K, filed with the Securities Exchange Commission on June 3, 2013, File Number 0-51357)
- 10.4 Security Agreement, dated as of May 29, 2013, by and among Builders FirstSource, Inc. and certain of its subsidiaries, as grantors, and SunTrust Bank, as administrative agent and collateral agent (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K, filed with the Securities Exchange Commission on June 3, 2013, File Number 0-51357)
- 10.5 Guaranty, dated as of May 29, 2013, among Builders FirstSource, Inc., the other guarantors party thereto from time to time, and SunTrust Bank, as administrative agent and collateral agent (incorporated by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K, filed with the Securities Exchange Commission on June 3, 2013, File Number 0-51357)
- 10.6 Warrant Issuance Agreement, dated as of December 2, 2011, by and among Builders FirstSource, Inc., Highbridge Principal Strategies – Senior Loan Fund II, L.P., Highbridge Onshore Senior Investments, LLC, and Highbridge Senior Loan Sector A Investment Fund, L.P. (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on December 8, 2011, File Number 0-51357)
- 10.7 Form of Warrant issued pursuant to the Warrant Issuance Agreement dated December 2, 2011 (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on December 8, 2011, File Number 0-51357)

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Exhibit Number	Description
10.8+	Builders FirstSource, Inc. 1998 Stock Incentive Plan, as amended, effective March 1, 2004 (incorporated by reference to Exhibit 10.4 to Amendment No. 1 to the Registration Statement of the Company on Form S-1, filed with the Securities and Exchange Commission on April 27, 2005, File Number 333-122788)
10.9+	Amendment No. 7 to Builders FirstSource, Inc. 1998 Stock Incentive Plan (incorporated by reference to Exhibit 10.6 to the Company's Annual Report on Form 10-K for the year ended December 31, 2006, filed with the Securities and Exchange Commission on March 12, 2007, File Number 0-51357)
10.10+	2004 Form of Builders FirstSource, Inc. 1998 Stock Incentive Plan Nonqualified Stock Option Agreement (incorporated by reference to Exhibit 10.5 to Amendment No. 1 to the Registration Statement of the Company on Form S-1, filed with the Securities and Exchange Commission on April 27, 2005, File Number 333-122788)
10.11+	Builders FirstSource, Inc. 2005 Equity Incentive Plan (incorporated by reference to Exhibit 10.14 to Amendment No. 4 to the Registration Statement of the Company on Form S-1, filed with the Securities and Exchange Commission on June 6, 2005, File Number 333-122788)
10.12+	2007 Form of Builders FirstSource, Inc. 2005 Equity Incentive Plan Nonqualified Stock Option Agreement for Employee Directors (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on March 5, 2007, File Number 0-51357)
10.13+	2012 Form of Builders FirstSource, Inc. 2005 Equity Incentive Plan Director Restricted Stock Agreement (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012, filed with the Securities and Exchange Commission on August 1, 2012, File Number 0-51357)
10.14+	Builders FirstSource, Inc. 2007 Incentive Plan (incorporated by reference to Annex D of the Company's definitive Proxy Statement on Schedule 14A, filed with the Securities and Exchange Commission on December 15, 2009, File Number 0-51357)
10.15+	2008 Form of Builders FirstSource, Inc. 2007 Incentive Plan Nonqualified Stock Option Agreement (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2008, filed with the Securities and Exchange Commission on May 1, 2008, File Number 0-51357)
10.16+	2008 Form of Builders FirstSource, Inc. 2007 Incentive Plan Restricted Stock Award Agreement (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter

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ended March 31, 2008, filed with the Securities and Exchange Commission on May 1, 2008, File Number 0-51357)

- 10.17+ 2010 Form of Builders FirstSource, Inc. 2007 Incentive Plan Nonqualified Stock Option Agreement for Employee Directors (incorporated by reference to Exhibit 10.21 to the Company's Annual Report on Form 10-K for the year ended December 31, 2009, filed with the Securities and Exchange Commission on March 4, 2010, File Number 0-51357)
- 10.18*+ Builders FirstSource, Inc. Amended and Restated Director Compensation Policy
- 10.19+ Builders FirstSource, Inc. Form of Director Indemnification Agreement (incorporated by reference to Exhibit 10.13 to Amendment No. 3 to the Registration Statement of the Company on Form S-1, filed with the Securities and Exchange Commission on May 26, 2005, File Number 333-122788)
- 10.20+ Employment Agreement, dated September 1, 2001, between Builders FirstSource, Inc. and Floyd F. Sherman (incorporated by reference to Exhibit 10.9 to Amendment No. 1 to the Registration Statement of the Company on Form S-1, filed with the Securities and Exchange Commission on April 27, 2005, File Number 333-122788)
- 10.21+ Amendment to Employment Agreement, dated June 1, 2005, between Builders FirstSource, Inc. and Floyd F. Sherman (incorporated by reference to Exhibit 10.15 to Amendment No. 4 to the Registration Statement of the Company on Form S-1, filed with the Securities and Exchange Commission on June 6, 2005, File Number 333-122788)
- 10.22+ Second Amendment to Employment Agreement, dated October 29, 2008, between Builders FirstSource, Inc. and Floyd F. Sherman (incorporated by reference to Exhibit 10.27 to the Company's Annual Report on Form 10-K for the year ended December 31, 2008, filed with the Securities and Exchange Commission on March 2, 2009, File Number 0-51357)
- 10.23+ Employment Agreement, dated February 23, 2010, between Builders FirstSource, Inc. and M. Chad Crow (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on February 26, 2010, File Number 0-51357)

