

BEACON ROOFING SUPPLY INC
Form 10-Q
May 09, 2008

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

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2008

OR

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

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NO.: 000-50924

BEACON ROOFING SUPPLY, INC.

(Exact name of Registrant as specified in its charter)

DELAWARE

(State or other jurisdiction of
incorporation or organization)

36-4173371

(I.R.S. Employer
Identification No.)

One Lakeland Park Drive,
Peabody, Massachusetts

(Address of principal executive offices)

01960

(Zip Code)

978-535-7668

(Registrant's telephone number, including area code)

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

company)

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

As of May 1, 2008, there were 44,281,312 outstanding shares of the registrant's common stock, \$.01 par value per share.

BEACON ROOFING SUPPLY, INC.
Form 10-Q
For the Quarter Ended March 31, 2008
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BEACON ROOFING SUPPLY, INC.
PART I. FINANCIAL INFORMATION

Item 1. Financial Statements
Consolidated Balance Sheets

| | (Unaudited) March 31, 2008 | (Unaudited) March 31, 2007 | (Note) September 30, 2007 |
|---|----------------------------------|----------------------------------|---------------------------------|
| (Dollars in thousands) | | | |
| Assets | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 10,574 | \$ 43,315 | \$ 6,469 |
| Accounts receivable, less allowance of \$10,925 at March 31, 2008, \$6,142 at March 31, 2007, and \$7,970 at September 30, 2007 | 173,039 | 152,318 | 267,563 |
| Inventories | 194,551 | 178,804 | 165,848 |
| Prepaid expenses and other assets | 26,545 | 32,034 | 34,509 |
| Deferred income taxes | 19,276 | 12,046 | 13,196 |
| Total current assets | 423,985 | 418,517 | 487,585 |
| Property and equipment, net | 61,384 | 68,211 | 69,753 |
| Goodwill | 354,727 | 288,816 | 355,155 |
| Other assets, net | 85,886 | 60,887 | 94,167 |
| Total assets | \$ 925,982 | \$ 836,431 | \$ 1,006,660 |
| Liabilities and stockholders' equity | | | |
| Current liabilities: | | | |
| Accounts payable | \$ 128,386 | \$ 106,925 | \$ 183,257 |
| Accrued expenses | 60,262 | 47,920 | 54,020 |
| Current portion of long-term obligations | 12,828 | 6,454 | 34,773 |
| Total current liabilities | 201,476 | 161,299 | 272,050 |
| Senior notes payable, net of current portion | 341,250 | 345,625 | 343,000 |
| Deferred income taxes | 36,450 | 19,009 | 36,490 |
| Long-term obligations under equipment financing and other, net of current portion | 30,801 | 12,903 | 31,270 |
| Commitments and contingencies | | | |
| Stockholders' equity: | | | |
| Common stock (voting); \$.01 par value; 100,000,000 shares authorized; 44,281,312 issued in March of 2008, 44,236,142 in March of 2007 and 44,273,312 issued in September of 2007 | 443 | 442 | 443 |
| | - | - | - |

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Undesignated preferred stock; 5,000,000 shares
authorized, none issued or outstanding

| | | | |
|---|-------------------|-------------------|---------------------|
| Additional paid-in capital | 214,188 | 208,914 | 211,567 |
| Retained earnings | 103,749 | 83,827 | 106,640 |
| Accumulated other comprehensive income (loss) | (2,375) | 4,412 | 5,200 |
| Total stockholders' equity | 316,005 | 297,595 | 323,850 |
| Total liabilities and stockholders' equity | \$ 925,982 | \$ 836,431 | \$ 1,006,660 |

Note: The balance sheet at September 30, 2007
has been derived from the audited financial statements at that date.

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

BEACON ROOFING SUPPLY, INC.
Consolidated Statements of Operations

| | Three Months Ended March 31, | | Six Months Ended March 31, | |
|--|------------------------------|------------|----------------------------|------------|
| | 2008 | 2007 | 2008 | 2007 |
| Unaudited | | | | |
| (Dollars in thousands, except per share data) | | | | |
| Net sales | \$ 304,251 | \$ 286,945 | \$ 702,647 | \$ 667,154 |
| Cost of products sold | 235,859 | 220,777 | 542,561 | 509,252 |
| Gross profit | 68,392 | 66,168 | 160,086 | 157,902 |
| Operating expenses | 75,332 | 70,394 | 151,249 | 141,066 |
| Income (loss) from operations | (6,940) | (4,226) | 8,837 | 16,836 |
| Interest expense | 6,728 | 6,381 | 13,737 | 12,709 |
| Income (loss) before income taxes | (13,668) | (10,607) | (4,900) | 4,127 |
| Income tax expense (benefit) | (5,536) | (4,268) | (2,009) | 1,661 |
| Net income (loss) | \$ (8,132) | \$ (6,339) | \$ (2,891) | \$ 2,466 |
| Net income (loss) per share: | | | | |
| Basic | \$ (0.18) | \$ (0.14) | \$ (0.07) | \$ 0.06 |
| Diluted | \$ (0.18) | \$ (0.14) | \$ (0.07) | \$ 0.05 |
| Weighted average shares used in computing net income (loss) per share: | | | | |
| Basic | 44,280,600 | 43,927,745 | 44,276,916 | 43,898,332 |
| Diluted | 44,280,600 | 43,927,745 | 44,276,916 | 44,874,694 |

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

BEACON ROOFING SUPPLY, INC.

Notes to Condensed Consolidated Financial Statements (Unaudited)

1. Basis of Presentation

Beacon Roofing Supply, Inc. (the "Company") prepared the consolidated financial statements following accounting principles generally accepted in the United States (GAAP) for interim financial information and the requirements of the Securities and Exchange Commission (SEC). As permitted under those rules, certain footnotes or other financial information required by GAAP for complete financial statements have been condensed or omitted. The balance sheet as of March 31, 2007 has been presented for a better understanding of the impact of seasonal fluctuations on the Company's financial condition. Certain prior-year amounts have been reclassified to conform to the current-year presentation.

In management's opinion, the financial statements include all normal and recurring adjustments that are considered necessary for the fair presentation of the Company's financial position and operating results. The results for the three-month period (second quarter) and the six-month period ended March 31, 2008 are not necessarily indicative of the results to be expected for the twelve months ending September 30, 2008 ("2008").

The Company's fiscal year ends in September of each year. Each of the Company's 2008 and 2007 quarters ends or ended on the last day of the respective third calendar month. Both this year's and last year's second quarter had 64 business days, while the six-month periods ended March 31, 2008 and March 31, 2007 both had 125 business days.

