Builders FirstSource, Inc.
Form 10-K
March 11, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2015

OR

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

Commission File Number: 0-51357

BUILDERS FIRSTSOURCE, INC.

(Exact name of registrant as specified in its charter)

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

Registrant's telephone number, including area code:

(214) 880-3500

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 þ 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 þ

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 þ 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 þ 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. þ

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 þ	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 by Rule 12b-2 of the Act). Yes ¨ No þ

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant as of June 30, 2015 was approximately $629.9 million based on the closing price per share on that date of $12.84 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 March 8, 2016 was 110,073,332.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement for its annual meeting of stockholders to be held on May 25, 2016 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

In this annual report, unless otherwise stated or the context otherwise requires, references to the “company,” “we,” “our,” “ours” or “us” refer to Builders FirstSource, Inc. and its consolidated subsidiaries, including ProBuild Holdings LLC (“ProBuild”), as of July 31, 2015.

We are a leading supplier and manufacturer of building materials, manufactured components and construction services to professional contractors, sub-contractors, and consumers. Following our acquisition of ProBuild in July 2015, the Company operates 399 locations in 40 states across the United States. We offer an integrated solution to our customers providing manufacturing, supply and installation of a full range of structural and related building products. Our manufactured products include our factory-built roof and floor trusses, wall panels and stairs, vinyl windows, custom millwork and trim, as well as engineered wood that we design, cut, and assemble for each home. We also assemble interior and exterior doors into pre-hung units. Additionally, we supply our customers with a broad offering of professional grade building products not manufactured by us, such as dimensional lumber and lumber sheet goods and various window, door and millwork lines. Our full range of construction-related services includes professional installation, turn-key framing and shell construction, and spans all our product categories.

Given the span and depth of our geographical reach, our locations are organized into nine geographical regions (Regions 1 through 9), which are also our operating segments, further aggregated into four reportable segments: Northeast, Southeast, South and West. All of our segments have similar customers, products and services, and distribution methods as discussed below. Our financial statements contain additional information regarding segment performance which is discussed in Note 15 to the consolidated financial statements included in Item 8 of this annual report on Form 10-K.

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 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. On a combined basis with ProBuild, there were only seven non-specialty building product suppliers in the Pro Segment that generated more than $500 million in sales, according to ProSales magazine's 2014 ProSales 100 list. On a combined basis with ProBuild, we were the largest building product supplier on this list.

The residential building products industry is driven by the level of activity in both the U.S. residential new construction market and the U.S. residential repair and remodeling market. Growth within these markets is linked to a number of key factors, including demographic trends, housing demand, interest rates, employment levels, availability of credit, foreclosure rates, consumer confidence, and the state of the economy in general.

The residential building products industry is characterized by several key trends, including greater utilization of manufactured components, an expanding role of the distributor in providing turn-key services and a consolidation of suppliers by homebuilders.

- Prefabricated components: Compared to conventional “stick-build” construction where builders cut and assemble lumber at the job site with their own labor, prefabricated components are engineered in an offsite location using specialized equipment and labor. This outsourced task allows for optimal material usage, lower overall labor costs and improved quality of structural elements. In addition, using prefabricated components typically results in faster construction because fabrication can be automated and performed more systematically. As such, we believe there is a long term trend towards increased use of prefabricated components by homebuilders.
- Turn-key services: Many homebuilders have taken a more limited role in the homebuilding process and have outsourced certain key elements of the construction process, including process management, product selection, order input, scheduling, framing and installation. As such, we believe that many homebuilders are increasingly looking to suppliers in the Pro Segment to perform these critical functions resulting in greater demand for integrated project services; and
- Consolidation of suppliers by homebuilders: We believe that homebuilders are increasingly looking to consolidate their supplier base. Many homebuilders are seeking a more strategic relationship with suppliers that are able to offer a broad range of products and services and, as a result, are allocating a greater share of wallet to a select number of larger, full service suppliers. We believe this trend accelerated during the recent downturn and continues in the current housing market recovery.

The homebuilding industry experienced a significant downturn which began in 2006. During the 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 and remodeling activity has strengthened over the past four years. According to the National Association of Homebuilders (“NAHB”), the single-family residential construction market was an estimated $218.3 billion in 2015, which was 12.9% higher than 2014, though still down significantly from the historical high of $413.2 billion in 2006. Further, according to the Home Improvement Research institute (“HIRI”), the repair and remodel end market was an estimated $86.0 billion in 2015, which was 4.5% higher than 2014.

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 continue to recover to levels consistent with the historical average of the past fifty years. These trends include relatively low interest rates, the aging of housing stock, and population growth due to immigration and birthrate exceeding death rate. According to the NAHB, U.S. single-family housing starts increased 10.3% in 2015 compared to 2014. A composite of third party sources, including the NAHB, are predicting that U.S. single-family housing starts will increase to approximately 825,000 in 2016, which would represent a 15.4% increase from 2015 actual U.S. single-family housing starts of 714,600. In addition, HIRI is forecasting sales in the repair and remodel end market to increase approximately 4.7% in 2016 compared to 2015.

OUR CUSTOMERS

We serve a broad customer base in 40 states across the United States. We have a diverse geographic footprint as we have operations in 74 of the top 100 U.S. Metropolitan Statistical Areas (“MSAs”), as ranked by single family housing permits based on 2015 U.S. Census data. In addition, approximately 83% of U.S. housing permits in 2015 were issued in MSAs in which we operate. Given the local nature of our business, we have historically and will continue to locate our facilities in close proximity to our key customers and co-locate multiple operations in one facility to improve efficiency.

We have a diversified customer base, ranging from large production builders to small custom homebuilders, as well as multi-family builders, repair and remodeling contractors and light commercial contractors. For the year ended December 31, 2015, our top 10 customers accounted for approximately 17.0% 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., Pulte Homes, Inc., Highland Homes, Ltd. and CalAtlantic Group.

In addition to the largest production homebuilders, we also service and supply regional production and local custom homebuilders as well as repair and remodeling contractors. These customers require high levels of service and a broad product offering. Our sales team expects to work very closely with the designers on a day-to-day basis in order to ensure the appropriate products are identified, ordered or 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 PRODUCTS AND SERVICES

We group our building products and services into six product categories:

Lumber & Lumber Sheet Goods. Lumber & lumber sheet goods include dimensional lumber, plywood and oriented strand board (“OSB”) products used in on-site house framing. Lumber & lumber sheet goods are our largest sales volume product category. The products in this category are highly sensitive to fluctuations in market prices for such commodities.

Windows, Doors & Millwork. Windows & doors are comprised of the manufacturing, assembly and distribution of windows, and the assembly and distribution of interior and exterior door units. We manufacture 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. 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.

Manufactured Products. Manufactured products are factory-built substitutes for job-site framing and include wood floor and roof trusses, steel roof trusses, wall panels, stairs, and engineered wood that we design, cut, and assemble for each home. Our manufactured products 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 manufactured products, 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.

Gypsum, Roofing & Insulation. Gypsum, roofing, and insulation include wallboard, metal studs and trims, ceilings, joint treatment and finishes, stucco and exteriors.

Siding, Metal, and Concrete. Siding, metal, and concrete include vinyl, composite, and wood siding, other exteriors, and cement.

Other Building Products & Services. Other building products & services consist of various products, including cabinets and hardware. 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. We will continue to pursue profitable business in this category.

We compete in a fragmented marketplace. Our integrated approach and scale allow us to compete effectively through our comprehensive product lines, prefabricated components, and value-added services combined with the knowledge of our integrated sales forces to enable our homebuilder customers to complete construction more quickly, with higher quality and at a lower cost. While we expect these benefits to be particularly valuable to our customers in market environments characterized by labor shortages, sourcing challenges or sharply rising demand for new homes, we expect such benefits will also be increasingly valued and demanded by our customers operating under normal market conditions.

MANUFACTURING

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

Manufactured Products — 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.

Manufactured Products — 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.

Manufactured Products — 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 vinyl windows at an approximately 200,000 square foot manufacturing facility located in Houston, Texas. The process begins by purchasing 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

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

Utilize our competitive strengths to capitalize on housing market recovery and growth

As the U.S. housing market recovery develops, we intend to increase sales through our scale, product portfolio and structural efficiencies. Our Pro Segment homebuilding customers continue to emphasize the importance of competitive pricing, a broad product portfolio, sales force knowledge, on-site services and overall "ease of use" of their building products suppliers. Our comprehensive product offering, experienced sales force and talented senior management team position us well to capitalize on strong demand in the new home construction market as well as the repair and remodel segment. Our acquisition of ProBuild further developed the suite of products and services we provide to our customers, in addition to substantially expanding our national footprint. This comprehensive network of products, services and facilities provides a platform which we believe enhances our "one-stop-shop" strategy and more evenly distributes and promotes additional "pull through" of our value added products. We believe that homebuilders will continue to place an increased value on these capabilities, which will further differentiate us from our competitors.

Execute on identified cost saving strategies

Our management has shown the capability to effectively and efficiently integrate newly acquired businesses, ramping up productivity and driving value. Prior to the ProBuild acquisition, we successfully integrated 33 acquisitions since 1998. These integration capabilities are crucial, in particular in connection with our acquisition of ProBuild, which we believe can result in annual run rate cost savings of $100 to $120 million within two years of the acquisition date. One-time costs to achieve these cost savings are estimated to be $90-$100 million, of which we incurred approximately $43.0 million in 2015. We expect to incur approximately $30.0 million in 2016. The remainder of these costs is expected to be incurred in 2017. We plan to leverage our established operational platform, take advantage of current vendor relationships and implement best-in class procurement and distribution IT systems. We believe these initiatives will result in a substantial increase in free cash flow that we expect will be used to pay down debt as well as reinvest in our Company to drive future growth.

Maximize our share of wallet with individual customers across our service areas

We believe that Pro Segment customers will continue to consolidate the number of supplier relationships they utilize in the future. As a result, this will create the opportunity to win a greater share of wallet for remaining suppliers. By focusing on and developing our differentiated "one-stop-shop" strategy, which includes broadening our product mix, we will be able to offer a complete array of products and services that would otherwise need to be sourced from various distributors. Additionally, as the only national distributor of building products, we will be capable of providing customers with a consistent partner on projects regardless of where they are located. This operational platform often will make us a preferred distributor relationship for large scale national homebuilders while still providing value to local and custom homebuilders looking for assistance with product selection, on-site installation and project management.

Continue to leverage strategic vendor relationships

Our acquisition of ProBuild made us the largest distributor in the Pro Segment. We believe we will be able to leverage this size and our strong homebuilder relationships to provide our vendors access to a large customer base. We believe that our size, purchasing power, and strong financial position will allow us to negotiate favorable pricing (including back-end rebates), savings in procurement costs and to receive a higher priority with our vendors when product supply is limited. We strive to continually enhance our role as a preferred partner for vendors and our size, strong liquidity position, and access to capital markets is expected to mitigate natural credit concerns. This will minimize significant resources that vendors would otherwise have to invest to monitor the credit worthiness of a large number of smaller customers. Furthermore, our broad product portfolio includes a variety of higher-margin products, which we believe will enhance our preferred partner status. This preferred status enables us to participate in mutually beneficial joint marketing programs with our vendors. These incremental efficiencies in procurement provide an opportunity to pass on additional value to our customers.

