

BEACON ROOFING SUPPLY INC
Form 10-K
November 29, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the Fiscal Year Ended September 30, 2011

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 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.)

Address of principal executive offices: One Lakeland Park Drive, Peabody, MA 01960

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

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

Title of each class
Common Stock, \$.01 par value

Name of each exchange on which registered:
The NASDAQ Global Select Market

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

None

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

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

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

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

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

The aggregate market value of the voting stock (common stock) held by non-affiliates of the registrant as of the end of the second quarter ended March 31, 2011 was \$930,114,110.

The number of shares of common stock outstanding as of November 1, 2011 was 46,157,146.

DOCUMENTS INCORPORATED BY REFERENCE

The information required by Part III (Items 10, 11, 12, 13 and 14) will be incorporated by reference from the Registrant's definitive proxy statement (to be filed pursuant to Regulation 14A).

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Forward-looking statements

The matters discussed in this Form 10-K that are forward-looking statements are based on current management expectations that involve substantial risks and uncertainties, which could cause actual results to differ materially from the results expressed in, or implied by, these forward-looking statements. These statements can be identified by the fact that they do not relate strictly to historical or current facts. They use words such as "aim," "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "plan," "project," "should," "will be," "will continue," "will likely result," "would" and other words and terms of similar meaning in conjunction with a discussion of future operating or financial performance. You should read statements that contain these words carefully, because they discuss our future expectations, contain projections of our future results of operations or of our financial position or state other "forward-looking" information.

We believe that it is important to communicate our future expectations to our investors. However, there are events in the future that we are not able to accurately predict or control. The factors listed under Item 1A, Risk Factors, as well as any cautionary language in this Form 10-K, provide examples of risks, uncertainties and events that may cause our actual results to differ materially from the expectations we describe in our forward-looking statements. Although we believe that our expectations are based on reasonable assumptions, actual results may differ materially from those in the forward looking statements as a result of various factors, including, but not limited to, those described under Item 1A, Risk Factors and elsewhere in this Form 10-K.

Forward-looking statements speak only as of the date of this Form 10-K. Except as required under federal securities laws and the rules and regulations of the SEC, we do not have any intention, and do not undertake, to update any forward-looking statements to reflect events or circumstances arising after the date of this Form 10-K, whether as a result of new information, future events or otherwise. As a result of these risks and uncertainties, readers are cautioned not to place undue reliance on the forward-looking statements included in this Form 10-K or that may be made elsewhere from time to time by or on behalf of us. All forward-looking statements attributable to us are expressly qualified by these cautionary statements.

PART I

ITEM 1. BUSINESS

Overview

We are one of the largest distributors of residential and non-residential roofing materials in the United States and Canada. We also distribute other complementary building materials, including siding, windows, specialty lumber products and waterproofing systems for residential and nonresidential building exteriors. We currently operate 194 branches in 38 states and 6 Canadian provinces, carrying up to 10,000 SKUs and serving approximately 40,000 customers. We are a leading distributor of roofing materials in key metropolitan markets in the Northeast, Mid-Atlantic, Midwest, Central Plains, South and Southwest regions of the United States and across Canada.

For the fiscal year ended September 30, 2011 (“fiscal year 2011” or “2011”), residential roofing products comprised 46% of our sales, non-residential roofing products accounted for 40% of our sales, and siding, waterproofing systems, windows, specialty lumber and other exterior building products provided the remaining 14% of our sales.

We also provide our customers a comprehensive array of value-added services, including:

- advice and assistance to contractors throughout the construction process, including product identification, specification and technical support;
 - job site delivery, rooftop loading and logistical services;
 - tapered insulation design and layout services;
 - metal fabrication and related metal roofing design and layout services;
 - trade credit; and
 - marketing support, including project leads for contractors.

We believe the additional services we provide strengthen our relationships with our customers and distinguish us from our competition. The vast majority of orders require at least some of these services. Our ability to provide these services efficiently and reliably can save contractors time and money. We also believe that our value-added services enable us to achieve attractive gross profit margins on our product sales. We have earned a reputation for a high level of product availability, excellent employees, professionalism and high-quality service, including timely, accurate and safe delivery of products.

Our diverse customer base represents a significant portion of the residential and non-residential roofing contractors in most of our markets. Reflecting the overall market for roofing products, we sell the majority of our products to roofing contractors that are involved on a local basis in the replacement, or re-roofing, component of the roofing industry. We utilize a branch-based operating model in which branches maintain local customer relationships but benefit from centralized functions such as information technology, accounting, financial reporting, credit, purchasing, legal and tax services. This allows us to provide customers with specialized products and personalized local services tailored to a geographic region, while benefiting from the resources and scale efficiencies of a national distributor.

We have achieved our growth through a combination of seventeen strategic and complementary acquisitions between fiscal years 2001 and 2011, opening new branch locations, acquiring branches and broadening our product offering. We have grown from \$415.1 million in sales in fiscal year 2001 to \$1.817 billion in sales in fiscal year 2011, which represents a ten-year compound annual growth rate of 15.9%. Our internal growth, which includes growth from existing and newly opened branches but excludes growth from acquired branches, averaged 3.6% per annum over the

same period. Acquired branches are excluded from internal growth measures until they have been under our ownership for at least four full fiscal quarters at the start of the reporting period. During this eleven-year period, we opened thirty-three new branch locations (of which we have only closed two), while our same store sales increased an average of 0.3% per annum. Same store sales are defined as the aggregate sales from branches open for the entire comparable annual periods within the eleven-year period. Income from operations has increased from \$18.7 million in fiscal year 2001 to \$103.7 million in fiscal year 2011, which represents a compound annual growth rate of 18.7%. We believe that our proven business model can deliver industry-leading growth and operating profit margins.

In fiscal year 2011, our sales and income from operations increased 12.9% and 41.0%, respectively, over fiscal year 2010. We had 254 business days in fiscal year 2011, while fiscal year 2010 had 253 days. We acquired six new branches, opened three branches and closed three branches during fiscal year 2011.

Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, 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 free of charge on our website at www.beaconroofingsupply.com as soon as reasonably practical after we electronically file such reports with, or furnish them to, the Securities and Exchange Commission.

History

Our predecessor, Beacon Sales Company, Inc., was founded in Charlestown, Massachusetts (a part of Boston) in 1928. In 1984, when our former Chairman Andrew Logie acquired Beacon Sales Company with other investors, Beacon operated three distribution facilities and generated approximately \$16 million in annual revenue. In August 1997, Code, Hennessy & Simmons III, L.P., a Chicago-based private equity fund, and certain members of management, purchased Beacon Sales Company to use it as a platform to acquire leading regional roofing materials distributors throughout the United States and Canada. At the time of the purchase by Code Hennessy and management, Beacon Sales Company operated seven branches in New England and generated approximately \$72 million of revenue annually, primarily from the sale of non-residential roofing products. Since 1997, we have made twenty-five strategic and complementary acquisitions. Also since 1997, we have opened a total of thirty-eight new branches (of which we have only closed two). We have also expanded our product offerings to offer more residential roofing products and complementary exterior building materials and related services. Our strategic acquisitions, branch expansions, and product line extensions have increased the diversity of both our customer base and local market focus and generated cost savings through increased purchasing power and reduced overhead expenses as a percentage of net sales. We completed an initial public offering ("IPO") and became a public company in September 2004, and completed a follow-on stock offering in December 2005.

We were incorporated in Delaware in 1997. Our principal executive offices are located at One Lakeland Park Drive, Peabody, MA 01960 and our telephone number is (978) 535-7668. Our Internet website address is www.beaconroofingsupply.com.

U.S. Industry Overview

The U.S. roofing market, based upon an early 2010 industry report, the latest available to us, and based upon manufacturer sales to distributors and others, was estimated to be approximately \$15.0 billion in 2009 and is projected to grow 3.6% annually through 2014 to \$17.9 billion. We believe this rate of growth is within the range of the stable long-term growth rates in the industry over the past 40 years.

The U.S. roofing market can be separated into two categories: the residential roofing market and the non-residential roofing market. The residential roofing market accounted for approximately 58% of the total U.S. market by unit volume (39% of total dollar demand) in 2009. Through 2014, residential roofing construction in dollars is expected to grow slightly faster than non-residential roofing construction as residential construction is projected to rebound from current low levels.

Traditionally, over 70% of expenditures in the roofing market are for re-roofing projects, with the balance being for new construction. Due to the current slow down in both residential and non-residential new construction, it is estimated that re-roofing represented over 85% of the expenditures for roofing in 2009. Re-roofing projects are generally considered maintenance and repair expenditures and are less likely than new construction projects to be postponed during periods of recession or slow economic growth. As a result, demand for roofing products is less volatile than overall demand for construction products.

Regional variations in economic activity influence the level of demand for roofing products across the United States. Of particular importance are regional differences in the level of new home construction and renovation, because the residential market for roofing products accounts for approximately 58% of unit demand. Demographic trends, including population growth and migration, contribute to regional variations in residential demand for roofing products through their influence on regional housing starts and existing home sales.

Roofing distributors

Wholesale distribution is the dominant distribution channel for both residential and nonresidential roofing products. Wholesale roofing product distributors serve the important role of facilitating the purchasing relationships between roofing materials manufacturers and thousands of contractors. Wholesale distributors also maintain localized inventories, extend trade credit, give product advice and provide delivery and logistics services.

Despite some recent consolidation, the roofing materials distribution industry remains highly fragmented. The industry is characterized by a large number of small and local regional participants. As a result of their small size, many of these distributors lack the corporate, operating and IT infrastructure required to compete effectively.

Residential roofing market

Within the residential roofing market, the re-roofing market is more than twice the size of the new roofing market, accounting for approximately 90% of the residential roofing unit demand in 2009, compared to a historic rate of about 67%. Over the next five years, new roofing unit demand is expected to increase from 10% of total demand in 2009 to approximately 26% in 2014, indicating a 25% growth rate, while re-roofing demand is expected to remain flat.

Driving the demand for re-roofing is an aging U.S. housing stock. Over 60% of the U.S. housing stock was built prior to 1980, with the median age of U.S. homes being over 35 years. Asphalt shingles dominate the residential roofing market, with an approximate 85% share, and historically have had an expected useful life of 15 to 20 years. A number of factors also generate re-roofing demand, including one-time weather damage (such as Hurricane Ike which increased demand in 2008), improvement expenditures and homeowners looking to upgrade their homes. Sales of existing homes can affect re-roofing demand, as some renovation decisions are made by sellers preparing their houses for sale and others are made by new owners within the first year or two of occupancy.

Within the new construction portion of the residential roofing market, housing starts together with larger average roof sizes have supported prior growth in new residential roofing demand. Although new housing starts were up slightly in 2010, they declined during 2006 through 2009, and again in 2011, and the pace may continue at the lower levels or decline further again in the near future.

