

BEACON ROOFING SUPPLY INC
Form 10-Q
August 07, 2009

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

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2009

OR

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

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NO.: 000-50924

BEACON ROOFING SUPPLY, INC.
(Exact name of Registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

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

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

01960
(Zip Code)

978-535-7668
(Registrant's telephone number, including area code)

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

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

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

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Large accelerated filer

Accelerated filer

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

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

As of August 1, 2009, there were 45,128,463 outstanding shares of the registrant's common stock, \$.01 par value per share.

BEACON ROOFING SUPPLY, INC.
Form 10-Q
For the Quarterly Period Ended June 30, 2009
INDEX

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BEACON ROOFING SUPPLY, INC.
PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Consolidated Balance Sheets

| | (Unaudited) June 30, 2009 | (Unaudited) June 30, 2008 | (Note) September 30, 2008 |
|---|---------------------------------|---------------------------------|---------------------------------|
| (Dollars in thousands) | | | |
| Assets | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 83,037 | \$ 11,503 | \$ 26,038 |
| Accounts receivable, less allowance of \$14,754 at June 30, 2009, \$11,113 at June 30, 2008, and \$12,978 at September 30, 2008 | 226,741 | 276,857 | 283,652 |
| Inventories | 216,341 | 203,101 | 209,255 |
| Prepaid expenses and other assets | 39,582 | 38,121 | 45,799 |
| Deferred income taxes | 20,860 | 17,601 | 18,126 |
| Total current assets | 586,561 | 547,183 | 582,870 |
| Property and equipment, net | 53,883 | 58,119 | 56,712 |
| Goodwill | 353,209 | 354,813 | 354,269 |
| Other assets, net | 64,016 | 78,465 | 73,965 |
| Total assets | \$ 1,057,669 | \$ 1,038,580 | \$ 1,067,816 |
| Liabilities and stockholders' equity | | | |
| Current liabilities: | | | |
| Accounts payable | \$ 180,085 | \$ 191,975 | \$ 198,429 |
| Accrued expenses | 82,332 | 87,830 | 89,755 |
| Current portion of long-term obligations | 8,160 | 16,674 | 19,926 |
| Total current liabilities | 270,577 | 296,479 | 308,110 |
| Senior notes payable, net of current portion | 329,875 | 340,375 | 332,500 |
| Deferred income taxes | 34,516 | 36,516 | 35,362 |
| Long-term obligations under equipment financing and other, net of current portion | 21,848 | 26,581 | 25,143 |
| Commitments and contingencies | | | |
| Stockholders' equity: | | | |
| Common stock (voting); \$.01 par value; 100,000,000 shares authorized; 45,121,746 issued at June 30, 2009, 44,297,906 at June 30, 2008 and 44,820,550 at September 30, 2008 | 451 | 443 | 448 |
| | - | - | - |

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| | | | |
|---|--------------|--------------|--------------|
| Undesignated preferred stock; 5,000,000 shares authorized, none issued or outstanding | | | |
| Additional paid-in capital | 224,500 | 215,407 | 219,669 |
| Retained earnings | 180,332 | 122,013 | 146,946 |
| Accumulated other comprehensive income (loss) | (4,430) | 766 | (362) |
| Total stockholders' equity | 400,853 | 338,629 | 366,701 |
| Total liabilities and stockholders' equity | \$ 1,057,669 | \$ 1,038,580 | \$ 1,067,816 |

Note: The balance sheet at September 30, 2008
has been derived from the audited financial statements at that date.

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

BEACON ROOFING SUPPLY, INC.
Consolidated Statements of Operations

| | Three Months Ended June 30, | | Nine Months Ended June 30, | |
|---|-----------------------------|------------|----------------------------|--------------|
| | 2009 | 2008 | 2009 | 2008 |
| Unaudited (Dollars in thousands, except per share data) | | | | |
| Net sales | \$ 463,586 | \$ 514,647 | \$ 1,246,218 | \$ 1,217,294 |
| Cost of products sold | 355,761 | 394,474 | 948,117 | 937,035 |
| Gross profit | 107,825 | 120,173 | 298,101 | 280,259 |
| Operating expenses | 74,239 | 83,240 | 225,382 | 234,489 |
| Income from operations | 33,586 | 36,933 | 72,719 | 45,770 |
| Interest expense | 5,566 | 5,977 | 17,304 | 19,714 |
| Income before income taxes | 28,020 | 30,956 | 55,415 | 26,056 |
| Income tax expense | 10,833 | 12,692 | 22,029 | 10,683 |
| Net income | \$ 17,187 | \$ 18,264 | \$ 33,386 | \$ 15,373 |
| Net income per share: | | | | |
| Basic | \$ 0.38 | \$ 0.41 | \$ 0.74 | \$ 0.35 |
| Diluted | \$ 0.38 | \$ 0.41 | \$ 0.74 | \$ 0.34 |
| Weighted average shares used in computing net income per share: | | | | |
| Basic | 45,100,853 | 44,291,478 | 44,954,582 | 44,281,768 |
| Diluted | 45,541,415 | 45,059,653 | 45,417,863 | 44,818,107 |