Optimize cash flow with highly scalable cost structure

Through the downturn we focused on standardizing processes and technology-based workflows to minimize costs, streamline our operations and enhance working capital efficiency. Significant investments in our technology infrastructure and reengineering of our business processes enabled us to centralize many corporate and field tasks. This standardization helps us to optimize our cost structure, allows our centralized operating team to make better purchasing and pricing decisions based on an accurate, up-to-the-minute understanding of costs and trends, and enables us to redeploy capital more strategically. We believe that these efficiencies will drive enhanced profit margins and cash flow conversion across our entire platform as we continue to grow with improving market conditions.

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 systems 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, 2015, we employed approximately 1,700 sales representatives, who are typically paid a commission based on gross margin dollars collected and work with approximately 1,600 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 to 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 companies such as Weyerhaeuser Company, Boise Cascade Company, Canfor Corporation, Norbord, Inc., James Hardie Industries plc, National Gypsum Company, PlyGem Holdings, Inc., M I Windows and Doors, Inc., Andersen Corporation, Masonite International Corporation and JELD-WEN 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 8,000 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 7% of our total materials purchases for the year ended December 31, 2015, 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

We compete in the Pro Segment of the U.S. residential building products supply market. We have and will continue to experience competition for homebuilder business due to the highly fragmented nature of the Pro Segment. Most of our competitors in the Pro Segment are small, privately held local businesses. 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., which is privately held, as well as BMC Stock Holdings, Inc., which is publicly held.

Our customers primarily 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 manufactured 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, 2015, we had approximately 14,000 full-time equivalent employees. Approximately 2% of the workforce at ProBuild are members of nine different unions. We believe that we have good relations with our employees.

INFORMATION TECHNOLOGY SYSTEMS

Our operations are dependent upon our information technology systems, which encompass all of our major business functions. Historically, our primary enterprise resource planning ("ERP") system, which we used for operations representing approximately 47% of our sales in 2015, 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.

Historically, 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.

ProBuild maintained multiple ERP systems to manage its operations. We expect to integrate the legacy ProBuild systems with ours over time. We expect the integration of our information technology systems with those of ProBuild to be a multi-year process. Our initial area of focus will be where we have operations within the same geographic market. Once overlapping markets have been addressed, we will begin integration of the broader geographic footprint of our Company.

SEASONALITY AND OTHER FACTORS

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

- The volatility of lumber prices;
- The cyclical nature of the homebuilding industry;
- General economic conditions in the markets in which we compete;
- The pricing policies of our competitors;
- The production schedules of our customers; and
- The effects of weather.

The composition and level of working capital typically change during periods of increasing sales as we carry more inventory and receivables. Working capital levels typically increase in the second and third quarters of the year due to higher sales during the peak residential construction season. These increases have in the past resulted in negative operating cash flows during this peak season, which historically have been financed through available cash and 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.bldr.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 and Director, age 76. 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 until November 2014. 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, President, Chief Operating Officer and Chief Financial Officer, age 47. 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. In November 2014, he was appointed to the position of President and Chief Financial Officer. Prior to joining the company, Mr. Crow served in a variety of positions at Pier One Imports. 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 61. 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 72. 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 residential homebuilding industry, as well as the U.S. economy, the credit markets and other important factors.

The building products industry is highly dependent on new home and multifamily construction, which in turn are dependent upon a number of factors, including interest rates, consumer confidence, employment rates, foreclosure rates, housing inventory levels and occupancy, housing demand and the health of the U.S. economy and mortgage markets. Unfavorable changes in demographics, credit markets, consumer confidence, housing affordability, or housing inventory levels and occupancy, or a weakening of the U.S. economy or of any regional or local economy in which we operate could adversely affect consumer spending, result in decreased demand for our products, and adversely affect our business. Production of new homes and multifamily buildings may also decline because of shortages of qualified tradesmen, reliance on inadequately capitalized builders and sub-contractors, and shortages of suitable building lots and material. The homebuilding industry is currently experiencing a shortage of qualified, trained labor in many areas, including those served by us. In addition, the building industry is subject to various local, state, and federal statutes, ordinances, rules and regulations concerning zoning, building design and safety, construction, energy and water 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 or in order to maintain certain areas as primarily or exclusively residential. 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 in 2014 and 2015 to approximately 647,800 and 714,700 single-family starts, respectively, although it remains well below the historical average (from 1959 through 2015) of 1.0 million single-family starts per year. According to the U.S. Census Bureau, actual U.S. single family housing starts in the U.S. during 2015 were 51.2% 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 a gradual economic recovery; limited credit availability; shortages of suitable building lots in many regions; shortages 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.

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 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.

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

We recorded no goodwill impairment charges in 2015 or 2014. In continuing operations for the year ended December 31, 2015 we recorded impairment charges on held-for-use assets of $1.4 million related to customer relationship intangibles associated with a location closure. We recorded no significant asset impairment charges in continuing operations in 2014. If conditions in the housing industry deteriorate we may need to take 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 conditions, we may have to temporarily idle or permanently close certain facilities in under-performing regions. 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, 2015, our debt totaled $1,997.7 million, including $289.1 million of lease finance obligations and capital lease obligations. We also have an $800 million senior secured revolving credit facility (“2015 facility”). As of December 31, 2015, we had $60.0 million in borrowings, as well as $79.1 million of letters of credit outstanding under the 2015 facility. In addition, we have significant obligations under ongoing operating leases that are not reflected on our balance sheet.

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 operating cash flow 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 borrowings under the 2015 facility and the $600.0 million term loan credit agreement ("2015 term loan") are at variable rates of interest;
- limiting our ability to obtain additional financing for working capital, capital expenditures, debt service requirements, acquisitions, and general corporate or other purposes; and
- limiting our ability to adjust to changing marketplace 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 2015 facility, the 2015 term loan, the 7.625% senior secured notes due 2021 ("2021 notes") and the 10.75% senior unsecured notes due 2023 ("2023 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 are 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 agreements governing the 2015 facility and the 2015 term loan and the indentures governing our 2021 notes and our 2023 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 2015 facility, which totaled $683.8 million at December 31, 2015, to provide working capital and fund our operations. Our working capital requirements are likely to grow assuming the housing industry improves. Our inability to renew, amend or replace the 2015 facility, the 2015 term loan, the 2021 notes or the 2023 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 our 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 or 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 the 2021 notes, the 2023 notes, the 2015 facility and the 2015 term loan. The agreements governing the 2015 facility and the 2015 term loan and the indentures governing the 2021 notes and the 2023 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, including potential acquisitions, 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 agreements governing the 2015 facility and the 2015 term loan and the indentures governing the 2021 notes and the 2023 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 agreements governing the 2015 facility and the 2015 term loan and the indentures governing the 2021 notes and the 2023 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 2015 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 falls below the greater of $80 million or 10% of the maximum borrowing amount. As of December 31, 2015, our excess availability was $618.7 million. We do not anticipate excess availability falling below $80 million in 2016.

These provisions may restrict our ability to expand or fully pursue our business strategies. Our ability to comply with the agreements governing the 2015 facility and the 2015 term loan and the indentures governing the 2021 notes and the 2023 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 2015 facility and the 2015 term loan and the indentures governing the 2021 notes and the 2023 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 respective 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 leased. Many of our leases are non-cancelable, typically have initial expiration terms ranging from five 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 of the same terms (five to 15 years), will be non-cancelable and will feature similar renewal options. If we close or idle a facility we would 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. Management may explore offsets to remaining obligations such as subleasing opportunities or negotiated lease terminations. During the period from 2007 through 2015, we closed or idled a number of facilities for which we continue to remain liable. Our obligation to continue making rental payments with respect to leases for closed or idled facilities could have a material adverse effect on our business and results of operations. At the end of a lease term and any renewal period for a leased facility, for those locations where we have no renewal options remaining, we may be unable to renew the lease without additional cost, if at all. If we are unable to renew our facility leases, we may close or, if possible, relocate the facility, which could subject us to additional costs and risks which could have a material adverse effect on our business. Additionally, the revenue and profit generated at a relocated facility may not equal the revenue and profit generated at the existing operation.

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 2015 facility, the 2015 term loan, the terms of the indentures governing the 2021 notes and the 2023 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 prices for wood products over a sustained period can adversely affect our financial condition, operating results and cash flows, as can excessive spikes in prices. For the year ended December 31, 2015, average prices for lumber and lumber sheet goods were 11.1% lower than the prior year. Our lumber and lumber sheet goods product category represented 32.3% of total sales for the year ended December 31, 2015. We have limited ability to manage 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 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 the regions where we operate. To the extent that hurricanes, severe storms, floods, other natural disasters or similar events occur in the regions 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 or a reduction in the quantity of products they purchase could affect our financial health.

Following the ProBuild acquisition, our ten largest customers generated approximately 17.0% of our sales for the year ended December 31, 2015. We cannot guarantee that we will maintain or improve the relationships with these customers or that we will 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 regions.

In addition, production homebuilders, commercial builders 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, and will continue to 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 or commercial builders, (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, have intensified their marketing efforts to professional homebuilders in recent years and may continue to intensify these efforts in the future. Furthermore, certain product manufacturers sell and distribute their products directly to production homebuilders or commercial builders. 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 or commercial builders in the future or enter into exclusive supplier arrangements with other distributors. Consolidation of production homebuilders or commercial builders 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 and commercial builders historically have exerted and will continue to exert 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 and its aftermath have 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 or commercial builders, and changes in production homebuilders' or commercial builders' purchasing policies or payment practices, could result in additional pricing pressure, and our financial condition, operating results and cash flows may be adversely affected.

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

Affiliates of JLL Partners, Inc. and Warburg Pincus LLC ("Warburg") together owned approximately 34.3% of our outstanding common stock as of December 31, 2015. Four of our ten directors hold positions with affiliates of either JLL Partners, Inc. or Warburg. Accordingly, JLL Partners, Inc. and Warburg 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 Partners, Inc. and Warburg 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, asbestos, vehicle and other claims and legal proceedings.

We are involved in product liability, product warranty, casualty, construction defect, asbestos, vehicle 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 have no 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. We are also involved in several asbestos personal injury suits due to the alleged sale of asbestos-containing products by legacy businesses that we acquired. In addition, we are exposed to potential claims arising from the conduct of our respective employees and subcontractors, and builders 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, asbestos, vehicle, 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 against us 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 areas that we serve, (4) the intense competition in the industry, including expansion and growth strategies by 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 respective information technology systems.