Non-residential roofing market

Demand for roofing products used on non-residential buildings in dollars is forecast to continue to grow at historical rates, but slightly slower than the expected future growth of roofing products used in residential construction. In recent years up until 2009, new non-residential roofing was the fastest-growing portion of the U.S. roofing market. However, more challenging economic conditions, including tighter credit markets, caused a decline in 2009 in new commercial projects and, to a lesser extent, re-roofing projects, and will likely continue to influence expenditures for non-residential roofing in the near term.

In 2009, re-roofing projects represented approximately 81% of the total non-residential demand. Re-roofing activity tends to be less cyclical than new construction and depends in part upon the types of materials on existing roofs, their expected lifespan and intervening factors such as wind or water damage.

The non-residential roofing market includes an office and commercial market, an industrial market and an institutional market. Office and commercial roofing projects is the single largest component of the non-residential roofing market at 53%. Industrial roofing projects represent 25% of non-residential roofing product sales, while institutional projects and other make up the remaining 22% of non-residential roofing demand.

Complementary building products

Demand for complementary building products such as siding, windows and doors for both the residential and non-residential markets has decreased along with the new residential construction market and the downturn in the economy. Unlike the roofing industry, demand for these products is more discretionary and influenced much greater by the new construction market.

These complementary products also significantly contribute to the overall building products market. The U.S. siding market was approximately \$7.8 billion in 2009, while the U.S. window and door industry was approximately \$26.3 billion in 2009, the most recent information available to us. Both of these markets have been negatively impacted by the decline in new housing starts in recent years but both siding and windows and doors are expected to grow at higher rates than the roofing industry over the next several years.

Our Strengths

We believe the sales and earnings growth we have achieved over time has been and will continue to be driven by our primary competitive strengths, which include the following:

- **National scope combined with regional expertise.** We believe we are the second largest roofing materials distributor in the United States and Canada. We utilize a branch-based operating model in which branches maintain local customer relationships but benefit from centralized functions such as information technology, accounting, financial reporting, credit, purchasing, legal and tax services. This allows us to provide customers with specialized products and personalized local services tailored to a geographic region, while benefiting from the resources and scale efficiencies of a national distributor.

Diversified business model that reduces impact of economic downturns. We believe that our business is meaningfully protected in an economic downturn because of our high concentration in re-roofing, the relative non-discretionary nature of re-roofing, the mix of our sales between residential and non-residential products, our geographic and customer diversity, and the financial and operational ability we have to expand our business and obtain market share.

Superior customer service. We believe that our high level of customer service and support differentiates us from our competitors. We employ experienced salespeople who provide advice and assistance in properly identifying products for various applications. We also provide services such as safe and timely job site delivery, logistical support and marketing assistance. We believe that the services provided by our employees improve our customers' efficiency and profitability which, in turn, strengthens our customer relationships.

Strong platform for growth and acquisition. Over the period from 1997 through 2011, we increased revenue at rates well in excess of the growth in the overall roofing materials distribution industry. We have expanded our business through strategic acquisitions, new branch openings, branch acquisitions and the diversification of our product offering. We have successfully acquired companies and, for most of them, improved their financial and operating performance after acquisition.

Sophisticated IT platform. All of our locations, except for one fabrication facility, operate on the same management information systems. We have made a significant investment in our information systems, which we believe are among the most advanced in the roofing distribution industry. These systems provide us with a consistent platform across all of our operations that help us achieve additional cost reductions, greater operating efficiencies, improved purchasing, pricing and inventory management and a higher level of customer service. Our systems have substantial capacity to handle our future growth without requiring significant additional investment.

Industry-leading management team. We believe that our key personnel, including branch managers, are among the most experienced in the roofing industry. Our executive officers, regional vice presidents and branch managers have an average of over 11 years of roofing industry experience.

Extensive product offering and strong supplier relationships. We have a product offering of up to 10,000 SKUs, representing an extensive assortment of high-quality branded products. We believe that our extensive product offering has been a significant factor in attracting and retaining many of our customers. Because of our significant scale, product expertise and reputation in the markets that we serve, we have established strong ties to the major roofing materials manufacturers and are able to achieve substantial volume discounts.

Growth Strategies

Our objective is to become the preferred supplier of roofing and other exterior building product materials in the U.S. and Canadian markets while continuing to increase our revenue base and maximize our profitability. We plan to attain these goals by executing the following strategies:

Pursue acquisitions of regional market-leading roofing materials distributors. Acquisitions are an important component of our growth strategy. We believe that there are significant opportunities to grow our business through disciplined, strategic acquisitions. With only a few large, well-capitalized competitors in the industry, we believe we can continue to build on our distribution platform by successfully acquiring additional roofing materials distributors. Between 1998 and 2011, we successfully integrated twenty-three strategic and complementary acquisitions and there have been two additional acquisitions since the end of 2011.

Expand geographically through new branch openings. Significant opportunities exist to expand our geographic focus by opening additional branches in existing or contiguous regions. Since 1997, we and our acquired companies have successfully entered numerous markets through greenfield expansion. Our strategy with respect to greenfield opportunities is to typically open branches: (1) within our existing markets; (2) where existing customers have expanded into new markets; or (3) in areas that have limited or no acquisition candidates and are a good fit with our business model. At times, we have acquired small distributors with one to three branches to fill in existing regions.

Expand product and service offerings. We believe that continuing to increase the breadth of our product line and customer services are effective methods of increasing sales to current customers and attracting new customers. We work closely with customers and suppliers to identify new building products and services, including windows, siding, waterproofing systems, insulation and metal fabrication. In addition, we believe we can expand our business by introducing products that we currently only offer in certain of our markets into some of our other markets. We also believe we can expand particular product sales that are stronger in certain of our markets into our markets where

those products have not sold as well (e.g., expanding nonresidential roofing sales in markets that sell mostly residential roofing).

Products and Services

Products

The ability to provide a broad range of products is essential in roofing materials distribution. We carry one of the most extensive arrays of high-quality branded products in the industry, enabling us to deliver products to our customers on a timely basis. We are able to fulfill approximately 99% of our warehouse orders through our in-stock inventory as a result of the breadth and depth of our inventory at our branches. Our product portfolio includes residential and non-residential roofing products as well as complementary building products such as siding, windows and specialty lumber products. Our product lines are designed primarily to meet the requirements of both residential and non-residential roofing contractors.

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Product Portfolio			
Residential roofing Products	Non-residential roofing Products	Complementary building products	
		Siding	Windows/Doors
Asphalt shingles	Single-ply roofing	Vinyl siding	Vinyl windows
Synthetic slate and tile	Asphalt	Red, white and yellow cedar siding	Aluminum windows
Clay tile	Metal	Fiber cement siding	Wood windows
Concrete tile	Modified bitumen	Soffits	Turn-key windows
Slate	Built-up roofing	House wraps	Wood doors
Nail base insulation	Cements and coatings	Vapor barriers	Patio doors
Metal roofing	Insulation—flat stock and tapered	Stone veneer	
Felt	Commercial fasteners	Other	Specialty Lumber
Wood shingles and shakes	Metal edges and flashings	Waterproofing systems	Redwood
Nails and fasteners	Skylights, smoke vents and roof hatches	Building insulation	Red cedar decking
Metal edgings and flashings		Air barrier systems	Mahogany decking
Prefabricated flashings	Sheet metal, including copper, aluminum	Gypsum	Pressure treated lumber
Ridges and soffit vents	and steel	Moldings	Fire treated plywood
Gutters and downspouts	Other accessories	Patio covers	Synthetic decking
Other accessories		Cultured stone	PVC trim boards
			Millwork
			Custom millwork

The products that we distribute are supplied by the industry's leading manufacturers of high-quality roofing materials and related products, such as Alcoa, Atlas, BPCO, Carlisle, CertainTeed, Continental Materials, Dow, Firestone, GAF Materials, IKO, James Hardie, Johns Manville, Mid-States Asphalt, Owens Corning, Simonton, Tamko and Revere Copper.

In the residential market, asphalt shingles comprise the largest share of the products we sell. We believe that we have also developed a specialty niche in the residential roofing market by distributing products such as high-end shingles, copper gutters and metal roofing products, as well as specialty lumber products for residential applications, including redwood, white and red cedar shingles, and red cedar siding. Additionally, we distribute gutters, downspouts, tools, nails, vinyl siding, windows, decking and related exterior shelter products to meet the needs of our residential roofing customers.

In the non-residential market, single-ply roofing systems comprise the largest share of our products. Our single-ply roofing systems consist primarily of Ethylene Propylene Diene Monomer (synthetic rubber), or EPDM, and Thermoplastic Olefin, or TPO, roofing materials and related components. In addition to the broad range of single-ply roofing components, we sell the insulation that is required as part of most non-residential roofing applications. Our insulation products include tapered insulation, which has been a high-growth product line. Our remaining non-residential products include metal roofing and flashings, fasteners, fabrics, coatings, roof drains, modified bitumen, built-up roofing and asphalt.

Services

We emphasize service to our customers. We employ a knowledgeable staff of salespeople. Our sales personnel possess in-depth technical knowledge of roofing materials and applications and are capable of providing advice and assistance to contractors throughout the construction process. In particular, we support our customers with the following value-added services:

- advice and assistance throughout the construction process, including product identification, specification and technical support;
 - job site delivery, rooftop loading and logistical services;
 - tapered insulation design and layout services;
 - metal fabrication and related metal roofing design and layout services;
 - trade credit; and
 - marketing support, including project leads for contractors.

Customers

Our diverse customer base consists of approximately 40,000 contractors, home builders, building owners, and other resellers primarily in the Southeast, Northeast, Central Plains, Midwest, Southwest and Mid-Atlantic regions of the United States, as well as in Eastern Canada. Our typical customer varies by end market, with relatively small contractors in the residential market and small to large-sized contractors in the non-residential market. To a lesser extent, our customer base includes general contractors, retailers and building materials suppliers.

As evidenced by the fact that a significant number of our customers have relied on us or our predecessors as their vendor of choice for decades, we believe that we have strong customer relationships that our competitors cannot easily displace or replicate. No single customer accounts for more than 2% of our revenues.

Sales and Marketing

Sales strategy

Our sales strategy is to provide a comprehensive array of high-quality products and superior value-added services to residential and non-residential roofing contractors reliably, accurately and on time. We fulfill approximately 99% of our warehouse orders through our in-stock inventory as a result of the breadth and depth of our inventory at our local branches. We believe that our focus on providing superior value-added services and our ability to fulfill orders accurately and rapidly enables us to attract and retain customers.

Sales organization

We have attracted and retained an experienced sales force of about 950 people who are responsible for generating revenue at the local branch level. The expertise of our salespeople helps us to increase sales to existing customers and add new customers.

Each of our branches is headed by a branch manager, who also functions as the branch's sales manager. In addition, each branch employs one to four outside salespeople and one to five inside salespeople who report to their branch manager. Branches that focus primarily on the residential market typically staff a larger number of outside salespeople.