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

BEACON ROOFING SUPPLY, INC.
Consolidated Statements of Cash Flows

Nine Months Ended June 30,
2009 2008

Unaudited (in thousands)

| | | |
|--|-----------|-----------|
| Operating activities: | | |
| Net income | \$ 33,386 | \$ 15,373 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 22,835 | 25,755 |
| Stock-based compensation | 3,626 | 3,772 |
| Deferred income taxes | (735) | (1,470) |
| Changes in assets and liabilities: | | |
| Accounts receivable | 55,086 | (9,798) |
| Inventories | (8,143) | (37,495) |
| Prepaid expenses and other assets | 2,622 | (1,878) |
| Accounts payable and accrued expenses | (24,375) | 34,926 |
| Net cash provided by operating activities | 84,302 | 29,185 |
| Investing activities: | | |
| Purchases of property and equipment, net of sales proceeds | (10,691) | (2,321) |
| Net cash used in investing activities | (10,691) | (2,321) |
| Financing activities: | | |
| Repayments under revolving lines of credit, net | (4,743) | (17,157) |
| Net repayments under senior notes payable, and other | (13,087) | (4,472) |
| Proceeds from exercise of options | 1,100 | 47 |
| Income tax benefit from stock-based compensation deductions in excess of the associated compensation costs | 108 | 21 |
| Net cash used by financing activities | (16,622) | (21,561) |
| Effect of exchange rate changes on cash | 10 | (269) |
| Net increase in cash and cash equivalents | 56,999 | 5,034 |
| Cash and cash equivalents at beginning of year | 26,038 | 6,469 |
| Cash and cash equivalents at end of period | \$ 83,037 | \$ 11,503 |
| Cash paid during the year for: | | |
| Interest | \$ 13,879 | \$ 14,793 |
| Income taxes, net of refunds | 34,787 | 9,660 |

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

BEACON ROOFING SUPPLY, INC.

Notes to Condensed Consolidated Financial Statements (Unaudited)

1. Basis of Presentation

Beacon Roofing Supply, Inc. (the "Company") prepared the consolidated financial statements following accounting principles generally accepted in the United States (GAAP) for interim financial information and the requirements of the Securities and Exchange Commission (SEC). As permitted under those rules, certain footnotes or other financial information required by GAAP for complete financial statements have been condensed or omitted. The balance sheet as of June 30, 2008 has been presented for a better understanding of the impact of seasonal fluctuations on the Company's financial condition.

In management's opinion, the financial statements include all normal and recurring adjustments that are considered necessary for the fair presentation of the Company's financial position and operating results. The results for the three-month period (third quarter) and the nine-month period ended June 30, 2009 are not necessarily indicative of the results to be expected for the twelve months ending September 30, 2009.

The Company's fiscal year ends on the last day in September of each year and each quarter ends on the last day of the respective third calendar month. The nine-month periods ended June 30, 2009 and June 30, 2008 both had 189 business days, while the three-month periods ended June 30, 2009 and June 30, 2008 both had 64 business days.

You should also read the financial statements and notes included in the Company's fiscal year 2008 Annual Report on Form 10-K. The accounting policies used in preparing these financial statements are the same as those described in that Annual Report.

Adoption of Recent Accounting Pronouncements

In May 2009, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 165, Subsequent Events, which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date and requires the disclosure of the date through which an entity has evaluated subsequent events and whether that represents the date the financial statements were issued or were available to be issued. This statement was effective for the current quarter and the Company, consistent with its prior practice, has evaluated all subsequent events that occurred through the time this Form 10-Q was filed with the SEC on August 7, 2009.

In April 2009, the FASB issued FASB Staff Position (FSP) on Financial Accounting Statement (FAS) 107-1 and Accounting Principles Board Opinion (APB) 28-1, Interim Disclosures about Fair Value of Financial Instruments. This FSP amends Statement on Financial Accounting Standards (SFAS) No. 107, "Disclosures about Fair Value of Financial Instruments," to require disclosure about fair value of financial instruments in interim financial statements. FSP FAS 107-1 and APB 28-1 were effective for the Company in the current quarter; however the adoption of FSP FAS 107-1 and APB 28-1 had no impact on the Company's financial statements.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities—an Amendment of FASB Statement No. 133, which requires enhanced disclosures about an entity's derivative and hedging activities. In addition to disclosing the fair values of derivative instruments and their gains and losses in a tabular format, entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS 133, Accounting for Derivative Instruments and Hedging Activities and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. SFAS 161 was

effective for the Company in the quarter ended March 31, 2009 and the related disclosures have been included in this Form 10-Q (see Note 7).

Effective October 1, 2008, the Company prospectively implemented the provisions of SFAS No. 157, Fair Value Measurements. For the fair value measurements that are required or permitted under other standards, SFAS 157 clarifies the fair value objective and establishes a framework for developing fair value estimates. SFAS 157 also establishes a fair value hierarchy that prioritizes the inputs used to measure fair value, giving the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 inputs), the next priority to observable market based inputs or unobservable inputs that are corroborated by market data (Level 2 inputs) and the lowest priority to unobservable inputs (Level 3 inputs). The Company's assets and liabilities that are measured at fair value on a recurring basis are its interest

BEACON ROOFING SUPPLY, INC.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

1. Basis of Presentation (Continued)

rate swaps and collars (Note 7).

Beginning October 1, 2008, SFAS 159, The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115, also became effective for the Company. SFAS 159 permits companies to measure many financial instruments and certain other items at fair value at specified election dates. There was no impact from SFAS 159 as the Company chose to retain its current accounting valuation methods for those items.

2. Earnings Per Share

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

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

| | Three Months Ended June 30, | | Nine Months Ended June 30, | |
|--|-----------------------------|------------|----------------------------|------------|
| | 2009 | 2008 | 2009 | 2008 |
| Weighted-average common shares outstanding for basic | 45,100,853 | 44,291,478 | 44,954,582 | 44,281,768 |
| Dilutive effect of stock options | 440,562 | 768,175 | 463,281 | 536,339 |
| Weighted-average shares assuming dilution | 45,541,415 | 45,059,653 | 45,417,863 | 44,818,107 |

3. Stock-Based Compensation

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

Compensation cost arising from stock options granted to employees and non-employee directors is recognized as an expense using the straight-line method over the vesting period. As of June 30, 2009, there was \$5.4 million of total unrecognized compensation cost related to unvested stock options. That cost is expected to be recognized over a weighted-average period of 2.1 years. The Company recorded stock-based compensation expense of \$1.2 million (\$0.7 million net of tax) for both the three months ended June 30, 2009 and 2008, and \$3.6 million (\$2.1 million net of tax) and \$3.8 million (\$2.2 million net of tax) for the nine months ended June 30, 2009 and 2008, respectively.