Our operations are dependent upon our information technology systems, which encompass all of our major business functions. Our ProBuild subsidiary currently maintains multiple enterprise resource planning (“ERP”) systems to manage its operations. We plan to integrate ProBuild’s systems with ours over time and have commenced that process. We may encounter significant operational disruptions and higher than expected costs in connection with such integration process, which could have a material adverse effect on our financial condition, operating results and cash flows. Our primary ERP system 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 our 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 associated 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 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, opening new facilities and delevering.

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, reduced operating results during the current slow economic recovery, our liquidity position, or the requirements of the 2015 facility, the 2015 term loan or the indentures governing the 2021 notes and the 2023 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. A negative impact on our financial condition, operations results and cash flows, or our decision to invest in strategic acquisitions or new facilities, could adversely affect our ability to delever.

In addition, although we have been successful in the past in integrating 33 acquisitions, we may not be able to integrate the operations of ProBuild or any future acquired businesses with our own in an efficient and cost-effective manner or without significant disruption to our or ProBuild's existing operations. Moreover, acquisitions, including the ProBuild acquisition, involve significant risks and uncertainties, including uncertainties as to the future financial performance of the acquired business, the achievement of expected synergies, 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 ProBuild's business or 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 ("FASB") 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, Europe or elsewhere.

Instability in the economy and financial markets, including as a result of terrorism or unrest in the Middle East, Europe 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.

Combining the operations of Builders First Source and ProBuild may be more difficult, costly or time consuming than expected and the anticipated benefits and cost savings of the ProBuild acquisition may not be realized.

We continue to assess synergies that we may realize as a consolidated company, the realization of which will depend on a number of factors. The success of the ProBuild acquisition, including anticipated benefits and cost savings, will depend, in part, on our ability to successfully combine and integrate the two businesses. It is possible that the integration process could result in the loss of key employees, higher than expected costs, diversion of management attention, the disruption of the combined company's ongoing businesses or inconsistencies in standards, controls, procedures and policies that adversely affect the combined company's ability to maintain relationships with customers, suppliers, vendors and employees or to achieve the anticipated benefits and cost savings of the ProBuild acquisition. If we experience difficulties with the integration process, or if the operating or financial performance of the combined company is less than we expect, the anticipated benefits of the ProBuild acquisition may not be realized fully or at all, or may take longer to realize than expected. Management continues to refine its integration plan. The integration planning and implementation process has resulted and will continue to result in significant costs and diversion of management attention and resources. The integration process could have an adverse effect on the combined company for an undetermined period. In addition, the actual cost savings of the ProBuild acquisition could be less than anticipated.

In connection with the ProBuild acquisition, we incurred significant additional indebtedness which could adversely affect us, including by decreasing our business flexibility, and increased our interest expense.

Our consolidated indebtedness as of December 31, 2015 was approximately $1,997.7 million. We substantially increased our indebtedness in connection with the ProBuild acquisition, which has increased our interest expense and could have the effect of, among other things, reducing our flexibility to respond to changing business and economic conditions.

The amount of cash required to pay interest on our increased indebtedness levels following the ProBuild acquisition, and thus the demands on our cash resources, is substantially greater than the amount of cash flows required to service our indebtedness prior to the ProBuild acquisition. The increased levels of indebtedness could also reduce funds available for working capital, capital expenditures, acquisitions and other general corporate purposes and may create competitive disadvantages for us relative to other companies with lower debt levels. If we do not achieve the expected benefits and cost savings from the ProBuild acquisition, or if the financial performance of the combined company does not meet current expectations, then our ability to service our indebtedness may be adversely impacted.

Moreover, we may be required to raise substantial additional financing to fund working capital, capital expenditures, acquisitions or other general corporate requirements. Our ability to arrange additional financing or refinancing will depend on, among other factors, our financial position and performance, as well as prevailing market conditions and other factors beyond our control. We cannot assure you that we will be able to obtain additional financing or refinancing on terms acceptable to us or at all.

Our variable rate indebtedness subjects us to interest rate risk, which could cause our indebtedness service obligations to increase significantly.

Interest rates may increase in the future. As a result, interest rates on our 2015 facility and our 2015 term loan could be higher or lower than current levels. As of December 31, 2015, we had approximately $658.6 million, or 33.0%, of our outstanding debt at variable interest rates. If interest rates increase, our debt service obligations on the variable rate indebtedness would increase even though the amount borrowed remained the same, and our net income and cash flows, including cash available for servicing our indebtedness, would correspondingly decrease. At December 31, 2015, a 1.0% increase in interest rates would result in approximately $0.6 million in additional interest expense annually as we had $60.0 million in outstanding borrowings under the 2015 facility. The 2015 facility also assesses variable commitment and outstanding letter of credit fees based on quarterly average loan utilization. At December 31, 2015, a 1.0% increase in interest rates on the 2015 term loan would result in approximately $3.7 million in additional interest expense annually.

The agreements that govern our indebtedness contain various covenants that impose restrictions on us and certain of our subsidiaries that may affect our ability to operate our businesses.

The agreements that govern our indebtedness contain various affirmative and negative covenants that may, subject to certain significant exceptions, restrict the ability of us and certain of our subsidiaries to, among other things, have liens on our property, and/or merge or consolidate with any other person or sell or convey certain of our assets to any one person. The ability of us and our subsidiaries to comply with these provisions may be affected by events beyond our control. Failure to comply with these covenants could result in an event of default, which, if not cured or waived, could accelerate our repayment obligations.

The integration of ProBuild involves substantial costs.

We are incurring substantial fees and costs related to formulating and implementing integration plans, including facilities and systems consolidation costs and employment-related costs. We estimate these integration-related costs in the range of $90 to $100 million over the two years following the closing of the ProBuild acquisition. We continue to assess the magnitude of these costs, and additional unanticipated costs may be incurred in connection with the integration of the combined company's businesses. Although we expect that the elimination of duplicative costs, as well as the realization of other efficiencies related to the integration of the businesses, should allow us to offset integration-related costs over time, this net benefit may not be achieved in the near term, or at all.

Uncertainties associated with the ProBuild acquisition may cause a loss of management and sales personnel and other key employees of ProBuild or us, which could adversely affect the future business and operations of the combined company.

We are dependent on the experience and industry knowledge of our senior management team and other key employees to execute our business plans. The combined company's success will depend in part upon its ability to retain key management and sales personnel and other key employees. Current and prospective employees may experience uncertainty about their future roles with the combined company, which may materially adversely affect our ability to attract and retain key personnel. Accordingly, no assurance can be given that we will be able to retain key management and sales personnel and other key employees.

Some ProBuild Employees are Unionized

Approximately 2% of the workforce at ProBuild are members of nine different unions. None of the workforce at our legacy Company was unionized. There can be no assurance that additional employees of the combined company will not conduct union organization campaigns or become union members in the future.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We have a broad network of distribution and manufacturing facilities in 40 states throughout the U.S. Based on 2015 U.S. Census data, we have operations in 74 of the top 100 U.S. Metropolitan Statistical Areas, as ranked by single family housing permits in 2015.

Distribution centers typically include 10 to 15 acres of outside storage, a 45,000 square foot warehouse, 4,000 square feet of office space, and 15,000 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. Many of our 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 contractually lease 309 facilities and own 90 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. As described in Note 8 to the consolidated financial statements included in Item 8 of this annual report on Form 10-K, 171 of our leased facilities are subject to a sales-lease back transaction that is accounted for in our financials as owned assets with offsetting lease financing obligations.

We operate a fleet of approximately 9,400 rolling stock units, primarily forklifts, trailers and approximately 2,400 trucks to deliver products from our distribution and manufacturing centers to our customer's 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 March 8, 2016, the closing price of our common stock as reported on the NASDAQ Stock Market LLC was $9.74. The approximate number of stockholders of record of our common stock on that date was 100, 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
2015		
First quarter	$7.06	$5.71
Second quarter	$14.24	$6.54
Third quarter	$16.69	$11.98
Fourth quarter	$15.72	$10.02
2014		
First quarter	$9.16	$7.14
Second quarter	$9.40	$6.92
Third quarter	$7.92	$5.10
Fourth quarter	$6.98	$4.85

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. Our debt agreements 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.

The graph below matches the cumulative 5-Year total return of holders of Builders FirstSource, Inc.'s common stock with the cumulative total returns of the Russell 2000 index and the S&P 600 Building Products index. The graph assumes that the value of the investment in our common stock and in each index (including reinvestment of dividends) was $100 on December 31, 2010 and tracks it through December 31, 2015.

	12/10	12/11	12/12	12/13	12/14	12/15
Builders FirstSource, Inc.	100.00	103.55	283.25	361.93	348.73	562.44
Russell 2000	100.00	95.82	111.49	154.78	162.35	155.18
S&P 600 Building Products Index	100.00	90.17	114.45	155.18	157.44	191.13

The stock price performance included in this graph is not necessarily indicative of future stock price performance.

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 25, 2016 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, 2015, 2014 and 2013 and as of December 31, 2015 and 2014 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, 2013 and as of and for the years ended December 31, 2012 and 2011 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,				
	2015	2014	2013	2012	2011
	(In thousands, except per share amounts)				
Statement of operations data:					
Sales	$ 3,564,425	$1,604,096	$1,489,892	$1,070,676	$779,093
Gross margin	901,458	356,997	319,920	214,566	157,945
Selling, general and administrative expenses	810,841	306,979	271,878	223,269	195,420
Income (loss) from continuing operations(1)(2)	(22,969)	18,558	(42,365)	(54,419)	(64,631)
Income (loss) from continuing operations per share — basic	$ (0.22)	$0.19	$(0.44)	$(0.57)	$(0.68)
Income (loss) from continuing operations per share — diluted	$ (0.22)	$0.18	$(0.44)	$(0.57)	$(0.68)
Balance sheet data (end of period):					
Cash and cash equivalents	$ 65,063	$17,773	$54,696	$131,432	$146,833
Total assets(3)	2,882,038	574,065	505,436	548,369	491,146
Total debt (including current portion) (3)	1,951,671	374,903	343,567	358,483	294,862
Stockholders' equity	149,195	40,200	15,368	48,096	101,224
Other financial data:					
Depreciation and amortization (excluding discontinued operations)	$ 58,280	$9,519	$9,305	$11,120	$14,041

(1) Loss from continuing operations included a valuation allowance of $9.7 million against primarily all of our deferred tax assets for the year ended December 31, 2015. Income from continuing operations included a reduction to our valuation allowance of $7.2 million due to the utilization of net operating loss carryforwards to reduce taxable income for the year ended December 31, 2014. 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 and $26.1 million against primarily all of our deferred tax assets for the years ended December 31, 2012 and 2011, as discussed in Note 12 to the consolidated financial statements included in Item 8 of this annual report on Form 10-K.