The primary responsibilities of our outside salespeople are to prospect for new customers and increase sales to existing customers. One of the ways our outside salespeople accomplish these objectives is by reviewing information from our proprietary LogicTrack software system, which extracts job and bid information from construction reports and other industry news services. The system extracts information on construction projects in our local markets from those industry services. Once a construction project is identified, our design and estimating team creates job quotes, which, along with pertinent bid and job information, are readily available to our salespeople through LogicTrack. Our outside salespeople then contact potential customers in an effort to solicit their interest in participating with us in the project. Throughout this process, LogicTrack maintains a record of quoting activity, due dates, and other data to allow tracking of the projects and efficient follow-up. By seeking a contractor to "partner" with on a bid, we increase the likelihood that the contractor will purchase their roofing materials and related products from us in the event that the contractor is selected for the project.

To complement our outside sales force, we have built a strong and technically proficient inside sales staff. Our inside sales force is responsible for fielding incoming orders, providing pricing quotations and responding to customer inquiries. Our inside sales force provides vital product expertise to our customers.

In addition to our outside and inside sales forces, we represent certain manufacturers for particular manufacturers' products. Currently, we have developed relationships with Carlisle, Johns Manville, Owens Corning and Firestone on this basis. We currently employ 44 representatives who act as liaisons (on behalf of property owners, architects, specifiers and consultants) between these roofing materials manufacturers and professional contractors.

Marketing

In order to capitalize on the local customer relationships that we have established and benefit from the brands developed by our regions, we have maintained the trade names of most of the businesses that we have acquired. These trade names—such as Alabama Roofing Supply, Beacon Roofing Supply Canada Company, Beacon Sales Company, Best Distributing Company, Coastal Metal Service, Dealer's Choice, GLACO, Groupe Bedard, Entrepot de la Toiture, JGA Beacon, Lafayette Wood Works, North Coast Commercial Roofing Systems, Mississippi Roofing Supply, Pacific Supply Company, Quality Roofing Supply Company, Roof Depot, RSM Supply, Roofing and Sheet Metal Supply, Shelter Distribution, Southern Roof Center, The Roof Center, West End Roofing Siding and Windows, West End Lumber Company, Louisiana Roofing Supply, Posi-Slope, Posi-Pentes, Wholesale Roofing Supply, Enercon Products, The Roofing Connection and Fowler & Peth—are well-known in the local markets in which the respective branches compete and are associated with high-quality products and customer service.

As a supplement to the efforts of our sales force, each of our branches communicates with residential and non-residential contractors in their local markets through newsletters, direct mail and the Internet. In order to build and strengthen relationships with customers and vendors, we sponsor and promote our own regional trade shows, which feature general business and roofing seminars for our customers and product demonstrations by our vendors. In addition, we attend numerous industry trade shows throughout the regions in which we compete, and we are an active member of the National Roofing Contractors Association, as well as regional contractors' associations.

Purchasing and Suppliers

Our status as a leader in our core geographic markets, as well as our reputation in the industry, has allowed us to forge strong relationships with numerous manufacturers of roofing materials and related products, including Alcoa, Atlas, BPCO, Carlisle, CertainTeed, Continental Materials, Dow, Firestone, GAF Materials, IKO, James Hardie, Johns Manville, Mid-States Asphalt, Owens Corning, Simonton, Tamko and Revere Copper.

We are viewed by our suppliers as a key distributor due to our industry expertise, significant market share in our core geographic markets and the substantial volume of products that we distribute. We have significant relationships with more than 125 suppliers and maintain multiple supplier relationships for each product line.

We manage the procurement of products through our national headquarters and regional offices, allowing us to take advantage of both our scale and local market conditions. We believe this enables us to purchase products more economically than most of our competitors. Product is shipped directly by the manufacturers to our branches or customers.

Operations

Facilities

Our network of 194 branches serves metropolitan areas in 38 states and 6 Canadian provinces. This network has enabled us to effectively and efficiently serve a broad customer base and to achieve a leading market position in each of our core geographic markets.

Operations

Our branch-based model provides each location with a significant amount of autonomy to operate within the parameters of our overall business model. Operations at each branch are tailored to meet the local needs of their customers. Depending on market needs, branches carry from about 1,000 to 10,000 SKUs.

Branch managers are responsible for sales, pricing and staffing activities, and have full operational control of customer service and deliveries. We provide our branch managers with significant incentives that allow them to share in the profitability of their respective branches as well as the company as a whole. Personnel at our corporate operations assist the branches with purchasing, procurement, credit services, information systems support, contract management, accounting and legal services, benefits administration and sales and use tax services.

Distribution/fulfillment process

Our distribution/fulfillment process is initiated upon receiving a request for a contract job order or direct product order from a contractor. Under a contract job order, a contractor typically requests roofing or other construction materials and technical support services. The contractor discusses the project's requirements with a salesperson and the salesperson provides a price quotation for the package of products and services. Subsequently, the

salesperson processes the order and we deliver the products to the customer's job site.

Fleet

Our distribution infrastructure supports over 450,000 deliveries annually. To accomplish this, we maintained a dedicated owned fleet of 510 straight trucks, 266 tractors and 393 trailers as of September 30, 2011. Nearly all of our delivery vehicles are equipped with specialized equipment, including 726 truck-mounted forklifts, cranes, hydraulic booms and conveyors, which are necessary to deliver products to rooftop job sites in an efficient and safe manner.

Our branches focus on providing materials to customers who are located within a two-hour radius of their respective facilities. We typically make deliveries five days per week.

Management information systems

We have fully integrated management information systems. Our systems are consistently implemented across our branches and acquired businesses are promptly moved to our system following acquisition. Our systems support every major internal operational function, except payroll, providing complete integration of purchasing, receiving, order processing, shipping, inventory management, sales analysis and accounting. The same databases are shared within the systems, allowing our branches to easily acquire products from other branches or schedule deliveries by other branches, greatly enhancing our customer service. Our systems also include a sophisticated pricing matrix which allows us to refine pricing by region, branch, type of customer, customer, or even a specific customer project. In addition, our systems allow us to monitor all branch and regional performance centrally. We have centralized many functions to leverage our size, including accounts payable, insurance, payroll, employee benefits, vendor relations, and banking.

All of our branches are connected to our IBM AS400 computer network by secure Internet connections or private data lines. We maintain a second IBM AS400 as a disaster recovery system, and information is backed up to this system throughout each business day. We have the capability of electronically switching our domestic operations to the disaster recovery system.

We have created a financial reporting package that allows us to send branches information they can use to compare branch by branch financial performance, which we believe is essential to operating each branch efficiently and more profitably. We have also developed a benchmarking report which enables us to compare all of our branches' and regions' performance in 12 critical areas.

We can place purchase orders electronically with some of our major vendors. The vendors then transmit their invoices electronically to us. Our system automatically matches these invoices with the related purchase orders and schedules payment. We have the capability to handle customer processing electronically, although most customers prefer ordering through our sales force.

Government Regulations

We are subject to regulation by various federal, state, provincial and local agencies. These agencies include the Environmental Protection Agency, Department of Transportation, Interstate Commerce Commission, Occupational Safety and Health Administration and Department of Labor and Equal Employment Opportunity Commission. We believe we are in compliance in all material respects with existing applicable statutes and regulations affecting environmental issues and our employment, workplace health and workplace safety practices.

Competition

Although we are one of the two largest roofing materials distributors in the United States and Canada, the U.S. roofing supply industry is highly competitive. The vast majority of our competition comes from local and regional roofing supply distributors, and, to a much lesser extent, other building supply distributors and "big box" retailers. Among distributors, we compete against a small number of large distributors and many small, local, privately-owned distributors. The principal competitive factors in our business include, but are not limited to, the availability of materials and supplies; technical product knowledge and expertise; advisory or other service capabilities; pricing of products; and availability of credit. We generally compete on the basis of the quality of our services, product quality, and, to a lesser extent, price. We compete not only for customers within the roofing supply industry but also for personnel.

Employees

As of September 30, 2011, we had 2,294 employees, consisting of 687 in sales and marketing, 275 in branch management, including supervisors, 999 warehouse workers, helpers and drivers, and 333 general and administrative personnel. We believe that our employee relations are good. Twenty-seven employees are currently represented by labor unions.

Order Backlog

Order backlog is not a material aspect of our business and no material portion of our business is subject to government contracts.

Seasonality

In general, sales and net income are highest during our first, third and fourth fiscal quarters, which represent the peak months of construction, especially in our branches in the northeastern U.S. and in Canada. Our sales are substantially lower during the second quarter, when we usually incur net losses. These quarterly fluctuations have diminished as we have diversified further into the southern regions of the United States.

Geographic Data

For geographic data about our business, please see Note 15 to our Consolidated Financial Statements included elsewhere in this Form 10-K.

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ITEM 1A. RISK FACTORS

You should carefully consider the risks and uncertainties described below and other information included in this Form 10-K in evaluating us and our business. If any of the events described below occur, our business and financial results could be adversely affected in a material way. This could cause the trading price of our common stock to decline, perhaps significantly.

We may not be able to effectively integrate newly acquired businesses into our operations or achieve expected profitability from our acquisitions.

Our growth strategy includes acquiring other distributors of roofing materials and complementary products. Acquisitions involve numerous risks, including:

- unforeseen difficulties in integrating operations, technologies, services, accounting and personnel;
 - diversion of financial and management resources from existing operations;
- unforeseen difficulties related to entering geographic regions where we do not have prior experience;
 - potential loss of key employees;
 - unforeseen liabilities associated with businesses acquired; and
 - inability to generate sufficient revenue to offset acquisition or investment costs.

As a result, if we fail to evaluate and execute acquisitions properly, we might not achieve the anticipated benefits of these acquisitions, and we may incur costs in excess of what we anticipate. These risks may be greater in the case of larger acquisitions.

We may not be able to successfully identify acquisition candidates, which would slow our growth rate.

We continually seek additional acquisition candidates in selected markets and from time to time engage in exploratory discussions with potential candidates. If we are not successful in finding attractive acquisition candidates that we can acquire on satisfactory terms, or if we cannot complete acquisitions that we identify, it is unlikely that we will sustain the historical growth rates of our business.

An inability to obtain the products that we distribute could result in lost revenues and reduced margins and damage relationships with customers.

We distribute roofing and other exterior building materials that are manufactured by a number of major suppliers. Although we believe that our relationships with our suppliers are strong and that we would have access to similar products from competing suppliers should products be unavailable from current sources, any disruption in our sources of supply, particularly of the most commonly sold items, could result in a loss of revenues and reduced margins and damage relationships with customers. Supply shortages may occur as a result of unanticipated demand or production or delivery difficulties. When shortages occur, roofing material suppliers often allocate products among distributors.

Loss of key personnel or our inability to attract and retain new qualified personnel could hurt our ability to operate and grow successfully.