BEACON ROOFING SUPPLY, INC.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

3. Stock-Based Compensation (Continued)

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

| | Nine Months Ended June | |
|-------------------------|------------------------|--------|
| | 2009 | 2008 |
| Risk-free interest rate | 2.49% | 3.92% |
| Expected life in years | 7 | 6 |
| Expected volatility | 48.00% | 45.00% |
| Dividend yield | 0.00% | 0.00% |

Expected lives of the options granted are based primarily on history, while expected volatilities are based on historical volatilities of the Company's stock and stocks of comparable public companies. Estimated cumulative forfeiture rates of 0%-15% were utilized in the expense recognition of options during both of the periods above.

The following table summarizes stock options outstanding as of June 30, 2009, as well as activity during the nine months then ended:

| | Number of Shares | Weighted- Average Exercise Price | Weighted- Average Remaining Contractual Life (in Years) | Aggregate Intrinsic Value (in Millions) |
|---|---------------------|---|--|--|
| Outstanding at September 30, 2008 | 3,082,080 | \$ 12.90 | | |
| Granted | 873,356 | 12.20 | | |
| Exercised | (301,196) | 3.65 | | |
| Canceled | (97,550) | \$ 16.58 | | |
| Outstanding at June 30, 2009 | 3,556,690 | \$ 13.41 | 7.2 | \$ 11.3 |
| Vested or Expected to Vest at June 30, 2009 | 3,453,584 | \$ 13.43 | 7.1 | \$ 11.0 |
| Exercisable at June 30, 2009 | 2,083,752 | \$ 13.90 | 6.1 | \$ 7.3 |

The aggregate intrinsic values above include only in-the-money options. As of June 30, 2009, there were remaining options to purchase 1,718,918 shares of common stock available for grants under the Company's 2004 Stock Plan. The weighted-average grant date fair values of stock options granted during the nine months ended June 30, 2009 and June 30, 2008 were \$6.35 and \$4.54, respectively. The intrinsic value of stock options exercised during the nine months ended June 30, 2009 and June 30, 2008 was \$2.8 and \$0.2 million, respectively. At June 30, 2009, the Company had \$13.6 million of excess tax benefits available for potential deferred tax write-offs related to option accounting.

BEACON ROOFING SUPPLY, INC.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

4. Comprehensive Income (loss)

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

| Unaudited (Dollars in thousands, except per share data) | Three Months Ended June 30, | | Nine Months Ended June 30, | |
|---|-----------------------------|-----------|----------------------------|-----------|
| | 2009 | 2008 | 2009 | 2008 |
| Net income | \$ 17,187 | \$ 18,264 | \$ 33,386 | \$ 15,373 |
| Foreign currency translation adjustment | 2,940 | 227 | (3,311) | (1,179) |
| Tax effect | (1,029) | (115) | 1,339 | 413 |
| Foreign currency translation adjustment, net | 1,911 | 112 | (1,972) | (766) |
| Unrealized gain (loss) on financial derivatives | 1,955 | 5,069 | (3,506) | (6,136) |
| Tax effect | (786) | (2,040) | 1,410 | 2,468 |
| Unrealized gain (loss) on financial derivatives, net | 1,169 | 3,029 | (2,096) | (3,668) |
| Comprehensive income | \$ 20,267 | \$ 21,405 | \$ 29,318 | \$ 10,939 |

5. Debt

The Company currently has the following credit facilities:

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

Senior Secured Credit Facilities

On November 2, 2006, the Company entered into an amended and restated seven-year \$500 million U.S. senior secured credit facility and a C\$15 million senior secured Canadian credit facility with GE Antares Capital ("GE Antares") and a syndicate of other lenders (combined, the "Credit Facility"). The Credit Facility consists of a U.S. revolving credit facility of \$150 million, which includes a sub-facility of \$20 million for letters of credit, and an initial \$350 million term loan (the "Term Loan"). The Credit Facility also includes a C\$15 million senior secured revolving credit facility provided by GE Canada Finance Holding Company. As of June 30, 2009, there were \$0.1 million of revolver borrowings and \$333.4 million of Term Loan outstanding and the Company was in compliance with the covenants under the Credit Facility. The current portion of long-term obligations as of September 30, 2008 included a \$7 million accelerated payment due under the Term Loan that was made in April 2009. Substantially all of the

Company's assets, including the capital stock and assets of wholly-owned subsidiaries, secure obligations under the Credit Facility.

Equipment Financing Facility

The Company has an equipment financing facility which allows for the financing of up to \$5.5 million of purchased transportation and material handling equipment through February 15, 2010 at an interest rate approximately 3% above the 5- or 6-year term swap rate at the time of the advances. There were no amounts outstanding under this facility at June 30, 2009; however, there were \$21.0 million of equipment financing loans outstanding under prior equipment financing facilities at June 30, 2009, with fixed interest rates ranging from 5.5% to 7.4% and payments due through September 2014.

6. Foreign Sales

Foreign (Canadian) sales totaled \$61.5 and \$68.6 million in the nine months ended June 30, 2009 and June 30, 2008, respectively.

BEACON ROOFING SUPPLY, INC.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

7. Financial Derivatives

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

The Company is using interest rate derivative instruments to manage the risk of interest rate changes by converting a portion of its variable-rate borrowings into fixed-rate borrowings. There were interest rate derivative instruments outstanding in a total notional amount of \$500 million at June 30, 2009, which consisted of: a) interest rate swaps totaling \$200 million, expiring in April 2010, with a fixed rate of 4.97%; b) a \$50 million interest rate collar expiring in April 2010 with a floor rate of 3.99% and a cap rate of 5.75%; c) a \$50 million interest rate collar expiring in April 2010 with a floor rate of 3.75% and a cap rate of 6.00%; d) a \$100 million future interest rate swap executed in May 2009, with interest cash flows commencing in April 2010 and expiring in April 2013 and with a fixed rate of 2.72%; e) a \$50 million future interest rate swap executed in June 2009, with interest cash flows commencing in April 2010 and expiring in April 2013 and with a fixed rate of 3.12%; and f) a \$50 million future interest rate swap executed in June 2009, with interest cash flows commencing in April 2010 and expiring in April 2013 and with a fixed rate of 3.11%.

