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

Form 10-K

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

For the fiscal year ended December 31, 2019

OR

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

For the transition period from __________ to __________

Commission File Number: 0-51357

BUILDERS FIRSTSOURCE, INC.
(Exact name of registrant as specified in its charter)

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

Registrant's telephone number, including area code:
(214) 880-3500

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

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registered
Common stock, par value $0.01 per share	**BLDR**	**NASDAQ Stock Market LLC**

Securities registered pursuant to Section 12(g) of the Act:
None

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No ☐

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

Large accelerated filer Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐
Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant as of June 30, 2019 was approximately $ 1,920.7 million based on the closing price per share on that date of $16.86 as reported on the NASDAQ Stock Market LLC.

The number of shares of the registrant's common stock, par value $0.01, outstanding as of February 19, 2020 was 116,130,284.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement for its annual meeting of stockholders to be held on May 21, 2020 are incorporated by reference into Part II and Part III of this Form 10-K.

BUILDERS FIRSTSOURCE, INC.
Table of Contents to Form 10-K

		Page
	PART I	
Item 1.	Business	3
Item 1A.	Risk Factors	10
Item 1B.	Unresolved Staff Comments	19
Item 2.	Properties	19
Item 3.	Legal Proceedings	20
Item 4.	Mine Safety Disclosures	20
	PART II	
Item 5.	Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	21
Item 6.	Selected Financial Data	22
Item 7.	Management’s Discussion and Analysis of Financial Condition and Results of Operations	23
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	31
Item 8.	Financial Statements and Supplementary Data	32
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	65
Item 9A.	Controls and Procedures	65
Item 9B.	Other Information	66
	PART III	
Item 10.	Directors, Executive Officers and Corporate Governance	67
Item 11.	Executive Compensation	67
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	67
Item 13.	Certain Relationships and Related Transactions, and Director Independence	68
Item 14.	Principal Accountant Fees and Services	68
	PART IV	
Item 15.	Exhibits and Financial Statement Schedules	69
Item 16	Form 10-K Summary	73

PART I

Item 1. *Business*

CAUTIONARY STATEMENT

Statements in this report and the schedules hereto that are not purely historical facts or that necessarily depend upon future events, including statements about expected market share gains, forecasted financial performance or other statements about anticipations, beliefs, expectations, hopes, intentions or strategies for the future, may be forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. Readers are cautioned not to place undue reliance on forward-looking statements. In addition, oral statements made by our directors, officers and employees to the investor and analyst communities, media representatives and others, depending upon their nature, may also constitute forward-looking statements. All forward-looking statements are based upon currently available information and the Company's current assumptions, expectations and projections about future events. Forward-looking statements are by nature inherently uncertain, and actual results or events may differ materially from the results or events described in the forward-looking statements as a result of many factors. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Any forward-looking statements involve risks and uncertainties, many of which are beyond the Company's control or may be currently unknown to the Company, that could cause actual events or results to differ materially from the events or results described in the forward-looking statements, including risks or uncertainties related to the Company's growth strategies, including gaining market share, or the Company's revenues and operating results being highly dependent on, among other things, the homebuilding industry, lumber prices and the economy. The Company may not succeed in addressing these and other risks. Further information regarding the risk factors that could affect our financial and other results are included as Item 1A of this annual report on Form 10-K and may also be described from time to time in the other reports the Company files with the Securities and Exchange Commission ("SEC"). Consequently, all forward-looking statements in this report are qualified by the factors, risks and uncertainties contained therein.

OVERVIEW

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

We are a leading supplier and manufacturer of building materials, manufactured components and construction services to professional homebuilders, sub-contractors, remodelers and consumers. The Company operates approximately 400 locations in 40 states across the United States. We offer an integrated solution to our customers by providing manufacturing, supply and installation of a full range of structural and related building products. Our manufactured products include our factory-built roof and floor trusses, wall panels and stairs, vinyl windows, custom millwork and trim, as well as engineered wood that we design, cut, and assemble specifically for each home. We also assemble interior and exterior doors into pre-hung units. Additionally, we supply our customers with a broad offering of professional grade building products not manufactured by us, such as dimensional lumber and lumber sheet goods and various window, door and millwork lines. Our full range of construction-related services include professional installation, turn-key framing and shell construction, spanning all of our product categories.

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

OUR INDUSTRY

We compete in the professional segment ("Pro Segment") of the U.S. residential building products supply market. Suppliers in the Pro Segment primarily focus on serving professional customers such as homebuilders and remodeling contractors. The Pro Segment consists predominantly of small, privately owned suppliers, including framing and shell construction contractors, local and regional materials distributors, single or multi-site lumberyards, and truss manufacturing and millwork operations. Because of the predominance of smaller privately owned companies and the overall size and diversity of the target customer market, the Pro Segment remains fragmented. There were only eight building product suppliers with manufacturing capabilities in the Pro Segment that generated more than $500 million in sales, according to *ProSales* magazine's 2019 ProSales 100 list. We were the largest building product supplier with manufacturing capabilities on this list.

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

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

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

According to the U.S. Census Bureau, the single-family residential construction market was an estimated $289.3 billion in 2019, which was 5.2% higher than 2018, and still down significantly from the historical high of $413.2 billion in 2006. Further, according to the Home Improvement Research Institute ("HIRI") in its September 2019 semi-annual forecast, the professional repair and remodel end market was an estimated $124.6 billion in 2019, which was 4.5% higher than 2018.

OUR CUSTOMERS

We serve a broad customer base across the United States. We have a diverse geographic footprint as we have operations in 77 of the top 100 U.S. Metropolitan Statistical Areas ("MSAs"), as ranked by single family housing permits based on available 2019 U.S. Census data. In addition, approximately 86% of U.S. single-family housing permits in 2019 were issued in MSAs in which we operate. Given the local nature of our business, we have historically and will continue to locate our facilities in close proximity to our key customers and co-locate multiple operations in one facility to improve efficiency.

We have a diversified customer base, ranging from large production builders to small custom homebuilders, as well as multi-family builders, repair and remodeling contractors and light commercial contractors. For the year ended December 31, 2019, our top 10 customers accounted for approximately 15.3% of net sales, and no single customer accounted for more than 5% of net sales. Our top 10 customers are comprised primarily of the largest production homebuilders, including publicly traded companies such as D.R. Horton, Inc., Pulte Homes, Inc., Lennar Corporation, Hovnanian Enterprises, Inc., and Taylor Morrison Home Corporation.

In addition to the largest production homebuilders, we also service and supply regional production and local custom homebuilders as well as repair and remodeling contractors and multi-family builders. These customers require high levels of service and a broad product offering. Our sales team expects to work very closely with the designers on a day-to-day basis in order to ensure the appropriate products are identified, ordered or produced and delivered on time to the building site. To account for these increased service costs, pricing in the industry is tied to the level of service provided and the volumes purchased.

OUR PRODUCTS AND SERVICES

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

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

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

Windows, Doors & Millwork. Windows & doors are comprised of the manufacturing, assembly and distribution of windows, and the assembly and distribution of interior and exterior door units. We manufacture a portion of the vinyl windows that we distribute in our plant in Houston, Texas which allows us to supply builders, primarily in the Texas market, with cost-competitive products. Our pre-hung interior and exterior doors consist of a door slab with hinges and door jambs attached, reducing on-site installation time and providing higher quality finished door units than those constructed on site. These products typically require a high degree of product knowledge and training to sell. Millwork includes interior trim and custom features, including those that we manufacture under the Synboard ® brand name. Synboard is produced from extruded PVC and offers several advantages over traditional wood features, such as greater durability and no ongoing maintenance such as periodic caulking and painting.

Gypsum, Roofing & Insulation. Gypsum, roofing, and insulation include wallboard, ceilings, joint treatment and finishes.

Siding, Metal, and Concrete. Siding, metal, and concrete includes vinyl, composite, and wood siding, exterior trim, other exteriors, metal studs and cement.

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

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

MANUFACTURING

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

Manufactured Products — Trusses and Wall Panels. Truss and wall panel production has two steps — design and fabrication. Each house requires its own set of designed shop drawings, which vary by builder type: production versus custom builders. Production builders use prototype house plans as they replicate houses. These house plans may be minimally modified to suit individual customer demand. We maintain an electronic master file of trusses and wall panels for each builder's prototype houses. For custom builders, the components are designed individually for each house. We download the shop drawings from our design department to computerized saws. We assemble the cut lumber to form roof trusses, floor trusses or wall panels, and store the finished components by house awaiting shipment to the job site.

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

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

Custom Millwork. Our manufactured custom millwork consists primarily of exterior trim, interior and exterior doors, custom windows, features and box columns. In addition, we sell many of these custom millwork products in a synthetic material under our Synboard brand name. We sand, cut, and shape sheets of 4 foot by 18 or 20 foot Celuka-blown, extruded PVC, or Synboard, to produce the desired product.

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

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

OUR STRATEGY

By pursuing the following strategies, we intend to build on our advantaged market position to create value for our shareholders by increasing profits and net cash flow generation, while making us a more valuable partner to our customers. The resulting cash flow should provide meaningful opportunities for debt reduction and increased investment in organic and acquisitive growth.

Leverage our competitive strengths to capitalize on housing market growth

As the U.S. housing market returns to a historically normalized level, we intend to leverage our core business strengths including size, national footprint, unmatched scale in manufacturing capability, breadth of product portfolio, and end market exposure to expand our sales and profit margins. Our customers continue to emphasize the importance of competitive pricing, a broad product portfolio, sales force knowledge, labor-saving manufactured products, on-site services and overall “ease of use” with their building products suppliers. Our comprehensive product offering, experienced sales force, strong strategic vendor relationships, and tenured senior management team position us well to capitalize on strong demand in the new home construction market and the repair and remodel segment. Our large delivery fleet, professional drivers, and comprehensive inventory management enable us to provide “just-in-time” product delivery, ensuring a smoother and faster production cycle for the homebuilder. Our comprehensive network of products, services and facilities provides a strategically advantaged service model which enhances our value to our customers and provides a strong platform to drive growth.

Maximize our share of wallet by capturing above-market growth in our higher margin value added products

We believe our national manufacturing footprint and differentiated capabilities will allow us to capture growth in our higher margin value-added products. We believe our value-added products address the growing demand for ways to build homes more efficiently, addressing labor constraints and rising costs. We plan to accelerate this growth by further expansion of our national manufacturing footprint to serve locations that do not currently have adequate access to these high margin products. By focusing on our differentiated platform and broad product mix, we are able to offer a complete array of products and services that would otherwise need to be sourced from various distributors, providing us an opportunity to capture a greater share of wallet. This operational platform often will make us a preferred distributor for large scale national homebuilders as well as local and custom homebuilders looking for more efficient ways to build a home. We believe that customers continue to place an increased value on these capabilities, which further differentiates us from our competitors.

Optimize our highly scalable cost structure with operational excellence initiatives

We continue to focus on standardizing processes and technology-based workflows to minimize costs, streamline our operations and enhance working capital efficiency. We are implementing operational excellence initiatives that are designed to further improve efficiency as well as customer service. These initiatives, including distribution and logistics, pricing and margin management, back office efficiencies, customer integration and systems-enabled process improvements, should yield significant cost savings. The scope and scale of our existing infrastructure, customer base, and logistical capabilities mean that improvements in efficiency, when replicated across our network, can yield substantial profit margin expansion.

Environmental, social and governance strategy

We are committed to making informed choices that improve our corporate governance, financial strength, operational efficiency, environmental stewardship, community engagement and resource management. Consistent with our core values, our goal is to be recognized by our customers as the preferred supplier, by our employees as a safe, diverse and inclusive workforce, by the industry as being at the forefront of innovation and by our stakeholders as an ethical company. We are working towards identifying, measuring and mapping the environmental, social and governance impacts of our business in an effort to be a good corporate citizen and proactively manage the impacts on the communities in which we serve. Helping homebuilders become more productive and efficient is fundamental to what we do and we are passionate about building this future together.

SALES AND MARKETING

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

Our experienced, locally focused sales force is at the core of our sales effort. This sales effort involves deploying salespeople who are skilled in housing construction to meet with a homebuilder's construction superintendent, local purchasing agent, or local executive with the goal of becoming their primary product supplier. If selected by the homebuilder, the salesperson and his or her team review blueprints for the contracted homes and advise the homebuilder in areas such as opportunities for cost reduction, increased energy efficiencies, and regional aesthetic preferences. Next, the team determines the specific package of products that are needed to complete the project and schedules a sequence of site deliveries. Our large delivery fleet and comprehensive inventory management systems enable us to provide "just-in-time" product delivery, ensuring a smoother and faster production cycle for the homebuilder. Throughout the construction process, the salesperson makes frequent site visits to ensure timely delivery and proper installation, and to make suggestions for efficiency improvements. We believe this level of service is highly valued by our customers and generates significant customer loyalty. At December 31, 2019, we employed approximately 1,900 sales representatives, who are paid a commission based on gross margin dollars collected and worked with approximately 1,600 sales coordinators and product specialists.

BACKLOG

Due to the nature of our business, backlog information is not meaningful. While our customers may provide an estimate of their future needs, in most cases we do not receive a firm order from them until just prior to the anticipated delivery dates. Accordingly, in many cases the time frame from receipt of a firm order to shipment does not exceed a few days.

MATERIALS AND SUPPLIER RELATIONSHIPS

We purchase inventory primarily for distribution, some of which is also utilized in our manufacturing plants. The key materials we purchase include dimensional OSB, lumber and plywood along with engineered wood, windows, doors, millwork, gypsum and roofing. Our largest suppliers are national companies such as Boise Cascade Company, Weyerhaeuser Company, Canfor Corporation, Norbord, Inc., James Hardie Industries plc, National Gypsum Company, PlyGem Holdings, Inc., M I Windows and Doors, Inc., Andersen Corporation, Masonite International Corporation and JELD-WEN Inc. We believe there is sufficient supply in the marketplace to competitively source most of our requirements without reliance on any particular supplier and that our diversity of suppliers affords us purchasing flexibility. Due to our centralized procurement platform for commodity wood products and corporate oversight of purchasing programs we believe we are better able to maximize the advantages of both our and our suppliers' broad geographic footprints and negotiate purchases across multiple markets to achieve more favorable contracts with respect to price, terms of sale, and supply than our regional competitors. Additionally, for certain customers, we institute purchasing programs on commodity wood products such as OSB and lumber to align portions of our procurement costs with our customer pricing commitments. We balance our OSB and lumber purchases with a mix of contract and spot market purchases to ensure consistent supply of product necessary to fulfill customer contracts, to source products at the lowest possible cost, and to minimize our exposure to the volatility of commodity lumber prices.

We currently source products from thousands of suppliers in order to reduce our dependence on any single company and to maximize purchasing leverage. Although no purchases from any single supplier represented more than 8% of our total materials purchases for the year ended December 31, 2019, we believe we are one of the largest customers for many suppliers, and therefore have significant purchasing leverage. We have found that using multiple suppliers ensures a stable source of products and the best purchasing terms as the suppliers compete to gain and maintain our business.

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

COMPETITION

We compete in the Pro Segment of the U.S. residential building products supply market. We have and will continue to experience competition for homebuilder business due to the highly fragmented nature of the Pro Segment. Most of our competitors in the Pro Segment are small, privately held local businesses. Most of these companies have limited access to capital and lack sophisticated information technology systems and large-scale procurement capabilities. We believe we have substantial competitive advantages over these smaller competitors due to our long-standing customer relationships, local market knowledge and competitive pricing. Our largest competitors in our markets include 84 Lumber Co., which is privately held, as well as BMC Stock Holdings, Inc., which is publicly held.

Our customers primarily consist of professional homebuilders and those that provide construction services to them, with whom we focus on developing strong relationships. The principal methods of competition in the Pro Segment are the development of long-term relationships with professional builders and retaining such customers by (i) delivering a full range of high-quality products on time, and (ii) offering trade credit, competitive pricing and integrated service and product packages, such as turn-key framing and shell construction, as well as manufactured components and installation. Our leading market positions in the highly competitive Pro Segment create economies of scale that allow us to cost-effectively supply our customers, which both enhances profitability and reduces the risk of losing customers to competitors.

EMPLOYEES

At December 31, 2019, we had approximately 15,800 employees. Less than 2% of the workforce at our company are members of eight different unions. We believe that we have good relations with our employees, as evidenced by our recent Forbes "America's Best Large Employers" awards.

INFORMATION TECHNOLOGY SYSTEMS

Our operations are dependent upon our information technology systems, which encompass all of our major business functions. Our primary enterprise resource planning ("ERP") system, which we currently use for operations representing the majority of our sales, is a proprietary system that has been highly customized by our computer programmers. The materials required for thousands of standard builder plans are stored by the system for rapid quoting or order entry. Hundreds of price lists are maintained on hundreds of thousands of SKUs, facilitating rapid price changes in a changing product cost environment. A customer's order can be tracked at each stage of the process and billing can be customized to reduce a customer's administrative costs and speed payment.

We have a customized financial reporting system which consolidates financial, sales and workforce data from our ERP systems and our human resource information system ("HRIS"). This technology platform provides management with robust corporate and location level performance management by leveraging standardized metrics and analytics allowing us to plan, track and report performance and compensation measures.

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

SEASONALITY AND OTHER FACTORS

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

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

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

AVAILABLE INFORMATION

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

In addition to our website, the SEC maintains an Internet site that contains our reports, proxy and information statements, and other information that we electronically file with, or furnish to, the SEC at www.sec.gov.

EXECUTIVE OFFICERS

M. Chad Crow, President, Chief Executive Officer and Director, age 51. Mr. Crow joined the Company in September 1999, and has held several roles of increasing responsibility. Mr. Crow became a director in 2017 and President and CEO on December 29, 2017. In 2009, Mr. Crow was named Senior Vice President and Chief Financial Officer and in 2014 he was promoted to President and Chief Operating Officer. Prior to joining Builders FirstSource, he served in a variety of positions at Pier One Imports and Price Waterhouse LLP. Mr. Crow received his B.B.A. degree from Texas Tech University.

Peter M. Jackson, Senior Vice President and Chief Financial Officer, age 47. Mr. Jackson joined the Company on November 4, 2016 as Senior Vice President and Chief Financial Officer. Prior to joining the Company, Mr. Jackson was employed by Lennox International, Inc. ("Lennox"). Since July 2014, Mr. Jackson had served as Vice President and CFO of Lennox's Refrigeration Segment. His previous positions at Lennox also included Vice President, Finance - Financial Planning and Analysis and Mergers and Acquisitions as well as Vice President and Chief Financial Officer of Lennox's Residential Heating and Cooling Segment. Before joining Lennox, Mr. Jackson served in multiple financial leadership positions at SPX Corporation, General Electric, and Gerber Scientific. Mr. Jackson is a certified public accountant and a graduate of General Electric's Experienced Financial Leadership program. He holds an M.B.A. degree from Rensselaer Polytechnic Institute and a B.S. from Bryant University.

Donald F. McAleenan, Senior Vice President and General Counsel, age 65. Mr. McAleenan has served as Senior Vice President and General Counsel of the Company since 1998. Prior to joining the Company, Mr. McAleenan served as Vice President and Deputy General Counsel of Fibreboard Corporation from 1992 to 1997. Mr. McAleenan was also Assistant General Counsel of AT&E Corporation and spent nine years as a securities lawyer at two New York City law firms. Mr. McAleenan has a B.S. from Georgetown University and a J.D. from New York University Law School.

Scott L. Robins, Senior Vice President and Chief Operating Officer – West, age 52. Mr. Robins was appointed to his current position on February 20, 2018. He had been a Senior Vice President – Operations of the Company since the acquisition of ProBuild Holdings LLC by the Company in July 2015 and with ProBuild prior to that since 2007. At the time of his promotion, he had supervisory responsibility for 93 locations in eight states. Mr. Robins joined Hope Lumber Company in 2004 as a Vice President of Operations, overseeing numerous operations in a three-state area, and continued in that role when Hope was acquired by ProBuild Holdings LLC in 2007. Before then, he had worked in various operational and supply chain management positions with Andersen Lumber and Stock Building Supply since 1988. Mr. Robins has 30 years of experience in the building products industry. He holds a B.A. in Finance from Weber State University.

David E. Rush, Senior Vice President and Chief Operating Officer – East, age 57. Mr. Rush was appointed to his current position on November 29, 2018. Mr. Rush previously served as Senior Vice President of Strategy and Business Development of the Company since August 2017. Prior to that, Mr. Rush served as Senior Vice President of Integration after the acquisition of ProBuild Holdings LLC in July 2015. From 2003 to 2015, Mr. Rush was an Area Vice President, with responsibility for more than 18 Company locations in three states. He joined the Company as Vice President of Finance of the Southeast Group in 1999. Before joining Builders FirstSource, Mr. Rush worked in various accounting and finance positions, primarily with multi-location distribution companies, including as Chief Financial Officer of the Bojangles Restaurant chain. He holds a B.A. in accounting from the University of North Carolina at Chapel Hill.

Item 1A. *Risk Factors*

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

The industry in which we operate is dependent upon the residential homebuilding industry, as well as the U.S. economy, the credit markets and other important factors.

The building products industry is highly dependent on new home and multifamily construction, which in turn are dependent upon a number of factors, including interest rates, consumer confidence, employment rates, foreclosure rates, housing inventory levels and occupancy, housing demand and the health of the U.S. economy and mortgage markets. Unfavorable changes in demographics, credit markets, consumer confidence, housing affordability, or housing inventory levels and occupancy, or a weakening of the U.S. economy or of any regional or local economy in which we operate could adversely affect consumer spending, result in decreased demand for our products, and adversely affect our business. Production of new homes and multifamily buildings may also decline because of shortages of qualified tradesmen, reliance on inadequately capitalized builders and sub-contractors, and shortages of suitable building lots and material. The homebuilding industry is currently experiencing a shortage of qualified, trained labor in many areas, including those served by us. In addition, the building industry is subject to various local, state, and federal statutes, ordinances, and regulations concerning zoning, building design and safety, construction, energy and water conservation and similar matters, including regulations that impose restrictive zoning and density requirements in order to limit the number of homes that can be built within the boundaries of a particular area or in order to maintain certain areas as primarily or exclusively residential. Regulatory restrictions may increase our operating expenses and limit the availability of suitable building lots for our customers, which could negatively affect our sales and earnings. Because we have substantial fixed costs, relatively modest declines in our customers' production levels could have a significant adverse effect on our financial condition, operating results and cash flows.

According to the U.S. Census Bureau, annual U.S. total and single-family housing starts were 1.3 million and 0.9 million, respectively, for the year ended December 31, 2019. However, both total and single-family housing starts remain below the normalized historical averages (from 1959 through 2019) of 1.5 million and 1.1 million, respectively. Due to the lower levels in housing starts, increased competition for homebuilder business, and cyclical fluctuations in commodity prices, we have seen, and may continue to experience pressure on our gross margins.

The building supply industry is subject to cyclical market pressures.

Prices of building products are subject to fluctuations arising from changes in supply and demand, national and international economic conditions, labor costs, competition, market speculation, government regulation, and trade policies, as well as from periodic delays in the delivery of lumber and other products. For example, prices of wood products, including lumber and panel products, are subject to significant volatility and directly affect our sales and earnings. In particular, low prices for wood products over a sustained period can adversely affect our financial condition, operating results and cash flows, as can excessive spikes in prices. Our lumber and lumber sheet goods product category represented 30.9% of total net sales for the year ended December 31, 2019. We have limited ability to manage the timing and amount of pricing changes for building products. In addition, the supply of building products fluctuates based on available manufacturing capacity. A shortage of capacity or excess capacity in the industry can result in significant increases or declines in prices for those building products, often within a short period of time. Such price fluctuations can adversely affect our financial condition, operating results and cash flows.

In addition, the building products industry is cyclical in nature. The homebuilding industry has experienced growth in recent years and industry forecasters expect to see continued growth in the housing market over the next year. However, it is likely, based on historical experience, that we will face future downturns in the homebuilding industry which could have an adverse effect on our operating results, financial condition or cash flows. We are not able to predict the timing, severity or duration of any future downturns in the housing market.

The building supply industry is seasonal.

Although weather patterns affect our operating results throughout the year, adverse weather historically has reduced construction activity in the first and fourth quarters in the regions where we operate. To the extent that hurricanes, severe storms, floods, other natural disasters or similar events occur in the regions in which we operate, our business may be adversely affected. We anticipate that fluctuations from period to period will continue in the future.

Homebuyer demand may shift towards smaller homes creating fluctuations in demand for our products.

Home affordability can be a key driver in demand for our products. Home affordability is influenced by a number of economic factors, such as the level of employment, consumer confidence, consumer income, supply of houses, the availability of financing and interest rates. Changes in the inventory of available homes as well as economic factors relative to home prices may result in homes becoming less affordable. This could cause homebuyer demand to shift towards smaller homes which could have an adverse impact on our financial condition, operating results and cash flows.

Our industry is highly fragmented and competitive, and increased competitive pressure may adversely affect our results.

The building products supply industry is highly fragmented and competitive. We face, and will continue to face, significant competition from local and regional building materials chains, as well as from privately-owned single site enterprises. Any of these competitors may (1) foresee the course of market development more accurately than we do, (2) develop products that are superior to our products, (3) have the ability to produce or supply similar products at a lower cost, (4) develop stronger relationships with local homebuilders or commercial builders, (5) adapt more quickly to new technologies or evolving customer requirements than we do, or (6) have access to financing on more favorable terms than we can obtain in the market. As a result, we may not be able to compete successfully with them. In addition, home center retailers, which have historically concentrated their sales efforts on retail consumers and small contractors, have intensified their marketing efforts to professional homebuilders in recent years and may continue to intensify these efforts in the future. Furthermore, certain product manufacturers sell and distribute their products directly to production homebuilders or commercial builders. The volume of such direct sales could increase in the future. Additionally, manufacturers of products distributed by us may elect to sell and distribute directly to homebuilders or commercial builders in the future or enter into exclusive supplier arrangements with other distributors. Consolidation of production homebuilders or commercial builders may result in increased competition for their business. Finally, we may not be able to maintain our operating costs or product prices at a level sufficiently low for us to compete effectively. If we are unable to compete effectively, our financial condition, operating results and cash flows may be adversely affected.