(2) Loss from continuing operations for the year ended December 31, 2015 includes $38.6 million of acquisition and transaction related costs associated with the ProBuild acquisition, including $13.2 million in commitment fees

related to bridge and backstop financing facilities incurred in connection with the financing of the ProBuild acquisition. In addition, loss from continuing operations for the current year also includes $10.3 million related to non-cash interest expense from the amortization of debt discount and deferred loan costs, and fair value adjustments related to our warrants. 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) Total assets and total debt for all prior periods presented have been reclassified to conform to current period presentation. For all years presented total assets and total debt reflect reclassification to present deferred loan costs associated with term debt as a reduction to long-term debt. This reclassification decreased both total assets and total debt by $9.0 million, $10.4 million, $2.5 million and $2.6 million for December 31, 2014, 2013, 2012 and 2011, 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 of building materials, manufactured components and construction services to professional contractors, sub-contractors, and consumers. Following our acquisition of ProBuild in July 2015, the Company operates 399 locations in 40 states across the United States. We offer an integrated solution to our customers providing manufacturing, supply and installation of a full range of structural and related building products. Our manufactured products include our factory-built roof and floor trusses, wall panels and stairs, vinyl windows, custom millwork and trim, as well as engineered wood that we design, cut, and assemble for each home. We also assemble interior and exterior doors into pre-hung units. Additionally, we supply our customers with a broad offering of professional grade building products not manufactured by us, such as dimensional lumber and lumber sheet goods and various window, door and millwork lines. Our full range of construction-related services includes professional installation, turn-key framing and shell construction, and spans all our product categories.

We group our building products into six product categories:

- Lumber & Lumber Sheet Goods. Lumber & lumber sheet goods include dimensional lumber, plywood, and OSB products used in on-site house framing.
- Windows, Door & Millwork. Windows & doors are comprised of the manufacturing, assembly, and distribution of windows and the assembly and distribution of interior and exterior door units. Millwork includes interior trim, exterior trim, columns and posts that we distribute, as well as custom exterior features that we manufacture under the Synboard ® brand name.
- Manufactured Products. Manufactured products consist of wood floor and roof trusses, steel roof trusses, wall panels, stairs, and engineered wood.
- Gypsum, Roofing & Insulation. Gypsum, roofing, & insulation include wallboard, metal studs and trims, ceilings, joint treatment and finishes, stucco and exteriors.
- Siding, metal, and concrete. Siding, metal, and concrete includes vinyl, composite, and wood siding, other exteriors, and cement.
- Other Building Products & Services. Other building products & services are comprised of products such as cabinets and hardware as well as services such as turn-key framing, shell construction, design assistance, and professional installation spanning the majority of our product categories.

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

- Homebuilding Industry. Our business is driven primarily by 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. The housing market started to strengthen in 2011. According to the U.S. Census Bureau, annual U.S. single-family housing starts were 714,700 in 2015. However, single-family housing starts remain well below the historical average (from 1959 through 2015) 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, including the National Association of Homebuilders ("NAHB"), expect to see continued improvement in housing demand over the next few years.

Targeting Large Production Homebuilders. Over the past ten years, the homebuilding industry has undergone consolidation, and the larger homebuilders have increased their market share. We expect that trend to continue as larger homebuilders have better liquidity and land positions relative to the smaller, less capitalized homebuilders. Our focus is on maintaining relationships and market share with these customers while balancing the competitive pressures we are facing in servicing large homebuilders with certain profitability expectations. We expect that our ability to maintain strong relationships with the largest builders will be vital to our ability to expand into new markets as well as grow our market share. Additionally, we have been successful in expanding our custom homebuilder base while maintaining acceptable credit standards.

Repair and remodel end market. Following the acquisition of ProBuild, the repair and remodel end market now comprises a larger portion of our business. Although it is influenced by housing starts to a lesser degree than the homebuilding market, the repair and remodel end market is still dependent upon some of the same factors as the homebuilding market, including demographic trends, interest rates, consumer confidence, employment rates, foreclosure rates, and the health of the economy and home financing markets. We expect that our ability to remain competitive in this space as well as grow our market share will depend on our continued ability to provide a high level of customer service coupled with a broad product offering.

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

Economic Conditions. Economic changes both nationally and locally in our markets impact our financial performance. The building products supply industry is highly dependent upon new home construction and subject to cyclical market changes. Our operations are subject to fluctuations arising from changes in supply and demand, national and local economic conditions, labor costs, competition, government regulation, trade policies and other factors that affect the homebuilding industry such as demographic trends, interest rates, single-family housing starts, employment levels, consumer confidence, and the availability of credit to homebuilders, contractors, and homeowners. Beginning in 2007, the mortgage markets experienced substantial disruption due to increased defaults. This resulted in a stricter regulatory environment and reduced availability of mortgages for potential homebuyers due to an illiquid credit market and tighter standards to qualify for mortgages. Mortgage financing and commercial credit for smaller homebuilders continue to be constrained, although there have been recent signs of easing. As the housing industry is dependent upon the economy as well as potential homebuyers' access to mortgage financing and homebuilders' access to commercial credit, it is likely that the housing industry will not fully recover to the historical average until conditions in the economy and the credit markets further improve.

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

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

- 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 profitable growth in the multi-family and light commercial markets.

- Successful integration of the ProBuild business: The acquisition of ProBuild has substantially increased the scale of our company. Successfully integrating ProBuild will be critical to achieving our future objectives. Combining our two companies may be more difficult, costly, or time consuming than expected, which could result in the acquisition not achieving its intended results, including the expected operational synergies and cost savings. In addition, as a result of the ProBuild acquisition we have substantially increased indebtedness. Reduction of our outstanding debt will be a key imperative as we work to achieve the intended results of the acquisition.

RECENT DEVELOPMENTS

Acquisitions

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

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

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

The ProBuild and Timber Tech transactions were accounted for by the acquisition method, and accordingly their results of operations were included in the Company's consolidated financial statements from the respective acquisition dates. The purchase price has been allocated to the assets acquired based on estimated fair values at the acquisition date, with the excess of purchase price over the estimated fair value of the net assets acquired recorded as goodwill.

CURRENT OPERATING CONDITIONS AND OUTLOOK

Though the level of housing starts remains below the historical average, the homebuilding industry has shown improvement since 2011. According to the U.S. Census Bureau, actual U.S. single-family housing starts for 2015 were 714,700, an increase of 10.3% compared to 2014. U.S single-family units under construction increased 11.1% during this same time period. While the housing industry has strengthened over the past few years, the limited availability of credit to smaller homebuilders and potential homebuyers and the slow economic recovery, among other factors, have hampered a stronger recovery. A composite of third party sources, including the NAHB, are forecasting 825,000 U.S. single-family housing starts for 2016, which is an increase of 15.4% from 2015.

Our net sales for the year ended December 31, 2015 were up 122.2% over the same period last year, 119.1% of which was due to recent acquisitions, primarily the acquisition of ProBuild. Excluding the impact of recent acquisitions, which are described in Note 3 to the consolidated financial statements included in Item 8 of this annual report on

Form 10-K, net sales increased 3.1%. We estimate net sales increased 8.5% due to increased volume, which was partially offset by a 5.4% decrease due to the impact of commodity price deflation on net sales. Our gross margin percentage increased by 3.0% during the year ended December 31, 2015 compared to the year ended December 31, 2014. Excluding the impact of the ProBuild acquisition, our gross margin percentage increased 1.7%, primarily due to improved customer pricing relative to our costs and a higher mix of value-added sales. 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 volume. We intend to implement similar changes in ProBuild's business activities to the extent feasible. However, our selling, general and administrative expenses, as a percentage of net sales, were 22.7% for the year ended December 31, 2015, a 3.6% increase from 19.2% in 2014. Excluding ProBuild, selling, general, and administrative expenses were 22.0% of net sales. The increase was primarily due to acquisition costs related to the ProBuild acquisition, an increase in facility closure costs associated with location consolidations, and an increase in intangible asset amortization.

As a result of the ProBuild acquisition, we have substantially increased indebtedness. As such, reduction of our outstanding debt is a key area of focus for the Company. During the year ended December 31, 2015, we repaid $235.0 million of the original $295.0 million borrowed under the 2015 facility at the closing of the acquisition. In addition, we repaid $1.4 million on the 2015 term loan during the same period.

On February 12, 2016, we completed separate privately negotiated note exchange transactions in which $218.6 million in aggregate principal amount of our 2023 notes was exchanged for $207.6 million in aggregate principal amount of our 7.625% senior secured notes due 2021 (“2021 notes”). The 2021 notes were issued under the existing indenture dated as of May 29, 2013.

On February 29, 2016, we completed additional privately negotiated note exchange transactions in which $63.8 million in aggregate principal amount of our 2023 notes was exchanged for $60.0 million in aggregate principal amount of our 7.625% senior secured notes due 2021 (“2021 notes”). Following these transactions $617.6 million in aggregate principal amount of our 2021 notes and $417.6 million in aggregate principal amount of our 2023 notes remain outstanding.

These transactions allowed the Company to reduce its long-term debt by approximately $14.8 million and reduce its annual cash interest expense by approximately $10.0 million.

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 the construction activity in our markets and to continue to increase our market share, which may include strategic acquisitions. We will continue to focus on working capital by closely monitoring the credit exposure of our customers and by working with our vendors to improve our payment terms and pricing on our products. We will also continue to work diligently to achieve the appropriate balance of short-term expense control while maintaining the expertise and capacity to grow the business as market conditions improve. We want to create long-term shareholder value and avoid taking steps that will limit our ability to compete.

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:

	2015	2014	2013
Sales	100.0%	100.0%	100.0%
Cost of sales	74.7 %	77.7 %	78.5 %
Gross margin	25.3 %	22.3 %	21.5 %
Selling, general and administrative expenses	22.7 %	19.2 %	18.3 %
Income from operations	2.6 %	3.1 %	3.2 %
Interest expense, net	3.1 %	1.9 %	6.0 %
Income tax expense	0.1 %	0.1 %	0.1 %
Income (loss) from continuing operations	(0.6)%	1.1 %	(2.9)%
Income (loss) from discontinued operations, net of tax	0.0 %	(0.0)%	(0.2)%
Net income (loss)	(0.6)%	1.1 %	(2.9)%

2015 Compared with 2014

Sales. Sales for the year ended December 31, 2015 were $3,564.4 million, a 122.2% increase from sales of $1,604.1 million for 2014. Net sales increased $1,910.9 million, or 119.1%, due to recent acquisitions, primarily ProBuild. Excluding the impact of acquisitions, net sales increased $49.4 million, or 8.5% due to increased volume, which was partially offset by a 5.4% decrease due to the impact of commodity price deflation on net sales. According to the U.S. Census Bureau, actual U.S. single-family housing starts increased 10.3% and single-family units under construction increased 11.1% in 2015 compared to 2014.