During the first quarter of 2007, the Company refinanced its prior credit facilities and invested the associated excess funds in a money market account, which were classified as cash equivalents. The Company considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents. Cash and cash equivalents also include unsettled credit card transactions.

You should also read the financial statements and notes included in the Company's 2007 Annual Report on Form 10-K. The accounting policies used in preparing these financial statements are the same as those described in that Annual Report.

Accounting Change

Prior to October 1, 2007, the Company recognized income tax accruals with respect to uncertain tax positions based upon Statement of Financial Accounting Standards ("SFAS") No. 5, "Accounting for Contingencies." Under SFAS No. 5, the Company recorded a liability (including interest and penalties) associated with an uncertain tax position if the liability was both probable and estimable.

Effective October 1, 2007, the Company adopted Financial Accounting Standards Board (FASB) Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109," which clarifies the accounting for uncertainty in income taxes recognized in financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes" and requires expanded disclosure with respect to the uncertainty in income taxes. This Interpretation seeks to reduce the diversity in practice associated with certain aspects of measurement and recognition in accounting for income taxes.

The Company is subject to U.S. federal income tax and to income tax of multiple state jurisdictions. The Company is open to tax audits in the various jurisdictions until the respective statutes of limitations expire. The Company is no longer subject to U.S. federal tax examinations for tax years prior to 2004. For the majority of states, the Company is no longer subject to tax examinations for tax years before 2004. In connection with the adoption of

FIN No. 48, the Company analyzed its filing positions in all of the federal and state jurisdictions where it is required to file income tax returns, as

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BEACON ROOFING SUPPLY, INC.**Notes to Consolidated Financial Statements (Unaudited) (Continued)****1. Basis of Presentation (Continued)**

well as all open tax years in these jurisdictions. There was no material impact on the consolidated financial statements upon adoption of FIN No. 48.

As of October 1, 2007, the total amount of gross unrecognized tax benefits (excluding the federal benefit received from state positions) was \$168,000. Of this total, \$109,000 (net of the federal benefit received from state positions) represents the amount of unrecognized tax benefits that, if recognized, would affect the Company's effective tax rate. The Company's continuing practice is to recognize interest and penalties related to income tax matters in income tax expense in the consolidated statements of operations. There were no significant accrued interest and penalty amounts resulting from such unrecognized tax benefits at October 1, 2007. The Company does not anticipate a significant change in its unrecognized tax benefits during the next twelve months.

2. Earnings Per Share

The Company calculates basic income (loss) per share by dividing net income (loss) by the weighted-average number of common shares outstanding. Diluted net income per share includes the dilutive effects of outstanding stock awards. The calculations of the net loss per share for the second quarters of 2008 and 2007 and for the six months ended March 31, 2008 do not include the effects of stock options since the impact would be anti-dilutive.

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

| | Three Months Ended March 31, | | Six Months Ended March 31, | |
|--|-------------------------------------|-------------|-----------------------------------|-------------|
| | 2008 | 2007 | 2008 | 2007 |
| Weighted-average common shares outstanding for basic | 44,280,600 | 43,927,745 | 44,276,916 | 43,898,332 |
| Dilutive effect of employee stock options | - | - | - | 976,362 |
| Weighted-average shares assuming dilution | 44,280,600 | 43,927,745 | 44,276,916 | 44,874,694 |

3. Stock-Based Compensation

The Company records stock-based compensation under Statement of Financial Accounting Standards ("SFAS") 123R, *Share-Based Payments*, using the modified-prospective transition method. Under this method, compensation expense recognized in 2008 and 2007 included: (a) compensation cost for all unvested share-based awards granted prior to adoption of SFAS 123R, based on the grant date fair value estimated in accordance with SFAS 123, *Accounting For Stock-Based Compensation*, and (b) compensation cost for all subsequent share-based awards granted subsequent to September 24, 2005, based on the grant date fair value estimated in accordance with SFAS 123R. SFAS 123R also requires the Company to estimate forfeitures in calculating the expense related to stock-based compensation.

Compensation cost arising from stock options granted to employees and non-employee directors is recognized as an expense using the straight-line method over the vesting period. As of March 31, 2008, there was \$7.0 million of total unrecognized compensation cost related to stock options. That cost is expected to be recognized over a

weighted-average period of 2.0 years. The Company recorded stock-based compensation expense of \$1.2 million (\$0.7 million net of tax) and \$1.3 million (\$0.8 million net of tax) for the three months ended March 31, 2008 and 2007, respectively, and \$2.6 million (\$1.6 million net of tax) for both six-month periods ended March 31, 2008 and 2007.

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BEACON ROOFING SUPPLY, INC.**Notes to Consolidated Financial Statements (Unaudited) (Continued)****3. Stock-Based Compensation (Continued)**

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for grants issued in the first two quarters of 2008 and 2007:

| | Six Months Ended March 31, | |
|-------------------------|-----------------------------------|-----------------|
| | 2008 | 2007 |
| Risk free interest rate | 2.79 - 4.08% | 4.52 - 4.81% |
| Expected life | 6.0 years | 5.0 years |
| Expected volatility | 45% | 45% |
| Expected dividend yield | 0% | 0% |

Expected lives of the options granted and expected volatilities are based on the expected lives and historical volatilities of the options and stocks of comparable public companies and other factors. Estimated cumulative forfeiture rates of 0%-12% were used for expensing the fair value of unvested options during both of the periods above.

The following table summarizes stock options outstanding as of March 31, 2008, as well as activity during the six months then ended:

| | Shares | Weighted-Average Exercise Price | Average Remaining Contractual Life (Years) | Aggregate Intrinsic Value (in Millions) |
|---|---------------|--|---|--|
| Outstanding at September 30, 2007 | 3,045,120 | \$ 12.15 | | |
| Granted | 748,523 | 9.33 | | |
| Exercised | (8,000) | 1.87 | | |
| Forfeited | (77,605) | 17.73 | | |
| Outstanding at March 31, 2008 | 3,708,038 | \$ 11.48 | 7.15 | \$ 9.7 |
| Vested and expected to vest at March 31, 2008 | 3,628,270 | \$ 11.41 | 7.11 | \$ 9.7 |
| Exercisable at March 31, 2008 | 2,378,570 | \$ 9.65 | 6.11 | \$ 9.2 |

As of March 31, 2008, there were remaining options to purchase 2,408,004 shares of common stock available for grants under the Company's Amended and Restated 2004 Stock Plan (inclusive of 1,750,000 additional shares approved by stockholders under the plan on February 7, 2008). The weighted-average grant date fair values of stock options granted during the six months ended March 31, 2008 and 2007 were \$4.54 and \$10.07, respectively. The intrinsic values of stock options exercised during the six months ended March 31, 2008 and March 31, 2007 were \$0.1 and \$5.2 million, respectively. At March 31, 2008, the Company had \$10.3 million of excess tax benefits available for potential deferred tax write-offs related to option accounting.