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

The Company records any differences paid or received on its interest rate hedges as adjustments to interest expense. Since inception, the Company has not recognized any gains or losses on these hedges and there has been no effect on income from hedge ineffectiveness. The table below presents the combined fair value of the interest rate swap and collar instruments on the balance sheets as of June 30, 2009, June 30, 2008, and September 30, 2008 (in thousands):

| Location on Balance Sheet | Unrealized Losses | | | Fair Value Hierarchy Established in SFAS 157 |
|---------------------------|-------------------|------------------|-----------------------|---|
| | June 30, 2009 | June 30, 2008 | September 30, 2008 | |
| Accrued expenses | \$ 10,902 | \$ 8,225 | \$ 7,396 | Level 2 |

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

8. Recent Accounting Pronouncements

In June 2009, the FASB issued FAS 166, Accounting for Transfers of Financial Assets, and FAS 167, Amendments to FASB Interpretation No. 46(R), which change the way entities account for securitizations and special purpose entities. Both statements are effective for annual reporting periods beginning after November 15, 2009 and therefore will be effective for the Company in the fiscal year beginning October 1, 2010. The adoption of FAS 166 and 167 is not expected to have an impact on the financial statements.

In February 2008, the FASB issued FASB Staff Position FAS 157-2, Effective Date of FASB Statement No. 157, which defers the effective date for the Company to October 1, 2009 for any nonfinancial assets and liabilities, except those that are recognized or disclosed at fair value on a recurring basis (that is, at least annually). The adoption of FAS 157-2 is not expected to have a material impact on the financial statements.

In December 2007, the FASB issued SFAS No. 141(R), Business Combinations, and SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51. These new standards will significantly change the accounting for and reporting of business combination transactions and noncontrolling (minority) interests in consolidated financial statements. SFAS 141R and SFAS 160 are required to be adopted simultaneously and will be effective for the Company in the fiscal year beginning October 1, 2009. Earlier adoption is prohibited. The Company believes the adoption of SFAS 141R could have a significant impact on the accounting for its future acquisitions depending on the circumstances and the terms of the acquisitions. The adoption of SFAS 160 is not expected to have a material impact on the financial statements.

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

You should read the following discussion in conjunction with Management's Discussion and Analysis included in our 2008 Annual Report on Form 10-K. Unless otherwise specifically indicated, all references to "2009" and "YTD 2009" refer to the three months (third quarter) and nine months (year-to-date) ended June 30, 2009, respectively, of our fiscal year ending September 30, 2009, and all references to "2008" and "YTD 2008" refer to the three months (third quarter) and nine months (year-to-date) ended June 30, 2008, respectively, of our fiscal year ended September 30, 2008. Certain tabular information may not foot due to rounding.

Overview

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

We distribute up to 10,000 SKUs through 169 branches in the United States and Canada. We had 2,279 employees as of June 30, 2009, including our sales and marketing team of 926 employees.

In fiscal year 2008, approximately 94% of our net sales were in the United States. We stock one of the most extensive assortments of high-quality branded products in the industry, enabling us to deliver products to our customers on a timely basis.

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

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

Results of Operations

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

| | Three Months Ended June 30, | | Nine Months Ended June 30, | |
|----------------------------|-----------------------------|--------|----------------------------|--------|
| | 2009 | 2008 | 2009 | 2008 |
| Net sales | 100.0% | 100.0% | 100.0% | 100.0% |
| Cost of products sold | 76.7 | 76.6 | 76.1 | 77.0 |
| Gross profit | 23.3 | 23.4 | 23.9 | 23.0 |
| Operating expenses | 16.0 | 16.2 | 18.1 | 19.3 |
| Income from operations | 7.2 | 7.2 | 5.8 | 3.8 |
| Interest expense | (1.2) | (1.2) | (1.4) | (1.6) |
| Income before income taxes | 6.0 | 6.0 | 4.4 | 2.1 |
| Income tax expense | (2.3) | (2.5) | (1.8) | (0.9) |
| Net income | 3.7% | 3.5% | 2.7% | 1.3% |

In managing our business, we consider all growth, including the opening of new branches, to be internal (organic) growth unless it results from an acquisition. When we have referred to growth in existing markets or internal growth in our prior filings, we included growth from existing and newly opened branches but excluded growth from acquired branches until they have been under our ownership for at least four full fiscal quarters at the start of the fiscal reporting period. At June 30, 2009, we had a total of 169 branches in operation, all of which are considered existing-market branches.

Three Months Ended June 30, 2009 ("2009") Compared to the Three Months Ended June 30, 2008 ("2008")

Net Sales

Consolidated net sales decreased \$51.1 million, or 9.9%, to \$463.6 million in 2009 from \$514.6 million in 2008. We attribute the sales decrease primarily to the following factors:

- significant decline in non-residential roofing activity,
- continued weakness in new residential roofing activity in most markets;
- continued weak complementary product sales in most markets; and
- eight fewer branches;

partially offset by the positive impact of:

- higher average year-over-year prices, especially in residential roofing products; and
- increased re-roofing activity in the areas affected by Hurricane Ike.