We are subject to competitive pricing pressure from our customers.

Production homebuilders and multi-family builders historically have exerted and will continue to exert significant pressure on their outside suppliers to keep prices low because of their market share and their ability to leverage such market share in the highly fragmented building products supply industry. The housing industry downturn and its aftermath resulted in significantly increased pricing pressures from production homebuilders and other customers. Over the past several years, these pricing pressures have adversely affected our operating results and cash flows. In addition, continued consolidation among production homebuilders or multi-family and commercial builders, or changes in such builders’ purchasing policies or payment practices, could result in additional pricing pressure, and our financial condition, operating results and cash flows may be adversely affected.

The loss of any of our significant customers or a reduction in the quantity of products they purchase could affect our financial health.

Our ten largest customers generated approximately 15.3% of our net sales for the year ended December 31, 2019. We cannot guarantee that we will maintain or improve our relationships with these customers or that we will supply these customers at historical levels. Moreover, during the downturn and in subsequent years, some of our homebuilder customers exited or severely curtailed building activity in certain of our regions.

In addition, production homebuilders, multi-family builders and other customers may: (1) seek to purchase some of the products that we currently sell directly from manufacturers, (2) elect to establish their own building products manufacturing and distribution facilities or (3) give advantages to manufacturing or distribution intermediaries in which they have an economic stake. Continued consolidation among production homebuilders could also result in a loss of some of our present customers to our competitors. The loss of one or more of our significant customers or deterioration in our relations with any of them could significantly affect our financial condition, operating results and cash flows. Furthermore, our customers are not required to purchase any minimum amount of products from us. The contracts into which we have entered with most of our professional customers typically provide that we supply particular products or services for a certain period of time when and if ordered by the customer. Should our customers purchase our products in significantly lower quantities than they have in the past, such decreased purchases could have a material adverse effect on our financial condition, operating results and cash flows.

Our level of indebtedness could adversely affect our ability to raise additional capital to fund our operations, limit our ability to react to changes in the economy or our industry, and prevent us from meeting our obligations under our debt instruments.

As of December 31, 2019, our debt totaled $1,300.0 million, which includes $242.1 million of finance lease and other finance obligations. We also have a $900.0 million revolving credit facility (“2023 facility”), under which we had $27.0 million of outstanding borrowings and $82.2 million of letters of credit outstanding as of December 31, 2019. In addition, we also have $298.6 million in obligations under operating leases.

Our substantial debt could have important consequences to us, including:

- increasing our vulnerability to general economic and industry conditions;
- requiring a substantial portion of our operating cash flow to be dedicated to the payment of principal and interest on our indebtedness, therefore reducing our liquidity and our ability to use our cash flow to fund our operations, capital expenditures, and future business opportunities;
- exposing us to the risk of increased interest rates, and corresponding increased interest expense, because borrowings under the 2023 facility and the $52.0 million senior secured term loan facility due 2024 (“2024 term loan”) are at variable rates of interest;
- limiting our ability to obtain additional financing for working capital, capital expenditures, debt service requirements, acquisitions, and general corporate or other purposes;
- limiting our ability to adjust to changing marketplace conditions and placing us at a competitive disadvantage compared to our competitors who may have less debt.
- limiting our attractiveness as an investment opportunity for potential investors.

In addition, our debt instruments contain cross-default provisions that could result in our debt being declared immediately due and payable under a number of debt instruments, even if we default on only one debt instrument. In such event, it is possible that we would not be able to satisfy our obligations under all of such accelerated indebtedness simultaneously.

Our financial condition and operating performance, including that of our subsidiaries, are also subject to prevailing economic and competitive conditions and to certain financial, business and other factors beyond our control. There are no assurances that we will maintain a level of liquidity sufficient to permit us to pay the principal, premium and interest on our indebtedness.

If our cash flows and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce or delay capital expenditures, sell assets, seek additional capital, or restructure or refinance our indebtedness. These alternative measures may not be successful and may not permit us to meet our scheduled debt service obligations. In the absence of such operating results and resources, we could face substantial liquidity problems and might be required to dispose of material assets or operations in an effort to meet our debt service and other obligations. The agreements governing our debt instruments restrict our ability to dispose of assets and to use the proceeds from such dispositions. We may not be able to consummate those dispositions or be able to obtain the proceeds that we could realize from them, and these proceeds may not be adequate to meet any debt service obligations then due.

We may have future capital needs and may not be able to obtain additional financing on acceptable terms.

We are substantially reliant on cash on hand and borrowing availability under the 2023 facility, which totaled $695.3 million at December 31, 2019, to provide working capital and fund our operations. Our working capital requirements are likely to grow assuming the housing industry continues to grow. Our inability to renew, amend or replace our debt instruments when required or when business conditions warrant could have a material adverse effect on our business, financial condition and results of operations.

Economic and credit market conditions, the performance of our industry, and our financial performance, as well as other factors, may constrain our financing abilities. Our ability to secure additional financing, if available, and to satisfy our financial obligations under indebtedness outstanding from time to time will depend upon our future operating performance, the availability of credit, economic conditions and financial, business and other factors, many of which are beyond our control. Significant worsening of current housing market conditions or the macroeconomic factors that affect our industry could require us to seek additional capital and have a material adverse effect on our ability to secure such capital on favorable terms, if at all.

We may be unable to secure additional financing, financing on favorable terms or our operating cash flow may be insufficient to satisfy our financial obligations under indebtedness outstanding from time to time. The agreements governing our debt instruments, moreover, restrict the amount of permitted indebtedness allowed. In addition, if financing is not available when needed, or is available on unfavorable terms, we may be unable to take advantage of business opportunities, including potential acquisitions, or respond to competitive pressures, any of which could have a material adverse effect on our business, financial condition, and results of operations. If additional funds are raised through the issuance of additional equity or convertible debt securities, our stockholders may experience significant dilution.

We may incur additional indebtedness.

We may incur additional indebtedness in the future, including collateralized debt, subject to the restrictions contained in the agreements governing our debt instruments. If new debt is added to our current debt levels, the related risks that we now face could intensify.

Our debt instruments contain various covenants that limit our ability to operate our business.

Our financing arrangements, including the agreements governing our debt instruments, contain various provisions that limit our ability to, among other things:

- transfer or sell assets, including the equity interests of our restricted subsidiaries, or use asset sale proceeds;
- incur additional debt;
- pay dividends or distributions on our capital stock or repurchase our capital stock;
- make certain restricted payments or investments;
- create liens to secure debt;
- enter into transactions with affiliates;
- merge or consolidate with another company or continue to receive the benefits of these financing arrangements under a “change in control” scenario (as defined in those agreements); and
- engage in unrelated business activities.

The agreement governing the 2023 facility contains a financial covenant requiring the satisfaction of a minimum fixed charge ratio of 1.00 to 1.00 if our excess availability falls below the greater of $80.0 million or 10% of the maximum borrowing amount, which was $80.0 million as of December 31, 2019.

These provisions may restrict our ability to expand or fully pursue our business strategies. Our ability to comply with the agreements governing our debt instruments may be affected by changes in our operating and financial performance, changes in general business and economic conditions, adverse regulatory developments, a change in control or other events beyond our control. The breach of any of these provisions could result in a default under our indebtedness, which could cause those and other obligations to become due and payable. If any of our indebtedness is accelerated, we may not be able to repay it.

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

Interest rates may increase in the future. As a result, interest rates on our 2023 facility and our 2024 term loan could be higher or lower than current levels. As of December 31, 2019, we had approximately $79.0 million, or 6.1%, of our outstanding debt at variable interest rates. If interest rates increase, our debt service obligations on the variable rate indebtedness would increase even though the amount borrowed remained the same, and our net income and cash flows, including cash available for servicing our indebtedness, would correspondingly decrease. Further, an increase in interest rates could also trigger a limitation on the deductibility of those interest costs, increasing our tax expense and further decreasing our net income and cash flows. In recent years, the Company has executed several debt transactions designed to reduce debt, extend maturities or lower our interest rates. The Company is likely to execute similar debt transactions in the future. However, there can be no assurance that we will be successful in anticipating the direction of interest rates or changes in market conditions, which could result in future debt transactions having a material adverse impact on our financial condition, operating results and cash flows.

A 1.0% increase in interest rates on the 2023 facility would result in approximately $0.3 million in additional interest expense annually as we had $27.0 million in outstanding borrowings as of December 31, 2019. The 2023 facility also assesses variable commitment and outstanding letter of credit fees based on quarterly average loan utilization. A 1.0% increase in interest rates on the 2024 term loan outstanding as of December 31, 2019 would result in approximately $0.5 million in additional interest expense annually.

The interest rates on our 2023 facility and 2024 term loan may be impacted by the phase out of the London Interbank Offered Rate ("LIBOR")

Interest rates on borrowings under our 2023 facility and 2024 term loan can, at our option, be based on LIBOR. In July 2017, the United Kingdom Financial Conduct Authority announced the desire to phase out the use of LIBOR by the end of 2021. The U.S. Federal Reserve, in conjunction with the Alternative Rates Reference Committee, is considering various alternatives, such as the Secured Overnight Financing Rate ("SOFR"), to replace LIBOR. The phase out of LIBOR may have an adverse impact on the cost of our borrowings under our 2023 facility and 2024 term loan.

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

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

A range of factors may make our quarterly revenues, earnings and cash flows variable.

We have historically experienced, and in the future will continue to experience, variability in revenues, earnings and cash flows on a quarterly basis. The factors expected to contribute to this variability include, among others: (1) the volatility of prices of lumber, wood products and other building products, (2) the cyclical nature of the homebuilding industry, (3) general economic conditions in the various areas that we serve, (4) the intense competition in the industry, including expansion and growth strategies by competitors, (5) the production schedules of our customers, and (6) the effects of the weather. These factors, among others, make it difficult to project our operating results and cash flows on a consistent basis, which may affect the price of our stock.

Our continued success will depend on our ability to retain our key employees and to attract and retain new qualified employees.

Our success depends in part on our ability to attract, hire, train and retain qualified managerial, operational, sales and other personnel. We face significant competition for these types of employees in our industry and from other industries. We may be unsuccessful in attracting and retaining the personnel we require to conduct and expand our operations successfully. In addition, key personnel may leave us and compete against us. Our success also depends to a significant extent on the continued service of our senior management team. We may be unsuccessful in replacing key managers who either resign or retire. The loss of any member of our senior management team or other experienced senior employees could impair our ability to execute our business plan, cause us to lose customers and reduce our net sales, or lead to employee morale problems and/or the loss of other key employees. In any such event, our financial condition, operating results and cash flows could be adversely affected.

Product shortages, loss of key suppliers, and our dependence on third-party suppliers and manufacturers could affect our financial health.

Our ability to offer a wide variety of products to our customers is dependent upon our ability to obtain adequate product supply from manufacturers and other suppliers. Generally, our products are obtainable from various sources and in sufficient quantities. However, the loss of, or a substantial decrease in the availability of, products from our suppliers or the loss of key supplier arrangements could adversely impact our financial condition, operating results, and cash flows.

Although in many instances we have agreements with our suppliers, these agreements are generally terminable by either party on limited notice. Failure by our suppliers to continue to supply us with products on commercially reasonable terms, or at all, could put pressure on our operating margins or have a material adverse effect on our financial condition, operating results and cash flows. Short-term changes in the cost of these materials, some of which are subject to significant fluctuations, are oftentimes, but not always passed on to our customers. Our delayed ability to pass on material price increases to our customers could adversely impact our financial condition, operating results and cash flows.

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

If conditions in the housing industry deteriorate we may need to take goodwill and/or asset impairment charges relating to certain of our reporting units. Any such non-cash charges would have an adverse effect on our financial results. In addition, in response to industry conditions, we may have to temporarily idle or permanently close certain facilities in under-performing regions. Any such facility closures could have a significant adverse effect on our financial condition, operating results and cash flows.

The nature of our business exposes us to product liability, product warranty, casualty, construction defect, asbestos, vehicle and other claims and legal proceedings.

We are involved in product liability, product warranty, casualty, construction defect, asbestos, vehicle and other claims relating to the products we manufacture and distribute, and services we provide or have provided that, if adversely determined, could adversely affect our financial condition, operating results, and cash flows. We rely on manufacturers and other suppliers to provide us with many of the products we sell and distribute. Because we have no direct control over the quality of such products manufactured or supplied by such third-party suppliers, we are exposed to risks relating to the quality of such products. The Company has a number of known and threatened construction defect legal claims. We are also involved in several asbestos personal injury suits due to the alleged sale of asbestos-containing products by legacy businesses that we acquired. In addition, we are exposed to potential claims arising from the conduct of our respective employees and subcontractors, and builders and their subcontractors, for which we may be contractually liable. Although we currently maintain what we believe to be suitable and adequate insurance in excess of our self-insured amounts, there can be no assurance that we will be able to maintain such insurance on acceptable terms or that such insurance will provide adequate protection against potential liabilities. Product liability, product warranty, casualty, construction defect, asbestos, vehicle, and other claims can be expensive to defend and can divert the attention of management and other personnel for significant periods, regardless of the ultimate outcome. Claims of this nature could also have a negative impact on customer confidence in our products and our company. In addition, we are involved on an ongoing basis in other types of legal proceedings. We cannot assure you that any current or future claims against us will not adversely affect our financial condition, operating results and cash flows.

We occupy most of our facilities under long-term non-cancelable leases. We may be unable to renew leases at the end of their terms. If we close a facility, we are still obligated under the applicable lease.

Most of our facilities are leased. Many of our leases are non-cancelable, typically have initial expiration terms ranging from five to 15 years and most provide options to renew for specified periods of time. We believe that leases we enter into in the future will likely be for similar terms (five to 15 years), will be non-cancelable and will feature similar renewal options. If we close or idle a facility we would remain committed to perform our obligations under the applicable lease, which would include, among other things, payment of the base rent, insurance, taxes and other expenses on the leased property for the balance of the lease term. Management may explore offsets to remaining obligations such as subleasing opportunities or negotiated lease terminations. We have closed or idled a number of facilities for which we continue to remain liable. Our obligation to continue making rental payments with respect to leases for closed or idled facilities could have a material adverse effect on our business and results of operations. At the end of a lease term, for those locations where we have no renewal options remaining, we may be unable to renew the lease without additional cost, if at all. If we are unable to renew our facility leases, we may close or, if possible, relocate the facility, which could subject us to additional costs and risks which could have a material adverse effect on our business. Additionally, the revenue and profit generated at a relocated facility may not equal the revenue and profit generated at the former operation.

We are a holding company and conduct all of our operations through our subsidiaries.

We are a holding company that derives all of our operating income from our subsidiaries. All of our assets are held by our direct and indirect subsidiaries. We rely on the earnings and cash flows of our subsidiaries, which are paid to us by our subsidiaries in the form of dividends and other payments or distributions, to meet our debt service obligations. The ability of our subsidiaries to pay dividends or make other payments or distributions to us will depend on their respective operating results and may be restricted by, among other things, the laws of their jurisdiction of organization (which may limit the amount of funds available for the payment of dividends and other distributions to us), the terms of existing and future indebtedness and other agreements of our subsidiaries, as well as the covenants of any future outstanding indebtedness we or our subsidiaries incur.

We may be adversely affected by any disruption in our respective information technology systems.

Our operations are dependent upon our information technology systems, which encompass all of our major business functions. Our primary ERP system is a proprietary system that has been highly customized by our computer programmers. Our centralized financial reporting system currently draws data from our ERP systems. We rely upon our information technology systems to run critical accounting and financial information systems, process receivables, manage and replenish inventory, fill and ship customer orders on a timely basis, and coordinate our sales activities across all products and services. A substantial disruption in our information technology systems for any prolonged time period (arising from, for example, system capacity limits from unexpected increases in our volume of business, outages, natural or other disasters, or disruptions in our service) could result in problems and delays in generating critical financial and operational information, processing receivables, receiving inventory and supplies and filling customer orders. These disruptions could adversely affect our operating results as well as our customer service and relationships. Our systems, or those of our significant customers or suppliers, might be damaged or interrupted by natural or man-made events or by computer viruses, physical or electronic break-ins, or similar disruptions affecting the global Internet. In addition, we rely on a number of third-party service providers to execute certain business processes and maintain certain information technology systems and infrastructure, and any breach of security or disruption in their systems could impair our ability to operate effectively. There can be no assurance that such disruptions, delays, problems, or associated costs relating to our systems or those of our significant customers, suppliers or third-party providers would not have a material adverse effect on our financial condition, operating results and cash flows.

We are subject to cybersecurity risks and expect to incur increasing costs in an effort to minimize those risks.

Our business employs systems that allow for the secure storage and transmission of customers', vendors' and employees' proprietary information. Security breaches could expose us to a risk of loss or misuse of this information, litigation and potential liability. We may not have the resources or technical sophistication to anticipate or prevent rapidly evolving types of cyber-attacks. Any compromise of our security could result in a violation of applicable privacy and other laws, significant legal and financial exposure, damage to our reputation and a loss of confidence in our security measures, which could harm our business. The regulatory environment related to information security and privacy is increasingly rigorous, with new and constantly changing requirements applicable to our business, and compliance with those requirements could result in additional costs. Our computer systems have been, and will likely continue to be, subjected to computer viruses or other malicious codes, unauthorized access attempts and cyber- or phishing-attacks. These events could compromise ours' and our customers' and suppliers' confidential information, impede or interrupt our business operations, and could result in other negative consequences, including remediation costs, loss of revenue, litigation and reputational damage. To our knowledge, we have not experienced a material cybersecurity breach to date. As cyber-attacks become more sophisticated, we expect to incur increasing costs to strengthen our systems from outside intrusions. While we have implemented administrative and technical controls and have taken other preventive actions to reduce the risk of cyber incidents and protect our information technology, they may be insufficient to prevent physical and electronic break-ins, cyber-attacks or other security breaches to our computer systems.

We are subject to payments-related risks that could increase our operating costs, expose us to fraud, subject us to potential liability and potentially disrupt our business.

We accept payments using a variety of methods, including credit card, debit card, direct debit from a customer's bank account, consumer invoicing, and physical bank checks, and we may offer different payment options over time. These payment options subject us to many compliance requirements, including, but not limited to, compliance with payment card association operating rules, including data security rules, certification requirements, rules governing electronic funds transfers and Payment Card Industry Data Security Standards. They also subject us to potential fraud by criminal elements seeking to discover and take advantage of security vulnerabilities that may exist in some of these payment systems. For certain payment methods, including credit and debit cards, we pay interchange and other fees, which may increase over time and raise our operating costs and lower profitability. We rely on third parties to provide payment processing services, including the processing of credit and debit cards, and it could disrupt our business if these companies become unwilling or unable to provide these services to us. If we fail to comply with these rules or requirements, or if our data security systems are breached or compromised, we may be liable for card issuing banks' costs, subject to fines and higher transaction fees, and lose our ability to accept credit and debit card payments from our customers, process electronic funds transfers, or facilitate other types of online payments, and our business and operating results could be adversely affected.

We may be adversely affected by any natural or man-made disruptions to our distribution and manufacturing facilities.

We currently maintain a broad network of distribution and manufacturing facilities throughout the U.S. Any widespread disruption to our operations resulting from fire, earthquake, weather-related events, an act of terrorism or any other cause could damage multiple facilities and a significant portion of our inventory and could materially impair our ability to distribute our products to customers. Moreover, we could incur significantly higher costs and longer lead times associated with distributing our products to our customers during the time that it takes for us to reopen or replace a damaged facility. In addition, any shortages of fuel or significant fuel cost increases could disrupt our ability to distribute products to our customers. If any of these events were to occur, our financial condition, operating results and cash flows could be materially adversely affected.

We may be unable to successfully implement our growth strategy, which includes increasing sales of our prefabricated components and other value-added products, pursuing strategic acquisitions, opening new facilities and reducing our outstanding debt.

Our long-term strategy depends in part on growing our sales of prefabricated components and other value-added products and increasing our market share. If any of these initiatives are not successful, or require extensive investment, our growth may be limited, and we may be unable to achieve or maintain expected levels of growth and profitability.

Our long-term business plan also provides for continued growth through strategic acquisitions and organic growth through the construction of new facilities or the expansion of existing facilities. Failure to identify and acquire suitable acquisition candidates on appropriate terms could have a material adverse effect on our growth strategy. Moreover, our liquidity position, or the requirements of or debt instruments could prevent us from obtaining the capital required to effect new acquisitions or expand our existing facilities. Our failure to make successful acquisitions or to build or expand needed facilities, including manufacturing facilities, produce saleable product, or meet customer demand in a timely manner could adversely affect our financial condition, operating results, and cash flows. A negative impact on our financial condition, operating results and cash flows, or our decision to invest in strategic acquisitions or new facilities, could adversely affect our ability to reduce our substantial outstanding debt.

In addition, although we have been successful in the past with the integration of numerous acquisitions, we may not be able to fully integrate the operations of any future acquired businesses with our own in an efficient and cost-effective manner or without significant disruption to our or the acquired companies' existing operations. Moreover, acquisitions involve significant risks and uncertainties, including uncertainties as to the future financial performance of the acquired business, the achievement of expected synergies, difficulties integrating acquired personnel and corporate cultures into our business, the potential loss of key employees, customers or suppliers, difficulties in integrating different computer and accounting systems, exposure to unforeseen liabilities of acquired companies and the diversion of management attention and resources from existing operations. We may be unable to successfully complete potential acquisitions due to multiple factors, such as issues related to regulatory review of the proposed transactions. We may also be required to incur additional debt or issue additional shares of our common stock in order to consummate acquisitions in the future. Potential new debt may be substantial and may limit our flexibility in using our cash flow from operations. The issuance of new shares of our common stock could dilute the equity value of our existing shareholders. Our failure to fully integrate future acquired businesses effectively or to manage other consequences of our acquisitions, including increased indebtedness, could prevent us from remaining competitive and, ultimately, could adversely affect our financial condition, operating results and cash flows.

Federal, state, local and other regulations could impose substantial costs and/or restrictions on our operations that would reduce our net income.

We are subject to various federal, state, local and other regulations, including, among other things, regulations promulgated by the Department of Transportation and applicable to our fleet of delivery trucks, work safety regulations promulgated by the Department of Labor's Occupational Safety and Health Administration, employment regulations promulgated by the United States Equal Employment Opportunity Commission, tariff regulations on imported products promulgated by the Federal government, accounting standards issued by the Financial Accounting Standards Board ("FASB") or similar entities, state and local regulations relating to our escrow business, and state and local zoning restrictions and building codes. More burdensome regulatory requirements in these or other areas may increase our general and administrative costs and adversely affect our financial condition, operating results and cash flows. Moreover, failure to comply with the regulatory requirements applicable to our business could expose us to substantial penalties that could adversely affect our financial condition, operating results and cash flows.

Future changes to tax laws and regulations could have an adverse impact on our business.

On December 22, 2017, legislation commonly referred to as the Tax Cuts and Jobs Act ("the 2017 Tax Act") substantially changed several aspects of the Internal Revenue Code, some of which may have an adverse impact on our business over time. Certain aspects of the 2017 Tax Act may make purchasing a home less attractive and therefore could have an adverse impact on our business. The 2017 Tax Act contains limitations on the ability of homeowners to deduct property taxes and mortgage interest as well as limitations on an individual taxpayer's ability to deduct state and local income taxes. The 2017 Tax Act also raises the standard deduction. These changes could reduce the perceived affordability of homeownership, and therefore the demand for homes, and/or have a moderating impact on home sales prices in areas with relatively high housing prices and/or high state and local income taxes and real estate taxes, including in certain of our served markets such as California and New York. As a result, some communities in those locations could experience lower net orders and/or a tempering of average sales prices in future periods depending on how homebuyers react to the tax law changes under the 2017 Tax Act. Further, there can be no assurance that any future changes in federal and state tax laws and regulations will not have an adverse impact on our financial condition, operating results and cash flows.

We are subject to potential exposure to environmental liabilities and are subject to environmental regulation.

We are subject to various federal, state and local environmental laws, ordinances and regulations. Although we believe that our facilities are in material compliance with such laws, ordinances, and regulations, as owners and lessees of real property, we can be held liable for the investigation or remediation of contamination on such properties, in some circumstances, without regard to whether we knew of or were responsible for such contamination. No assurance can be provided that remediation may not be required in the future as a result of spills or releases of petroleum products or hazardous substances, the discovery of unknown environmental conditions, more stringent standards regarding existing residual contamination, or changes in legislation, laws, rules or regulations. More burdensome environmental regulatory requirements may increase our general and administrative costs and adversely affect our financial condition, operating results and cash flows.

We may be adversely affected by uncertainty in the economy and financial markets, including as a result of terrorism or unrest.

Instability in the economy and financial markets, including as a result of terrorism or unrest, may result in a decrease in housing starts, which would adversely affect our business. In addition, such unrest or related adverse developments, including a retaliatory military strike or terrorist attack, may cause unpredictable or unfavorable economic conditions and could have a material adverse effect on our financial condition, operating results, and cash flows. Any shortages of fuel or significant fuel cost increases related to geopolitical conditions could seriously disrupt our ability to distribute products to our customers. In addition, domestic terrorist attacks may affect our ability to keep our operations and services functioning properly and could have a material adverse effect on our financial condition, operating results and cash flows.

Some Company Employees are Unionized.

Less than 2% of the workforce at our company are members of eight different unions. There can be no assurance that additional employees of our company will not conduct union organization campaigns or become union members in the future.

The trading price of our common stock has been and may continue to be subject to wide fluctuations.

Between January 1, 2019 and December 31, 2019, the price of our common stock on the NASDAQ ranged from $10.56 to $26.07 per share. Our stock price may fluctuate in response to a number of events and factors, including those described in this "Risk Factors" section. Additionally, our substantial indebtedness may hinder the demand for our common stock, which could have a material adverse effect on the market price of our common stock.

The price of our common stock is volatile and may decline.