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

	2015 Sales	% of Sales		2014 Sales	% of Sales		% Change	
Lumber & lumber sheet goods	$1,151.7	32.3	%	$563.4	35.1	%	104.4	%
Windows, doors & millwork	868.8	24.3	%	505.5	31.5	%	71.9	%
Manufactured products	644.4	18.1	%	333.6	20.8	%	93.2	%
Gypsum, roofing & insulation	265.9	7.5	%	46.9	2.9	%	466.5	%
Siding, metal & concrete products	269.2	7.6	%	41.8	2.6	%	544.2	%
Other building products & services	364.4	10.2	%	112.9	7.1	%	222.8	%
Total sales	$3,564.4	100.0	%	$1,604.1	100.0	%	122.2	%

Due to the ProBuild acquisition, we achieved increased net sales across all product categories. Our sales classification by product categories has shifted as we diversified our product offerings to support a broader customer base across 40 states through the ProBuild acquisition. Excluding ProBuild, net sales increased across all product categories, except lumber & lumber sheet goods, which decreased $12.4 million. This decline in net sales of lumber and lumber sheet goods, excluding ProBuild, was largely due to an 11.1% decrease in market prices for such commodities in 2015 compared to 2014, which was mostly offset by an increase in sales volume.

Gross Margin. Gross margin increased $544.5 million to $901.5 million. Of this increase, $493.3 million is due to the ProBuild acquisition. Excluding ProBuild, gross margin increased $51.2 million. Our gross margin percentage increased to 25.3% in 2015 from 22.3% in 2014, a 3.0% increase. Excluding ProBuild, our gross margin percentage increased 1.7%, primarily due to improved customer pricing relative to our costs and a higher mix of value-added sales from our manufactured products categories in 2015 compared to 2014.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased $503.9 million, or 164.1%. Excluding ProBuild, our selling, general, and administrative expense increased $68.0 million or 22.2%. Excluding ProBuild, our salaries and benefits expense, excluding stock compensation expense, was $218.4 million, an increase of $27.3 million from 2014, largely due to a 6.2% increase in full-time equivalent employees related to increased sales volume and other recent acquisitions. Office general and administrative expense increased $31.2 million, primarily due to a $30.2 million increase in professional service fees largely attributable to acquisition and integration costs related to the ProBuild acquisition. Facility closure costs increased $3.6 million primarily due to costs associated with location consolidations following the ProBuild acquisition. Intangible asset amortization increased $1.6 million due to other recent acquisitions. Delivery expense increased $1.7 million largely due to increased sales volume.

As a percentage of net sales, selling, general and administrative expenses increased from 19.2% in 2014 to 22.7% in 2015. Excluding ProBuild, selling, general and administrative expenses were 22.0% of net sales. As a percentage of net sales, salaries and benefits expense, excluding stock compensation expense, increased 0.9%, office general and administrative expense increased 1.7%, facility closure costs increased 0.2%, intangible asset amortization increased 0.1% and delivery expenses decreased 0.1%. The increase in selling, general and administrative expenses, as a percentage of net sales, was primarily due to the factors discussed above, and to a lesser degree, the negative impact of commodity price deflation on our net sales.

Interest Expense, net. Interest expense was $109.2 million in 2015, an increase of $78.9 million from 2014. Excluding interest expense attributable to ProBuild, which is primarily related to interest expense associated with lease finance obligations, our interest expense was $101.0 million, an increase of $70.7 million. The increase was primarily related to the financing transactions associated with the acquisition of ProBuild. Of the $70.7 million increase, $49.5 million was attributable primarily to increased interest expense related to our 2023 notes, 2015 term loan and 2015 facility, $13.2 million was due to commitment fees related to unutilized bridge and backstop facilities, $8.3 million was related to non-cash interest expense from the amortization of debt discount and deferred loan costs, and fair value adjustments related to our previously outstanding stock warrants in 2014.

Income Tax Expense. We recorded income tax expense of $4.4 million and $1.1 million during 2015 and 2014, respectively. We recorded an increase in the after-tax, non-cash valuation allowance on our net deferred tax assets of $9.7 million in 2015 and a $7.2 million reduction in the after-tax, non-cash valuation allowance on our net deferred tax assets in 2014. Absent the valuation allowance, our effective tax rate would have been 28.5% and 42.1% for 2015 and 2014, respectively.

2014 Compared with 2013

Sales. Sales for the year ended December 31, 2014 were $1,604.1 million, a 7.7% increase from sales of $1,489.9 million for 2013. Excluding the impact of recent acquisitions our sales grew 5.8% for the year ended December 31, 2014 compared to the prior year. According to the U.S Census Bureau, actual U.S. single-family housing starts increased 4.8% in 2014 as compared to 2013. In the South Region, actual single-family starts increased 6.0% compared to 2013, and single-family units under construction increased 14.0% over this same time period. Excluding the impact of recent acquisitions, we estimate sales increased 7.9% due to increased volume, which was partially offset by a 2.1% decrease due to the impact of commodity price deflation on sales, while sales increased an additional 1.9% due to recent acquisitions during the year ended December 31, 2014 compared to the prior year.

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

	2014 Sales	% of Sales	2013 Sales	% of Sales	% Change
Lumber & lumber sheet goods	$563.4	35.1 %	$570.8	38.3 %	(1.3)%
Windows, doors & millwork	505.5	31.5 %	435.8	29.3 %	16.0 %
Manufactured products	333.6	20.8 %	295.5	19.8 %	12.9 %
Gypsum, roofing & insulation	46.9	2.9 %	46.4	3.1 %	1.2 %
Siding, metal & concrete products	41.8	2.6 %	37.9	2.5 %	10.3 %
Other building products & services	112.9	7.1 %	103.5	7.0 %	9.0 %
Total sales	$1,604.1	100.0 %	$1,489.9	100.0 %	7.7 %

Increased sales were achieved across all product categories, except lumber and lumber sheet goods, primarily due to increased volume. The decrease in sales for lumber and lumber sheet goods is primarily attributable to the impact of commodity price deflation, which was mostly offset by an increase in volume, for the year ended December 31, 2014 compared to the prior year.

Gross Margin. Gross margin increased $37.1 million to $357.0 million. Our gross margin percentage increased from 21.5% in 2013 to 22.3% in 2014, a 0.8% increase. Our gross margin percentage increased primarily due to improved customer pricing and lower volatility in commodity lumber prices during the year ended December 31, 2014 compared to the prior year.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased $34.6 million, or 12.7%. Our salaries and benefits expense, excluding stock compensation expense, was $191.1 million for 2014, an increase of $19.4 million from 2013. Delivery expenses increased $5.9 million and office general and administrative expense increased $4.3 million primarily due to increased sales volume. Occupancy expenses increased $3.0 million, primarily due to acquisitions and expansions at existing facilities.

As a percentage of sales, selling, general and administrative expenses increased from 18.2% in 2013 to 19.1% in 2014. As a percentage of sales, salaries and benefits expense, excluding stock compensation expense, increased 0.4%, delivery costs increased by 0.1%, our office general and administrative expense increased 0.1% and occupancy expenses increased by 0.1%. These increases were primarily due to the negative impact of commodity lumber price deflation on our sales during 2014.

Interest Expense, net. Interest expense was $30.3 million in 2014, a decrease of $59.3 million from 2013. The decrease is primarily related to our refinancing in the second quarter of 2013, which included $10.6 million of interest on our then outstanding $225.0 million first-lien term loan due 2015 (“term loan”), the write-off of $6.8 million in unamortized debt discount and $2.1 million of debt issuance costs, and a $39.5 million prepayment premium related to the early termination of the term loan.

Income Tax Expense. We recorded income tax expense of $1.1 million and $0.8 million during 2014 and 2013, respectively. We recorded a $7.2 million reduction to our valuation allowance due to utilization of net operating loss carryforwards to reduce our taxable income in 2014. 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. Absent this valuation allowance, our effective tax rate would have been 42.1% and 35.0% for 2014 and 2013, respectively.

Results by Reportable Segment

The following tables show net sales and income from continuing operations before income taxes by reportable segment (dollars in thousands):

	Year ended December 31,									
	Net sales					Income from continuing operations before income taxes				
		% of net		% of net			% of net		% of net	
	2015	sales	2014	sales	% change	2015	sales	2014	sales	% change
Northeast	$630,486	18.3 %	$229,998	15.6 %	174.1 %	$26,907	4.3 %	$3,464	1.5 %	676.8 %
Southeast	917,022	26.7 %	672,059	45.5 %	36.4 %	13,703	1.5 %	5,465	0.8 %	150.7 %
South	1,098,359	32.0 %	574,831	38.9 %	91.1 %	39,533	3.6 %	13,832	2.4 %	185.8 %
West	789,275	23.0 %	—	—	—	31,177	4.0 %	—	—	—
	$3,435,142	100.0 %	$1,476,888	100.0 %		$111,320	3.2 %	$22,761	1.5 %	

	Year ended December 31,									
	Net sales					Income from continuing operations before income taxes				
		% of net		% of net			% of net		% of net	
	2014	sales	2013	sales	% change	2014	sales	2013	sales	% change
Northeast	$229,998	15.6 %	$239,860	17.4 %	(4.1)%	$3,464	1.5 %	$5,715	2.4 %	(39.4)%
Southeast	672,059	45.5 %	649,654	47.0 %	3.4 %	5,465	0.8 %	9,199	1.4 %	(40.6)%
South	574,831	38.9 %	492,344	35.6 %	16.8 %	13,832	2.4 %	10,061	2.0 %	37.5 %
West	—	—	—	—	—	—	—	—	—	—
	$1,476,888	100.0 %	$1,381,858	100.0 %		$22,761	1.5 %	$24,975	1.8 %	

As a result of our reorganization following the ProBuild acquisition on July 31, 2015, we now have four reportable segments based on an aggregation of the geographic regions in which we operate: Northeast, Southeast, South and West. The West reportable segment operations were acquired through the ProBuild acquisition. The other reportable segments represent a mix of legacy Builders FirstSource and ProBuild locations.

Excluding the impact of recent acquisitions, net sales for the year ended December 31, 2015 compared to the year ended December 31, 2014 increased 4.5% and 5.9% in our legacy Southeast and South reportable segments, respectively, primarily due to volume increases, which were partially offset by commodity price deflation. According to the U.S Census Bureau, the actual U.S. single-family housing starts increased 10.3% in 2015 as compared to 2014, with single family starts in the South region increasing 12.0% compared to 2014. Excluding ProBuild, net sales for our Northeast reportable segment decreased 2.7% for the year ended December 31, 2015 compared to 2014 due to slower regional sales growth, which was not enough to overcome the impact of commodity price deflation.

Excluding the impact of recent acquisitions, net sales for the year ended December 31, 2014 compared to the year ended December 31, 2013 increased 3.4% and 11.2% in our Southeast and South reportable segments, respectively, due to volume increases which outpaced the commodity price deflation offset. According to the U.S Census Bureau, the actual U.S. single-family housing starts increased 4.8% in 2014 as compared to 2013, with single family starts in the South Region ahead of the national average increasing 6.0% compared to 2013. Excluding ProBuild, net sales for our Northeast reportable segment decreased 4.1% for the year ended December 31, 2014 compared to 2013 due to slower regional sales growth, which was not enough to overcome the commodity price deflation impact.