BEACON ROOFING SUPPLY, INC.**Notes to Consolidated Financial Statements (Unaudited) (Continued)****4. Comprehensive Income**

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

| Unaudited (Dollars in thousands, except per share data) | Three Months Ended March 31, | | Six Months Ended March 31, | |
|--|------------------------------|------------|----------------------------|----------|
| | 2008 | 2007 | 2008 | 2007 |
| Net income (loss) | \$ (8,132) | \$ (6,339) | \$ (2,891) | \$ 2,466 |
| Foreign currency translation adjustment, net of tax effect | (953) | 325 | (878) | (1,128) |
| Unrealized loss on financial derivatives, net of tax effect | (4,253) | (396) | (6,697) | (396) |
| Comprehensive income (loss) | \$ (13,338) | \$ (6,410) | \$ (10,466) | \$ 942 |

5. Acquisitions***North Coast Commercial Roofing Systems, Inc.***

On April 2, 2007, the Company purchased 100% of the outstanding stock of North Coast Commercial Roofing Systems, Inc. and certain of its subsidiaries and affiliates (together "North Coast"), a Twinsburg, Ohio-based distributor of commercial roofing systems and related accessories, with 16 locations in eight U.S. states at the time of the acquisition. North Coast has branches in Ohio, Illinois, Indiana, Kentucky, Michigan, New York, Pennsylvania and West Virginia. This purchase was funded with cash on hand along with funds borrowed under the Company's U.S. revolving line of credit. North Coast had net sales of \$235 million (unaudited) for the year ended March 31, 2006. A total of \$8.0 million of cash remains in escrow at March 31, 2008 for post-closing indemnification claims and is included in other long-term assets and liabilities. The Company has included the results of operations for North Coast from the date of acquisition and applied purchase accounting, which, along with certain purchase price adjustments, resulted in recorded goodwill of \$62.3 million as per below (in 000's). The Company finalized the purchase accounting in the second quarter of 2008.

| | |
|---------------------------------------|-----------|
| Accounts receivable | \$ 31,706 |
| Inventories | 13,349 |
| Prepaid expenses and other | 982 |
| Property and equipment | 4,150 |
| Deferred taxes | (10,400) |
| Accounts payable and accrued expenses | (19,189) |
| Net assets | 20,598 |
| Non-compete | 3,300 |
| Customer relationships | 29,550 |

| | |
|----------------|------------|
| Goodwill | 62,282 |
| Purchase price | \$ 115,730 |

BEACON ROOFING SUPPLY, INC.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

5. Acquisitions (Continued)

Other Recent Acquisitions

On May 18, 2007, the Company purchased certain assets of Wholesale Roofing Supply ("WRS"), a single location distributor of residential and commercial roofing products located in Knoxville, Tennessee.

6. Debt

The Company currently has the following credit facilities:

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

Senior Secured Credit Facilities

On November 2, 2006, the Company entered into an amended and restated seven-year \$500 million U.S. senior secured credit facility and a C\$15 million senior secured Canadian credit facility with GE Antares Capital ("GE Antares") and a syndicate of other lenders (combined, the "Credit Facility"). The Credit Facility consists of a U.S. revolving credit facility of \$150 million, which includes a sub-facility of \$20 million for letters of credit, and an initial \$350 million term loan (the "Term Loan"). The Credit Facility also includes a C\$15 million senior secured revolving credit facility provided by GE Canada Finance Holding Company. As of March 31, 2008, the Company was in compliance with the covenants under the Credit Facility. Substantially all of the Company's assets, including the capital stock and assets of wholly-owned subsidiaries, secure obligations under the Credit Facility.

Equipment Financing Facilities

The Company has two equipment financing facilities that allow for the financing of purchased transportation and material handling equipment totaling \$32.9 million with \$6.4 million of remaining availability as of March 31, 2008. There was \$26.5 million of equipment financing loans outstanding at March 31, 2008, with fixed interest rates ranging from 4.7% to 7.4%.

BEACON ROOFING SUPPLY, INC.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

7. Foreign Sales

Foreign (Canadian) sales totaled \$38.2 and \$38.1 million in the six months ended March 31, 2008 and March 31, 2007, respectively.

8. Financial Derivatives

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

The Company is using interest rate derivative instruments to manage the risk of interest rate changes by converting a portion of its variable-rate borrowings into fixed-rate borrowings. There were interest rate derivative instruments outstanding in a total notional amount of \$300 million at March 31, 2008, which consisted of: a) interest rate swaps totaling \$200 million, expiring in April 2010, with a fixed rate of 4.97%; b) a \$50 million interest rate collar expiring in April 2010 with a floor rate of 3.99% and a cap rate of 5.75%; and c) a \$50 million interest rate collar expiring in April 2010 with a floor rate of 3.75% and a cap rate of 6.00%. The combined fair market value of the agreements resulted in a recorded liability of approximately \$13.3 million at March 31, 2008, which was determined based on current interest rates and expected future trends. The Company entered into

BEACON ROOFING SUPPLY, INC.

Notes to Consolidated Financial Statements (Unaudited) (Continued)

8. Financial Derivatives (Continued)

these instruments during the second quarter of 2007 and cancelled the prior interest rate derivative instruments that had notional amounts totaling \$150 million. The current derivative instruments are designated as cash flow hedges, for which the Company records the effective portions of changes in their fair value, net of tax, in other comprehensive income (Note 4). Any ineffective portion of the hedges is recognized in earnings, of which there has been none to date. The prior derivative instruments were not designated as hedges and therefore changes in their fair values were recorded in interest expense.

9. Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* ("SFAS 157"), which addresses how fair value should be measured when required for recognition or disclosure purposes under GAAP. It also establishes a fair value hierarchy and will require expanded disclosures on fair value measurements where applicable. SFAS 157 is effective for the Company in the fiscal year beginning October 1, 2008. The Company has not completed assessing the impact that SFAS 157 will have on its consolidated financial statements, although the impact is not currently expected to be material.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115* ("SFAS 159"). SFAS 159 permits companies to measure many financial instruments and certain other items at fair value at specified election dates. SFAS 159 will be effective for the Company in the fiscal year beginning October 1, 2008. The Company has not completed assessing the impact that the adoption of SFAS 159 will have on its consolidated financial statements, although the impact is not currently expected to be material.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* ("SFAS 141R") and SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51* ("SFAS 160"). These new standards will significantly change the accounting for and reporting of business combination transactions and noncontrolling (minority) interests in consolidated financial statements. SFAS 141R and SFAS 160 are required to be adopted simultaneously and are effective for the first annual reporting period beginning on or after December 15, 2008. Earlier adoption is prohibited. The Company believes the adoption of SFAS 141R will have a significant impact on the accounting for future acquisitions. The adoption of SFAS 160 is not expected to have a material impact on the financial statements.