The market price of our common stock historically has experienced and may continue to experience significant price fluctuations similar to those experienced by the broader stock market in recent years. In addition, the price of our common stock may fluctuate significantly in response to various factors, including:

- actual or anticipated fluctuations in our results of operations;
- announcements by us or our competitors of significant business developments, changes in customer relationships, acquisitions, or expansion plans;
- changes in the prices of products we sell;
- involvement in litigation;
- our sale of common stock or other securities in the future;

- market conditions in our industry;
- changes in key personnel;
- changes in market valuation or earnings of our competitors;
- the trading volume of our common stock;
- changes in the estimation of the future size and growth rate of our markets; and
- general economic and market conditions;

Broad market and industry factors may materially harm the market price of our common stock, regardless of our operating performance. In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been instituted against that company.

If we were involved in any similar litigation we could incur substantial costs and our management's attention and resources could be diverted, which could adversely affect our financial condition, results of operations and cash flows. As a result, it may be difficult for you to resell your shares of common stock in the future.

Significant sales of our common stock, or the perception that significant sales may occur in the future, could adversely affect the market price of our common stock.

The sale of substantial amounts of our common stock could adversely affect the price of our common stock. Sales of substantial amounts of our common stock in the public market, and the availability of shares for future sale, including 0.4 million shares of our common stock issuable as of December 31, 2019 upon exercise of outstanding vested and unvested options to acquire shares of our common stock, and through the conversion of 2.1 million restricted stock units under our stock incentive plans, could adversely affect the prevailing market price of our common stock and could cause the market price of our common stock to remain low for a substantial time. Additional stock grants may also be made under our incentive plans, including our 2014 Incentive Plan, as it may be amended. The potential for future stock grants could have a negative effect on the market for our common stock and our ability to raise additional capital.

We do not have any current plan to pay, and are restricted in our ability to pay, any dividends on our common stock, and as a result, your only opportunity to achieve a return on your investment in our common stock is if the price of our common stock increases.

We anticipate that we will retain all future earnings and other cash resources for the future operation and development of our business, including potential debt reduction. Accordingly, we do not intend to declare or pay regular cash dividends on our common stock in the near future. Payment of any future dividends will be at the discretion of our board of directors after taking into account many factors, including our operating results, financial condition, current and anticipated cash needs and plans for expansion. The declaration and payment of any dividends on our common stock is also restricted by the terms of our outstanding indebtedness.

Item 1B. *Unresolved Staff Comments*

None.

Item 2. *Properties*

We have a broad network of distribution and manufacturing facilities in 40 states throughout the U.S. Based on available 2018 U.S. Census data, we have operations in 77 of the top 100 U.S. Metropolitan Statistical Areas, as ranked by single family housing permits in 2018.

Distribution centers typically include 10 to 15 acres of outside storage, a 45,000 square foot warehouse, 4,000 square feet of office space, and 15,000 square feet of covered storage. The outside area provides space for lumber storage and a staging area for delivery while the warehouse stores millwork, windows and doors. The distribution centers are usually located in industrial areas with low cost real estate and easy access to freeways to maximize distribution efficiency and convenience. Many of our distribution centers are situated on rail lines for efficient receipt of goods.

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

We contractually lease approximately 310 facilities and own approximately 90 facilities. These leases typically have an initial lease term of 5 to 15 years and most provide options to renew for specified periods of time. A majority of our leases provide for fixed annual rentals. Certain of our leases include provisions for escalating rent, as an example, based on changes in the consumer price index. Most of the leases require us to pay taxes, insurance and common area maintenance expenses associated with the properties. As described in Note 10 to the consolidated financial statements included in Item 8 of this annual report on Form 10-K, 139 of our leased facilities are subject to a sales-lease back transaction that is accounted for in our financial statements as owned assets with offsetting financing obligations.

We operate a fleet of approximately 11,000 rolling stock units, which includes approximately 4,500 trucks and 4,500 forklifts as well as trailers to deliver products from our distribution and manufacturing centers to our customers' job sites. Through our emphasis on local market flexibility and strategically placed locations, we minimize shipping and freight costs while maintaining a high degree of local market expertise. Through knowledge of local homebuilder needs, customer coordination and rapid restocking ability, we reduce working capital requirements and guard against out-of-stock products. We believe that this reliability is highly valued by our customers and reinforces customer relationships.

Item 3. ***Legal Proceedings***

The Company has a number of known and threatened construction defect legal claims. While these claims are generally covered under the Company's existing insurance programs to the extent any loss exceeds the deductible, there is a reasonable possibility of loss that is not able to be estimated at this time because (i) many of the proceedings are in the discovery stage, (ii) the outcome of future litigation is uncertain, and/or (iii) the complex nature of the claims. Although the Company cannot estimate a reasonable range of loss based on currently available information, the resolution of these matters could have a material adverse effect on the Company's financial position, results of operations or cash flows.

In addition, we are involved in various other claims and lawsuits incidental to the conduct of our business in the ordinary course. We carry insurance coverage in such amounts in excess of our self-insured retention as we believe to be reasonable under the circumstances and that may or may not cover any or all of our liabilities in respect of such claims and lawsuits. Although the ultimate disposition of these other proceedings cannot be predicted with certainty, management believes the outcome of any such claims that are pending or threatened, either individually or on a combined basis, will not have a material adverse effect on our consolidated financial position, cash flows or results of operations. However, there can be no assurances that future adverse judgments and costs would not be material to our results of operations or liquidity for a particular period.

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

Item 4. ***Mine Safety Disclosures***

Not applicable.

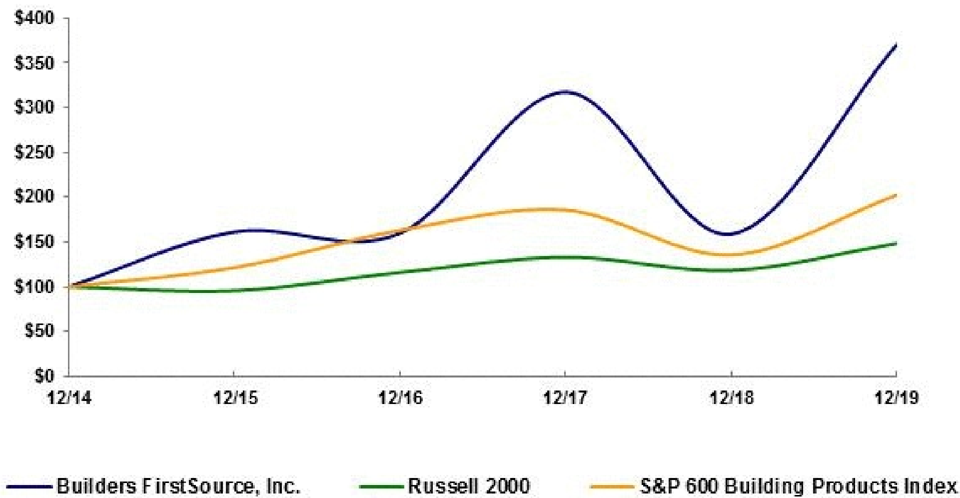
PART II

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

Our common stock is traded on the NASDAQ Stock Market LLC under the symbol "BLDR". The approximate number of stockholders of record of our common stock as of February 19, 2020 was 70.

We currently have no intention to pay dividends. Any future determination relating to dividend policy will be made at the discretion of our board of directors and will depend on a number of factors, including restrictions in our debt instruments, as well as our future earnings, capital requirements, financial condition, prospects and other factors that our board of directors may deem relevant. Our debt agreements currently restrict our ability to pay dividends. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources" contained in Item 7 of this annual report on Form 10-K.

The graph below matches the cumulative 5-Year total return of holders of Builders FirstSource, Inc.'s common stock with the cumulative total returns of the Russell 2000 index and the S&P 600 Building Products index. The graph assumes that the value of the investment in our common stock, in each index, and in the peer group (including reinvestment of dividends) was $100 on 12/31/2014 and tracks it through 12/31/2019.



	12/14	12/15	12/16	12/17	12/18	12/19
Builders FirstSource, Inc.	100.00	161.28	159.68	317.18	158.81	369.87
Russell 2000	100.00	95.59	115.95	132.94	118.30	148.49
S&P 600 Building Products Index	100.00	121.42	162.96	185.64	135.56	202.37

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

The information regarding securities authorized for issuance under equity compensation plans appears in our definitive proxy statement for our annual meeting of stockholders to be held on May 21, 2020 under the caption "Equity Compensation Plan Information," which information is incorporated herein by reference.

Item 6. ***Selected Financial Data***

The following selected consolidated financial data for the years ended December 31, 2019, 2018 and 2017 and as of December 31, 2019 and 2018 were derived from our consolidated financial statements which are included in Item 8 of this annual report on Form 10-K. Selected consolidated financial data as of December 31, 2017 and as of and for the years ended December 31, 2016 and 2015 were derived from our consolidated financial statements, but are not included herein.

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

	Year Ended December 31,				
	2019	2018	2017	2016	2015
	(In thousands, except per share amounts)				
Statement of operations data:					
Net sales (1)	$ 7,280,431	$ 7,724,771	$ 7,034,209	$ 6,367,284	$ 3,564,425
Gross margin	1,976,829	1,922,940	1,727,391	1,596,748	901,458
Selling, general and administrative expenses	1,584,523	1,553,972	1,442,288	1,360,412	810,703
Net income (loss) (2)(3)	221,809	205,191	38,781	144,341	(22,831)
Net income (loss) per share — basic	$ 1.92	$ 1.79	$ 0.34	$ 1.30	$ (0.22)
Net income (loss) per share — diluted	$ 1.90	$ 1.76	$ 0.34	$ 1.27	$ (0.22)
Balance sheet data (end of period):					
Cash and cash equivalents	$ 14,096	$ 10,127	$ 57,533	$ 14,449	$ 65,063
Total assets (4)	3,249,490	2,932,309	3,006,124	2,909,887	2,882,038
Total debt (including current portion)	1,291,273	1,561,294	1,784,420	1,802,052	1,951,671
Stockholders' equity	824,953	596,338	376,209	309,620	149,195
Other financial data:					
Depreciation and amortization	$ 100,038	$ 97,906	$ 92,993	$ 109,793	$ 58,280

(1) We adopted updated revenue recognition guidance using the modified retrospective method as of January 1, 2018. As such, periods prior to the adoption date have not been restated and continue to be presented in accordance with previous guidance.

(2) As discussed in Note 12 to the consolidated financial statements included in Item 8 of this annual report on Form 10-K, net income for the year ended December 31, 2017 includes $29.0 million in income tax expense attributable to revaluation of our net deferred tax assets resulting from the enactment of the 2017 Tax Act. Net income for the year ended December 31, 2016 includes a reduction to our valuation allowance of $131.7 million as we released the valuation allowance against our net federal and certain state deferred tax assets in that period. Net loss for the year ended December 31, 2015 includes a valuation allowance of $9.7 million against primarily all of our deferred tax assets.

(3) Net income for the year ended December 31, 2019 includes net losses on debt extinguishment and other financing costs of $10.2 million. Net income for the year ended December 31, 2018 includes a net gain on debt extinguishment of $3.2 million. Net income for the year ended December 31, 2017 includes net losses on debt extinguishment and other financing costs of $58.7 million. Our 2019, 2018 and 2017 debt transactions are discussed in detail in Note 9 to the consolidated financial statements included in Item 8 of this annual report on Form 10-K. Net income for the year ended December 31, 2016 includes net losses on debt extinguishment and other financing costs of $56.9 million. Net loss for the year ended December 31, 2015 includes $38.6 million of acquisition and transaction related costs associated with the ProBuild acquisition, including $13.2 million in commitment fees related to bridge and backstop financing facilities incurred in connection with the financing of the ProBuild acquisition. In addition, net loss for the year ended December 31, 2015 also includes $10.3 million related to non-cash interest expense from the amortization of debt discount and deferred loan costs, and fair value adjustments related to previously outstanding stock warrants.

(4) As discussed in Note 2 to the consolidated financial statements included in Item 8 of this annual report on Form 10-K we adopted updated guidance relating to leases using the modified retrospective method as of January 1, 2019. As such, periods prior to the adoption date have not been restated and continue to be presented in accordance with previous guidance.

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

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

OVERVIEW

We are a leading supplier and manufacturer of building materials, manufactured components and construction services to professional contractors, sub-contractors and consumers. The Company operates approximately 400 locations in 40 states across the United States. Given the span and depth of our geographical reach, our locations are organized into nine geographical regions (Regions 1 through 9), which are also our operating segments, and these are further aggregated into four reportable segments: Northeast, Southeast, South and West. All of our segments have similar customers, products and services, and distribution methods. Our financial statements contain additional information regarding segment performance which is discussed in Note 15 to the consolidated financial statements included in Item 8 of this annual report on Form 10-K.

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

We group our building products into six product categories:

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

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

- *Homebuilding Industry.* Our business is driven primarily by the residential new construction market and the residential repair and remodel market, which are in turn dependent upon a number of factors, including demographic trends, interest rates, consumer confidence, employment rates, housing affordability, household formation, land development costs, the availability of skilled construction labor, and the health of the economy and mortgage markets. According to the U.S. Census Bureau, annual U.S. total and single-family housing starts were 1.3 million and 0.9 million, respectively, in 2019. However, both total and single-family housing starts remain below the normalized historical averages (from 1959 through 2019) of 1.5 million and 1.1 million, respectively. Due to the lower levels in housing starts versus historical norms, increased competition for homebuilder business and cyclical fluctuations in commodity prices, we may experience pressure on our gross margins. In addition to these factors, there has been a trend of consolidation within the building products supply industry. However, our industry remains highly fragmented and competitive and we will continue to face significant competition from local and regional suppliers. We still believe there are several meaningful trends that indicate U.S. housing demand will continue to trend towards recovering to the historical average. These trends include relatively low interest rates, the aging of housing stock, and normal population growth due to immigration and birthrate exceeding death rate. While the rate of market growth has recently eased, industry forecasters, including the National Association of Homebuilders ("NAHB"), expect to see continued increases in housing demand over the next year.

- *Targeting Large Production Homebuilders.* In recent years, the homebuilding industry has undergone consolidation, and the larger homebuilders have increased their market share. We expect that trend to continue as larger homebuilders have better liquidity and land positions relative to the smaller, less capitalized homebuilders. Our focus is on maintaining relationships and market share with these customers while balancing the competitive pressures we are facing in servicing large homebuilders with certain profitability expectations. Additionally, we have been successful in expanding our custom homebuilder base while maintaining acceptable credit standards.
- *Repair and remodel end market.* Although the repair and remodel end market is influenced by housing starts to a lesser degree than the homebuilding market, the repair and remodel end market is still dependent upon some of the same factors as the homebuilding market, including demographic trends, interest rates, consumer confidence, employment rates and the health of the economy and home financing markets. We expect that our ability to remain competitive in this space will depend on our continued ability to provide a high level of customer service coupled with a broad product offering.
- *Use of Prefabricated Components.* Homebuilders are increasingly using prefabricated components in order to realize increased efficiency, overcome skilled construction labor shortages and improve quality. Shortening cycle time from start to completion is a key imperative of the homebuilders during periods of strong consumer demand. We continue to see the demand for prefabricated components increasing within the residential new construction market as the availability of skilled construction labor remains limited.
- *Economic Conditions.* Economic changes both nationally and locally in our markets impact our financial performance. The building products supply industry is highly dependent upon new home construction and subject to cyclical market changes. Our operations are subject to fluctuations arising from changes in supply and demand, national and local economic conditions, labor costs and availability, competition, government regulation, trade policies and other factors that affect the homebuilding industry such as demographic trends, interest rates, housing starts, the high cost of land development, employment levels, consumer confidence, and the availability of credit to homebuilders, contractors, and homeowners.
- *Housing Affordability.* The affordability of housing can be a key driver in demand for our products. Home affordability is influenced by a number of economic factors, such as the level of employment, consumer confidence, consumer income, the supply of houses, the availability of financing and interest rates. Changes in the inventory of available homes as well as economic factors relative to home prices could result in changes to the affordability of homes. As a result, homebuyer demand may shift towards smaller, or larger, homes creating fluctuations in demand for our products.
- *Cost of Materials.* Prices of wood products, which are subject to cyclical market fluctuations, may adversely impact operating income when prices rapidly rise or fall within a relatively short period of time. We purchase certain materials, including lumber products, which are then sold to customers as well as used as direct production inputs for our manufactured and prefabricated products. Short-term changes in the cost of these materials, some of which are subject to significant fluctuations, are oftentimes passed on to our customers, but our pricing quotation periods and market competition may limit our ability to pass on such price changes. We may also be limited in our ability to pass on increases on in-bound freight costs on our products. Our inability to pass on material price increases to our customers could adversely impact our operating results.
- *Controlling Expenses.* Another important aspect of our strategy is controlling costs and striving to be a low-cost building materials supplier in the markets we serve. We pay close attention to managing our working capital and operating expenses. Further, we pay careful attention to our logistics function and its effect on our shipping and handling costs.
- *Multi-Family and Light Commercial Business.* Our primary focus has been, and continues to be, on single-family residential new construction and the repair and remodel end market. However, we will continue to identify opportunities for profitable growth in the multi-family and light commercial markets.
- *Capital Structure.* As a result of our historical growth through acquisitions, we have substantial indebtedness. We strive to optimize our capital structure to ensure that our financial needs are met in light of economic conditions, business activities, organic investments, opportunities for growth through acquisition and the overall risk characteristics of our underlying assets. In addition to these factors, we also evaluate our capital structure on the basis of our leverage ratio, our liquidity position, our debt maturity profile and market interest rates. As such, we may enter into various debt or equity transactions in order to appropriately manage and optimize our capital structure.

RECENT DEVELOPMENTS

Debt Transactions

During the year ended December 31, 2019, the Company executed several debt transactions, including extending the maturity of our $900.0 million revolving credit facility ("2023 facility"), redemption and repurchase of $192.4 million in aggregate principal amount of our 5.625% senior secured notes due 2024 ("2024 notes"), and repayment of $406.3 million of our senior secured term loan facility due 2024 ("2024 term loan"). The repayments of our 2024 notes and 2024 term loan were funded with the proceeds from the issuance of $475.0 million in aggregate principal amount of our 6.75% senior secured notes due 2027 ("2027 notes") and cash on hand.

In February 2020, we completed a private offering of $550.0 million in aggregate principal amount of 5.0% unsecured senior notes due 2030 ("2030 notes") at an issue price equal to 100% of their par value. The proceeds from this offering were used together with borrowing under our 2023 facility to redeem the remaining $503.9 million in aggregate principal amount of 2024 notes outstanding at a redemption price of 104.2% of their par value and $47.5 million in aggregate principal amount of 2027 notes at a redemption price of 103.0% of their par value.

These transactions are described in Notes 9 and 18 to the consolidated financial statements included in Item 8 of this annual report on Form 10-K. Collectively, these transactions have extended our debt maturity profile and reduced the amount of long-term debt outstanding. From time to time, based on market conditions and other factors and subject to compliance with applicable laws and regulations, the Company may repurchase or call our notes, repay debt, repurchase shares of our common stock or otherwise enter into transactions regarding its capital structure.

Business Combinations

On July 1, 2019, we acquired certain assets and the operations of Sun State Components ("Sun State") for $42.5 million in cash. Sun State is comprised of three truss locations, which are located in Las Vegas, Nevada; Surprise, Arizona; and Kingman, Arizona. Sun State manufactures roof trusses and floor trusses and distributes lumber and related products to residential homebuilders and commercial contractors.

On December 9, 2019, we acquired certain assets and the operations of Raney Components, LLC and Raney Construction, Inc. (collectively "Raney") for $59.0 million in cash, subject to certain adjustments. Located in Groveland, Florida, Raney is a vertically-integrated manufacturer and installer of residential structures for production builder customers. Raney combines sub-contractor labor and material supply to place concrete slabs, install masonry block for exterior walls, set wall panels and roof trusses, frame interior walls and install roof decking.

On January 9, 2020, we acquired certain assets and the operations of Bianchi & Company, Inc. ("Bianchi") for $17.2 million in cash, subject to certain adjustments. Located in Charlotte, North Carolina, Bianchi is a supplier and installer of interior and exterior doors, crown moldings, open stair rail, chair rail, wainscoting, commercial hollow metal frames and doors and other custom millwork.

These acquisitions are described in Notes 5 and 18 to the consolidated financial statements included in Item 8 of this annual report on Form 10-K.

Retirement of President and Chief Executive Officer

On January 10, 2020, Mr. Crow notified our Board of his decision to retire as President and Chief Executive Officer of the Company during 2020 after assisting the Board in hiring his replacement. Mr. Crow has agreed to continue with the Company in a consulting capacity for a period of time following the appointment of a new Chief Executive Officer to assist in the transition. The Board has retained a leading global executive search firm to help identify a successor.

CURRENT OPERATING CONDITIONS AND OUTLOOK

According to the U.S. Census Bureau, actual U.S. total housing starts for the year ended December 31, 2019 were 1.3 million, an increase of 3.3% compared to the year ended December 31, 2018. Actual U.S. single-family housing starts for the year ended December 31, 2019 were 0.9 million, an increase of 1.4% compared to the year ended December 31 2018. A composite of third party sources, including the NAHB, are forecasting 1.3 million U.S. total housing starts and 0.9 million U.S. single-family housing starts for 2020, which are increases of 1.0% and 5.8%, respectively, from 2019. In addition, in its September 2019 semi-annual forecast, the Home Improvement Research Institute ("HIRI") forecasted sales in the professional repair and remodel end market to increase approximately 0.9% in 2020 compared to 2019.

Our net sales for the year ended December 31, 2019 decreased 5.8% over the same period last year. Commodity price deflation decreased our net sales in 2019 by an estimated 12.3%. Excluding the impact of commodity price deflation, we achieved 6.5% net sales growth in the single-family, multi-family and repair and remodel/other end markets, primarily as a result of sales volume growth in our manufactured products and windows, doors & millwork categories. Our gross margin percentage increased by 2.3% during the year ended December 31, 2019 compared to the year ended December 31, 2018. This increase in gross margin percentage is primarily attributable to an improved product mix, the decline in the cost of commodities relative to our customer pricing commitments and continued pricing discipline. In addition, sales growth in our value-add higher margin product categories, primarily our manufactured products and windows, doors & millwork categories, contributed to increased gross profit dollars and percentage compared to the year ended December 31, 2018. Our selling, general and administrative expenses, as a percentage of net sales, were 21.8% in 2019, a 1.7% increase from 20.1% in 2018. This increase was largely due to the effects of commodity price deflation on our net sales and an increase in variable compensation related to increased sales volume and gross margin for the year ended December 31, 2019 compared to the year ended December 31, 2018.

We believe the long-term outlook for the housing industry is positive due to growth in the underlying demographics. We feel we are well-positioned to take advantage of the construction activity in our markets and to increase our market share, which may include strategic acquisitions. We will continue to focus on working capital by closely monitoring the credit exposure of our customers, remaining focused on maintaining the right level of inventory and by working with our vendors to improve payment terms and pricing on our products. We strive to achieve the appropriate balance of short-term expense control while maintaining the expertise and capacity to grow the business as market conditions warrant. In addition, optimization of our capital structure will continue to be a key area of focus for the Company.

RESULTS OF OPERATIONS

A discussion regarding our financial condition and results of operations for the year ended December 31, 2019 compared to the year ended December 31, 2018 is presented below. A discussion regarding our financial condition and results of operations for the year ended December 31, 2018 compared to the year ended December 31, 2017 can be found under Item 7 of Part II of our Annual Report on Form 10-K for the fiscal year ended December 31, 2018, filed with the SEC on March 1, 2019.

2019 Compared with 2018

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

	2019	2018
Net sales	100.0%	100.0%
Cost of sales	72.8%	75.1%
Gross margin	27.2%	24.9%
Selling, general and administrative expenses	21.8%	20.1%
Income from operations	5.4%	4.8%
Interest expense, net	1.5%	1.4%
Income tax expense	0.8%	0.7%
Net income	3.1%	2.7%

Net Sales. Net sales for the year ended December 31, 2019 were $7,280.4 million, a 5.8% decrease from net sales of $7,724.8 million for 2018. Commodity price deflation decreased our net sales in 2019 by an estimated 12.3%. Excluding the impact of commodity price deflation, we achieved 6.5% sales growth in the single-family, multi-family and repair and remodel/other end markets, primarily as a result of sales volume growth in our manufactured products and windows, doors & millwork categories.

The following table shows net sales classified by major product category for the years ended December 31,(dollars in millions):

	2019		2018		
	Net sales	% of Sales	Net sales	% of Sales	% Change
Lumber & lumber sheet goods	$ 2,251.6	30.9%	$ 2,902.2	37.6%	(22.4)%
Manufactured products	1,449.5	19.9%	1,392.0	18.0%	4.1%
Windows, doors & millwork	1,542.9	21.2%	1,445.9	18.7%	6.7%
Gypsum, roofing & insulation	528.6	7.3%	528.4	6.9%	0.0%
Siding, metal & concrete products	712.6	9.8%	697.8	9.0%	2.1%
Other building products & services	795.2	10.9%	758.5	9.8%	4.8%
Total sales	$ 7,280.4	100.0%	$ 7,724.8	100.0%	(5.8)%

The decrease in net sales in our lumber and lumber sheet goods category resulted from the impact of commodity price deflation in 2019 compared to the prior year, which offset increased volume in the category. We achieved increased net sales in our remaining product categories due to higher sales volume.

Gross Margin. Gross margin increased $53.9 million to $1,976.8 million. Our gross margin percentage increased to 27.2% in 2019 from 24.9% in 2018, a 2.3% increase. Our gross margin percentage increase was primarily attributable to an improved product mix, the decline in the cost of commodities relative to our customer pricing commitments and continued pricing discipline. In addition, sales growth in our value-add higher margin product categories, primarily our manufactured products and windows, doors & millwork categories, contributed to increased gross profit dollars and percentage compared to the year ended December 31, 2018.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased $30.6 million, or 2.0%, and as a percentage of net sales increased to 21.8% from 20.1% in 2018. This increase was primarily due to increases in variable compensation related to increased sales volume and gross margin. The increase as a percentage of net sales was also attributable to the effect of commodity price deflation on our net sales.