Our future success is highly dependent upon the services of Robert Buck, Executive Chairman of the Board, Paul Isabella, President and Chief Executive Officer, and David Grace, Executive Vice President and Chief Financial Officer. Our success will continue to depend to a significant extent on our executive officers and key management personnel, including our regional vice presidents. We do not have key man life insurance covering any of

our executive officers. We may not be able to retain our executive officers and key personnel or attract additional qualified management. The loss of any of our executive officers or other key management personnel, or our inability to recruit and retain qualified personnel, could hurt our ability to operate and make it difficult to execute our acquisition and internal growth strategies.

A change in vendor rebates could adversely affect our income and gross margins.

The terms on which we purchase product from many of our vendors entitle us to receive a rebate based on the volume of our purchases. These rebates effectively reduce our costs for products. If market conditions change, vendors may adversely change the terms of some or all of these programs. Although these changes would not affect the net recorded costs of product already purchased, it may lower our gross margins on products we sell or income we realize in future periods.

Cyclicalities in our business could result in lower revenues and reduced profitability.

We sell a portion of our products for new residential and non-residential construction. The strength of these markets depends on new housing starts and business investment, which are a function of many factors beyond our control, including credit availability, interest rates, employment levels, and consumer confidence. Downturns in the regions and markets we serve could result in lower revenues and, since many of our expenses are fixed, lower profitability. New housing starts declined or were up only slightly during the 2009 through 2011 years and the pace may continue at the lower levels or decline again further. Commercial construction activity declined in 2009 and 2010 but increased slightly in 2011. Tougher economic conditions, including tighter availability of commercial credit, contributed to the 2009-2010 decline in new commercial projects and, to a lesser extent, a decline in re-roofing projects, and may have a negative effect on current and future levels of construction, especially new non-residential construction.

Seasonality in the construction and re-roofing industry generally results in second quarter losses.

Our second quarter is typically adversely affected by winter construction cycles and weather patterns in colder climates as the level of activity in the new construction and re-roofing markets decreases. Because many of our expenses remain relatively fixed throughout the year, we generally record a loss during our second quarter. We expect that these seasonal variations will continue in the future.

If we encounter difficulties with our management information systems, we could experience problems with inventory, collections, customer service, cost control and business plan execution.

We believe our management information systems are a competitive advantage in maintaining our leadership position in the roofing distribution industry. If we experience problems with our management information systems, we could experience, among other things, product shortages and/or an increase in accounts receivable. Any failure by us to properly maintain and protect our management information systems could adversely impact our ability to attract and serve customers and could cause us to incur higher operating costs and experience delays in the execution of our business plan.

An impairment of goodwill and/or other intangible assets could reduce net income.

Acquisitions frequently result in the recording of goodwill and other intangible assets. At September 30, 2011, goodwill represented approximately 33% of our total assets. Goodwill is not amortized for financial reporting purposes and is subject to impairment testing at least annually using a fair-value based approach. The identification and measurement of goodwill impairment involves the estimation of the fair value of our reporting units. Our accounting for impairment contains uncertainty because management must use judgment in determining appropriate assumptions to be used in the measurement of fair value. We determine the fair values of our reporting units by using both a market and income approach.

We evaluate the recoverability of goodwill for impairment in between our annual tests when events or changes in circumstances indicate that the carrying amount of goodwill may not be recoverable. Any impairment of goodwill will reduce net income in the period in which the impairment is recognized.

We might need to raise additional capital, which may not be available, thus limiting our growth prospects.

We may require additional equity or further debt financing in order to consummate an acquisition or for additional working capital for expansion or if we suffer more than seasonally expected losses. In the event additional equity or debt financing is unavailable to us, we may be unable to expand or make acquisitions and our stock price may decline as a result of the perception that we have more limited growth prospects.

Disruptions in the capital and credit markets may impact the availability of credit and business conditions.

If the financial institutions that have extended credit commitments to us are adversely affected by the conditions of the capital and credit markets, they may become unable to fund borrowings under those credit commitments, which could have an adverse impact on our financial condition and our ability to borrow funds, if needed, for working capital, acquisitions, capital expenditures and other corporate purposes.

Market disruptions could cause broader economic downturns, which may lead to lower demand for our products and increased incidence of customers' inability to pay their accounts. Additional customer bankruptcies or similar events caused by such broader downturns may result in higher levels of bad debt expense than we have historically experienced. Also, our suppliers may potentially be impacted, causing potential disruptions or delays of

product availability. These events would adversely impact our results of operations, cash flows and financial position.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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ITEM 2. PROPERTIES

We lease 197 facilities as of November 1, 2011, including our headquarters and other support facilities, throughout the United States and Canada. These leased facilities range in size from approximately 1,500 square feet to 137,000 square feet. In addition, we own thirteen sales/warehouse facilities located in Manchester, New Hampshire; Reading, Pennsylvania; Montreal, Quebec (2); Sainte-Foy, Quebec; Delson, Quebec; Salisbury, Maryland; Hartford, Connecticut; Cranston, Rhode Island; Lancaster, Pennsylvania; Jacksonville, Florida; Easton, Maryland; and Manassas, Virginia. These owned facilities range in size from 11,500 square feet to 68,000 square feet. We also own a parcel of land in Trois Rivieres, Quebec. All of the owned properties are mortgaged to our senior lenders. We believe that our properties are in good operating condition and adequately serve our current business operations.

As of November 1, 2011, our 194 branches, a few with multiple leased facilities or combined facilities, and 10 other facilities were located in the following states and provinces:

State	Number of Branches	Other
Alabama	5	
Arkansas	4	
California	4	
Colorado	6	4
Connecticut	2	1
Delaware	2	
Florida	6	1
Georgia	5	
Illinois	7	
Indiana	6	
Iowa	1	
Kansas	4	
Kentucky	4	
Louisiana	4	1
Maine	1	
Maryland	13	1
Massachusetts	9	
Michigan	3	
Minnesota	2	
Mississippi	2	
Missouri	5	
Nebraska	4	
New Hampshire	1	
New Jersey	1	
New Mexico	1	
New York	1	
North Carolina	11	
Ohio	4	
Oklahoma	3	
Pennsylvania	13	
Rhode Island	1	
South Carolina	4	
Tennessee	5	

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Texas	19	
Vermont	1	
Virginia	9	1
West Virginia	2	
Wyoming	2	
Subtotal—U.S.	177	9
Canadian Provinces		
Alberta	2	
Saskatoon	2	
British Columbia	2	
Ontario	4	1
Quebec	6	
Nova Scotia	1	
Subtotal—Canada	17	1
Total	194	10

ITEM 3. LEGAL PROCEEDINGS

From time to time, we are involved in lawsuits that are brought against us in the normal course of business. We are not currently a party to any legal proceedings that would be expected, either individually or in the aggregate, to have a material adverse effect on our business or financial condition.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock trades on The NASDAQ Global Select Market under the symbol "BECN". The following table lists quarterly information on the price range of our common stock based on the high and low reported sale prices for our common stock as reported by NASDAQ for the periods indicated below:

	High	Low
Year ended September 30, 2010:		
First quarter	\$ 16.89	\$ 14.31
Second quarter	\$ 19.31	\$ 16.00
Third quarter	\$ 22.81	\$ 18.02
Fourth quarter	\$ 18.50	\$ 13.76
Year ended September 30, 2011:		
First quarter	\$ 18.30	\$ 14.22
Second quarter	\$ 21.70	\$ 17.87
Third quarter	\$ 22.82	\$ 19.35
Fourth quarter	\$ 23.24	\$ 14.89

There were 32 holders of record of our common stock as of November 1, 2011.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

No purchases of our equity securities were made by us or any affiliated entity during the fourth quarter of the year ended September 30, 2011.

Recent Sales of Unregistered Securities

None.

Dividends

We have not paid cash dividends on our common stock and do not anticipate paying dividends in the foreseeable future. Our board of directors currently intends to retain any future earnings for reinvestment in our business. Our revolving credit facilities currently prohibit the payment of dividends without the prior written consent of our lender. Any future determination to pay dividends will be at the discretion of our board of directors and will be dependent upon our results of operations and cash flows, our financial position and capital requirements, general business conditions, legal, tax, regulatory and any contractual restrictions on the payment of dividends, and any other factors our board of directors deems relevant.

Performance Graph

The following graph compares the cumulative total shareholder return (including reinvestment of dividends) of Beacon Roofing Supply, Inc.'s common stock based on its market prices, beginning with the start of fiscal year 2007 and each fiscal year thereafter, with (i) the Nasdaq Index and (ii) the S&P 1500 Building Products Index.

The line graph assumes that \$100 was invested in our common stock, the Nasdaq Index and the S&P 1500 Building Products Index on September 30, 2006. The closing price of our common stock on September 30, 2011 was \$15.99. The stock price performance of Beacon Roofing Supply, Inc.'s common stock depicted in the graph above represents past performance only and is not necessarily indicative of future performance.

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ITEM 6. SELECTED FINANCIAL DATA

You should read the following selected financial information together with our financial statements and related notes and "Management's discussion and analysis of financial condition and results of operations" also included in this Form 10-K. We have derived the statement of operations data for the years ended September 30, 2011, September 30, 2010 and September 30, 2009, and the balance sheet information at September 30, 2011 and September 30, 2010, from our audited financial statements included in this Form 10-K. We have derived the statements of operations data for the years ended September 30, 2008 and September 30, 2007, and the balance sheet data at September 30, 2009, September 30, 2008 and September 30, 2007, from our audited financial statements not included in this Form 10-K.