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Exhibit Number	Description
10.24+	Employment Agreement, dated January 15, 2004, between Builders FirstSource, Inc. and Morris E. Tolly (incorporated by reference to Exhibit 10.22 to the Company's Annual Report on Form 10-K for the year ended December 31, 2007, filed with the Securities and Exchange Commission on March 5, 2008, File Number 0-51357)
10.25+	Amendment to Employment Agreement, dated October 29, 2008, between Builders FirstSource, Inc. and Morris E. Tolly (incorporated by reference to Exhibit 10.31 to the Company's Annual Report on Form 10-K for the year ended December 31, 2008, filed with the Securities and Exchange Commission on March 2, 2009, File Number 0-51357)
10.26+	Employment Agreement, dated January 15, 2004, between Builders FirstSource, Inc. and Donald F. McAleenan (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2005, filed with the Securities Exchange Commission on November 2, 2005, File Number 0-51357)
10.27+	Amendment to Employment Agreement, dated October 29, 2008, between Builders FirstSource, Inc. and Donald F. McAleenan (incorporated by reference to Exhibit 10.33 to the Company's Annual Report on Form 10-K for the year ended December 31, 2008, filed with the Securities and Exchange Commission on March 2, 2009, File Number 0-51357)
14.1	Builders FirstSource, Inc. Code of Business Conduct and Ethics (incorporated by reference to Exhibit 14.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 2005, filed with the Securities and Exchange Commission on March 13, 2006, File Number 0-51357)
14.2	Builders FirstSource, Inc. Supplemental Code of Ethics (incorporated by reference to Exhibit 14.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 2005, filed with the Securities and Exchange Commission on March 13, 2006, File Number 0-51357)
21.1	Subsidiaries of the Registrant (incorporated by reference to Exhibit 21.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 2009, filed with the Securities and Exchange Commission on March 4, 2010, File Number 0-51357)
23.1*	Consent of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm
24.1*	Power of Attorney (included as part of signature page)

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- 31.1* Certification of Chief Executive Officer pursuant to 17 CFR 240.13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, signed by Floyd F. Sherman as Chief Executive Officer
- 31.2* Certification of Chief Financial Officer pursuant to 17 CFR 240.13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, signed by M. Chad Crow as Chief Financial Officer
- 32.1** Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, signed by Floyd F. Sherman as Chief Executive Officer and M. Chad Crow as Chief Financial Officer
- 101* The following financial information from Builders FirstSource, Inc.'s Form 10-K filed on February 28, 2014, formatted in eXtensible Business Reporting Language ("XBRL"): (i) Consolidated Statements of Operations and Comprehensive Loss for the years ended December 31, 2013, 2012 and 2011, (ii) Consolidated Balance Sheets at December 31, 2013 and 2012, (iii) Consolidated Statements of Cash Flows for the years ended December 31, 2013, 2012 and 2011, (iv) Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2013, 2012 and 2011, and (v) the Notes to Consolidated Financial Statements.

*Filed herewith

**Builders FirstSource, Inc. is furnishing, but not filing, the written statement pursuant to Title 18 United States Code 1350, as added by Section 906 of the Sarbanes-Oxley Act of 2002, of Floyd F. Sherman, our Chief Executive Officer, and M. Chad Crow, our Chief Financial Officer.

+Indicates a management contract or compensatory plan or arrangement

(b) A list of exhibits filed, furnished or incorporated by reference with this Form 10-K is provided above under Item 15(a)(3) of this report. Builders FirstSource, Inc. will furnish a copy of any exhibit listed above to any stockholder without charge upon written request to Donald F. McAleenan, Senior Vice President and General Counsel, 2001 Bryan Street, Suite 1600, Dallas, Texas 75201.

(c) Not applicable

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

February 28, 2014

BUILDERS FIRSTSOURCE, INC.

/s/ FLOYD F. SHERMAN
 Floyd F. Sherman
 President and Chief Executive Officer
 (Principal Executive Officer)

The undersigned hereby constitute and appoint Donald F. McAleenan and his substitutes our true and lawful attorneys-in-fact with full power to execute in our name and behalf in the capacities indicated below any and all amendments to this report and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, and hereby ratify and confirm all that such attorney-in-fact or his substitutes shall lawfully do or cause to be done by virtue thereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ FLOYD F. SHERMAN Floyd F. Sherman	President and Chief Executive Officer (Principal Executive Officer and Director)	February 28, 2014
/s/ M. CHAD CROW M. Chad Crow	Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	February 28, 2014
/s/ PAUL S. LEVY Paul S. Levy	Chairman and Director	February 28, 2014
/s/ DAVID A. BARR David A. Barr	Director	February 28, 2014
/s/ CLEVELAND A. CHRISTOPHE Cleveland A. Christophe	Director	February 28, 2014
/s/ DANIEL AGROSKIN Daniel Agroskin	Director	February 28, 2014
/s/ MICHAEL GRAFF Michael Graff	Director	February 28, 2014

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/s/ ROBERT C. GRIFFIN Robert C. Griffin	Director	February 28, 2014
/s/ KEVIN J. KRUSE Kevin J. Kruse	Director	February 28, 2014
/s/ BRETT N. MILGRIM Brett N. Milgrim	Director	February 28, 2014
/s/ CRAIG A. STEINKE Craig A. Steinke	Director	February 28, 2014