We did not open or close any branches in this year's or last year's third quarter. We estimate inflation increased this year's sales by 11-13% over last year's third quarter, indicating a drop in volume of 21-23%, mostly in non-residential roofing and complementary product sales. We had 64 business days in both 2009 and 2008. Net sales by geographical region grew or (declined) as follows: Northeast (20.8%); Mid-Atlantic (11.7%); Southeast 4.9%; Southwest 19.7%;

Midwest (22.8%); West (30.1%); and Canada (8.4%). These variations were primarily caused by short-term factors such as local economic conditions and storm activity. Our product group sales were as follows:

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For the Three Months Ended

| | June 30, 2009 | | June 30, 2008 | | Change | |
|----------------------------------|------------------------|--------|---------------|--------|-------------|-------|
| | Sales | Mix | Sales | Mix | | |
| | (dollars in thousands) | | | | | |
| Residential roofing products | \$ 245,937 | 53.1% | \$ 222,799 | 43.3% | \$ 23,138 | 10.4% |
| Non-residential roofing products | 156,758 | 33.8% | 210,572 | 40.9% | (53,814) | -25.6 |
| Complementary building products | 60,891 | 13.1% | 81,276 | 15.8% | (20,385) | -25.1 |
| | \$ 463,586 | 100.0% | \$ 514,647 | 100.0% | \$ (51,061) | -9.9% |

Gross Profit

For the Three Months Ended

| | June 30, | June 30, | Change | |
|--------------|-----------------------|----------|-----------|--------|
| | 2009 | 2008 | | |
| | (dollars in millions) | | | |
| Gross profit | \$ 107.8 | \$ 120.2 | \$ (12.4) | -10.3% |
| Gross margin | 23.3% | 23.4% | -0.1% | |

Our gross profit decreased \$12.4 million or 10.3% in 2009, while our gross margin also decreased to 23.3% in 2009 from 23.4% in 2008. The slight margin rate decrease was the result of increased competition for fewer orders, partially offset by a product mix shift to more residential roofing products, which have substantially higher gross margins than the more competitive non-residential market. Gross margins in residential roofing, excluding vendor incentives, which represent our invoiced gross margin, decreased in 2009 compared to 2008, while invoiced gross margins in non-residential roofing and complementary margins were virtually flat to last year. The drop in invoiced gross margins in residential roofing products was partially offset by increased short-term vendor incentive rebates.

Direct sales (products shipped by our vendors directly to our customers), which typically have substantially lower gross margins than our warehouse sales, represented 19.3% and 22.4% of our net sales for 2009 and 2008, respectively. The decrease in the percentage of direct sales was attributable to the lower mix of non-residential roofing product sales. There were no material changes in the direct sales mix of our geographical regions.

Operating Expenses

For the Three Months Ended

| | June 30, | June 30, | Change | |
|--------------------|-----------------------|----------|----------|--------|
| | 2009 | 2008 | | |
| | (dollars in millions) | | | |
| Operating expenses | \$ 74.2 | \$ 83.2 | \$ (9.0) | -10.8% |

| | | | |
|---------------------------------------|-------|-------|-------|
| Operating expenses as a % of sales | 16.0% | 16.2% | -0.2% |
|---------------------------------------|-------|-------|-------|

Our operating expenses decreased by \$9.0 million or 10.8% to \$74.2 million in 2009 from \$83.2 million in 2008. The following factors were the leading causes of our lower operating expenses:

- savings of \$5.4 million in payroll and related costs, due to a lower employee headcount, a reduction in overtime, and lower incentive-based pay;

- savings of \$3.1 million in selling expenses, primarily from lower transportation costs due to lower fuel costs and the lower sales volume;
 - reduced depreciation and amortization expense of \$0.7 million due to lower amortization of intangible assets and the impact of very low capital expenditures in fiscal year 2008; and
 - reductions of \$0.5 million in other general & administrative expenses;
- partially offset by:
- an increase of \$0.6 million in the provision for bad debts.

In 2009, we expensed a total of \$3.0 million for the amortization of intangible assets recorded under purchase accounting compared to \$3.7 million in 2008. Our operating expenses as a percentage of net sales decreased to 16.0% in 2009 from 16.2% in 2008 as we were able to control our variable costs in relationship to the lower sales volume.

Interest Expense

Interest expense decreased \$0.4 million to \$5.6 million in 2009 from \$6.0 million in 2008. This decrease was primarily due to a paydown of debt and lower average interest rates, which affected the unhedged portion of our variable-rate debt. Interest expense would have been \$2.5 and \$1.4 million less in 2009 and 2008, respectively, without the impact of our derivatives.

Income Taxes

An income tax expense of \$10.8 million was recorded in 2009, an effective tax rate of 38.7%, compared to \$12.7 million in 2008, an effective tax rate of 41.0%. The decrease in the effective rate reflects changes in allocations of taxable income and losses among the states in which we are located and other changes in our year-to-date estimates for fiscal 2009, as well as certain discrete items recognized in the third quarter upon the filing of our fiscal year 2008 tax returns. We currently expect our full fiscal year 2009 effective income tax rate to be approximately 40%.

Nine Months Ended June 30, 2009 ("YTD 2009") Compared to the Nine Months Ended June 30, 2008 ("YTD 2008")

Net Sales

Consolidated net sales increased \$28.9 million, or 2.4%, to \$1.25 billion in YTD 2009 from \$1.22 billion in YTD 2008. We attribute the sales increase primarily to higher average year-over-year prices (especially in residential roofing products), including a slightly higher estimated year-to-date inflation impact than in the third quarter, and strong re-roofing activity from Hurricane Ike, partially offset by the same negative factors mentioned above for the third quarter. We closed six branches in YTD 2009, while we opened one branch and closed two branches in YTD 2008. We had 189 business days in both YTD 2009 and YTD 2008. Net sales by geographical region grew or (declined) as follows: Northeast (13.7%); Mid-Atlantic (9.5%); Southeast 9.6%; Southwest 62.6%; Midwest (11.0%); West (18.3%); and Canada (10.3%). These variations were primarily caused by short-term factors such as local economic conditions and storm activity. Our product group sales were as follows:

For the Nine Months Ended

| | June 30, 2009 | | June 30, 2008 | | Change |
|------------------------------|---------------|-------|---------------|-------|------------------|
| | Sales | Mix | Sales | Mix | |
| Residential roofing products | \$ 652,573 | 52.4% | \$ 496,234 | 40.8% | \$ 156,339 31.5% |