LIQUIDITY AND CAPITAL RESOURCES

Our primary capital requirements are to fund working capital needs and operating expenses, meet required interest and principal payments, and to fund capital expenditures and potential future acquisitions. Our capital resources at December 31, 2015 consist of cash on hand and borrowing availability under our revolving credit facility.

Our 2015 facility will be primarily used for working capital, general corporate purposes, and funding acquisitions. In addition, we may use the 2015 facility to facilitate debt consolidation. Availability under the 2015 facility is determined by a borrowing base. Our borrowing base consists of trade accounts receivable, inventory, other receivables, including progress billings and credit card receivables, and qualified cash that all meet specific criteria contained within the credit agreement, minus agent specified reserves. Net excess borrowing availability is equal to the maximum borrowing amount minus outstanding borrowings and letters of credit.

The following table shows our borrowing base and excess availability as of December 31, 2015 (in millions):

	As of December 31, 2015
Accounts Receivable Availability	$ 384.5
Inventory Availability	314.3
Other Receivables Availability	27.0
Gross Availability	725.8
Less:	
Agent Reserves	(23.5)
Plus:	
Cash in Qualified Accounts	55.5
Borrowing Base	757.8
Aggregate Revolving Commitments	800.0
Maximum Borrowing Amount (lesser of Borrowing Base and Aggregate Revolving Commitments)	757.8
Less:	
Outstanding Borrowings	(60.0)
Letters of Credit	(79.1)
Net Excess Borrowing Availability on Revolving Facility	$ 618.7

As of December 31, 2015, we had $60.0 million in outstanding borrowings under our 2015 facility and our net excess borrowing availability was $618.7 million after being reduced by outstanding letters of credit of approximately $79.1 million. Excess availability must equal or exceed a minimum specified amount, currently $80.0 million, or we are required to meet a fixed charge coverage ratio of 1:00 to 1:00. We were not in violation of any covenants or restrictions imposed by any of our debt agreements at December 31, 2015.

Liquidity

Our liquidity at December 31, 2015 was $683.8 million, which consists of net borrowing availability under the 2015 facility and cash on hand. We are expecting increased stability and continued improvement in the housing industry in 2016. Beyond 2016, 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 have substantially increased indebtedness following completion of the ProBuild acquisition in comparison to our indebtedness on a recent historical basis, which will increase our interest expense and could have the effect of, among other things, reducing our flexibility to respond to changing business and economic conditions. From time to time, based on market conditions and other factors and subject to compliance with applicable laws and regulations, the Company may repurchase or call the 2021 notes or 2023 notes, repay debt, or otherwise enter into transactions regarding its capital structure.

Should the current industry conditions deteriorate or we pursue additional acquisitions, we may be required to raise additional funds through the sale of common stock or debt in the public capital markets or in privately negotiated transactions. There can be no assurance that any of these financing options would be available on favorable terms, if at all. Alternatives to help supplement our liquidity position could include, but are not limited to, idling or permanently closing additional facilities, adjusting our headcount in response to current business conditions, attempts to renegotiate leases, and divesting of non-core businesses. There are no assurances that these steps would prove successful.

Consolidated Cash Flows

Cash provided by operating activities was $177.0 million and $27.5 million in 2015 and 2014, respectively. Our working capital decreased $99.0 million in 2015 compared to an increase of $7.8 million in 2014. The decrease in working capital is primarily due to a decrease in accounts receivable and an increase in accrued liabilities. The decrease in accounts receivable is due to increased collections largely attributable to the ProBuild acquisition in the fourth quarter of 2015. The increase in accrued liabilities is largely due to increased interest payable following the ProBuild acquisition financing transactions. The decrease in working capital was partially offset by an increase in cash interest payments of $26.7 million in 2015 compared to 2014. In addition, during 2015 we had $13.2 million in one-time cash interest payments attributable to commitment fees related to unutilized bridge and backstop financing facilities. The remaining increase in cash provided by operations is primarily related to increased sales and profitability during 2015 as a result of higher sales volume and the acquisition of ProBuild.

Cash provided by operating activities was $27.5 million in 2014 compared to cash used in operating activities of $47.6 million in 2013. The change of $75.1 million was primarily due to our refinancing in the second quarter of 2013 and our improved financial performance in 2014. Cash interest payments were $28.3 million in 2014 compared to $78.2 million in 2013. The $78.2 million in cash interest payments in 2013 included a $39.5 million prepayment penalty related to the termination of our term loan. In addition, our working capital only increased $7.8 million compared to an increase in working capital of $31.8 million in 2013.

Cash used in investing activities increased $1,413.2 million in 2015 compared to 2014. The change is primarily due to the $1,462.7 million ProBuild acquisition. In addition, we acquired Timber Tech for $5.8 million during 2015. In 2014, $69.3 million of cash was used for acquisitions. Capital expenditures for 2015 were $43.8 million compared to $25.7 million in 2014. The increase in capital expenditures primarily relates to purchasing machinery, equipment and vehicles to support sales growth and to increase capacity at existing locations.

Cash used in investing activities increased $95.4 million in 2014 compared to 2013. The increase is primarily due to $69.3 million in cash used for acquisitions in 2014 and a $10.7 million increase in capital expenditures in 2014 compared to 2013. The remaining change is primarily due to a decrease of $13.0 million in restricted cash related to the transfer of our outstanding letters of credit from the previous facility to our new letter of credit sub-facility, which eliminated our cash collateral requirement for outstanding letters of credit in 2013. The increase in capital expenditures during 2014 primarily relates to the purchase of facilities in Greensboro, NC, Conroe, TX, and Schertz, TX, improvements related to the relocation of two facilities, as well as purchasing machinery and equipment to support sales growth and to increase capacity at existing locations.

Cash provided by financing activities was $1,378.3 million and $30.4 million for 2015 and 2014, respectively. During 2015 cash provided by financing activities was primarily due to financing activities related to the ProBuild acquisition, including $700.0 million of proceeds from the issuance of notes, $594.0 million of proceeds from a new term loan agreement, $320.0 million of borrowings under the revolving credit facilities, and $111.3 million of proceeds from the public offering of common stock, net of issuance costs. Slightly offsetting this, we repaid $290.0 million under the revolving credit facilities during 2015. In addition, we paid $58.5 million of deferred loan costs in 2015.

Cash provided financing activities for 2014 was $30.4 million compared to cash used in financing activities in 2013 of $29.7 million. Cash provided by financing activities for 2014 primarily relates to our $30.0 million borrowing under the 2013 facility. Cash used in 2013 primarily relates to our refinancing in the second quarter of 2013. In the second quarter of 2013 we issued $350.0 million of our 2021 notes and repaid our $225.0 million term loan and $139.7 million of our second priority senior secured floating rate notes due 2016 (“2016 notes”). The remaining change is primarily due to $15.6 million in payments of deferred loan costs related to our 2013 facility and 2021 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 2016 capital expenditures to be approximately $90-$100 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, 2015 (in thousands):

	Payments Due by Period				
Contractual obligations	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-term debt	$1,708,625	$ 5,500	$11,000	$71,000	$ 1,621,125
Interest on long-term debt(1)	968,801	142,247	283,083	280,252	263,219
Lease finance obligations(2)	406,247	21,814	41,755	41,613	301,065
Capital lease obligations(2)	8,563	7,180	920	463	—
Operating leases	244,362	59,680	93,479	46,029	45,174
Uncertain tax positions(3)	—	—	—	—	—
Total contractual cash obligations	$3,336,598	$ 236,421	$430,237	$439,357	$ 2,230,583

(1) We had $60.0 million in borrowings under the 2015 facility as of December 31, 2015. Borrowings under the 2015 facility bear interest at a variable rate. Therefore, actual interest may differ from the amounts presented above due to interest rate changes or any future borrowing activity under the 2015 facility. The 2015 term loan also bears interest at a variable rate, therefore actual interest may differ from the amounts presented above due to interest rate changes.
(2) Future minimum commitments for lease finance obligations and capital lease obligations.
(3) We have $0.2 million of uncertain tax positions recorded in long-term liabilities or as a reduction to operating loss carryforwards. We also have $0.3 million in interest and penalties accrued related to these uncertain tax positions. It is not reasonably possible to predict at this time when (or if) any of these amounts will be settled.

The amounts reflected in the table above for operating leases represent future minimum lease payments under non-cancelable operating leases with an initial or remaining term in excess of one year at December 31, 2015. Purchase orders entered into in the ordinary course of business are excluded from the above table because they are payable within one year. Amounts for which we are liable under purchase orders are reflected on our consolidated balance sheet as accounts payable and accrued liabilities. We plan to lease additional delivery equipment during 2016 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 $3.2 million as of December 31, 2015.

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

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

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 and intangible assets with finite lives, 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 facility related long-lived assets are grouped at a geographical location level, which is at a level below our operating segments. All of our other long-lived assets are grouped at a geographical region level, which is the equivalent of our operating segments. 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 group, the useful life over which cash flows will occur, their amount, and the asset group'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 asset groups. Forecasted housing starts 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.

In continuing operations for the year ended December 31, 2015, we recorded asset impairment charges on held-for-use assets of $1.4 million related to a customer relationship intangible assets associated with a location closure and recorded $0.7 million related to fair value adjustments on held-for-sale assets during 2015. We recorded no significant asset impairment charges in continuing operations in 2014 or 2013.

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, 2015, our goodwill balance was $739.6 million, representing 25.7% 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 2015, 2014 or 2013.

The process of evaluating goodwill for impairment involves the determination of the fair value of our reporting units. As a result of the reorganization following the ProBuild acquisition, our reporting units are now aligned with our nine geographic regions which are also determined to be our operating segments. In evaluating goodwill for impairment, the Company first assesses qualitative factors to determine whether it is more likely than not that the fair value of the reporting unit is less than its carrying value. If it is concluded that it is not more likely than not that the fair value of the reporting unit is less than its carrying value, then no further testing of the goodwill is required.

However, if we determine that it is more likely than not that the fair value of the reporting unit is less than its carrying value, then 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.

In performing our annual impairment tests at December 31, 2015, 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 4.5x for all reporting units to reflect the relevant expected acquisition price. A discount rate of 12.5% 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 3.5x, or increasing the discount rate by 1.0% to 13.5%, would not have changed the results of our impairment testing.

At December 31, 2015, 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 six reporting units which have remaining goodwill balances ranged from $75.0 million to $300.0 million. 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 evaluate our deferred tax assets on a quarterly basis to determine whether a valuation allowance is required. In accordance with the Income Taxes topic of the Accounting Standards Codification ("Codification") we assess whether it is more likely than not that some or all of our deferred tax assets will not be realized. Significant judgment is required in estimating valuation allowances for deferred tax assets. The realization of a deferred tax asset ultimately depends on the existence of sufficient taxable income in the applicable carryback or carryforward periods. We consider nature, frequency, and severity of current and cumulative losses, among other matters, the reversal of existing deferred tax liabilities, historical and forecasted taxable income, and tax planning strategies in our assessment. Changes in our estimates of future taxable income and tax planning strategies will affect our estimate of the realization of the tax benefits of these tax carryforwards. To the extent we generate sufficient taxable income in the future to fully utilize the tax benefits of the net tax deferred assets on which a valuation allowance was recorded, our effective tax rate may decrease as the valuation allowance is reversed.