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

You should read the following discussion in conjunction with Management's Discussion and Analysis included in our 2007 Annual Report on Form 10-K. Unless otherwise specifically indicated, all references to "2008" and "YTD 2008" refer to the three months (second quarter) and six months (year-to-date) ended March 31, 2008, respectively, of our fiscal year ending September 30, 2008, and all references to "2007" and "YTD 2007" refer to the three months (second quarter) and six months (year-to-date) ended March 31, 2007, respectively, of our fiscal year ended September 30, 2007. Certain tabular information may not foot due to rounding.

Overview

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

We distribute up to 10,000 SKUs through 177 branches in the United States and Canada. We had 2,431 employees as of March 31, 2008, including our sales and marketing team of 964 employees.

In fiscal year 2007, approximately 94% of our net sales were in the United States. We stock one of the most extensive assortments of high-quality branded products in the industry, enabling us to deliver products to our customers on a timely basis.

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

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

As a result of the slowdown in our business and throughout the roofing and construction industries, we have not recently opened any new branches or made any acquisitions and we have no current plans to open new branches or make acquisitions in the near future until the business environment improves. We may have sufficient capacity within our existing branch structure to adequately serve new customers that new branch openings would otherwise bring at this time and to also service any growth with our existing customers. We are also foregoing acquisitions to maintain desired debt levels and due to more uncertain outlooks for the acquisition targets within our industry.

Results of Operations

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

| | Three Months Ended March 31, | | Six Months Ended March 31, | |
|-----------------------------------|-------------------------------------|-------------|-----------------------------------|-------------|
| | 2008 | 2007 | 2008 | 2007 |
| Net sales | 100.0% | 100.0% | 100.0% | 100.0% |
| Cost of products sold | 77.5 | 76.9 | 77.2 | 76.3 |
| Gross profit | 22.5 | 23.1 | 22.8 | 23.7 |
| Operating expenses | 24.8 | 24.5 | 21.5 | 21.1 |
| Income (loss) from operations | (2.3) | (1.5) | 1.3 | 2.5 |
| Interest expense | (2.2) | (2.2) | (2.0) | (1.9) |
| Income (loss) before income taxes | (4.5) | (3.7) | (0.7) | 0.6 |
| Income tax (expense) benefit | 1.8 | 1.5 | 0.3 | (0.2) |
| Net income (loss) | (2.7)% | (2.2)% | (0.4)% | 0.4% |

In managing our business, we consider all growth, including the opening of new branches, to be internal (organic) growth unless it results from an acquisition. When we refer to growth in existing markets or internal growth in our discussion and analysis of financial condition and results of operations, we include growth from existing and newly opened branches but exclude growth from acquired branches until they have been under our ownership for at least four full fiscal quarters at the start of the fiscal reporting period. At March 31, 2008, we had a total of 177 branches in operation. For 2008 and YTD 2008, 160 of those current branches, along with two branches closed in October 2007 and February 2008, were included in our existing market calculations, while the other 17 current branches were excluded because they were acquired after the quarter ended March 31, 2007. Acquired markets for 2008 include North Coast and Wholesale Roofing Supply. Percentages in the tables below may not foot due to rounding.

Three Months Ended March 31, 2008 ("2008") Compared to the Three Months Ended March 31, 2007 ("2007")

Existing and Acquired Markets

**For the Three Months Ended
(Dollars in thousands)**

| | Existing Markets | | Acquired Markets | | Consolidated | |
|--------------|-------------------------|-------------|-------------------------|-------------|---------------------|-------------|
| | March 31, | | March 31, | | March 31, | |
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Net Sales | \$ 267,802 | \$ 286,945 | \$ 36,449 | \$ - | \$ 304,251 | \$ 286,945 |
| Gross Profit | 62,027 | 66,168 | 6,365 | - | 68,392 | 66,168 |

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| | | | | | | |
|---|------------|------------|------------|------|------------|------------|
| Gross Margin | 23.2% | 23.1% | 17.5% | | 22.5% | 23.1% |
| Operating Expenses | 65,653 | 70,394 | 9,679 | - | 75,332 | 70,394 |
| Operating Expenses as a % of Net Sales | 24.5% | 24.5% | 26.6% | | 24.8% | 24.5% |
| Operating Loss | \$ (3,626) | \$ (4,226) | \$ (3,314) | \$ - | \$ (6,940) | \$ (4,226) |
| Operating Margin | -1.4% | -1.5% | -9.1% | | -2.3% | -1.5% |

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Net Sales

Consolidated net sales increased \$17.3 million, or 6.0%, to \$304.3 million in 2008 from \$286.9 million in 2007. Both this year's and last year's second quarter had 64 business days. Existing market sales declined \$19.1 million or 6.7%, while acquired markets contributed an increase of \$36.4 million. We attribute the existing market sales decline primarily to the following factors:

- a continued decline in residential construction, especially in the mid-Atlantic and Southeastern states; and
- to a lesser extent, the general slowing of residential remodeling and re-roofing in our markets;

partially offset by the positive impact of:

- increased non-residential roofing activity in most markets; and
- four new branches opened in existing markets since March 31, 2007.

We closed one branch in our existing markets during the second quarter of 2008 and opened three branches in existing markets during the second quarter of 2007. For 2008, our acquired markets had combined product group sales of \$3.9, \$31.2 and \$1.4 million in residential roofing products, non-residential roofing products and complementary building products, respectively, while the product group sales for our existing markets were as follows:

Existing Markets

For the Three Months Ended

| | March 31, 2008 | | March 31, 2007 | | Change | |
|----------------------------------|------------------------|--------|----------------|--------|-------------|--------|
| | Sales | Mix | Sales | Mix | | |
| | (dollars in thousands) | | | | | |
| Residential roofing products | \$ 120,558 | 45.0% | \$ 134,678 | 46.9% | \$ (14,120) | -10.5% |
| Non-residential roofing products | 85,644 | 32.0% | 82,210 | 28.7% | 3,434 | 4.2 |
| Complementary building products | 61,600 | 23.0% | 70,057 | 24.4% | (8,457) | -12.1 |
| | \$ 267,802 | 100.0% | \$ 286,945 | 100.0% | \$ (19,143) | -6.7% |

Note: Total 2008 existing market sales of \$267.8 million plus 2008 sales from acquired markets of \$36.4 million equal \$304.3 million of total 2008 sales. Our total 2007 sales of \$286.9 million are now classified as sales from existing markets. We believe the existing market information is useful to investors because it helps explain organic growth or decline.