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| | | | | | | |
|----------------------------------|--------------|--------|--------------|--------|-----------|-------|
| Non-residential roofing products | 422,773 | 33.9% | 499,225 | 41.0% | (76,452) | -15.3 |
| Complementary building products | 170,872 | 13.7% | 221,835 | 18.2% | (50,963) | -23.0 |
| | \$ 1,246,218 | 100.0% | \$ 1,217,294 | 100.0% | \$ 28,924 | 2.4% |

Gross Profit

For the Nine Months Ended

| | June 30, 2009 | June 30, 2008 | Change | |
|--------------|-----------------------|------------------|---------|------|
| | (dollars in millions) | | | |
| Gross profit | \$ 298.1 | \$ 280.3 | \$ 17.8 | 6.4% |
| Gross margin | 23.9% | 23.0% | | 0.9% |

Our gross profit increased \$17.8 million or 6.4% in YTD 2009, while our gross margin also increased to 23.9% in YTD 2009 from 23.0% in YTD 2008. The margin rate increase was largely the result of a product mix shift to more residential roofing products, which have substantially higher gross margins than the more competitive non-residential market. In addition, the benefit of lower weighted-average costs of residential roofing products in comparison to current prices of those products in the marketplace continued from the fourth quarter of fiscal year 2008 into the first quarter of this year. This weighted-average residential cost effect ended during the beginning of the second quarter of 2009 and we currently expect our future overall gross margin to range from 23-24.5%, dependant upon product mix.

Direct sales (products shipped by our vendors directly to our customers) represented 18.5% and 22.3% of our net sales for YTD 2009 and YTD 2008, respectively. The decrease in the percentage of direct sales was attributable to the lower mix of non-residential roofing product sales. There were no material changes in the direct sales mix of our geographical regions.

Operating Expenses

For the Nine Months Ended

| | June 30, 2009 | June 30, 2008 | Change | |
|---------------------------------------|-----------------------|------------------|----------|-------|
| | (dollars in millions) | | | |
| Operating expenses | \$ 225.4 | \$ 234.5 | \$ (9.1) | -3.9% |
| Operating expenses as a % of sales | 18.1% | 19.3% | | -1.2% |

Our operating expenses decreased by \$9.1 million to \$225.4 million in YTD 2009 from \$234.5 million in YTD 2008. The following factors were the leading causes of our lower operating expenses:

- savings of \$4.2 million in selling expenses, primarily from lower transportation costs driven by lower fuel costs, but also from lower sales volumes, partially offset by an increase in certain other selling expenses such as credit card fees;
- savings of \$2.3 million in payroll and related costs, primarily from the benefit from a lower headcount and reduction in overtime, partially offset by higher incentive-based pay accruals, including profit-sharing, and less favorable medical insurance claims experience;
-

reductions of \$1.5 million in other general & administrative expenses, including savings in insurance costs; and

- reduced depreciation and amortization expense of \$2.9 million due to lower amortization of intangible assets and the impact of very low capital expenditures in fiscal year 2008;

partially offset by:

- an increase of \$1.3 million in warehouse expenses, mostly due to costs associated with the closing of the six branches; and
- an increase of \$0.6 million in the provision for bad debts.

In YTD 2009, we expensed a total of \$9.2 million for the amortization of intangible assets recorded under purchase accounting compared to \$11.3 million in YTD 2008. Our operating expenses as a percentage of net sales decreased to 18.1% in YTD 2009 from 19.3% in YTD 2008 as we were able to control our variable costs related to the increased sales and better leverage our fixed costs.

Interest Expense

Interest expense decreased \$2.4 million to \$17.3 million in YTD 2009 from \$19.7 million in YTD 2008. This decrease was primarily due to a pay down of debt and lower average interest rates, which affected the unhedged portion of our variable-rate debt. Interest expense would have been \$5.3 and \$1.4 million less in YTD 2009 and YTD 2008, respectively, without the impact of our derivatives.

Income Taxes

Income tax expense of \$22.0 million was recorded in YTD 2009, an effective tax rate of 39.8%, compared to \$10.7 million in YTD 2008, an effective tax rate of 41.0%.

Seasonality and Quarterly Fluctuations

In general, sales and net income are highest during our first, third and fourth fiscal quarters, which represent the peak months of construction and reroofing, especially in our branches in the northeastern U.S. and in Canada. Our sales are substantially lower during the second quarter, when we historically have incurred low net income levels or net losses.

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

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

Certain Quarterly Financial Data

The following table sets forth certain unaudited quarterly data for fiscal years 2009 (ending September 30, 2009) and 2008 which, in the opinion of management, reflect all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of this data. Results of any one or more quarters are not necessarily indicative of results for an entire fiscal year or of continuing trends. Totals may not foot due to rounding.

| | Fiscal year 2009 | | | Fiscal year 2008 | | | |
|---|--|-----------|----------|------------------|-----------|----------|----------|
| | Qtr 1 | Qtr 2 | Qtr 3 | Qtr 1 | Qtr 2 | Qtr 3 | Qtr 4 |
| | (dollars in millions, except per share data) | | | | | | |
| | (unaudited) | | | | | | |
| Net sales | \$ 463.3 | \$ 319.3 | \$ 463.6 | \$ 398.4 | \$ 304.3 | \$ 514.6 | \$ 567.2 |
| Gross profit | 116.0 | 74.3 | 107.8 | 91.7 | 68.4 | 120.2 | 139.7 |
| Income (loss) from operations | 37.7 | 1.5 | 33.6 | 15.8 | (6.9) | 36.9 | 48.9 |
| Net income (loss) | \$ 18.6 | \$ (2.4) | \$ 17.2 | \$ 5.2 | \$ (8.1) | \$ 18.3 | \$ 24.9 |
| Earnings (loss) per share - basic | \$ 0.42 | \$ (0.05) | \$ 0.38 | \$ 0.12 | \$ (0.18) | \$ 0.41 | \$ 0.56 |
| Earnings (loss) per share - fully diluted | \$ 0.41 | \$ (0.05) | \$ 0.38 | \$ 0.12 | \$ (0.18) | \$ 0.41 | \$ 0.55 |
| | | | | 22.3% | 17.1% | 28.8% | 31.8% |

| | | | | |
|---|-------|-------|-------|-------|
| Quarterly sales as % of year's sales | | | | |
| Quarterly gross profit as % of year's gross profit | 21.8% | 16.3% | 28.6% | 33.3% |
| Quarterly income (loss) from operations as % of year's income (loss) from operations | 16.7% | -7.3% | 39.0% | 51.6% |

The calculations of the net loss per share for the second quarter of both years do not include the effect of stock options since the impact would have been anti-dilutive.