Interest Expense, net. Interest expense was $109.6 million in 2019, a decrease of $1.3 million from 2018. This decrease in interest expense is primarily due to lower outstanding debt balances in 2019 compared to 2018. However, offsetting the overall decrease were one-time charges of $10.2 million in 2019 related to the debt transactions executed in that period. In addition, interest expense for the year ended December 31, 2018 included a $3.2 million gain on debt extinguishment.

Income Tax Expense. We recorded income tax expense of $60.9 million during the year ended December 31, 2019 compared to income tax expense of $55.6 million during the year ended December 31, 2018. Our effective tax rate was 21.6% for the year ended December 31, 2019 compared to 21.3% for the year ended December 31, 2018.

Results by Reportable Segment

The following tables show net sales and income before income taxes by reportable segment excluding the "All Other" caption as shown in Note 15 to the consolidated financial statements included in Item 8 of this annual report on Form 10-K (dollars in thousands):

	Year ended December 31,									
	Net sales					Income before income taxes				
	2019	% of net sales	2018	% of net sales	% change	2019	% of net sales	2018	% of net sales	% change
Northeast	$ 1,295,643	18.4%	$ 1,309,391	17.5%	(1.0)%	$ 56,012	4.3%	$ 36,354	2.8%	54.1%
Southeast	1,610,156	22.9%	1,700,317	22.7%	(5.3)%	83,466	5.2%	67,465	4.0%	23.7%
South	1,866,891	26.6%	2,020,258	27.0%	(7.6)%	113,550	6.1%	111,515	5.5%	1.8%
West	2,253,854	32.1%	2,448,581	32.8%	(8.0)%	86,144	3.8%	106,525	4.4%	(19.1)%
	$ 7,026,544	100.0%	$ 7,478,547	100.0%		$ 339,172	4.8%	$ 321,859	4.3%	

We have four reportable segments based on an aggregation of the geographic regions in which we operate. While there is some geographic similarity between our reportable segments and the regions as defined by the U.S. Census Bureau, our reportable segments do not necessarily fully align with any single U.S. Census Bureau region.

According to the U.S. Census Bureau, actual single-family housing starts during the year ended December 31, 2019 decreased 11.6%, 2.6% and 3.8% in the Northeast region, Midwest region and West region, respectively. Actual single-family starts increased 6.8% in the South region during the same period. For the year ended December 31, 2019, our net sales declined in all of our reportable segments primarily due to the impact of commodity price deflation. We achieved increased profitability in our Northeast, Southeast and South reportable segments largely due to an improved product mix, the decline in the cost of commodities relative to our customer pricing commitments and continued pricing discipline. However, profitability declined in our West reportable segment largely due the impact of commodity price deflation offsetting the improvement in gross margin percentage.

LIQUIDITY AND CAPITAL RESOURCES

Our primary capital requirements are to fund working capital needs and operating expenses, meet required interest and principal payments, and to fund capital expenditures and potential future growth opportunities. Our capital resources at December 31, 2019 consist of cash on hand and borrowing availability under our 2023 facility.

Our 2023 facility will be primarily used for working capital, general corporate purposes, and funding capital expenditures and growth opportunities. In addition, we may use the 2023 facility to facilitate debt consolidation. Availability under the 2023 facility is determined by a borrowing base. Our borrowing base consists of trade accounts receivable, inventory, other receivables which include progress billings and credit card receivables, and qualified cash that all meet specific criteria contained within the credit agreement, minus agent specified reserves. Net excess borrowing availability is equal to the maximum borrowing amount minus outstanding borrowings and letters of credit.

The following table shows our borrowing base and excess availability as of December 31, 2019 and 2018 (in millions):

	As of	
	December 31, 2019	December 31, 2018
Accounts Receivable Availability	$ 413.0	$ 431.9
Inventory Availability	370.0	395.4
Other Receivables Availability	29.8	18.8
Gross Availability	812.8	846.1
Less:		
Agent Reserves	(26.6)	(25.5)
Plus:		
Cash in Qualified Accounts	4.2	26.0
Borrowing Base	790.4	846.6
Aggregate Revolving Commitments	900.0	900.0
Maximum Borrowing Amount (lesser of Borrowing Base and Aggregate Revolving Commitments)	790.4	846.6
Less:		
Outstanding Borrowings	(27.0)	(179.0)
Letters of Credit	(82.2)	(82.2)
Net Excess Borrowing Availability on Revolving Facility	$ 681.2	$ 585.4

As of December 31, 2019, we had $27.0 million in outstanding borrowings under our 2023 facility and our net excess borrowing availability was $681.2 million after being reduced by outstanding letters of credit of approximately $82.2 million. We are required to meet a fixed charge coverage ratio of 1:00 to 1:00 if our excess availability falls below the greater of $80.0 million or 10% of the maximum borrowing amount, which was $80.0 million as of December 31, 2019. We were not in violation of any covenants or restrictions imposed by any of our debt agreements at December 31, 2019.

Liquidity

Our liquidity at December 31, 2019 was $695.3 million, which consists of net borrowing availability under the 2023 facility and cash on hand.

We have substantial indebtedness, which results in significant interest expense and could have the effect of, among other things, reducing our flexibility to respond to changing business and economic conditions. From time to time, based on market conditions and other factors and subject to compliance with applicable laws and regulations, the Company may repurchase or call our notes, repay debt, or otherwise enter into transactions regarding its capital structure.

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

Consolidated Cash Flows

A discussion regarding our consolidated cash flows for the year ended December 31, 2019 compared to the year ended December 31, 2018 is presented below. A discussion regarding our consolidated cash flows for the year ended December 31, 2018 compared to the year ended December 31, 2017 can be found under Item 7 of Part II of our Annual Report on Form 10-K for the fiscal year ended December 31, 2018, filed with the SEC on March 1, 2019.

2019 Compared with 2018

Cash provided by operating activities was $504.0 million and $282.8 million in 2019 and 2018, respectively. The $221.2 million increase in cash provided by operations was largely the result of a working capital decrease of $106.2 million in 2019 compared to a working capital increase of $92.2 million in 2018. This change in working capital was primarily due to the timing and impact of changes in commodity prices on the value of cash received from customers, inventory purchases and cash paid to vendors during the year ended December 31, 2018 compared to the year ended December 31, 2019.

Cash used in investing activities was $199.2 million and $96.7 million in 2019 and 2018, respectively. This increase in cash used in investing activities was primarily due to $92.9 million in cash used for our acquisitions of Sun State and Raney in 2019. In addition, our capital expenditures increased $11.5 million in 2019 compared to 2018. This increase in capital expenditures was largely due to the Company's decision to purchase, rather than lease, more of its machinery and rolling stock units in 2019 compared to 2018.

Cash used in financing activities was $300.9 million and $233.6 million in 2019 and 2018, respectively. Cash used in financing activities for the year ended December 31, 2019 was primarily due to $610.8 million in long-term debt repayments, largely consisting of $406.3 million in repayments of the 2024 term loan and $191.5 million in cash repayments of our 2024 notes. In addition, we had $152.0 million in net repayments on our 2023 facility in 2019. These payments were offset by $478.4 million in proceeds received from the issuance of 2027 notes. In connection with our debt transactions executed in 2019 we paid $10.9 million in debt issuance and extinguishment costs. Further, in 2019 we paid $7.9 million to repurchase and retire 460,000 shares of our common stock pursuant to a repurchase program authorized by our board of directors. Cash used in financing activities for the year ended December 31, 2018 was primarily due to $171.0 million in net repayments on the 2023 facility as well as $61.5 million in net payments on long-term debt arrangements largely associated with repurchases of our 2024 notes.

Capital Expenditures

Capital expenditures vary depending on prevailing business factors, including current and anticipated market conditions. Historically, capital expenditures have for the most part remained at relatively low levels in comparison to the operating cash flows generated during the corresponding periods. We expect our 2020 capital expenditures to be in the range of approximately $110 million to $130 million primarily related to rolling stock, equipment and facility improvements to support our operations.

DISCLOSURES OF CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

The following summarizes our contractual obligations as of December 31, 2019 (in thousands):

	Payments Due by Period				
Contractual obligations	**Total**	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
Long-term debt	$ 1,057,923	$ —	$ —	$ 582,923	$ 475,000
Interest on long-term debt(1)	402,056	68,460	136,883	119,229	77,484
Other finance obligations(2)	288,666	18,091	35,066	34,947	200,562
Finance lease obligations(2)	22,011	11,331	10,029	651	—
Operating leases (2)	365,695	78,375	125,460	74,458	87,402
Total contractual cash obligations	$ 2,136,352	$ 176,257	$ 307,439	$ 812,208	$ 840,448

(1) We had $27.0 million in outstanding borrowings under the 2023 facility as of December 31, 2019. Borrowings under the 2023 facility bear interest at a variable rate. Therefore, actual interest may differ from the amounts presented above due to interest rate

changes or any future borrowing activity under the 2023 facility. The 2024 term loan also bears interest at a variable rate, therefore actual interest may differ from the amounts presented above due to interest rate changes.

(2) Future commitments for other finance obligations, finance lease obligations and operating lease obligations.

Purchase orders entered into in the ordinary course of business are excluded from the above table because they are payable within one year. Amounts for which we are liable under purchase orders are reflected on our consolidated balance sheet as accounts payable. Where it makes economic sense to do so, we plan to lease certain equipment during 2020 to support anticipated sales growth.

OTHER CASH OBLIGATIONS NOT REFLECTED IN THE BALANCE SHEET

In addition to the lease obligations included in the above table, we have residual value guarantees on certain equipment leases. Under these leases we have the option of (1) purchasing the equipment at the end of the lease term, (2) arranging for the sale of the equipment to a third party, or (3) returning the equipment to the lessor to sell the equipment. If the sales proceeds in either case are less than the residual value, then we are required to reimburse the lessor for the deficiency up to a specified level as stated in each lease agreement. The guarantees under these leases for the residual values of equipment at the end of the respective operating lease periods approximated $4.8 million as of December 31, 2019.

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

In addition, the Company is party to certain agreements related to its other finance obligations which commit the Company to perform certain repairs and maintenance obligations under the leases in a specified manner and timeframe. As of December 31, 2019 our obligations under these agreements have largely been completed with the remainder expected to be completed within the next year.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

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

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

Goodwill. Goodwill represents the excess of the amount we paid to acquire businesses over the estimated fair value of tangible assets and identifiable intangible assets acquired, less liabilities assumed. At December 31, 2019, our goodwill balance was $769.0 million, representing 23.7% of our total assets.

We test goodwill for impairment in the fourth quarter of each year or at any other time when impairment indicators exist. Examples of such indicators that could cause us to test goodwill for impairment between annual tests include a significant change in the business climate, unexpected competition or a significant deterioration in market share. We may also consider market capitalization relative to our net assets. Housing starts are a significant sales driver for us. If there is a significant decline or an expected decline in housing starts, this could adversely affect our expectations for a reporting unit and the value of that reporting unit.

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

However, if we determine that it is more likely than not that the fair value of the reporting unit is less than its carrying amount, we perform a quantitative goodwill impairment test. This test identifies both the existence of and the amount of goodwill impairment by comparing the fair value of a reporting unit to its carrying amount, including goodwill. If the fair value of a reporting unit exceeds its carrying amount goodwill is not impaired. If the carrying amount of a reporting unit exceeds its fair value an impairment loss is recognized in amount equal to that excess, limited to the amount of goodwill allocated to that reporting unit.

In performing our annual goodwill impairment tests at December 31, 2019, we first assessed qualitative factors relative to each of our reporting units to determine if it was more likely than not that the fair value of our reporting units were less than their carrying amounts. Examples of such factors we considered in this assessment included the amount of cushion from prior quantitative goodwill impairment tests, significant changes in the goodwill balance, the presence of any known or forecasted declines in operating performance, market conditions, market share or any other negative factors.

For reporting units where we determined that it was more likely than not that the fair values were less than their carrying amounts, we performed a quantitative goodwill impairment test. In evaluating our goodwill for impairment at December 31, 2019, $77.1 million of our goodwill balance was assessed utilizing a quantitative assessment. In performing the quantitative impairment test at December 31, 2019, we developed a range of fair values using a five-year discounted cash flow methodology. Inherent in such fair value determinations are significant assumptions relating to future cash flows, expected future revenues, expected future profitability, the discount rate, the terminal value, and our interpretation of current economic indicators and market conditions and their impact on our strategic plans and operations. Due to the uncertainties associated with such estimates, interpretations and assumptions, actual results could differ from projected results, which could result in impairment of goodwill being recorded.

Significant information and assumptions utilized in estimating future cash flows for quantitative goodwill impairment analyses include projections of revenue growth utilizing publicly available industry information such as lumber commodity prices and housing start forecasts developed by industry forecasters, including the NAHB. Expected future profitability reflects current headcount levels and cost structure and are flexed in future years based upon historical trends at various revenue levels. Long-term growth was based upon terminal value earnings before interest, taxes, depreciation and amortization ("EBITDA") multiples of 6.0x to reflect the relevant expected acquisition price. A discount rate of 11.0% was used and is intended to reflect the weighted average cost of capital for a potential market participant and includes all risks of ownership and the associated risks of realizing the stream of projected future cash flows. Decreasing the long-term growth to an EBITDA multiple of 5.0x, or increasing the discount rate by 1.0% to 12.0%, would not have changed the results of our impairment testing.

At December 31, 2019, the fair values of each of our reporting units were substantially in excess of their respective carrying amounts. Factors that could negatively impact the estimated fair value of our reporting units and potentially trigger additional impairment include, but are not limited to, unexpected competition, lower than expected housing starts, an increase in market participant weighted average cost of capital, increases in material or labor cost, and significant declines in our market capitalization. Future impairment of goodwill would have the effect of decreasing our earnings or increasing our losses in such period, but would not impact our current outstanding debt obligations or compliance with covenants contained in the related debt agreements. We did not have any goodwill impairments in 2019, 2018 or 2017.

RECENTLY ISSUED ACCOUNTING STANDARDS

Information regarding recent accounting pronouncements is discussed in Note 2 to the consolidated financial statements included in Item 8 of this annual report on Form 10-K.

Item 7A. *Quantitative and Qualitative Disclosures about Market Risk*

We may experience changes in interest expense if changes in our debt occur. Changes in market interest rates could also affect our interest expense. Our 2024 notes and 2027 notes bear interest at a fixed rate, therefore, our interest expense related to these notes would not be affected by an increase in market interest rates. Borrowings under the 2023 facility and the 2024 term loan bear interest at either a base rate or eurodollar rate, plus, in each case, an applicable margin. A 1.0% increase in interest rates on the 2023 facility would result in approximately $0.3 million in additional interest expense annually as we had $27.0 million in outstanding borrowings as of December 31, 2019. The 2023 facility also assesses variable commitment and outstanding letter of credit fees based on quarterly average loan utilization. A 1.0% increase in interest rates on the 2024 term loan would result in approximately $0.5 million in additional interest expense annually as of December 31, 2019.

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

Item 8. Financial Statements and Supplementary Data

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm	33
Consolidated Statement of Operations and Comprehensive Income for the years ended December 31, 2019, 2018 and 2017	35
Consolidated Balance Sheet at December 31, 2019 and 2018	36
Consolidated Statement of Cash Flows for the years ended December 31, 2019, 2018 and 2017	37
Consolidated Statement of Changes in Stockholders' Equity for the years ended December 31, 2019, 2018 and 2017	38
Notes to Consolidated Financial Statements	39

Report of Independent Registered Public Accounting Firm

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

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheet of Builders FirstSource, Inc. and its subsidiaries (the "Company") as of December 31, 2019 and 2018, and the related consolidated statements of operations and comprehensive income, of changes in stockholders' equity and of cash flows for each of the three years in the period ended December 31, 2019, including the related notes (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

Change in Accounting Principle

As discussed in Note 2 to the consolidated financial statements, the Company changed the manner in which it accounts for leases in 2019.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

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

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

Critical Audit Matters

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (i) relates to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Goodwill Quantitative Impairment Test

As described in Notes 2 and 6 to the consolidated financial statements, the Company's consolidated goodwill balance was $769.0 million as of December 31, 2019, and $77.1 million of the goodwill balance was assessed utilizing a quantitative assessment. Goodwill is tested for impairment on an annual basis and between annual tests whenever impairment is indicated. This annual test takes place as of December 31 each year. Impairment losses are recognized whenever the carrying amount of a reporting unit exceeds its fair value. In performing the quantitative impairment test, management developed a range of fair values using a five-year discounted cash flow methodology. The significant assumptions used in the discounted cash flow methodology are the discount rate, the terminal value and the expected future revenues and profitability.

The principal considerations for our determination that performing procedures relating to the goodwill quantitative impairment test is a critical audit matter are there was significant judgment by management when determining the fair value of any reporting unit where a goodwill quantitative impairment test was performed. This in turn led to a high degree of auditor judgment, subjectivity and effort in performing procedures and evaluating management's future cash flows, including the significant assumptions for the terminal value, expected future revenues and profitability. In addition, the audit effort involved the use of professionals with specialized skill and knowledge to assist in performing these procedures and evaluating audit evidence obtained.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to management's goodwill impairment test, including management's controls over the goodwill quantitative impairment test. These procedures also included, among others, testing management's process for determining the fair value of any reporting unit where a goodwill quantitative impairment test was performed, evaluating the appropriateness of the discounted cash flow methodology, testing the completeness, accuracy, and relevance of underlying data used in the valuation methodology, and evaluating the significant assumptions used by management, including the terminal value, expected future revenues and profitability. Evaluating management's assumptions related to the expected future revenues and profitability involved evaluating whether the assumptions used were reasonable considering the past performance of the reporting unit and whether these assumptions were consistent with evidence obtained in other areas of the audit. Professionals with specialized skill and knowledge were used to assist in evaluating the appropriateness of the valuation method used and the reasonableness of certain significant assumptions, including the terminal value.

/s/ PricewaterhouseCoopers LLP

Dallas, Texas
February 21, 2020

We have served as the Company's auditor since 1999.

BUILDERS FIRSTSOURCE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME

	Years Ended December 31,		
	2019	2018	2017
	(In thousands, except per share amounts)		
Net sales	$ 7,280,431	$ 7,724,771	$ 7,034,209
Cost of sales	5,303,602	5,801,831	5,306,818
Gross margin	1,976,829	1,922,940	1,727,391
Selling, general and administrative expenses	1,584,523	1,553,972	1,442,288
Income from operations	392,306	368,968	285,103
Interest expense, net	109,551	108,213	193,174
Income before income taxes	282,755	260,755	91,929
Income tax expense	60,946	55,564	53,148
Net income	$ 221,809	$ 205,191	$ 38,781
Comprehensive income	$ 221,809	$ 205,191	$ 38,781
Net income per share:			
Basic	$ 1.92	$ 1.79	$ 0.34
Diluted	$ 1.90	$ 1.76	$ 0.34
Weighted average common shares outstanding:			
Basic	115,713	114,586	112,587
Diluted	117,025	116,554	115,597

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

BUILDERS FIRSTSOURCE, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

	December 31, 2019	December 31, 2018
	(In thousands, except per share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 14,096	$ 10,127
Accounts receivable, less allowances of $13,492 and $13,054 at December 31, 2019 and 2018, respectively	614,946	654,170
Other receivables	77,447	68,637
Inventories, net	561,255	596,896
Other current assets	39,123	43,921
Total current assets	1,306,867	1,373,751
Property, plant and equipment, net	721,887	670,075
Operating lease right-of-use assets, net	292,684	—
Goodwill	769,022	740,411
Intangible assets, net	128,388	103,154
Deferred income taxes	8,417	22,766
Other assets, net	22,225	22,152
Total assets	$ 3,249,490	$ 2,932,309
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	436,823	423,168
Accrued liabilities	308,950	292,526
Current portion of operating lease liabilities	61,653	—
Current maturities of long-term debt	13,875	15,565
Total current liabilities	821,301	731,259
Noncurrent portion of operating lease liabilities	236,948	—
Long-term debt, net of current maturities, debt discount, premium and issuance costs	1,277,398	1,545,729
Deferred income taxes	36,645	—
Other long-term liabilities	52,245	58,983
Total liabilities	2,424,537	2,335,971
Commitments and contingencies (Note 14)		
Stockholders' equity:		
Preferred stock, $0.01 par value, 10,000 shares authorized; zero shares issued and outstanding at December 31, 2019 and 2018	—	—
Common stock, $0.01 par value, 200,000 shares authorized; 116,052 and 115,078 shares issued and outstanding at December 31, 2019 and 2018, respectively	1,161	1,151
Additional paid-in capital	574,955	560,221
Retained earnings	248,837	34,966
Total stockholders' equity	824,953	596,338
Total liabilities and stockholders' equity	$ 3,249,490	$ 2,932,309

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

BUILDERS FIRSTSOURCE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

	Years Ended December 31,		
	2019	2018	2017
	(In thousands)		
Cash flows from operating activities:			
Net income	$ 221,809	$ 205,191	$ 38,781
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	100,038	97,906	92,993
Amortization of debt discount, premium and issuance costs	3,880	4,642	6,092
Loss (gain) on extinguishment of debt	8,189	(3,170)	56,657
Deferred income taxes	50,994	51,823	49,104
Stock compensation expense	12,239	14,420	13,508
Net (gain) loss on sales of assets and asset impairments	(949)	(1,393)	6,965
Changes in assets and liabilities, net of assets acquired and liabilities assumed:			
Receivables	42,789	(9,221)	(75,673)
Inventories	44,202	(5,425)	(60,645)
Other current assets	4,674	(10,356)	8
Other assets and liabilities	1,611	5,637	8,315
Accounts payable	4,070	(89,392)	65,764
Accrued liabilities	10,500	22,168	(23,341)
Net cash provided by operating activities	504,046	282,830	178,528
Cash flows from investing activities:			
Purchases of property, plant and equipment	(112,870)	(101,411)	(62,407)
Proceeds from sale of property, plant and equipment	6,545	4,753	2,981
Cash used for acquisitions	(92,855)	—	—
Net cash used in investing activities	(199,180)	(96,658)	(59,426)
Cash flows from financing activities:			
Borrowings under revolving credit facility	1,040,000	1,662,000	1,370,000
Repayments under revolving credit facility	(1,192,000)	(1,833,000)	(1,020,000)
Proceeds from long-term debt and other loans	478,375	3,818	—
Repayments of long-term debt and other loans	(610,834)	(65,312)	(379,926)
Payments of debt extinguishment costs	(2,301)	(134)	(48,704)
Payments of loan costs	(8,618)	—	(2,799)
Exercise of stock options	4,873	3,945	8,055
Repurchase of common stock	(10,392)	(4,895)	(2,644)
Net cash used in financing activities	(300,897)	(233,578)	(76,018)
Net increase (decrease) in cash and cash equivalents	3,969	(47,406)	43,084
Cash and cash equivalents at beginning of period	10,127	57,533	14,449
Cash and cash equivalents at end of period	$ 14,096	$ 10,127	$ 57,533

Supplemental disclosure of non-cash activities

For the years ended December 31, 2019, 2018 and 2017, the Company retired assets subject to other finance obligations of $0.6 million, $0.6 million and $14.0 million and extinguished the related other finance obligations of $0.6 million, $0.7 million and $11.7 million, respectively.

The Company purchased equipment which was financed through finance lease obligations of $16.5 million, and capital lease obligations of $10.2 million and $14.2 million in the years ended December 31, 2019, 2018 and 2017, respectively. In addition, purchases of property, plant and equipment included in accounts payable were $3.4 million, $2.4 million and $3.9 million for the years ended December 31, 2019, 2018 and 2017, respectively.

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

BUILDERS FIRSTSOURCE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

	Common Stock		Additional Paid in Capital	Retained Earnings (Accumulated Deficit)	Total
	Shares	Amount			
	(In thousands)				
Balance at December 31, 2016	111,564	$ 1,115	$ 527,868	$ (219,363)	$ 309,620
Vesting of restricted stock units	772	8	(8)	—	—
Shares withheld for restricted stock units vested	(213)	(2)	(2,642)	—	(2,644)
Exercise of stock options	1,449	15	8,040	—	8,055
Stock compensation expense	—	—	13,508	—	13,508
Cumulative effect adjustment	—	—	—	8,889	8,889
Net income	—	—	—	38,781	38,781
Balance at December 31, 2017	113,572	1,136	546,766	(171,693)	376,209
Vesting of restricted stock units	975	10	(10)	—	—
Shares withheld for restricted stock units vested	(239)	(2)	(4,893)	—	(4,895)
Exercise of stock options	770	7	3,938	—	3,945
Stock compensation expense	—	—	14,420	—	14,420
Cumulative effect adjustment	—	—	—	1,468	1,468
Net income	—	—	—	205,191	205,191
Balance at December 31, 2018	115,078	1,151	560,221	34,966	596,338
Vesting of restricted stock units	735	7	(7)	—	—
Shares withheld for restricted stock units vested	(196)	(2)	(2,448)	—	(2,450)
Repurchase of common stock (1)	(460)	(4)	—	(7,938)	(7,942)
Exercise of stock options	895	9	4,950	—	4,959
Stock compensation expense	—	—	12,239	—	12,239
Net income	—	—	—	221,809	221,809
Balance at December 31, 2019	116,052	$ 1,161	$ 574,955	$ 248,837	$ 824,953

(1) During the year ended December 31, 2019, we repurchased and retired460,000 shares of our common stock, at an average price of $17.24 per share, for $7.9 million pursuant to the repurchase program authorized by our board of directors in February 2019. The primary purpose of the repurchase program is to offset all, or a significant portion, of the dilution from employee stock awards.

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

1. Description of the Business

Builders FirstSource, Inc., a Delaware corporation formed in 1998, is a leading supplier of building materials, manufactured components and construction services to professional contractors, sub-contractors, and consumers. The company operates approximately 400 locations in 40 states across the United States.

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

2. Summary of Significant Accounting Policies

Principles of Consolidation

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

Accounting Estimates

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

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

Revenue Recognition

We recognize revenue as performance obligations are satisfied by transferring control of a promised good or service to a customer in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services. We generally classify our revenues into two types: (i) distribution sales; or (ii) sales related to contracts with service elements.

Distribution sales typically consist of the sale of building products we manufacture and the resale of purchased building products. We recognize revenue related to distribution sales at a point in time upon delivery of the ordered goods to our customers. Payment terms related to distribution sales are not significant as payment is generally received shortly after the point of sale.