Gross Profit

For the Three Months Ended

| | March 31, 2008 | March 31, 2007 | Change |
|--|-----------------------|-------------------|--------|
| | (dollars in millions) | | |
| | | | |

| | | | | | | | |
|------------------|----|-------|----|-------|----|-------|-------|
| Gross profit | \$ | 68.4 | \$ | 66.2 | \$ | 2.2 | 3.3% |
| Existing Markets | | 62.0 | | 66.2 | \$ | (4.1) | -6.3% |
| Gross margin | | 22.5% | | 23.1% | | | -0.6% |
| Existing Markets | | 23.2% | | 23.1% | | | 0.1% |

Our existing markets' gross profit declined \$4.1 million or 6.3% in 2008, while our acquired markets' gross profit was \$6.4 million. Existing markets' gross margin increased to 23.2% in 2008 from 23.1% in 2007. The increase in gross margin was caused primarily by favorable buying programs offered by some of our vendors this year for certain high-volume items, especially residential asphalt shingles. Our existing market gross margin in 2008 excluding vendor incentives, which represents our invoiced gross margin, was down 50 basis points from 2007.

The decrease was caused partly by an increase of non-residential roofing products in our product mix, which have substantially lower gross margins, and a slightly more competitive non-residential market, partially offset by improving invoiced gross margins on our residential roofing products. Our overall gross margin decreased to 22.5% from 23.1% due primarily from an increased sales mix of the traditionally lower gross margin non-residential roofing, mainly due to the addition of North Coast which sells mostly non-residential roofing.

Operating Expenses

For the Three Months Ended

| | March 31, 2008 | March 31, 2007 | Change (dollars in millions) | |
|------------------------------------|-------------------|-------------------|---------------------------------|-------|
| Operating expenses | \$ 75.3 | \$ 70.4 | \$ 4.9 | 7.0% |
| Existing Markets | 65.7 | 70.4 | (4.7) | -6.7% |
| Operating expenses as a % of sales | 24.8% | 24.5% | 0.3% | |
| Existing Markets | 24.5% | 24.5% | 0.0% | |

Our existing markets' operating expenses declined by \$4.7 million or 6.7% to \$65.7 million in 2008 from \$70.4 million in 2007, while our acquired markets' operating expenses totaled \$9.7 million. The following factors were the leading causes of our lower existing market operating expenses:

- payroll and related costs decreased by \$3.0 million primarily from a lower headcount, offset somewhat by less favorable medical insurance claims and costs at our four new branches;
- savings of \$1.1 million in selling, warehouse and general and administrative expenses from cost-saving measures in many areas and also from allocations to our acquired markets; and
 - reduced depreciation and amortization of \$0.6 million due to lower amortization amounts for customer relationship intangible assets and somewhat from substantially lower capital expenditures in 2008.

Existing markets' operating expenses as a percentage of net sales remained constant at 24.5% as we were able to save variable costs as noted above equal to the de-leveraging of our fixed costs. Overall operating expenses increased to 24.8% of net sales in 2008 from 24.5% in 2007, due to the same factors and the inclusion of North Coast, which has higher operating costs as a percentage of sales during the winter. In 2008, we expensed a total of \$3.7 million for the amortization of intangible assets recorded under purchase accounting, including \$1.6 million in our acquired markets, compared to \$2.5 million in 2007.

Interest Expense

Interest expense increased \$0.3 million to \$6.7 million in 2008 from \$6.4 million in 2007. We refinanced our credit facilities during the first quarter of 2007 and incurred additional borrowings to finance our acquisitions since March 31, 2007, both of which increased our debt level. Partially offsetting these factors was a decline in average interest rates during 2008, which affected the unhedged portion of our variable-rate debt.

Income Taxes

An income tax benefit of \$5.5 million was recorded in 2008, an effective tax rate of 40.5%, compared to an income tax benefit of \$4.3 million in 2007, an effective tax rate of 40.2%. The slight increase in the effective rate reflects small changes in allocations of taxable income and losses among the states in which we are located.

Six Months Ended March 31, 2008 ("YTD 2008") Compared to the Six Months Ended March 31, 2007 ("YTD 2007")**Existing and Acquired Markets****For the Six Months Ended
(Dollars in thousands)**

| | Existing Markets | | Acquired Markets | | Consolidated | |
|---|-------------------|------------|-------------------|------|-------------------|------------|
| | March 31, 2008 | 2007 | March 31, 2008 | 2007 | March 31, 2008 | 2007 |
| Net Sales | \$ 601,537 | \$ 667,154 | \$ 101,110 | \$ - | \$ 702,647 | \$ 667,154 |
| Gross Profit | 143,212 | 157,902 | 16,874 | - | 160,086 | 157,902 |
| Gross Margin | 23.8% | 23.7% | 16.7% | | 22.8% | 23.7% |
| Operating Expenses | 132,059 | 141,066 | 19,190 | - | 151,249 | 141,066 |
| Operating Expenses as a % of Net Sales | 22.0% | 21.1% | 19.0% | | 21.5% | 21.1% |
| Operating Income (Loss) | \$ 11,153 | \$ 16,836 | \$ (2,316) | \$ - | \$ 8,837 | \$ 16,836 |
| Operating Margin | 1.9% | 2.5% | -2.3% | | 1.3% | 2.5% |

Net Sales

Consolidated net sales increased \$35.5 million, or 5.3%, to \$702.6 million in YTD 2008 from \$667.2 million in YTD 2007. Both this year and last year had 125 business days. Existing market sales declined \$65.6 million or 9.8%, while acquired markets contributed an increase of \$101.1 million. We attribute the existing market sales decline primarily to the same factors as we discussed for the quarter, except that non-residential roofing was flat in YTD 2008 as compared to YTD 2007.