Liquidity and Capital Resources

We had cash and cash equivalents of \$83.0 million at June 30, 2009 compared to \$11.5 million at June 30, 2008 and \$26.0 million at September 30, 2008. Our net working capital was \$316.0 million at June 30, 2009 compared to \$250.7 million at June 30, 2008 and \$274.8 million at September 30, 2008.

YTD 2009 Compared to YTD 2008

Our net cash provided by operating activities was \$84.3 million in YTD 2009 compared to \$29.2 million in YTD 2008. In addition to the benefit from improved operating results, accounts receivable decreased by \$55.1 million in YTD 2009 due primarily to the collection of the high year-end receivables and the lower third quarter sales. The favorable impact from those changes were partially offset by a decrease of \$24.4 million in accounts payable and accrued expenses, due to lower third quarter purchasing levels, voluntary and discounted accelerated payments to certain vendors, and the payment of previously accrued income taxes. In addition, inventories increased by \$8.1 million due mostly to normal seasonal factors. The number of days outstanding for accounts receivable, based upon year-to-date sales for each period, decreased in YTD 2009 from YTD 2008 mainly from the impact of a higher mix of residential roofing products, while inventory turns were flat in YTD 2009 as compared to YTD 2008.

Net cash used in investing activities increased by \$8.4 million in YTD 2009 to \$10.7 million from \$2.3 million in YTD 2008, due primarily to increased capital spending primarily for transportation and material handling equipment, but also due to the purchase of the land and building at one of our prior leased facilities for approximately \$2.0 million. We are closely managing our capital expenditures during these challenging economic times and we expect full fiscal year 2009 capital expenditures to total 0.7% to 0.8% of net sales.

Net cash used by financing activities was \$16.6 million in YTD 2009 compared to \$21.6 million in YTD 2008. These amounts primarily reflected repayments under our revolving lines of credit and term loan. As discussed further below, there was a \$7 million accelerated payment due under the term loan that was made in April 2009.

Capital Resources

Our principal source of liquidity at June 30, 2009 was our cash and cash equivalents of \$83.0 million and our available borrowings of \$157.7 million under revolving lines of credit, subject to compliance with the maximum consolidated leverage ratio below. Our borrowing base availability is determined primarily by trade accounts receivable, less outstanding borrowings and letters of credit. Borrowings outstanding under the revolving lines of credit in the accompanying balance sheets have been classified as short-term debt since there were no current expectations of a minimum level of outstanding revolver borrowings in the following twelve months.

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

Significant factors which could affect future liquidity include the following:

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

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

We believe we have adequate current liquidity and availability of capital to fund our present operations, meet our commitments on our existing debt and fund anticipated growth, including expansion in existing and targeted market areas. We seek potential acquisitions from time to time and hold discussions with certain acquisition candidates. If suitable acquisition opportunities or working capital needs arise that would require additional financing, we believe that our financial position and earnings history provide a sufficient base for obtaining additional financing

resources at reasonable rates and terms, as we have in the past. We may also issue additional shares of common stock to raise funds, which we did in December 2005, or we may issue preferred stock.

Indebtedness

We currently have the following credit facilities:

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

Senior Secured Credit Facilities

On November 2, 2006, we entered into an amended and restated seven-year \$500 million U.S. senior secured credit facility and a C\$15 million senior secured Canadian credit facility with GE Antares Capital ("GE Antares") and a syndicate of other lenders (combined, the "Credit Facility"). The Credit Facility refinanced the prior \$370 million credit facilities that also were provided through GE Antares. The Credit Facility provides us with lower interest rates and available funds for future acquisitions and ongoing working capital requirements. In addition, the Credit Facility increased the allowable total equipment financing and/or capital lease financing to \$35 million. The Credit Facility provides for a cash receipts lock-box arrangement that gives us sole control over the funds in lock-box accounts, unless excess availability is less than \$10 million or an event of default occurs, in which case the senior secured lenders would have the right to take control over such funds and to apply such funds to repayment of the senior debt.

The Credit Facility consists of a U.S. revolving credit facility of \$150 million (the "US Revolver"), which includes a sub-facility of \$20 million for letters of credit, and provided an initial \$350 million term loan (the "Term Loan"). The Credit Facility also includes a C\$15 million senior secured revolving credit facility provided by GE Canada Finance Holding Company (the "Canada Revolver"). There was a combined \$157.7 million available for revolver borrowings at June 30, 2009, subject to compliance with the maximum consolidated leverage ratio below, with \$0.1 million outstanding under the US Revolver that carried an interest rate of 3.25%. Borrowings outstanding under the revolving lines of credit in the accompanying balance sheets were classified as short-term debt since there were no current expectations of a minimum level of outstanding revolver borrowings in the following twelve months. There were \$5.1, \$4.5 and \$4.3 million of outstanding standby letters of credit at June 30, 2009, June 30, 2008 and September 30, 2008, respectively. The Term Loan requires amortization of 1% per year, payable in quarterly installments of approximately \$0.9 million, and the remainder is due in 2013. The Credit Facility may also be expanded by up to an additional \$200 million under certain conditions. There are mandatory prepayments under the Credit Facility under certain conditions, including the following cash flow condition:

Excess Cash Flow

By May 15 of each fiscal year, we must pay an amount equal to 50% of the Excess Cash Flow (as defined in the Credit Facility) for the prior fiscal year, not to exceed \$7.0 million with respect to any fiscal year. Based on our results for fiscal year 2008, a payment of \$7.0 million was paid in April 2009.