Our contracts with service elements primarily relate to installation and construction services. We evaluate whether multiple contracts should be combined and accounted for as a single contract and whether a single or combined contract should be accounted for as a single performance obligation or multiple performance obligations. If a contract is separated into more than one performance obligation, we allocate the transaction price to each performance obligation generally based on observable standalone selling prices of the underlying goods or services. Revenue related to contracts with service elements is generally recognized over time based on the extent of progress towards completion of the performance obligation because of continuous transfer of control to the customer. We consider costs incurred to be indicative of goods and services delivered to the customer. As such, we use a cost based input method to recognize revenue on our contracts with service elements as it best depicts the transfer of assets to our customers. Payment terms related to sales for contracts with service elements are specific to each customer and contract. However, they are considered to be short-term in nature as payments are normally received either throughout the life of the contract or shortly after the contract is complete.

Contract costs include all direct material and labor, equipment costs and those indirect costs related to contract performance. Provisions for estimated losses on uncompleted contracts are recognized in the period in which such losses are determinable. Prepayments for materials or services are deferred until such materials have been delivered or services have been provided. All sales recognized are net of allowances for discounts and estimated returns, based on historical experience. The Company records sales incentives provided to customers as a reduction of revenue. We present all sales tax on a net basis in our consolidated financial statements.

Costs to obtain contracts are expensed as incurred as our contracts are typically completed in one year or less, and where applicable, we generally would incur these costs whether or not we ultimately obtain the contract. We do not disclose the value of our remaining performance obligations on uncompleted contracts as our contracts generally have a duration of one year or less.

Cash and Cash Equivalents & Checks Outstanding

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

Accounts Receivable

We extend credit to qualified professional homebuilders and contractors, in many cases on a non-collateralized basis. Accounts receivable potentially expose us to concentrations of credit risk. Because our customers are dispersed among our various markets, our credit risk to any one customer or geographic economy is not significant. Other receivables consist primarily of vendor rebates receivable.

Our customer mix is a balance of large national homebuilders, regional homebuilders, local and custom homebuilders and repair and remodeling contractors as well as multi-family builders. For the year ended December 31, 2019, our top 10 customers accounted for approximately 15.3% of our net sales, and no single customer accounted for more than 5% of net sales.

The allowance for doubtful accounts is based on management's assessment of the amount which may become uncollectible in the future and is estimated using specific review of problem accounts, overall portfolio quality, current economic conditions that may affect the customer's ability to pay, and historical experience. Accounts receivable are written off when deemed uncollectible.

We also establish reserves for credit memos and customer returns. The reserve balance was $7.6 million and $6.9 million at December 31, 2019 and 2018, respectively. The activity in this reserve was not significant for each year presented.

Accounts receivable consisted of the following at December 31:

	2019	2018
	(In thousands)	
Accounts Receivable	$ 628,438	$ 667,224
Less: allowances for returns and doubtful accounts	13,492	13,054
Accounts receivable, net	$ 614,946	$ 654,170

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

	2019	2018	2017
		(In thousands)	
Balance at January 1,	$ 6,195	$ 4,973	$ 5,922
Additions	5,811	5,284	197
Deductions (write-offs, net of recoveries)	(6,070)	(4,062)	(1,146)
Balance at December 31,	$ 5,936	$ 6,195	$ 4,973

Inventories

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

During the year, we monitor our inventory levels by market and record provisions for excess inventories based on slower moving inventory. We define potential excess inventory as the amount of inventory on hand in excess of the historical usage, excluding special order items purchased in the last six months. We then apply our judgment as to forecasted demand and other factors, including liquidation value, to determine the required adjustments to net realizable value. Our inventories are generally not susceptible to technological obsolescence.

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

We source products from a large number of suppliers. No materials purchased from any single supplier represented more than8% of our total materials purchased in 2019.

Shipping and Handling Costs

Handling costs incurred in manufacturing activities are included in cost of sales. All other shipping and handling costs are included in selling, general and administrative expenses in the accompanying consolidated statement of operations and comprehensive income and totaled $332.5 million, $322.9 million and $296.2 million in 2019, 2018 and 2017, respectively.

Income Taxes

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

Warranty Expense

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

Debt Issuance Costs and Debt Discount/Premium

Loan costs are capitalized upon the issuance of long-term debt and amortized over the life of the related debt. Debt issuance costs associated with term debt are presented as a reduction to long-term debt. Debt issuance costs associated with revolving debt arrangements are presented as a component of other assets. Debt issuance costs incurred in connection with revolving debt arrangements are amortized using the straight-line method. Debt issuance costs incurred in connection with term debt are amortized using the effective interest method. Debt discounts and premiums are amortized over the life of the related debt using the effective interest method. Amortization of debt issuance costs, discounts and premiums are included in interest expense. Upon changes to our debt structure, we evaluate debt issuance costs, discounts and premiums in accordance with the *Debt* topic of the Codification. We adjust debt issuance costs, discounts and premiums as necessary based on the results of this evaluation, as discussed in Note 9.

Property, Plant and Equipment

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

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

Major additions and improvements are capitalized, while maintenance and repairs that do not extend the useful life of the property are charged to expense as incurred. Gains or losses from dispositions of property, plant and equipment are recorded in the period incurred. We also capitalize certain costs of computer software developed or obtained for internal use, including interest, provided that those costs are not research and development, and certain other criteria are met. Internal use computer software costs are included in machinery and equipment and generally depreciated using the straight-line method over the estimated useful lives of the assets, generally three years.

We periodically evaluate the commercial and strategic operation of the land, related buildings and improvements of our facilities. In connection with these evaluations, some facilities may be consolidated, and others may be sold or leased. Nonoperating assets primarily related to land and building real estate assets associated with location closures that are actively being marketed for sale within a year are classified as assets held for sale and recorded at fair value, usually the quoted market price obtained from an independent third-party less the cost to sell. Until the assets are sold, an estimate of the fair value is reassessed at each reporting period. Net gains or losses related to the sale of real estate and equipment or impairment adjustments related to assets held for sale are recorded as selling, general and administrative expenses in the accompanying consolidated statement of operations and comprehensive income.

Leases

We lease certain land, buildings, rolling stock and other types of equipment for use in our operations. These leases typically have initial terms ranging from one to 15 years. Many of our leases contain renewal options which are exercisable at our discretion. These renewal options generally have terms ranging from one to five years. We also lease certain properties from related parties, including current employees and non-affiliate stockholders.

We determine if an arrangement is a lease at the inception of the arrangement. Lease liabilities are recognized based on the present value of lease payments over the lease term at the arrangement's commencement date. Right-of-use assets are recognized based on the amount of the measurement of the lease liability adjusted for any lease payments made to the lessor at or before the commencement date, minus any lease incentives received and any initial direct costs incurred. Renewal options are included in the calculation of our right-of-use assets and lease liabilities when it is determined that they are reasonably certain of exercise based on an analysis of the relevant facts and circumstances. As the implicit rate of return of our lease agreements is usually not readily determinable, we generally use our incremental borrowing rate in determining the present value of lease payments. We determine our incremental borrowing rate based on information available to us at the lease commencement date. Certain of our lease arrangements contain lease and non-lease components. We have elected to account for non-lease components as a part of the related lease components for all of our leases. Leases with an initial term of 12 months or less are not recognized on our balance sheet. We recognize the expense for these leases on a straight-line basis over the lease term.

Certain of our leases are subject to variable lease payments based on various measures, such as rent escalations determined by percentage changes in the consumer price index. As these types of variable lease payments are determined on a basis other than an index or a rate, they are generally excluded from the calculation of lease liabilities and right-of-use assets and are expensed as incurred.

In addition, we have residual value guarantees on certain equipment leases. Under these leases, we have the option of (a) purchasing the equipment at the end of the lease term, (b) arranging for the sale of the equipment to a third party, or (c) returning the equipment to the lessor to sell the equipment. If the sales proceeds in any case are less than the residual value, we are required to reimburse the lessor for the deficiency up to a specified level as stated in each lease agreement. If the sales proceeds exceed the residual value, we are entitled to all of such excess amounts.

Long-Lived Assets

We evaluate our long-lived assets, other than goodwill, for impairment when events or changes in circumstances indicate, in our judgment, that the carrying value of such assets may not be recoverable. The determination of whether or not impairment exists is based on our estimate of undiscounted future cash flows before interest attributable to the assets as compared to the net carrying value of the assets. If impairment is indicated, the amount of the impairment recognized is determined by estimating the fair value of the assets based on estimated discounted future cash flows and recording a provision for loss if the carrying value is greater than estimated fair value. The net carrying value of assets identified to be disposed of in the future is compared to their estimated fair value, usually the quoted market price obtained from an independent third-party less the cost to sell, to determine if impairment exists. Until the assets are disposed of, an estimate of the fair value is reassessed when related events or circumstances change.

Insurance

We have established insurance programs to cover certain insurable risks consisting primarily of physical loss to property, business interruptions resulting from such loss, workers' compensation, employee healthcare, and comprehensive general and auto liability. Third party insurance coverage is obtained for exposures above predetermined deductibles as well as for those risks required to be insured by law or contract. On a quarterly basis, we engage an external actuarial professional to independently assess and estimate the total liability outstanding. Provisions for losses are developed from these valuations which rely upon our past claims experience, which considers both the frequency and settlement of claims. We discount our workers' compensation liability based upon estimated future payment streams at our risk-free rate. Our total insurance reserve balances were $87.0 million and $84.7 million as of December 31, 2019 and 2018, respectively. Of these balances $49.0 million and $49.4 million were recorded as other long-term liabilities as of December 31, 2019 and 2018, respectively. Included in these reserve balances as of December 31, 2019 and 2018, were approximately $8.6 million and $9.1 million, respectively, of claims that exceeded stop-loss limits and are expected to be recovered under insurance policies which are also recorded as other receivables and other assets in the accompanying consolidated balance sheet.

Net Income per Common Share

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

The table below presents the calculation of basic and diluted EPS for the years ended December 31:

	2019	2018	2017
	(In thousands, except per share amounts)		
Numerator:			
Net income	$ 221,809	$ 205,191	$ 38,781
Denominator:			
Weighted average shares outstanding, basic	115,713	114,586	112,587
Dilutive effect of options and RSUs	1,312	1,968	3,010
Weighted average shares outstanding, diluted	117,025	116,554	115,597
Net income per share:			
Basic	$ 1.92	$ 1.79	$ 0.34
Diluted	$ 1.90	$ 1.76	$ 0.34
Antidilutive and contingent options and RSUs excluded from diluted EPS	402	682	215

Goodwill and Other Intangible Assets

Intangibles subject to amortization

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

Goodwill

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

Stock-based Compensation

We have four stock-based employee compensation plans, which are described more fully in Note 11. We issue new common stock shares upon exercises of stock options and vesting of RSUs. We recognize the effect of pre-vesting forfeitures in the period they actually occur.

The fair value of RSU awards which are subject to or contain market conditions is estimated on the date of grant using the Monte Carlo simulation model with the following weighted average assumptions for the year ended December 31:

	2019	2018	2017
Expected volatility (company)	38.3%	53.9%	73.7%
Expected volatility (peer group median)	33.2%	28.4%	33.8%
Correlation between the company and peer group median	0.5	0.39	0.33
Expected dividend yield	0.0%	0.0%	0.0%
Risk-free rate	2.6%	2.3%	1.5%

The expected volatilities and correlation are based on the historical daily returns of our common stock and the common stocks of the constituents of the Company’s peer group over the most recent period equal to the measurement period. The expected dividend yield is based on our history of not paying regular dividends in the past and our current intention to not pay regular dividends in the foreseeable future. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant and has a term equal to the measurement period.

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

	2017
Expected life	6.0 years
Expected volatility	59.2%
Expected dividend yield	0.0%
Risk-free rate	2.2%

The expected life represents the period of time the options are expected to be outstanding. Historically, we used the simplified method for determining the expected life assumption due to limited historical exercise experience on our stock options. The expected volatility is based on the historical volatility of our common stock over the most recent period equal to the expected life of the option. The expected dividend yield is based on our history of not paying regular dividends in the past and our current intention to not pay regular dividends in the foreseeable future. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant and has a term equal to the expected life of the options. We did not grant any options during the years ended December 31, 2019 or 2018.

Fair Value

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

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

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

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

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

As of December 31, 2019 and 2018 the Company does not have any financial instruments which are measured at fair value on a recurring basis. We have elected to report the value of our 5.625% senior secured notes due 2024 ("2024 notes"), 6.75% senior secured notes due 2027 ("2027 notes"), $52.0 million senior secured term loan facility due 2024 ("2024 term loan") and $900.0 million revolving credit facility ("2023 facility") at amortized cost. The fair values of the 2024 notes, 2027 notes and the 2024 term loan at December 31, 2019 were approximately $525.1 million, $522.5 million and $52.2 million, respectively, and were determined using Level 2 inputs based on market prices. The carrying value of the 2023 facility at December 31, 2019 approximates fair value as the rates are comparable to those at which we could currently borrow under similar terms, are variable and incorporate a measure of our credit risk. As such, the fair value of the 2023 facility was also classified as Level 2 in the hierarchy.

Supplemental Cash Flow Information

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

	2019	2018	2017
		(In thousands)	
Cash payments for interest (1)	$ 100,354	$ 107,668	$ 193,429
Cash payments for income taxes	18,107	3,153	5,643

(1) Includes $2.3 million, $0.1 million and $48.7 million in payments of debt extinguishment costs which are classified as financing outflows in the accompanying consolidated statement of cash flows for the years ended December 31 2019, 2018, and 2017, respectively. These payments were recorded to interest expense in the accompanying consolidated statement of operations and comprehensive income for their respective years.

Comprehensive Income

Comprehensive income is defined as the change in equity (net assets) of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. It consists of net income and other gains and losses affecting stockholders' equity that, under GAAP, are excluded from net income. We had no items of other comprehensive income for the years ended December 31, 2019, 2018, and 2017.

Recently Issued Accounting Pronouncements

In December 2019, the FASB issued an update to existing guidance under the *Incomes Taxes* topic of the Codification. This updated guidance simplifies the accounting for income taxes by removing certain exceptions to the general principles in the *Income Taxes* topic. This guidance is effective for public companies annual and interim periods beginning after December 15, 2020 with early adoption permitted. We are currently evaluating the impact of this update on our consolidated financial statements.

In June 2016, the FASB issued an update to existing guidance under the *Investments* topic of the Codification. This update introduces a new impairment model for financial assets, known as the current expected credit losses ("CECL") model that is based on expected losses rather than incurred losses. The CECL model requires an entity to estimate credit losses on financial assets, including trade accounts receivable, based on historical information, current information and reasonable and supportable forecasts. Under this guidance companies will record an allowance through earnings for expected credit losses upon initial recognition of the financial asset. The aspects of this guidance applicable to us will be required to be adopted on a modified retrospective basis. This update is effective for public companies for annual and interim periods beginning after December 15, 2019. As such, this guidance will be effective for us on January 1, 2020. The adoption of this guidance will not have a material impact on our consolidated financial statements.

In February 2016, the FASB issued an update to the existing guidance under the *Leases* topic of the Codification. Under the new guidance, lessees are now required to recognize the following for all leases, with the exception of short-term leases, at the commencement date: (1) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term.

We adopted this guidance on January 1, 2019 by applying the provisions of this guidance on a modified retrospective basis as of the effective date. As such, comparative periods have not been restated and the disclosures required under the new standard have not been provided for periods prior to January 1, 2019. We elected the package of practical expedients whereby we were not required to: i) reassess whether any expired or existing contracts are or contain leases, ii) reassess the lease classification of existing leases and iii) reassess initial direct costs for any existing leases. We did not elect the hindsight practical expedient or the practical expedient related to land easements. We have assessed and updated our business processes, systems and controls to ensure compliance with the recognition and disclosure requirements of the new standard.

Adoption of the new standard resulted in the recording of right-of-use assets and lease liabilities of $269.7 million and $267.5 million, respectively, as of January 1, 2019 to recognize operating leases, primarily related to real estate and rolling stock, which were not recognized on our balance sheet under previous guidance. Further, the adoption of this guidance had no impact to our remaining other finance obligations as they continue to fail to meet the sale-leaseback requirements of the new standard. The adoption of this guidance did not have a material impact on our condensed consolidated statement of operations and comprehensive income or on our condensed consolidated statement of cash flows as our leases retained their classifications as determined under previous guidance.

3. Revenue

The following table disaggregates our net sales by product category for the years ended December 31:

	2019	2018	2017
		(In thousands)	
Lumber & lumber sheet goods	$ 2,251,580	$ 2,902,155	$ 2,510,945
Manufactured products	1,449,550	1,392,043	1,208,555
Windows, doors & millwork	1,542,924	1,445,858	1,360,567
Gypsum, roofing & insulation	528,571	528,439	538,378
Siding, metal & concrete products	712,644	697,744	655,889
Other building & product services	795,162	758,532	759,875
Total net sales	$ 7,280,431	$ 7,724,771	$ 7,034,209

Information regarding disaggregation of net sales by segment is discussed in Note 15 to the condensed consolidated financial statements. Sales related to contracts with service elements represents less than 10% of the Company’s net sales for each period presented.

The timing of revenue recognition, billings and cash collections results in accounts receivable, unbilled receivables, contract assets and contract liabilities. Contract asset balances were not significant as of December 31, 2019 or December 31, 2018. Contract liabilities consist of deferred revenue and customer advances and deposits. Contract liability balances are included in accrued liabilities on our consolidated balance sheet and were $38.6 million and $42.1 million as of December 31, 2019 and December 31, 2018, respectively.

4. Property, Plant and Equipment

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

	2019	2018
	(In thousands)	
Land	$ 198,123	$ 198,304
Buildings and improvements	374,909	358,411
Machinery and equipment	439,449	403,765
Furniture, fixtures and computer equipment	92,094	78,910
Construction in progress	29,175	20,810
Finance lease right-of-use assets	37,153	—
Property, plant and equipment	1,170,903	1,060,200
Less: accumulated depreciation	449,016	390,125
Property, plant and equipment, net	$ 721,887	$ 670,075

Depreciation expense was $84.0 million, $74.4 million and $71.1 million, of which $19.7 million, $18.6 million and $9.8 million was included in cost of sales, for the years ended December 31, 2019, 2018, and 2017, respectively.

Included in property, plant and equipment are certain assets held under other finance obligations. These assets are recorded at the present value of the lease payments and include land, buildings and equipment. Amortization charges associated with assets held under other finance obligations are included in depreciation expense.

The following balances held under other finance obligations are included on the accompanying consolidated balance sheet as of December 31:

	2019	2018*
	(In thousands)	
Land	$ 118,403	$ 118,677
Buildings and improvements	136,620	142,345
Machinery and equipment	—	27,188
Assets held under other finance obligations	255,023	288,210
Less: accumulated amortization	18,741	21,786
Assets held under other finance obligations, net	$ 236,282	$ 266,424

* *Totals as of December 31, 2018 included assets which, under previous guidance, were held under capital leases. As of December 31, 2019 these assets are now presented as finance lease right-of-use assets as reflected in the table above.*

5. Business Combinations

On July 1, 2019, we acquired certain assets and the operations of Sun State Components ("Sun State") for $42.5 million in cash. Sun State is comprised of three truss locations, which are located in Las Vegas, Nevada; Surprise, Arizona; and Kingman, Arizona. Sun State manufactures roof trusses and floor trusses and distributes lumber and related products to residential homebuilders and commercial contractors.

On December 9, 2019 we acquired certain assets and the operations of Raney Components, LLC and Raney Construction, Inc. (collectively "Raney") for $59.0 million in cash, subject to certain adjustments. Located in Groveland, Florida, Raney is a vertically-integrated manufacturer and installer of residential structures for production builder customers. Raney combines sub-contractor labor and material supply to place concrete slabs, install masonry block for exterior walls, set wall panels and roof trusses, frame interior walls and install roof decking. The acquisitions of Sun State and Raney were funded with a combination of cash on hand and borrowings under our 2023 facility.

These transactions were accounted for by the acquisition method, and accordingly their results of operations have been included in the Company's consolidated financial statements from their respective acquisition dates. The purchase price was allocated to the assets acquired and liabilities assumed based on estimated fair values at the acquisition date, with the excess of purchase price over the estimated fair value of the net assets acquired recorded as goodwill. The fair value of acquired intangible assets of $41.3 million, primarily related to customer relationships, was estimated by applying an income approach. That measure is based on significant Level 3 inputs not observable in the market. Key assumptions developed based on the Company's historical experience, future projections and comparable market data include future cash flows, long-term growth rates, attrition rates and discount rates.

The operating results of the acquisitions have been included in the consolidated statements of operations and comprehensive income from their acquisition dates through December 31, 2019. Net sales and net income attributable these acquisitions were $29.3 million and $1.3 million, respectively, for the year ended December 31, 2019.

Pro forma results of operations attributable to these acquisitions are not presented as they did not have a material impact on our results of operations, individually or in the aggregate. We did not incur any significant acquisition related costs attributable to these transactions.

The following table summarizes the aggregate fair values of the assets acquired and liabilities assumed for these acquisitions for the year ended December 31, 2019, (in thousands):

Accounts receivable	$	12,390
Inventory		8,561
Other current assets		306
Property, plant and equipment (includes finance lease right-of-use assets)		18,925
Operating lease right-of-use assets		12,955
Goodwill (Note 6)		28,611
Intangible assets (Note 7)		41,300
Total assets acquired		123,048
Accounts payable and accrued liabilities		(15,123)
Operating lease liabilities		(11,264)
Finance lease liabilities		(3,806)
Total liabilities assumed		(30,193)
Total net assets acquired	$	92,855

In connection with the acquisition of Sun State, we entered into real estate leases with the sellers for Sun State's three operating locations. Of the $42.5 million in cash consideration, $33.9 million was paid to the sellers at closing with the remaining amount payable to the sellers on the first anniversary of the acquisition date. The remaining amount payable to the sellers is included in accounts payable and accrued liabilities in the table above.

In connection with the acquisition of Raney, we entered into real estate leases with the seller for Raney's operating locations. The purchase agreement for Raney also contains an earn-out provision contingent upon continued employment and the achievement of specified revenue and profitability targets for fiscal year 2020. This earn-out provision could result in an additional cash payment to the seller ranging from zero to $5.0 million depending on the level of achievement of the specified targets. Future payments related to this earn-out provision will be included as compensation expense in the consolidated statement of operations and comprehensive income over the period earned.

6. Goodwill

The following table sets forth the changes in the carrying amount of goodwill by reportable segment for the years ended December 31, 2019 and 2018 (in thousands):

	Northeast	Southeast	South	West	Total
Balance as of December 31, 2018					
Goodwill	$ 97,102	$ 60,691	$ 329,662	$ 297,592	$ 785,047
Accumulated impairment losses	(494)	(615)	(43,527)	—	(44,636)
	96,608	60,076	286,135	297,592	740,411
Acquisitions	—	—	14,257	14,354	28,611
Balance as of December 31, 2019					
Goodwill	$ 97,102	$ 60,691	$ 343,919	$ 311,946	$ 813,658
Accumulated impairment losses	(494)	(615)	(43,527)	—	(44,636)
	$ 96,608	$ 60,076	$ 300,392	$ 311,946	$ 769,022

In 2019, the change in the carrying amount of goodwill was attributable to our acquisitions of Sun State and Raney. The amount allocated to goodwill is attributable to the assembled workforces acquired, expected synergies, and expected growth from the new markets the Company entered into. All of the goodwill recognized from these acquisitions is expected to be tax deductible and will be amortized ratably over a 15-year period for tax purposes.

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

In evaluating goodwill for impairment, the Company first assesses qualitative factors to determine whether it is more likely than not that the fair value of the reporting unit is less than its carrying value. If it is concluded that it is more likely than not that the fair value of the reporting unit is not less than its carrying value, then no further testing of the goodwill is required. However, if we determine that it is more likely than not that the fair value of the reporting unit is less than its carrying amount, we perform a quantitative goodwill impairment test. This test identifies both the existence of and the amount of goodwill impairment by comparing the fair value of a reporting unit to its carrying amount, including goodwill. If the fair value of a reporting unit exceeds its carrying amount goodwill is not impaired. If the carrying amount of a reporting unit exceeds its fair value an impairment loss is recognized in amount equal to that excess, limited to the amount of goodwill allocated to that reporting unit.

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

In evaluating our goodwill for impairment at December 31, 2019, $77.1 million of our goodwill balance was assessed utilizing a quantitative assessment. In performing the quantitative impairment test at December 31, 2019, we developed a range of fair values using a five-year discounted cash flow methodology. The discounted cash flow methodology establishes fair value by estimating the present value of the projected future cash flows to be generated from the reporting unit. The discount rate applied to the projected future cash flows to arrive at the present value is intended to reflect all risks of ownership and the associated risks of realizing the stream of projected future cash flows. The discounted cash flow methodology uses our projections of financial performance for a five-year period. The significant assumptions used in the discounted cash flow methodology are the discount rate, the terminal value and the expected future revenues and profitability.

We recorded no goodwill impairment charges in 2019, 2018, and 2017.

7. Intangible Assets

The following table presents intangible assets as of December 31:

	2019		2018	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
	(In thousands)			
Customer relationships	$ 183,445	$ (77,016)	$ 149,045	$ (63,187)
Trade names	51,361	(36,082)	51,361	(34,065)
Subcontractor relationships	4,700	(131)	—	—
Non-compete agreements	3,579	(1,468)	1,379	(1,379)
Favorable lease intangibles	—	—	6,409	(6,409)
Total intangible assets	$ 243,085	$ (114,697)	$ 208,194	$ (105,040)
Unfavorable lease obligations (included in Accrued liabilities and Other long-term liabilities)	$ —	$ —	$ (19,597)	$ 19,597

During the years ended December 31, 2019, 2018, and 2017, we recorded amortization expense in relation to the above-listed intangible assets of $16.1 million, $23.5 million, and $21.9 million, respectively. We recorded no intangible asset impairment charges for the years ended December 31, 2019, 2018 or 2017.