Statement of operations data

	Fiscal year ended September 30,				
	2011	2010	2009	2008	2007
(Dollars in Thousands)					
Net sales	\$ 1,817,423	\$ 1,609,969	\$ 1,733,967	\$ 1,784,495	\$ 1,645,785
Cost of products sold	1,397,798	1,249,869	1,322,845	1,364,487	1,271,868
Gross profit	419,625	360,100	411,122	420,008	373,917
Operating expenses	315,883	286,583	301,913	325,298	304,109
Income from operations	103,742	73,517	109,209	94,710	69,808
Interest expense	(13,364)	(18,210)	(22,887)	(25,904)	(27,434)
Income taxes	(31,158)	(20,781)	(33,904)	(28,500)	(17,095)
Net income	\$ 59,220	\$ 34,526	\$ 52,418	\$ 40,306	\$ 25,279
Net income per share					
Basic	\$ 1.29	\$ 0.76	\$ 1.16	\$ 0.91	\$ 0.57
Diluted	\$ 1.27	\$ 0.75	\$ 1.15	\$ 0.90	\$ 0.56
Weighted average shares outstanding					
Basic	45,919,198	45,480,922	45,007,313	44,346,293	44,083,915
Diluted	46,753,152	46,031,593	45,493,786	44,959,357	44,971,932
Other financial and operating data:					
Depreciation and amortization	\$ 25,060	\$ 27,773	\$ 30,389	\$ 34,240	\$ 32,863
Capital expenditures (excluding acquisitions)	\$ 14,433	\$ 10,268	\$ 14,277	\$ 5,739	\$ 23,132
Number of branches at end of period	185	179	172	175	178

Balance sheet data

(In Thousands)	2011	2010	September 30, 2009	2008	2007
Cash and cash equivalents	\$ 143,027	\$ 117,136	\$ 82,742	\$ 26,038	\$ 6,469
Total assets	\$ 1,156,964	\$ 1,042,189	\$ 1,040,786	\$ 1,067,816	\$ 1,006,660
Borrowings under revolving lines of credit, current portions of long-term debt and other obligations	\$ 15,605	\$ 15,734	\$ 15,092	\$ 19,926	\$ 34,773
Long-term debt, net of current portions:					
Senior notes payable and other obligations	\$ 301,544	\$ 311,771	\$ 322,090	\$ 332,500	\$ 343,000
Other long-term obligations	9,967	11,910	16,257	25,143	31,270
	\$ 311,511	\$ 323,681	\$ 338,347	\$ 357,643	\$ 374,270
Stockholders' equity	\$ 538,427	\$ 468,844	\$ 423,573	\$ 366,701	\$ 323,850

Note: 2011 income taxes included a one-time benefit of \$5,060, or \$0.11 income per diluted share, associated with a change in the tax status of our Canadian operations.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our consolidated financial statements and related notes and other financial information appearing elsewhere in this Form 10-K. In addition to historical information, the following discussion and other parts of this Form 10-K contain forward-looking information that involves risks and uncertainties. Our actual results could differ materially from those anticipated by this forward-looking information due to the factors discussed under "Risk factors," "Forward-looking statements" and elsewhere in this Form 10-K. Certain tabular information will 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 building materials, including siding, windows, specialty lumber products and waterproofing systems for residential and nonresidential 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 material suppliers.

We currently carry up to 10,000 SKUs through 194 branches in the United States and Canada. In fiscal year 2011, approximately 92% 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 strive for an appropriate mix of residential, non-residential and complementary product sales in all of our regions but allow each of our branches to influence 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 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. While 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 May 2011 acquisition of Enercon Products ("Enercon") is one example of this approach. Enercon is a roofing distributor with six locations in Western Canada. Headquartered within its branch in Edmonton, Enercon also has branches in Calgary, Regina and Saskatoon and two branches in Vancouver, with no branch overlap with our existing operations. In addition, we also acquire smaller companies to supplement branch openings within existing markets. Our April 2010 acquisition of Louisiana Roofing Supply, a single location distributor of residential and commercial roofing products located in Baton Rouge, Louisiana, which we integrated into our West End Roofing Siding and Windows region in the Southwest, is an example of such an acquisition.

General

We sell all materials necessary to install, replace and repair residential and non-residential roofs, including:

shingles;
single-ply roofing;
metal roofing and accessories;
modified bitumen;
built up roofing;
insulation;
slate and tile;
fasteners, coatings and cements; and
other roofing accessories.

We also sell complementary building products such as:

vinyl siding;
doors, windows and millwork;
wood and fiber cement siding;
residential insulation; and
waterproofing systems.

The following is a summary of our net sales by product group (in thousands) for the last three full fiscal years (“2011”, “2010” and “2009”). Percentages may not total due to rounding.

	September 30, 2011		Year Ended September 30, 2010		September 30, 2009	
	Net Sales	Mix	Net Sales	Mix	Net Sales	Mix
Residential roofing products	\$ 845,570	46.5 %	\$ 748,007	46.5 %	\$ 898,796	51.8 %
Non-residential roofing products	723,627	39.8 %	619,348	38.5 %	598,789	34.5 %
Complementary building products	248,226	13.7 %	242,614	15.1 %	236,382	13.6 %
	\$ 1,817,423	100.0 %	\$ 1,609,969	100.0 %	\$ 1,733,967	100.0 %

We have approximately 40,000 customers, none of which represents more than 2% of our net sales. Many of our customers are small to mid-size contractors with relatively limited capital resources. We maintain strict credit approval and review policies, which has helped to keep losses from customer receivables within our expectations. In 2011, bad debts were slightly higher than normal levels at 0.4% of net sales but still within our tolerance in consideration of the continued challenging economic and credit climate.

Our expenses consist primarily of the cost of products purchased for resale, labor, fleet, occupancy, and selling and administrative expenses. We compete for business and may respond to competitive pressures at times by lowering prices in order to maintain our market share.

Since 1997, we have made twenty-five strategic and complementary acquisitions and opened 38 new branches (two of which have been closed). We opened three new branches in 2011, none in 2010 and three in 2009. We slowed the pace of new branch openings since 2007, mostly as a result of the economic downturn. Typically, when we open a new branch, we transfer a certain level of existing business from an existing branch to the new branch. This allows the new branch to commence with a base business and also allows the existing branch to target other growth opportunities.

In managing our business, we consider all growth, including the opening of new branches, to be internal growth unless it is a result of an acquisition. In our management's discussion and analysis of financial condition and results of operations, when we refer to growth in existing markets, 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 reporting period. Our average annual internal sales growth over the seven fiscal years since our IPO was 3.1%. When we refer to our net product costs, we are referring to our invoice cost less the impact of short-term buying programs (also referred to as “special buys” given the manner in which they are offered).

Results of operations

The following discussion compares our results of operations for 2011, 2010 and 2009.

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 total due to rounding.

Year ended

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	September 30, 2011	September 30, 2010	September 30, 2009
Net sales	100.0 %	100.0 %	100.0
Cost of products sold	76.9	77.6	76.3
Gross profit	23.1	22.4	23.7
Operating expenses	17.4	17.8	17.4
Income from operations	5.7	4.6	6.3
Interest expense	(0.7)	(1.1)	(1.3)
Income before income taxes	5.0	3.4	5.0
Income taxes	(1.7)	(1.3)	(2.0)
Net income	3.3 %	2.1 %	3.0 %

2011 compared to 2010

The following table shows a summary of our results of operations for 2011 and 2010, broken down by existing markets and acquired markets.

(in thousands)	Existing Markets		Acquired Markets				Consolidated	
	2011	2010	2011	2010	2011	2010	2011	2010
Net sales	\$ 1,730,267	\$ 1,583,687	\$ 87,156	\$ 26,282	\$ 1,817,423	\$ 1,609,969		
Gross profit	399,262	355,000	20,363	5,080	419,625	360,080		
Gross margin	23.1 %	22.4 %	23.4 %	19.3 %	23.1 %	22.4 %		
Operating expenses	296,666	280,342	19,217	6,221	315,883	286,563		
Operating expenses as a % of net sales	17.1 %	17.7 %	22.0 %	23.7 %	17.4 %	17.8 %		
Operating income (loss)	\$ 102,596	\$ 74,658	\$ 1,146	\$ (1,141)	\$ 103,742	\$ 73,517		
Operating margin	5.9 %	4.7 %	1.3 %	-4.3 %	5.7 %	4.6 %		

Net Sales

Consolidated net sales increased \$207.5 million, or 12.9%, to \$1,817.4 million in 2011 from \$1,610.0 million in 2010. Existing market sales increased \$146.6 million or 9.3% (8.8% based on the same number of business days), while acquired market sales increased \$60.9 million due to a full year's sales impact from the 2010 acquisitions and the impact from the May 2011 Enercon acquisition. We attribute the existing market sales increase primarily to the following factors:

- strong growth in the markets affected by this spring's hail storms;
 - continued strong growth in non-residential roofing activity in most of the other regions; and
 - industry-wide increases in asphalt shingle and other prices;
- partially offset by:
- volume declines in residential re-roofing activity in a few regions.

In 2011, we acquired six branches, opened three new branches, and closed three branches. We estimate the impact of inflation or deflation on our sales and gross profit by looking at changes in our net product costs and invoiced gross margins, and since last year we experienced an approximate 4% increase in residential roofing product costs and approximately 4-7% increases in non-residential and complementary product costs. The net impact of these factors increased our overall net product costs by approximately 5%, although we believe average sales prices may have

increased at a slightly higher rate as mentioned in the discussion of gross profit below. We had 254 business days in 2011 compared to 253 in 2010. Net sales, excluding acquired branches, increased in every geographical region as follows: Northeast 9.9%; Mid-Atlantic 8.5%; Southeast 1.0%; Southwest 6.0%; Midwest 15.8%; West 18.7%; and Canada 1.3%. These variations were primarily caused by short-term factors such as local economic conditions, weather conditions and storm activity.

The product group sales for our existing markets were as follows:

For the Fiscal Years Ended

(dollars in millions)	2011		2010		Change	% Change Based On Average Sales Per Business Day	
	Net Sales	Mix	Net Sales	Mix			
Residential roofing products	\$ 801.7	46.3 %	\$ 736.9	46.5 %	\$ 64.8	8.8 %	8.4 %
Non-residential roofing products	683.9	39.5 %	606.3	38.3 %	77.6	12.8 %	12.4 %
Complementary building products	244.7	14.1 %	240.5	15.2 %	4.2	1.7 %	1.3 %
	\$ 1,730.3	100.0 %	\$ 1,583.7	100.0 %	\$ 146.6	9.3 %	8.8 %

For 2011, our acquired markets recognized sales of \$43.9, \$39.7 and \$3.6 million in residential roofing products, non-residential roofing products and complementary building products, respectively. The 2011 existing market sales of \$1,730.3 million plus the sales from acquired markets of \$87.2 million agrees (rounded) to our reported total 2011 sales of \$1,817.4 million. For 2010, our acquired markets recognized sales of \$11.1, \$13.1 and \$2.1 million in residential roofing products, non-residential roofing products and complementary building products, respectively. The 2010 existing market sales of \$1,583.7 million plus the sales from acquired markets of \$26.3 million agrees to our reported total 2010 sales of \$1,610.0 million. Prior year sales by product group are presented in a manner consistent with the current year's product classifications. We believe the existing market information is useful to investors because it helps explain organic growth or decline.

Gross Profit

	2011	2010	Change	
	(dollars in millions)			
Gross profit	\$ 419.6	\$ 360.1	\$ 59.5	16.5 %
Existing markets	399.3	355.0	44.3	12.5 %
Gross margin	23.1 %	22.4 %	0.7 %	
Existing markets	23.1 %	22.4 %	0.7 %	

Our existing market gross profit increased \$44.3 million or 12.5% in 2011, while our acquired market gross profit increased \$15.3 million. Our overall and existing market gross margins increased to 23.1% from 22.4% in 2011 from 2010. The 2010 margin rate was lower than the historical average rate due to a more competitive market and low demand in 2010. In 2011, there was more storm demand and average selling prices increased in most of our markets, which allowed us to generate gross margins more consistent with our historical results. In addition, we were able to increase our inventory levels ahead of certain vendor price increases. However, our mix of non-residential product sales, which generally have lower gross margins, increased slightly in 2011.