Interest

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

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

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

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

The US Revolver currently carries interest rates of the base rate plus 0.75% (3.25% at June 30, 2009)), while the Canada revolver carries an interest rate of the Canadian prime rate plus 0.75%, and the Term Loan carries an interest rate of LIBOR plus 2% (3.21% and 2.31% for two LIBOR arrangements under the Term Loan at June 30, 2009). Unused fees on the revolving credit facilities are 0.25% per annum. Availability under the revolving credit facilities is limited to 85% of eligible accounts receivable, increasing to 90% from January through April of each year.

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

Maximum Consolidated Leverage Ratio

On the last day of each fiscal quarter, our Consolidated Leverage Ratio, as defined, must not be greater than 4.00:1.0. At June 30, 2009, this ratio was 1.75:1.

Capital Expenditures

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

As of June 30, 2009, we were in compliance with these covenants.

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

Equipment Financing Facility

We have an equipment financing facility which allows for the financing of up to \$5.5 million of purchased transportation and material handling equipment through February 15, 2010 at an interest rate approximately 3% above the 5- or 6-year term swap rate at the time of the advances. There were no amounts outstanding under this facility at June 30, 2009; however, there were \$21.0 million of equipment financing loans outstanding under prior equipment financing facilities at June 30, 2009, with fixed interest rates ranging from 5.5% to 7.4%.

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

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

Certain factors that may affect our business and could cause actual results to differ materially from those expressed in any forward-looking statements include those set forth under the heading "Risk Factors" in our Form 10-K for the fiscal year ended September 30, 2008.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Risk

Our interest rate risk relates primarily to the variable-rate borrowings under our Credit Facility. The following discussion of our interest rate swaps and collars (see "Financial Derivatives" below) is based on a 10% change in interest rates. These changes are hypothetical scenarios used to calibrate potential risk and do not represent our view of future market changes. The interest rate collars have had no impact yet on our interest expense. As the hypothetical figures discussed below indicate, changes in fair value based on the assumed change in rates generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. The effect of a variation in a particular assumption is calculated without changing any other assumption. In reality, changes in one factor may result in changes in another, which may magnify or counteract the sensitivities.

At June 30, 2009, we had \$333.4 million of term loans outstanding under our Credit Facility, \$0.1 million of borrowings under revolving lines of credit, and \$21.0 million of equipment financing outstanding. Our weighted-average effective interest rate on that debt, after considering the effect of the interest rate swaps, was 6.17% at June 30, 2009 (6.31% at June 30, 2008). A hypothetical 10% increase in interest rates in effect at June 30, 2009, would have increased annual interest expense on the borrowings outstanding at that date by only \$0.1 million, since most of the interest cost on our current bank debt is fixed by the financial derivatives.

We enter into interest rate swaps and collars to minimize the risks and costs associated with financing activities, as well as to maintain an appropriate mix of fixed-and floating-rate debt. The swap agreements discussed below are contracts to exchange variable-rate for fixed-interest rate payments over the life of the agreements. The collar agreements, also discussed below, provide for fixed-rate caps and floors. The aggregate fair value of these swaps and collars represented an unrealized loss of \$10.9 million at June 30, 2009. A hypothetical increase (or decrease) of 10% in interest rates from the level in effect at June 30, 2009, would result in an aggregate unrealized gain or (loss) in value of the swaps and collars of approximately \$0.5 million or (\$0.5) million, respectively.

Financial Derivatives

As discussed above, we use interest rate derivative instruments to manage the risk of interest rate changes by converting a portion of our variable-rate borrowings into fixed-rate borrowings. We had interest rate derivative instruments outstanding in a total notional amount of \$500 million at June 30, 2009, which consisted of: a) interest rate swaps totaling \$200 million, expiring in April 2010, with a fixed rate of 4.97%; b) a \$50 million interest rate collar expiring in April 2010 with a floor rate of 3.99% and a cap rate of 5.75%; c) a \$50 million interest rate collar expiring in April 2010 with a floor rate of 3.75% and a cap rate of 6.00%; d) a \$100 million future interest rate swap executed in May 2009, with interest cash flows commencing in April 2010 and expiring in April 2013 and with a fixed rate of 2.72%; e) a \$50 million future interest rate swap executed in June 2009, with interest cash flows commencing in April 2010 and expiring in April 2013 and with a fixed rate of 3.12%; and f) a \$50 million future interest rate swap executed in June 2009, with interest cash flows commencing in April 2010 and expiring in April 2013 and with a fixed rate of 3.11%. The derivative instruments are designated as cash flow hedges, for which we record the effective portions of changes in their fair value, net of tax, in other comprehensive income. We recognize any ineffective portion of our hedges in earnings, of which there has been none to date.

Foreign Exchange Risk

There have been no material changes from what we reported in our Form 10-K for the year ended September 30, 2008.

Item 4. Controls and Procedures

The term "disclosure controls and procedures" is defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 (the "Act"). The rules refer to the controls and other procedures designed to ensure that information required to be disclosed in reports that we file or submit under the Act is recorded, processed, summarized and reported within the time periods specified. As of June 30, 2009, management, including the CEO and CFO, performed an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures. Based on that evaluation, management, including the CEO and CFO, concluded that as of June 30, 2009, our disclosure controls and procedures were effective at ensuring that material information related to us or our consolidated subsidiaries is made known to them and is disclosed on a timely basis in our reports filed under the Act. We maintain a system of internal control over financial reporting that is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States. Based on the most recent evaluation, we have concluded that no significant change in our internal control over financial reporting occurred during the last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Part II. Other Information

Items 1- 5 are not applicable and have been omitted.

Item 6. Exhibits

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

Exhibit
Number

Document Description

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

Signature Page

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on August 7, 2009.

BEACON ROOFING SUPPLY, INC.

BY:

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

Index to Exhibits

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