In connection with the acquisitions of Sun State and Raney, we recorded intangible assets of $41.3 million, which includes $34.4 million of customer relationships, $4.7 million of subcontractor relationships and $2.2 million of non-compete agreements. The weighted average useful lives of the acquired assets are 7.7 years in total, 8.5 years for customer relationships, 3.0 years for subcontractor relationships and 5.0 years for non-compete agreements, respectively.

The following table presents the estimated amortization expense for these intangible assets for the years ending December 31 (in thousands):

2020	$ 20,235
2021	18,642
2022	17,171
2023	14,513
2024	13,270
Thereafter	44,557
Total future net intangible amortization expense	$ 128,388

8. Accrued Liabilities

Accrued liabilities consisted of the following (in thousands):

	December 31, 2019	December 31, 2018
Accrued payroll and other employee related expenses	$ 152,869	$ 145,313
Contract liabilities	38,559	42,054
Customer obligations	11,612	11,762
Self-insurance reserves	37,955	35,304
Accrued business taxes	32,604	28,954
Accrued interest	12,256	13,164
Other	23,095	15,975
Total accrued liabilities	$ 308,950	$ 292,526

9. Long-Term Debt

Long-term debt consisted of the following (in thousands):

	December 31, 2019	December 31, 2018
2023 facility (1)	$ 27,000	$ 179,000
2024 notes	503,923	696,361
2024 term loan (2)	52,000	458,250
2027 notes	475,000	—
Other finance obligations (Note 10)	221,726	227,071
Finance lease obligations (Note 10)	20,333	16,445
	1,299,982	1,577,127
Unamortized debt discount/premium and debt issuance costs	(8,709)	(15,833)
	1,291,273	1,561,294
Less: current maturities of long-term debt and lease obligations	13,875	15,565
Long-term debt, net of current maturities	$ 1,277,398	$ 1,545,729

(1) The weighted average interest rate was4.4% and 3.9% as of December 31, 2019 and 2018, respectively.

(2) The weighted average interest rate was5.6% and 5.2% as of December 31, 2019 and 2018, respectively.

2017 Debt Transactions

During the year ended December 31, 2017, the Company executed several debt transactions which are described in more detail below. These transactions included a repricing and extension of our previous term loan as well as increasing the borrowing capacity and extending the maturity of our previous revolving credit facility and the complete extinguishment of our previously outstanding 10.75% senior unsecured notes due 2023 (“2023 notes”).

Term Loan Amendment

On February 23, 2017, we repriced our previous term loan through an amendment and extension of the term loan credit agreement providing for a $467.7 million senior secured term loan facility due 2024. This repricing reduced the interest rate by 0.75% and extended the maturity by 19 months to February 29, 2024. Deutsche Bank AG New York Branch continues to serve as administrative agent and collateral agent under the 2024 term loan agreement.

In connection with the 2024 term loan amendment we recognized $0.4 million in interest expense for the year ended December 31, 2017 related to the write-off of unamortized debt discount and debt issuance costs. We incurred $1.2 million in lender fees which, together with $10.0 million in remaining unamortized debt discount and debt issuance costs, have been recorded as a reduction of long-term debt and are being amortized over the remaining contractual life of the 2024 term loan using the effective interest method. In addition, we also incurred $1.4 million in various third-party fees and expenses related to the 2024 term loan amendment which were recorded to interest expense for the year ended December 31, 2017.

Revolving Credit Facility Amendment

On March 22, 2017, the Company extended the maturity date and increased the revolving commitments under its previous revolving credit facility. This transaction resulted in an amended and restated $900.0 million revolving credit facility and extended the maturity by 20 months to March 22, 2022. SunTrust Bank continues to serve as administrative agent and collateral agent under the agreement. All other material terms of the revolving credit facility were unchanged from those of the previous agreement.

In connection with this amendment, we recognized $0.6 million in interest expense for the year ended December 31, 2017 related to the write-off of unamortized debt issuance costs. We incurred $1.6 million in lender and third-party fees which, together with $8.5 million in remaining unamortized debt issuance costs, have been recorded as other assets and are being amortized over the remaining contractual life on a straight-line basis.

2023 Notes Redemption

In December 2017, the Company exercised its contractual right to redeem $367.6 million in aggregate principal amount of 2023 Notes at a total redemption price of 113.249%, plus accrued and unpaid interest. The redemption of the 2023 Notes was funded with a combination of borrowings under the 2023 facility and cash on hand.

The redemption of the 2023 notes was considered to be a debt extinguishment. As such, we recognized a loss on extinguishment of $56.3 million which was recorded as a component of interest expense in the accompanying consolidated statement of operations and comprehensive income for the year ended December 31, 2017. Of this $56.3 million loss, $48.7 million was attributable to the payment of the redemption premium and $7.6 million was attributable to the write-off of unamortized debt issuance costs associated with the redeemed notes.

2018 Debt Transactions

In the fourth quarter of 2018, the Company executed a series of open market purchases of its 2024 notes. These transactions resulted in $53.6 million in aggregate principal amount of the 2024 notes being repurchased at prices ranging from 91.5% to 94.25% of par value. Following these transactions, there was $696.4 million of 2024 notes which remain outstanding.

These repurchases of the 2024 notes were considered to be debt extinguishments. As such, we recognized a gain on debt extinguishment of $3.2 million which was recorded as a component of interest expense in the accompanying consolidated statement of operations and comprehensive income for the year ended December 31, 2018. Of this gain, approximately $3.7 million was attributable to the repurchase of the notes at a discount to par value which was partially offset by a $0.5 million write-off of unamortized debt issuance costs associated with the 2024 Notes repurchased.

2019 Debt Transactions

During the year ended December 31, 2019, the Company executed several debt transactions which are described in more detail below. These transactions include: (i) open market purchases of our 2024 notes, (ii) extension of the maturity of our 2023 facility and (iii) privately negotiated purchases of our 2024 notes and partial repayments of our 2024 term loan with the proceeds from the issuance of 2027 notes and cash on hand. These transactions collectively have extended our debt maturity profile and reduced the amount of long-term debt outstanding.

First Quarter 2019 Note Repurchase Transactions

In the first quarter of 2019, the Company executed a series of open market purchases of its 2024 notes. These transactions resulted in $20.4 million in aggregate principal amount of the 2024 notes being repurchased at prices ranging from 94.9% to 95.9% of par value.

These repurchases of the 2024 notes were considered to be debt extinguishments. As such, we recognized a gain on debt extinguishment of $0.7 million which was recorded as a component of interest expense in the first quarter of 2019. Of this gain, approximately $0.9 million was attributable to the repurchase of the notes at a discount to par value which was partially offset by a $0.2 million write-off of unamortized debt issuance costs associated with the 2024 notes repurchased.

Second Quarter 2019 Refinancing Transactions

In April 2019, the Company extended the maturity date of its revolving credit facility by 20 months to November 22, 2023. All other material terms of the 2023 facility remain unchanged from those of the previous agreement.

In connection with the 2023 facility amendment we incurred $1.2 million in lender and third-party fees which, together with $5.9 million in remaining unamortized debt issuance costs, have been recorded as other assets and are being amortized over the remaining contractual life of the 2023 facility on a straight-line basis.

In May 2019, we completed a private offering of $400.0 million in aggregate principal amount of 2027 notes at an issue price equal to 100% of their par value. The proceeds from the issuance of the 2027 notes were used, together with cash on hand, to purchase $97.0 million in aggregate principal amount of 2024 notes, to repay $300.0 million of the 2024 term loan and to pay related transaction fees and expenses.

In connection with the issuance of the 2027 notes, we incurred $6.1 million of various third-party fees and expenses. Of these costs, $2.1 million were recorded to interest expense in the second quarter of 2019. The remaining $4.0 million in costs incurred have been recorded as a reduction to long-term debt and are being amortized over the contractual life of the 2027 notes using the effective interest method. Further, we recorded an additional $2.2 million to interest expense in the second quarter of 2019 related to the write-off of unamortized debt discount and debt issuance costs in connection with the partial repayment of the 2024 term loan.

Third Quarter 2019 Refinancing Transactions

In July 2019, we completed a private offering of an additional $75.0 million in aggregate principal amount of 2027 notes at an issue price of 104.5% of their par value. The proceeds from the issuance of the 2027 notes were used together with cash on hand to redeem an additional $75.0 million in aggregate principal amount of 2024 notes and to pay related transaction fees and expenses.

The additional $3.4 million in proceeds received in excess of par value represents a debt premium which has been recorded as an increase to long-term debt. In connection with the issuance of the additional 2027 notes, we incurred $1.3 million of various third-party fees and expenses which have been recorded as a reduction to long-term debt. These third party costs and the debt premium are being amortized over the contractual life of the 2027 notes using the effective interest method.

The redemption of the 2024 notes was considered to be an extinguishment. As such, we recognized a loss on extinguishment of $3.1 million which was recorded to interest expense in the third quarter of 2019. Of this loss, $2.2 million was attributable to the call premium paid to the lenders and $0.9 million was attributable to the write-off of unamortized debt issuance costs associated with the extinguished 2024 notes.

Fourth Quarter 2019 Term Loan Repayment

In November 2019, we repaid $105.1 million of the 2024 term loan using cash on hand. In connection with this repayment we recognized a loss on extinguishment of $3.5 million related to the write-off of unamortized debt discount and debt issuance costs. This loss on extinguishment was recorded to interest expense in the fourth quarter of 2019.

2024 Term Loan Credit Agreement

As of December 31, 2019, we have $52.0 million outstanding under the 2024 term loan, which matures on February 29, 2024. The 2024 term loan bears interest based on either a eurodollar or base rate (a rate equal to the highest of an agreed commercially available benchmark rate, the federal funds effective rate plus 0.50% or the eurodollar rate plus 1.0%, as selected by the Company) plus, in each case, an applicable margin. The applicable margin in the 2024 term loan is (x) 3% in the case of Eurodollar rate loans and (y) 2% in the case of base rate loans.

2023 Revolving Credit Facility

The 2023 facility provides for a $900.0 million revolving credit line to be used for working capital, general corporate purposes and funding capital expenditures and growth opportunities. In addition, we may use the 2023 facility to facilitate debt repayment and consolidation. The available borrowing capacity, or borrowing base, is derived from a percentage of the Company’s eligible receivables and inventory, as defined by the agreement, subject to certain reserves. As of December 31, 2019, we had $27.0 million in outstanding borrowings under our 2023 facility and our net excess borrowing availability was $681.2 million after being reduced by outstanding letters of credit of approximately $82.2 million.

Borrowings under the 2023 facility bear interest, at our option, at either a eurodollar rate or a base rate, plus, in each case an applicable margin. The applicable margin ranges from 1.25% to 1.75% per annum in the case of eurodollar rate loans and 0.25% to 0.75% per annum in the case of base rate loans. The margin in either case is based on a measure of availability under the 2023 facility. A variable commitment fee, currently 0.375% per annum, is charged on the unused amount of the revolver based on quarterly average loan utilization. Letters of credit under the 2023 facility are assessed at a rate equal to the applicable eurodollar margin, currently 1.25%, as well as a fronting fee at a rate of 0.125% per annum. These fees are payable quarterly in arrears at the end of March, June, September, and December.

All obligations under the 2024 term loan and 2023 facility are guaranteed jointly and severally by the Company and all other subsidiaries that guarantee the 2024 notes and 2027 notes. All obligations and the guarantees of those obligations are secured by substantially all of the assets of the Company and the guarantors subject to certain exceptions and permitted liens, including (i) with respect to the 2024 term loan, a first-priority security interest in such assets that constitute Notes Collateral (as defined below) and a second priority security interest in such assets that constitute ABL Collateral (as defined below), and (ii) with respect to the 2023 facility, a first-priority security interest in such assets that constitute ABL Collateral and a second-priority security interest in such assets that constitute Notes Collateral.

“ABL Collateral” includes substantially all presently owned and after-acquired accounts receivable, inventory, rights of unpaid vendors with respect to inventory, deposit accounts, commodity accounts, securities accounts and lock boxes, investment property, cash and cash equivalents, and general intangibles, books and records, supporting obligations and documents and related letters of credit, commercial tort claims or other claims related to and proceeds of each of the foregoing. “Notes Collateral” includes all collateral which is not ABL collateral.

The 2024 term loan and the 2023 facility contain restrictive covenants which, among other things, limit the Company’s ability to incur additional indebtedness, incur liens, engage in mergers or other fundamental changes, sell certain assets, pay dividends, make acquisitions or investments, prepay certain indebtedness, change the nature of our business, and engage in certain transactions with affiliates. In addition, the 2023 facility also contains a financial covenant requiring the satisfaction of a minimum fixed charge ratio of 1.00 to 1.00 if our excess availability falls below the greater of $80.0 million or 10% of the maximum borrowing amount, which was $80.0 million as of December 31, 2019.

Senior Secured Notes due 2024

As of December 31, 2019 we have $503.9 million outstanding in aggregate principal amount of the 2024 notes which mature on September 1, 2024. Interest accrues on the 2024 notes at a rate of 5.625% per annum and is payable semi-annually on March 1 and September 1 of each year.

The terms of the 2024 notes are governed by the indenture, dated as of August 22, 2016 (the “Indenture”), among the Company, the guarantors named therein (the “Guarantors”) and Wilmington Trust, National Association, as trustee (the “Trustee”) and notes collateral agent (the “Notes Collateral Agent”). The 2024 notes, subject to certain exceptions, are guaranteed, jointly and severally, on a senior secured basis, by certain of our direct and indirect wholly owned subsidiaries. All obligations under the 2024 notes, and the guarantees of those obligations, are secured by substantially all of the assets of the Company and the Guarantors subject to certain exceptions and permitted liens, including a first-priority security interest in such assets that constitute Notes Collateral (as defined above) and a second-priority security interest in such assets that constitute ABL Collateral (as defined above).

The Notes Collateral Agent became a party to the ABL/Bond Intercreditor Agreement, dated as of May 29, 2013, among SunTrust Bank, as agent under the Company’s 2023 facility, the Wilmington Trust, National Association, the Company and the Guarantors, and the Pari Passu Intercreditor Agreement, dated as of July 31, 2015, among Deutsche Bank AG New York Branch, as term collateral agent under the Company’s 2024 term loan, Wilmington Trust, National Association, the Company and the Guarantors. These documents govern all arrangements in respect of the priority of the security interests in the ABL Collateral and the Notes Collateral among the parties to the Indenture, the 2023 facility and the 2024 term loan. The 2024 notes constitute senior secured obligations of the Company and Guarantors, rank senior in right of payment to all future debt of the Company and Guarantors that is expressly subordinated in right of payment to the 2024 notes, and rank equally in right of payment with all existing and future liabilities of the Company and Guarantors that are not so subordinated, including the 2023 facility.

The Indenture contains restrictive covenants that limit the ability of the Company and its restricted subsidiaries to, among other things, incur additional debt or issue preferred stock; create liens; create restrictions on the Company's subsidiaries' ability to make payments to the Company; pay dividends and make other distributions in respect of the Company's and its subsidiaries' capital stock; make certain investments or certain other restricted payments; guarantee indebtedness; designate unrestricted subsidiaries; sell certain kinds of assets; enter into certain types of transactions with affiliates; and effect mergers and consolidations.

At any time on or after September 1, 2019, the Company may redeem the 2024 notes at the redemption prices set forth in the Indenture, plus accrued and unpaid interest, if any, to the redemption date. If the Company experiences certain change of control events, holders of the 2024 notes may require it to repurchase all or part of their 2024 notes at 101% of the principal amount thereof, plus accrued and unpaid interest, if any, to the repurchase date.

Senior Secured Notes due 2027

As of December 31, 2019, we have $475.0 million outstanding in aggregate principal amount of the 2027 notes which mature on June 1, 2027. Interest accrues on the 2027 notes at a rate of 6.75% per annum and is payable semi-annually on June 1 and December 1 of each year.

The terms of the 2027 notes are governed by the indenture, dated as of the May 30, 2019 (the "Indenture"), among the Company, the guarantors named therein and Wilmington Trust, National Association, as trustee and as notes collateral agent. The 2027 notes, subject to certain exceptions, are guaranteed, jointly and severally, on a senior secured basis, by certain of the Company's direct and indirect wholly owned subsidiaries (the "Guarantors"). All obligations under the 2027 notes, and the guarantees of those obligations, are secured by substantially all of the assets of the Company and the Guarantors subject to certain exceptions and permitted liens, including a first-priority security interest in such assets that constitute Notes Collateral (as defined below) and a second-priority security interest in such assets that constitute ABL Collateral (as defined below).

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

The Indenture contains restrictive covenants that limit the ability of the Company and its restricted subsidiaries to, among other things, incur additional debt or issue preferred stock, create liens, create restrictions on the Company's subsidiaries' ability to make payments to the Company, pay dividends and make other distributions in respect of the Company's and its subsidiaries' capital stock, make certain investments or certain other restricted payments, guarantee indebtedness, designate unrestricted subsidiaries, sell certain kinds of assets, enter into certain types of transactions with affiliates, and effect mergers and consolidations.

At any time prior to June 1, 2022, the Company may redeem the 2027 notes in whole or in part at a redemption price equal to 100% of the principal amount of the 2027 notes plus the "applicable premium" set forth in the Indenture. At any time on or after June 1, 2022, the Company may redeem the 2027 notes at the redemption prices set forth in the Indenture, plus accrued and unpaid interest, if any, to the redemption date. At any time and from time to time during the 36-month period following the Closing Date, the Company may redeem up to 10% of the aggregate principal amount of the 2027 notes during each twelve-month period commencing on the Closing Date at a redemption price of 103% of the aggregate principal amount thereof plus accrued and unpaid interest to the redemption date. In addition, at any time prior to June 1, 2022, the Company may redeem up to 40% of the aggregate principal amount of the 2027 notes with the net cash proceeds of one or more equity offerings, as described in the Indenture, at a price equal to 106.750% of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date. If the Company experiences certain change of control events, holders of the 2027 notes may require it to repurchase all or part of their 2027 notes at 101% of the principal amount thereof, plus accrued and unpaid interest, if any, to the repurchase date.

As of December 31, 2019 we were not in violation of any covenants or restrictions imposed by any of our debt agreements.

Future maturities of long-term debt as of December 31, 2019 were as follows (in thousands):

Year ending December 31,		
2020	$	—
2021		—
2022		—
2023		27,000
2024		555,923
Thereafter		475,000
Total long-term debt (including current maturities)	$	1,057,923

10. Leases and Other Finance Obligations

Right-of-use assets and lease liabilities consisted of the following as of December 31, 2019 (in thousands):

Assets		
Operating lease right-of-use assets, net	$	292,684
Finance lease right-of-use assets, net (included in property, plant and equipment, net)		32,070
Total right-of-use assets	$	324,754
Liabilities		
Current		
Current portion of operating lease liabilities	$	61,653
Current portion of finance lease liabilities (included in current maturities of long-term debt)		10,378
Noncurrent		
Noncurrent portion of operating lease liabilities	$	236,948
Noncurrent portion of finance lease liabilities (included in long-term debt, net of current maturities)		9,955
Total lease liabilities	$	318,934

Total lease costs consisted of the following for the year ended December 31, 2019 (in thousands):

Operating lease costs*	$	84,603
Finance lease costs:		
Amortization of finance lease right-of-use assets		5,177
Interest on finance lease liabilities		1,115
Variable lease costs		15,441
Total lease costs	$	106,336

* *Includes short-term lease costs and sublease income which were not material for the year ended December 31, 2019.*

Future maturities of lease liabilities as of December 31, 2019 were as follows (in thousands):

		Finance Leases		Operating Leases
2020	$	11,331	$	78,375
2021		7,169		69,775
2022		2,860		55,685
2023		442		42,359
2024		209		32,099
Thereafter		—		87,402
Total lease payments		22,011		365,695
Less: amount representing interest		(1,678)		(67,094)
Present value of lease liabilities		20,333		298,601
Less: current portion		(10,378)		(61,653)
Long-term lease liabilities, net of current portion	$	9,955	$	236,948

Future maturities of lease obligations as of December 31, 2018 were as follows (in thousands):

	Capital Leases	Operating Leases
2019	$ 10,784	$ 77,297
2020	5,392	63,633
2021	1,242	51,804
2022	—	37,054
2023	—	23,327
Thereafter	—	57,000
Total minimum lease payments	17,418	$ 310,115
Less: amount representing interest	(973)	
Present value of lease liabilities	16,445	
Less: current portion	(10,039)	
Long-term lease liabilities, net of current portion	$ 6,406	

Weighted average lease terms and discount rates as of December 31, 2019 were as follows:

Weighted average remaining lease term (years)	
Operating leases	6.3
Finance leases	2.0
Weighted average discount rate	
Operating leases	6.6%
Finance leases	6.0%

The following table presents cash paid for amounts included in the measurement of lease liabilities as well as supplemental noncash information for the year ended December 31, 2019 (in thousands):

Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	$ 81,488
Operating cash flows from finance leases	1,115
Financing cash flows from finance leases	11,477
Right-of-use assets obtained in exchange for new operating lease liabilities	86,148
Right-of-use assets obtained in exchange for new finance lease liabilities	16,462

The guarantees under these leases for the residual values of equipment at the end of the respective operating lease periods approximated $4.8 million as of December 31, 2019. Based upon the expectation that none of these leased assets will have a residual value at the end of the lease term that is materially less than the value specified in the related operating lease agreement or that we will purchase the equipment at the end of the lease term, we do not believe it is probable that we will be required to fund any amounts under the terms of these guarantee arrangements. Accordingly, these guarantees have not been recognized in the calculation of our right-of-use assets and lease liabilities. Our lease agreements do not impose any significant restrictions or covenants on us. As of December 31, 2019, we had future lease payments of $2.2 million related to leases which have been signed, but have not yet commenced. As such, these lease payments are not reflected on our consolidated balance sheet as of December 31, 2019. Leases with related parties are not significant as of or for the years ended December 31, 2019, 2018 or 2017.

Other Finance Obligations

In addition to the operating and finance lease arrangements described above, the Company is party to 139 individual property lease agreements with a single lessor as of December 31, 2019. These lease agreements have initial terms ranging from nine to 15 years (expiring through 2021) and renewal options in five-year increments providing for up to approximately 30-year total lease terms. A related agreement between the lessor and the Company gives the Company the right to acquire a limited number of the leased facilities at fair market value. These purchase rights represent a form of continuing involvement with these properties, which precluded sale-leaseback accounting. As a result, the Company treats all of the properties that it leases from this lessor as a financing arrangement. The Company is also party to certain additional agreements with the same lessor which commit the Company to perform certain repair and maintenance obligations under the leases in a specified manner and timeframe.

We were deemed the owner of certain of our facilities during their construction period based on an evaluation made in accordance with the *Leases* topic of the Codification. Effectively, a sale and leaseback of these facilities occurred when construction was completed and the lease term began. These transactions did not qualify for sale-leaseback accounting. As a result, the Company treats the lease of these facilities as a financing arrangement.

As of December 31, 2019, other finance obligations consist of $221.7 million, with cash payments of $21.0 million for the year ended December 31, 2019. These other finance obligations are included on the consolidated balance sheet as part of long-term debt. The related assets are recorded as components of property, plant, and equipment on the consolidated balance sheet.

Future maturities for other finance obligations as of December 31, 2019 were as follows (in thousands):

2020	$	18,091
2021		17,610
2022		17,456
2023		17,465
2024		17,482
Thereafter		200,562
Total	$	288,666

11. Employee Stock-Based Compensation

2014 Incentive Plan

Under our 2014 Incentive Plan ("2014 Plan"), as amended, the Company is authorized to grant awards in the form of incentive stock options, non-qualified stock options, restricted stock shares, restricted stock units, other common stock-based awards and cash-based awards. The Company has reserved 8.5 million shares of common stock for the grant of awards under the 2014 Plan, subject to adjustment as provided by the 2014 Plan. All 8.5 million shares under the Plan may be made subject to options, stock appreciation rights ("SARs"), or stock-based awards. Stock options and SARs granted under the 2014 Plan may not have a term exceeding 10 years from the date of grant. The 2014 Plan also provides that all awards will become fully vested and/or exercisable upon a change in control (as defined in the 2014 Plan) if those awards (i) are not assumed or equitably substituted by the surviving entity or (ii) have been assumed or equitably substituted by the surviving entity, and the grantee's employment is terminated under certain circumstances. Other specific terms for awards granted under the 2014 Plan shall be determined by our Compensation Committee (or the board of directors if so determined by the board of directors). Awards granted under the 2014 Plan generally vest ratably over a three to four year period or cliff vest after a period of three to four years. As of December 31, 2019, 4.2 million shares were available for issuance under the 2014 Plan.

2007 Incentive Plan

Under our 2007 Incentive Plan ("2007 Plan"), the Company was authorized to grant awards in the form of incentive stock options, non-qualified stock options, restricted stock, other common stock-based awards and cash-based awards. Stock options and SARs granted under the 2007 Plan may not have a term exceeding 10 years from the date of grant. The 2007 Plan also provided that all awards will become fully vested and/or exercisable upon a change in control (as defined in the 2007 Plan). Historically, awards granted under the 2007 Plan generally vested ratably over a three to four-year period. As of May 24, 2017, no further grants will be made under the 2007 plan.

2005 Equity Incentive Plan

Under our 2005 Equity Incentive Plan ("2005 Plan"), we were authorized to grant stock-based awards in the form of incentive stock options, non-qualified stock options, restricted stock and other common stock-based awards. Stock options and SARs granted under the 2005 Plan could not have a term exceeding 10 years from the date of grant. The 2005 Plan also provided that all awards become fully vested and/or exercisable upon a change in control (as defined in the 2005 Plan). Historically, awards granted under the 2005 Plan generally vested ratably over a three-year period. As of June 27, 2015, no further grants will be made under the 2005 Plan.

1998 Stock Incentive Plan

Under the Builders FirstSource, Inc. 1998 Stock Incentive Plan ("1998 Plan"), we were authorized to issue shares of common stock pursuant to awards granted in various forms, including incentive stock options, non-qualified stock options and other stock-based awards. The 1998 Plan also authorized the sale of common stock on terms determined by our board of directors. Historically, stock options granted under the 1998 Plan generally cliff vested after a period of seven to nine years with certain option grants subject to acceleration if certain financial targets were met. As of January 1, 2005, no further grants will be made under the 1998 Plan.