Direct sales (products shipped by our vendors directly to our customers), which typically have substantially lower gross margins than our warehouse sales, represented 20.4% and 20.3% of our net sales in 2011 and 2010, respectively. This slight increase in the percentage of direct sales was primarily attributable to the slightly higher mix of non-residential roofing product sales, which are more commonly facilitated by direct shipment. There were no material regional impacts from changes in the direct sales mix of our geographical regions.

Operating Expenses

	2011	2010	Change	
	(dollars in millions)			
Operating expenses	\$ 315.9	\$ 286.6	\$ 29.3	10.2 %
Existing markets	296.7	280.3	16.3	5.8 %
Operating expenses as a % of sales	17.4 %	17.8 %	-0.4 %	
Existing markets	17.1 %	17.7 %	-0.6 %	

Operating expenses in our existing markets increased by \$16.3 million or 5.8% in 2011 to \$296.7 million from \$280.3 million in 2010, while our acquired market expenses increased \$13.0 million. The following factors were the leading causes of the higher operating expenses in our existing markets:

- increased payroll and related costs of \$12.0 million due to higher incentive-based and overtime pay, primarily associated with our higher sales and operating results, along with higher related payroll taxes and certain benefits;
- increased selling expenses of \$5.4 million principally from higher fuel costs, outsourced trucking expenses, credit card fees and other selling expenses; and
- increased bad debt expense of \$3.3 million mainly due to an increased estimated allowance for potential bad debts; partially offset by
 - decreased depreciation and amortization expense of \$3.8 million from lower amortization of intangibles and reduced depreciation from the impact of low capital expenditures in recent years; and
 - savings in warehouse expenses of \$0.5 million mainly from lower maintenance costs.

In 2011, we expensed a total of \$8.6 million for the amortization of intangible assets recorded under purchase accounting compared to \$9.9 million in 2010. Our existing market operating expenses as a percentage of net sales decreased to 17.1% in 2011 from 17.7% in 2010 due to the positive impact from the higher sales, partially offset by the impact from the above increases.

Interest Expense

Interest expense decreased \$4.8 million to \$13.4 million in 2011 from \$18.2 million in 2010. This decrease was primarily due to lower debt and the expiration of certain interest rate derivatives in April 2010 that carried higher interest rates than the rates on our current derivatives. In addition, we benefited from low interest rates on the portion of our debt no longer hedged. Interest expense would have been \$5.1 and \$8.9 million less in 2011 and 2010, respectively, without the impact of our derivatives.

Income Taxes

Income tax expense was \$31.2 million in 2011, an effective tax rate of 34.5%, compared to \$20.8 million in 2010, which was an effective tax rate of 37.6%. This year's income tax expense includes the beneficial impact of \$5.1 million, \$0.11 diluted earnings per share, from the reversal of the net deferred tax liability associated with a change in the tax status of our Canadian operations as discussed below. Without that benefit, our effective tax rate would have been approximately 40.1% in 2011, while we expect our annual tax rate to average approximately 39.0% to 39.5% going forward, excluding any future discrete items. The 2010 effective rate included benefits totaling \$1.4 million from reversals of certain discrete tax reserves and releases of valuation allowances on certain deferred tax assets.

During the fourth quarter of 2011, our request to have our Canadian subsidiary (Beacon Roofing Supply Canada Company or "BRSCC") treated as a Controlled Foreign Corporation ("CFC"), retroactive to October 1, 2009, was approved by the IRS. BRSCC was previously treated as a "pass-through" or disregarded entity for U.S. federal income tax purposes. Subsequent to October 1, 2009, BRSCC's taxable income, which reflects all of our Canadian operations, is being taxed only in Canada and would generally be taxed in the U.S. only upon an actual or deemed distribution. We expect to indefinitely reinvest BRSCC's earnings and therefore no U.S. deferred tax asset or liability for the differences between the book basis and the tax basis of BRSCC will be recorded in the foreseeable future. Unremitted earnings of \$25.4 million were considered permanently reinvested at September 30, 2011. A quantification of the associated deferred tax liability on those unremitted earnings of BRSCC has not been made, as the determination of such liability is not practicable.

ASC 740 provides that the effect of an election for a voluntary change in tax status is recognized for accounting purposes on the approval date. Therefore all of the associated adjustments to our income tax accounts for the above approved election were recorded in the fourth quarter of 2011, including the adjustments resulting from a lower Canadian tax rate compared to the U.S. tax rate in 2011 and 2010. Deferred assets and liabilities that were recorded over the time BRSCC was treated as a pass-through entity were derecognized and the resulting impact of \$5.1 million was included in income from continuing operations, including the reversal of a deferred tax liability of \$3.2 million previously reported as a component of other comprehensive income. The reversal was recorded in current year earnings as backwards tracing of such amounts to other comprehensive income is prohibited.

2010 compared to 2009

The following table shows a summary of our results of operations for 2010 and 2009, broken down by existing markets and acquired markets.

(in thousands)	Existing Markets		Acquired Markets		Consolidated	
	2010	2009	2010	2009	2010	2009
Net sales	\$ 1,583,687	\$ 1,733,967	\$ 26,282	\$ -	\$ 1,609,969	\$ 1,733,967
Gross profit	355,000	411,122	5,100	-	360,100	411,122

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Gross margin	22.4	%	23.7	%	19.4	%	22.4	%	23.7	%
Operating expenses	280,342		301,913		6,241		-		286,583	301,913
Operating expenses as a % of net sales	17.7	%	17.4	%	23.7	%	17.8	%	17.4	%
Operating income	\$ 74,658		\$ 109,209		\$ (1,141)		\$ -		\$ 73,517	\$ 109,209
Operating margin	4.7	%	6.3	%	-4.3	%	4.6	%	6.3	%

Net Sales

Consolidated net sales decreased \$124.0 million, or 7.2%, to \$1,610.0 million in 2010 from \$1,734.0 million in 2009. Existing market sales decreased \$150.3 million or 8.7%, while acquired markets contributed \$26.3 million. We attribute the existing market sales decline primarily to the following factors:

- a decrease in re-roofing activity in the areas affected by Hurricane Ike in 2009; and
 - continued general weakness in residential roofing activities in certain other regions;
- partially offset by:

- recent growth in non-residential roofing activity in most regions; and
- a recent resurgence of growth in our complementary product sales.

We acquired nine branches in 2010 and closed two. We estimate that inflation in our product costs had no material impact on product costs in 2010 compared to 2009; however average selling prices were generally lower. We had 253 business days in both 2010 and 2009. Net sales by geographical region, excluding acquired branches, grew or (declined) as follows: Northeast 2.8%; Mid-Atlantic 7.4%; Southeast (10.4%); Southwest (32.6%); Midwest (9.2%); West (15.2%); and Canada 10.3%. These variations were primarily caused by short-term factors such as local economic conditions, weather conditions and storm activity.

The product group sales for our existing markets were as follows:

For the Fiscal Years Ended

(dollars in millions)	2010		2009		Change	
	Net Sales	Mix	Net Sales	Mix		
Residential roofing products	\$ 736.7	46.5 %	\$ 898.8	51.8 %	\$ (162.1)	-18.0 %
Non-residential roofing products	605.7	38.2 %	598.8	34.5 %	6.9	1.2 %
Complementary building products	241.3	15.2 %	236.4	13.6 %	4.9	2.1 %
	\$ 1,583.7	100.0 %	\$ 1,734.0	100.0 %	\$ (150.3)	-8.7 %

For 2010, our acquired markets had product group sales of \$8.9, \$15.3 and \$2.1 million in residential roofing products, non-residential roofing products and complementary building products, respectively. Total 2010 existing market sales of \$1,583.7 million plus 2010 sales from acquired markets of \$26.3 million equals our reported 2010 sales of \$1,610.0 million. Prior year sales by product group are presented in a manner consistent with the current year's product classifications. We believe the existing market information is useful to investors because it helps explain organic growth or decline.

Gross Profit

	2010	2009	Change	
	(dollars in millions)			
Gross profit	\$ 360.1	\$ 411.1	\$ (51.0)	-12.4 %
Existing markets	355.0	411.1	(56.1)	-13.6 %
Gross margin	22.4 %	23.7 %	-1.3 %	
Existing markets	22.4 %	23.7 %	-1.3 %	

Our existing market gross profit decreased \$56.1 million or 13.6% in 2010, while our acquired market gross profit contributed \$5.1 million. Our overall and existing market gross margin decreased to 22.4% in 2010 from 23.7% in 2009. The margin rate decrease in our existing markets resulted primarily from approximately equal impacts generated by a more competitive market and a higher sales mix of non-residential roofing products, which typically have lower gross margins. These negative factors were partially offset by higher 2010 vendor incentive income,

primarily from short-term buying programs.

Direct sales (products shipped by our vendors directly to our customers), which typically have substantially lower gross margins than our warehouse sales, represented 20.3% and 19.0% of our net sales in 2010 and 2009, respectively. The slight increase in the percentage of direct sales was primarily attributable to the higher mix of non-residential roofing product sales. There were no material regional impacts from changes in the direct sales mix of our geographical regions.

Operating Expenses

	2010	2009	Change	
	(dollars in millions)			
Operating expenses	\$ 286.6	\$ 301.9	\$ (15.3)	-5.1 %
Existing markets	280.3	301.9	(21.6)	-7.1 %
Operating expenses as a				
% of sales	17.8 %	17.4 %	0.4 %	
Existing markets	17.7 %	17.4 %	0.3 %	

Our existing market operating expenses decreased by \$21.6 million or 7.1% in 2010 to \$280.3 million from \$301.9 million in 2009, while our acquired markets incurred \$6.3 million in operating expenses. The following factors were the leading causes of our lower operating expenses in our existing markets:

- savings of \$9.8 million in payroll and related costs, due to a lower employee headcount, lower incentive-based pay, and lower related benefits (including a lower profit-sharing accrual);
- savings of \$6.9 million in other general & administrative expenses from a reduction in the provision for bad debts of \$4.7 million, reduced claim costs in our self-insurance programs and certain cost saving actions;
- reduced depreciation and amortization expense of \$3.1 million due mostly to lower amortization of intangible assets;
- savings of \$1.1 million in various selling expenses, such as reduced credit card fees due to the lower sales volume and certain cost saving actions, partially offset by higher fuel costs; and
 - savings of \$0.7 million in warehouse expenses mainly due to lower branch closing costs.

In 2010, we expensed a total of \$9.9 million for the amortization of intangible assets recorded under purchase accounting compared to \$12.2 million in 2009. Our existing market operating expenses as a percentage of net sales increased to 17.7% in 2010 from 17.4% in 2009 due to the reductions outlined above offset by a larger percentage decline in net sales.

Interest Expense

Interest expense decreased \$4.7 million to \$18.2 million in 2010 from \$22.9 million in 2009. This decrease was primarily due to lower debt and the expiration of certain interest derivatives that carried higher interest rates than the rates on our current derivatives and lower variable interest rates on the unhedged components of our debt. Interest expense would have been \$8.9 and \$8.3 million less in 2010 and 2009, respectively, without the impact of our derivatives.