We opened one new branch and closed two branches in our existing markets during YTD 2008, while we opened five new branches and closed one branch in existing markets in YTD 2007. For YTD 2008, our acquired markets had combined product group sales of \$8.2, \$89.2 and \$3.7 million in residential roofing products, non-residential roofing products and complementary building products, respectively, while the product group sales for our existing markets were as follows:

Existing Markets

For the Six Months Ended

| | March 31, 2008 | | March 31, 2007 | | Change | |
|----------------------------------|------------------------|--------|----------------|--------|-------------|--------|
| | Sales | Mix | Sales | Mix | | |
| | (dollars in thousands) | | | | | |
| Residential roofing products | \$ 264,100 | 43.9% | \$ 311,161 | 46.6% | \$ (47,061) | -15.1% |
| Non-residential roofing products | 200,626 | 33.4% | 199,853 | 30.0% | 773 | 0.4 |
| Complementary building products | 136,811 | 22.7% | 156,140 | 23.4% | (19,329) | -12.4 |
| | \$ 601,537 | 100.0% | \$ 667,154 | 100.0% | \$ (65,617) | -9.8% |

Note: Total YTD 2008 existing market sales of \$601.5 million plus YTD 2008 sales from acquired markets of \$101.1 million equal \$702.6 million of total YTD 2008 sales. Our total YTD 2007 sales of \$667.2 million are now classified as sales from existing markets. We believe the existing market information is useful to investors because it helps explain organic growth or decline.

Gross Profit

For the Six Months Ended

| | March 31, 2008 | | March 31, 2007 | | Change |
|------------------|-----------------------|----------|----------------|--|--------|
| | | | | | |
| | (dollars in millions) | | | | |
| Gross Profit | \$ 160.1 | \$ 157.9 | \$ 2.2 | | 1.4% |
| Existing Markets | \$ 143.2 | \$ 157.9 | \$ (14.7) | | -9.3% |
| Gross Margin | 22.8% | 23.7% | | | -0.9% |
| Existing Markets | 23.8% | 23.7% | | | 0.1% |

Our existing markets' gross profit declined \$14.7 million or 9.3% in YTD 2008, while our acquired markets' gross profit was \$16.9 million. Existing markets' gross margin increased to 23.8% in YTD 2008 from 23.7% in YTD 2007. The slight increase was caused somewhat by higher calendar year-end vendor rebates and other favorable buying programs offered by some of our vendors, mostly offset by the negative impact from increased competitive conditions due to the business slowdown in the industry. Our overall gross margin decreased to 22.8% from 23.7% due primarily to an increased sales mix of the traditionally lower gross margin non-residential roofing, mainly due to the addition of North Coast, which sells mostly non-residential roofing.

Operating Expenses**For the Six Months Ended**

| | March 31, 2008 | March 31, 2007 | Change | |
|---------------------------------------|-----------------------|-------------------|----------|-------|
| | (dollars in millions) | | | |
| Operating Expenses | \$ 151.2 | \$ 141.1 | \$ 10.2 | 7.2% |
| Existing Markets | \$ 132.1 | \$ 141.1 | \$ (9.0) | -6.4% |
| Operating Expenses as a % of Sales | 21.5% | 21.1% | 0.4% | |
| Existing Markets | 22.0% | 21.1% | 0.9% | |

Our existing markets' operating expenses declined by \$9.0 million or 6.4% to \$132.1 million in YTD 2008 from \$141.1 million in YTD 2007, while our acquired markets' operating expenses totaled \$19.2 million. The following factors were the leading causes of our lower existing market operating expenses:

- payroll and related costs decreased by \$6.3 million primarily from a lower headcount, offset somewhat by costs at our four new branches;
- savings of \$2.8 million in selling, warehouse and general and administrative expenses from cost-saving measures in many areas and allocations to our acquired markets; and
- reduced depreciation and amortization of \$0.6 million due to lower amortization amounts for customer relationship intangible assets and somewhat from substantially lower capital expenditures in YTD 2008;

partially offset by

- a \$0.7 million increase in our provision for bad debts as we increased our accounts receivable allowance due primarily to the business slowdown.

Existing markets' operating expenses as a percentage of net sales increased to 22.0% from 21.1%, primarily due to the lower existing market sales and the relatively fixed nature of our operating expenses. Overall operating expenses increased to 21.5% of net sales in YTD 2008 from 21.1% in 2007, due to the same factors, offset somewhat by the inclusion of North Coast, which had lower operating costs as a percentage of sales in YTD 2008. In YTD 2008, we expensed a total of \$7.7 million for the amortization of intangible assets recorded under purchase accounting, including \$3.3 million in our acquired markets, compared to a total of \$5.2 million in 2007.

Interest Expense

Interest expense increased \$1.0 million to \$13.7 million in YTD 2008 from \$12.7 million in YTD 2007. We refinanced our credit facilities in the first quarter of 2007 and incurred additional borrowings to finance our acquisitions, both of which increased our debt level since March 31, 2007. Partially offsetting these factors was a decline in average interest rates during YTD 2008, which affected the unhedged portion of our variable-rate debt.

Income Taxes

An income tax benefit of \$2.0 million was recorded in YTD 2008, an effective tax rate of 41.0%, compared to income tax expense of \$1.7 million in YTD 2007, an effective tax rate of 40.2%. The increase in the effective rate

reflects changes in allocations of taxable income and losses among the states in which we are located.

Seasonality and Quarterly Fluctuations

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

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

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

Certain Quarterly Financial Data

The following table sets forth certain unaudited quarterly data for fiscal years 2008 and 2007 which, in the opinion of management, reflect all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of this data. Results of any one or more quarters are not necessarily indicative of results for an entire fiscal year or of continuing trends. Totals may not foot due to rounding.

| | Fiscal year 2008 | | Fiscal year 2007 | | | |
|--|--|-----------|------------------|-----------|----------|----------|
| | Qtr 1 | Qtr 2 | Qtr 1 | Qtr 2 | Qtr 3 | Qtr 4 |
| | (dollars in millions, except per share data) | | | | | |
| | (unaudited) | | | | | |
| Net sales | \$ 398.4 | \$ 304.3 | \$ 380.2 | \$ 286.9 | \$ 484.9 | \$ 493.8 |
| Gross profit | 91.7 | 68.4 | 91.7 | 66.2 | 107.8 | 108.2 |
| Income (loss) from operations | 15.8 | (6.9) | 21.1 | (4.2) | 26.7 | 26.3 |
| Net income (loss) | \$ 5.2 | \$ (8.1) | \$ 8.8 | \$ (6.3) | \$ 11.5 | \$ 11.3 |
| Earnings (loss) per share - basic | \$ 0.12 | \$ (0.18) | \$ 0.20 | \$ (0.14) | \$ 0.26 | \$ 0.26 |
| Earnings (loss) per share - fully diluted | \$ 0.12 | \$ (0.18) | \$ 0.20 | \$ (0.14) | \$ 0.26 | \$ 0.25 |
| Quarterly sales as % of year's sales | | | 23.1% | 17.4% | 29.5% | 30.0% |
| Quarterly gross profit as % of year's gross profit | | | 24.5% | 17.7% | 28.8% | 28.9% |
| Quarterly income (loss) from operations as % of year's income (loss) from operations | | | 30.2% | -6.1% | 38.2% | 37.7% |

The calculations of the net loss per share for the second quarters of 2008 and 2007 did not include the effect of stock options since the impact would have been anti-dilutive.