Stock Options

The following table summarizes our stock option activity:

	Options (In thousands)	Weighted Average Exercise Price	Weighted Average Remaining Years	Aggregate Intrinsic Value (In thousands)
Outstanding at December 31, 2018	1,332	$ 5.97		
Granted	—	$ —		
Exercised	(895)	$ 5.54		
Forfeited	(3)	$ 10.82		
Outstanding at December 31, 2019	434	$ 6.81	4.4	$ 8,072
Exercisable at December 31, 2019	396	$ 6.43	4.1	$ 7,510

The outstanding options at December 31, 2019 include 124,000 options under the 2014 plan, 95,000 options under the 2007 Plan, 132,000 options under the 2005 Plan and 83,000 options under the 1998 Plan. As of December 31, 2019, 86,000 options under the 2014 Plan, 95,000 options under the 2007 Plan, 132,000 options under the 2005 Plan and 83,000 options under the 1998 Plan were exercisable. The weighted average grant date fair value of options granted during the year ended December 31, 2017 was $7.26. There were no options granted during the years ended December 31, 2019 or 2018. The total intrinsic value of options exercised during the years ended December 31, 2019, 2018 and 2017 were $12.5 million, $10.9 million and $16.4 million, respectively. Vesting of all of our stock options is contingent solely on continuous employment over the requisite service period.

Outstanding and exercisable stock options at December 31, 2019 were as follows (shares in thousands):

	Outstanding			Exercisable	
Range of Exercise Prices	Shares	Weighted Average Exercise Price	Weighted Average Remaining Years	Shares	Weighted Average Exercise Price
$3.15 - $3.19	114	$ 3.16	2.8	114	$ 3.16
$6.35 - $6.59	79	$ 6.48	5.7	66	$ 6.45
$7.67- $12.94	241	$ 8.64	4.7	216	$ 8.14
$3.15 - $12.94	434	$ 6.81	4.4	396	$ 6.43

Restricted Stock Units

The outstanding restricted stock units ("RSUs") at December 31, 2019 include 1,999,000 units granted under the 2014 Plan and 77,000 units granted under the 2007 Plan.

The following table summarizes activity for RSUs subject solely to service conditions for the year ended December 31, 2019 (shares in thousands):

	Shares	Weighted Average Grant Date Fair Value
Nonvested at December 31, 2018	908	$ 16.25
Granted	772	$ 14.29
Vested	(504)	$ 14.45
Forfeited	(45)	$ 15.88
Nonvested at December 31, 2019	1,131	$ 15.73

The weighted average grant date fair value of RSUs for which vesting is subject solely to service conditions granted during the years ended December 31, 2019, 2018 and 2017 were $14.29, $20.23, and $14.60, respectively.

The following table summarizes activity for RSUs subject to both performance and service conditions for the year ended December 31, 2019 (shares in thousands):

	Shares	Weighted Average Grant Date Fair Value
Nonvested at December 31, 2018	556	$ 15.16
Granted	397	$ 14.42
Vested	(231)	$ 10.94
Forfeited	(30)	$ 16.02
Nonvested at December 31, 2019	692	$ 16.11

The weighted average grant date fair value of RSUs for which vesting is subject to both performance and service conditions granted during the years ended December 31, 2019, 2018 and 2017 were $14.42, $21.15 and $15.38, respectively.

The following table summarizes activity for RSUs subject to both market and service conditions for the year ended December 31, 2019 (shares in thousands):

	Shares	Weighted Average Grant Date Fair Value
Nonvested at December 31, 2018	500	$ 12.78
Granted	—	$ —
Vested	—	$ —
Forfeited	(247)	$ 8.13
Nonvested at December 31, 2019	253	$ 17.31

The weighted average grant date fair value of RSUs for which vesting is subject to both market and service conditions granted during the years ended December 31, 2018 and 2017 were $21.96, and $11.49, respectively. There were no RSUs granted during the year ended December 31, 2019 for which vesting was subject to both market and service conditions.

Our results of operations include stock compensation expense of $12.2 million ($9.2 million net of taxes), $14.4 million ($10.7 million net of taxes) and $13.5 million ($8.2 million net of taxes) for the years ended December 31, 2019, 2018 and 2017, respectively. We recognized excess tax benefits for stock options exercised and RSUs vested of $2.2 million, $4.2 million and $5.1 million for the years ended December 31, 2019, 2018 and 2017, respectively. The total fair value of options vested during the years ended December 31, 2019, 2018, and 2017 were $0.3 million, $2.7 million and $2.7 million, respectively. The total fair value of RSUs vested during the years ended December 31, 2019, 2018 and 2017 were $9.8 million, $10.4 million and $6.9 million, respectively.

As of December 31, 2019, there was $17.4 million of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Plans. That cost is expected to be recognized over a weighted-average period of 1.9 years.

12. Income Taxes

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

	2019	2018	2017
		(In thousands)	
Current:			
Federal	$ 3,678	$ (1,831)	$ 1,831
State	6,274	5,572	2,213
	9,952	3,741	4,044
Deferred:			
Federal	45,955	45,934	49,710
State	5,039	5,889	(606)
	50,994	51,823	49,104
Income tax expense	$ 60,946	$ 55,564	$ 53,148

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

	2019	2018
	(In thousands)	
Deferred tax assets related to:		
Accrued expenses	$ 8,219	$ 10,019
Insurance reserves	14,277	13,245
Stock-based compensation expense	3,325	4,770
Accounts receivable	3,799	3,892
Inventories	5,394	13,348
Operating loss and credit carryforwards	13,821	38,813
Operating lease liabilities	74,650	—
Other	1,677	—
	125,162	84,087
Valuation allowance	(2,409)	(2,409)
Total deferred tax assets	122,753	81,678
Deferred tax liabilities related to:		
Prepaid expenses	(2,393)	(2,845)
Goodwill and other intangible assets	(37,426)	(28,055)
Property, plant and equipment	(37,991)	(26,670)
Operating lease right-of-use assets	(73,171)	—
Other	—	(1,342)
Total deferred tax liabilities	(150,981)	(58,912)
Net deferred tax asset (liability)	$ (28,228)	$ 22,766

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

	2019	2018	2017
Statutory federal income tax rate	21.0%	21.0%	35.0%
State income taxes, net of federal income tax	2.8	4.3	7.7
Valuation allowance	—	—	(3.1)
Stock compensation windfall benefit	(0.8)	(1.6)	(5.5)
Enactment of federal income tax rate change	—	—	31.5
Permanent difference – 162(m) limitation	0.4	0.6	0.8
Permanent difference – credits	(2.3)	(4.6)	(9.6)
Permanent difference – other	0.7	1.4	0.9
Other	(0.2)	0.2	0.1
	21.6%	21.3%	57.8%

On December 22, 2017, the President signed into law the 2017 Tax Act. The 2017 Tax Act reduced the statutory federal corporate tax rate from 35% to 21% for periods beginning after December 31, 2017. The *Income Taxes* topic of the Codification requires that the effect of a tax rate change on deferred tax assets and liabilities be recognized in the period the rate change was enacted. As such, we recorded income tax expense of $29.0 million for the year ended December 31, 2017 related to the revaluation of our net deferred tax assets.

We have $274.1 million of state net operating loss carryforwards and $3.8 million of state tax credit carryforwards expiring at various dates through 2039. We evaluate our deferred tax assets on a quarterly basis to determine whether a valuation allowance is required. In accordance with the *Income Taxes* topic of the Codification we assess whether it is more likely than not that some or all of our deferred tax assets will not be realized. Significant judgment is required in estimating valuation allowances for deferred tax assets and in making this determination, we consider all available positive and negative evidence and make certain assumptions. The realization of a deferred tax asset ultimately depends on the existence of sufficient taxable income in the applicable carryforward period. Changes in our estimates of future taxable income and tax planning strategies will affect our estimate of the realization of the tax benefits of these tax carryforwards.

We base our estimate of deferred tax assets and liabilities on current tax laws and rates. In certain cases, we also base our estimate on business plan forecasts and other expectations about future outcomes. Changes in existing tax laws or rates could affect our actual tax results, and future business results may affect the amount of our deferred tax liabilities or the valuation of our deferred tax assets over time. Due to uncertainties in the estimation process, particularly with respect to changes in facts and circumstances in future reporting periods, as well as the residential homebuilding industry's cyclicality and sensitivity to changes in economic conditions, it is possible that actual results could differ from the estimates used in previous analyses.

The balance for uncertain tax positions, excluding penalties and interest, was $2.0 million and $0.3 million as of December 31, 2019 and 2018, respectively with no significant impact recorded in the Company's consolidated statement of operations and comprehensive income for the years ended December 31, 2019, 2018 or 2017. We accrue interest and penalties on our uncertain tax positions as a component of our provision for income taxes. We accrued no significant interest and penalties in 2019, 2018 or 2017.

We are subject to U.S. federal income tax as well as income tax of multiple state jurisdictions. Based on completed examinations and the expiration of statutes of limitations, we have concluded all U.S. federal income tax matters for years through 2014. We are currently under IRS audit for various aspects of our 2015, 2016 and 2017 tax years. We report in 41 states with various years open to examination.

13. <u>Employee Benefit Plans</u>

We maintain one active defined contribution 401(k) plan. Our employees are eligible to participate in the plans subject to certain employment eligibility provisions. Participants can contribute up to 75% of their annual compensation, subject to federally mandated maximums. Participants are immediately vested in their own contributions. We match a certain percentage of the contributions made by participating employees, subject to IRS limitations. Our matching contributions are subject to a pro-rata five-year vesting schedule. We recognized expense of $7.8 million, $6.8 million and $4.6 million in 2019, 2018 and 2017, respectively, for contributions to the plan.

The Company contributes to multiple collectively bargained union retirement plans including multiemployer plans. The Company does not administer the multiemployer plans, and contributions are determined in accordance with the provisions of negotiated labor contracts. The risks of participating in multiemployer plans are different from single-employer plans. Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers. If a participating employer stops contributing to a multiemployer plan, the unfunded obligations of that multiemployer plan may be borne by the remaining participating employers. If the Company chooses to stop participating in a multiemployer plan, the Company may be required to pay that plan an amount ("withdrawal liability") based on the plan's formula and the underfunded status of the plan attributable to the Company. Contributions to the plans for the years ended December 31, 2019, 2018 and 2017 were not significant.

14. Commitments and Contingencies

As of December 31, 2019, we had outstanding letters of credit totaling $82.2 million under our 2023 facility that principally support our self-insurance programs.

The Company has a number of known and threatened construction defect legal claims. While these claims are generally covered under the Company's existing insurance programs to the extent any loss exceeds the deductible, there is a reasonable possibility of loss that is not able to be estimated at this time because (i) many of the proceedings are in the discovery stage, (ii) the outcome of future litigation is uncertain, and/or (iii) the complex nature of the claims. Although the Company cannot estimate a reasonable range of loss based on currently available information, the resolution of these matters could have a material adverse effect on the Company's financial position, results of operations or cash flows.

In addition, we are involved in various other claims and lawsuits incidental to the conduct of our business in the ordinary course. We carry insurance coverage in such amounts in excess of our self-insured retention as we believe to be reasonable under the circumstances and that may or may not cover any or all of our liabilities in respect of such claims and lawsuits. Although the ultimate disposition of these other proceedings cannot be predicted with certainty, management believes the outcome of any such claims that are pending or threatened, either individually or on a combined basis, will not have a material adverse effect on our consolidated financial position, cash flows or results of operations. However, there can be no assurances that future adverse judgments and costs would not be material to our results of operations or liquidity for a particular period.

15. Segment and Product Information

We offer an integrated solution to our customers providing manufacturing, supply, and installation of a full range of structural and related building products. We provide a wide variety of building products and services directly to homebuilder customers. We manufacture floor trusses, roof trusses, wall panels, stairs, millwork, windows, and doors. We also provide a full range of construction services. These product and service offerings are distributed across approximately 400 locations operating in 40 states across the United States, which have been organized intonine geographical regions. Centralized financial and operational oversight, including resource allocation and assessment of performance on an income from continuing operations before income taxes basis, is performed by our CEO, whom we have determined to be our chief operating decision maker ("CODM").

The Company has nine operating segments aligned with its nine geographical regions (Regions 1 through 9). While all of our operating segments have similar categories of products, distribution methods and customers, certain of our operating segments have been aggregated due to also containing similar economic characteristics, resulting in the following composition of reportable segments:

- Regions 1 and 2 have been aggregated to form the "Northeast" reportable segment
- Regions 3 and 5 have been aggregated to form the "Southeast" reportable segment
- Regions 4 and 6 have been aggregated to form the "South" reportable segment
- Region 7, 8 and 9 have been aggregated to form the "West" reportable segment

In addition to our reportable segments, our consolidated results include corporate overhead, other various operating activities that are not internally allocated to a geographical region nor separately reported to the CODM, and certain reconciling items primarily related to allocations of corporate overhead and rent expense, which have collectively been presented as "All Other". The accounting policies of the segments are consistent with those described in Note 2, except for noted reconciling items.

The following tables present Net sales, Income before income taxes and certain other measures for the reportable segments, reconciled to consolidated total operations, for the years ended December 31, (in thousands):

	2019			
Reportable segments	**Net Sales**	**Depreciation & Amortization**	**Interest**	**Income before income taxes**
Northeast	$ 1,295,643	$ 13,077	$ 20,694	$ 56,012
Southeast	1,610,156	12,586	21,729	83,466
South	1,866,891	19,753	22,309	113,550
West	2,253,854	27,599	37,513	86,144
Total reportable segments	7,026,544	73,015	102,245	339,172
All other	253,887	27,023	7,306	(56,417)
Total consolidated	$ 7,280,431	$ 100,038	$ 109,551	$ 282,755

	2018			
Reportable segments	**Net Sales**	**Depreciation & Amortization**	**Interest**	**Income before income taxes**
Northeast	$ 1,309,391	$ 13,338	$ 23,198	$ 36,354
Southeast	1,700,317	11,661	25,599	67,465
South	2,020,258	20,758	25,816	111,515
West	2,448,581	27,268	39,961	106,525
Total reportable segments	7,478,547	73,025	114,574	321,859
All other	246,224	24,881	(6,361)	(61,104)
Total consolidated	$ 7,724,771	$ 97,906	$ 108,213	$ 260,755

	2017			
Reportable segments	**Net Sales**	**Depreciation & Amortization**	**Interest**	**Income before income taxes**
Northeast	$ 1,251,951	$ 12,972	$ 20,314	$ 41,445
Southeast	1,535,785	10,338	22,742	50,513
South	1,826,140	18,991	22,720	88,893
West	2,173,806	26,763	31,801	85,513
Total reportable segments	6,787,682	69,064	97,577	266,364
All other	246,527	23,929	95,597	(174,435)
Total consolidated	$ 7,034,209	$ 92,993	$ 193,174	$ 91,929

Asset information by segment is not reported internally or otherwise reviewed by the CODM nor does the company earn revenues or have long-lived assets located in foreign countries.

16. Related Party Transactions

Certain members of the Company's board of directors also serve on the board of directors of one of our suppliers, PGT, Inc. Further, the Company has entered into certain leases of land and buildings with certain employees or non-affiliate stockholders. Activity associated with these related party transactions was not significant as of or for the years ended December 31, 2019, 2018 or 2017.

Transactions between the Company and other related parties occur in the ordinary course of business. However, the Company carefully monitors and assesses related party relationships. Management does not believe that any of these transactions with related parties had a material impact on the Company's results for the years ended December 31, 2019, 2018 or 2017.

17. Unaudited Quarterly Financial Data

The following tables summarize the consolidated quarterly results of operations for 2019 and 2018 (in thousands, except per share amounts):

	2019			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net sales	$ 1,631,300	$ 1,904,523	$ 1,981,035	$ 1,763,573
Gross margin	441,975	517,156	541,142	476,556
Net income	35,708 (1)	66,604 (2)	78,130 (3)	41,367 (4)
Net income per share				
Basic	$ 0.31 (1)	$ 0.58 (2)	$ 0.68 (3)	$ 0.36 (4)
Diluted	$ 0.31 (1)	$ 0.57 (2)	$ 0.67 (3)	$ 0.35 (4)

	2018			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net sales	$ 1,700,436	$ 2,089,888	$ 2,118,467	$ 1,815,980
Gross margin	411,052	496,328	522,781	492,779
Net income	23,220	56,622	73,328	52,021 (5)
Net income per share				
Basic	$ 0.20	$ 0.49	$ 0.64	$ 0.45 (5)
Diluted	$ 0.20	$ 0.49	$ 0.63	$ 0.45 (5)

(1) Includes a gain on debt extinguishment of $0.7 million as discussed in Note 9.
(2) Includes the write-off of debt discount and debt issuance costs of $2.2 million and financing costs of $2.1 million as discussed in Note 9.
(3) Includes a loss on debt extinguishment of $3.1 million as discussed in Note 9.
(4) Includes a loss on debt extinguishment of $3.5 million as discussed in Note 9.
(5) Includes a gain on debt extinguishment of $3.2 million as discussed in Note 9.

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

18. Subsequent Events

Business Combination

On January 9, 2020 we acquired certain assets and the operations of Bianchi & Company, Inc. ("Bianchi") for $17.2 million in cash, subject to certain adjustments. Located in Charlotte, North Carolina, Bianchi is a supplier and installer of interior and exterior doors, crown moldings, open stair rail, chair rail, wainscoting, commercial hollow metal frames and doors and other custom millwork. This acquisition was funded with a combination of cash on hand and borrowings under our 2023 facility.

The accounting for this acquisition has not been completed at the date of this filing given the proximity to the acquisition date. The acquisition will be accounted for by the acquisition method, and accordingly the results of operations will be included in the Company's consolidated financial statements from the acquisition date. The purchase price will be allocated to the net assets acquired based on estimated fair values at the acquisition date, with the excess of purchase price over the estimated fair value of the net assets acquired recorded as goodwill.

Debt Transaction

In February 2020, we completed a private offering of $550.0 million in aggregate principal amount of 5.0% unsecured senior notes due 2030 ("2030 notes") at an issue price equal to 100% of their par value. The proceeds from this offering were used together with borrowing under our 2023 facility to redeem the remaining $503.9 million in aggregate principal amount of 2024 notes outstanding at a redemption price of104.2% of their par value and $47.5 million in aggregate principal amount of 2027 notes at a redemption price of 103.0% of their par value.

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

None.

Item 9A. ***Controls and Procedures***

Disclosure Controls Evaluation and Related CEO and CFO Certifications. Our management, with the participation of our principal executive officer ("CEO") and principal financial officer ("CFO") conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this annual report.

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

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

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

Conclusions regarding Disclosure Controls. Based on the required evaluation of our disclosure controls and procedures, our CEO and CFO have concluded that, as of December 31, 2019, we maintained disclosure controls and procedures that were effective in providing reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

Management's Report on Internal Control over Financial Reporting. Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) of the Exchange Act. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles ("GAAP"). Internal control over financial reporting includes policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

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

Under the supervision and with the participation of our management, including ourCEO and CFO, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework set forth in *Internal Control — Integrated Framework (2013*) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework set forth in *Internal Control — Integrated Framework (2013)*, our management concluded that our internal control over financial reporting was effective as of December 31, 2019.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2019, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.

Changes in Internal Control over Financial Reporting. During the quarter ended December 31, 2019, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. *Other Information*

None.

PART III

Item 10. ***Directors, Executive Officers and Corporate Governance***

The information required by this item appears in our definitive proxy statement for our annual meeting of stockholders to be held May 21, 2020 under the captions “Proposal 1 — Election of Directors,” “Continuing Directors,” “Information Regarding the Board and Its Committees,” “Corporate Governance,” “Section 16(a) Beneficial Ownership Reporting Compliance,” and “Executive Officers of the Registrant,” which information is incorporated herein by reference.

Code of Business Conduct and Ethics

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

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

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

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

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

In addition, within four business days of:

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

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

Item 11. ***Executive Compensation***

The information required by this item appears in our definitive proxy statement for our annual meeting of stockholders to be held May 21, 2020 under the captions “Executive Compensation and Other Information,” “Information Regarding the Board and its Committees — Compensation of Directors,” and “Compensation Committee Interlocks and Insider Participation,” which information is incorporated herein by reference.

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

The information required by this item appears in our definitive proxy statement for our annual meeting of stockholders to be held on May 21, 2020 under the caption “Ownership of Securities” and “Equity Compensation Plan Information,” which information is incorporated herein by reference.

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

The information required by this item appears in our definitive proxy statement for our annual meeting of stockholders to be held May 21, 2020 under the caption "Election of Directors and Management Information," "Information Regarding the Board and its Committees," and "Certain Relationships and Related Party Transactions," which information is incorporated herein by reference.

Item 14. ***Principal Accountant Fees and Services***

The information required by this item appears in our definitive proxy statement for our annual meeting of stockholders to be held May 21, 2020 under the caption "Proposal 3 — Ratification of Selection of Independent Registered Public Accounting Firm — Fees Paid to PricewaterhouseCoopers LLP," which information is incorporated herein by reference.

PART IV

Item 15. ***Exhibits and Financial Statement Schedules***

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

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

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

Exhibit Number	Description
3.1	Amended and Restated Certificate of Incorporation of Builders FirstSource, Inc. (incorporated by reference to Exhibit 3.1 to Amendment No. 4 to the Registration Statement of the Company on Form S-1, filed with the Securities and Exchange Commission on June 6, 2005, File Number 333-122788)
3.2	Amended and Restated By-Laws of Builders FirstSource, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on November 6, 2017, File Number 0-51357)
4.1	Indenture, dated as of August 22, 2016, among Builders FirstSource, Inc., the guarantors party thereto, and Wilmington Trust, National Association, as trustee and notes collateral agent (form of Note included therein) (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on August 23, 2016, File Number 0-51357)
4.2	Indenture, dated as of May 30, 2019, among Builders FirstSource, Inc., the guarantors party thereto, and Wilmington Trust, National Association, as trustee and notes collateral agent (form of Note included therein) (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on May 31, 2019, File Number 0-51357)
4.3	First Supplemental Indenture, dated as of July 25, 2019, among Builders FirstSource, Inc., the guarantors party thereto, and Wilmington Trust, National Association, as trustee and notes collateral agent (incorporated by reference to Exhibit 4.3 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on July 30, 2019, File Number 0-51357)
4.4	Indenture, dated as of February 11, 2020, among Builders FirstSource, Inc., the guarantors party thereto, and Wilmington Trust, National Association, as trustee (form of Note included therein) (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on February 11, 2020, File Number 0-51357)
4.5*	Description of Capital Stock
10.1	Term Loan Credit Agreement, dated as of July 31, 2015, among Builders FirstSource, Inc., Deutsche Bank AG, New York Branch, as administrative agent, and the lenders and financial institutions party thereto (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the Securities Exchange Commission on August 6, 2015, File Number 0-51357)
10.2	First Amendment to Credit Agreement, dated as of August 22, 2016, by and among Builders FirstSource, Inc., Deutsche Bank AG, New York Branch, as administrative agent, and the lenders and financial institutions party thereto (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on August 23, 2016, File Number 0-51357)
10.3	Second Amendment to Credit Agreement, dated as of February 23, 2017, by and among Builders FirstSource, Inc., Deutsche Bank AG, New York Branch, as administrative agent, and the lenders and financial institutions party thereto (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 10-K for the year ended December 31, 2016, filed with the Securities Exchange Commission on March 1, 2017, File Number 0-51357)

Exhibit Number	Description
10.4	Amended and Restated ABL Credit Agreement, dated as of July 31, 2015, among Builders FirstSource, Inc., SunTrust Bank, as administrative agent and collateral agent, and the lenders and financial institutions party thereto (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, filed with the Securities Exchange Commission on August 6, 2015, File Number 0-51357)
10.5	Amendment No. 1 to Credit Agreement, dated as of March 22, 2017, among Builders FirstSource, Inc., SunTrust Bank, as administrative agent and collateral agent, and the lenders party thereto (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on March 28, 2017, File Number 0-51357)
10.6	Amendment No. 2 to Credit Agreement, dated as of April 24, 2019, among Builders FirstSource, Inc., SunTrust Bank, as administrative agent and collateral agent, and the lenders party thereto (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on April 30, 2019, File Number 0-51357)
10.7	ABL/Bond Intercreditor Agreement, dated as of May 29, 2013, among Builders FirstSource, Inc. and certain of its subsidiaries, as grantors, SunTrust Bank, as ABL agent, and Wilmington Trust, National Association, as notes collateral agent (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, filed with the Securities Exchange Commission on June 3, 2013, File Number 0-51357)
10.8	Collateral Agreement, dated as of July 31, 2015, among the Company, certain of its subsidiaries, and Deutsche Bank AG, New York Branch (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K, filed with the Securities Exchange Commission on August 6, 2015, File Number 0-51357)
10.9	Amended and Restated ABL Collateral Agreement, dated as of July 31, 2015, among the Company, certain of its subsidiaries, and SunTrust Bank (incorporated by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K, filed with the Securities Exchange Commission on August 6, 2015, File Number 0-51357)
10.10	Notes Collateral Agreement, dated as of August 22, 2016, among Builders FirstSource, Inc., certain of its subsidiaries, and Wilmington Trust, National Association, as trustee (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on August 23, 2016, File Number 0-51357)
10.11	Notes Collateral Agreement, dated as of May 30, 2019, among Builders FirstSource, Inc., certain of its subsidiaries, and Wilmington Trust, National Association, as trustee (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on May 31, 2019, File Number 0-51357)
10.12	Guarantee Agreement, dated as of July 31, 2015, among the guarantors party thereto and Deutsche Bank AG, New York Branch (incorporated by reference to Exhibit 10.6 to the Company's Current Report on Form 8-K, filed with the Securities Exchange Commission on August 6, 2015, File Number 0-51357)
10.13	Amended and Restated ABL Guarantee Agreement, dated as of July 31, 2015, among the Guarantors (as defined therein) and SunTrust Bank (incorporated by reference to Exhibit 10.7 to the Company's Current Report on Form 8-K, filed with the Securities Exchange Commission on August 6, 2015, File Number 0-51357)
10.14	Lease and Master Agreement Guaranty, dated as of July 31, 2015, by the Company in favor of LN Real Estate LLC (incorporated by reference to Exhibit 10.10 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2015, filed with the Securities and Exchange Commission on November 9, 2015, File Number 0-51357)
10.15+	Builders FirstSource, Inc. 1998 Stock Incentive Plan, as amended, effective March 1, 2004 (incorporated by reference to Exhibit 10.4 to Amendment No. 1 to the Registration Statement of the Company on Form S-1, filed with the Securities and Exchange Commission on April 27, 2005, File Number 333-122788)
10.16+	Amendment No. 7 to the Builders FirstSource, Inc. 1998 Stock Incentive Plan (incorporated by reference to Exhibit 10.6 to the Company's Annual Report on Form 10-K for the year ended December 31, 2006, filed with the Securities and Exchange Commission on March 12, 2007, File Number 0-51357)
10.17+	2004 Form of Builders FirstSource, Inc. 1998 Stock Incentive Plan Nonqualified Stock Option Agreement (incorporated by reference to Exhibit 10.5 to Amendment No. 1 to the Registration Statement of the Company on Form S-1, filed with the Securities and Exchange Commission on April 27, 2005, File Number 333-122788)