Poor housing market conditions have contributed to our cumulative loss position for the past several years. While we generated income in 2014, we still have a cumulative unadjusted loss for the three year period ending December 31, 2015. Further, taking into consideration the historical ProBuild results on a proforma basis also results in a cumulative loss for the three year period ending December 31, 2015. We believe the cumulative loss position, as well as uncertainty around the extent and timing of the housing market recovery, represents significant negative evidence in considering whether our deferred tax assets are realizable. Further, we do not believe that relying solely on projections of future taxable income to support the recovery of deferred tax assets is sufficient. Based on an evaluation of positive and negative evidence, we concluded that the negative evidence regarding our ability to realize our deferred tax assets outweighed the positive evidence as of December 31, 2015.

The amount of the deferred tax assets considered realizable, however, could be adjusted if estimates of future taxable income during the carryforward period are reduced or increased, or if objective negative evidence in the form of cumulative losses is no longer present and additional weight may be given to subjective evidence such as our projections for growth. We currently estimate that we will likely transition into a three year cumulative income position, including an evaluation of ProBuild's historical results, on a rolling three year period at some time during the year ending December 31, 2016. However, there continues to be uncertainty around housing market projections and without continued improvement in housing activity, we may not reverse our cumulative loss position. Simply coming out of a cumulative loss position is not viewed as a bright line and may not be considered sufficient positive evidence to reverse some or all of the valuation allowance if there is other negative evidence. In upcoming quarters, we will closely monitor the positive and negative evidence surrounding our ability to realize our deferred tax assets.

In 2015, we recorded a valuation allowance of $9.7 million related to our continuing operations. In 2014, we reduced our valuation allowance by $7.2 million due to the utilization of net operating losses against federal and state taxable income. In 2013, we recorded a valuation allowance of approximately $15.3 million 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 base our estimate of deferred tax assets and liabilities on current tax laws and rates. In certain cases, we also base our estimate on business plan forecasts and other expectations about future outcomes. Changes in existing tax laws or rates could affect our actual tax results, and future business results may affect the amount of our deferred tax liabilities or the valuation of our deferred tax assets over time. Due to uncertainties in the estimation process, particularly with respect to changes in facts and circumstances in future reporting periods, as well as the residential homebuilding industry's cyclicality and sensitivity to changes in economic conditions, it is possible that actual results could differ from the estimates used in previous analyses.

Accounting for deferred taxes is based upon estimates of future results. Differences between the anticipated and actual outcomes of these future results could have a material impact on our consolidated results of operations or financial position.

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 have used the simplified method for determining the expected life assumption due to limited historical exercise experience on our stock options. The expected volatility is based on the historical volatility of our common stock over the most recent period equal to the expected life of the option. The expected dividend yield is based on our history of not paying regular dividends in the past and our current intention to not pay regular dividends in the foreseeable future. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant and has a term equal to the expected life of the options. We record expense for the unvested portion of grants over the requisite service (i.e., vesting) periods.

RECENTLY ISSUED ACCOUNTING STANDARDS

In February 2016, the Financial Accounting Standards Board ("FASB") issued an update to the existing guidance under Leases topic. Under the new guidance, lessees will be required to recognize the following for all leases, with the exception of short-term leases, at the commencement date: (1) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. This update requires a modified retrospective transition as of the beginning of the earliest comparative period presented in the financial statements. This update is effective for public companies for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with early adoption permitted. We are currently evaluating the impact of this guidance on our financial statements.

In November 2015, the FASB issued an update to the existing guidance under the Income Taxes topic. The amendments in this update require that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The current requirement that deferred tax assets and liabilities of a tax-paying component of an entity be offset and presented as a single amount is not affected by these changes. This update is effective for periods beginning after December 15, 2016 with early application permitted. The Company elected to adopt this guidance in the fourth quarter of 2015. This update was applied on a prospective basis, as such prior year amounts have not been restated on a retrospective basis.

In September 2015, the FASB issued an update to the existing guidance under the Business Combinations topic. This update simplifies the accounting for measurement-period adjustments. The amendments in this update require that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. This update will be effective for all annual and interim periods beginning after December 15, 2015. The amendments in this update should be applied prospectively to adjustments to provisional amounts that occur after the effective date of this update with earlier application permitted for financial statements that have not been issued. The Company elected to adopt this guidance in the fourth quarter of 2015. As such, measurement period adjustments will be recognized in the period in which they are identified.

In July 2015 the FASB issued an update to the existing guidance under the Inventory topic of the Codification. This update changes the subsequent measurement of inventory from lower of cost or market to lower of cost and net realizable value. This guidance is effective for interim and annual reporting periods beginning after December 15, 2016. Early adoption of this guidance is permitted as of the beginning of an interim or annual reporting period. This guidance requires prospective application. We do not expect the adoption of this guidance to have an impact on our financial statements.

In April 2015 the FASB issued an update to the existing guidance under the Interest topic of the Codification. This update requires debt issuance costs to be presented on the balance sheet as a direct reduction from the carrying amount of the related debt liability instead of a deferred charge. This guidance is effective for interim and annual reporting periods beginning after December 15, 2015. This guidance requires retrospective application. Early adoption is permitted for financial statements that have not been previously issued. As described in Note 2 to the consolidated financial statements included in Item 8 of this annual report on Form 10-K the Company elected to adopt this guidance in the third quarter of 2015.

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

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

In May 2014, the FASB issued an update to the existing guidance under the Revenue Recognition topic of the Codification which is a comprehensive new revenue recognition model requiring a company to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This new guidance was originally effective for annual reporting periods beginning after December 15, 2016.

However, in July 2015 the FASB approved an optional one year deferral of the effective date to annual reporting periods beginning after December 15, 2017. As such, this guidance will be effective for us beginning on January 1, 2018. Early adoption is permitted; however, this guidance cannot be adopted earlier than the original effective date. This guidance allows either full retrospective or modified retrospective methods of adoption. We are currently evaluating the impact of this guidance on our financial statements.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

We may experience changes in interest expense if changes in our debt occur. Changes in market interest rates could also affect our interest expense. Our 2021 notes and our 2023 notes bear interest at a fixed rate, therefore, our interest expense related to the 2021 notes and 2023 notes would not be affected by an increase in market interest rates. Borrowings under the 2015 facility and the 2015 term loan bear interest at either a base rate or eurodollar rate, plus, in each case, an applicable margin. At December 31, 2015, a 1.0% increase in interest rates would result in approximately $0.6 million in additional interest expense annually as we had $60.0 million in outstanding borrowings under the 2015 facility. The 2015 facility also assesses variable commitment and outstanding letter of credit fees based on quarterly average loan utilization. At December 31, 2015, a 1.0% increase in interest rates on the 2015 term loan would result in approximately $3.7 million in additional interest expense annually.

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 impact our operating results.

Item 8. Financial Statements and Supplementary Data

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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 income (loss), stockholders' equity and cash flows present fairly, in all material respects, the financial position of Builders FirstSource, Inc. and its subsidiaries at December 31, 2015 and December 31, 2014, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2015 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, 2015, based on criteria established in Internal Control - Integrated Framework (2013) 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.

As described in Management's report on Internal Control over Financial Reporting, management has excluded ProBuild Holdings, LLC from its assessment of internal control over financial reporting as of December 31, 2015 because it was acquired by the Company in a purchase business combination during 2015. We have also excluded ProBuild Holdings, LLC from our audit of internal control over financial reporting. ProBuild Holdings, LLC is a wholly-owned subsidiary whose total assets and total revenues represent 56 percent and 52 percent, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2015.

/s/ PricewaterhouseCoopers LLP

Dallas, Texas

March 11, 2016

BUILDERS FIRSTSOURCE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

	Years Ended December 31,		
	2015	2014	2013
	(In thousands, except per share amounts)		
Sales	$3,564,425	$1,604,096	$1,489,892
Cost of sales	2,662,967	1,247,099	1,169,972
Gross margin	901,458	356,997	319,920
Selling, general and administrative expenses	810,841	306,979	271,878
Income from operations	90,617	50,018	48,042
Interest expense, net	109,199	30,349	89,638
Income (loss) from continuing operations before income taxes	(18,582)	19,669	(41,596)
Income tax expense	4,387	1,111	769
Income (loss) from continuing operations	(22,969)	18,558	(42,365)
Income (loss) from discontinued operations (net of income tax expense of $0 in 2015, 2014 and 2013)	138	(408)	(326)
Net income (loss)	$(22,831)	$18,150	$(42,691)
Comprehensive income (loss)	$(22,831)	$18,150	$(42,691)
Basic net income (loss) per share:			
Income (loss) from continuing operations	$(0.22)	$0.19	$(0.44)
Income (loss) from discontinued operations	0.00	(0.00)	(0.00)
Net income (loss)	$(0.22)	$0.19	$(0.44)
Diluted net income (loss) per share:			
Income (loss) from continuing operations	$(0.22)	$0.18	$(0.44)
Income (loss) from discontinued operations	0.00	(0.00)	(0.00)
Net income (loss)	$(0.22)	$0.18	$(0.44)
Weighted average common shares outstanding:			
Basic	103,190	98,050	96,449
Diluted	103,190	100,522	96,449

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

BUILDERS FIRSTSOURCE, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31, 2015	2014
	(In thousands, except per share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 65,063	$ 17,773
Accounts receivable, less allowances of $8,049 and $3,153 for 2015 and 2014, respectively	528,544	140,064
Other receivables	57,778	24,070
Inventories, net	513,045	138,156
Other current assets	29,899	11,477
Total current assets	1,194,329	331,540
Property, plant and equipment, net	734,329	75,679
Assets held for sale	5,585	1,395
Goodwill	739,625	139,774
Intangible assets, net	189,604	17,228
Other assets, net	18,566	8,449
Total assets	$ 2,882,038	$ 574,065
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Checks outstanding	$ 46,833	$ —
Accounts payable	365,347	74,427
Accrued liabilities	293,905	67,666
Current maturities of long-term debt and lease obligations	29,153	30,074
Total current liabilities	735,238	172,167
Long-term debt and lease obligations, net of current maturities, debt discount, and deferred loan costs	1,922,518	344,829
Deferred income taxes	11,502	6,441
Other long-term liabilities	63,585	10,428
Total liabilities	2,732,843	533,865
Commitments and contingencies (Note 14)		
Stockholders' equity:		
Preferred stock, $0.01 par value, 10,000 shares authorized; zero shares issued and outstanding at December 31, 2015 and 2014	—	—
Common stock, $0.01 par value, 200,000 shares authorized; 109,726 and 98,226 shares issued and outstanding at December 31, 2015 and 2014, respectively	1,097	982
Additional paid-in capital	511,802	380,091
Accumulated deficit	(363,704)	(340,873)
Total stockholders' equity	149,195	40,200
Total liabilities and stockholders' equity	$ 2,882,038	$ 574,065