Income Taxes

Income tax expense decreased to \$20.8 million in 2010 from \$33.9 million in 2009 and our effective income tax rate decreased to 37.6% from 39.3% in 2009. The 2010 income tax expense includes benefits from the reversals of certain discrete tax reserves and releases of valuation allowances on certain deferred tax assets totaling \$1.4 million and from a higher percentage of Canadian income in 2010 than in 2009.

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. We have historically incurred low net income levels or net losses during the second quarter when our sales are substantially lower.

We generally experience an increase in inventory, accounts receivable and accounts payable during the third and fourth quarters of the year as a result of the seasonality of our business. Our peak cash usage generally occurs during the third quarter, primarily because accounts payable terms offered by our suppliers typically have due dates 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 regions. We continue to attempt to collect those receivables, which require payment under our standard terms. We typically do

not provide material concessions to our customers during this quarter of the year.

Our vendors are also affected by the seasonality in the industry and are more likely to provide seasonal incentives in our second quarter as a result of the lower level of roofing activity. 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 the fiscal years 2011 and 2010 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 total due to rounding.

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	Fiscal year 2011				Fiscal year 2010			
	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Qtr 1	Qtr 2	Qtr 3	Qtr 4
	(dollars in millions, except per share data)							
	(unaudited)							
Net sales	\$ 404.8	\$ 296.3	\$ 540.7	\$ 575.6	\$ 367.7	\$ 285.4	\$ 474.3	\$ 482.6
Gross profit	94.8	65.2	126.7	132.9	88.3	61.1	104.3	106.4
Income (loss)								
from operations	19.8	(6.8)	43.1	47.6	18.5	(6.0)	30.2	30.8
Net income (loss)	\$ 10.1	\$ (6.2)	\$ 24.1	\$ 31.3	\$ 7.8	\$ (6.5)	\$ 16.3	\$ 16.9
Earnings (loss)								
per share - basic	\$ 0.22	\$ (0.13)	\$ 0.52	\$ 0.68	\$ 0.17	\$ (0.14)	\$ 0.36	\$ 0.37
Earnings (loss)								
per share - fully diluted	\$ 0.22	\$ (0.13)	\$ 0.51	\$ 0.67	\$ 0.17	\$ (0.14)	\$ 0.35	\$ 0.37
Quarterly sales as % of year's sales	22.3 %	16.3 %	29.8 %	31.7 %	22.8 %	17.7 %	29.5 %	30.0 %
Quarterly gross profit as % of year's gross profit	22.6 %	15.5 %	30.2 %	31.7 %	24.5 %	17.0 %	29.0 %	29.5 %
Quarterly income (loss) from operations as % of year's income from operations	19.1 %	-6.6 %	41.6 %	45.9 %	25.2 %	-8.1 %	41.1 %	41.9 %

Earnings in the fourth quarter of 2011 included the beneficial impact of \$5.1 million, \$0.11 diluted earnings per share, from the reversal of a net deferred tax liability associated with a change in the tax status of our Canadian operations as discussed above and in Note 12.

Impact of inflation

We believe that our results of operations are not materially impacted by moderate changes in the inflation rate. In general, we have been able to pass on price increases from our vendors to our customers in a timely manner. Although we experienced fluctuations in average inventory prices that were consistent throughout the industry during 2011 (mostly declining in the first half and mostly increasing in the second half), inflation and changing prices did not have a material impact on our net operating results in 2011 or 2010.

Liquidity and capital resources

We had cash and cash equivalents of \$143.0 million at September 30, 2011 compared to \$117.1 million at September 30, 2010. Our net working capital was \$410.8 million at September 30, 2011 compared to \$367.6 million at September 30, 2010.

2011 compared to 2010

Our net cash provided by operating activities was \$79.3 million in 2011 compared to \$73.9 million in 2010. The higher cash from operations was due to the increase in net income of \$24.7 million, mostly offset by cash used by working capital changes, net of the impact of businesses acquired. Changes in working capital provided a favorable increase in accounts payable and accrued expenses of \$53.0 million and a favorable decrease in prepaid expenses and other assets of \$7.5 million. These were more than offset by unfavorable increases in accounts receivable and inventories of \$35.3 and \$35.0 million, respectively. The increase in accounts payable and accrued expenses was primarily due to a higher level of inventory purchases later this year and higher accrued income taxes. The increase in accounts receivable was due to stronger fourth quarter sales in 2011 as compared to 2010. Our days sales outstanding (calculated based on the ending accounts receivable balance and the most recent quarter's sales) were down slightly due to the stronger fourth quarter sales and a lower fourth-quarter mix of non-residential sales this year, which generally have longer payment terms. Inventory turns were relatively flat year over year, as the impact of this year's larger build-up of inventory was offset by the impact of the higher sales. The higher level of inventory was primarily due to more normal purchasing levels in the fourth quarter of 2011 compared to last year, when we curtailed fourth-quarter purchases. We are also maintaining higher levels of inventories in the branches that are currently servicing storm demand. In addition, we have seen average overall product costs increase approximately 5% since 2010. Lastly, the decrease in prepaid expenses and other assets was mostly due to declines in prepaid income taxes and amounts due from vendors for incentives.

Net cash used in investing activities was \$47.8 million in 2011 compared to \$28.8 million in 2010. This increase was due to the cost of our acquisitions and higher capital spending for transportation and material handling equipment. We currently expect fiscal year 2012 capital expenditures to approximate 1.0% of net sales, mostly dependent upon our sales volume and exclusive of the impact of branch openings.

Net cash used by financing activities was \$5.0 million in 2011 compared to \$10.8 million in 2010. These amounts primarily reflected repayments under our credit facilities, partially offset by proceeds from new equipment financings (\$3.2 million) in 2011 and from the exercise of stock options.

2010 compared to 2009

Our net cash provided by operating activities was \$73.9 million in 2010 compared to \$87.6 million in 2009. The lower cash from operations was partially due to the drop of \$17.9 million in our net income. The following mentioned changes in working capital exclude the impact of businesses acquired. Accounts payable and accrued expenses decreased \$39.1 million in 2010, reflecting the impact from lower purchasing levels associated with our effort to decrease inventories in the fourth quarter. Accounts receivable increased by \$6.5 million in 2010 mostly due to the higher sales mix of non-residential roofing products that generally have longer payment terms (the number of days outstanding for accounts receivable increased due to the same factor). Inventories, with a decline of \$41.0 million, was a favorable offset to the preceding negative influences on cash, as we curtailed the previously high level of special buys late in 2010 due to a more stable pricing climate from our asphalt shingle suppliers. Inventory turns, based upon average inventory for the fourth quarter, were flat year over year. Also, we saw a favorable decrease of \$8.7 million in prepaid expenses and other assets, including the impact from a drop in escrows (associated with past acquisitions) and lower rebates receivable resulting from the lower purchases in the fourth quarter.

Net cash used in investing activities was \$28.8 million in 2010 compared to \$13.7 million in 2009. This increase was mainly due to the cost of our acquisitions, partially offset by lower capital spending for transportation and material handling equipment. We continue to closely manage our capital expenditures during these challenging economic times.

Net cash used by financing activities was \$10.8 million in 2010 compared to \$17.6 million in 2009. These amounts primarily reflected repayments under our credit facilities, partially offset by proceeds from the exercise of stock options.

Capital Resources

Our principal source of liquidity at September 30, 2011 was our cash and cash equivalents of \$143.0 million and our available borrowings of \$159.7 million under revolving lines of credit, which takes into account all of the debt covenants, including the maximum consolidated leverage ratio and capital expenditures limit discussed below. Our borrowing base availability is determined primarily by trade accounts receivable, less outstanding borrowings. Borrowings outstanding under the revolving lines of credit in the accompanying balance sheet at September 30, 2011 and 2010 were classified as short-term debt because we paid off those borrowings subsequent to the respective year-ends and there is no current expectation of a minimum level of outstanding revolver borrowings during the subsequent 12 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. Our cash equivalents are comprised of highly liquid money market funds which invest primarily in commercial paper or bonds with a rating of A-1 or better, and bank certificates of deposit.

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 paid for acquisitions from cash on hand or financed them initially through increased bank borrowings, the issuance of common stock and/or other borrowings. We then repay any such borrowings with cash flows from operations. We have funded 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 continually seek potential acquisitions and from time to time hold discussions with 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 strong base for obtaining additional financing resources at competitive 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.

Monitoring and Assessing Collectability of Accounts Receivable

We perform periodic credit evaluations of our customers and typically do not require collateral, although we typically obtain payment and performance bonds for any type of public work and have the ability to lien projects under certain circumstances. Consistent with industry practices, we require payment from most customers within 30 days, except for sales to our commercial roofing contractors, which we typically require to pay in 60 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 closely monitor our receivables and record estimated reserves based upon our judgment of specific customer situations, aging of accounts and our historical write-offs of uncollectible accounts.

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Our regional credit offices are staffed to manage and monitor our receivable aging balances and our systems allow us to enforce pre-determined credit approval levels and properly leverage new business. The credit pre-approval process denotes the maximum requested credit amount that each level of management can approve, with the highest credit amount requiring approval by our CEO and CFO. There are daily communications with branch and field staff and the regional offices conduct periodic reviews with their branch managers, various regional management staff and the VP-Credit. Depending on the state of the respective region's receivables, these reviews can be weekly, bi-weekly, or monthly. Additionally, the regions are required to submit a monthly receivable forecast to the VP-Credit. On a monthly basis, the VP-Credit will review and discuss these forecasts, as well as a prior month recap, with the CEO and CFO.

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 based upon the following factors:

- aging statistics and trends;
- customer payment history;
- review of the customer's financial statements when available;
- independent credit reports; and
- discussions with customers.

We still pursue collection of amounts written off in certain circumstances and credit the allowance for any subsequent recoveries. In the past, bad debts typically averaged approximately 0.3% of net sales. In 2011, bad debts increased slightly to 0.4% of net sales, which was still within our tolerance in consideration of the challenging economic and credit climate.

Indebtedness

We currently have the following credit facilities:

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

Senior Secured Credit Facilities

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

The Credit Facility consists of a U.S. revolving credit facility of \$150 million (the "US Revolver"), which includes a sub-facility of \$20 million for letters of credit, and 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 \$159.7 million available for borrowings and less than

\$0.1 million was outstanding under the US Revolver and Canadian Revolver at September 30, 2011. There were \$4.6 million of outstanding standby letters of credit at September 30, 2011. The Term Loan requires amortization of 1% per year, payable in quarterly installments of approximately \$0.8 million, plus any required prepayments under the Excess Cash Flow, discussed below, and with the remainder 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 2011, we will be required to make a \$7.0 million payment by May 15, 2012. The amounts payable under this provision were classified as short-term debt at September 30, 2011 and 2010.