Exhibit Number	Description
10.18+	Builders FirstSource, Inc. 2005 Equity Incentive Plan (incorporated by reference to Exhibit 10.14 to Amendment No. 4 to the Registration Statement of the Company on Form S-1, filed with the Securities and Exchange Commission on June 6, 2005, File Number 333-122788)
10.19+	2006 Form of Builders FirstSource, Inc. 2005 Equity Incentive Plan Nonqualified Stock Option Agreement (incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on February 17, 2006, File Number 0-51357)
10.20+	Builders FirstSource, Inc. 2007 Incentive Plan (incorporated by reference to Annex D of the Company's Definitive Proxy Statement on Schedule 14A, filed with the Securities and Exchange Commission on December 15, 2009, File Number 0-51357)
10.21+	2008 Form of Builders FirstSource, Inc. 2007 Incentive Plan Nonqualified Stock Option Agreement (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2008, filed with the Securities and Exchange Commission on May 1, 2008, File Number 0-51357)
10.22+	2014 Form of Builders FirstSource, Inc. 2007 Incentive Plan Restricted Stock Unit Award Certificate (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2014, filed with the Securities and Exchange Commission on August 1, 2014, File Number 0-51357)
10.23+	Builders FirstSource, Inc. 2014 Incentive Plan (incorporated herein by reference to Appendix A of the Company's Definitive Proxy Statement on Schedule 14A, filed with the Securities and Exchange Commission on April 11, 2014, File Number 0-51357)
10.24+	Amendment to the Builders FirstSource, Inc. 2014 Incentive Plan (incorporated by reference to Appendix A of the Company's Definitive Proxy Statement on Schedule 14A, filed with the Securities and Exchange Commission on April 14, 2016, File Number 0-51357)
10.25+	2014 Form of Builders FirstSource, Inc. 2014 Incentive Plan Restricted Stock Unit Award Certificate (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2014, filed with the Securities and Exchange Commission on August 1, 2014, File Number 0-51357)
10.26+	2015 Form of Builders FirstSource, Inc. 2014 Incentive Plan Non-Statutory Stock Option Award Certificate (incorporated by reference to Exhibit 10.22 to the Company's Annual Report on Form 10-K for the year ended December 31, 2014, filed with the Securities and Exchange Commission on March 3, 2015, File Number 0-51357)
10.27+	2016 Form of Builders FirstSource, Inc. 2014 Incentive Plan Restricted Stock Unit Award Certificate (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2016, filed with the Securities and Exchange Commission on May 6, 2016, File Number 0-51357)
10.28+	2017 Form of Builders FirstSource, Inc. 2014 Incentive Plan Director Restricted Stock Unit Award Certificate (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2017, filed with the Securities and Exchange Commission on November 9, 2017, File Number 0-51357)
10.29+	2017 Form of Builders FirstSource, Inc. 2014 Incentive Plan Restricted Stock Unit Award Certificate (incorporated by reference to Exhibit 10.29 to the Company's Annual Report on Form 10-K for the year ended December 31, 2017, filed with the Securities and Exchange Commission on March 1, 2018, File Number 0-51357)
10.30+	2019 Form of Builders FirstSource, Inc. 2014 Incentive Plan Restricted Stock Unit Award Certificate (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2019, filed with the Securities and Exchange Commission on May 3, 2019, File Number 0-51357)
10.31*+	Builders FirstSource, Inc. Director Compensation Policy
10.32+	Builders FirstSource, Inc. Form of Director Indemnification Agreement (incorporated by reference to Exhibit 10.13 to Amendment No. 3 to the Registration Statement of the Company on Form S-1, filed with the Securities and Exchange Commission on May 26, 2005, File Number 333-122788)
10.33+	Amended and Restated Employment Agreement, dated December 29, 2017, between Builders FirstSource, Inc. and M. Chad Crow (incorporated by reference to Exhibit 10.32 to the Company's Annual Report on Form 10-K for the year ended December 31, 2017, filed with the Securities and Exchange Commission on March 1, 2018, File Number 0-51357)

Exhibit Number	Description
10.34+	Employment Agreement, dated January 15, 2004, between Builders FirstSource, Inc. and Donald F. McAleenan (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2005, filed with the Securities Exchange Commission on November 2, 2005, File Number 0-51357)
10.35+	Amendment to Employment Agreement, dated October 29, 2008, between Builders FirstSource, Inc. and Donald F. McAleenan (incorporated by reference to Exhibit 10.33 to the Company's Annual Report on Form 10-K for the year ended December 31, 2008, filed with the Securities and Exchange Commission on March 2, 2009, File Number 0-51357)
10.36+	Second Amendment to Employment Agreement, dated as of May 19, 2017, between Builders FirstSource, Inc. and Donald F. McAleenan (incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2017, filed with the Securities Exchange Commission on August 4, 2017, File Number 0-51357)
10.37+	Employment Agreement, dated November 14, 2016, between Builders FirstSource, Inc. and Peter M. Jackson (incorporated by reference to Exhibit 10.39 to the Company's Annual Report on Form 10-K for the year ended December 31, 2016, filed with the Securities and Exchange Commission on March 1, 2017, File Number 0-51357)
10.38+	First Amendment to Employment Agreement, dated as of May 19, 2017, between Builders FirstSource, Inc. and Peter M. Jackson (incorporated by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2017, filed with the Securities Exchange Commission on August 4, 2017, File Number 0-51357)
10.39+	Employment Agreement between Builders FirstSource, Inc. and Scott L. Robins dated effective as of February 20, 2018 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2018, filed with the Securities and Exchange Commission on November 2, 2018, File Number 0-51357)
10.40+	Employment Agreement between Builders FirstSource, Inc. and David E. Rush dated effective as of November 29, 2018 (incorporated by reference to Exhibit 10.37 to the Company's Annual Report on Form 10-K for the year ended December 31, 2018, filed with the Securities and Exchange Commission on March 1, 2019, File Number 0-51357)
10.41+	Amended and Restated Employment Agreement, dated January 1, 2018, between Builders FirstSource, Inc. and Floyd Sherman (incorporated by reference to Exhibit 10.41 to the Company's Annual Report on Form 10-K for the year ended December 31, 2017, filed with the Securities and Exchange Commission on March 1, 2018, File Number 0-51357)
14.1	Builders FirstSource, Inc. Code of Business Conduct and Ethics (incorporated by reference to Exhibit 14.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 2018, filed with the Securities and Exchange Commission on March 1, 2019, File Number 0-51357)
14.2	Builders FirstSource, Inc. Supplemental Code of Ethics (incorporated by reference to Exhibit 14.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 2005, filed with the Securities and Exchange Commission on March 13, 2006, File Number 0-51357)
21.1*	Subsidiaries of the Registrant
23.1*	Consent of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm
24.1*	Power of Attorney (included as part of signature page)
31.1*	Certification of Chief Executive Officer pursuant to 17 CFR 240.13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, signed by M. Chad Crow as Chief Executive Officer
31.2*	Certification of Chief Financial Officer pursuant to 17 CFR 240.13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, signed by Peter M. Jackson as Chief Financial Officer
32.1**	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, signed by M. Chad Crow as Chief Executive Officer and Peter M. Jackson as Chief Financial Officer

Exhibit Number	Description
101*	The following financial information from Builders FirstSource, Inc.'s Form 10-K filed on February 21, 2020, formatted in Inline eXtensible Business Reporting Language ("Inline XBRL"): (i) Consolidated Statement of Operations and Comprehensive Income for the years ended December 31, 2019, 2018, and 2017, (ii) Consolidated Balance Sheet at December 31, 2019 and 2018, (iii) Consolidated Statement of Cash Flows for the years ended December 31, 2019, 2018, and 2017, (iv) Consolidated Statement of Changes in Stockholders' Equity for the years ended December 31, 2019, 2018, and 2017, and (v) the Notes to Consolidated Financial Statements.
104*	The cover page from the Company's Annual Report on Form 10-K for the year ended December 31, 2019 has been formatted in Inline XBRL.

* Filed herewith

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

+ Indicates a management contract or compensatory plan or arrangement

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

(c) Not applicable

Item 16. ***Form 10-K Summary***

None.

SIGNATURES

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

February 21, 2020

BUILDERS FIRSTSOURCE, INC.

/s/ M. CHAD CROW
M. Chad Crow
President and Chief Executive Officer

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

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

Signature	Title	Date
/s/ M. CHAD CROW M. Chad Crow	President, Chief Executive Officer and Director (Principal Executive Officer)	February 21, 2020
/s/ PETER M. JACKSON Peter M. Jackson	Senior Vice President and Chief Financial Officer (Principal Financial Officer)	February 21, 2020
/s/ JAMI COULTER Jami Coulter	Senior Vice President and Chief Accounting Officer (Principal Accounting Officer)	February 21, 2020
/s/ PAUL S. LEVY Paul S. Levy	Chairman and Director	February 21, 2020
/s/ DANIEL AGROSKIN Daniel Agroskin	Director	February 21, 2020
/s/ DAVID A. BARR David A. Barr	Director	February 21, 2020
/s/ CLEVELAND A. CHRISTOPHE Cleveland A. Christophe	Director	February 21, 2020
/s/ JANICE DAVIS Janice Davis	Director	February 21, 2020
/s/ WILLIAM B. HAYES William B. Hayes	Director	February 21, 2020
/s/ BRETT N. MILGRIM Brett N. Milgrim	Director	February 21, 2020
/s/ FLOYD F. SHERMAN Floyd F. Sherman	Director	February 21, 2020
/s/ CRAIG A. STEINKE Craig A. Steinke	Director	February 21, 2020

Exhibit 4.5

DESCRIPTION OF CAPITAL STOCK

The following description of our capital stock does not purport to be complete and is subject to, and qualified in its entirety by, our amended and restated certificate of incorporation and amended and restated bylaws, which are incorporated by reference into this Description of Capital Stock, and by the Delaware General Corporation Law (the "DGCL").

General Matters

Our certificate of incorporation provides that we are authorized to issue 200,000,000 shares of common stock, par value $0.01 per share, and 10,000,000 shares of undesignated preferred stock, par value $0.01 per share.

Common Stock

Shares of our common stock have the following rights, preferences, and privileges:

- *Voting rights*. Each outstanding share of common stock entitles its holder to one vote on all matters submitted to a vote of our stockholders, including the election of directors. There are no cumulative voting rights. Generally, all matters to be voted on by stockholders must be approved by a majority of the votes entitled to be cast by all shares of common stock present or represented by proxy.

- *Dividends*. Holders of common stock are entitled to receive dividends as, when, and if dividends are declared by our board of directors out of assets or funds legally available for the payment of dividends, subject to any preferential dividend rights of any outstanding preferred stock.

- *Liquidation*. In the event of a liquidation, dissolution, or winding up of our affairs, whether voluntary or involuntary, after payment of our liabilities and obligations to creditors, our remaining assets will be distributed ratably among the holders of shares of common stock on a per share basis.

- *Rights and preferences*. Our common stock has no preemptive, redemption, conversion or subscription rights. The rights, powers, preferences and privileges of holders of our common stock are subject to, and may be adversely affected by, the rights of the holders of shares of any series of preferred stock that we may designate and issue in the future.

- *Listing*. Our common stock is listed on NASDAQ under the symbol "BLDR."

- *Transfer Agent and Registrar*. The transfer agent and registrar for our common stock is Computershare Shareowner Services LLC, and its telephone number is (877) 219-7020.

Preferred Stock

Under our certificate of incorporation, without further stockholder action, the board of directors is authorized, subject to any limitations prescribed by the law of the State of Delaware, to provide for the issuance of the shares of preferred stock in one or more series, to establish from time to time the number of shares to be included in each such series, and to fix the designation, powers, preferences and rights of the shares of each such series and any qualifications, limitations or restrictions thereof.

Exhibit 4.5

Anti-Takeover Effects of Certain Provisions of Our Certificate of Incorporation and Bylaws

Our certificate of incorporation and bylaws contain provisions that are intended to enhance the likelihood of continuity and stability in the composition of the board of directors and that may have the effect of delaying, deferring or preventing a future takeover or change in control of our company unless the takeover or change in control is approved by our board of directors. These provisions include the following:

Staggered board of directors. Our certificate of incorporation and bylaws provide for a staggered board of directors, divided into three classes, with our stockholders electing one class each year. Between stockholders' meetings, the board of directors will be able to appoint new directors to fill vacancies or newly created directorships so that no more than the number of directors in any given class could be replaced each year and it would take three successive annual meetings to replace all directors.

Elimination of stockholder action through written consent. Our certificate of incorporation and bylaws provide that stockholder action can be taken only at an annual or special meeting of stockholders and cannot be taken by written consent in lieu of a meeting.

Elimination of the ability to call special meetings. Our certificate of incorporation and bylaws provide that, except as otherwise required by law, special meetings of our stockholders can only be called pursuant to a resolution adopted by a majority of our board of directors, a committee of the board of directors that has been duly designated by the board of directors and whose powers and authority include the power to call such meetings or by our chief executive officer or the chairman of our board of directors. Stockholders are not permitted to call a special meeting or to require our board to call a special meeting.

Advance notice procedures for stockholder proposals. Our bylaws establish an advance notice procedure for stockholder proposals to be brought before an annual meeting of our stockholders, including proposed nominations of persons for election to our board. Stockholders at our annual meeting may only consider proposals or nominations specified in the notice of meeting or brought before the meeting by or at the direction of our board or by a stockholder who was a stockholder of record on the record date for the meeting, who is entitled to vote at the meeting and who has given to our secretary timely written notice, in proper form, of the stockholder's intention to bring that business before the meeting.

Removal of directors; board of directors vacancies. Our certificate of incorporation and bylaws provide that members of our board of directors may not be removed without cause and the affirmative vote of holders of at least a majority of the voting power of our then-outstanding capital stock entitled to vote on the election of directors. Our bylaws further provide that only our board of directors may fill vacant directorships, except in limited circumstances. These provisions would prevent a stockholder from gaining control of our board of directors by removing incumbent directors and filling the resulting vacancies with such stockholder's own nominees.

Amendment of certificate of incorporation and bylaws. The DGCL provides generally that the affirmative vote of a majority of the outstanding shares entitled to vote is required to amend or repeal a corporation's certificate of incorporation or bylaws, unless the certificate of incorporation requires a greater percentage. Our certificate of incorporation requires the approval of the holders of at least two-thirds of the voting power of the issued and outstanding shares of our capital stock entitled to vote in connection with the election of directors to amend certain provisions of our certificate of incorporation relating to the directors, including their authority to amend our by-laws, the size of our board of directors, provision for a staggered board of directors, the removal of directors, and vacancies on the board of

directors, as well as our authority to provide indemnification for our directors and officers. Our bylaws provide that a majority of our board of directors or, in most cases, the holders of at least a majority of the voting power of the issued and outstanding shares of our capital stock entitled to vote thereon have the power to amend or repeal our bylaws, except that, in the case of amendments or repeals approved by stockholders, the affirmative vote of holders of at least two-thirds of the voting power of the issued and outstanding shares of our capital stock entitled to vote thereon shall be required to amend or repeal provisions of our bylaws relating to meetings of stockholders, including the provision that stockholders may not take action by written consent in lieu of a meeting, the nomination and election of directors, vacancies on the board of directors, and our authority to provide indemnification for our directors and officers.

The foregoing provisions of our certificate of incorporation and bylaws could discourage potential acquisition proposals and could delay or prevent a change in control. These provisions are intended to enhance the likelihood of continuity and stability in the composition of our board of directors and in the policies formulated by our board of directors and to discourage certain types of transactions that may involve an actual or threatened change of control. These provisions are designed to reduce our vulnerability to an unsolicited acquisition proposal. The provisions also are intended to discourage certain tactics that may be used in proxy fights. However, such provisions could have the effect of discouraging others from making tender offers for our shares, and, as a consequence, they also may inhibit fluctuations in the market price of the common stock that could result from actual or rumored takeover attempts. Such provisions also may have the effect of preventing changes in our management or delaying or preventing a transaction that might benefit you or other minority stockholders.

Limitations on Liability and Indemnification of Officers and Directors

Our certificate of incorporation and bylaws provide indemnification for our directors and officers to the fullest extent permitted by the DGCL. We have entered into indemnification agreements with each of our directors that are, in some cases, broader than the specific indemnification provisions contained under Delaware law. In addition, as permitted by Delaware law, our certificate of incorporation includes provisions that eliminate the personal liability of our directors for monetary damages resulting from breaches of certain fiduciary duties as a director. The effect of this provision is to restrict our rights and the rights of our stockholders in derivative suits to recover monetary damages against a director for breach of fiduciary duties as a director, except that a director will be personally liable for:

- any breach of his duty of loyalty to us or our stockholders;
- acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law;
- any transaction from which the director derived an improper personal benefit; or
- improper distributions to stockholders.

These provisions may not be held to be enforceable for violations of the federal securities laws of the United States.

Exhibit 10.31

BUILDERS FIRSTSOURCE, INC.

DIRECTOR COMPENSATION POLICY

(as amended effective May 14, 2019)

The Board of Directors (the “Board”) of Builders FirstSource, Inc. (the “Company”) has adopted the following compensation policy for purposes of compensating those directors of the Company who meet the eligibility requirements described herein (the “Eligible Directors”). This compensation policy has been developed to compensate the Eligible Directors of the Company for their time, commitment and contributions to the Board. In order to qualify as an Eligible Director for purposes of receiving compensation under this policy, the director cannot concurrently be employed in any capacity by the Company or any of its subsidiaries, unless otherwise determined by the Nominating Committee.

CASH COMPENSATION (WITH ELECTION TO RECEIVE STOCK IN LIEU OF CASH)

Retainers for Serving on the Board

Eligible Directors shall be paid an annual retainer of $85,000, payable in quarterly installments, for each year of his or her service on the Board (each a “Service Year”). In addition to the regular retainer for serving as a member of the Board, an Eligible Director who serves as Chairman of the Board shall be paid an annual cash retainer of $100,000 for service in such role for each Service Year, payable in quarterly installments. Service Years will commence on the date of the Company’s annual meeting of stockholders each year.

Retainers for Serving as Chairpersons or Members of a Board Committee

An Eligible Director who serves as a chairperson or as a member of the Audit Committee, the Compensation Committee or the Nominating Committee of the Board shall be paid additional annual retainers for service in such roles for each Service Year, payable in quarterly installments, in the following amounts:

Name of Committee	Chairman	Member
Audit Committee	$30,000	$5,000
Compensation Committee	$20,000	$5,000
Nominating Committee	$10,000	$5,000

A chairperson of a committee shall not be paid an additional retainer for also serving as a member of that committee. Eligible Directors shall not be paid any additional retainers for attendance at meetings of the Board or its committees.

Election to Receive Stock in Lieu of Cash Compensation

In lieu of receiving annual cash retainer(s) and/or retainers for serving as a chairperson or as a member of the Audit Committee, the Compensation Committee or the Nominating Committee of the Board, an Eligible Director may elect to receive fully vested shares of the Company’s common stock having a value on the first day of the service quarter for which they are issued approximately equal to the amount of the cash retainer payment he or she would otherwise receive. Such stock grants in lieu of cash retainer payments will be awarded on a quarterly basis at the same time cash retainer payments would be made.

Pro Rata Cash Retainer Payment for New Eligible Director

Following (i) the initial appointment or election of an Eligible Director to the Board or (ii) a change

in status which causes an ineligible director to qualify as an Eligible Director under this policy, a pro rata payment of the quarterly cash retainers (regular retainer(s) and retainers for committee service, as applicable) will be made to such Eligible Director, prorated to reflect that portion of the quarter for which such director will serve on the Board and qualify as an Eligible Director. Such pro rata retainer payment will be made as of (i) the date of commencement of Board service for a new Eligible Director, or (ii) the date a serving director becomes an Eligible Director, or (iii) such other date as the Board shall determine.

EQUITY-BASED COMPENSATION

Annual Restricted Stock Unit Awards

At the start of each Service Year, Eligible Directors ("Grantees") shall receive equity-based compensation awards with a value at the time of issuance of approximately $130,000 (such amount to be effective as of the start of the Service Year commencing in 2019). Such awards shall be made in the form of restricted stock units related to the Company's common stock and shall be granted by the Board pursuant to a form of restricted stock unit award agreement under the Company's 2014 Incentive Plan (or any successor plans), as amended from time to time. The restricted stock units shall vest and convert to shares on the first anniversary of the grant date.

Pro Rata Restricted Stock Unit Award for New Eligible Director

Following (i) the initial appointment or election of an Eligible Director to the Board or (ii) a change in status which causes an ineligible director to qualify as an Eligible Director under this policy, a pro rata grant of restricted stock units related to the Company's common stock will be made to such Eligible Director with a value at the time of issuance based on the approximately $130,000 in value for regular annual restricted stock unit awards to Eligible Directors, but prorated for that portion of the Service Year in which such director will serve on the Board and qualify as an Eligible Director. Such grants shall be made as of (i) the date of commencement of Board service for a new Eligible Director, or (ii) the date a serving director becomes an Eligible Director, or (iii) such other date as the Board shall determine. The restricted stock units shall vest and convert to shares on the first anniversary of the grant date.

Vesting Upon Departure of a Director

If a Grantee shall cease to be a Director of the Company due to death, disability or retirement during the one-year vesting period applicable to any restricted stock units granted hereunder, all restricted stock units shall immediately vest and convert to shares. If the Grantee shall cease to be a Director of the Company for any other reason during such one-year vesting period, any unvested restricted stock units shall be forfeited by the Grantee and such restricted stock units shall be cancelled.

TRAVEL EXPENSE REIMBURSEMENT

Eligible Directors shall be entitled to receive reimbursement for reasonable travel expenses which they properly incur in connection with their functions and duties as directors.

AMENDMENTS, REVISION AND TERMINATION

This policy may be amended, revised or terminated by the Board of Directors at any time and from time-to-time.

Exhibit 21.1

Builders FirstSource, Inc.
Subsidiaries

Builders FirstSource, Inc. (Delaware)

Builders FirstSource, Inc. SUBSIDIARIES

Builders FirstSource Holdings, LLC (Delaware)
Builders FirstSource – Northeast Group, LLC (Delaware)
Builders FirstSource – Texas GenPar, LLC (Delaware)
Builders FirstSource – MBS, LLC (Delaware)
Builders FirstSource – Texas Group, L.P. (Texas)
BFS Texas, LLC (Delaware)
BFS IP, LLC (Delaware)
Builders FirstSource – South Texas, L.P. (Texas)
Builders FirstSource – Intellectual Property, L.P. (Texas)
Builders FirstSource – Texas Installed Sales, L.P. (Texas)
Builders FirstSource – Dallas, LLC (Delaware)
Builders FirstSource – Florida, LLC (Delaware)
Builders FirstSource – Florida Design Center, LLC (Delaware)
Builders FirstSource – Ohio Valley, LLC (Delaware)
BFS, LLC (Delaware)
Builders FirstSource – Atlantic Group, LLC (Delaware)
Builders FirstSource – Southeast Group, LLC (Delaware)
CCWP, Inc. (South Carolina)
Builders FirstSource – Raleigh, LLC (Delaware)
Builders FirstSource – Colorado Group, LLC (Delaware)
Builders FirstSource – Colorado, LLC (Delaware)
ProBuild Holdings LLC (Delaware)
ProBuild Company LLC (Delaware)
Spenard Builders Supply LLC (Alaska)
Dixieline Builders Fund Control, Inc. (California)
Timber Roots, LLC (Washington)
ProBuild North Transportation, LLC (Washington)
ProBuild Real Estate Holdings, LLC (Delaware)
Builder’s Capital, LLC (New York)
BFS Pay, LLC (Maryland)

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on FormS-8 (Nos. 333-216400, 333-128430, 333-147107, 333-169001 and 333-196363) of Builders FirstSource, Inc. of our report dated February 21, 2020, relating to the financial statements and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

Dallas, Texas
February 21, 2020

Exhibit 31.1

Certification of Chief Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, M. Chad Crow, certify that:

1. I have reviewed this report on Form 10-K of Builders FirstSource, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ M. CHAD CROW
M. Chad Crow
President and Chief Executive Officer

Date: February 21, 2020

Exhibit 31.2

Certification of Chief Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Peter M. Jackson, certify that:

1. I have reviewed this report on Form 10-K of Builders FirstSource, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ PETER M. JACKSON
Peter M. Jackson
Senior Vice President and Chief Financial Officer

Date: February 21, 2020

Exhibit 32.1

Certification of CEO and CFO Pursuant to 18 U.S.C. Section 1350
(Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002)

In connection with the annual report of Builders FirstSource, Inc. (the "Company") on Form 10-K for the period ended December 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, M. Chad Crow, as President and Chief Executive Officer of the Company, and Peter M. Jackson, as Senior Vice President and Chief Financial Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of our knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ M. CHAD CROW
M. Chad Crow
President and Chief Executive Officer

/s/ PETER M. JACKSON
Peter M. Jackson
Senior Vice President and Chief Financial Officer

Date: February 21, 2020

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.