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,		
	2015	2014	2013
	(In thousands)		
Cash flows from operating activities:			
Net income (loss)	$(22,831)	$18,150	$(42,691)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	58,280	9,519	9,305
Asset impairments	2,114	—	—
Amortization and write-off of deferred loan costs	18,630	2,432	4,067
Amortization and write-off of debt discount	299	—	7,794
Fair value adjustment of stock warrants	4,563	(456)	1,502
Deferred income taxes	3,287	524	917
Bad debt, net of recoveries	2,285	(274)	900
Net non-cash income from discontinued operations	—	—	(195)
Stock compensation expense	6,848	6,157	4,245
Net gain on sales of assets	(801)	(114)	(284)
Changes in assets and liabilities, net of assets acquired and liabilities assumed:			
Receivables	74,089	1,113	(25,592)
Inventories	46,854	(9,103)	(14,637)
Other current assets	(6,320)	(4,791)	(1,116)
Other assets and liabilities	5,314	(660)	(1,344)
Accounts payable and checks outstanding	(45,286)	(5,410)	1,332
Accrued liabilities	29,709	10,406	8,221
Net cash provided by (used in) operating activities	177,034	27,493	(47,576)
Cash flows from investing activities:			
Purchases of property, plant and equipment	(43,811)	(25,716)	(15,051)
Proceeds from sale of property, plant and equipment	4,275	213	2,592
Cash used for acquisitions, net	(1,468,511)	(69,337)	—
Decrease in restricted cash	—	—	13,030
Net cash provided by (used in) investing activities	(1,508,047)	(94,840)	571
Cash flows from financing activities:			
Borrowings under revolving credit facility	320,000	30,000	30,000
Payments under revolving credit facility	(290,000)	—	(30,000)
Proceeds from issuance of notes	700,000	—	350,000
Proceeds from term loan	594,000	—	—
Repayments of long-term debt and other loans	(4,213)	(67)	(364,778)
Payments of loan costs	(58,525)	(34)	(15,634)
Payment of recapitalization costs	—	—	(37)
Proceeds from public offering of common stock, net of issuance costs	111,309	—	—
Exercise of stock options	6,718	1,831	1,754
Repurchase of common stock	(986)	(1,306)	(1,036)
Net cash provided by (used in) financing activities	1,378,303	30,424	(29,731)

Net increase (decrease) in cash and cash equivalents	47,290	(36,923)	(76,736)
Cash and cash equivalents at beginning of period	17,773	54,696	131,432
Cash and cash equivalents at end of period	$65,063	$17,773	$54,696

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 Shares	Amount	Additional Paid in Capital	Accumulated Deficit	Total
	(In thousands)				
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
Vesting of restricted stock	—	6	(6)	—	—
Stock compensation expense	—	—	6,157	—	6,157
Exercise of stock options	492	5	1,826	—	1,831
Repurchase of common stock	(171)	(2)	(1,304)	—	(1,306)
Comprehensive income:					
Net income	—	—	—	18,150	18,150
Total comprehensive income	—	—	—	—	18,150
Balance at December 31, 2014	98,226	982	380,091	(340,873)	40,200
Issuance of common stock from public offering, net of issuance costs	9,200	92	111,217		111,309
Vesting of restricted stock units	495	5	(5)	—	—
Stock compensation expense	—	—	6,848	—	6,848
Exercise of stock options	1,388	14	6,704	—	6,718
Exercise of stock warrants	569	6	7,931	—	7,937
Repurchase of common stock	(152)	(2)	(984)	—	(986)
Comprehensive loss:					
Net loss	—	—	—	(22,831)	(22,831)
Total comprehensive loss	—	—	—	—	(22,831)
Balance at December 31, 2015	109,726	$ 1,097	$ 511,802	$ (363,704)	$ 149,195

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

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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 of building materials, manufactured components and construction services to professional contractors, sub-contractors, and consumers. Following our acquisition of ProBuild Holdings LLC (“ProBuild”) in July 2015, the company operates locations in 40 states across the United States.

In this annual report, references to the “Company,” “we,” “our,” “ours” or “us” refer to Builders FirstSource, Inc. and its consolidated subsidiaries (including ProBuild as of July 31, 2015), unless otherwise stated or the context otherwise requires.

2. Summary of Significant Accounting Policies

Balance Sheet Reclassification

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

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

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 generally accepted accounting principles (“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 with the percentage of completion method applied on a limited basis to certain contracts. Percentage of completion revenue represents less than 2% of our consolidated sales for each year presented. 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. The Company records sales incentives provided to customers as a reduction of revenue.

Cash and Cash Equivalents & Checks Outstanding

Cash and cash equivalents consist of cash on hand and all highly liquid investments with an original maturity date of three months or less. Also included in cash and cash equivalents are proceeds due from credit card transactions that generally settle within two business days. We maintain cash at financial institutions in excess of federally insured limits. Further, we maintain various banking relationships with different financial institutions. Accordingly, when there is a negative book cash balance resulting from outstanding checks that had not yet been paid by any single financial institution; they are reflected in checks outstanding on the accompanying consolidated balance sheets.

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 were measured at fair value on a recurring basis until exercised in 2015 as discussed in Note 8.

Accounts Receivable

We extend credit to qualified professional homebuilders and contractors, in many cases on a non-collateralized basis. Accounts receivable potentially expose us to concentrations of credit risk. Because our 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, local homebuilders and repair and remodeling contractors. For the year ended December 31, 2015, our top 10 customers accounted for approximately 17.0% of our sales, and no single customer accounted for more than 5% of sales.

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. Other receivables consist primarily of vendor rebates receivable.

We also establish reserves for credit memos and customer returns. The reserve balance was $3.8 million, $1.4 million, and $1.2 million at December 31, 2015, 2014, and 2013, respectively. The activity in this reserve was not significant for each year presented.

Accounts receivable consisted of the following at December 31:

	2015	2014
	(In thousands)	
Accounts Receivable	$536,593	$143,217
Less: allowance for returns and doubtful accounts	8,049	3,153
Accounts receivable, net	$528,544	$140,064

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

	2015	2014	2013

	(In thousands)		
Balance at January 1,	$1,734	$2,413	$1,864
Additions	2,285	(274)	900
Deductions (write-offs, net of recoveries)	226	(405)	(351)
Balance at December 31,	$4,245	$1,734	$2,413

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 shrink based on the actual historical shrink 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 six 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.

We source products from a large number of suppliers. No materials purchased from any single supplier represented more than 7% of our total materials purchased in 2015.

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 income (loss) and totaled $171.9 million, $79.7 million and $71.1 million in 2015, 2014 and 2013, respectively.

Income Taxes

We account for income taxes utilizing the liability method described in the Income Taxes topic of the 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 associated with term debt are presented as a reduction to long-term debt. Loan costs associated with revolving debt arrangements are presented as a component of other assets. Loan costs incurred in connection with revolving debt arrangements are amortized using the straight-line method. Loan costs incurred in connection with term debt are generally amortized using 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. Internal use computer software costs are included in machinery and equipment and generally depreciated using the straight-line method over the estimated useful lives of the assets, generally three years.

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. Nonoperating assets primarily related to land and building real estate assets associated with location closures that are actively being marketed for sale within a year are classified as assets held for sale and recorded at fair value, usually the quoted market price obtained from an independent third-party less the cost to sell. Until the assets are sold, an estimate of the fair value is reassessed at each reporting period. Net gains or losses related to the sale of real estate and equipment or impairment adjustments related to assets held for sale 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 income (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 Income (Loss) per Common Share

Net income (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:

	2015	2014	2013
	(In thousands)		
Weighted average shares for basic EPS	103,190	98,050	96,449
Dilutive effect of options, warrants, and RSUs	—	2,472	—
Weighted average shares for diluted EPS	103,190	100,522	96,449

Our restricted stock shares include rights to receive dividends that are not subject to the risk of forfeiture even if the underlying restricted stock shares on which the dividends were paid do not vest. In accordance with the Earnings Per Share topic of the Codification, unvested share-based payment awards that contain non-forfeitable rights to dividends are deemed participating securities and should be considered in the calculation of basic EPS. Since the restricted stock shares do not include an obligation to share in losses, they will be included in our basic EPS calculation in periods of net income and excluded from our basic EPS calculation in periods of net loss. Accordingly, there were 13,000 restricted stock shares excluded from the computation of basic EPS in 2015 because we generated a net loss. There were 27,000 restricted stock shares included in our basic EPS calculation for 2014 as we generated net income. There were 610,000 restricted stock shares excluded from the computation of basic EPS in 2013 because we generated a net loss.

For the purpose of computing diluted EPS, options to purchase 4,998,000 shares of common stock and 1,516,000 restricted stock units ("RSUs") were not included in the computation of diluted EPS for 2015 because their effect was anti-dilutive. Incremental shares attributable to average warrants outstanding during 2015 were not included in the computation of diluted EPS for 2015 as their effect was anti-dilutive. There were no warrants outstanding at December 31, 2015 as all of the remaining warrants were exercised in April 2015. Weighted average shares outstanding have been adjusted for common shares underlying 6,246,000 options, 700,000 warrants, and 1,855,000 restricted stock units ("RSUs") for 2014. In addition, $0.5 million of income due to fair value adjustments related to the warrants was excluded from net income in the computation of diluted EPS for 2014. Options to purchase 4,933,000 shares of common stock were not included in the computations of diluted EPS in 2013 because their effect was anti-dilutive. Warrants to purchase 700,000 shares of common stock were not included in the computations of diluted EPS in 2013 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 four stock-based employee compensation plans, which are described more fully in Note 10. We issue new common stock shares upon exercises of stock options, grants of restricted stock, and vesting of RSUs.

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:

	2015	2014
Expected life	6.0 years	5.8 years
Expected volatility	75.2%	92.1%
Expected dividend yield	0.00%	0.00%
Risk-free rate	1.75%	1.83%

The expected life represents the period of time the options are expected to be outstanding. We used the simplified method for determining the expected life assumption due to limited historical exercise experience on our stock options. The expected volatility is based on the historical volatility of our common stock over the most recent period equal to the expected life of the option. The expected dividend yield is based on our history of not paying regular dividends in the past and our current intention to not pay regular dividends in the foreseeable future. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant and has a term equal to the expected life of the options. We did not grant any stock option awards in 2013.

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 as discussed in Note 8.

We have elected to report the value of our 7.625% senior secured notes due 2021 (“2021 notes”), our 10.75% senior unsecured notes due 2023 (“2023 notes”), and the $600.0 million term loan credit agreement (“2015 term loan”) at amortized cost. The fair values of the 2021 notes, the 2023 notes, and the 2015 term loan at December 31, 2015 were approximately $372.3 million, $698.3 million and $591.1 million respectively, and were determined using Level 2 inputs based on market prices.

Supplemental Cash Flow Information

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

	2015	2014	2013
	(In thousands)		
Cash payments for interest	$55,028	$28,338	$