Liquidity and Capital Resources

We had cash and cash equivalents of \$10.6 million at March 31, 2008 compared to \$43.3 million at March 31, 2007 and \$6.5 million at September 30, 2007. Our net working capital was \$222.5 million at March 31, 2008 compared to \$257.2 million at March 31, 2007 and \$215.5 million at September 30, 2007.

YTD 2008 Compared to YTD 2007

Our net cash provided by operating activities was \$29.5 million for YTD 2008 compared to \$10.1 million for YTD 2007, even though our income from operations decreased by \$8.0 million to \$8.8 million in YTD 2008 from \$16.8 million in YTD 2007. Accounts receivable decreased by \$93.9 million in YTD 2008, primarily due to a normal seasonal decrease and lower revenues. The number of days outstanding for accounts receivable, based upon year-to-date sales, increased somewhat in YTD 2008 due, in part, to the higher mix of non-residential roofing sales that generally have longer payment terms. Inventory levels increased by \$29.0 million as we built up our inventories beyond the normal seasonal increase, especially in residential asphalt shingles ahead of announced price increases. Inventory turns were down in YTD 2008 as compared to YTD 2007, mainly due to the drop off in sales and the aforementioned purchasing arrangements. The benefit from the decrease in accounts receivable was also partially offset by a mostly seasonal decrease of \$57.6 million in accounts payable and accrued expenses. Prepaid expenses and other assets decreased \$6.1 million due primarily to seasonal collections of vendor rebates receivable.

Net cash used in investing activities, which consists solely of capital expenditures, decreased by \$16.0 million in YTD 2008 to \$1.2 million from \$17.2 million in YTD 2007. We have substantially reduced capital spending due to the business slowdown and the prior-year required upgrades to the truck fleets of some of our recent acquisitions.

Net cash used by financing activities was \$23.9 million in YTD 2008 compared to net cash provided by financing activities of \$48.8 million in YTD 2007. The net cash used by financing activities in YTD 2008 primarily reflected repayments under our revolving lines of credit and term loans. The net cash provided by financing activities in YTD 2007 primarily reflected net term loan borrowings under our new credit facility, which refinanced our prior revolving facilities and term loans, and payment of related deferred financing costs.

Capital Resources

Our principal source of liquidity at March 31, 2008 was our cash and cash equivalents of \$10.6 million and our available borrowings of \$129.6 million under revolving lines of credit, subject to compliance with the maximum consolidated leverage ratio below. Our borrowing base availability is determined primarily by trade accounts receivable, less outstanding borrowings and letters of credit. Borrowings outstanding under the revolving lines of credit in the accompanying balance sheets at March 31, 2008 and September 30, 2007 were classified as short-term debt since there were no current expectations of a minimum level of outstanding revolver borrowings in the following twelve months.

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

Significant factors which could affect future liquidity include the following:

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

Our primary capital needs are for working capital obligations and other general corporate purposes, including acquisitions and capital expenditures. Our primary sources of working capital are cash from operations and cash equivalents supplemented by bank borrowings. In the past, we have financed acquisitions initially through increased bank borrowings, the issuance of common stock and other borrowings. We then repay any such borrowings with cash flows from operations. The November 2006 refinancing of our credit facilities discussed below provided us with approximately \$47 million of additional funds at the time of the closing for future acquisitions and ongoing working capital requirements. We have funded most of our past capital expenditures through increased bank borrowings, including equipment financing, or through capital leases and then have reduced these obligations with cash flows from operations.

We believe we have adequate current liquidity and availability of capital to fund our present operations, meet our commitments on our existing debt and fund anticipated growth, including expansion in existing and targeted market areas. We seek potential acquisitions from time to time and hold discussions with certain acquisition candidates. If suitable acquisition opportunities or working capital needs arise that would require additional financing, we believe that our financial position and earnings history provide a sufficient base for obtaining additional financing resources at reasonable rates and terms, as we have in the past. We may also issue additional shares of common stock to raise funds, which we did in December 2005, or we may issue preferred stock.

Indebtedness

We currently have the following credit facilities:

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

Senior Secured Credit Facilities

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

The Credit Facility consists of a U.S. revolving credit facility of \$150 million (the "US Revolver"), which includes a sub-facility of \$20 million for letters of credit, and provided an initial \$350 million term loan (the "Term Loan"). The Credit Facility also includes a C\$15 million senior secured revolving credit facility provided by GE Canada Finance Holding Company (the "Canada Revolver"). There was a combined \$129.6 million available for revolver borrowings at March 31, 2008, subject to compliance with the maximum consolidated leverage ratio below, and \$5.0 million outstanding under the US Revolver and less than \$0.1 million outstanding under the Canadian Revolver primarily at an interest rate of 3.60%. The outstanding revolver borrowings at September 30, 2007 were \$26.1 million and carried a weighted-average interest rate of 6.74%. Borrowings outstanding under the revolving lines of credit in the accompanying balance sheets at March 31, 2008 and September 30, 2007 were classified as short-term debt since there were no current expectations of a minimum level of outstanding revolver borrowings in the following twelve months. There were \$4.5 million, \$5.8 million and \$6.5 million of outstanding standby letters of credit at March 31, 2008, March 31, 2007 and September 30, 2007, respectively. The Term Loan requires amortization of 1% per year, payable in quarterly installments of approximately \$0.9 million, and the remainder is due in 2013. The Credit Facility may also be expanded by up to an additional \$200 million under certain conditions. There are mandatory prepayments under the Credit Facility under certain conditions, including the following cash flow condition:

Excess Cash Flow

On May 15 of each fiscal year, commencing on May 15, 2008, we must pay an amount equal to 50% of the Excess Cash Flow (as defined in the Credit Facility) for the prior fiscal year, not to exceed \$7.0 million with respect to any fiscal year. Based on our results for fiscal year 2007, no payment will be due in 2008.

Interest

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

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

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

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

The US Revolver currently carries an interest rate of the LIBOR plus 1.0% (3.60% at March 31, 2008), while the Canada revolver carries an interest rate of the Canadian prime rate plus 0.75% (5.25% at March 31, 2008), and the Term Loan carries an interest rate of LIBOR plus 2% (6.73% and 5.09% for the two LIBOR arrangements under the Term Loan at March 31, 2008). Unused fees on the revolving credit facilities are 0.25% per annum. Availability under the revolving credit facilities is limited to 85% of eligible accounts receivable, increasing to 90% from January through April of each year.