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 US 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 at the base rate (3.25% at September 30, 2011), while the Canada revolver carries an interest rate of the Canadian prime rate plus 0.75% (3.00% at September 30, 2011), and the Term Loan carries an interest rate of LIBOR plus 2% (2.24% for three LIBOR arrangements under the Term Loan at September 30, 2011). 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 September 30, 2011, this ratio was 1.38:1.0.

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 September 30, 2011, we were in compliance with these covenants.

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

Equipment Financing Facilities

As of September 30, 2011, there was a total of \$12.4 million outstanding under prior equipment financing facilities, with fixed interest rates ranging from 3.6% to 7.1% and payments due through March 2016. Our current facility provides financing for up to \$5.5 million of purchased transportation and material handling equipment through May 15, 2012 at an interest rate approximately 2.75% above the 3-year term swap rate at the time of the advances. No amounts were outstanding under the current facility at September 30, 2011.

Contractual Obligations

At September 30, 2011, our contractual obligations were as follows (in millions):

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	Fiscal years					
	2012	2013	2014	2015	2016	Thereafter
Senior bank debt and revolver	\$ 10.2	\$ 301.5	\$ -	\$ -	\$ -	\$ -
Equipment financing	5.4	3.7	2.5	0.7	0.2	-
Operating leases	21.8	17.7	15.2	10.9	5.4	2.2
Interest (1)	13.5	10.9	0.2	0.1	-	-
Non-cancelable purchase obligations (2)	-	-	-	-	-	-
Total	\$ 50.9	\$ 333.8	\$ 17.9	\$ 11.7	\$ 5.6	\$ 2.2

- (1) Interest payments reflect all currently scheduled amounts along with projected amounts to be paid under the senior bank debt using a LIBOR Curve to estimate the future interest rates and considering our current interest rate hedges.
- (2) In general, we purchase products under purchase obligations that are cancelable by us without cost or expire after 30 days.

Capital Expenditures

Excluding acquisitions, we incurred capital expenditures of \$14.4, \$10.3 and \$14.3 million in 2011, 2010 and 2009, respectively. Typically, over 80% of our capital expenditures have generally been made for transportation and material handling equipment. In 2010, we incurred a lower spend rate (with capital expenditures at 0.6% of sales) as we reduced capital expenditures due to the business slowdown. We currently expect future annual capital expenditures to be closer to 1.0% of net sales, exclusive of the impact of new branch openings and assuming improved economic and industry conditions.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

Critical accounting policies

Critical accounting policies are those that are both 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 accounting principles generally accepted in the United States, commonly referred to as U.S. 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.

Stock-Based Compensation

We account for employee and non-employee director stock-based compensation using the fair value method of accounting. Compensation cost arising from stock options and restricted stock awards granted to employees and non-employee directors is recognized using the straight-line method over the vesting period, which represents the requisite service or performance period. We estimate forfeitures in calculating the expense related to stock-based compensation associated with stock awards. We also project the number of restricted shares and units that are expected to vest in determining the associated stock-based compensation. In addition, we report the benefits of tax deductions in excess of recognized compensation cost as both a financing cash inflow and an operating cash outflow. The excess tax benefit classified as a financing activity would have been classified as an operating inflow if we did not use the fair value method.

Interest Rate Swaps

We enter into interest rate swaps 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 are contracts to exchange variable-rate for fixed-interest rate payments over the life of the agreements. Our 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.

Allowance for Doubtful Accounts

We maintain an allowance for doubtful accounts for estimated losses due to the failure of our customers to make required payments. We charge write-offs against our allowance for doubtful accounts, although we still pursue collection in certain circumstances and credit the allowance for any subsequent recoveries.

Inventory Valuation

Product inventories represent one of our largest assets and are recorded at net realizable value. Our goal is to manage our inventory so that we minimize out of stock positions. To do this, we maintain an adequate inventory of SKUs at each branch based on sales history. At the same time, we continuously strive to better manage our slower moving classes of inventory. We monitor our inventory levels by branch 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 items purchased in the last three months. We then review our most recent history of sales and adjustments of such excess inventory and apply our judgment as to forecasted demand and other factors, including liquidation value, to determine the required adjustments to net realizable value. In addition, at the end of each year, we evaluate our inventory at each branch and write off and dispose of obsolete products. Our inventories are generally not susceptible to technological obsolescence.

During the year, we perform periodic cycle counts and write off excess or damaged inventory as needed. At year-end, we take a physical inventory and record any necessary additional write-offs.

Vendor Rebates

Our typical rebate 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 related vendors' products, which reduces the inventory cost until the period in which we sell the product, at which time these rebates reduce cost of sales in our income statement. Throughout the year, we estimate the amount of rebates receivable based upon the expected level of purchases. We continually revise these estimates to reflect actual rebates earned based on actual purchase levels. Historically, our actual rebates have been within our expectations used for our estimates. If we fail to achieve a measure which is required to obtain a vendor rebate, we will have to record a charge in the period that we determine the criteria or measure for the vendor rebate will not be met to the extent the vendor rebate was estimated and included as a reduction to cost of sales.

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 products already purchased, it may impact our gross margin on products we sell or revenues earned in future periods.

Revenue Recognition

We recognize revenue when the following four basic criteria are met:

- persuasive evidence of an arrangement exists;
- delivery has occurred or services have been rendered;
- the price to the buyer is fixed or determinable; and
- collectability is reasonably assured.

We generally recognize revenue at the point of sale or upon delivery to the customer's site. For goods shipped by third party carriers, we recognize revenue upon shipment since the terms are FOB shipping point. Approximately 80% of our revenues are for products delivered by us or picked up by our customers at our facilities, which provides for timely and accurate revenue recognition.

We also ship certain products directly from the manufacturer to the customer. Revenues are recognized upon notifications of deliveries from our vendors. Delays in receiving delivery notifications could impact our financial results, although it has not been material to our consolidated results of operations in the past.

We also provide certain job site delivery services, which include crane rentals and rooftop deliveries of certain products, for which the associated revenues are recognized upon completion of the services. These revenues represent less than 1% of our net sales.

All revenues recognized are net of sales taxes collected, allowances for discounts and estimated returns, which are provided for at the time of pick up or delivery. In the past, customer returns have not been material to our consolidated results of operations. All sales taxes collected are subsequently remitted to the appropriate government authorities.

Income Taxes

We account for income taxes using the liability method, which requires us to recognize a current tax liability or asset for current taxes payable or refundable and a deferred tax liability or asset for the estimated future tax effects of temporary differences between the financial statement and tax reporting bases of assets and liabilities to the extent that they are realizable. Deferred tax expense (benefit) results from the net change in deferred tax assets and liabilities

during the year. See the “2011 compared to 2010” income taxes discussion above and Note 12 for a discussion of the 2011 impact from a change in the tax status of our Canadian operations.

FASB ASC Topic 740, Income Taxes (“ASC 740”) prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Based on this guidance, we analyze our filing positions in all of the federal and state jurisdictions where we are required to file income tax returns, as well as all open tax years in these jurisdictions. Tax benefits from uncertain tax positions are recognized if it is more likely than not that the position is sustainable based solely on its technical merits.

Goodwill

Goodwill represents the excess paid to acquire businesses over the estimated fair value of tangible and identifiable intangible assets acquired, less liabilities assumed. At September 30, 2011, our goodwill balance was \$380.9 million, representing approximately 33% of our total assets.

We test goodwill for impairment in the fourth quarter of each fiscal year or at any other time when impairment indicators exist. Examples of such indicators include a significant change in the business climate, unexpected competition, loss of key personnel or a decline in our market capitalization below our net book value. In performing the impairment test, we utilize a two-step approach. The first step requires a comparison of each reporting unit's fair value to the respective carrying value. If the carrying value exceeds the fair value, a second step is performed to measure the amount of impairment loss, if any. We assess goodwill for impairment at the reporting unit level, which is defined as an operating segment or one level below an operating segment, referred to as a component (i.e. a business for which discrete financial information is available and regularly reviewed by component managers), which in our case is our divisions.

The Company has six divisions that contain goodwill. Each of these divisions is comprised of geographic combinations of regions or stand-alone regions that have specific market areas.

We aggregate components within a reporting unit that have similar economic characteristics. We evaluate the distribution methods, sales mix, and operating results of each of our divisions to determine if these characteristics have or will be sustained over a long-term basis. For purposes of this evaluation, we would expect our divisions to exhibit similar economic characteristics 3-5 years after events such as an acquisition within our core roofing business or management/business restructuring. This evaluation also considers major storm activity or local economic challenges that may impact the short term operations of the division. Based on our evaluation at August 31, 2011, only one of our divisions did not exhibit similar economic characteristics and therefore was individually evaluated for goodwill impairment as a separate reporting unit (the "Individual Reporting Unit"). This was primarily due to the fact that this division had an above-average concentration of residential business that provided gross margin and operating income rates well above our company-wide average. The remaining divisions were aggregated into a second reporting unit (the "Aggregated Reporting Unit").

As disclosed below, in 2011 we adopted Accounting Standards No. 2011-08, Intangibles—Goodwill and Other (Topic 350): Testing Goodwill for Impairment. Under this guidance, we are not required to calculate the fair value of a reporting unit unless we determine that it is more likely than not that the reporting unit's fair value is less than its carrying amount.

We concluded that the Aggregated and Individual Report Unit's fair values more likely than not exceeded their respective carrying values at the goodwill measurement date. The Aggregate Reporting Unit represented 84% of our consolidated operations, as measured by operating earnings for the twelve months ended August 31, 2011, and generated operating cash flows that amounted to 23% of the reporting unit's carrying value. Also, sales and operating earnings for the Aggregated Reporting Unit exceeded those in the prior year by 10% and 23%, respectively. The Individual Reporting Unit during the same period generated cash flows that amounted to 55% of that reporting unit's carrying value. Also, sales and operating earnings for the Individual Reporting Unit exceeded those in the prior year by 8% and 29%, respectively.

Additionally, our market capitalization at August 31, 2011 exceeded our carrying value by \$327 million or 62%. This compares to \$181 million and 39% for such measures at August 31, 2010. We expect both the Aggregated and Individual Reporting units to experience moderate growth in the near future slightly above the national economic average and did not identify any impairment factors for either reporting unit.

There is uncertainty associated with our assumptions because we must use judgment in determining appropriate assumptions to be used in the measurement of the fair values. The estimates of the fair values of our reporting units are based on the best information available as of the date of the assessment and incorporate management's assumptions about expected future cash flows and contemplate other valuation techniques. Future cash flows can be affected by changes in the industry, a declining economic environment or market conditions.

There have been no events or circumstances since the date of the assessments that would change our conclusion. If circumstances change or events occur to indicate it is more likely than not that the fair values of any of its reporting units (under the guidelines discussed above) have fallen below its carrying value, we would then test for impairment. If the book value of the goodwill exceeds the implied fair value of the goodwill, we would recognize the difference as an impairment loss in the determination of operating income.

Adoption of Recent Accounting Pronouncements