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

Maximum Consolidated Leverage Ratio

On the last day of each fiscal quarter, our Consolidated Leverage Ratio, as defined, must not be greater than 4.00:1.0. At March 31, 2008, this ratio was 3.58:1.

Capital Expenditures

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

As of March 31, 2008, we were in compliance with these covenants. Substantially all of our assets, including the capital stock and assets of wholly-owned subsidiaries secure obligations under the Credit Facility.

Prior Senior Secured Credit Facilities

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

arrangements as under the Credit Facility. At the time of the refinancing discussed above, there was \$227.8 million of borrowings outstanding under the prior revolvers. The outstanding revolver borrowings at that date carried a weighted-average interest rate of 7.03%.

Equipment Financing Facilities

The Company has two equipment financing facilities that allow for the financing of purchased transportation and material handling equipment totaling \$32.9 million with \$6.4 million of remaining availability as of March 31, 2008. There was \$26.5 million of equipment financing loans outstanding at March 31, 2008, with fixed interest rates ranging from 4.7% to 7.4%.

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

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

Certain factors that may affect our business and could cause actual results to differ materially from those expressed in any forward-looking statements include those set forth under the heading "Risk Factors" in our Form 10-K for the fiscal year ended September 30, 2007.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Risk

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

At March 31, 2008, we had \$344.8 million of term loans outstanding under our Credit Facility, \$5.0 million of borrowings under revolving lines of credit, and \$26.5 million of equipment financing outstanding. Our weighted-average effective interest rate on that debt, after considering the effect of the interest rate swaps, was 6.59% at March 31, 2008 (7.13% at September 30, 2007). A hypothetical 10% increase in interest rates in effect at March 31, 2008, would have increased annual interest expense on the borrowings outstanding at that date by approximately \$0.9 million.

We enter into interest rate swaps and collars to minimize the risks and costs associated with financing activities, as well as to maintain an appropriate mix of fixed-and floating-rate debt. The swap agreements discussed below are contracts to exchange variable-rate for fixed-interest rate payments over the life of the agreements. The collar agreements, also discussed below, provide for fixed-rate caps and floors. The aggregate fair value of these swaps and collars represented an unrealized loss of \$13.3 million at March 31, 2008. A hypothetical increase (or decrease) of 10% in interest rates from the level in effect at March 31, 2008, would result in an aggregate unrealized (loss) or gain

in value of the swaps and collars of approximately (\$1.4) million or \$1.4 million, respectively.

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Financial Derivatives

As discussed above, we use interest rate derivative instruments to manage the risk of interest rate changes by converting a portion of our variable-rate borrowings into fixed-rate borrowings. We had interest rate derivative instruments outstanding in a total notional amount of \$300 million at March 31, 2008, which consisted of: a) interest rate swaps totaling \$200 million, expiring in April 2010, with a fixed rate of 4.97%; b) a \$50 million interest rate collar expiring in April 2010 with a floor rate of 3.99% and a cap rate of 5.75%; and c) a \$50 million interest rate collar expiring in April 2010 with a floor rate of 3.75% and a cap rate of 6.00%. We entered into these instruments during the second quarter of 2007 and cancelled the prior interest rate derivative instruments that had notional amounts totaling \$150 million. The increase in the total notional amount was due to the increased borrowings under our Credit Facility. The current derivative instruments are designated as cash flow hedges, for which we record the effective portions of changes in their fair value, net of tax, in other comprehensive income. We recognize any ineffective portion of our hedges in earnings, of which there has been none to date. The prior derivative instruments were not designated as hedges and therefore changes in their fair values were recorded in interest expense.

Foreign Exchange Risk

There have been no material changes from what we reported in our Form 10-K for the year ended September 30, 2007.

Item 4. Controls and Procedures

The term "disclosure controls and procedures" is defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 (the "Act"). The rules refer to the controls and other procedures designed to ensure that information required to be disclosed in reports that we file or submit under the Act is recorded, processed, summarized and reported within the time periods specified. As of March 31, 2008, management, including the CEO and CFO, performed an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures. Based on that evaluation, management, including the CEO and CFO, concluded that as of March 31, 2008, our disclosure controls and procedures were effective at ensuring that material information related to us or our consolidated subsidiaries is made known to them and is disclosed on a timely basis in our reports filed under the Act. We maintain a system of internal control over financial reporting that is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States. Based on the most recent evaluation, we have concluded that no significant change in our internal control over financial reporting occurred during the last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Part II. Other Information

Items 1-3 and 5 are not applicable and have been omitted.

Item 4. Submission of Matters to a Vote of Security Holders

Our Annual Meeting of Shareholders was held on February 7, 2008 to vote on the Company's Amended and Restated 2004 Stock Plan, which was approved, and to elect a board of seven directors. Each director nominee was elected.

The numbers of votes for the Amended and Restated 2004 Stock Plan were as follows:

| VOTES FOR | VOTES AGAINST | ABSTAIN | NON-VOTES |
|------------|---------------|---------|-----------|
| 30,862,975 | 4,950,869 | 98,258 | 4,374,935 |

The numbers of votes for each director nominee were as follows:

| DIRECTOR NOMINEE | VOTES FOR | VOTES WITHHELD |
|-------------------------|------------------|-----------------------|
| Robert R. Buck | 39,665,271 | 621,766 |
| Andrew R. Logie | 39,798,958 | 488,079 |
| H. Arthur Bellows, Jr. | 38,855,873 | 1,431,164 |
| James J. Gaffney | 39,965,417 | 321,620 |
| Peter M. Gotsch | 39,654,951 | 632,086 |
| Stuart A. Randle | 39,966,417 | 320,620 |
| Wilson B. Sexton | 39,787,879 | 499,158 |

Item 6. Exhibits

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

**Exhibit
Number**

Document Description

- | | |
|------|--|
| 10.1 | Beacon Roofing Supply, Inc. Amended and Restated 2004 Stock Plan (incorporated herein by reference to Exhibit 10.1 to Beacon Roofing Supply Inc.'s current report on Form 8-K filed on February 11, 2008). |
| 31.1 | Certification by Robert R. Buck pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification by David R. Grace pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification by Robert R. Buck and David R. Grace pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

Signature Page

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on May 8, 2008.

BEACON ROOFING SUPPLY, INC.

BY:

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

Index to Exhibits

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